

TU British Trust

Short Report

For the year ended 15 August 2012



TU Fund Managers

FUND DETAILS



FUND MANAGER

James Clunie

FUND SIZE

£35.09m
(as at 15.08.12)

EX-DIVIDEND DATES

15/2 (Interim),
15/8 (Final)

PAYMENT DATES

15/4, 15/10

TOTAL EXPENSE RATIO

1.10% (as at 15.08.2012)

TRUSTEE

HSBC Bank plc
8 Canada Square
London
E14 5HQ

AUDITORS

Shipleys LLP
Chartered Accountants
10 Orange Street
Haymarket
London
WC2H 7DQ

MANAGERS

TU Fund Managers Limited
Congress House
Great Russell Street
London
WC1B 3LQ

INVESTMENT OBJECTIVE & POLICY

This is a balanced fund. Its aim is to provide investors with a combination of long term capital growth together with a reasonable income. Investments will be made in British commercial companies and industrial companies and may be made in units in other collective investment schemes.

RISK PROFILE

This trust has a medium/low equity risk profile with no currency risk.

FUND PERFORMANCE

Net Asset Value (Pence per unit)

| | |
|---------------------------------|----------|
| 15.08.11 | 469.67 p |
| 15.08.12 | 476.58 p |
| Change in net asset value 1.47% | |

Past performance is not a guide to future performance.

INCOME DISTRIBUTIONS

Pence per unit

| | |
|-----------------|--------|
| 15.04.12 | 3.463p |
| 15.10.12 | 5.307p |

ANNUALISED PERFORMANCE (%)

12 Months ending:

| 15 Aug 12 | 15 Aug 11 | 15 Aug 10 | 15 Aug 09 | 15 Aug 08 |
|--------------|--------------|--------------|--------------|--------------|
| 3.47 | 5.65 | 10.64 | -15.04 | -7.87 |

Source: Lipper, a Reuters company, bid to bid, net income reinvested as at 15.08.12. Past performance is not a guide to future performance.

TOP 10 HOLDINGS

| | 15 Aug 2012 | 15 Aug 2011 |
|-------------------|----------------|----------------|
| BP | 6.6 | 4.9 |
| AstraZeneca | 6.6 | 4.2 |
| HSBC | 5.9 | 0.0 |
| Royal Dutch Shell | 5.5 | 3.1 |
| GlaxoSmithKline | 5.1 | 0.0 |
| Cash | 4.5 | 9.4 |
| Reed Elsevier | 4.3 | 6.0 |
| Berkeley | 3.7 | 4.7 |
| Resolution | 3.6 | 6.7 |
| Indus Gas | 3.3 | 3.3 |

SECTOR BREAKDOWN (%)

| | 15 Aug 2012 | 15 Aug 2011 |
|--------------------------|----------------|----------------|
| Basic Materials | | |
| Basic Resources | 4.1 | 9.5 |
| Mining | 5.0 | 4.6 |
| Consumer Goods | | |
| Food & Beverage | 4.6 | 1.3 |
| Tobacco | 3.1 | 0.0 |
| Consumer Services | | |
| Consulting Services | 4.1 | 2.4 |
| Media | 6.9 | 6.0 |
| Travel & Leisure | 0.0 | 0.7 |
| Financials | | |
| Banks | 9.2 | 5.3 |
| Insurance | 6.6 | 12.8 |
| Real Estate | 3.9 | 2.5 |
| Healthcare | 11.6 | 4.2 |
| Industrials | | |
| General Industrials | 4.8 | 1.7 |
| Heavy Construction | 5.2 | 5.8 |
| Oil & Gas | 22.0 | 26.6 |
| Technology | 0.0 | 4.3 |
| Utilities | 4.4 | 2.9 |
| Cash | 4.5 | 9.4 |

IMPORTANT NOTE

The information in this report is designed to enable unitholders to make an informed judgement on the activities of the trust during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the trust during this and previous periods, please contact the Manager.

Issued by TU Fund Managers Limited, an authorised manager of unit trusts and ISAs.

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Copies of the annual and half-yearly Long Form Report and Accounts are available upon request or from our website www.tufm.co.uk

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For the six months to 15 February 2012



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FUND MANAGER'S REPORT

Equity markets over the review period were in large part driven by major macroeconomic and geopolitical events, with changing expectations about the outcome for the Eurozone and about China's future rate of growth two of the key variables. After an initial pullback, equities surged higher in October as Europe's leaders appeared to make progress on a plan aimed at alleviating the mounting stress within the financial system. Markets gained added momentum at the start of 2012 in response to the first of the ECB's long-term refinancing operations (LTRO). A second tranche of the LTRO followed by the assertion by Mario Draghi, President of the European Central Bank that 'Within our mandate, the ECB is ready to do whatever it takes to preserve the euro' helped the FTSE All Share return 13.17% over the period.

The wider concerns that dominated equity markets were clearly reflected in sector performance. The deteriorating outlook for the global economy left the miners as one of the worst performers, with the more defensive areas of the market (including beverages, tobacco and utilities) faring better. Continued Eurozone uncertainty had a negative impact on the banking stocks, although the overall underperformance over the period masked a significant rally in early 2012 as funding concerns eased post the LTRO.

On 13 April 2012 SWIP announced that, in response to changing client needs, it would further reposition its £54 billion equities business. Following the announcement regarding the repositioning of SWIP's equities business, James Clunie assumed responsibility for managing the portfolio from Peter Cockburn.

This was a disappointing period of performance for the Fund, returning 3.47%. The underperformance of the Fund was driven in part by the market's reaction to SWIP's change in strategy for its Equities business. As a result, share prices of a number of the Fund's holdings came under pressure, unrelated to the long term fundamentals underpinning those investments.

At the stock specific level, positive contributions from Indus Gas and iEnergizer were more than offset by the Fund's larger active positions, including Essar Energy, KSK Power Ventur and Resolution.

Transactions during the review period reduced exposure to the oil & gas producers (disposing of the holding in Cairn Energy) although this remains the Fund's largest sector overweight. Early in the period we also reduced holdings in the mining stocks. Proceeds were reinvested in a number of more defensive positions (including SABMiller, BAE Systems, Imperial Tobacco and National Grid) but also to reduce a significant underweight in the banking stocks (the holding in Lloyds Banking Group was sold but replaced by new positions in HSBC Holdings, RBS Group and Standard Chartered).

The two biggest issues facing the UK market heading into the second half of 2012 remain the crisis in the eurozone and slowing growth in China. The ultimate solution to the eurozone's problems could well be a move towards some form of fiscal union. But political considerations and the fragmented nature of European decision-making mean that the journey towards that solution is likely to be tortuous. Closer to home the UK remains in recession. Although stock markets can rise during recessions, as markets respond to improved liquidity and anticipate economic recovery, financial distress risk in individual firms is heightened during such periods. Firms with strong balance sheets and growth opportunities are therefore likely to remain attractive. Meanwhile, the outlook for China's economy is uncertain, with analysts expecting liquidity enhancing policy moves from the Chinese Central Bank. Time will tell whether these are enough to counter an over-supplied residential property market in many cities, combined with weak export markets.

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