



The SF t1ps  
Smaller Companies  
Growth Fund



## Growth Fund Newsletter Issue 33 - March 2011

### Beware the Ides of March (or not)

The world remains a troubled place. But as we indicated in our last newsletter that does not alter our strategy. Indeed one is reminded of the comment from the 18th century Baron Rothschild who advised his clients to buy shares during some particular revolution. Surely, the client asked, you should not buy because of there is blood flowing on the streets. The baron said you buy, buy and buy more exactly because there is blood flowing on the streets. That is to say because everyone discounts the worst you get to pay bargain prices. As it happens we do not think that the market as a whole offers stunning value but there is certainly enough to worry about to throw up a few bargains.

As such we stand by our world view. Events in the Middle East could go any way. But we certainly think it prudent to have a decent oil weighting. As such we continue to hold a lot of Northern Petroleum, Niche and Chalkwell. The inflationary genie is well and truly out of the bottle and so we continue to have a material gold and silver weighting via Ascot Mining, Athol Gold (more bought) and Woodburne Square Ag (silver). We will see real value in our resources plays but we see almost as much value in small caps outside the resources world.

Small and microcaps have enjoyed a rally in recent months but there is still real value and as such in recent weeks we have added to our holdings of: Avisen, Avanti Communications, Athol Gold, Intandem, ILX, Rethink, Interquest, VSA Capital, Nexus, Blavod, Mirada and Access Intelligence. In the case of Avanti that is a special situation - a bear raid based on someone getting facts and decimal places wrong. We bought more and were encouraged that the board also bought amounts which were truly significant relative to their salaries and net wealth. In the case of our other purchases these were simply opportunistic value investments.

We have noted before that we do not really like making fresh purchases of shares in companies we do not know well. But what we do welcome is days of general market uncertainty when panic sellers offload a few shares allowing us to buy more of what we like at very attractive entry points. As such while we have bought shares in Avisen in the market at 6p recently, a forced seller allowed us to make a very big purchase at 3.8p! And as I write there appears to be a forced seller of Access Intelligence at 4p - no-one would sell that stock at that level unless they were really desperate. Good news. We want to buy more.

Looking at the raft of shares we have bought we have paid ex cash PEs of as little as 2 and for most we are paying 4 or 5. That discounts bad news which is - in all cases - just not occurring. The UK economy is growing. Certain businesses - notably IT services - are seeing a real pickup in demand. After two years of PLC cost cutting that should mean that clear operational gearing is present which will lead to a dramatic pick up in earnings. We believe real interest rates (i.e. inflation adjusted) are negative and WILL STAY negative. That has to be good news for business in general and, historically, has been very good news indeed for small cap shares. As such we start March in confident mood. Your fund remains the second best performing small cap fund over three years (25/02/2008 -25/02/2011, Source: Financial Express) and the second best performing fund across ALL sectors over three years with a return of 88.6% (25/02/2008 - 25/02/2011, Source: Financial Express). Past performance is no guide to the future but we hope you understand why we are so upbeat.

Tom Winniffrith

If you have any questions about investing in the SF t1ps Smaller Companies Growth Fund or if you want a simplified prospectus and an application form please visit our website at [www.t1psim.com](http://www.t1psim.com) or email [growthfund@t1psim.com](mailto:growthfund@t1psim.com)

Fund Information	
Size:	£20,219,507.42 (25/02/2011)
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: 182.63 (25/02/2011)
Unit bid price:	As Above

Top Ten Holdings (as at 25/02/2011)	
Stock Name	% Fund
Ascot Mining	7.92
Avisen	7.14
First Artist	5.30
Symphony Env Tech	4.79
Intandem Films	4.63
Minoan	3.85
Northern Petroleum	3.55
Avanti Communications	3.22
Chalkwell Investments	3.20
Forbidden Technologies	3.03

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## The Deadline is April 5th to shelter this year's gains from tax - do not miss out on your allowance!

What we are talking about are ISAs - a wrapper to protect your savings from capital gains tax \*. You have until April 5th this year to use up your ISA allowance. You also have until the same day to use your annual SIPP contribution allowance.

We hope that you will use your ISA allowance buying shares in the SF t1ps Smaller Companies Growth Fund.

