



THS Growth & Value Funds

Report for the year ended
31st March 2014

Directors of the Company

Taube Hodson Stonex Partners
Unit Trust Management Company Limited
(Authorised and regulated by the
Financial Conduct Authority)

Authorised Corporate Director

Taube Hodson Stonex Partners
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PO Box 3733
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STATEMENT OF THE AUTHORISED CORPORATE DIRECTOR

This report of the THS Growth & Value Funds (“the Company”) is prepared by Taube Hodson Stonex Partners Unit Trust Management Company Limited, the Company’s Authorised Corporate Director (“ACD”).

THS Growth & Value Funds (the “Company”) is incorporated and registered in England and Wales as an Open-Ended Investment Company with Variable Capital (“ICVC”) under registration number IC39. It is authorised and regulated by the Financial Conduct Authority (“FCA”), by an authorisation order effective on 1st July 1999. The Instrument of Incorporation is available for inspection at the office of the Depositary, the Authorised Corporate Director (“ACD”) and the Administrator.

The Company is a UCITS scheme which complies with the FCA’s Collective Investment Schemes sourcebook (the “COLL”) and is structured as an umbrella company so that different sub-funds may be established from time to time by the ACD with the approval of the FCA and agreement of the Depositary.

The Company has two different sub-funds, International Growth & Value Fund (“IGV Fund”) and European Growth & Value Fund (“EGV Fund”).

Each sub-fund of an umbrella company is treated as a segregated portfolio of assets and, accordingly, the assets of each sub-fund belong exclusively to that sub-fund and shall not be used to discharge directly or indirectly the liabilities of, or claims against any other person or body, including the umbrella company, or any other sub-fund and shall not be available for any such purpose. Approval for the segregated liability status was granted under Protected Cell regime on 28th August 2013.

International Growth & Value Fund has seven classes of Shares: Income Shares Class A, Income Shares Class B, Accumulation Shares Class Y, Accumulation Shares Class Z, Income Shares Class B (Euro), Accumulation Shares Class Z (Euro) and Accumulation Shares Class X while European Growth & Value Fund has one share class: Accumulation Shares Class Z. Shareholders are not liable for the debts of the ICVC.

This report includes short reports for each of the sub-funds: IGV Fund and EGV Fund. The full Report and Accounts are available free of charge on request from the ACD.

Taube Hodson Stonex Partners Unit Trust Management Company Limited
PO Box 3733
Royal Wootton Bassett
Swindon SN4 4BC

INTERNATIONAL GROWTH & VALUE FUND

Investment Objectives

The investment objective of the Fund is to realise capital growth through investing principally in listed equities internationally. The main areas of investment will be the United Kingdom, Continental Europe, North America and Japan, although a proportion of the Fund's assets may be invested in other areas.

Risk Profile

The Fund invests in securities internationally, and is therefore exposed to changes in currency rates which may affect the performance of the Fund.

Fund Facts

Account reference dates: 31st March, 30th September

Report publication dates: 31st July, 30th November

Distribution payment dates: 31st May

Ongoing Charges Figure (OCF)

	as at 31/03/14	as at 31/03/13
Income Shares Class A	0.39%	0.39%
Income Shares Class B	1.09%	1.09%
Accumulation Shares Class Y	0.39%	0.39%
Accumulation Shares Class Z	1.09%	1.09%
Accumulation Shares Class Z (Euro)	1.09%	1.09%
Accumulation Shares Class X	0.84%	0.84%

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total disclosure costs (excluding overdraft interest) to the average net assets of the Fund.

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a Fund and is calculated based on the current period's figures.

INTERNATIONAL GROWTH & VALUE FUND

Synthetic Risk and Reward Indicator

	as at 31/03/14	as at 31/03/13
Income Shares Class A	6	6
Income Shares Class B	6	6
Accumulation Shares Class Y	6	6
Accumulation Shares Class Z	6	6
Income Shares Class B (Euro)	6	6
Accumulation Shares Class Z (Euro)	6	6
Accumulation Shares Class X*	6	6

The Synthetic Risk and Reward Indicator (SRRI) is not a measure of the risk of capital loss, but a measure of the Fund's price movement over time, the higher the number the greater the price movement both up and down. It is based on historical data and is not a reliable indication of the future risk profile of the Fund. The risk category shown is not guaranteed and may change over time. The risk categories are measured from 1 – 7 (1 measuring typically lower risk/rewards and 7 measuring typically higher risk/rewards). The lowest category does not mean a risk-free investment. There is no capital guarantee. The value of investments and the income from them may go down as well as up and investors may not get back the amount they invest.

