

S&W Church House Investment Grade Fixed Interest Fund

Annual Short Report

for the year ended 31 March 2013

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S&W Church House Investment Grade Fixed Interest Fund

Manager's report

Smith & Williamson Fund Administration Limited ("the Manager") presents herewith the Annual Short Report for S&W Church House Investment Grade Fixed Interest Fund ("the Fund") for the year ended 31 March 2013.

Risk disclosure

The main risks which may affect the assets and liabilities of the Fund, either directly or indirectly through its underlying holdings, are market risk, liquidity risk, credit risk and fair value of financial assets and financial liabilities. The Manager has processes in place to mitigate these risks.

The Manager monitors the investment activity of the Investment Adviser to ensure the investment activity is consistent with the investment objectives and the investment and borrowing powers which are laid out in the Prospectus.

There is no material difference between the value of the financial assets and liabilities and their fair value.

For further information please refer to the Annual Long Report.

More information about the activities and performance of the Fund for this and previous periods can be obtained from the Manager.

The Prospectus and the Key Investor Information Document (KIID) are available free of charge from the Manager.

The Long Report is available on request from the Manager.

Investment objective and policy

The objective of the Fund is to secure a high level of income through investment principally in investment grade corporate bonds, United Kingdom Government Gilts and supra-national issues. The Fund may also invest in other higher income securities such as preference shares and infrastructure funds and other interest bearing securities such as Treasury bills. The Fund also seeks to hedge the interest rate or credit risk in the portfolio through the use of derivative instruments.

Distributions and reporting dates

Where net revenue is available it will be distributed quarterly on 31 May (final), 31 August (quarter 1), 30 November (interim) and the last day in February (quarter 3). In the event of a distribution, unitholders will receive a tax voucher.

XD dates:	1 April	final
	1 July	quarter 1
	1 October	interim
	1 January	quarter 3

Reporting dates:	31 March	annual
	30 September	Interim

Unitholders will receive a short report within four months of the annual reporting date and within two months of the interim reporting date.

Buying and selling units

The property of the Fund is valued at 12 noon on every business day, and prices of units are calculated as at that time. Unit dealing is on a forward basis i.e. investors can buy and sell units at the next valuation point following receipt of the order.

The minimum initial investment in the Fund is £5,000. The minimum subsequent investment is £5,000. The Manager reserves the right to terminate holdings where the value is less than £3,000.

Prices of units and the estimated yield of the Fund are published on the following website www.fundlistings.com or may be obtained from the Manager by calling 0141 222 1150.

Management charges

The annual management charge to the Fund is currently 1.25% on the first £25 million and thereafter 0.75%. The annual management charge includes the manager's periodic charge and the Investment Adviser's fee. The manager's periodic charge is 0.15% subject to a minimum of £33,000.

Changes affecting the Fund in the year

There were no fundamental or significant changes to the Fund in the year.

Investment Adviser's report

Investment performance

Capital Performance* over:	One Year	Three Years	Five Years
S&W Church House Investment Grade Fixed Interest Fund	7.10%	11.30%	17.40%
iBoxx Stg AA Corp 5-15 year	7.30%	10.40%	3.10%

* Percentage change in bid price of income units 31 March to 31 March.

Source: Bloomberg

Investment activity

We reported in October on activity in the first half of the year so these comments cover the latter six months.

Companies were, once again, active in the primary credit markets in the final quarter of 2012 with significant sums being raised in buoyant conditions. Combined with strong cash flows into this portfolio, this led to a busy quarter for the Fund.

Among the new issues that we took were the PepsiCo 2.5% 1/11/2022, Nestlé Finance International 2.25% 30/11/2023, Marks & Spencer 4.75% 12/06/2025, Gatwick Funding 6.125% 02/03/2026, GlaxoSmithKline 3.375% 20/12/2027, Rio Tinto Finance 4% 11/12/2029 and one financial, the Clydesdale Bank 4.625% 08/06/2026. Existing positions that we added-to include: GE Capital UK Funding 5.125% 24/05/2023, Segro 6.75% 23/02/2024, Centrica 4.375% 13/03/2029, Electricite de France 5.5% 27/03/2037 and two bank issues: Royal Bank of Scotland 5.125% 13/01/2024 and Wells Fargo 3.5% 12/09/2029.

A new issue of KFW 1% 07/12/2017 stock (AAA rated, KFW is guaranteed by the Federal Republic of Germany) that we took in October was later sold in two tranches in November and December along with the two low coupon UK government guaranteed bank issues that we held: Barclays 1.5% 04/04/2017 and Lloyds TSB Bank 1.5% 02/05/2017. We also sold the Westpac 1.375% 23/12/2015 issue.

Other significant sales during the quarter where we felt we had better opportunities include: London Stock Exchange 6.125% 07/07/2016, Imperial Tobacco Finance 7.75% 24/06/2019, Old Mutual 8% 03/06/2021, Cie de St-Gobain 4.625% 09/10/2029, BAT International Finance 6% 24/11/2034, BG Energy Capital 5% 04/11/2036 and Aegon 6.625% 16/12/2039.

