



# **Annual Report and Financial Statements for MGTS AFH Strategic Core Fund**

For the year ended 28 February 2014

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Registered in England No. 4158249

Authorised and Regulated by  
the Financial Conduct Authority

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## **Directors of the ACD**

T J Ricketts  
T H Ricketts  
A J M Quay  
J E J Clay  
M D Jealous  
A S Weston  
G M W Oakley (non-exec)

## **Depositary**

BNY Mellon Trust & Depositary (UK) Ltd  
The Bank of New York Mellon Centre  
160 Queen Victoria Street  
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## **Administrator and Registrar**

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## **Auditors**

Shipleys LLP  
Chartered Accountants & Statutory Auditors  
10 Orange Street  
Haymarket  
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## **Investment Advisers**

AFH Wealth Management  
St Johns House  
16 Church Street  
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# Investment Adviser's Report

For the year ended 28 February 2014

## Investment Objective

The objective of the Company is to provide capital growth over the longer term from a range of transferable securities, debt instruments and collective investment schemes (both regulated and unregulated). The Company will be actively managed on a medium risk basis and assets may be allocated to any geographical sector through an investment in collective investment schemes (either regulated or unregulated) or directly through investment in eligible markets.

## Investment Review

MGTS AFH Strategic Core Acc	7.41%
MGTS AFH Strategic Core R Acc	8.24%

## Benchmark:

Composite Benchmark	6.99%
40% - IMA UK Gilt	
30% - IMA UK All Companies	
30% - IMA Global	

Source: Morningstar Direct. Performance growth in the period is bid to bid with income reinvested.

We are pleased to see the fund performing well over the period, returning 8.24% (R Class) compared to 6.99% for the benchmark (Source: Morningstar).

The fund has adopted a fairly defensive stance since it started back in November 2009, although last year we became more positive on the global outlook. We gradually increased our weighting in equities to almost a fully weighted level, particularly in those economic sensitive companies that should benefit the most from an improvement in the global economy. So far, this has added value to the fund as we have seen equity markets performing well.

However, at the start of the year, we started to feel that markets may have moved up too far, too fast. Our view was that there are factors, that we believe present challenges to the equity markets, which will need to be overcome during 2014. Most observers have noted that the performance during 2013 was largely based on a phenomenon known as "P/E expansion" (see note below). Historically, investors have used this ratio as a guide to when share prices might be good value and when share prices might be overpriced. In 2013, investors were prepared to pay a higher multiple for earnings than they were in 2012. This meant that although share prices had risen, generally the earnings of those companies had not grown at the same pace. Increasingly, market commentators are saying that in order to justify the rise in share values, it is important that company earnings start to grow at a faster pace. In the event that we do not experience this pick-up in the rate of earnings growth, we believe that market participants will become increasingly concerned that the current equity valuations are not justified. We have observed, however, that the monetary policy of central banks over the last few years has resulted in support for asset prices in general. At present these monetary policies remain supportive, and as a result it may well be that share prices remain justifiable without the anticipated increase in company profits.

In December 2013 we decided to rein back our overall equity weighting somewhat and increase our holdings in short-dated UK gilts. We remain wary of longer dated bonds, as we believe interest rates must start to increase at some point, which would not be good news for longer dated bonds. As we anticipate rising rates, we are comfortable with holding short-dated gilts, as they will not be significantly affected by a rise in interest rates. In the context of an accommodative monetary policy, we retain a relatively high equity weighting.

## **Investment Adviser's Report (continued)**

Our central global macroeconomic view remains one of a low growth scenario with continuing historically low interest rates. It is reassuring to see that progress has been made to gradually stabilise financial markets and economies. Sentiment has certainly improved considerably from those dark days when the fund started, but we would like to see further evidence of stronger growth, particularly in Europe (although the UK is recovering well), to increase our confidence in equities from their present levels.

On a more general point, we have taken the decision to focus closely on the underlying costs within the fund and have managed to reduce the OCF from 1.16% to 0.95% during this period.

- Where P/E stands for the “Price to Earnings” ratio. In simple terms, this ratio examines the relationship between the share price of the company “price” and the profits or “earnings” of that company.

AFH Wealth Management  
*Investment Adviser*  
30 April 2014

## **Certification of Accounts by Directors of the ACD**

This report is signed in accordance with the requirements of the Collective Investment Schemes Sourcebook (COLL) as issued and amended by the Financial Conduct Authority.

**T J Ricketts**                      **M D Jealous**  
*Margetts Fund Management Ltd*  
04 June 2014

## **Authorised Status**

The MGTS AFH Strategic Core Fund is an open-ended investment company with variable capital incorporated in England and Wales under regulation number IC801 and authorised by the Financial Conduct Authority with effect from 10 November 2009.

It is a Non-UCITS Retail Fund (NURS) as classified under the FCA's Collective Investment Schemes Sourcebook. Shareholders are not liable for the debts of the fund.