*The SRRI for this recently launched share class include past data and price movements of representative portfolios to provide an indication of price movements over previous years.

INTERNATIONAL GROWTH & VALUE FUND

for the year ended 31st March 2014

Comparative Tables

Net Asset Values

The net asset value for the year ended:

Year end date	Total net asset value Fund £'000	Net assets per share				Inc Shares Class B (Euro)* c	Acc Shares Class Z (Euro)* c
		Inc Shares Class A p	Inc Shares Class B p	Acc Shares Class Y p	Acc Shares Class Z p		
31/03/11	769,703	284.91	285.95	343.42	328.49	-	372.17
31/03/12	640,098	254.69	255.59	314.96	299.21	-	359.36
31/03/13	629,413	294.19	295.02	371.55	350.58	-	413.68
31/03/14	552,460	341.46	342.26	438.16	410.57	-	495.10

Year end date	Total net asset value Fund £'000	Acc Shares Class X** p
31/03/11	769,703	-
31/03/12	640,098	-
31/03/13	629,413	350.70
31/03/14	552,460	411.60

Shares in issue

	Inc	Acc	Inc (Euro)*	Acc (Euro)*
31/03/11	2,559,769	230,967,730	-	12,050
31/03/12	2,331,303	200,035,321	-	11,198,248
31/03/13	1,673,372	165,921,836	-	11,072,723
31/03/14	1,434,900	124,800,001	-	7,287,766

* Income Shares Class B (Euro) and Accumulation Shares Class Z (Euro) were launched on 16th February 2011. Currently no shares have been issued on Income Shares Class B (Euro).

** Accumulation Share Class X was launched on 25th March 2013.

INTERNATIONAL GROWTH & VALUE FUND

for the year ended 31st March 2014

Comparative Tables – *continued*

Distributions

Calendar Year	Inc Shares Class A p	Inc Shares Class B p	Acc Shares Class Y p	Acc Shares Class Z p	Inc Shares Class B (Euro)* c	Acc Shares Class Z (Euro)* c
2009	5.8331	4.2223	6.5718	4.9926	-	-
2010	5.3463	3.6245	6.1986	4.0671	-	-
2011*	5.2886	3.4568	6.2704	3.9467	-	-
2012	6.6712	4.8540	8.0869	5.5446	-	7.2419
2013	6.2866	4.4613	7.7583	5.2286	-	5.9221
2014**	5.5141	3.2757	6.9131	3.8623	-	4.8571

Calendar Year	Acc Shares Class X*** p
2009	-
2010	-
2011*	-
2012	-
2013	0.0882
2014**	4.8006

* Income Shares Class B (Euro) and Accumulation Shares Class Z (Euro) were launched on 16th February 2011. Currently no shares have been issued on Income Shares Class B (Euro).

** To 31st March 2014.

*** Accumulation Shares Class X was launched on 25th March 2013.

INTERNATIONAL GROWTH & VALUE FUND

for the year ended 31st March 2014

Comparative Tables - *continued*

Highest and Lowest Prices

Calendar Year	Class A		Income Shares Class B		Class B (Euro)*†	
	Highest	Lowest	Highest	Lowest	Highest	Lowest
	p	p	p	p	c	c
2009	261.3	177.1	258.5	176.7	-	-
2010	280.9	228.7	280.6	229.2	-	-
2011*	293.4	223.1	292.8	223.1	349.7	256.3
2012	276.3	234.7	275.8	235.3	337.6	291.7
2013	340.4	278.3	340.0	277.8	405.9	337.7
2014**	347.3	325.7	346.1	324.7	420.5	392.2

