Wise Investment

Evenlode Income

Interim Short Report

For the six month period ended 31 August 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.

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 – 1.64% p.a.

B Shares – 1.14% p.a.

[1] *As calculated in accordance with the CESR guidelines. 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 31 August 2013. As calculated in accordance with the CESR guidelines. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc).*

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INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 31 August 2013 (%)			
	6 months	1 year	3 years	From launch
A Shares[1]	7.21	21.49	55.36	66.00
B Shares[1]	7.49	22.11	57.79	69.27
IMA UK Equity Income Sector Mean	8.07	21.61	47.50	51.19

[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 six months to the 31st August 2013, Evenlode Income B and A shares rose +7.5% and +7.2% respectively. This compares to a rise of +8.1% for the IMA UK Equity Income Sector over the same period. Since the fund's launch (19th October 2009), Evenlode Income B and A shares have risen +69.3% and +66.0% respectively, compared to a rise of +51.2% for the IMA UK Equity Income Sector.

The strong positive momentum in global stock markets continued over the period, albeit with some volatility along the way. Just over two years ago, in August 2011, the Eurozone hung by a thread and all talk was of another financial crisis and global recession. Now, economies aren't growing particularly strongly, but they are managing to muddle along. Meanwhile, interest rates remain at very low levels, making shares look more attractive relative to bonds and cash. These two factors have helped to revive the investment community's 'animal spirits', and the UK stock market has now risen approximately 125% since the dark days of March 2009. Mr Market, an emotionally unstable character at the best of times, has increasingly become more worried about missing out on gains than managing risk, a full reversal of his attitude back in 2009. Particularly noticeable over the last few months has been the strong performance in more economically exposed 'recovery' companies (especially those with a high level of domestic and US exposure) and more generally small and mid-cap shares. In contrast, larger, less economically sensitive companies ('defensive' or more pejoratively 'boring' shares) have fallen out of favour.

Staying At The Crease

'Stay in, because you can't score runs in the pavilion'
Geoffrey Boycott

As I have mentioned before, the Evenlode investment approach may appear unnecessarily austere at certain moments, such as the last few months. But there is a good reason for this – we are keen to 'remain at the crease' through the full market cycle. Our approach is designed to avoid the investment equivalent of those cricket shots that end with a long walk back to the pavilion. Like Geoffrey Boycott, we look for low risk ones and twos and avoid making risky attempts at fours or sixes (when chances come along to hit a boundary with limited risk, then of course we'll take them, but the reality is they rarely do). We aim to do this by only owning quality businesses (companies with strong returns on capital and significant intangible assets), and only owning them when they trade on sensible cash-flow valuations. While this means there will be plenty of excitement we won't participate in, we think it's a very effective way of managing risk over the full market cycle. And it is surprising how quickly the batting score accumulates over the months and years when holding a portfolio of fairly predictable high quality companies on sensible valuations. Time is the friend of these businesses. Their franchises persist and customers remain loyal, returning habitually to spend more. As a result, despite the defensive tag they often receive, the rate at which they can grow shareholder value long-term tends to be significantly higher than market averages.

Case Study: Reckitt Benckiser

Reckitt Benckiser, the fund's third largest holding, is a good illustration of our approach as outlined above. Over the last fifteen years, Reckitt's has managed a compound total return per annum of +13.3% compared with +5.5% for the UK market as a whole (a performance track record any fund manager would be proud of!). It has managed to produce this performance despite a huge valuation de-rating, from a price-to-earnings multiple of 32x in 1998 to a PE of 16x today.

