Wise Investment

Evenlode Income

Annual Short Report

For the year ended 28 February 2013

EVENLODE INCOME

INVESTMENT OBJECTIVE & POLICY

The investment objective of Evenlode Income is to produce attractive long-term total returns, with an emphasis on income. The Fund will invest predominately in the equity securities of companies listed in the United Kingdom, with the balance invested in the equity securities of companies listed internationally and cash (or near cash securities). The Fund may also invest in fixed income securities, collective investment schemes and derivatives for the purpose of efficient portfolio management from time to time. The Fund Manager aims to invest in a focused portfolio of shares in approximately 20-30 companies* offering a combination of high and growing cash-flows (to deliver both capital growth and dividend growth for the Fund) and low business risk. The Manager will undertake fundamental analysis to identify shares in companies that offer this combination.

** changed from 1 April 2012 (previously 20-30 investments)*

FUND FACTS

Launch date: 19 October 2009
Ex-dividend dates: 1 June, 1 September, 1 December, 1 March
Dividend payment dates: 31 July, 31 October, 31 January, 30 April
Synthetic Risk and Reward Indicator Ranking[1]: 6
Ongoing Charges Figures[2]

A Shares – 1.75% p.a.

B Shares – 1.25% p.a.

[1] As calculated in accordance with the FCA Handbook, COLL 4. It is based on historical data and uses a scale of 1 to 7. The higher the rank the greater the potential reward but the greater the risk of losing money.

[2] To 28 February 2013. As calculated in accordance with the FCA handbook COLL 4, Annex 1. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc).

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CHANGES TO THE FUND

From 1 April 2012, the following changes were made to the fund:

1) The Fund is now restricted to holding 10% of its Net Asset Value in other Collective Investments Schemes.
2) The investment objective and policy wording was amended slightly – see previous page.
3) The minimum investment level on the B Shares was reduced to £1,000 and the initial charge was also removed.

INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 28 February 2013 (%)		
	1 year	3 years	From launch
A Shares[1]	16.86	51.34	54.84
B Shares[1]	17.46	53.67	57.48
IMA UK Equity Income Sector Mean	15.56	37.96	39.90

[1] *Performance based on income shares.*

Source: Financial Express. Total return, bid to bid.

Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

During the year to the 28th February 2013, Evenlode Income B and A shares rose +17.5% and +16.9% respectively. This compares to a rise of +15.6% for the IMA UK Equity Income sector. Since the Fund's launch (19th October 2009), Evenlode Income B and A shares have risen +57.5% and +54.8% respectively, compared to a rise of +39.9% for the IMA UK Equity Income Sector.

Following the +7.9% increase in last year's full year dividend (B Inc shares), this year's full year dividend was increased by another +7.5%, and I remain positive on the potential for future dividend growth.

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Learning By Doing

Sentiment during the year under review was buoyed by a massive effort from central banks to print money and keep interest rates pinned firmly to the floor. This commitment has come most notably from the European Central Bank and the Federal Reserve – over the last year Mario Draghi and Ben Bernanke have effectively given unlimited commitments to print money if deemed necessary. Many other central banks are also pursuing various forms of aggressive monetary easing. Given the stifling effect these policies have had on the investment returns available from cash and bonds, shares have increasingly become the 'best house in a bad neighbourhood'. In November last year, Mongolia (not a nation known for its credit quality and with a history of defaults) issued a ten year bond paying 5%. In the same week online retailer Amazon issued a ten year bond paying 2.6%. In this context, it is not hard to see why the proposition of blue chip shares on 3-4% starting yields has become increasingly attractive to Mr Market. And as the current stock market rally gathers steam, a subtle shift in investor psychology is underway. A year ago investors cared more about return *of* their capital, rather than return *on* their capital. Now, worries increasingly turn to missing out on a rising market.

Looking ahead, however, there are several issues that could rear their head for investors. An immediate cyclical risk, which has strangled global growth for several years now, is that each time the economy picks up, inflationary pressures are created that quickly apply a self-moderating brake on the nascent recovery. Just as the party gets started, the punchbowl gets taken away. This is just what happened in both Spring 2010 and Summer 2011, but given the recent step-up in money printing, it could be even more pronounced in relation to the current economic pick-up.

Other risks include two big structural threats – the re-emergence of stress in the European financial system and a continuation of the slowdown in China. More generally, and despite central banks best efforts, debt de-leveraging pressures rumble on inexorably in the background. The ability of open-ended quantitative easing (such as the Federal Reserves latest 'QE3' announcement) to overcome these pressures appears limited, and the longer-term effects remain unclear. Seth Klarman framed it well recently:

"While QEs 1 and 2 had no lasting impact, they did give a short-term boost to the stock market. But because that boost was ephemeral, it's hard to comprehend why anyone would believe that QE3 will turn out better. QE3 is bold in its apparently unlimited determination, which may be intended to demonstrate the Fed's determination rather than any actual conviction that it will work."

Even Ben Bernanke recently admitted that the Federal Reserve's extreme policy measures are a process of 'learning by doing'.

Sticking To Our Script

The above may sound rather gloomy, but it has little bearing on what we are doing on a day-to-day basis. The Evenlode project is a simple one – to generate long-term compound growth in both capital and dividends for shareholders. We aim to do this by remaining fully invested (or near enough) at all times in high quality, high Return on Equity (ROE) businesses that are priced to offer attractive forward returns. It is an entertaining distraction to talk about economics and central banking policy, but in our view it is far more important that we continue to invest one stock at a time. We have designed our investment process to provide an objective framework for managing the fund through the full spectrum of both market sentiment and economic conditions, so it is crucial we stick to it through thick and thin.