Calendar Year	Class Y		Accumulation Shares Class Z		Class Z (Euro)*	
	Highest	Lowest	Highest	Lowest	Highest	Lowest
	p	p	p	p	c	c
2009	303.1	199.3	292.8	193.3	-	-
2010	332.4	270.6	318.5	260.1	-	-
2011*	348.8	268.8	333.5	256.3	396.9	294.4
2012	341.6	290.2	322.9	275.5	395.0	338.0
2013	429.9	344.1	404.0	325.2	482.2	399.7
2014**	438.6	411.3	411.2	385.8	499.5	465.9

Calendar Year	Class X***	
	Highest	Lowest
	p	p
2009	-	-
2010	-	-
2011*	-	-
2012	-	-
2013	404.6	342.7
2014**	412.2	386.7

* Income Shares Class B (Euro) and Accumulation Shares Class Z (Euro) were launched on 16th February 2011. Currently no shares have been issued on Income Shares Class B (Euro).

** To 31st March 2014.

*** Accumulation Shares Class X was launched on 25th March 2013.

† Currently no shares have been issued for the IGV Income Shares Class B (Euro) and the price shown is a reflection of the IGV Income Shares Class B in Sterling, and has been adjusted to show the Euro value.

INTERNATIONAL GROWTH & VALUE FUND

This report covers the period from 1st April 2013 to 31st March 2014.

During the period under review the price of IGV Income Shares Class A rose by 15.38% from a price of 301.0p to 347.3p, the price of IGV Income Shares Class B rose by 15.27% from a price of 300.0p to 345.8p, the price of IGV Income Shares Class B (Euro)* rose by 17.79% from a price of 354.1c to 417.1c, the price of IGV Accumulation Shares Class X rose by 17.25% from a price of 351.3p to 411.9p, the price of IGV Accumulation Y rose by 17.84% from a price of 372.1p to 438.5p, the price of IGV Accumulation Shares Class Z rose by 17.00% from a price of 351.2p to 410.9p and the price of IGV Accumulation Shares Class Z (Euro) rose by 19.60% from a price of 414.3c to 495.5c.

Over the same period the MSCI World Index rose by 6.28%, the MSCI World Total Return Index rose by 8.45%, the MSCI World (Euro) Index rose by 8.72% and the MSCI World Total Return (Euro) Index rose by 10.94%.

On the 18th July 2014, the latest available date before the printing of this report, the price of IGV Income Shares Class A was 333.2p, IGV Income Shares Class B was 333.2p, IGV Income Shares Class B (Euro) was 421.3c, IGV Accumulation Shares Class X was 401.1p, IGV Accumulation Shares Class Y was 427.6p, IGV Accumulation Class Z was 399.8p and IGV Accumulation Shares Class Z (Euro) was 505.3c. The estimated yields for each share class were 2.1%, 1.3%, 0.0%, 0.0%, 1.8%, 1.3% and 1.2% respectively, but we would like to point out to investors that the Fund is run for capital growth rather than income and therefore the yield may well vary considerably.

Please note that past performance is not necessarily a guide to future performance and that the value of your investment can go down and well as up and you may not get back the amount invested.

* Currently no shares have been issued for the IGV Income Shares Class B (Euro) and the price shown is a reflection of the IGV Income Shares Class B in Sterling, and has been adjusted to show the Euro value.

INTERNATIONAL GROWTH & VALUE FUND

Portfolio Information

Classification of Investments	% of Fund value as at	
	31/03/14	31/03/13
Australia	3.01	3.54
Belgium	1.03	1.10
Canada	1.21	2.36
France	11.03	11.17
Germany	9.69	10.91
Hong Kong	2.65	2.77
India	-	0.52
Italy	4.16	1.68
Japan	1.47	1.83
Luxembourg	1.47	1.32
Netherlands	3.43	2.56
Norway	2.58	2.49
Spain	10.33	2.04
Sweden	6.23	6.53
Switzerland	4.66	6.71
United Kingdom	15.04	17.69
United States	19.68	20.81
Japanese Yen Hedging	(0.05)	0.01
Euro Hedging	0.01	0.20
Portfolio of Investments	96.63	96.24
Net other assets	2.37	3.76
Net assets	100.00	100.00