The first quarter of 2013 has also been busy for the Fund. Long-dated holdings that have gone from the portfolio include the Electricité de France 5.5% 27/02/2037 issue, AT&T 4.875% 01/06/2044 and BHP Billiton Finance 4.3% 25/09/2042. It has not all been sales at this end of the portfolio though, the list now includes Standard Chartered Bank 4.375% 18/01/2038 and High Speed Rail Finance 1 4.375% 01/11/2038, both being new issues during the quarter.

Amongst the medium-dated securities, we have sold the holdings in: Marks & Spencer 4.75% 12/06/2025, Imperial Tobacco Finance 5.5% 28/09/2026 and CNP Assurances 7.375% 30/09/2041. While new holdings include a recent issue from AP Moeller - Maersk 4% 04/04/2025 stock and two new hybrids: one 4.85% issue from Veolia Environment with a call in 2018 and one 6% issue from Electricite de France with a call in 2026.

Investment strategy and outlook

This first table shows some broad portfolio statistics at the end of the period:

Fund Portfolio Statistics		
	Mar 2013	Dec 2012
Short-dated Securities (less than 5 years)	33%	30%
Medium-dated Securities (5 to 15 years)	47%	48%
Long-dated Securities (over 15 years)	20%	22%
Average Life of Holdings	10.1 years	10.8 years
Duration of Portfolio (Macaulay)	6.4	7
Volatility* (past year)	3.40%	2.70%
Number of Holdings	144	147
Gross Yield	4.00%	4.10%
Net Yield	3.20%	3.30%
Portfolio Value	£106.8m	£102m

*Annual standard deviation of monthly returns as a percentage

Investment Adviser's report (continued)

Investment strategy and outlook (continued)

The table shows that we have reduced the duration of the portfolio from the end of December, which also shows in the lower weighting in long-dated securities and higher weighting in short-dated. There are now fourteen holdings in short-dated floating rates notes (accounting for almost 13% of the portfolio), up from eleven holdings at the end of December (accounting for 10% of the portfolio).

The table below shows the Fund's top fifteen holdings by value at the end of the quarter, representing around 22.5% of the whole.

Top Fifteen Holdings 31 March 2013

UK Treasury 5% 07/09/2014	3.00%
Barclays Bank 2.01125% 20/01/2015	2.01%
HICL Infrastructure	1.87%
Close Brothers Group 6.5% 10/02/2017	1.58%
RWE 7% Perpetual	1.50%
BAE Systems 4.125% 08/06/2022	1.47%
Clydesdale Bank 4.625% 08/06/2026	1.37%
Heathrow Funding Index Linked 3.334% 09/12/2039	1.35%
RSA Insurance Group 9.375% 20/05/2039	1.34%
Legal & General Group 10% 23/07/2041	1.30%
Gatwick Funding 6.125% 02/03/2026	1.15%
Abbey National Treasury Services 2.11% 16/02/2015	1.14%
Lloyds TSB Bank 5.125% 07/03/2025	1.14%
Royal Bank of Scotland 5.125% 13/01/2024	1.14%
Segro 6.75% 23/02/2024	1.14%

James Mahon
Church House Investment Management
April 2013

Risk and reward profile

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

← Typically lower rewards, lower risk			Typically higher rewards, higher risk →			
1	2	3	4	5	6	7

The Fund is in a medium category because the price of its investments have risen or fallen to some extent. The category shown is not guaranteed to remain unchanged and may shift over time. Even the lowest category does not mean a risk-free investment.

The price of the Fund and any income from it can go down as well as up and is not guaranteed. Investors may not get back the amount invested. Past performance is not a guide to the future.

There is a risk that bond issuers may fail to meet repayments. This is usually a greater risk for bonds that produce a higher level of income. Changes in interest rates, inflation and the creditworthiness of the bond issuer may also affect the bond's market value.

For further information please refer to the Key Investor Information Document (KIID).

For full details on risk factors for the Fund, please refer to the Prospectus.

Comparative table

Number of units in issue	31.03.13	31.03.12	31.03.11
Income units	84,368,170	58,639,323	44,725,858
Accumulation units	7,769,026	6,789,743	3,752,905
Net Asset Value (NAV)	£	£	£
Total NAV of Fund	106,808,189	70,839,126	50,314,642
NAV attributable to income unitholders	95,529,487	61,942,429	45,709,827
NAV attributable to accumulation unitholders	11,278,702	8,896,697	4,604,815
Net asset value per unit (based on bid value)	p	p	p
Income units	113.2	105.6	102.2
Accumulation units	145.2	131.0	122.7
Quoted prices (based on bid value)	p	p	p
Income units	114.1	106.5	102.9
Accumulation units	146.2	132.1	123.5

Units were first issued at 100.0p on 22 January 2002.