## Significant purchases and sales

*For the year ended 28 February 2014*

<b>Total purchases for the year</b>	<b>£82,024,792</b>
<b>Purchases</b>	<b>Cost (£)</b>
RBS GLOBAL TSY GBP FUND CLASS B	7,600,000
TREASURY 2.75% GILT 22JAN15	4,589,088
GOLDMAN SACHS STERLING LIQUID RESERVES ADMIN DIST	4,500,000
INVESCO PERPETUAL TACTICAL BOND Z GROSS ACC	4,381,101
TREASURY 5% GILT 07SEPT14	4,124,800
TREASURY 2.25% GILT 07MAR14	4,014,400
VANGUARD GLOBAL SMALL CAP INDEX ACC	3,300,000
ISHARES MSCI WORLD MINIMUM VOLATILITY	2,980,617
ISHARES MSCI EUROPEAN MINIMUM VOLATILITY	2,800,473
INVESCO PERPETUAL TACTICAL BOND (NO TRAIL) ACC	2,770,000
INVESCO STERLING LIQUIDITY SELECT CLASS FUND	2,500,000
MARLBOROUGH UK MICRO CAP GROWTH P ACC	2,300,000
<b>Total sales for the year</b>	<b>£60,027,522</b>
<b>Sales</b>	<b>Proceeds (£)</b>
GOLDMAN SACHS STERLING LIQUID RESERVES ADMIN DIST	7,700,000
RBS GLOBAL TSY GBP FUND CLASS B	7,600,000
INVESCO PERPETUAL TACTICAL BOND (NO TRAIL) ACC	4,381,101
INVESCO STERLING LIQUIDITY SELECT CLASS FUND	4,100,000
BLACKROCK INSTITUTIONAL STERLING LIQUIDITY DIST	3,200,000
HENDERSON UK PROPERTY I ACC	3,035,574
VERITAS GLOBAL EQUITY INCOME C GBP ACC	2,130,599

# Portfolio statement

As at 28 February 2014

Holding	Portfolio of Investments	Total Net Assets		
		Value (£)	28.02.14 %	28.02.13 %
	<b>Financials</b>			
352,493	Aviva Plc	1,610,188	1.31	
263,267	DB X-Trackers MSCI World Financials	2,186,432	1.78	
279,115	HSBC Holdings Plc	1,724,652	1.40	
92,224	Standard Chartered Plc	1,139,889	0.93	
	<b>Total Financials</b>	<b>6,661,161</b>	<b>5.42</b>	<b>5.96</b>
	<b>Energy</b>			
123,750	Amec Plc	1,355,063	1.10	
117,528	BG Group Plc	1,270,478	1.03	
257,391	BP Plc	1,268,938	1.03	
59,570	Royal Dutch Shell Plc	1,370,408	1.12	
	<b>Total Energy</b>	<b>5,264,887</b>	<b>4.28</b>	<b>4.17</b>
	<b>Industrials</b>			
92,386	DB X-Trackers MSCI World Industrials	1,375,628	1.12	
19,563	Siemens AG	1,507,828	1.23	
80,936	Smiths Group Plc	1,079,686	0.88	
	<b>Total Industrials</b>	<b>3,963,142</b>	<b>3.23</b>	<b>5.33</b>
	<b>Utilities</b>			
330,809	Centrica Plc	1,037,417	0.84	
153,748	National Grid Plc	1,275,340	1.04	
105,080	Scottish & Southern Energy Plc	1,476,374	1.20	
	<b>Total Utilities</b>	<b>3,789,131</b>	<b>3.08</b>	<b>2.41</b>
	<b>Consumer Discretionary</b>			
	DB X-Trackers MSCI World Consumer			
137,781	Discretionary	1,764,975	1.44	
228,000	Marks & Spencer Group Plc	1,128,828	0.92	
31,821	Nestle SA	1,419,796	1.16	
	<b>Total Consumer Discretionary</b>	<b>4,313,599</b>	<b>3.52</b>	<b>3.73</b>
	<b>Materials</b>			
30,057	DB X-Trackers MSCI World Materials	564,771	0.46	
	<b>Total Materials</b>	<b>564,771</b>	<b>0.46</b>	<b>1.40</b>
	<b>Chemicals</b>			
29,760	BASF SE	1,963,999	1.60	
	<b>Total Chemicals</b>	<b>1,963,999</b>	<b>1.60</b>	<b>-</b>
	<b>Travel &amp; Leisure</b>			
58,700	Go-Ahead Group Plc	1,255,006	1.02	
	<b>Total Travel &amp; Leisure</b>	<b>1,255,006</b>	<b>1.02</b>	<b>-</b>