INTERNATIONAL GROWTH & VALUE FUND

Major Holdings

	% of Fund value as at 31/03/14
CaixaBank	2.82
Deutsche Post	2.66
Hutchison Whampoa	2.65
Medicover Holdings	2.50
Sacyr, S.A.	2.35
BNP Paribas	2.33
ING Groep	2.31
Vivendi	2.18
UniCredit	2.02
Eurazeo	2.00

	% of Fund value as at 31/03/13
Hutchison Whampoa	2.77
Deutsche Post	2.61
Medicover Holdings	2.40
Pfizer	2.25
Lagardere	2.20
Vivendi	2.14
Swiss Reinsurance	2.13
BNP Paribas	2.08
Sky Deutschland	2.06
British Sky Broadcasting	2.04

INTERNATIONAL GROWTH & VALUE FUND

Report from Investment Adviser

The Fund has had a very good year. Stock markets in general have performed well as the recovery in the US has gathered momentum and the problems in the eurozone have diminished. Over the year to March 31, the MSCI, the benchmark index for the Fund rose by 8.45 per cent in sterling terms on a total return basis, while the Fund's Y class accumulation shares outperformed, rising by 17.84 per cent net of fees*. Exceptionally high returns from the holdings within our Spanish recovery theme contributed to this strong outperformance, with Sacyr, S.A., a Spanish construction and property group with a number of financial investments, producing the highest contribution overall.

Although considerable progress has already been made in tackling Spain's economic difficulties, assets remain cheap and we have made several new investments within this theme. These include the banks Banco Popular Espanol and CaixaBank, the Spanish hotel chain NH Hoteles and Indra Sistemas, a Spanish IT services company. All of these holdings have produced excellent returns.

We are mindful that the investments within some themes have now risen very significantly. For example the recovery in European financials has been both swift and sizeable. Many of the Fund's holdings in this sector have again produced excellent performances and we are monitoring these investments closely to see whether the time has come to lock-in some profits. Indeed, we recently started this process by selling Allianz after a very good share price performance.

Likewise, the Fund's e-commerce related investments have continued their strong run. Deutsche Post, which benefits from the growth in online deliveries; Kinnevik, a Swedish holding company which owns a stake in the Continental European fashion e-tailer Zalando; and Schibsted, the Norwegian media group with a significant online classified advertising business all performed very well; and in the second half we trimmed these holdings.

We have sold some shares in two other very successful investments: Lagardere, the French media group; and Sky Deutschland which has repeatedly been a top contributor. We remain very enthusiastic about both the potential for pay TV in Germany and Sky Deutschland. However, it seems to us that the share price is beginning to discount growth some years ahead and we have therefore taken some profits from this longstanding and successful investment.

Our enthusiasm for large pharmaceutical companies has cooled during the period under review. In last year's annual report we explained how we had started to reduce the Fund's exposure to this sector. We continued this process this year and completed the sales of GlaxoSmithKline, Pfizer and Novartis. These holdings have done well but the fact remains that healthcare in the US – which accounts for a very large part of the big pharmaceutical companies' sales – is too expensive. The timing of a reduction in drug prices in America is unknown but we feel that the risk/reward ratio is much less favourable and therefore decided it was prudent to bank the profits.

Whilst most holdings within the portfolio have produced very good returns there have been a few disappointments. The resource companies Newcrest Mining and Niko Resources for example were weak; Potash Corporation of Saskatchewan and Mosaic were adversely affected by the sudden break up of a major potash marketing group; and Transocean, the owner of offshore oil rigs, fell on worries that oversupply in certain rig markets could put pressure on day rates and utilization.

* Source Bloomberg/THS. Index priced at close. Fund return, net fees and charges priced at noon.

INTERNATIONAL GROWTH & VALUE FUND

Report from Investment Adviser - *continued*

In terms of new investments, although there are fewer bargains in the market than in the past, we are still positive about global equities and are continuing to find some interesting opportunities. The 'ageing west' theme, which focuses on the ever increasing number of people who are living longer, is an area in which we have been interested for some time. Two new investments have been made within this theme: The Fresh Market, a high quality US supermarket chain that targets wealthier, more mature shoppers; and Varian Medical Systems, which produces radiotherapy machines for the treatment of cancer. This is a duopoly and unfortunately the need for radiotherapy is increasing as more people develop cancer. The good news is that the machines have become much more efficient and the side effects and exposure time required have been very much reduced.

