



Wise Investment

EVENLODE INCOME

Interim Short Report

For the six month period ended 31 August 2011

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 investments 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

Total Expense Ratios¹

A Shares – 1.69 % p.a.

B Shares – 1.19% p.a.

¹ To 31 August 2011. As calculated in accordance with the FSA handbook COLL 4, Annex 1. The Total Expense Ratio ('TER') 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 2011 (%)		
	6 months	1 year	From launch
A Shares ¹	(4.27)	8.48	15.91
B Shares ¹	(4.03)	9.06	16.99
FTSE 100 'Total Return' Index	(7.95)	7.26	9.84
IMA Active Managed Sector Mean	(7.33)	7.08	9.76

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 month period under review Evenlode Income A and B shares fell -4.3% and -4.0% respectively. This compares to a fall of -8.0% for the FTSE All-Share and -7.3% for the IMA UK Equity Income sector.

Since Evenlode Income's launch to A and B shares have risen +15.9% and +17.0% respectively. This compares with +9.8% for the FTSE All-share and +9.8% for the IMA UK Equity Income Sector. (All sources: Financial Express. Performance figures for the fund are quoted after all fees and costs incurred.)

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Performance Review

In a weaker market, the fund's strongest performers were consumer staples and healthcare stocks, which currently make up nearly half of the portfolio. Glaxosmithkline, Unilever and Johnson & Johnson were the top three contributors to overall return. Other positive contributors included Microsoft, Pearson, Diploma and MITIE, all reporting good results and healthy dividend growth during the period.

Our media exposure was the main contributor to negative return, with stocks such as Vivendi and Reed Elsevier declining. We have used this weakness to add to our holdings in this sector, which now make up 18% of the fund. Amidst worries of a global slowdown, other more economically sensitive stocks such as Hays and WS Atkins also fell. The biggest negative contributor to performance, however, was Smith & Nephew. The share price fell after talks of a possible takeover (emerging just before the start of the period) subsided.

The Great Deleverage

At the heart of recent stock-market weakness is a creeping realisation that the global economy is not recovering as strongly as hoped from the banking crisis and subsequent recession of 2008-9. The third anniversary of the collapse of Lehman Brothers recently passed, but UK and US unemployment, currently running at 7.9% and 9.1%, remain close to crisis highs of 8.0% and 10.1%. This compares to immediate pre-crisis figures of 4.7% and 4.4% respectively. Quantitative Easing has not had as positive an effect on economic prospects as central bankers hoped it might. Meanwhile, the Eurozone crisis lurches from one insufficient policy measure to another. Unless European politicians find sufficient political will to make bolder moves than those made so far, this crisis will rumble on.

All these problems (weakness in economic demand, high unemployment and sovereign debt issues) have their root in the same thing - the credit boom and subsequent banking crisis that went before them. The new era we are in - the 'Great Deleverage' - is characterised by consumers and governments paying down their debts and restoring their financial health. Although we are 3-4 years into this process, history suggests that at least the same amount of time may need to pass before the world can return to a more sustainable, healthy level of economic growth.

Life Goes On

All is by no means lost, however. An entertaining article was published recently on Irving Kahn, the oldest living investment professional, aged 105. He started on Wall Street in 1928, the year before the Great Crash, and still wakes up every morning at 7am to go to work at his investment firm.

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"This may surprise you, but there were a large number of valuable buys during the Depression. Then and now, the smart money was on companies with sound fundamentals. You always had a long list of what I'd call legitimate businesses, the ones that produced food, clothing, and other essentials. Everybody still wanted a clean shirt."

And his view on today's market?

"There are a lot of opportunities out there, and one shouldn't complain, unless you don't have good health."

We agree. There is no shortage of growing businesses in the current market, selling things society needs and desires, even in more difficult times. The pervading apathy towards equities as an asset class is serving up some of the most enduring franchise businesses of the world, at valuations investors from previous decades would have salivated at. Time tends to treat these businesses well. They have risen to the challenge of economic booms and busts, inflation, deflation and changing currency regimes on countless occasions before, and we suspect they will do so again. For the long-term investor, with patience and a strong constitution, we think compounded annual returns from today will look very satisfactory when viewed from the more comfortable vantage point of hindsight.

