

ISSUE

11

# *Monthly Newsletter*

January 2012

# ELITE

TIPS SMALLER COMPANIES  
INCOME & GROWTH FUND

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Please see the important risk warning at the foot of this message.

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## Editorial update from Ross Jones & Tom Winnifrith



There is no denying the fact that small caps were trounced for a large part of 2011 - the Income and Growth Fund unfortunately did not escape this. A continued flight from risk assets saw Gold rocket through \$1,900 (Source: Bloomberg) an ounce during 2011 as the asset's safe haven qualities gleamed brightly. The year itself was characterised by extreme volatility with small cap valuations taking the brunt of it. We do however continue to believe that this is purely a macro and political driven storm and not a reflection on the underlying investee companies and as we move into 2012 we remain optimistic.

Despite the poor performance of stock prices, corporate news flow from within the portfolio has remained generally positive and regardless of the surrounding, choppy waters, at an operational level, our stocks look to be navigating the storm relatively well. Conscious of its clear exposure to the UK retail market, Town Centre Securities has continued to keep a close eye on its voids and is currently planning a transformational diversification of its 80,000 sq ft Merrion Centre into a lively leisure destination with bars, cafes, restaurants, and a gym – early stage reports from the local news have also noted that the shopping hotspot has bucked the downward trend with a 3% increase year on year in trade going into Christmas 2011.

Another one of our holdings; Greenwich Loan Income Fund last year secured what should be a materially lowered cost base. This is likely to allow the company to increase its dividend from 2nd quarter of 2012

onwards. Furthermore, Britain's foremost niche home credit and motor finance provider, S & U, recently noted that moving into the Christmas period, trading was strong and that expectations for the full year are high. Specialist engineer Chamberlin also recently delivered a strong set of results and after meeting with the company a few weeks ago; operations look to be developing very well (we summarise the key take aways below).

At Pivot Entertainment, although we take the view that central cost cutting has not been executed as rapidly as initially hoped, we believe we are set to see the benefits of the last year of reorganisation come through for the Financial Year 2012 (the company has moved to a calendar year end) - we continue to believe the business is capable of delivering Profit Before Tax of c£4m in the future, which at 10.5p, capitalising Pivot at £7.4 million, equates to a multiple of less than 2.

But the case remains that valuations have slipped and in the short term this is clearly disappointing. We do however continue to believe that the current market appraisals do not do our investee companies justice and remain of the view that in the long run the value present here will out. For the time being will we continue to bank healthy dividend payouts.

We look forward to the year ahead and would like to thank you all for your continued support and investment throughout 2011.

**Tom Winnifrith & Ross Jones**

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## How to invest

You can deal through [www.JPJShare.com](http://www.JPJShare.com) at the initial fee rate of 2%.

Deal through t1ps and WAY Fund Managers Limited at the initial fee rate of 2.5%. If you want an application form email [admin@t1psim.com](mailto:admin@t1psim.com) or go to [www.t1psim.com](http://www.t1psim.com) to download the simplified prospectus and application form, and an ISA form.

After an initial investment of only £500, you can invest lump sums on an ad-

hoc basis or regular monthly investments of £100 pounds upwards. Investing via a monthly savings plan is by Direct Debit and will be collected on the first business day of each month. The completed Direct Debit Mandate should be sent with the appropriate application form to your Financial Adviser or direct to WAY Fund Managers Limited, Cedar House, 3 Cedar Park, Cobham Road, Wimborne, Dorset, BH21 7SB.

Alternatively, you can buy through your existing broker. Most brokers offer the chance to buy units although few can match JPJShare.com's initial rate of 2%. Simply, contact your broker, providing them with the **Fund's SEDOL code which is B63 JD 95**. Feel free to contact Sarah Read on **01624 676 848** if you have any questions or problems.

If you would like a hard copy of the documents, please email [admin@t1psim.com](mailto:admin@t1psim.com) stating your full name and address with the words 'Elite' in the subject line.

Shares in the Fund are eligible to be held in a Self Invested Personal Pension, for inclusion in a non-stakeholder Child Trust Fund account as well as an ISA.

