

ISSUE

3

Monthly Newsletter

April 2011

ELITE

TIPS SMALLER COMPANIES INCOME & GROWTH FUND

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



The Elite Fund started investing on March 1st. We have not rushed into building the portfolio and are content to sit on cash until we can invest in what we wish to invest at prices we deem attractive. We might miss the boat in some cases but that is better than overpaying. However, we are now sitting on 14 investments, with one very attractive funding proposal accepted by the management of an up and coming company (which will deliver us with stock plus Loan Notes with a solid coupon and a favourable conversion ratio) with a further agreement proposed to a company which could see us deliver some potentially serious growth.

Our approach across all the funds we manage is the same. Diligent research and taking the time to regularly converse with the management of our target companies. To quote Benjamin Graham '*there is just as much reason to exercise care and judgement in being, as in becoming a stockholder*' (1934) and this is just what we will continue to do. Across the UK financial market at present there seems to have been a reversion to what was known as; The New-Era Theory. This mindset initially dominated thinking during the post war period and in particular leading up to the culmination of the Bull market in 1929. Price was essentially forgotten and earnings growth was purchased at any multiple with the bulk of importance placed upon trends.

We do not subscribe to this view and avoid the big household names have instead purchased well managed, strong, developing companies on multiples of 6, 5 and even 4 (or lower!) times earnings. The FTSE Small Cap Index is currently trading on a price earnings ratio of 22.5, which in our opinion identifies that some strong earnings growth has already been discounted into this group (which in

general actually are not small caps in the true sense of the word). We would much prefer to be invested in companies that are due a material rerating when they deliver strong earnings growth. The fact that the real Small Caps (i.e. companies valued at £30 million or less) are unfavoured at present meaning we can secure some very healthy dividend yields. We have been doing just that!

Since inception we are up by 8.2% and Senior Fund Manager Tom Winnifrith remains at the top of the Fund rating website Trustnet's UK Alpha Manager league table having delivered returns of 152.9% over three years, outperforming his closest competitor by more than 50% (Source: Financial Express 04/04/11). The team at T1ps Investment Management are under no illusion about what this means as past performance is not a true indicator of the future potential returns (and at this point we would like to draw your attention to the important risk warning at the bottom of this Newsletter), but with such a commendable performance attributable to our Lead Fund Manager, and with a decent amount of capital growth in just two months, it is hard not to be confident.

We would at this point like to thank all of our investors who have already invested in our new offering and hope that at this early stage you can see that we are already delivering on what we have set out to do. We would however ask that you save your judgement for 2 - 3 years time. As Buffet once said; *someone is sitting in the shade today because someone planted a tree a long time ago*. We once again look forward to updating you again in around a month's time.

Ross Jones & James Faulkner

P.S. If you live in the UK you will no doubt remember that the tax year end (also Tom's father's birthday) is almost upon us. If you are an investor and do not use the tax shelter provided by an ISA then we suggest that you are missing a trick. You can buy units in the Elite t1ps Smaller Companies Income & Growth Fund for your ISA and we very much hope that you do. If you have questions on this please email spiros.kurtidis@t1psim.com or call him on 0207 562 3386.

How to invest

To invest in the Fund please click [here](#) for a simplified prospectus and an application form and email spiros.kurtidis@t1psim.com to receive the promotion code that will give you a 50% discount on the initial fee.

If you would like a hard copy of the documents, please email admin@t1psim.com stating your full name and address.

The Fund is now available via Hargreaves Lansdown, Barclays Stockbrokers, AJ Bell, SIPPdeal, Bestinvest and many others. For more information please email spiros.kurtidis@t1psim.com.

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.

In addition, shares in the Fund are eligible to be held in an ISA, Self Invested Personal Pension, and for inclusion in a non-stakeholder Child Trust Fund account too.

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.

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 our hotline on 0207 562 3386 or email spiros.kurtidis@t1psim.com.

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, but you can have one through Share plc.

Benchmarking

Cumulative - 01 April 2011



The Fund was launched in November 2010 and 1- year, 3-year and 5-year performance results are not available.

Source: Financial Express

Past performance is not a reliable indication of future results

And the portfolio grows

We said that it would be steady growth in the diversity of your portfolio and we meant it. We have now invested in 14 companies and expect that to increase to 16 by the end of this week.

One of the companies which gives us exposure to growth markets in the Middle East and Asia, is the AIM quoted e-learning software and consultancy services provider, **ILX**. Since the beginning of February 2011 the company has announced £500,000 worth of new business win with internationally recognised partners, with notable sales being made to Thomson Reuters and the Middle East Government Agency. The most recent significant development was reported on 23rd March 2011 when the company announced its contract win with the cross EU information delivery platform provider, Colt Technology Services. The three year e-learning license, valued at £142,000 is by far the largest contract ever sold by the company's Best Practice division.

The company's year has just ended and we expect the financials for the full year ended 31st March 2011 to be released by mid June. The first half saw a rapidly expanding international operation with the management opting to cancel the 1.5p dividend as a means of strengthening the Balance Sheet, whilst delivering sufficient working capital for the company to grow overseas. We can assume that following the

strong news flow this rapid international growth has continued into the second half of the year and that the rewards of this will be reported when the company announces its full year earnings.

