Growth Fund Newsletter Issue 44 - November 2011

Warren Buffet Says It All- by Ross Jones & Tom Winnifrith

Be fearful when others are greedy and be greedy only when others are fearful.

The above is one of the more famous quotes from the Grandfather of value investing, Warren Buffett. It spells out, at a high level, how one should go about buying and selling equities. But what Warren Buffet asks of us here is to completely go against our internally wired responses to two of the most significant emotions a person can feel. For a good deal of our daily life, our brain operates fantastically well and directs us away from danger whilst helping us to make the correct, logical decision. But when it comes to investing, our brains tend to try to take us down the wrong path as a result of our survival instincts.

Scientists and researchers in the increasingly important fields of neuroeconomics (a mix of neuroscience, economics and psychology) and behavioural economics have made some rather interesting discoveries when it comes to how the brain evaluates rewards, appraises risks and calculates the probability of an event occurring. Brian Knutson of Stanford University has recently examined whether emotions influenced risk taking and investment decisions, and whether they do so by changing beliefs, preferences, or both. He found that events associated with positive and arousing emotions such as excitement (a share rallying or making a nice profit) lead to riskier choices and an increased perceived probability of this happening again. This is whilst those events associated with negative emotions such as anxiety, or the fear of loss, direct us to make more risk adverse choices and shy away from similar scenarios in the future. This seems obvious at first but Knutson also found that this influenced the belief formation process and how we view potential future scenarios and subsequently how we adapt and react. It has also been noted that the feelings experienced following financial loss remain deeply ingrained in us moving forward - That is to say that if one had lost money in the past, one would invariably be extremely wary of this happening again and take action to ensure it did not.

In addition, Knutson also found that whilst your reflexive brain is extremely responsive to variations in the amount of reward at stake, it is much less sensitive to changes in the probability of receiving the respective reward. Psychologist Daniel Kahneman took this further and noted *'we tend to judge the probability of an event by the ease with which we can call it to mind'.* This is relevant to the investment world because it suggests that we are materially less receptive to adjustments in probability, i.e risk, when a large reward is at stake. That is to say that greed seemingly takes a hold of us.

On the flip side, there is fear. But our fear response and understanding of risk is also irrational. When asked which is more riskier; a car or a plane, on average a person will automatically answer; the plane. In the US however you have just a one in eleven million chance of being involved in an airline accident as opposed to a one in five thousand chance of being in a car accident. Yet the fear of the plane accident is significantly more scary. Classical fear conditioning, a behavioural procedure that is used to couple environmental stimuli to emotional (defence) response networks, goes a good way to explain the panicked, market selloff mode that kicks in and makes investors sell decent stocks regardless of the price.

The fear of a material loss sits heavily with all investors and researchers have found that we are programmed to believe in, and look for patterns and trends, even if we are categorically told something is irregular. Fear, coupled with our inherent need to see patterns drives us to act irrationally in times of anxiety and worry and perceive the risk of loss as a result of a future event far more greater than it actually is. Our past experiences which contribute to this can be something we have either experienced personally, or vicariously (which is the key to market losses and the case with the majority of investors). The typically logical investor knows that a macro driven move in market prices has no real impact on the operations of the underlying investee business, yet the perception of a material loss makes selling the investment seem like the best idea in order to preserve wealth.

This is will ultimately result in the typical investor buying high and selling low, especially as we are inherently automated to look for patterns. That is to say that if a stock is going up, it will keep going up, and vice versa. The fact that US real estate had increased in value for circa thirty years prior to 2006/2007 therefore meant it would obviously keep going up...just like those tech stocks that enjoyed a 10 year bull run with a spectacular last two years up until 2001. Clearly a PE of 9 squillion was irrelevant, the pattern dictated that further gains were inevitable. So much for patterns. Past performance is no guarantee of future returns.

And no doubt those wired to follow patterns note that small caps have had a poor run with resource juniors doing especially badly and so argue that one should sell now before it gets even worse. They may attempt to rationalise this but ultimately it is the pattern that is driving their decisions, not the fundamentals.

We take a different view in managing the SF t1ps Smaller Companies Growth Fund. A logical view. We believe that like a cut price sale in a favourite shop, falling prices mean more bargains are to be had. Market prices are little more than a snap shot of current sentiment and company valuations can go through long drawn out periods of both under and overvaluation. We take these opportunities to buy decent companies on a low rating, hold them, and subsequently sell them once the companyõs potential has been realised. When this will happen is however little more than speculation. But as we have noted before, this realisation can come through one of two ways; a market rerating, or merger and acquisition activity. In regard to the latter we have already seen two of our investee companies go down this road (1 Spatial and Avisen), and as investment managers we will be pushing for things elsewhere. And so as others panic we are buying. Your fund is increasing its exposure to gold and other resource stocks as we see the outlook for this area as extremely bright. Inflationary pressures will drive spectacular top and bottom line growth in this sector showing the recent stock underperformance to be a ghastly mistake.