The Elite t1ps Smaller Companies Income & Growth Fund provides expert management of your investment at a competitive price.

You are recommended to seek independent investment advice before making any investment into the Fund.

Please note that if you have a stocks and shares ISA through Share plc in the SF t1ps Gold and SF t1ps Growth Fund this tax year, you can't have one in Income & Growth Fund through WAY Fund Managers Limited, but you can have one through Share plc.

**If you have any questions about investing in the Elite t1ps Smaller Companies Income & Growth Fund or if you want a simplified prospectus and an application form please contact Sarah Read on 01624 641318 or email [sarah.read@t1psim.com](mailto:sarah.read@t1psim.com).**

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# Benchmarking

## Cumulative - 9 January 2012



**The Fund was launched in November 2010 and 3-year and 5-year performance results are not available.**

**Source: Financial Express**

**Past performance is not a reliable indication of future results**

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## Elite Fund - Top 10 Holdings

Port Erin Biopharma  
First Property Group  
Intandem Films  
Interquest Group  
Pivot Entertainment  
Mirada  
Sutherland Health Group  
Silvermere Energy  
Greenwich Loan Income Fund  
Avisen

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## News from our portfolio by James Faulkner



Having released its numbers for the first half of the year (end September 2011) on 29th November 2011, we met the management of Chamberlin the week after to discuss operations and gauge how things are progressing as we move towards the end of Financial Year 2012 (end March YE). The key take away is that despite a gloomy macro environment, operations at Chamberlin look to be developing well. This is highlighted by the fact that all three of its foundries are now operating above pre recession levels.

Looking more closely at the company's operational segments, over a fifth of sales are generated by the passenger car industry with the company's number one underlying customer being VW. Despite, in general, EU automotive sales are likely to be stagnant for calendar year 2012, industry forecasters LMC automotive (formerly JD Power Forecasting) and IHS Automotive expect VW to end this year as the world's largest car maker having continued to increase its levels of production (vehicles produced by GM's minority-owned Chinese Wuling brand are stripped out of the US makers numbers). As a means of quantifying this; VW is expected to produce between 8.45 to 8.6 million vehicles this year. This augers extremely well for Chamberlin as it is one of four EU providers of highly specialised turbocharger castings which, due to a set of strict emissions regulations set to come into play by 2015/16, are, and will be increasingly in demand.

Furthermore, a recent report by The Boston Consulting Group; *Made In America, Again: Why Manufacturing Will Return to the U.S.*, provides a compelling argument for why Chamberlin's other casting operations, as well as its safety/security offerings will become increasingly sought after in the

years to come. The report expands on earlier research by the same firm and looks into the structural cost shifts that we are increasingly likely to see over the next 4 – 5 years, as a result of (amongst other factors), a 20-25% annual increase in Chinese wages and a strengthening yuan. That is to say that the report suggests that China's competitive advantage is beginning to be eroded. The report highlights the cost shifts in great detail and lead author, Harold Sirkin, and BCG partner, Michael Zinser note: *"Once companies carefully look at all the costs, many will find they'll be better off making their products closer to customers in the U.S....When you include things like transportation, duties, and currency appreciation, any gains from sourcing in China may not be worth the many risks and headaches associated with operating supply chains extending halfway around the world"*.

The report focuses exclusively on the US but the key concepts also apply to other developed economies, most importantly the UK. There is the argument that if work is moved out of China it will simply go to nations with lower labour costs such as Vietnam, Indonesia, and Mexico and this is clearly a potential knock on. The report however does not suggest that China will decline as a manufacturing powerhouse, but for what Chamberlin provides, higher end engineered castings, it notes that given the high specification and attention to detail required, production closer to home is likely to become increasingly attractive.