With these results we believe there to be potential for non-cash charges and exceptional costs associated with the prudent decision to shut down the company's classroom based business taken over the Christmas period. However, withstanding this, at both the operational and underlying levels we believe the reports will highlight the developing international growth of the e-learning and consultancy divisions. Underlying Earnings per share of 4p should be achieved with the company set to be strongly cash generative.

At 24.5p ILX is capitalised at £6.6 million and currently trades on a forecast earnings multiple of just 6.1. Operating internationally and delivering strong contract wins, which we expect will enhance its earnings sooner rather than later, a multiple of at least 10 is far from demanding. This conservatively implies a share price of 40p and we have therefore been adding to our holdings as a means of delivering capital growth whilst we await the return to dividend payments (at 1.5p the implied yield is 6.1%) as further re-rating here is a significant possibility.

Guernsey domiciled, authorised closed-ended investment company, **Greenwich Loan Income Fund** was one of the first investments we made. The aim of the company is to produce a stable, predictable dividend yield coupled with the long term preservation of asset value via investments into predominantly senior, secured loans across the US mid corporate market with the majority of the investments held within the company's collateralised loan obligation subsidiary.

Following the financial downturn, confidence in CLO investment is most obviously weak. However, active management of the portfolio with specific, individualised covenants for each loan obliging companies to work within certain working capital and free cash flow requirements, with quarterly 'stress tests', is the norm across Greenwich's investments. The target companies usually always boast a strong competitive position within their respective sector with the loans secured against tangible assets. Although the company's NAV was essentially decimated throughout the roughest years of the downturn the company has only been associated with one default (the loan itself was sold prior to the default), and in the majority of cases finds that the loans are repaid in full, and even early.

On 28th March 2011 the company reported its full year results for the 12 months ended 31 December 2010. The released showed invested assets with a fair value of approximately £161.6 million with the Net Profit, including a combination of net unrealised gains on investments and liabilities, of £11.1 million. In addition, full interest payments from the CLO throughout the year allowed the company to return a full year dividend of 4p to investors. Basic accounting NAV was reported at 71p, but with the realisation of the full NAV being highly improbable a further NAV calculation is provided by the company. This secondary NAV calculated for interest diversion purposes, assets at market, and liabilities at par implies a NAV of 48.5p which is a more indicative appraisal of the actual underlying value within the CLO. The reports also alluded to the fact that further acquisitions, in line with the announcement in early January detailing the Asset Management Investment Company acquisitions, will be focused upon if due to be accretive to capital and income.

Having invested here at 32.25p we are currently sitting on a very attractive entry yield of 12.4% and have also experienced a pleasing amount of capital growth. Currently capitalised at £37.9 million with conservatively estimated realisable NAV of 48.5p, at 38.38p the company is currently trading at a deep discount to the underlying value of the CLO. On analysis of the peer group, this is one of the largest discounts around. Having invested at a lower level, we are happy to hold here and receive a material dividend yield and expect that, as investor sentiment towards CLO structured investments softens, the market valuation of the company will inch back closer towards the realisable NAV of the underlying investments.

Telecom Plus, which offers a wide range of utility services (gas, electricity, mobile, fixed telephone, broadband) to residential and business customers, said on 30th March 2011 via its pre close update, that for the last quarter of the financial year, which ended the following day, the company had experienced a continuation of the positive trends detailed in the earlier quarters. In line with the Interim Management Statement released on 14th February 2011 full year profits are expected to be reported slightly ahead of market expectations with the company progressing upwards with steady organic growth.

The company has experienced a high level of demand from customers for the new mobile tariffs offered over the past three months plus a strong increase in Distributors following a promotional period. However, the working capital dynamics of the company throughout the exceptionally cold winter months has meant that Telecom will have made increasingly large payments out to its energy supplies to accommodate for the demand over the Christmas period. It is therefore expected that the cash balance at the year end is likely to be negatively impacted by the fact that debit balances on budget plans (month on month payments) during overly cold periods can take up to 24 months to be fully recovered. We therefore believe the yearend Balance Sheet will show net debt of between £10 million and £15 million. However, with the new banking facility, which allows a drawdown of up to £27.5 million, in place Telecom should have a comfortable amount of headroom here to operate whilst receiving these belated payments.

The full year results are expected to be reported on 25 May 2011 and should show turnover of around £400 million. It is forecast that this will equate to a profit before tax of approximately £24 million, implying underlying earnings per share of 27p. At 455p, Telecom is capitalised at £314 million, and is therefore trading on a 2011 full year forecast multiple of 16.8 times earnings. For the full year 2012 earnings of 30p are achievable cutting the FY 2012 forecast multiple to 15. On a 22p dividend the yield is a, decent, 4.9%. We reckon that our forecasts could be seen to be slightly on the light side and that with operations and organic growth progressing along steadily, plus an attractive interest yield we are happy to hold our position.

Ross Jones & James Faulkner

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 our hotline on 0207 562 3386 or email spiros.kurtidis@t1psim.com.

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.

t1ps Investment Management (IoM) Limited is licensed by the Isle of Man Financial Supervision Commission.