During its second year (ending 28 September 2018), the Fund (VT Cape Wrath Focus Fund A-shares, GBP) returned 8.3%, with a closing NAV of 119.5p, while the Benchmark (MSCI UK IMI net dividends reinvested, GBP) returned 5.9%. The outcome was a modest outperformance, however there was significant volatility during the year. By the half-year, the Fund was down 17.4% over six months, which represented 15.1% underperformance relative to the Benchmark. During the second half of the year the Fund delivered a 31.1% return, outperforming the benchmark by 22.7%. We expect that performance will continue to be more volatile than most UK equity funds, which is consistent with our deep value, high conviction investment strategy.

The principal underperformer during the year was Mothercare, the mother and baby retailer, which we exited on 28 February 2018 at 31.5p, for a 63.5% loss. The second worst performer was Capita, the support services business, which we exited on 12 July 2018 at 169p, for a 16.0% loss. Mothercare and Capita were both discussed in the half-year review, and our investment in Capita was analysed in detail in the Broadside 'Capita, Carillion & Contract Accounting', which is available on our website. As other losses during the year were within single-digits, this review will focus on the main sources of outperformance.

The best performer during the year was Safestyle, the uPVC double-glazing business, which delivered a 60.1% return during the year. We purchased Safestyle on 17 August 2018 at 31.9p after the shares had suffered a 90% decline over 15 months. Our analysis found no evidence of the existential threat that the share price seemed to imply. Rather, Safestyle simply appeared to be a business that it had become very easy to hate. The market was particularly concerned about the 'copycat' business 'SafeGlaze', based a few miles from Safestyle in Bradford, and backed by Mitu Misra, the founder of Safestyle, who left the management team at IPO. In so far as our focus is on identifying behavioural opportunities, Safestyle is a good example of what we look for. If you are interested in a more detailed analysis of our Safetyle investment, and in particular on how behavioural challenges and execution slippage turned what could have been a brilliant investment into simply a good one, please see the Broadside 'Snog Marry Avoid', which is available on our website.

The second best performer during the year, and due to its position size the largest contributor to the Fund's performance, was Premier Oil, the North Sea-focused E&P company, which delivered a 57.5% return over the period. Premier Oil benefited from an oil price recovery, and a strong operating performance, with the new Catcher field coming on production at rates ahead of expectations. At the year-end the shares traded at 136p, versus our Approximate Value of 147p. This limited upside was reflected in the Fund's position size of 6.2% at the year-end, down from 9.5% at the start of the year. Despite reducing the portfolio's energy exposure through the year, at the year-end the sector was still the most significant overweight, at 19.6% of the Fund.

The third best performer during the year was Pearson, the education publishing business, which delivered a 44.9% return over the period. For a detailed discussion of our investment in Pearson, please see the Broadsides 'Existentialism and Equity Research' and 'Back to Broadside Two', which are available on our website.

At the year-end the Fund's largest position was an 8.0% holding in Ei Group (formerly 'Enterprise Inns', which owns over 4,400 commercial properties, of which around 80% are pubs on tied leases. The company has a clear strategy for realising shareholder value based around investment in a growing managed estate, property disposals and an ongoing share buy-back programme. During 2018, Ei Group completed one buy-back and announced another, together totalling £40m. The shares delivered an 18.8% return through the year to close at 166p, which is a 39% discount to our Approximate value of 270p, and a 50% discount to the current NAV per share of 334p.

On the operational side, the key change at Cape Wrath Capital, the advisor to the Fund, was the departure of Amul Pandya, Product Director. Over his two-years with us, Amul did a fantastic job of introducing the strategy to numerous open-minded institutional investors. Amul was a formative part of our journey and we wish him well for the future.

In continuing to improve our process for delivering on the Fund's deep-value, high conviction investment strategy, we expanded the role of Anders Jegers, Research Advisor, which, in hand with streamlining the process, has tripled our capacity for analysing new ideas. Secondly, we started the development of a new screening tool, named 'Walter'. Walter's user specification was completed during the year and the technical feasibility will be finalised in the next few months. Subject to this, we hope to have the first generation operational during 2019. Finally, we concluded our relationship with Essentia Analytics. Ultimately we found that the product, at its current stage of development, didn't quite fit with our requirements. At the same time, we completed the development of our own performance analysis, 'Share of Potential Returns' (SoPR) model, which has now been operationalised, and which features in our two most recent Broadsides.

Equity markets have become more challenging in recent months, and the UK faces greater uncertainty than at any time since the Global Financial Crisis. In the year ahead we expect to find a growing number of opportunities to deploy the Fund's cash position, which was 41% of the portfolio at year-end.

Adam Rackley

Investment Director

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