Holding	Portfolio of Investments	Value (£)	28.02.14 %	28.02.13 %
	<b>Mining</b>			
85,848	BHP Billiton Plc	1,622,098	1.32	
	<b>Total Mining</b>	<b>1,622,098</b>	<b>1.32</b>	-
	<b>Europe</b>			
115,225	iShares MSCI European Minimum Volatility	2,821,860	2.30	
	<b>Total Europe</b>	<b>2,821,860</b>	<b>2.30</b>	-
	<b>UK Smaller Companies</b>			
747,532	Cavendish Aim B	1,216,234	0.99	
248,400	iShares FTSE 250 GBP	3,959,496	3.22	
635,154	Marlborough UK Micro Cap Growth P Acc	2,863,272	2.33	
	<b>Total UK Smaller Companies</b>	<b>8,039,002</b>	<b>6.54</b>	2.71
	<b>Technology</b>			
102,155	Intel Corporation Common Stock USD	1,512,599	1.23	
9,762,207	L&G Global Technology Index Trust I Acc	1,920,226	1.56	
313,875	Sage Group Plc	1,317,333	1.07	
39,982	Sap AG	1,883,324	1.53	
	<b>Total Technology</b>	<b>6,633,482</b>	<b>5.39</b>	8.08
	<b>Consumer Staples</b>			
22,362	Groupe Danone	915,154	0.74	
419,920	Morrisons Supermarket Plc	964,976	0.79	
75,417	Imperial Tobacco Group Plc	1,816,041	1.48	
822,500	McBride Plc	904,750	0.74	
29,982	Procter & Gamble Co	1,410,746	1.15	
20,011	Reynolds American Incorporation	608,527	0.50	
	<b>Total Consumer Staples</b>	<b>6,620,194</b>	<b>5.40</b>	9.26
	<b>Home Construction</b>			
52,100	Berkeley Group Holdings	1,396,280	1.14	
1,150,000	Taylor Wimpey Plc	1,399,550	1.14	
	<b>Total Home Construction</b>	<b>2,795,830</b>	<b>2.28</b>	-
	<b>Telecoms</b>			
469,205	BT Group	1,898,873	1.55	
23,664	Verizon Communications Inc	665,389	0.54	
490,784	Vodafone Group Plc	1,198,740	0.98	
	<b>Total Telecoms</b>	<b>3,763,002</b>	<b>3.07</b>	3.56
	<b>Healthcare</b>			
38,197	AstraZeneca Plc	1,514,129	1.23	
42,522	GlaxoSmithKline Plc Ordinary 25P	702,038	0.57	
26,261	Johnson & Johnson Common Stock USD	1,447,131	1.18	
38,213	Novartis AG	1,880,164	1.53	
8,105	Roche Holdings AG	1,449,824	1.18	
21,466	Sanofi-Aventis	1,303,587	1.06	
	<b>Total Healthcare</b>	<b>8,296,873</b>	<b>6.75</b>	9.22



Holding	Portfolio of Investments	Value (£)	28.02.14 %	28.02.13 %
	<b>UK</b>			
1,762,336	CF Miton UK Multi Cap Income Instl B Acc	3,326,586	2.71	
	<b>Total UK</b>	<b>3,326,586</b>	<b>2.71</b>	<b>4.83</b>
	<b>Global</b>			
162,670	iShares MSCI World Minimum Volatility	2,876,006	2.34	
31,728	Vanguard Global Small Cap Index Acc	5,353,054	4.36	
	<b>Total Global</b>	<b>8,229,060</b>	<b>6.70</b>	<b>6.54</b>
	<b>Bonds and Gilts</b>			
4,093,674	Fidelity Strategic Bond Y Net	4,863,285	3.95	
4,947	FTSE 100 Accumulated Income Fund 1	515,334	0.42	
7,623	FTSE 100 Accumulated Income II	815,456	0.66	
	Invesco Perpetual Tactical Bond Z Gross			
2,230,938	Acc	4,860,098	3.96	
4,000,000	Treasury 2.25% Gilt 07Mar14	4,000,400	3.25	
4,480,000	Treasury 2.75% Gilt 22Jan15	4,570,943	3.72	
4,000,000	Treasury 5% Gilt 07Sept14	4,093,600	3.33	
	National Grid 1.25% RPI Linked Bond			
500,000	06/10/21	534,000	0.43	
	<b>Total Bonds and Gilts</b>	<b>24,253,116</b>	<b>19.72</b>	<b>10.36</b>
	<b>Total Property</b>	-	-	<b>1.92</b>
	<b>Total Emerging Markets</b>	-	-	<b>1.75</b>
	<b>Total Zeros</b>	-	-	<b>0.41</b>
	<b>Total Money Markets</b>	-	-	<b>9.65</b>
	<b>Portfolio of Investments</b>	<b>104,176,799</b>	<b>84.79</b>	<b>91.29</b>
	<b>Net Current Assets</b>	<b>18,687,931</b>	<b>15.21</b>	<b>8.71</b>
	<b>Net Assets</b>	<b>122,864,730</b>	<b>100</b>	<b>100</b>

The investments have been valued in accordance with note 1(b).

## Statement of ACD's Responsibilities

The ACD is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Financial Conduct Authority's Collective Investment Schemes Sourcebook ("COLL") requires the Authorised Corporate Director to ensure that the financial statements for each accounting period give a true and fair view of the financial affairs of the Scheme and of the net income / expenses and of the net gains / losses on the property of the Scheme for that year.