We are always on the look-out for new ideas but we also continue to monitor former investments. Consequently, during the year we re-invested in Lennar, the US homebuilder. We previously held Lennar following the collapse in the US property market triggered by the sub-prime crisis and sold at a very good profit. Our US homebuilding thesis remains intact and the holding contributed to the Fund's performance over the period under review.

Other new investments include Rolls-Royce and Santos. Rolls-Royce is one of the world's leading producers of jet engines and is well positioned for the next cycle of aircraft orders. It is a high quality growth company which is attractively priced and although there have been concerns about cuts in defence expenditure, civil engine deliveries are due to increase very strongly over the next couple of years. Santos is an Australian oil and gas company which is involved in a large LNG project in Australia. The company is approaching the end of its investment phase. Substantial cash flow will be produced once production starts at the end of this year.

The Fund's newest holding is Telecom Italia which provides fixed line, mobile and data transmission services in Italy and overseas, particularly Brazil and Argentina. We feel that the company's current valuation does not reflect the potential for ARPU (average revenue per user) to improve over the mid-term as the market structure rationalizes. The company will benefit as high-speed broadband is rolled out and consumer spending levels recover.

The investment in Vodafone was reduced in 2012 as much of the company's value was derived from its stake in Verizon in the US. When Verizon indicated its interest in purchasing Vodafone's stake in Verizon Mobile during the period under review, the remainder of the holding in Vodafone was sold. Other sales include Adobe Systems, IDEA Cellular and SNC-Lavalin. Towards the end of the year the Fund's remaining shares in GPE Eurotunnel were sold after a strong run.

Taube Hodson Stonex Partners LLP
Investment Adviser
April 2014

EUROPEAN GROWTH & VALUE FUND

Investment Objectives

The investment objective of the Fund is to produce long term capital growth, through holding a diversified portfolio of quoted or traded equity investments primarily in companies which are incorporated, quoted or traded on any stock exchange or over-the-counter market in Europe or in companies incorporated, quoted or traded on any stock exchange or over-the-counter market elsewhere, the majority of whose revenues and/or profits are derived from activities in Europe.

Risk Profile

The Fund invests in securities internationally, and is therefore exposed to changes in currency rates which may affect the performance of the Fund.

Fund Facts

Account reference dates: 31st March, 30th September

Report publication dates: 31st July, 30th November

Distribution payment dates: 31st May

Ongoing Charges Figure

	as at 31/03/14	as at 31/03/13
Accumulation Shares Class Z	1.86%	2.19%

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total disclosure costs (excluding overdraft interest) to the average net assets of the Fund.

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a Fund and is calculated based on the current period's figures.

EUROPEAN GROWTH & VALUE FUND

Synthetic Risk and Reward Indicator

	as at 31/03/14	as at 31/03/13
Accumulation Shares Class Z	6	6

The Synthetic Risk and Reward Indicator (SRRRI) is not a measure of the risk of capital loss, but a measure of the Fund's price movement over time, the higher the number the greater the price movement both up and down. It is based on historical data and is not a reliable indication of the future risk profile of the Fund. The risk category shown is not guaranteed and may change over time. The risk categories are measured from 1 – 7 (1 measuring typically lower risk/rewards and 7 measuring typically higher risk/rewards). The lowest category does not mean a risk-free investment. There is no capital guarantee. The value of investments and the income from them may go down as well as up and investors may not get back the amount they invest.

EUROPEAN GROWTH & VALUE FUND

Comparative Tables

Net Asset Values

The following figures are for information only. Figures prior to 31st March 2009 represent those from when the EGV sub-fund's assets were held as The Partners European Fund.