But whatever you use it for - use it. Don't lose it.

An ISA is not an investment. It is a shelter in which you can stick investments to avoid Capital Gains Tax. You can stick in £10,200 this year. As such it is an ideal wrapper for those investments where you might expect capital growth such as the SF t1ps Smaller Companies Growth Fund. It really should be the cornerstone of EVERYONE's portfolio. Even so, around two-thirds of consumers are not planning to make use of this valuable tax break. Don't be one of them.

## Are ISAs right for me?

Stocks & Shares ISAs involve taking higher risks (as investments can fall in value) however over the longer term they should have the potential to produce higher returns. This tax year you will be able to invest up to £10,200 in a Stocks and Shares ISA. Please remember that the tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.

So whatever you actually use your ISA allowance on you SHOULD USE IT and time is running out. Naturally we hope that you invest your ISA in shares of the SF t1ps Smaller Companies Growth Fund - remember to take advice if you're unsure whether these are suitable for you.

If you have any questions about investing in an ISA in the SF t1ps Smaller Companies Growth Fund email [growthfund@t1psim.com](mailto:growthfund@t1psim.com) or call 020 7562 3386.

## How to Buy Growth Fund Units

1. Contact your broker. Most brokers offer the chance to buy units although few can match our initial rate of 2.5%. But call your broker. If your broker will not deal please call Spiros Kurtidis on 0207 562 3386 and he will try to rectify the situation.

2. Deal through t1ps and The Share Centre at the initial fee rate of 2.5%. If you want an application form email [growthfund@t1psim.com](mailto:growthfund@t1psim.com) or go to [www.t1psim.com](http://www.t1psim.com).

3. 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 25/02/2011 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 25/02/2010 to 25/02/2011 from UKUT and OEICs Universe



Source: Financial Express

Past performance is not a reliable indication of future results

### Cumulative Performance - 25/02/2011

	1m	3m	6m	1y	3y	5y
SF t1ps Smaller Companies Growth Fund	-2.2	+25.7	+46.0	+33.4	+88.6	n/a
UK Smaller Companies	+0.3	+12.1	+27.6	+33.6	+26.2	+28.8

### Discrete quarter-end performance - 31/12/2010

	0-12m	12-24m	24-36m	36-48m	48-60m
SF t1ps Smaller Companies Growth Fund	+31.1	+82.8	-25.7	n/a	n/a
UK Smaller Companies	+30.8	+50.1	-40.6	-6.1	+23.8

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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## Downs and Ups

### An interesting month. Let's start with the downs...

Over the past couple of days the market valuation of Avanti Communication - a stock which we still believe to be worth £20 - has taken a material knock following some derisory commentary from a well known Shorter, Mr Evil Knievil. Without doubt the person in question has made a number of good calls in the past but this truly is a blunder. His argument (supplied by what we reckon is the Analyst who recently put out a Sell recommendation on the stock) is based upon numerous factual errors and poorly researched content. Mr Knievil also appears to have a few problems with decimal points. It has been posted around on a number of Bulletin Boards and has meant that the company's market cap has tumbled from roughly £514.2 million, to £405 million in a matter of days.

We however read the above comments with amazement and the fact that we actually do our own research meant we were happy to take advantage of the opportunity that was given to us and added to our holdings. We were not the only ones. On 23 February 2011 in accordance with listed companies' continuing obligations it was announced that the company Chairman and CEO had between them hovered up £150,000 worth of shares at a price of roughly 550p. On 25th February directors moved in again with six figure purchases.

The bear argument was based around the fact that Avanti will miss its earnings forecasts and will not be able to compete with the what the above believed to be greater capacity offered by a competitor, EUTELSAT. It seems the Analyst behind this poorly constructed argument got his decimal point in the wrong place stating the EUT's capacity was 23 times that of Avanti's instead of actually roughly 2.3 times taking into account both HYLAS 1 and 2 (the above failed to recognise this). Regardless of this however more is not always better in regards to broadband capacity, and a comparable example in the US shows that Avanti's increased flexibility of application and broader coverage will materially pay off in the long run. Raw capacity lost out to product innovation in the US when Hughes Communications was sold for a markedly higher price than that of its competitor Wild Blue. In actual fact Wild Blue's product offering is pretty similar to that of EUT.