In preparing the financial statements the ACD is required to:

- select suitable accounting policies, as described in the attached financial statements, and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- comply with the Prospectus, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- comply with the disclosure requirements of the Statement of Recommended Practice for Financial Statements and Authorised Funds;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The ACD is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and to enable them to ensure that the financial statements comply with the COLL Sourcebook. The ACD is also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the ACD is aware:

- There is no relevant audit information of which the Scheme's auditors are unaware;
- The ACD has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## Statement of Depositary's Responsibilities

The Depositary is responsible for the safekeeping of all of the property of the company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the company is managed in accordance with the Financial Conduct Authority's COLL Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001 / 1228) (the OEIC Regulations) and the company's Instrument of Incorporation, in relating to the pricing of and dealing in, shares in the company, the application of income of the company, and the investment and borrowing power of the company.

## Report of the Depositary

In our opinion during the period under review, we confirm that in all material respects the company has carried out the issue, sale, redemption, cancellation and calculation of the price of the company's shares and the application of the company's income in accordance with the rules in the COLL sourcebook and, where applicable, the OEIC regulations and the Instrument of Incorporation of the company, and has observed the investment and borrowing powers and restrictions applicable to the company.

BNY Mellon Trust & Depositary (UK) Ltd  
*Depositary of the MGTS AFH Strategic Core Fund*  
16 June 2014

## **Independent auditors' report to the shareholders of MGTS AFH Strategic Core fund**

We have audited the financial statements of MGTS AFH Strategic Core Fund for the year ended 28 February 2014, which comprise the statement of total return, the balance sheet, the statement of change in net assets attributable to shareholders, together with the related notes and the distribution table. The financial reporting framework that has been applied in their preparations is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Fund's shareholders as a body, in accordance with Rule 4.5.12 of the Collective Investment Scheme Sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Fund's shareholders those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the ACD and auditors**

As explained more fully in the ACD's Responsibilities Statement set out on page 7, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 28 February 2014 and of the net income and the net gains on the property of the Fund for the year then ended;
- have been properly prepared in accordance with the Prospectus, the Statement of Recommended Practice relating to Authorised Funds; the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority and United Kingdom Generally Accepted Accounting Practice;

### **Opinion on other matters prescribed by the collective investment scheme sourcebook**

- The information given in the ACD's report for the financial period for which the financial statements are prepared is consistent with the financial statements;
- we have received all the information and explanations we require for our audit.

## **Independent auditors' report to the shareholders of MGTS AFH Strategic Core fund (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters, where we are required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

Joseph Kinton  
Senior Statutory Auditor  
**For and on behalf of Shipleys LLP**  
**Chartered Accountants and Statutory Auditors**  
16 June 2014

## Net Asset Value per Share and Comparative Tables

### Price and Income History

#### Income shares

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	110.70	97.26	0.7077
2011	114.59	101.53	1.6314
2012	115.25	106.12	1.5727
2013	130.35	114.69	0.8567
2014*	131.35	126.72	0.5518

#### Accumulation shares

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	111.50	97.27	0.7032
2011	116.09	103.72	1.6460
2012	119.52	109.34	1.6128
2013	136.11	118.94	0.8862
2014*	137.15	132.31	0.5729

#### R Income shares †

Calendar Year	Highest Price (p)	Lowest Price (p)	Net Income (p per share)
2012	115.27	113.54	-
2013	130.53	114.73	1.5580
2014*	131.85	127.14	1.0290

#### R Accumulation shares †

Calendar Year	Highest Price (p)	Lowest Price (p)	Net Income (p per share)
2012	119.54	117.75	-
2013	137.09	118.97	1.6248
2014*	138.48	133.53	1.0826

\* As at 28 February 2014

### Net Asset Value

Date	Share Class	Net Asset Value (£)	Shares in Issue	Net Asset Value (Pence per share)
29.02.2012	Income	29,455,738	26,370,455	111.70
	Accumulation	26,125,772	22,701,427	115.08
28.02.2013	Income	52,461,614	43,129,759	121.64
	Accumulation	30,233,004	23,903,418	126.48
28.02.2014	R Income	107,863	88,664	121.65
	R Accumulation	63,497	50,102	126.73
	Income	93,324,516	71,989,948	129.64
	Accumulation	27,288,742	20,076,064	135.93
	R Income	127,975	98,702	129.66
	R Accumulation	2,123,497	1,547,188	137.25

† The R share classes were launched on 03 December 2012.

### Risk Warning

An investment in an open-ended investment company (OEIC) should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuations in exchange rates, which can be favourable or unfavourable.

## Net Asset Value per Share and Comparative Tables (continued)

### Prices per Share

Date	Share Class	Price (Pence)	Yield (%)
01.03.2014	Income	129.71	0.82
	Accumulation	136.01	0.82
	R Income	129.74	1.55
	R Accumulation	137.33	1.55

### Fund Performance

The performance of the fund is shown in the Investment Adviser's Report.