Performance record

Calendar year		Distribution per unit p	Highest offer price p	Lowest bid price p
2008	Income units	3.800	104.4	89.15
2008	Accumulation units	4.081	111.7	98.19
2009	Income units	3.968	105.6	87.78
2009	Accumulation units	4.440	120.0	98.58
2010	Income units	3.386	112.4	99.49
2010	Accumulation units	3.941	132.9	115.2
2011	Income units	3.364	130.9	100.4
2011	Accumulation units	4.085	136.9	120.5
2012	Income units	3.466	119.7	103.4
2012	Accumulation units	4.356	152.4	128.3
2013*	Income units	1.133	121.0	110.7
2013*	Accumulation units	0.884	155.1	142.0

* to 31 March 2013

Distributions in the current and prior year:

Income units			Accumulation units		
Payment date	p		Allocation date	p	
31.08.12	1.035		31.08.11	1.196	
30.11.12	0.784		30.11.11	1.020	
28.02.13	0.841		28.02.12	1.019	
31.05.13	0.884		31.05.12	1.000	

Ongoing charges figure (OCF)

The ongoing charges figure provides investors with a clearer picture of the total annual costs in running a collective investment scheme. The OCF consists principally of the manager's periodic charge and Investment Adviser's fee which are included in the annual management charge, but also includes the costs for other services paid.

	2013	2012
Annual management charge	0.85%	0.95%
Other expenses	0.08%	0.09%
Ongoing charges figure	<u>0.93%</u>	<u>1.04%</u>

Investments carry risk. Past performance is not a guide to future performance. Investors may not get back the amount invested.

Portfolio information

The tables below show the percentage of the Fund's assets and liabilities by investment and geographical classification at the end of the current year and the previous year, and the major ten holdings in the Fund at the end of the current year and the previous year.

Investment and geographical classification

Investment Type	Percentage of the total net assets as at 31.03.13	Percentage of the total net assets as at 31.03.12
Debt Securities denominated in UK sterling: *		94.83%
AAA to AA	31.13%	33.85%
AA- to A+	8.23%	2.96%
A to A-	25.04%	23.57%
BBB+ to BBB	23.41%	27.55%
BBB- and unrated	6.58%	6.90%
Equities - United Kingdom	4.62%	3.92%
	99.01%	193.58%
Other net assets	0.99%	1.25%
Total net assets	100.00%	194.83%

* Debt securities are grouped by credit ratings: Source - Interactive Data & Bloomberg.

Major ten holdings at the end of the current year

Holding	Percentage of the total net assets as at 31.03.13
UK Treasury 5% 07/09/2014	3.00%
Barclays Bank 2.01125% 20/01/2015	2.01%
HICL Infrastructure	1.87%
Close Brothers Group 6.5% 10/02/2017	1.58%
RWE 7% Perpetual	1.50%
BAE Systems 4.125% 08/06/2022	1.47%
Clydesdale Bank 4.625% 08/06/2026	1.37%
Heathrow Funding Index Linked 3.334% 09/12/2039	1.35%
RSA Insurance Group 9.375% 20/05/2039	1.34%
Legal & General Group 10% 23/07/2041	1.30%

Major ten holdings at the end of the previous year

Holding	Percentage of the total net assets as at 31.03.12
UK Treasury 5% 07/09/2014	1.57%
Lloyds TSB Bank 5.125% 07/03/2025	1.49%
UK Treasury 4.5% 07/03/2013	1.46%
Abbey National Treasury Services 2.67425% 16/02/2015	1.41%
Barclays Bank 1.5% 04/04/2017	1.41%
Cooperatieve Centrale Raiffeisen-Boerenleenbank Netherlands 1.54338% 06/06/2014	1.41%
KFW1.14088% 09/03/2015	1.40%
Electricite de France 5.5% 27/03/2037	1.40%
British Telecommunications 8.5% 07/12/2016	1.30%
HICL Infrastructure	1.30%

Appointments

Manager and Registered Office

Smith & Williamson Fund Administration Limited
25 Moorgate
London EC2R 6AY
Telephone: 020 7131 4000
Authorised and regulated by the Financial Conduct Authority

Administrator and Registrar

Smith & Williamson Fund Administration Limited
206 St. Vincent Street
Glasgow G2 5SG
Telephone: 0141 222 1151 (Registration)
0141 222 1150 (Dealing)
Authorised and regulated by the Financial Conduct Authority

Directors of the Manager

Giles Murphy
Michael Lea
Gareth Pearce
Kevin Stopps
Paul Wyse
Jeremy Boadle
Philip Moody
Tim Lyford
Jocelyn Dalrymple - appointed 31 July 2012

Investment Adviser

Church House Investments Limited
3 Goldcroft, Yeovil
Somerset BA21 4DQ
Authorised and regulated by the Financial Conduct Authority

Trustee

BNY Mellon Trust & Depositary UK Limited
160 Queen Victoria Street
London EC4V 4LA
Authorised and regulated by the Financial Conduct Authority

Auditor

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG