PROFIT *hunters*

ARTEMIS High Income *Fund*

Manager's Report and Financial Statements for the year ended 7 August 2013

ARTEMIS
The PROFIT Hunter

General information

Company profile

Independent and owner-managed, Artemis opened for business in 1997. Its aim was outstanding investment performance and client service. All Artemis’ fund managers still share these two precepts – and the same flair and enthusiasm for fund management.

The company has grown to the extent that it now manages an asset base of some £15.5 billion*. This is spread across a range of unit trusts, an investment trust, a hedge fund, a venture capital trust and both pooled and segregated institutional portfolios.

The Artemis philosophy requires our fund managers to invest in Artemis funds. This means that our fund managers’ interests are directly aligned with our investors.

* Source: Artemis as at 31 August 2013.

Fund status

Artemis High Income Fund was constituted by a Trust Deed dated 26 May 1995 as amended by a supplemental Trust Deed dated 6 September 2002 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000. The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook of the Financial Conduct Authority.

Investment objective

The objective of the fund is to achieve a higher than average initial yield, combined with the prospect of rising income and some capital growth over the long term.

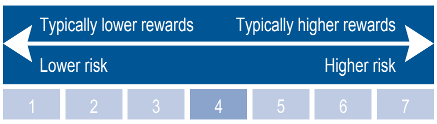
Investment policy

The emphasis of the fund will be investment in UK fixed-interest investments and preference shares, however, the manager has the flexibility to invest in all economic sectors worldwide and in equities. The fund may also invest in other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions and other investments to the extent that each is permitted by the regulations.

Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 2 or via the website **artemis.co.uk**. Valuation of the fund takes place each business day at 12 noon on a forward pricing basis. Investors are reminded that past performance is not a guarantee of performance in the future and that the price of units and the revenue from them can fall as well as rise.

Risk and reward profile



- This indicator is based on historical data and may not be a reliable indication of the future risk profile of the fund.
- The risk category shown is not guaranteed and may change over time.
- A risk indicator of “1” does not mean that the investment is “risk free”.
- The indicator is not a measure of the possibility of losing your investment.

The risk indicator for the fund is as above because:

- The price of units, and the income from them, can fall and rise because of stockmarket and currency movements.
- Stockmarket prices, currencies and interest rates can move irrationally and can be affected unpredictably by diverse factors, including political and economic events.
- A portion of the fund’s assets may be invested in a currency other than the fund’s accounting currency (sterling). The value of these assets, and the income from them, may decrease if the currency falls in relation to sterling, in which the fund is valued and priced.
- Investments in fixed interest securities are subject to market and credit risk and will be impacted by movements in interest rates. Interest rate movements are determined by a number of economic factors, in particular market expectations of future inflation.
- The fund can invest in higher-yielding bonds, which may increase the risk to your capital due to a higher likelihood of the company issuing the bonds failing to pay returns on investments. Changes to market conditions and interest rates can have a larger effect on the values of higher-yielding bonds than other bonds.

Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 2.

General information (continued)

Manager

Artemis Fund Managers Limited *
Cassini House
57 St James's Street
London SW1A 1LD

Dealing information:
Unit Trust Department
Artemis Fund Managers Limited
PO Box 9688
Chelmsford CM99 2AE
Telephone: 0800 092 2051
Website: artemis.co.uk

Investment adviser

Artemis Investment Management LLP *
Cassini House
57 St James's Street
London SW1A 1LD

Trustee

National Westminster Bank Plc *
Trustee & Depositary Services
Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH

Registrar

International Financial Data Services (UK) Limited *
IFDS House
St Nicholas Lane
Basildon
Essex SS15 5FS

Auditor

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

* Authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Statement of the trustee's responsibilities

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

It is the duty of the trustee to take reasonable care to ensure that the fund is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'), as amended, the fund's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the fund; the application of revenue of the fund; and the investment and borrowing powers of the fund.

Report of the trustee

Having carried out such procedures as we considered necessary to discharge our responsibilities as trustee of the fund, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the manager:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the fund's units and the application of the fund's revenue in accordance with COLL, the Trust Deed and Prospectus; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the fund.

National Westminster Bank Plc
Trustee & Depositary Services

Edinburgh
23 September 2013

Statement of the manager's responsibilities

The Collective Investment Schemes Sourcebook ('COLL') of the Financial Conduct Authority requires the manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the fund and of its revenue and expenditure for the year. In preparing the financial statements the manager is required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010;

(iii) follow applicable accounting standards;

(iv) keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;

(v) make judgements and estimates that are reasonable and prudent; and

(vi) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation.

The manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and COLL requirements.

The manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the manager

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority.

R J Turpin
Director

M R J Tyndall
Director

23 September 2013

Independent auditor's report to the unitholders of the Artemis High Income Fund

We have audited the financial statements of Artemis High Income Fund (the "fund") for the year ended 7 August 2013 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, balance sheet, the related notes 1 to 17 and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the unitholders of the fund, as a body, pursuant to paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority (formerly the Financial Services Authority). Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in an independent 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 unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the manager and auditor

As explained more fully in the manager's responsibilities statement set out on page 2, the manager 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 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 manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the manager's report to identify material inconsistencies with the audited financial statements. 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 financial position of the fund as at 7 August 2013 and of the net revenue and the net gains on the scheme property of the fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority (formerly the Financial Services Authority)

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority (formerly the Financial Services Authority) and the Trust Deed;
- the information given in the manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Ernst & Young LLP
Statutory Auditor

Edinburgh
23 September 2013

The maintenance and integrity of the Artemis Fund Managers Limited web site is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Investment review

- Return of 20.8%* compares with 6.6%* for the sector average.
- Masterful inactivity easily outstripped so-called 'risk-free' government bonds.
- The outlook for income is stable, but cautious overall.

Performance – Risk rewarded …

In our interim report, we expressed a mix of pleasure and caution about the strong return the fund generated in the first half of the year. We feel much the same way about returns in the second half of the year. The fund continued to rise, albeit at a more sedate pace, with returns helped by strong equity markets.

For the 12 months under review, the fund returned 20.8%*. This proved to be an excellent return both against the sector average of 6.6% *and, most importantly, against so-called 'risk-free' government bonds, which fell by 3.4%*. (The next time you watch Prime Minister's questions, take a moment to think about the notion that government bonds are 'risk free').