#### Ongoing charges figure

**28.02.14** **28.02.13**

	%	%
ACD's Annual Management Charge	1.40	1.40
Other expenses	0.11	0.11
<b>Total Expense Ratio</b>	<b>1.51</b>	<b>1.51</b>
Synthetic TER	0.18	0.40
<b>Complete OCF</b>	<b>1.69</b>	<b>1.91</b>

#### Ongoing charges - R Class

ACD's Annual Management Charge	0.65	0.65
Other expenses	0.11	0.11
<b>Total Expense Ratio</b>	<b>0.76</b>	<b>0.76</b>
Synthetic TER	0.18	0.40
<b>Complete OCF</b>	<b>0.94</b>	<b>1.16</b>

## Financial statements

### Statement of total return

For the year ended 28 February 2014

	Notes		28.02.14		28.02.13
Income		£	£	£	£
Net capital gains	4		6,191,737		6,821,857
Revenue	6	2,447,965		1,605,034	
Expenses	7	(1,537,374)		(1,003,330)	
Finance costs: Interest	9	(2,118)		(195)	
Net revenue before taxation		908,473		601,509	
Taxation	8	(28)		(91)	
Net revenue after taxation			908,445		601,418
<b>Total return before distributions</b>			<b>7,100,182</b>		<b>7,423,275</b>
Finance costs: Distribution	9		(908,426)		(601,428)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>6,191,756</b>		<b>6,821,847</b>

### Statement of change in net assets attributable to shareholders

For the year ended 28 February 2014

		£	£	£	£
<b>Opening net assets attributable to shareholders</b>			82,865,978		55,581,510
Amounts receivable on issue of shares		43,028,913		25,151,896	
Amounts payable on cancellation of shares		(9,440,200)		(4,907,763)	
			33,588,713		20,244,133
Stamp duty reserve tax	1(f)		(56,628)		(38,006)
Change in net assets attributable to shareholders from investment activities			6,191,756		6,821,847
Retained distribution on accumulation shares			274,911		256,494
<b>Closing net assets attributable to shareholders</b>			<b>122,864,730</b>		<b>82,865,978</b>

## Balance sheet

As at 28 February 2014

	Notes		28.02.14		28.02.13
		£	£	£	£
<b>Assets</b>					
Investment assets			104,176,799		75,648,324
Debtors	10	6,894,593		397,890	
Bank balances		12,556,862		8,037,937	
<b>Total other assets</b>			<b>19,451,455</b>		<b>8,435,827</b>
<b>Total assets</b>			<b>123,628,254</b>		<b>84,084,151</b>
<b>Liabilities</b>					
Creditors	11	363,087		354,997	
Distribution payable on income shares		398,256		142,172	
Bank overdrafts		2,181		721,004	
<b>Total other liabilities</b>			<b>763,524</b>		<b>1,218,173</b>
<b>Net assets attributable to shareholders</b>			<b>122,864,730</b>		<b>82,865,978</b>



# Notes to the financial statements

As at 28 February 2014

## 1 Accounting policies

### a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the revised Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Management Association in October 2010. No changes to the Net Asset Value of the fund have arisen from the adoption of the SORP.

### b) Basis of valuation of investments

The investments are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds, on the last business day of the accounting period.

### c) Foreign exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing middle exchange rates ruling on that date.

### d) Revenue

All income allocations and distributions declared by the managers of the underlying funds up to the accounting date are included in Income, net of attributable tax credits. The net allocations which are retained in Income are included in the fund's own income allocation. Bank and other interest receivable is accrued up to the accounting date. Equalisation on distributions received is deducted from the cost of the investment and not included in the fund's income available for distribution.

### e) Expenses

The ACD's periodic charge is deducted from Income. All of the other expenses are charged against Income except for costs associated with the purchase and sale of investments which are charged against Capital.

### f) Taxation

- (i) The fund is treated as a corporate shareholder with respect to its underlying holdings and its income is subject to streaming into franked and unfranked.
- (ii) Corporation tax is provided at 20% on income, other than the franked portion of distributions from collective investment schemes, after deduction of expenses.
- (iii) The charge for deferred tax is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.
- (iv) Stamp duty reserve tax suffered on surrender of shares is deducted from capital.

## 2 Distribution policy

Income arising from investments accumulates during each accounting period. Surplus income is allocated to shareholders in accordance with the COLL regulations. In order to conduct a controlled dividend flow to shareholders, interim distributions will be made at the ACD's discretion, up to a maximum of the distributable income available for the period. All remaining income is distributed in accordance with the COLL regulations.

### 3 Risk management policies

In pursuing the investment objective, a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors, that arise directly from operations. Derivatives, such as futures or forward foreign exchange contracts, may be utilised for efficient portfolio management purposes.

Political and economic events in the major economies of the world, such as the United States, Japan and the European Union, will influence stock and securities markets worldwide.