The net asset value for the year ended:

Year end date	Total net asset value Fund £'000	Net asset per share		Shares in issue	
		Inc Shares Class B p	Acc Shares Class Z p	Inc Shares Class B*	Acc Shares Class Z
31/03/11	5,921	199.25	219.23	177,406	2,539,539
31/03/12	4,978	164.32	183.04	130,944	2,601,852
31/03/13	5,716	-	213.02	-	2,683,249
31/03/14	7,415	-	279.86	-	2,649,652

Distributions

Calendar Year	Inc Shares Class B*	Acc Shares Class Z
	p	p
2009	2.6774	5.6387
2010	-	-
2011	0.8877	0.9615
2012	2.0178	2.1979
2013	-	2.4486
2014**	-	0.6248

* Income Shares Class B closed on 3rd December 2012.

** To 31st March 2014.

EUROPEAN GROWTH & VALUE FUND

for the year ended 31st March 2014

Comparative Tables - *continued*

Highest and Lowest Prices

Calendar Year	Income Shares Class B*		Accumulation Shares Class Z	
	Highest	Lowest	Highest	Lowest
	p	p	p	p
2009	175.75	108.87	192.50	114.21
2010	186.97	154.40	204.81	169.13
2011	203.90	141.60	225.00	155.80
2012	175.00	148.60	199.40	163.50
2013	-	-	271.90	201.30
2014**	-	-	280.30	261.50

* Income Shares Class B closed on 3rd December 2012.

** To 31st March 2014.

EUROPEAN GROWTH & VALUE FUND

This report covers the period from 1st April 2013 to 31st March 2014.

Please note that the following figures are for information only and represent the change in price over the 12 months to 31st March 2014.

During the period under review the price of EGV Accumulation Shares Class Z rose by 31.26% from a price of 213.4p to 280.1p.

Over the same period the MSCI Europe (incl UK) Total Return Index rose by 13.39%.

On the 18th July 2014, the latest available date before the printing of this report, the price of Accumulation Shares Class Z was 266.4p. The estimated yield for the share class was 0.9%, but we would like to point out to investors that the Fund is run for capital growth rather than income and therefore the yield may well vary considerably.

Please note that past performance is not necessarily a guide to future performance and that the value of your investment can go down and we as up and you may not get back the amount invested.

EUROPEAN GROWTH & VALUE FUND

Portfolio Information

Classification of Investments	% of Fund value as at	
	31/03/14	31/03/13
Belgium	1.11	1.28
Denmark	1.20	1.22
France	14.46	17.59
Germany	14.03	19.66
Ireland	1.01	-
Italy	8.93	4.45
Luxembourg	2.63	2.69
Netherlands	2.83	4.37
Norway	7.88	8.87
Spain	16.22	2.37
Sweden	4.82	5.56
Switzerland	6.37	9.73
United Kingdom	17.47	18.92
Euro Hedging	(0.07)	0.37
Portfolio of Investments	98.89	97.08
Net other assets	1.11	2.92
Net assets	100.00	100.00

EUROPEAN GROWTH & VALUE FUND

Major Holdings

	% of Fund value as at 31/03/14
Sacyr, S.A.	4.28
Schibsted	3.86
CaixaBank	3.51
Deutsche Post	3.49
TAG Immobilien	3.37
UniCredit	3.28
YOOX	2.98
British Sky Broadcasting	2.95
Vivendi	2.90
Gagfah	2.63

	% of Fund value as at 31/03/13
Schibsted	5.44
Sky Deutschland	5.27
Tag Immobilien	4.39
British Sky Broadcasting	3.67
Deutsche Post	3.53
Lagardere	3.45
Vivendi	3.06
Gagfah	2.69
YOOX	2.64
Svenska Handelsbanken	2.55

EUROPEAN GROWTH & VALUE FUND

Report from Investment Adviser

The Fund has had a very good year. European markets in general performed well as confidence in the region improved and the Fund outperformed by a considerable margin. Over the year to March 31 the MSCI Europe (including the UK), the benchmark index for the Fund, rose by 13.39 per cent in sterling terms on a total return basis, and the Fund's accumulation shares increased by 31.26 per cent net of fees*.