It is however disappointing that poorly constructed arguments can have such an influence on market valuations. This however is an example of the short term and volatile aspects of investment, and is exactly why we do not focus on the short term price movements of our portfolio. What we do is identify value, buy at sensible prices and then hold. As we have said numerous times before on a very simple DCF basis we reckon that Avanti is worth £20 per share. We are not alone in this belief and although we pay little attention to outside analyst coverage all bar one of the current notes rate Avanti as a strong buy operating within in a rapidly developing sector. Interims for the 6 months ended 31 December 2010 were not indicative of the company's progression but they did report that the current order book stands at £229 million and that currently the pipeline of HYLAS 1 and 2 transactions is valued at £389 million.

Increasingly once Avanti moves into full commercial service operations, which is expected shortly, we are expecting an influx of more news detailing further big name sign ups to the service. The company is operating within a niche market with extremely high barriers to entry and limited price competitiveness and has already won serious institutional backing. We expect that demand for the company's service will be consistently increased due to the flexible applications of the product offering which differentiates the company from its competitors. It is admittedly disappointing that such poorly backed arguments can have this sort of impact on the share price, but what we do believe is that the value here will eventually be recognised and that we will be proved correct in our analysis. We are therefore, having added to our holding, content to hold. If we trade again it is likely to be a buy not a sell.

Currently capitalised at £6.4 million, shares in international film group Intandem Films have not budged from 5.5p since our last newsletter update. The company announced on 11 January 2011 that it has raised £684,000 via a placing at 6p and as noted at the time your Fund took part and we now comfortably believe that the company is in a very stable financial position to allow it to capitalise upon the strong developing pipeline. Intandem has cash, is debt free and we believe that the Interims which we expect to be released shortly will deliver some very promising news and developments.

That is why even though we already own a good deal of the tightly held equity (almost 15%) we opted to snap up a few more shares in the secondary market when we were offered the opportunity. We do not believe that opportunities such as these will be presented to us indefinitely so we take them whilst we have the chance. The reasoning behind this is that with sufficient cash following the above placing to grow its revenues through increased business we believe that Intandem will within 2 years time comfortably deliver profits of £2 million. With the shares currently trading at 5.5p this implies a forecast price earnings ratio of little over 3. This is not just undemanding but completely unjustifiable. However, companies operating strongly will not remain on such low ratings for long, and therefore as detailed above we have taken the chance prior to the Interims and future news flow to buy Intandem at only 3 times forecast future EPS.

Finally, on 23 February 2011 Symphony Environmental Technologies, the specialists in advanced plastics technologies announced to the market that it had signed a 25 year US distribution agreement with Timothy Murtagh to supply the company's products across the United States. We identified early that the company's product offering has a world wide application base and this development marks a significant strategic move into a country that is by far the largest consumer of plastic goods in the World.

The agreement was evidently made on Symphony's terms with a number of underlying clauses and requirements which will benefit the company moving forward. One of which is that a material amount of the company's d2w product is to be ordered prior to the full commencement of the above agreement on 16 April 2011. A new company is to be formed to facilitate the US distribution in which Symphony will control 10% of the equity. On top of this, as mentioned, the flexible terms of the agreement mean that as this strategic move develops further, Symphony will retain control over its products distribution.

Furthermore, a jointly funded major PR campaign has also been agreed focusing upon building brand awareness in the US and highlighting the applications of Symphony's products. Following the news shares in the company unsurprisingly ticked up (but only slightly) currently capitalising the company at £18.4 million. We reckon that this is undemanding and believe that following legislative developments in the UAE, one of the company's major markets, that full year ended 31 December 2010 broker forecast EPS of c1.1p will be exceeded. We had a meeting with management on Friday and we reckon that within two years earnings could well be 4-5p if America takes off. That is not a slam dunk cert but on a risk reward basis that is very attractive and, as such, we have added to our holding. We first bought in at c4p. We bought most of our shares at 12p. And the latest purchase was at 16p. Our one year target price is 35p.

**Tom Winniffrith & Ross Jones**

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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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