Take Johnson & Johnson, one of four US stocks in the fund. In the 1980's and 1990's it was a stock market darling, valued on a glamorous earnings multiple of between 20x and 40x. Currently, the stock market is unhappy to assign more than a 12x multiple to the very same earnings stream. That is despite average annual growth of about 10% over the last ten years. We suspect that J & J can keep producing results of a similar magnitude over the next decade – its long history suggests it most probably will. Even if J & J's valuation remains depressed, shareholders will benefit from this growth and from a rising dividend stream. But if Mr Market decided to restore J & J to anything like its previous glory, then things would really start to get interesting.

Elsewhere, whilst care is required, opportunities are presenting themselves and will continue to. We'll work hard to scrub down these possible candidates and act when they look worthy for inclusion in the portfolio. A general point worth noting is that businesses have now had a long time to get used to the current economic environment. It is a strong vindication of any business model to have survived the last four years in good shape, remaining self-sufficient in terms of cash requirements and continuing to operate with a healthy balance sheet. Those that have should continue to trade well even if times remain hard.

The Dividends Keep Coming

In previous reports I have mentioned our preference for businesses that we describe as 'cash compounders'. Owners of intangible assets such as consumer brands, intellectual property and lasting customer relationships, these businesses tend to generate high profits relative to requirements for capital reinvestment in the business. The outcome for shareholders is generally high and rising excess cash-flow, and a steadily rising stream of dividend payments.

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Despite the many uncertainties in the world, the dividend change in the fund's top ten holdings for the most recent financial year was as follows:

Unilever +11%

Glaxosmithkline +7%

Diageo +6%

Reed Elsevier +0%

Astrazeneca +16%

Johnson and Johnson +9%

Smith & Nephew +15%

Sage +5%

Pearson +9%

Reckitt Benckiser +15%

These holdings represent more than 50% of the current portfolio. There is something very reassuring and solid about this underlying progress and, in our view, far more significant and tangible than day-to-day fluctuations in share prices. Share price volatility is currently higher than usual, with the stock market regularly bouncing up and down 1-2% a day. Nonetheless, for businesses with excellent economics, the passing of time tends to be a great friend to shareholders, not an enemy. I feel positive for the portfolio's prospects, and continue to invest all of my own long-term savings in the fund.



Hugh Yarrow
Fund Manager

13 October 2011

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TOP TEN HOLDINGS

Top Ten Holdings as at 31 August 2011 (%)	Top Ten Holdings as at 28 February 2011 (%)		
Unilever	8.9	Unilever	6.5
GlaxoSmithKline	7.8	GlaxoSmithKline	6.1
Diageo	6.9	Diageo	5.9
Reed Elsevier	5.3	Reed Elsevier	5.1
AstraZeneca	4.4	AstraZeneca	4.6
Johnson & Johnson	4.0	Johnson & Johnson	4.5
Smith & Nephew	3.9	BG Group	4.2
Sage Group	3.8	Sage Group	4.1
Pearson	3.4	Coca Cola	3.7
Reckitt Benckiser	3.1	Smith & Nephew	3.3

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PERFORMANCE

Share Prices and Revenue

Calendar year	B Income shares			A Income shares		
	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	-	103.04	97.77	-
2010	119.27	99.00	3.2294	118.61	98.90	3.2084
2011 ²	121.79	105.15	4.3441	120.80	104.24	4.3183

Calendar year	B Accumulation shares			A Accumulation shares		
	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	-	103.30	98.02	-
2010	124.20	99.26	3.2481	123.54	99.15	3.2436
2011 ²	129.37	111.70	4.5353	128.34	110.75	4.5090

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.

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Dividend distributions/accumulations for the six months ended 31 August 2011
(pence per unit)

Share Class	Quarter Ended:	31 May 2011	31 August 2011
	Pay Date:	31 July 2011	31 October 2011
B Income		1.0068	1.0077
A Income		1.0000	1.0000
B Accumulation		1.0604	1.0658
A Accumulation		1.0535	1.0578

Net Asset Values

Date	B Income shares			A Income shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2010	852,905	101.77	868,008	412,600	101.66	419,434
28 Feb 2011	1,317,011	115.34	1,519,018	995,217	114.60	1,140,562
31 Aug 2011	1,864,098	111.20	2,072,932	1,283,330	110.22	1,414,427

Date	B Accumulation shares			A Accumulation shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2010	147,897	103.00	152,338	640,873	102.86	659,222
28 Feb 2011	589,384	121.49	716,047	1,369,747	120.74	1,653,821
31 Aug 2011	1,129,424	119.20	1,346,314	1,532,099	118.16	1,810,329

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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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.

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OTHER INFORMATION

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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.

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