The comparison with government bonds is a useful one. We are taking more risk to attain a higher yield and, over time, that greater risk should attract a higher reward. To our mind, the real risk is that a bond issuer cannot afford to pay the interest and/or the principal on a bond. But, and for reasons that escape us, the investment industry tends to use 'risk' as a synonym for volatility; and this fund's mix of assets undoubtedly leads it to be more volatile than the average bond fund.

To our mind, this volatility is only a drawback for those investors who might need to sell at an inopportune moment. Taking a longer perspective, the fund has now registered an annualised return of 8.3%* over five years versus a return of 6.4%* per annum on government bonds. So, risk has been rewarded and there has been good compensation for the additional volatility.

Review – Busy doing (almost) nothing …

Investors probably think that, after a strong period of returns, fund managers skip to work whistling "Zip-a-Dee-Doo-Dah". Yet the nature of fund management is that we are more likely to be humming "Don't let the Sun go down on me".

That said, although not everything went our way this year, most things did. Over the second half of the year, it was the part of the fund that we had invested in equities that stole the show. Equities rose by 11.0% over this period with stocks such as BT and BAE rising by over 35%. This isn't to say that our bonds didn't still have something to give. Pearl (something of a malcontent for the portfolio in years gone by) managed a return of 17.1%. The 12-month picture is similar if more balanced, with the major contributions coming from bonds issued by Pearl, Scottish Widows, Brit Insurance and Irish Life, all of which rose by over 50%. In equities, BT (up 63%), Standard Life (up 68%) and Chesnara (up 70%) were exceptionally strong too.

To reiterate a point we made in the interim report, it is traditional that, after a period of strong returns, managers provide a commentary detailing all of the cleverness and foresight they have deployed in achieving this superior return. In truth, the chief contribution we made to returns this year was to leave the portfolio well alone: "It was the market wot done it!" If there was any skill on our part, it was in putting these bonds into the portfolio some years ago and, perhaps more importantly, sticking with them during that torrid period when the credit crunch was at its most extreme.

We have long felt that the bonds in the portfolio had attractive yields and were less risky than the market perceived them to be. In nearly every case, the bonds had good (if not quite perfect) parents. These are sensible businesses with solid cashflows and reputations to defend. We were therefore comforted that they would pay the interest on their bonds and honour their debts. The bonds that we owned in these entities were 'junior' and therefore higher yielding. (To non-bond experts, we should explain that if a troubled issuer has to man the lifeboats, a junior bond will be towards the back of the queue for a seat on board). But while companies such as BUPA, Society of Lloyds, Scottish Widows and Standard Life were challenged by the credit crisis, the degree to which they were threatened was overstated. So, at the core of the fund's recent performance has been the market's gradual realisation that the interest and principal on these bonds is more assured than previously thought.

But (as The Animals sang back in the 1960's) "Lord, don't let me be misunderstood." The fund's return has not only been driven by decent bonds that have been mispriced. The portfolio has also benefited from owning bonds of more troubled parentage. These were situations where we owned junior paper and the impact of the credit crisis was such that, to extend our earlier analogy, even as the lifeboats were about to be lowered, our bonds didn't entitle us to a place in the queue – let alone a seat on the boat. For example, at the nadir of the crisis our Pearl bonds were priced at 10 pence per bond. They are priced at 80 pence today. Similarly, the credit crisis was a genuine threat to the future of Irish Life. Today, its bonds sell at over twice the price they did at their lows. They are not, perhaps, as impaired as people thought.

After this strong year, we would like to convey two messages to unitholders. First (and to reiterate a point we have

* Source: Lipper Limited, R distribution, bid to bid basis, in sterling with net income reinvested. Benchmark is the FTSE A British Government All Stocks Index. Sector is IMA £ Strategic Bond.

made in our reports for the past 10 years,) the higher yield on this fund reflects the fact that our bond holdings are more risky than average. Our job is to work out where investors are getting worried about risk with good reason – and where a dose of junior aspirin will cure the hyperventilation. We will not always be right. Indeed, the portfolio does contain some holdings that are little more than a rusting chassis propped up on a pile of bricks – where there is no value left.

Our second message is that the strong recent performance from some of the fund's 'comeback kids' should be regarded as a victory lap. We have therefore sold out of the likes of BUPA and Irish Life and reduced our holding in Society of Lloyds. They reached their fair value and we realised that. Unlike equities, par value is where a bond both begins and ends its life. At present, there are very few opportunities in the markets that can offer the prospect of anything like the returns that these bonds have given us over the last two years. So, future returns from this part of the fund could be pedestrian at best.

One distinctive feature of the fund is our preparedness to own equities. If we get this right, equities have the ability to boost capital returns, contribute to income and, most importantly, provide a rising income stream in a way that a bond cannot. We have had a fair measure of success here of late, with stocks such as Standard Life and BT doing very well. Using the flexibility to hold up to 20% in equities is a powerful adjunct to the bond weightings – providing that we get it right.

The flip side of this benign environment is that we had little to report in terms of problems. In general, the thirst for yield and the relative health of the corporate sector meant that there were few companies struggling to service their debt or to refinance. We have, however, taken some pain in our junior Co-Op preference shares. These more than halved in value as the Co-Op attempted to address the regulator's demand that its bank had enough capital. It was not as if we were totally surprised by the situation – we successfully sold our more senior Co-Op bonds in April and, while we tried to sell the junior bonds at the same time, were defeated by illiquidity.

Naturally, the situation at the Co-Op is highly unsatisfactory and it is right that questions were being asked as to how long its problems had been brewing for. Notwithstanding this, we appreciated that the Co-Op was one of the fund's higher risk positions; it was not for nothing that we were receiving a 9.25% yield. We await proposals from the bank and are alive to valid criticisms of the whole affair. This is an important factor because it is unusual to have such a strong bias towards outperformance without there being any problems at all in the portfolio.

Turning to the income that unit holders will receive from the portfolio, sustaining the yield has become more challenging as interest rates have fallen to rock bottom levels and bond yields have moved lower. To take one example, when a bond yielding 7% matures, lower rates mean we have only been able to reinvest at 6%, eroding the income on the portfolio. However, looking at the interim distribution, which was slightly up on the same period a year ago, and at our internal forecasts for the year ahead, we feel that the income can stabilise at or around its current level.

Outlook – A grizzly prospect: central bankers and inflation …

A year ago, we wrote that "not only is our yield safe but there is real value in our coupons" and "the portfolio should give a decent return." Those comments proved to be prescient, but after a strong year, we are now more cautious. The portfolio and the market have done well and yields (given the creditworthiness of the underlying entities) now seem fair rather than cheap.

More broadly, higher interest rates and inflation are coming our way – we just don't know when. It may not happen for two or three years, but if you are buying a 30-year bond it is certain that it will happen well before it matures. Why is inflation coming back? Because so few people in positions of responsibility care about it. Today's central bank governors may worry about it a little bit, late at night. But they can pour themselves a stiff whisky to help them sleep and, during the working day, go back to doing what politicians want them to do: create growth and employment, and preferably before the next election (at which point, knighthoods all round).

"But central bank governors are independent!" We hear you cry. They may well have been – once. But they are not anymore. When George Osborne interviewed Mark Carney, the Canadian, for the position of Governor of the Bank of England, what do you think they talked about? Hiking in the Rockies? The incidence of grizzly bears (in the Rockies, that is – not the Bank of England)? Of course not. And when was the last time you interviewed and appointed somebody whose views contradicted yours?

The Bank of England isn't alone, of course: all the other central bank appointees in recent years are subject to similar pressures. Of the 21 notable central banks in the world, only three retain the same bosses who were incumbent at the time of the Lehman Brothers crisis.

At current valuation levels, the portfolio should be capable of returning the coupon on the bonds with the possibility of modest capital appreciation. There is, however, some risk to values after recent strong performance – particularly if inflation were to return. But in an inflationary environment, we feel our portfolio is less vulnerable than so called 'safe' government bonds which, at current valuations, may actually be regarded as risky assets.

Adrian Frost and Adrian Gosden
Fund managers

Investment information

Five largest purchases and sales for the year ended 7 August 2013

Purchases	Cost £'000	Sales	Proceeds £'000
Treasury 5% 2014	57,899	First Hydro Finance 9% 2021	19,440
Vodafone Group	20,076	Royal Dutch Shell (B shares)	17,913
Royal Dutch Shell (B shares)	18,119	BUPA Finance 6.125% Perpetual	12,066
Investec Bank 9.625% 2022	13,560	BT Group	11,264
Eurofins Scientific FRN Perpetual	10,515	Eurofins Scientific 8.081% Perpetual	9,717

Portfolio statement as at 7 August 2013

Investment	Holding or nominal value	Valuation £'000	% of net assets
UK bonds – 51.08% (47.00%)			
AA Bond 9.5% 2043	£7,000,000	7,476	1.10
Aberdeen Asset Management 7% Perpetual	$9,900,000	6,574	0.97
Afren 10.25% 2019	$7,500,000	5,570	0.82
Alliance Pharma 8% 2013	£750,000	1,144	0.17
Anglian Water (Osprey) Financing 7% 2018	£4,000,000	4,313	0.64
Arqiva Broadcast 9.5% 2020	£4,950,000	5,331	0.79
Ashpol 10.75% 2025 +	£3,000,000	–	–
BAA 7.125% 2017	£5,165,000	5,581	0.82
Bond Mission Critics FRN 2019	£5,750,000	5,654	0.83
Cattles 7.125% 2017	£6,000,000	135	0.02
Crown Newco 3 7% 2018	£7,500,000	7,683	1.13
Direct Line Insurance FRN 2042	£7,500,000	9,147	1.35
Enterprise Inns 6.875% 2025	£6,160,000	5,713	0.84
Equiniti Newco 2 7.125% 2018	£4,860,000	4,986	0.74
F&C Finance Asset Management 9% 2016	£14,579,000	15,724	2.32
Henderson UK Finance 7.25% 2016	£10,000,000	10,626	1.57
IGAS Energy 10% 2018	$9,500,000	6,396	0.94
Investec Bank 9.625% 2022	£12,000,000	12,993	1.92
Kelda Finance 5.75% 2020	£5,400,000	5,456	0.80
Kensington Group FRN 2015	£4,325,000	3,763	0.55
Kleinwort Benson Group FRN Perpetual	$3,500,000	1,075	0.16
LBG Capital No.1 7.975% 2024	£3,712,500	3,825	0.56
Legal & General Group 5.875% Perpetual	£6,800,000	7,185	1.06
Legal & General Group 10% 2041	£2,500,000	3,349	0.49
Lloyds TSB Bank 7.625% 2025	£9,000,000	10,315	1.52
Lloyds TSB Bank FRN 2021	€7,727,000	8,293	1.22
Marylebone Warwick Balfour 9.75% 2016	£1,865,000	746	0.11
Nottingham Building Society 7.875% Perpetual	£2,500,000	2,450	0.36
Pearl Group Holdings 6.5864% Perpetual	£15,544,800	13,010	1.92
Pennon Group 6.75% Perpetual	£6,200,000	6,429	0.95
Pipe Holdings 9.5% 2015	£5,500,000	5,820	0.86
Provident Financial 8% 2019	£2,000,000	2,177	0.32
Rivington Street 0% 2013	£7,986	8	–
Rivington Street 8% 2015	£125,000	124	0.02
RSA Insurance Group 6.701% Perpetual	£13,771,000	14,393	2.12
RSA Insurance Group 9.375% 2039	£2,500,000	3,109	0.46

Investment	Holding or nominal value	Valuation £'000	% of net assets
Scottish Widows 5.125% Perpetual	£16,575,000	15,970	2.35
Skipton Building Society 6.875% Perpetual	£5,000,000	3,525	0.52
Society of Lloyd's 7.421% Perpetual	£7,700,000	8,186	1.21
Spirit 'A5' FRN 2034	£5,000,000	4,358	0.64
Standard Life 6.546% Perpetual	£8,000,000	8,566	1.26
Taylor Wimpey 10.375% 2015	£5,500,000	5,926	0.87
Thames Water Kemble Finance 7.75% 2019	£5,250,000	5,727	0.84
Thomas Cook Finance 7.75% 2020	€10,000,000	8,880	1.31
Treasury 5% 2014	£54,906,000	57,644	8.49
Tullett Prebon Group 7.04% 2016	£13,244,000	13,356	1.97
Vougeot Bidco 7.875% 2020	£3,400,000	3,515	0.52
Voyage Care Bondco 6.5% 2018	£3,950,000	4,006	0.59
West Bromwich Building Society 6.15% Perpetual	£2,800,000	392	0.06
		346,624	**51.08**
Overseas bonds – 21.39% (26.37%)			
Bermuda – 1.20% (1.29%)			
Catlin Insurance 7.249% Perpetual	$12,000,000	8,118	1.20
		8,118	**1.20**
France – 0.88% (1.62%)			
EDF 6% Perpetual	£5,900,000	5,974	0.88
		5,974	**0.88**
Germany – 2.40% (2.31%)			
EPIC II GMBH 0.825% 2042	€5,500,000	2,591	0.38
EPIC II GMBH 1.125% 2044	€2,500,000	1,178	0.17
RWE FRN Perpetual	£11,800,000	12,543	1.85
		16,312	**2.40**
Guernsey – 1.22% (1.51%)			
Rothschild Continuity Finance 9% Perpetual	£7,557,000	8,257	1.22
		8,257	**1.22**
Ireland – 2.06% (3.55%)			
ESB Finance 6.5% 2020	£5,130,000	5,735	0.85
Mutual Securitisation 7.5873% 2022	£4,350,001	2,610	0.38
Smurfit Kappa Acquisitions 7.75% 2019	€6,000,000	5,631	0.83
Waterford 9.875% 2010 +	€2,000,000	–	–
		13,976	**2.06**
Israel – 0.37% (0.48%)			
Government of Israel 6.875% 2034	£2,000,000	2,548	0.37
		2,548	**0.37**
Italy – 0.91% (0.00%)			
Romulus Finance FRN 2015	€7,500,000	6,164	0.91
		6,164	**0.91**
Jersey – 1.58% (0.80%)			
CPUK Finance 11.625% 2042	£4,100,000	4,654	0.69
Elan 4.691% 2017	€7,500,000	6,067	0.89
		10,721	**1.58**
Luxembourg – 1.69% (0.00%)			
Eurofins Scientific FRN Perpetual	€12,500,000	11,456	1.69
		11,456	**1.69**

Investment information (continued)

Investment	Holding or nominal value	Valuation £'000	% of net assets
Netherlands – 5.97% (9.48%)			
ASR Nederland 10% Perpetual	€1,150,000	1,194	0.18
Brit Insurance Holdings 6.625% 2030	£9,000,000	7,965	1.17
Cable & Wireless International Finance 8.625% 2019	£7,910,000	8,780	1.30
Carlson Wagonlit 7.5% 2019	€4,000,000	3,610	0.53
Highbury Finance 7.017% 2023	£6,183,787	7,336	1.08
Rothschild Continuity Finance FRN Perpetual	$8,400,000	2,396	0.35
Ziggo Bond 8% 2018	€10,000,000	9,211	1.36
		40,492	**5.97**
USA – 3.11% (2.69%)			
Lynx I 6% 2021	£7,500,000	7,675	1.13
Zurich Reinsurance 7.125% 2023	$18,250,000	13,454	1.98
		21,129	**3.11**
UK preference shares – 6.98% (7.77%)			
Aviva 8.75% (Cum Irr)	2,000,000	2,320	0.34
Balfour Beatty 9.675%	2,425,000	2,837	0.42
Co-Operative Bank 9.25% (Non-Cum Irr)	4,250,000	2,019	0.30
Ecclesiastical Insurance Group 8.625% (Non-Cum Irr)	4,200,000	4,840	0.71
General Accident 7.875% (Cum Irr)	700,000	725	0.11
General Accident 8.875% (Non-Cum Irr)	7,000,000	8,155	1.20
Hampton Trust 5.5% (Conv Cum Red) +	200,000	–	–
Investec (Non-Red Non-Cum Non-Ptg)	600,000	2,190	0.32
Investec (Non-Red Non-Cum Non-Ptg) ‡	1,000,000	3,325	0.49
Premier Farnell 0.892% (Cum Conv Red)	587,756	8,963	1.32
RSA Insurance Group 7.375% (Cum Irr)	5,350,000	5,698	0.84
Standard Chartered 7.375% (Non-Cum Irr)	2,152,500	2,368	0.35
Standard Chartered 8.25% (Non-Cum Irr)	3,250,000	3,916	0.58
Wagon Industrial 7.25% (Conv Ptg) +	1,925,000	–	–
		47,356	**6.98**
UK equities – 16.80% (10.69%)			
Aberforth Geared Capital & Income (income shares)	4,767,099	6,591	0.97
BAE Systems	3,081,229	13,838	2.04
BT Group	2,394,658	7,864	1.16
Chesnara	3,435,416	8,846	1.30
Direct Line Insurance Group	2,716,000	6,051	0.89
Doric Nimrod Air Three (preferred)	5,000,000	5,425	0.80
Drax Group	1,074,810	7,191	1.06
Halfords Group	1,699,237	6,224	0.92
Lloyds Banking Group	14,163,922	10,420	1.53
New Finsaga +	135,817	–	–
RSA Insurance Group	7,717,200	9,407	1.39
SSE	519,847	8,182	1.21
Standard Life	2,348,233	9,152	1.35
Vodafone Group	7,464,798	14,814	2.18
		114,005	**16.80**

Investment	Holding or nominal value	Valuation £'000	% of net assets
Overseas equities – 2.96% (2.28%)			
Denmark – 1.59% (0.00%)			
TDC	1,995,148	10,819	1.59
		10,819	**1.59**
Guernsey – 0.50% (0.53%)			
Caliber Global Investment +	710,000	–	–
Greenwich Loan Income Fund #	6,904,676	3,418	0.50
		3,418	**0.50**
Ireland – 0.63% (0.79%)			
Carador Income Fund	6,834,900	4,303	0.63
		4,303	**0.63**
Isle of Man – 0.24% (0.00%)			
Redefine International	3,796,727	1,661	0.24
Speymill Deutsche Immobilien +	5,803,310	–	–
		1,661	**0.24**
Jersey – 0.00% (0.12%)			
ACP Mezzanine +	6,450,000	3	–
		3	**–**
Forward foreign exchange contracts – (0.09)% (0.13%)			
Sold Danish Krone – 25 September 2013	(83,950,000)	(9,696)	(1.43)
Bought Sterling – 25 September 2013	9,631,583	9,632	1.41
Sold Euro – 25 September 2013	(70,020,000)	(60,287)	(8.88)
Bought Sterling – 25 September 2013	59,887,820	59,888	8.83
Sold South African Rand – 25 September 2013	(61,170,000)	(3,963)	(0.59)
Bought Sterling – 25 September 2013	3,844,920	3,845	0.57
Sold Sterling – 25 September 2013	(619,041)	(619)	(0.09)
Bought South African Rand – 25 September 2013	9,380,000	607	0.09
Sold Sterling – 25 September 2013	(1,472,054)	(1,472)	(0.22)
Bought US Dollar – 25 September 2013	2,260,000	1,464	0.22
Sold US Dollar – 25 September 2013	(71,760,000)	(46,473)	(6.85)
Bought Sterling – 25 September 2013	46,457,126	46,457	6.85
		(617)	**(0.09)**
Portfolio of investments †		672,719	99.12
Net other assets		5,972	0.88
Net assets attributable to unitholders		678,691	100.00

All equity holdings are listed ordinary shares unless otherwise stated.
The figures in brackets represent percentages as at 7 August 2012. At this date the portfolio included an exposure to Overseas bonds – South Africa (1.32%) and Sweden (1.32%) and Overseas equities – Norway (0.84%).
Alternative Investment Market traded investments: 0.50% (2012: 0.53%).
+ Unquoted investments: 0.00% (2012: 0.00%).
† Includes derivative liabilities.
‡ Traded on the Johannesburg Stock Exchange.

Investment information (continued)

Credit rating analysis as at 7 August 2013

	Valuation £'000	% of net assets
Bonds		
AA	57,644	8.49
A	2,548	0.37
BBB	168,912	24.90
BB	116,569	17.17
B	84,137	12.41
CCC	2,610	0.38
C	135	0.02
Unrated	59,216	8.73
	491,771	72.47
Equities	134,209	19.76
Preference shares	47,356	6.98
Forward foreign exchange contracts	(617)	(0.09)
Net other assets	5,972	0.88
Net assets attributable to unitholders	678,691	100.00

Source of credit ratings: Artemis Investment Management LLP.

Statement of total return for the year ended 7 August 2013

		7 August 2013		7 August 2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	4		84,732		7,409
Revenue	6	40,473		38,096	
Expenses	7	(8,006)		(7,162)	
Finance costs: interest	9	(3)		–	
Net revenue before taxation		32,464		30,934	
Taxation	8	(70)		(75)	
Net revenue after taxation			32,394		30,859
Total return before distributions			**117,126**		**38,268**
Finance costs: distributions	9		(39,915)		(37,601)
Change in net assets attributable to unitholders from investment activities			77,211		667

Statement of change in net assets attributable to unitholders for the year ended 7 August 2013

	7 August 2013		7 August 2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		532,671		572,981
Amounts receivable on issue of units	93,455		26,695	
Amounts payable on cancellation of units	(24,540)		(67,610)	
		68,915		(40,915)
Stamp duty reserve tax		(107)		(62)
Change in net assets attributable to unitholders from investment activities		77,211		667
Unclaimed distributions		1		–
Closing net assets attributable to unitholders		678,691		532,671

Balance sheet as at 7 August 2013

		7 August 2013		7 August 2012	
		£'000	£'000	£'000	£'000
Assets					
Investment assets			673,336		502,206
Debtors	10	15,445		11,500	
Cash and bank balances	11	5,487		33,710	
Total other assets			20,932		45,210
Total assets			**694,268**		**547,416**
Liabilities					
Derivative liabilities			617		205
Creditors	12	6,273		6,980	
Distribution payable on income units		8,687		7,560	
Total other liabilities			14,960		14,540
Total liabilities			**15,577**		**14,745**
Net assets attributable to unitholders			678,691		532,671

Notes to the financial statements

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 Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

(b) Valuation of investments. All investments have been valued at 12 noon on the last working day of the accounting period. Listed investments are valued at fair value which is deemed to be the bid or SETS price. Unquoted investments are valued at fair value which is determined by the investment manager, with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Guidelines Board.

(c) Foreign exchange rates. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at 12 noon on the last working day of the accounting period. Revenue and expenditure transactions are translated at the rates of exchange ruling on the dates of the transactions. Exchange differences on such transactions follow the same treatment as the principal amounts.

(d) Derivatives. Where appropriate, certain permitted transactions such as derivatives or forward foreign currency transactions are used for efficient portfolio management and investment purposes. Derivatives are valued at 12 noon on the last working day of the accounting period. Exchange traded derivatives are priced at fair value, which is deemed to be the bid price. Over-the-counter derivatives are priced at fair values using valuation models or data sourced from market data providers. Returns on derivative instruments are recognised as either revenue or capital depending on the nature and circumstances of each particular case. Any positions on such transactions open at the year end are reflected in the balance sheet at their marked to market value.

(e) Revenue. Interest from debt securities is recognised on an effective interest rate basis inclusive of any expected changes to future cash flows. Dividends receivable from equity and non-equity shares are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends on unquoted stocks are credited to revenue, net of attributable tax credits, when the dividend is declared. Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. Special dividends are reviewed on a case by case basis when determining if a dividend is to be treated as revenue or capital. It is likely that where a special dividend results in a significant reduction in the capital value of a holding, then the dividend will generally be treated as capital, otherwise this will be recognised as revenue. Premiums arising on written call options are treated as revenue and are amortised on a straight-line basis over the life of the option, unless the option has the immediate effect of generating a capital loss, in which case the premiums are taken to capital. Bank interest is recognised on an accruals basis. Underwriting commission is recognised when the issue underwritten takes place.

(f) Expenses. All expenses (other than those relating to the purchase and sale of investments) are charged against revenue on an accruals basis.

(g) Taxation. Corporation tax is charged at a rate of 20% on the excess taxable revenue of the fund. In general, the tax accounting treatment follows that of the principal amount. Deferred tax is provided for all timing differences that have originated but not reversed at the balance sheet date other than those recorded as permanent differences. Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

2. Distribution policy

The distribution policy of the fund is to distribute all available revenue, after deduction of expenses properly chargeable against revenue excluding the annual management charge. The investment objective of the fund concentrates on the generation of revenue as a higher priority than capital growth. The manager and the trustee have agreed that 100% of the annual management charge is to be transferred to capital for the purpose of calculating the distribution, as permitted by the Collective Investment Schemes Sourcebook. The distribution currently payable reflects this treatment. The manager may from time to time, smooth the distribution payments during the accounting period with the balance of revenue (if any) being paid in respect of the final distribution. Gains and losses on non-derivative investments and currencies, whether realised or unrealised, if taken to capital and are not available for distribution. The fund holds instruments in order to comply with the qualifying instruments test of section 468L, Income and Corporation Taxes Act 1988. In satisfying these requirements, the fund pays interest distributions. With the exception of the manager's annual management charge, which is directly attributable to each unit class, all income and expenses are apportioned to each unit class pro-rata to the value of the net assets of the relevant unit class on the day that the income or expense is recognised.

Distributions which have remained unclaimed by unit holders for six years are credited to the capital property of the fund.

3. Risk management policies

The fund's financial instruments comprise, fixed interest investments, floating rate investments, equities, derivatives, cash balances and liquid resources which include debtors and creditors. The fund holds such financial assets in accordance with its investment objective and policy as set out on page 1. The fund is exposed to a number of risks that are associated with the financial instruments and markets in which it invests. The most significant risks to which the fund is exposed to are market risk, credit and counterparty risk and liquidity risk.

(a) Market risk. Market risk, which includes interest rate risk, currency risk and other price risk, arises mainly from uncertainty about future values of financial instruments in the fund's investment portfolio. The fund, in order to meet its investment objective and policy, invests predominantly in bonds and equities and maintains an appropriate spread of investments in accordance with the Collective Investment Schemes Sourcebook, the Trust Deed and the Prospectus. The manager's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long-term investments. There is no material difference between the carrying values and the fair values of the financial assets and liabilities of the fund disclosed in the balance sheet.

(i) Interest rate risk. Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, governments' fiscal positions, short-term interest rates and international market comparisons. As part of the ongoing review of the portfolio, the manager monitors and reviews these factors.

(ii) Currency risk. A portion of the net assets of the fund is denominated in currencies other than sterling, and therefore the balance sheet and total return can be affected by currency movements (see note 15). Therefore, the manager may decide that a proportion of the investments that are not priced in sterling, may be covered by forward foreign exchange contracts, so that the fund's exposure to currency risk is reduced. The unrealised loss of £617,000 arising on open forward foreign exchange contracts as at 7 August 2013 (2012: unrealised gain of £698,000) is shown in the portfolio statement on page 9.

Revenue received in foreign currencies is converted into sterling on or near the date of receipt. No hedging is undertaken with regard to managing the currency movement risk on accrued revenue.

(iii) Other price risk. Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those relating to interest rate risk, currency risk and credit risk), whether caused by factors specific to an investment or wider issues affecting the market generally.
The value of equities is dependent on a number of factors, arising from the performance of the company itself and matters arising in the wider market (for example the state of the underlying economy and current government policy). The portfolio is invested in securities domiciled in a number of countries as detailed in the portfolio statement and will be exposed to market movements in the relevant country arising from changes in the local economy and government decisions. As part of the ongoing review of the portfolio, the manager monitors and reviews these factors.

Returns from bonds are fixed at the time of purchase, the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond, the yield (and hence market price) at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date may have a different price to its purchase level and a gain or loss may be realised.

Bond investments are exposed to credit rating risk which reflects the ability of a bond issuer to meet its obligations (i.e. pay interest on a bond and return the capital on the redemption date). Generally, the higher the credit rating of the bond issuer, the rate at which they can borrow money may be lower than a bond issuer with a lower credit rating reflecting the potentially higher risk. Additionally, the credit rating of a bond is likely to impact upon the market price of a bond with a higher credit rating reflecting the greater expectation that the bond will be redeemed by the issuer on the maturity date at the nominal amount. An element of the market price of a bond will reflect this.

(b) Credit and counterparty risk. Credit and counterparty risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment it has entered into with the fund, resulting in a financial loss. From time to time, the fund may be subject to short-term credit risk with counterparties pending settlement of investment transactions. The manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis. The largest counterparty risk is with JP Morgan, the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JP Morgan may cause the fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The trustee receives and reviews an annual report on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments.

JP Morgan is the counterparty for the forward foreign exchange contracts. Aside from the custodian, the derivative counterparties and brokers where trades are pending settlement, there were no significant concentrations of credit risk as at 7 August 2013 or 7 August 2012.

Notes to the financial statements (continued)

(c) Liquidity risk. Some of the fund's financial instruments can include securities that are traded on AIM or are not listed on a recognised stock exchange and which may not always be readily realisable. As a result, the fund may not be able to realise these investments quickly at their fair value to respond to specific events such as deterioration in the creditworthiness of any particular issuer. These holdings are disclosed in the portfolio statement on pages 6 to 9. In order to manage liquidity requirements, the fund seeks to maintain sufficient cash to pay creditors. The fund's overall liquidity risk is managed by the manager in accordance with the requirements stipulated in the Collective Investment Schemes Sourcebook and the Prospectus.

(d) Derivatives. The manager is currently empowered to enter into derivative transactions on behalf of the fund. Transactions will normally only be entered into when conventional stock selection is not the best way to either limit investment risk or maximise investment opportunities. The unrealised loss of £617,000 arising on open forward foreign exchange contracts as at 7 August 2013 (2012: unrealised gain of £698,000) is shown in the portfolio statement on page 9.

4. Net capital gains

	7 August 2013 £'000	7 August 2012 £'000
Non-derivative securities	90,702	1,221
Currency losses	(810)	(1,156)
Forward foreign exchange contracts	(5,160)	7,344
Net capital gains	84,732	7,409

5. Portfolio transaction costs

	7 August 2013		7 August 2012	
	£'000	£'000	£'000	£'000
Analysis of total purchases costs				
Purchases before transaction costs		321,785		104,333
Commissions	122		77	
Taxes	426		130	
Total purchases costs		548		207
Gross purchases total		322,333		104,540
Analysis of total sales costs				
Gross sales before transaction costs		238,176		173,750
Commissions	(94)		(120)	
Total sales costs		(94)		(120)
Total sales net of transaction costs		238,082		173,630

6. Revenue

	7 August 2013 £'000	7 August 2012 £'000
Interest on debt securities	29,240	29,602
UK dividends	9,221	6,605
Overseas dividends	1,930	1,793
Bank interest	82	96
Total revenue	40,473	38,096

7. Expenses

	7 August 2013 £'000	7 August 2012 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	7,521	6,742
Payable to the trustee, associates of the trustee and agents of either of them:		
Trustee fee	79	73
Other expenses:		
Registration fee	160	148
Administration fee	116	130
Operational fees	85	23
Safe custody fees	30	29
Auditor's remuneration: audit fee*	9	9
Printing and postage fee	6	8
Total expenses	8,006	7,162

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amount disclosed above include VAT at the rate of 20%. The audit fee (excluding VAT) accrued during the period was £7,350 (2012: £7,250).