Going back to the half year numbers – normalised Profit Before Tax was up almost fivefold to £0.8 million on sales 25% higher at £23 million. Helped by a reduced tax charge (20% - tax losses utilised), underlying EPS came in at 7.4p, and net debt at the period end stood at £2 million, down from £3.3 million a year earlier. For the full year ending 31 March 2011, we are slightly revising our numbers upwards (4.3% increase) on the back of the aforementioned management meeting and analysis of the most recent cost cutting efficiencies – we believe that Chamberlin will deliver normalised earnings of 13.3p per share for the full year and that the company will announce a full year dividend of 3p (2.5% yield). In regard to the dividend, we continue to believe that the company will follow a progressive dividend policy through a yearly 1/3 – 2/3 split. But we are conscious that an acquisition is still being looked for to develop the scale of the company's operations and we expect to see cash generated from operations deployed here. We are also bearing in mind that, as per earlier in the year, the company may look to raise cash in the market to allow a bigger acquisition to be executed than was previously considered.

At 123p Chamberlin is capitalised at £9.6 million and trades at what we believe to be an unjustified discount to its engineering sector peers. Placing the shares on the same multiple as the peer group, fair value is at least c145p.

Greenwich Loan Income Fund said on 21st December 2011 that pursuant to

the announcement of the 27 April, regarding the strategic review of its holding of the Collateralized Loan Obligation, none of the proposals that were received reflected the far lower risk profile of the company's current position. To have sold and reinvested would have increased the company's risk profile without a knock on increase in return, and it was therefore agreed, as a means of maintaining the risk/reward profile of the operation, that the current Collateralized Loan Obligation holding would be retained. The company also noted that the Collateralized Loan Obligation was deemed significantly lower risk than the Collateralized Loan Obligation market in general. This is highlighted by the fact that all of the loan tranches are rated at either the same rating or above the rating that they were first issued with by Moody's and S&P.

Looking forward to 2012 the management fee reduction announced earlier in the year will come into play from the end of the first quarter of 2012. As we previously noted, this is set to have a material impact on both net income and cash flow and we expect that the current 4p dividend will be reviewed in line with this. However, the fact that the dividend is paid in Sterling and that the majority of the company's returns are in Dollars leads us to believe that the increase in dividend will not mirror the increase in respective net income and cash generated exactly. We believe that the management will look to deliver a sustainable, dependable, income stream as opposed to fluctuating payments.

Looking ahead, the general macro outlook remains uncertain and this is likely to continue to shape the investment prospects within the Collateralized Loan Obligation market over the next 12 months. The company is however confident that the variety of instruments available, and respective dynamics, will continue to provide routes to accrete value for shareholders.

For the year ending 31 December 2011 the company is expected to report a full year dividend of 4p. Capitalised at £45.1 million (45.25p), the shares are therefore currently yielding 8.8%. Looking to the Financial Year 2013 we expect at least a 10% increase in the dividend as a result of the lowered management charge. This sees the shares offering a prospective yield of 9.72%. Over the last month the company has received a number of press comments in regard to its healthy dividend policy but we continue to believe the current valuation to be a result of, despite Greenwich's low risk appetite, the company's closeness to a market that is rather misunderstood given the failings of 2007/8/9. We are content to hold.

**James Faulkner**

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01624 641318 or email [sarah.read@t1psim.com](mailto:sarah.read@t1psim.com)

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## Risk Warning

Investors should appreciate that there are inherent risks in all types of investments.

Stock market prices can move erratically and be unpredictably affected by many diverse factors, including political and economic events but also rumours and sentiment.

Past performance is not necessarily a guide to future growth or rates of return.

The capital value and the income from shares issued by the Fund can fluctuate and the price of shares and the income from them can go down as well as up and are not guaranteed.

The Elite t1ps Smaller Companies Income & Growth Fund invests in smaller markets and in the ordinary shares and loan stock of smaller companies. The shares of smaller companies may be less liquid than securities issued by companies with a larger capitalisation, and their performance more volatile over shorter time periods. If a security cannot be sold in a timely manner then it may be harder to attain a reasonable price and there is a risk that the price at which the security is valued may not be realisable in the event of sale.

The Fund may invest in other currencies. As a result, changes in the rates of exchange between currencies may cause the value of the shares to go up or down. Accordingly, investors may not receive back the amount invested;

Investment in the Fund should be regarded as long-term, which is upwards of three to five years. There can be no guarantee that the objectives of the Fund will be achieved.

Exemptions, thresholds and rates of tax may change in the future.

You are recommended to seek independent investment advice before making any investment into the Fund.

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