The Fund's top performer over the year was Sacyr, S.A., a Spanish construction and property group with a number of financial investments. Sacyr, S.A. was the first investment in our most recent theme which centres on economic recovery in Spain. Although considerable progress has already been made in tackling the country's deficiencies, assets remain cheap and during the year we added several new investments to this theme, including three banks: Banco Popular Espanol, Banco Santander and the last of Spains' two remaining savings banks, CaixaBank. Shares have also been bought in NH Hoteles, a Spanish hotel group, and Indra Sistemas, a Spanish IT services company. All of these holdings have produced excellent returns. Hispania Activos Inmobiliarios, a new company which invests in Spanish property, was added to the theme towards the end of the period.

Sky Deutschland, last year's top contributor, continued its stellar performance, producing the second highest contribution this year. We remain very enthusiastic about both the potential for pay TV in Germany and Sky Deutschland. However, it seems to us that the share price is beginning to discount growth some years ahead and we have therefore taken some profits from this longstanding and successful investment. In a similar vein, we started to sell Lagardere, the French media group. This is another longstanding investment where our patience has been well rewarded.

E-commerce continues to play an ever increasing part of daily life across the globe. As we discussed in last year's annual report, we have invested in a number of companies which are heavily exposed to online sales: Kinnevik and YOOX, which both have retail operations; Schibsted which has a strong online classified advertising business; and Deutsche Post which benefits from the demand for e-commerce deliveries. These investments have performed extremely well and during the year we trimmed several of the holdings.

The Fund's European financial holdings such as Unicredit, ING Groep and BNP Paribas have also produced very good returns. However, the recovery in this sector has been swift and sizeable and we are monitoring these investments closely to see whether the time has come to lock-in some profits. We recently started this process by selling Allianz after a very good share price performance.

We have become less keen on large pharmaceutical companies. They have done well but the fact remains that healthcare in the US – which accounts for a very large part of the big pharmaceutical companies' sales – is too expensive. The timing of a reduction in drug prices in America is unknown but we feel that the risk/reward ratio is much less favourable and we decided it was prudent to lock-in profits. The holdings in GlaxoSmithKline and Novartis have therefore been sold.

* Source Bloomberg/THS. Index priced at close. Fund return, net fees and charges priced at noon.

EUROPEAN GROWTH & VALUE FUND

Report from Investment Adviser - *continued*

Whilst most holdings within the portfolio have contributed significantly to the Fund's excellent performance, there have been a handful of exceptions. For example Transocean, the owner of offshore oil rigs, fell on worries that oversupply in certain rig markets could put pressure on day rates and utilization; Syngenta was weaker because of concerns that it will be unable to meet its sales growth targets due to lower crop prices; and Ludorum, the creator of 'Chuggington', the children's cartoon train character reported lower revenue and earnings. At the end of 2013 it launched a new product range to coincide with a new Chuggington series and this should stimulate interest.

Although prices have risen somewhat, we are still positive about European equities and are continuing to find some interesting opportunities. For example, new investments have been made in Rolls-Royce and Innate Pharma. Rolls-Royce is one of the world's leading producers of jet engines and is well positioned for the next cycle of aircraft orders. It is a high quality growth company which is attractively priced and although there have been concerns about cuts in defence expenditure, civil engine deliveries are due to increase very strongly over the next couple of years. Innate Pharma is a biopharmaceutical company which specializes in immunopharmacology and antibody technology. Its lead drug blocks a receptor on the natural killer cells that cancer cells use to avoid attack. This approach is dominated by Innate Pharma and the company has a number of key patents protecting this intellectual property.

Towards the end of the period under review new investments were made in Dalata Hotel Group and Telecom Italia. Dalata is Ireland's largest hotel operator, which came to market in March in order to raise capital to buy 15-25 hotels, primarily in Dublin. The company has an experienced management team and Dalata should benefit from the much improved economic environment in Ireland. Telecom Italia provides fixed line, mobile and data transmission services in Italy and overseas. We believe the company is under-valued and that it will benefit from improving economics and increasing pricing power.

European shares still trade at a substantial discount to US shares. Price/Earnings multiples and profit margins are both lower in Europe than in America giving very good potential for further price increases. The political and economic environment is much improved and if the recent problems in Ukraine can be contained we would expect another good year for the Fund.

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April 2014