Of course the world faces grave macro issues. But are corporate earnings (The real driver of equity valuations) going to slump in the way valuations imply? This is what the respected commentator Tom Stevenson of Fidelity wrote the other day in the Daily Telegraph:

At the end of one of the scarier weeks of the crisis in Europe, shares have held their nerve. In the euphoria that met the Brussels deal, shares broke decisively out of the past three months' trading range - despite this week's realisation that the solution was no more "comprehensive" than any of its predecessors, they have maintained their poise. What's going on? In part, it's the fact that, gripping as the unfolding Greek and Italian tragedy undoubtedly is, it is not the only thing going on in the global economy right now. The danger of over-emphasizing what's close at hand is one conclusion I draw from a report I've just worked on for which we questioned around 100 of our research analysts around the world about what's keeping chief executives in the biggest companies awake at night.

What is clear is that those company bosses are worried – mainly about sales, almost as much by intrusive regulation. They are also extremely concerned about the threat of another credit freeze, with a significant number of companies admitting to being reliant on short-term finance. The consequence of that cocktail of worries is that they are sitting on their hands. They are loathed to invest and corporate deals are on hold. What they are not really concerned about – in marked contrast to three years ago in the first phase of the crisis – is the health of their balance sheets. Companies in Asia alone are sitting on surplus cash of around $1 trillion and, stumped to think what else to do with it, they are handing the money back to shareholders. The dividend payout ratio in the region is three times what it was a decade ago.

Almost 90pc of the analysts we spoke to said the companies they cover have stronger balance sheets than they did in 2008. In a slow-growth environment, you might have expected cash-rich companies to buy what they couldn't build. But most have either dismissed acquisitions entirely or are only considering them on a small scale. Again, the interesting question might be what would happen if management stopped worrying about the macro picture and put its cash to work... Set against a third-quarter earnings season that continues to offer more reassurance than things to worry about, our snapshot of the global corporate mood suggests a pent-up energy that bosses can't quite bring themselves to unleash. The thing most companies seem to fear at the moment is fear itself. They are not doing so yet, but when they feel able to look through the maelstrom, the change in sentiment could be surprising.
Ends.

Indeed. In the short term, low prices are invariably disappointing, but going against the crowd is the only real way to deliver long term market beating returns. None of us like seeing the value of our investments fall. But if you are not a forced seller then such an episode can only be viewed as a buying opportunity.

Tom Winnifrith & Ross Jones

If you have any questions about investing in the SF t1ps Smaller Companies Growth Fund please contact Sarah Read on 01624 641 318 or email sarah.read@t1psim.com. If you would like a simplified prospectus and an application form please visit our website at www.t1psim.com or email growthfund@t1psim.com.

Fund Information	
Size:	£14,100,962.49 (04/11/2011)
Launch date:	21 November 2007
Launch price:	£1.00
Current Yield:	0.00%
Legal Status:	OEIC
Annual Management Fee:	1.5%
Initial Charge:	5.25%
Minimum lump sum Investment:	£1000.00
Minimum monthly investment:	£25.00
Sedol Number:	B28R5W3
Unit offer price:	Single Priced Fund Last Dealt Price: 120.19 (04/11/2011)
Unit bid price:	As Above

Top Ten Holdings (as at 04/11/2011)	
Stock Name	% Fund
Avisen	8.58
Ascot Mining	8.08
Pivot Entertainment Group	6.42
ILX Group	5.73
Minoan Group	4.49
Intandem Films	4.31
Rivington Street Holdings	4.29
Nexus Management	4.02
Avanti Communications	3.69
Mirada	3.55

How to Buy Growth Fund Units

1. You can deal through www.JPJShare.com at the initial fee rate of 2%. Simply call 01624 641 301 or email admin@jpjshare.com for more information.

2. Contact your broker. Most brokers offer the chance to buy units although few can match the JPJ initial rate of 2%. If your broker will not deal please call Sarah Read on 01624 641 318 and she will try to rectify the situation.

3. Deal directly through t1ps and The Share Centre at the initial fee rate of 2.5%. If you want an application form email growthfund@t1psim.com or go to www.t1psim.com.

Once you have made an initial investment (of as little as £1000) you can set up a monthly standing order with The Share Centre to drip feed further cash (as little as £25 a month) into the fund. All existing fund holders can set up such an order.