8. Taxation

	7 August 2013 £'000	7 August 2012 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	70	75
Total taxation (note 8b)	70	75
b) Factors affecting the tax charge for the year		
Net revenue before taxation	32,464	30,934
Corporation tax at 20% (2012: 20%)	6,493	6,187
Effects of:		
Irrecoverable overseas tax	70	75
Tax deductible interest distributions	–	(5,888)
Non-taxable overseas dividends	(386)	(310)
Non-taxable UK dividends	(1,844)	(1,321)
(Utilised)/unutilised management expenses	(4,263)	1,332
Tax charge for the year (note 8a)	70	75

c) Provision for deferred tax

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

d) Factors that may affect future tax charges

The fund has not recognised a deferred tax asset of £14,899,000 (2012: £19,162,000) arising as a result of having unutilised management expenses of £74,495,000 (2012: £95,810,000).

Notes to the financial statements (continued)

9. Finance costs: distribution and interest

	7 August 2013 £'000	7 August 2012 £'000
First interim distribution	9,783	9,309
Second interim distribution	8,727	8,868
Third interim distribution	11,084	9,824
Final distribution	**10,859**	**9,450**
	40,453	**37,451**
Add: amounts deducted on cancellation of units	144	420
Deduct: amounts added on issue of units	(682)	(270)
Finance costs: distributions	39,915	37,601
Finance costs: interest	3	–
Total finance costs	39,918	37,601
Movement between net revenue and distributions		
Net revenue after taxation	32,394	30,859
Annual management charge paid from capital	7,521	6,742
	39,915	37,601

The distributions take account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distribution per unit are set out in the distribution tables on pages 19 and 20.

10. Debtors

	7 August 2013 £'000	7 August 2012 £'000
Accrued revenue	12,832	11,168
Amounts receivable for issue of units	2,301	5
Overseas withholding tax recoverable	312	321
Income tax recoverable	–	6
Total debtors	15,445	11,500

11. Cash and bank balances

	7 August 2013 £'000	7 August 2012 £'000
Amounts held in JP Morgan Liquidity Fund	2,754	33,645
Cash and bank balances	2,733	65
Total cash and bank balances	5,487	33,710

12. Creditors

	7 August 2013 £'000	7 August 2012 £'000
Income tax payable	5,299	3,504
Accrued annual management charge	833	679
Accrued other expenses	132	97
Accrued trustee fee	9	7
Purchases awaiting settlement	–	2,266
Amounts payable for cancellation of units	–	427
Total creditors	6,273	6,980

13. Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

14. Related party transactions

The manager and trustee are deemed to be related parties. All transactions and balances associated with the manager and trustee are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 11 and notes 7, 10 and 12 on pages 15 and 16 including all issues and cancellations where the manager acted as principal. The balance due from the manager as at 7 August 2013 in respect of these transactions was £1,468,000 (2012: due to the manager £1,101,000). The balance due to the trustee as at 7 August 2013 in respect of these transactions was £9,000 (2012: £7,000).

15. Risk disclosures

Currency risk

Currency	Investments £'000	Net other assets/ £'000	Forward foreign exchange contracts £'000	Total £'000
7 August 2013				
Euro	64,278	1,492	(60,287)	5,483
US Dollar	47,886	703	(45,009)	3,580
Danish Krone	10,819	64	(9,696)	1,187
Norwegian Krone	–	103	–	103
Swiss Franc	–	98	–	98
South African Rand	3,325	–	(3,356)	(31)
7 August 2012				
Euro	58,663	1,638	(55,786)	4,515
US Dollar	44,899	1,106	(42,948)	3,057
Norwegian Krone	4,477	41	(3,852)	666
Swiss Franc	–	237	–	237
South African Rand	3,137	–	(2,975)	162

Interest rate risk *

Currency	Floating rate financial assets † £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
7 August 2013				
UK Sterling	19,355	370,130	176,015	565,500
Euro	21,389	42,886	1,495	65,770
US Dollar	3,386	40,112	5,091	48,589
Danish Krone	–	–	10,883	10,883
South African Rand	–	–	3,325	3,325
Norwegian Krone	–	–	103	103
Swiss Franc	–	–	98	98
7 August 2012				
UK Sterling	36,694	288,237	107,393	432,324
Euro	138	58,660	1,502	60,300
US Dollar	2,646	38,143	5,217	46,006
Norwegian Krone	–	–	4,518	4,518
South African Rand	–	–	3,137	3,137
Swiss Franc	–	–	237	237

* The forward foreign exchange contracts for US Dollars, Euros, Danish Krone and South African Rand are not included within this table. These can be found in the portfolio statement on page 9.
† Includes cash and bank balances as at 7 August 2013.

Notes to the financial statements (continued)

Fixed rate financial assets

Currency	7 August 2013 Weighted average interest rate (%)	7 August 2013 Weighted average period for which rate is fixed (years)	7 August 2012 Weighted average interest rate (%)	7 August 2012 Weighted average period for which rate is fixed (years)
Euro bonds non-perpetual	7.95	6.12	7.22	6.89
Euro bonds perpetual	10.00	–	6.96	–
UK bonds non-perpetual	5.11	7.77	7.19	8.99
UK bonds perpetual	6.62	–	6.82	–
US bonds non-perpetual	6.72	7.80	7.21	8.55
US bonds perpetual	6.60	–	7.49	–

The benchmark rate for determining interest payments for floating rate instruments is usually based on an accepted benchmark such as the London Interbank Offer Rate ("LIBOR"). There is no interest rate risk associated with other short-term creditors or debtors at 7 August 2013 or 7 August 2012. The fund does not have any long-term financial liabilities.

Credit and counterparty risk

At the reporting date, the fund's financial assets exposed to counterparty risk amounted to the following.

	7 August 2013 £'000	7 August 2012 £'000
Investment in fixed rate instruments	453,128	385,040
Investment in non-interest bearing instruments	184,178	122,004
Investment in floating rate instruments	38,643	39,478
Accrued revenue	12,832	11,168
Cash and bank balances	5,487	33,710

16. Unit classes

The fund currently has two unit classes: R distribution and I distribution. The annual management charge on each unit class is as follows:

R distribution: 1.250%
I distribution: 0.625%

The net asset value per unit and the number of units in each class are given in the comparative tables on page 21. The distribution per unit class is given in the distribution tables on pages 19 and 20. All classes have the same rights.