The main risks from the fund's holding of financial instruments with the ACD's policy for managing these risks are set out below:

- i. **Credit Risk** – The fund may find that collective investment schemes in which it invests fail to settle their debts or deliver the investments purchased on a timely basis.
- ii. **Interest Rate Risk** – Debt securities may be held by the underlying investments of the fund. The Interest Rate Risk of these securities is managed by the relevant manager.
- iii. **Foreign Currency Risk** – Although the net assets of the fund are denominated in sterling, a proportion of the fund's investments in collective investment schemes have currency exposure with the effect that the balance sheet and total return can be affected by currency movements.
- iv. **Liquidity Risk** – The main liability of the fund is the cancellation of any shares that investors want to sell. Securities may have to be sold to fund such cancellations should insufficient cash be held at the bank to meet this obligation.

Smaller companies by their nature, tend to have relatively modest traded share capital, and the market in such shares can, at times, prove illiquid. Shifts in investor sentiment, or the announcement of new price-sensitive information, can provoke significant movement in share prices, and make dealing in any quantity difficult.

The equity markets of emerging countries tend to be more volatile than the more developed markets of the world. Standards of disclosure and accounting regimes may not always fully comply with international criteria, and can make it difficult to establish accurate estimates of fundamental value. The dearth of accurate and meaningful information and insufficiencies in its distribution, can leave emerging markets prone to sudden and unpredictable changes in sentiment. The resultant investment flows can trigger significant volatility in these relatively small and illiquid markets. At the same time, this lack of liquidity, together with the low dealing volumes, can restrict the ACD's ability to execute substantial deals.

- v. **Market Price Risk** – Market Price Risk is the risk that the value of the fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movement. The Market Price Risk arises primarily from uncertainty about the future prices of financial instruments that the fund holds.

Market Price Risk represents the potential loss the fund may suffer through holding market positions in the face of price movements. This risk is generally regarded as consisting of two elements – Stock Specific Risk and Market Risk. The fund's exposure to Stock Specific Risk is reduced for equities and bonds through the holding of a diversified portfolio in accordance with the investment and borrowing powers set out in the Instrument of Incorporation.

- vi. **Counterparty Risk** – Transactions in securities entered into by the fund give rise to exposure to the risk that the counterparties may not be able to fulfil their responsibility by completing their side of the transaction.
- vii. **Fair Value of Financial Assets and Financial Liabilities** – There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

<b>4 Net capital gains</b>	<b>28.02.14</b>	<b>28.02.13</b>
	<b>£</b>	<b>£</b>
Net losses on derivatives	(101,114)	(16,576)
Net gains on non-derivative securities	6,292,851	6,838,433
<b>Net capital gains on investments</b>	<b>6,191,737</b>	<b>6,821,857</b>
<b>5 Purchases, sales and transaction costs</b>		
Purchases excluding transaction costs	81,907,829	45,095,851
Commissions	35,493	14,180
Stamp duty and other charges	81,470	39,604
Trustee transaction charges *	2,040	1,115
<b>Purchases including transaction costs</b>	<b>82,026,832</b>	<b>45,150,750</b>
Sales excluding transaction costs	60,035,399	26,746,303
Commissions	(7,877)	(5,983)
Trustee transaction charges *	(560)	(450)
<b>Sales including transaction costs</b>	<b>60,026,962</b>	<b>26,739,870</b>
<b>Transaction handling charges</b>	<b>2,600</b>	<b>1,565</b>
* These have been deducted in determining net capital gains/(losses)		
<b>6 Revenue</b>		
UK franked dividends	1,503,285	901,186
UK unfranked dividends	13,322	80,634
Bond interest	214,582	274,078
Gross bond interest	135,691	47,974
Overseas franked income	500,075	300,056
Overseas gross unfranked income	80,179	-
Rebate of annual management charges / renewal commission	101	819
Bank interest	730	287
<b>Total revenue</b>	<b>2,447,965</b>	<b>1,605,034</b>
<b>7 Expenses</b>		
<i>Payable to the ACD, associates of the ACD and agents of either:</i>		
ACD's periodic charge	1,423,185	925,365
<i>Payable to the Depositary associates of the Depositary and agents of either:</i>		
Depositary's fee	54,490	37,709
Safe custody	21,348	14,808
	<b>75,838</b>	<b>52,517</b>
<i>Other expenses:</i>		
FCA fee	368	345
Audit fee	7,380	6,900
Registration fees	1,594	1,333
Printing costs	226	42
Transfer agency fee	24,722	17,678
Distribution costs	4,061	(850)
<b>Total expenses</b>	<b>1,537,374</b>	<b>1,003,330</b>

## 8 Taxation

a) Analysis of the tax charge for the year:

	28.02.14 £	28.02.13 £
UK Corporation tax	-	-
Irrecoverable income tax	28	91
Current tax charge (note 8b)	28	91
Deferred tax (note 8c)	-	-
<b>Total tax charge</b>	<b>28</b>	<b>91</b>

b) Factors affecting the tax charge for the year:

Net income before taxation	908,473	601,509
Corporation tax at 20%	181,695	120,302
<i>Effects of:</i>		
Franked dividends	(400,672)	(240,248)
Utilisation of excess management expenses	218,977	119,946
Corporation tax charge	-	-
Irrecoverable income tax	28	91
<b>Current tax charge for the year (note 8a)</b>	<b>28</b>	<b>91</b>

c) Provision for deferred taxation

No provision for deferred taxation has been made in the current or prior accounting year.

d) Factors that may affect future tax changes

The fund has unutilised management expenses of £2,115,533 (prior year £1,020,648). The fund does not expect to be able to utilise this in the foreseeable future.

## 9 Finance costs

### Distributions

Interim	432,615	435,753
Final	530,022	223,422
	962,637	659,175
Amounts deducted on cancellation of shares	18,138	8,742
Amounts received on issue of shares	(72,349)	(66,489)
Finance costs: Distributions	908,426	601,428
Finance costs: Interest	2,118	195
<b>Total finance costs</b>	<b>910,544</b>	<b>601,623</b>

### Represented by:

Net revenue after taxation	908,445	601,418
Balance of revenue brought forward	34	44
Balance of revenue carried forward	(53)	(34)
<b>Finance costs: Distributions</b>	<b>908,426</b>	<b>601,428</b>

<b>10 Debtors</b>	<b>28.02.14</b>	<b>28.02.13</b>
	£	£
Amounts receivable for issue of shares	943,742	174,811
Amounts receivable for investment securities sold	5,423,685	-
<i>Accrued income:</i>		
UK franked dividends	310,412	72,435
Bond interest	155,517	3,155
Overseas franked dividends	15,626	-
	481,555	75,590
Prepayments	58	32
Other receivables	-	212
Taxation recoverable	45,553	147,245
<b>Total debtors</b>	<b>6,894,593</b>	<b>397,890</b>

## 11 Creditors

Amounts payable for cancellation of shares	222,072	242,228
<i>Accrued expenses:</i>		
<i>Amounts payable to the ACD, associates and agents:</i>		
ACD's periodic charge	119,437	88,029
<i>Amounts payable to the Depositary, associates and agents:</i>		
Depositary's fees	4,389	3,481
Transaction charges	120	50
Safe custody fee	1,775	1,235
	6,284	4,766
Other expenses	15,294	14,582
<i>Taxation payable:</i>		
Stamp duty reserve tax	-	5,392
<b>Total creditors</b>	<b>363,087</b>	<b>354,997</b>

## 12 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date [28.02.13 : £Nil].

## 13 Related party transactions

The ACD's fee payable to Margetts Fund Management Ltd (the ACD) is disclosed in Note 7 and amounts prepaid and outstanding at the year-end in notes 10 & 11.

The aggregate monies received and paid by the ACD through the issue and cancellation of shares is disclosed in the Statement of change in net assets attributable to shareholders and amounts outstanding in notes 10 & 11.

Depositary and other fees payable to BNY Mellon Trust and Depositary (UK) Limited are also disclosed in note 7 and amounts prepaid and outstanding at the year-end in notes 10 & 11.

The net cash balances on deposit with The Bank of New York Mellon (an associated company of BNY Mellon Trust and Depositary (UK) Limited) at the balance sheet date were £12,554,681 [28.02.13 : £7,316,933]. Net interest (paid)/ received was (£1,388) [28.02.13 : £92]

All other amounts paid to, or received from, the related parties, together with the outstanding balances are disclosed in the financial statements.

## 14 Post balance sheet events

As at 04 June 2014, there were no material post balance sheet events which have a bearing on the understanding of the financial statements.

## 15 Risk disclosures

**Interest risk** - Debt securities may be held by the underlying investments of the fund. The Interest Rate Risk of these securities is managed by the relevant manager. The table below shows the Interest Rate Risk profile at the balance sheet date:

<b>i. Interest risk</b>	<b>28.02.14</b>	<b>28.02.13</b>
	<b>£</b>	<b>£</b>
Floating rate assets (pounds sterling):	13,090,862	8,588,437
Floating rate assets (pounds us dollars):	-	5,000,000
Floating rate liabilities (pounds sterling):	(2,181)	(5,721,004)
Assets on which interest is not paid (pounds sterling):	68,314,710	54,231,509
Assets on which interest is not paid (us dollars):	8,520,397	9,093,715
Assets on which interest is not paid (euro):	16,287,558	9,726,466
Assets on which interest is not paid (swiss francs):	4,749,783	2,444,024
Fixed rate assets (pounds sterling):	12,664,944	-
Liabilities on which interest is not paid (pounds sterling):	(761,343)	(497,169)
<b>Net Assets</b>	<b>122,864,730</b>	<b>82,865,978</b>

<b>ii. Currency risk</b>	<b>28.02.14</b>	<b>28.02.13</b>
	<b>£</b>	<b>£</b>
GBP	93,306,992	56,601,773
US Dollars	8,520,397	14,093,715
Euro	16,287,558	9,726,466
Swiss Francs	4,749,783	2,444,024
<b>Net Assets</b>	<b>122,864,730</b>	<b>82,865,978</b>

### Benchmark rates for index-linked stocks

#### Fund

NATIONAL GRID 1.25%

#### Index

Retail Pricing Index

The floating rate financial assets and liabilities comprise bank balances, which earn or pay interest at rates linked to the UK base rate.