Where Our Process Is Leading Us Today

Our valuation discipline leads us naturally to tread cautiously as investor's 'animal spirits' start to build, and we have sold several holdings during the year on valuation grounds (including Intercontinental Hotels Group, Experian, Diploma, Halma and Euromoney). These are great businesses that we hope to return to in the future, but at current valuations we think there are better options.

We are now positioned, predominately, in large, stable, multi-national businesses. This is where we see the most quality-adjusted value in our investable universe. As the bull market of the last three years has gradually built up a head of steam our exposure to large companies has increased from 45% (in Autumn 2009) to nearly 80% now. Recent price moves have led us to accelerate this process, with a selection of these large companies seeing substantial underperformance as investors look for their excitement elsewhere. Since the start of 2013, we have made significant additions to several stocks that fit this description, such as Glaxosmithkline, Smith & Nephew, Johnson and Johnson, Pearson and Microsoft.

EVENLODE INCOME

What You See Is What You Get

As the portfolio stands today, I remain comforted by its quality and value credentials:

	Evenlode	UK Market (ex Financials)
Free cash flow yield	7%	5%
Return on Equity (ROE)	35%	15%
Net Debt/EBITDA*	0.6x	0.8x

**earnings before interest, taxes, depreciation and amortisation*

I find the portfolio's free cash flow yield of 7% particularly reassuring. This figure is quoted after tax, interest and all the capital investment needs of the underlying companies (both for maintenance and future growth). As such, it is a true reflection of the 'owner's return' that the Evenlode portfolio is currently offering.

Given the robustness of the underlying businesses in the portfolio, and their high incremental returns on investment, I expect this initial level of free cash flow to grow nicely over coming years, even if the economic environment remains very difficult.

All of my own long-term savings continue to be invested in the fund, as they have been since launch, and I continue to feel positive about Evenlode's future prospects.

Hugh Yarrow - Fund Manager

6 June 2013

TOP TEN HOLDINGS

Top Ten Holdings as at 28 February 2013	(%)	Top Ten Holdings as at 29 February 2012	(%)
Unilever	8.9	Unilever	9.9
GlaxoSmithKline	8.5	Diageo	6.4
Proctor & Gamble	6.3	Reed Elsevier	5.9
Reckitt Benckiser	6.0	Reckitt Benckiser	5.5
Sage Group	5.6	Sage Group	5.3
Smith & Nephew	4.9	GlaxoSmithKline	4.2
Pearson	4.8	Microsoft	4.0
Johnson & Johnson	4.7	Smith & Nephew	3.7
Reed Elsevier	4.6	Imperial Tobacco	3.6
Diageo	4.5	AstraZeneca	3.3

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PERFORMANCE

Share Prices and Revenue

	B Income shares			A Income shares		
Calendar year	Highest price (pence)	Lowest price (pence)	Net revenue distributed per share (pence)	Highest price (pence)	Lowest price (pence)	Net revenue distributed per share (pence)
2009[1]	103.09	97.78	-	103.05	97.77	-
2010	119.28	99.00	3.2294	118.62	98.91	3.2084
2011	121.79	105.15	4.3441	120.80	104.24	4.3183
2012	128.37	115.21	4.7765	126.40	113.75	4.7235
2013[2]	141.25	126.85	2.8945	138.94	124.87	2.8505

	B Accumulation shares			A Accumulation shares		
Calendar year	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)
2009[1]	103.36	98.04	-	103.31	98.02	-
2010	124.21	99.26	3.2481	123.54	99.16	3.2436
2011	129.37	111.70	4.5353	128.34	110.75	4.5090
2012	144.44	126.48	5.1878	142.24	125.16	5.1312
2013[2]	158.92	142.72	3.2404	156.35	140.51	3.1919

[1] *From 19 October.*

[2] *Prices to 28 February and net revenue to 30 April.*

Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

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Dividend distributions/accumulations for the year ended 28 February 2013 (pence per unit)

	Quarter Ended			
Share Class	**31 May 2012 (pence per unit)**	**31 Aug 2012 (pence per unit)**	**30 Nov 2012 (pence per unit)**	**28 Feb 2013 (pence per unit)**
B Income	1.0627	1.0639	1.0651	1.8294
A Income	1.0500	1.0500	1.0500	1.8005
B Accumulation	1.1667	1.1746	1.1843	2.0561
A Accumulation	1.1528	1.1594	1.1679	2.0240

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Net Asset Values

	B Income shares			A Income shares		
Date	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2011	1,317,011	115.34	1,519,018	995,217	114.60	1,140,562
29 Feb 2012	2,968,043	121.54	3,607,281	1,396,118	120.15	1,677,490
28 Feb 2013	8,790,595	138.19	12,148,042	994,633	135.92	1,351,911

	B Accumulation shares			A Accumulation shares		
Date	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2011	589,384	121.49	716,047	1,369,747	120.74	1,653,821
29 Feb 2012	1,506,489	133.24	2,007,266	1,881,252	131.75	2,478,494
28 Feb 2013	5,847,726	157.54	9,212,634	1,600,468	154.98	2,480,420

Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

RISK PROFILE

Please remember that both the price of shares and the revenue derived from them may go down as well as up and that you may not get back the amount originally invested. Furthermore, changes in foreign currency exchange rates may cause the value of your investment to increase or diminish. Capital appreciation in the early years will be adversely affected by the impact of initial charges (A class shares only), which by their nature are not levied uniformly throughout the life of the investment. You should, therefore, regard your investment as medium to long term. Past performance is not a reliable indicator of future results.

OTHER INFORMATION

The Company

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Authorised and regulated by the Financial Conduct Authority.

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Auditors

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Registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Further information regarding the activities and performance of the Fund is available on request from the ACD as are copies of the Annual Report and Financial Statements.