17. Post balance sheet event

Since 7 August 2013, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p)		
	20 September 2013	7 August 2013	Movement
R distribution	77.47	76.97	0.6%
I distribution	80.67	80.10	0.7%

Distribution tables

For the year ended 7 August 2013.

First interim interest distribution for the three months ended 7 November 2012.

Group 1 – Units purchased prior to 8 August 2012.
Group 2 – Units purchased from 8 August 2012 to 7 November 2012.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 January 2013	Distribution per unit (p) 6 January 2012
R distribution						
Group 1	1.2446	0.2489	0.9957	–	0.9957	0.8963
Group 2	0.5255	0.1051	0.4204	0.5753	0.9957	0.8963
I distribution						
Group 1	1.2875	0.2575	1.0300	–	1.0300	0.9214
Group 2	0.5793	0.1159	0.4634	0.5666	1.0300	0.9214

Second interim interest distribution for the three months ended 7 February 2013.

Group 1 – Units purchased prior to 8 November 2012.
Group 2 – Units purchased from 8 November 2012 to 7 February 2013.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 5 April 2013	Distribution per unit (p) 6 April 2012
R distribution						
Group 1	1.0829	0.2166	0.8663	–	0.8663	0.8671
Group 2	0.4293	0.0859	0.3434	0.5229	0.8663	0.8671
I distribution						
Group 1	1.1215	0.2243	0.8972	–	0.8972	0.8952
Group 2	0.3119	0.0624	0.2495	0.6477	0.8972	0.8952

Third interim interest distribution for the three months ended 7 May 2013.

Group 1 – Units purchased prior to 8 February 2013.
Group 2 – Units purchased from 8 February 2013 to 7 May 2013.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 5 July 2013	Distribution per unit (p) 6 July 2012
R distribution						
Group 1	1.3464	0.2693	1.0771	–	1.0771	0.9845
Group 2	0.6863	0.1373	0.5490	0.5281	1.0771	0.9845
I distribution						
Group 1	1.3941	0.2788	1.1153	–	1.1153	1.0155
Group 2	0.5121	0.1024	0.4097	0.7056	1.1153	1.0155

Distribution tables (continued)

Final interest distribution for the three months ended 7 August 2013.

Group 1 – Units purchased prior to 8 May 2013.
Group 2 – Units purchased from 8 May 2013 to 7 August 2013.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 October 2013	Distribution per unit (p) 5 October 2012
R distribution						
Group 1	1.2317	0.2463	0.9854	–	0.9854	0.9522
Group 2	0.6298	0.1260	0.5038	0.4816	0.9854	0.9522
I distribution						
Group 1	1.2789	0.2558	1.0231	–	1.0231	0.9872
Group 2	0.5404	0.1081	0.4323	0.5908	1.0231	0.9872

Equalisation applies only to units purchased during the distribution period (group 2 units). It is the average amount of revenue included in the purchase price of group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Comparative tables

Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
7 August 2011	572,981,222		
R distribution		66.79	848,648,893
I distribution		68.62	9,022,433
7 August 2012	532,671,057		
R distribution		67.10	787,239,404
I distribution		69.38	6,442,780
7 August 2013	678,690,857		
R distribution		76.97	829,813,940
I distribution		80.10	49,894,553

Net revenue distribution & unit price range

Year	Net revenue per unit (p)	Highest offer price (p)	Lowest bid price (p)
R distribution			
2008	4.7055	84.65	53.68
2009	3.9565	71.80	48.08
2010	4.1570	76.37	65.13
2011	3.7347	75.87	62.51
2012	3.7995	79.07	63.81
2013 **	2.9288	84.03	73.98
I distribution			
2008 *	3.1705	77.30	54.23
2009	4.0024	70.07	48.65
2010	4.2481	74.92	66.45
2011	3.8203	74.69	64.35
2012	3.9279	78.64	65.73
2013 **	3.0356	83.77	76.69

Net revenue includes all amounts paid and payable in each calendar year.
* From 7 March 2008.
** To 7 August 2013.

5 year distribution record (R distribution*) on an accounting period basis

Year ended	Net revenue per unit (p)	Movement
7 August 2009	4.2245	–
7 August 2010	4.0007	(5.3)%
7 August 2011	3.8944	(2.7)%
7 August 2012	3.7001	(5.0)%
7 August 2013	3.9245	6.1%

* R distribution units have been used as they represent the largest unit class of the fund.

Ongoing charges

Expense	7 August 2013
R distribution	
Annual management charge	1.250%
Other expenses	0.080%
Ongoing charges	1.330%
I distribution	
Annual management charge	0.625%
Other expenses	0.080%
Ongoing charges	0.705%

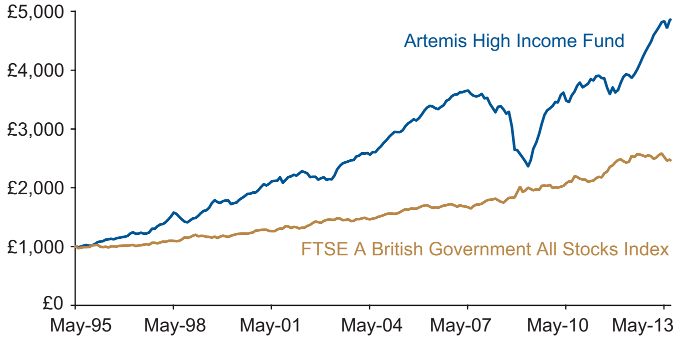
Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

Fund performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis High Income Fund	386.1	48.7	34.7	20.8	5.3
FTSE A British Government All Stocks Index **	146.7	36.5	16.1	(3.4)	(0.9)
Sector average	230.3	38.1	18.2	6.6	1.2
Position in sector	1/5	9/44	1/55	1/61	1/61
Quartile	1	1	1	1	1

* Data from 26 May 1995. Source: Lipper Limited, R distribution, bid to bid basis, in sterling with net income reinvested to 7 August 2013. All performance figures show total return percentage growth. Sector is IMA £ Strategic Bond.
** As FTSE A British Government All Stocks Index total return data is not available prior to 30 November 1998 capital return figures have been used until this date.

Value of £1,000 invested at launch to 7 August 2013



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