Fixed rate financial assets have a weighted average yield of 3.32% [28.02.13 : Nil%] and a weighted average period for which income is fixed of 0.5 years [28.02.13 : Nil years].

There are no material amounts of non-interest bearing financial assets and liabilities, other than collective investment schemes, which do not have maturity dates.

## Distribution Table

For the year ended 28 February 2014 – in pence per share

### Interim

Group 1 – shares purchased prior to 01 March 2013

Group 2 – shares purchased on or after 01 March 2013

### Income shares

Units	Net Income	Equalisation	Paid 31.10.13	Paid 31.10.12
Group 1	0.5282	-	0.5282	0.7316
Group 2	0.2864	0.2418	0.5282	0.7316

### Accumulation shares

Units	Net Income	Equalisation	Allocated 31.10.13	Allocated 31.10.12
Group 1	0.5475	-	0.5475	0.7535
Group 2	0.4214	0.1261	0.5475	0.7535

### R Income shares

Units	Net Income	Equalisation	Paid 31.10.13	Paid 31.10.12
Group 1	1.0043	-	1.0043	n/a
Group 2	0.7860	0.2183	1.0043	n/a

### R Accumulation shares

Units	Net Income	Equalisation	Allocated 31.10.13	Allocated 31.10.12
Group 1	1.0486	-	1.0486	n/a
Group 2	0.4655	0.5831	1.0486	n/a

### Final

Group 1 – shares purchased prior to 01 September 2013

Group 2 – shares purchased on or after 01 September 2013

### Income shares

Units	Net Income	Equalisation	Payable 30.04.14	Paid 30.04.13
Group 1	0.5518	-	0.5518	0.3285
Group 2	0.4303	0.1215	0.5518	0.3285

### Accumulation shares

Units	Net Income	Equalisation	Allocating 30.04.14	Allocated 30.04.13
Group 1	0.5729	-	0.5729	0.3387
Group 2	0.5540	0.0189	0.5729	0.3387

### R Income shares

Units	Net Income	Equalisation	Payable 30.04.14	Paid 30.04.13
Group 1	1.0290	-	1.0290	0.5537
Group 2	0.4302	0.5988	1.0290	0.5537

### R Accumulation shares

Units	Net Income	Equalisation	Allocating 30.04.14	Allocated 30.04.13
Group 1	1.0826	-	1.0826	0.5762
Group 2	0.8195	0.2631	1.0826	0.5762

Equalisation only applies to shares purchased during the distribution period (group 2 shares). It represents the accrued income included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to income tax but must be deducted from the cost of the shares for capital gains tax purposes.

## **General Information**

### **Valuation Point**

The Valuation Point of the fund is at 12 noon each business day. Valuations may be made at other times with the Depositary's approval.

### **Buying and Selling of Shares**

The ACD will accept orders to buy or sell shares on normal business days between 9.00am and 5.00pm and transactions will be effected at prices determined by the following valuation. Instructions to buy or sell shares may be made either in writing to: Margetts Fund Management Ltd, PO Box 12081, Brentwood, CM14 9ND or by telephone on 0845 607 6808. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

### **Prices**

The most recent mid prices of shares are published on the Margetts website at [www.margettsfundmanagement.com](http://www.margettsfundmanagement.com).

### **Other Information**

The Instrument of Incorporation, Prospectus, Key Investor Information Document, Supplementary Information Document and the latest annual and interim reports may be inspected at the offices of the ACD, with a copy available, free of charge, on written request.

The register of shareholders can be inspected by shareholders during normal business hours at the offices of the Administrator.

The Head Office of the Company is at 1 Sovereign Court, Graham Street, Birmingham B1 3JR and is also the address of the place in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it.

The base currency of the Company is pounds (£) sterling.

The maximum share capital of the Company is currently £10,000,000,000 and the minimum is £1,000. Shares in the Company have no par value and therefore the share capital of the Company at all times equals the Company's current net asset value.

The prospectus has been updated to state that The Bank of New York Mellon's charges for transfer agency services are subject to annual inflationary increases capped at 3% per annum.

Shareholders who have any complaints about the operation of the fund should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory, they may make their complaint direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

### **Data Protection Act**

Shareholders' names will be added to a mailing list which may be used by the ACD, its associates or third parties, to inform investors of other products by sending details of such products. Shareholders who do not want to receive such details should write to the ACD, requesting their removal from any such mailing list.