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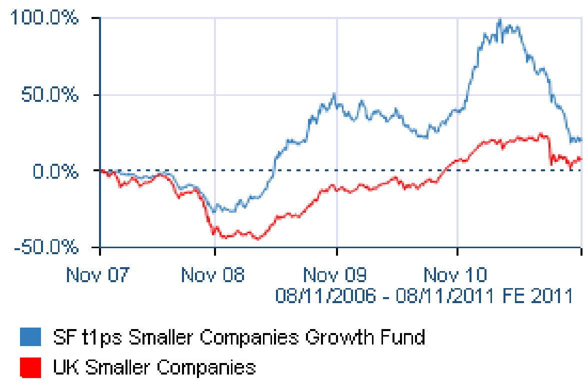
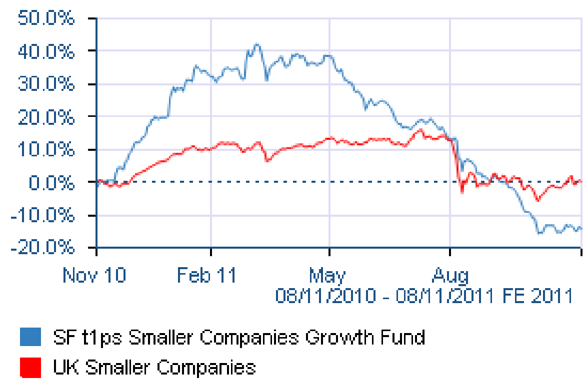
Benchmarking

Total return, bid to bid line chart from 22/11/2007 to 07/11/2011 from UKUT and OEICs Universe



Source: Financial Express
Past performance is not a reliable indication of future results

Total return, bid to bid line chart from 07/11/2010 to 07/11/2011 from UKUT and OEICs Universe



Source: Financial Express
Past performance is not a reliable indication of future results

Cumulative Performance - 04/11/2011

	1m	3m	6m	1y	3y	5y
SF t1ps Smaller Companies Growth Fund	-0.1	-23.3	-36.6	-12.5	+62.4	n/a
IMA UK Smaller Companies	+6.3	-5.8	-11.1	+1.1	+72.1	+10.7

Discrete Performance - 04/11/2011

	1y	3y	5y	12m-24m	24m-36m	36m-48m	48m-60m
SF T1PS SMALLER COMPANIES GROWTH ACC	-12.5	+62.4	n/a	-2.7	+90.8	n/a	n/a
UK SMALLER COMPANIES	+1.1	+71.3	+10.3	+22.5	+38.3	-43.4	+13.7

The Fund was launched in November 2007 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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News Round Up - by James Faulkner

Although the newspages are all about bank bailouts and Greek farces there has been quite a bit of company activity in our portfolio...

One company that is miles away, literally, from the angst and worry associated with the EU debt quagmire is Australian regional airliner **Skywest Airlines**. It is clear that as a result of the rapid globalisation of markets, a major EU blow up will reverberate around the world, but we view Skywest as a pretty defensive play despite its Airline status. At first glance this seems to go against the general consensus as the airline industry is typically one of the first to show signs of earnings recession in down times, and vice versa, and is therefore a fairly cyclical industry. That is to say that in good economic times people generally have more disposable income and are more interested in holidays and the associated air travel. But aspects of Skywestôs model differentiate the company from the majority of its peers as Skywest is not solely reliant on revenues from discretionary travel.

On 3rd November 2011 the company announced that it had signed a scheduled charter contract with BHP Billiton Iron Ore for air services for the companyôs production workers, from Perth to Area C and Yandi in the Pilbara region of Western Australia. The contract is set to last for, an initial 12 month period with an extension option, at BHPôs discretion, for a further 12 months from September 2012 onwards. The contract itself delivers increased ófly in fly outô revenues, which will be billed at market rates (varying as a result of the number of flights executed) and will result in a minimum of four return passenger services a week using the companyôs F100 jets. Crucially the contract includes a provision for price adjustments to reflect the potential future burden of an increase in fuel prices. The price of fuel is one of the core risks to Skywest, so this is a welcome inclusion within the contract.

In addition to the good news regarding the company moving further into the ófly in fly outô realm on 13th October 2011 Skywest announced that it had taken delivery of the third ATR 72-500 aircraft which will be operated under the previously announced Australian Regional Airline Network alliance with Virgin Australia. A fleet of up to 18 new aircraft will eventually be under the control of Skywest, and on behalf of Virgin, the company will provide the flight crew, the cabin crew, and the air craft maintenance, under a 10 year wet-lease agreement. It was initially anticipated that revenues from the arrival of the new ATR aircraft would begin coming through by October 2011 and as per recent guidance from the company this looks to be the case. It was also previously noted that by the end of December 2011 four of the potential eighteen aircraft, which would actually double the companyôs fleet, would have been delivered. Given that three are already on the ground, this does not look to be a tough ask.