We think the fundamental outlook for Reckitt over the next 15 years remains very good. Nearly 70% of Reckitt's portfolio is in the health and hygiene categories (including brands such as Dettol, Clearasil, Nurofen and Durex). Both these categories have attractive economics and should see high growth over coming years. The steady build out of Reckitt's emerging market footprint will also help long-term growth. However, from its current valuation, Reckitt doesn't need to produce anything like the fundamental performance it produced over the last 15 years to generate attractive returns to shareholders over the next 15. It starts today on 16x, not the 32x it traded on in 1998. Thinking back to Geoffrey Boycott, fours and sixes aren't required from this starting point. A little volume growth, a little pricing power, and a little margin expansion will do the trick. If Reckitt can achieve this, cash-flow will pour out of the business and dividends will move steadily upward. Anything more would be the icing on top.

Large Quality vs Small Quality

To generalise, we continue to see plenty of opportunity in larger, high quality shares. As with consumer branded goods companies, such as Reckitt, our positive views on media, healthcare and technology holdings remain unchanged.

The area of our investable universe that we've increasingly struggled to find value in is the quality medium and small companies we follow. Despite the low current representation in the portfolio, it is interesting to note that these stocks have been a key driver of Evenlode's performance since launch (small and mid caps represented nearly 50% of the portfolio for much of 2009 and 2010). Relative valuations at the smaller end of things have by no means improved over the period under review (quite the opposite in fact). As a result, our shift away from these businesses has had no significant benefit so far. However, returning to the cricket analogy, staying at the crease requires patience and prudence, and many of these stocks no longer offer the margin of safety that we'd like to see. We will keep a close eye on valuation developments in the smaller companies we look at. We fully expect this part of our tool kit to play a more significant role again in the fund, at some hard-to-predict point in the future.

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No Flashy Sales Pitch

To round off this report, I include the following quote from US investor Glenn Greenberg. I apologise to regular readers of my investment views for repetition, but it is so relevant to the way we manage Evenlode that I feel it worth including again here:

Few people are willing to concentrate their investments in a small number of businesses that they know thoroughly and believe will grow their net worth at an attractive rate over the long-term. Many days this work is just plain boring. Other days (and sometimes months), the market totally ignores your handful of precious stocks. A portfolio of predictable, reliable businesses does not make you the most exciting person at the cocktail party, nor does it give you flashy sales promotion material. I have come to believe the quest for rational investing is appealing only to a handful of us. But at least we sleep well at night and live well by day – and our clients do as well.

So no flashy sales pitch to finish on. But we reassert our commitment to invest our shareholders' savings (alongside our own) with patience, prudence, and objectivity.

Hugh Yarrow - Fund Manager

18 October 2013

TOP TEN HOLDINGS

Top Ten Holdings as at 31 August 2013	(%)	Top Ten Holdings as at 28 February 2013	(%)
GlaxoSmithKline	8.4	Unilever	8.9
Unilever	7.5	GlaxoSmithKline	8.5
Reckitt Benckiser	6.7	Proctor & Gamble	6.3
Reed Elsevier	5.6	Reckitt Benckiser	6.0
Sage Group	5.3	Sage Group	5.6
Pearson	5.2	Smith & Nephew	4.9
AstraZeneca	4.9	Pearson	4.8
Proctor & Gamble	4.7	Johnson & Johnson	4.7
Smith & Nephew	4.6	Reed Elsevier	4.6
Jardine Lloyd Thompson	4.3	Diageo	4.5

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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]	153.25	126.85	5.2355	150.55	124.87	5.1505

	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]	174.71	142.72	5.9185	171.67	140.51	5.8237

[1] *From 19 October.*

[2] *Prices to 31 August and net revenue to 31 October.*

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.

EVENLODE INCOME

Dividend distributions/accumulations for the six months ended 31 August 2013 (pence per unit)

Share Class	Quarter Ended 31 May 2013 (pence per unit)	31 August 2013 (pence per unit)
B Income	1.1700	1.1710
A Income	1.1500	1.1500
B Accumulation	1.3338	1.3443
A Accumulation	1.3113	1.3205

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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
31 Aug 2013	15,829,752	144.40	22,857,859	497,092	141.65	704,107

	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
31 Aug 2013	7,810,189	167.26	13,063,034	1,028,128	164.11	1,687,265

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

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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.