For the year ended 30th June 2011 the company delivered sterling equivalent turnover of £116.6 million resulting in a profit after tax of £4.79 million. This equated to Earnings per Share of 2.4p. The six month period to 30th June 2011 was characterised by persistently high fuel costs, and since the year end this pressure has somewhat subsided which will have delivered some immediate respite. Looking forward it is our view that for the year ended 30th June 2012 Skywest should deliver Earnings Per Share of at least 3.5p. Presently trading at 26p, and capitalised at £52 million, given the rate of forecast earnings growth we take the view that the current market appraisal, a forward multiple of 7.4 times FY12 earnings, of the company is a far too pessimistic view. As we have noted previously, if the company was to trade on just the current multiple typical to its peer group ,Skywest would be valued at 45p a share.

On 2nd November 2011 Athol Gold announced that following on from the EGM, which took place on 25th October, the company has changed its name to Athol Gold and Value in order to better reflect its revised investment strategy. In addition Athol has now also entered into a more formal agreement with T1ps Investment Management, as opposed to operating directly with Senior Fund Manager Tom Winnifrith as Chief Investment Officer. The scope of Tom's role will be broadly unchanged but the move puts his relationship with the company on a more formal footing. In addition to the name change the company also announced its fully diluted NAV per share, which came in at 0.47p per share as at close on 25th October 2011. In the short term the drop in NAV per share is obviously disappointing and a reflection of the current, wider small cap malaise. But as a result of positive price movements in the core holdings, the NAV can move sharply, highlighted by NAV per share, as at the close on 26th October 2011, jumping to 0.49p. Athol is set to continue to announce its NAV per share quarterly, but with a widening of its investment focus, the company will no longer just be curtailed to the Gold and natural resource sector. This gives the company scope for picking up undervalued securities elsewhere in the market.

You may have noted that in its EGM notice Athol noted that there are c30 AIM and PLUS listed investment companies each with a derisory FUM which as a result of fixed PLC costs cannot hope to deliver returns for investors.That must change and Athol has a stated objective of acting as a sector consolidator. Watch this space...

We continue to take the view that the most compelling value at present remains well within the Gold sector. In light of this Athol provides the growth fund with quality exposure to Gold through its two core holdings; Ascot Mining and Ariana Resources, along with a basket of other decent gold miners. The key thing however is that Athol will now be able to acquire equities in other sectors that are fundamentally undervalued and benefit from the eventual re-rating. The advantage here for the fund itself is that we our able to gain exposure to these undervalued securities whilst not increasing the number of actual holdings within the fund itself.

Currently capitalised at £2.3 million, at 0.39p the shares trade at a material discount to NAV per share, and offer a compelling value case given the quality holdings within Athol's portfolio. As we note below, it is our view that Ascot Mining will be moving to AIM by the end of the year, and with Ariana Resources motoring towards initiating production at its flagship Red Rabbit project the current market valuation of both those stocks is clearly derisory. With corporate action for Athol itself likely and with the shares trading at an unwarranted discount to NAV we have added to our holdings.

The question that all Ascot Mining equity holders (and potential holders) want answered is when will this company move to AIM? Ascot had initially stated that it was planning to jump from PLUS to AIM almost a year ago now, so understandably investors are keen to know what is going on, and what the future two months have in store for the company.

It is our view, based on detailed conversations with management, that by December this long, drawn out process will be over and that the company will have completed its transition to the LSE's junior market. Back on 1 July 2011 Ascot announced that it was in the process of completing a revised NI 43 ï 101 statement which would subsequently be incorporated into the AIM admission document and allow the company to begin the regulatory process. Ascot then announced on 26 August 2011 a summary of the completed NI 43-101 report so the process is evidently underway which is why we take the view that the time frame from here will be circa 6 ï 8 weeks.

At an operational level the Chassoul Mine & Mill are fully functional and initial production has commenced. The fully equipped 150 ton per day on-site mill, which has over the last year been rebuilt and expanded, is currently being used to process mined material from, principally the Cajeta vein, but has more recently also begun processing material from the Amarilla vein. The Chassoul material is also being supplemented by gold-bearing vein material trucked over from the Tres Hermanos and El Recio properties. This is where we believe the potential production upside will come from given that the resource at Tres Hermanos has been internally projected to be over 1 million ounces. This has been justified using geological reasoning and extrapolation of known historical reserves, mineralisation, geological structures and historical production.

There is however no getting away from the fact that there have been some rather timely delays in regard to production expansion. At Chassoul itself there are seven additional veins which are currently not contributing material, so the production upside is clear. But we believe that for October, production is only likely to be in the low hundreds (200 – 300 ounces), but is now set to grow steadily with ultimately Chassoul/Boston contributing 1,500 a month with the same being trucked in from Tres Hermanos.

Currently trading at 28p, capitalising the company at £18.3 million, the company's share price has suffered from a lack of liquidity and what we believe to be private investors hanging on for news regarding the move to AIM. The fact remains that eventually the company will be producing c3,000 ounces a month at a blended cost of $600. Assuming a conservative Gold price of $1,650 this would see the company generating £23.6 million of free cash flow, which placed on a multiple of just three, sees Ascot worth 108p a share. The upside here is clear – that is to say a higher Gold sale price and a higher multiple as demand for gold mining equities increases (this is especially relevant as Ascot is located in a country which has been politically stable since the 19th century as opposed to other rough and unpredictable Gold producing nations). The delays are evidently frustrating, but the value case here remains solid.

As noted in the editorial the compelling bull case for Gold has driven us to increase our exposure to the yellow stuff. As a result we have recently purchased a number of warrants in Turkey focused Ariana Resources. This is why...

On 17th October 2011 the company announced the completion of the core components of its Pre-Feasibility Study on the Kiziltepe sector of its flagship Red Rabbit project, located in the west of the country. The study delivered improved project fundamentals with increased in-pit resources of 118,200 ounces of Gold and 1,452,600 ounces of Silver and subsequently a slightly increased mine life, now estimated to be eight years. Targeted production of 150,000 tonnes, equating to circa 20,000 ounces of Gold a year for the first five years, is set to begin by late 2012 which will provide the company with the cash needed to explore the wider area which has the potential to host in excess of 1 million ounces of Gold equivalent. Both the Gamze Vein and the Hande Vein clearly underpin the medium term growth potential here given the continuous high grades of up to 10.7g.t (Gamze) and 7.74 g/t (Hande) the company has previously identified.

The open-pit optimisation and design, site layout, production schedule and processing plant details announced within the PFS are now unlikely to change as we approach the announcement of the Feasibility Study later this year. The mine itself will be based around one central pit located at Arzu South with feeds in from satellite pits at Arzu North, Banu, Derya, and Kepeza, and is set to operate six days a week for just over eight years and one month, as opposed to 6.9 years as was previously forecast. Grades will however decrease as the production matures, i.e three to four years out, as mining shifts to Kepez, Arzu North, Banu and Derya. But it is our view that by this time the company will be have progressed its exploration and future development campaigns into other workable assets which will boost production (to 30,000 oz), the mine life (to more than 10 years) and the grades.

The plan to do this is already underway with the initiation of follow up drilling at Red Rabbit which is due to be completed ahead of the Feasibility study, set to be released towards the end of 2011 (albeit after a short delay as a result of needing a recognised local firm to design and approve the tailings storage facility). Up to 4,000 metres of drilling is planned on the Kiziltepe, Kepez West, Karakavak and Kizilcukur areas of the project with work having already begun on Kiziltepe's Fidan Vein. The drilling will help to enhance the understanding of, and to better define, the mineralised structures across the project with the hope of deriving additional mill feed for the planned plant. The fact that the company has its own drill team provides material flexibility in regard to this operational progression.

Currently capitalised at £12.8 million, our warrants are in the money and with production of 20,000 ounces set to begin late next year, we view this as just the start. Ariana's claim here is 50%, so at a $1,650 gold price (a cautious assumption), and costs of $550 an ounce, which we have revised on recent strip ratio guidance, free cashflow should be c£7.2 million a year. On a multiple of five times, that is worth £36 million, or 14.1p a share. The upside here in terms of both mineable resource expansion and Gold price is very clear.

Add in the company's interest in Tigris Resources (which will IPO next year), its cash and the JV with European Goldfields (where drilling this year, all funded by European, has delivered good results), and it is supremely difficult to see how Ariana is worth less than 18p per share. The warrants allow us to purchase shares at 4.75p so we are in good shape.

James Faulkner

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Risk warning:

The value of your investment can go down as well as up and you may not get back a significant proportion of your investment. Past performance is not a reliable indicator of future results. If you are in any doubt as to the suitability of an investment, you should seek independent financial advice. *Please remember that the tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

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