

CAZENOVE
INVESTMENT FUND
COMPANY



Annual Report
31st December 2013

Cazenove Investment Fund Company

Annual report

(audited)

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* These, together with the Authorised Corporate Director's investment report and Portfolio statement for each sub-fund, collectively comprise the Authorised Corporate Director's report.

Introduction

I have pleasure in presenting the annual report and financial statements for the Cazenove Investment Fund Company for the year ended 31 December 2013.

I hope you will find this report informative. In the following pages my colleagues have provided information on global economies, world markets and individual sub-fund performance.

Andrew Ross

Chairman

Cazenove Investment Fund Management Limited

On behalf of the Authorised Corporate Director

24 February 2014

General information

Cazenove Investment Fund Company

Cazenove Investment Fund Company ('CIFCo' or 'the Company') established as a UCITS Scheme is an umbrella company comprising a number of sub-funds which have their own investment objectives and policies. Its investment and borrowing powers and restrictions are prescribed by the Financial Conduct Authority's ('FCA') Collective Investment Schemes Sourcebook ('COLL') and the Open Ended Investment Companies Regulations 2001 (as amended) ('the OEIC Regulations'). At 31 December 2013 CIFCo had the following sub-funds:

Cazenove Managed Portfolio Fund

Cazenove UK Opportunities Fund

Cazenove UK Smaller Companies Fund

Cazenove UK Corporate Bond Fund

Cazenove European Fund

Cazenove UK Growth and Income Fund

Cazenove UK Equity Income Fund

Cazenove Strategic Bond Fund

Cazenove European Income Fund

This document has been designed to show the aggregated results of all the sub-funds followed by their individual financial statements and other information.

Pricing

Each sub-fund can have several share classes with different characteristics. As a consequence, each share class has a different price. There is a single price for buying, selling and switching shares in each share class of the sub-funds of CIFCo. This price is derived from the net asset value of each sub-fund attributable to the relevant share class.

Risk factors

Equities

Funds investing in equities tend to be more volatile than funds investing in bonds, but also offer greater potential for growth. The value of the underlying investments in the equity sub-funds may fluctuate quite dramatically in response to activities and results of individual companies, as well as in connection with general market and economic conditions.

Risk factors (continued)

Bonds

Funds investing partly or wholly in bonds will tend to be less volatile than pure equity funds, as bonds are generally considered to be more secure, usually include a condition to repay the original sum at a specified date in the future and normally provide a fixed level of revenue. However, the capital value of a bond fund and the level of its revenue will still fluctuate. Investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a greater risk of default and have a negative impact on revenue and capital value. Revenue payments may constitute a return of capital in whole or in part. Revenue may be achieved by foregoing future capital growth.

Certain sub-funds may invest in debt securities which are rated below investment grade or which are unrated. Shareholders should note that these securities may have a higher degree of risk than debt securities of investment grade. Investments in debt securities below investment grade may result in a sub-fund having a greater risk of loss of principal and interest than investments in debt securities which are deemed to be investment grade or higher.

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. High yield bonds with lower credit ratings (also known as sub-investment grade bonds) are potentially more risky (higher credit risk) than investment grade bonds. A sub-investment grade bond has a Standard & Poor's credit rating of below BBB or equivalent.

Currency exchange rates

Funds investing in overseas securities will be affected by currency fluctuations, in addition to usual stock market fluctuations. Currency fluctuations may adversely affect the value of a fund's investments and the revenue thereon and, depending on an investor's currency of reference, currency fluctuations may adversely affect the value of his investment in shares. A significant portion of a sub-fund's assets may be denominated in a currency other than the base currency of a sub-fund or class. There is the risk that the value of such assets and/or the value of any distributions from such assets may decrease if the underlying currency in which assets are traded falls relative to the base currency in which shares of the relevant sub-fund are valued and priced. Sub-funds are not required to hedge their foreign currency risk, although they may do so through foreign currency exchange contracts, forward contracts, currency options and other methods. To the extent that a sub-fund does not hedge its foreign currency risk or such hedging is incomplete or unsuccessful, the value of that sub-fund's assets and revenue could be adversely affected by currency exchange rate movements. There may also be circumstances in which a hedging transaction may reduce currency gains that would otherwise arise in the valuation of the sub-fund in circumstances where no such hedging transactions are undertaken.

Emerging markets

Funds investing in emerging markets around the world, which can be extremely volatile, involve a higher than average risk compared with funds covering established markets. For example, the systems and standards of trading, settlement, registration and custody of securities in these markets may not be as high as those of developed markets. In particular, some of the markets in which these funds may invest do not provide for settlement on a delivery versus payment basis and the risk in relation to such settlements has to be borne by the fund.

In addition, lack of liquidity and inefficiency in certain emerging stock markets and foreign exchanges may mean that securities are less marketable than in more developed markets, resulting in greater price fluctuation. Such markets can also experience significant currency volatility and, accordingly, the country may have exchange controls (types of controls that governments put in place to ban or restrict the amount of foreign or local currency that is allowed to be traded or purchased).

It should be remembered that the legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of shareholder protection or information to investors as would generally apply internationally. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liabilities and consolidation may be treated differently from international accounting standards.

Liquidity consideration

The ACD's ability to invest and to liquidate the assets of the sub-funds invested in smaller companies may, from time to time, be restricted by the liquidity of the market for smaller company securities.

Risk factors (continued)

Effect of preliminary charge

Where a preliminary charge is imposed, an investor who redeems his shares may not get back the amount originally invested (even if the value of the relevant investments has not fallen). The shares should therefore be viewed as a medium to long term investment.

Charges to capital

Where the Prospectus states that all or part of the ACD's fee and/or other charges in respect of a sub-fund and/or class may be charged against capital rather than revenue, this will enhance revenue returns but may constrain future capital growth and/or result in an erosion of capital. Details of whether charges are made to capital or revenue for each sub-fund are detailed in Appendix 1 of the Prospectus.

Liabilities of the Company

The sub-funds are segregated portfolios 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 Company, or any other sub-fund, and shall not be available for any such purpose. Subject to the above, each sub-fund will be charged with the liabilities, expenses, costs and charges attributable to that sub-fund and within each sub-fund charges will be allocated as far as possible according to the net asset value of that particular share class. Any assets, liabilities, expenses, costs or charges not attributable to a particular sub-fund may be allocated by the ACD in a manner which it believes is fair to the shareholders generally. This will normally be pro rata to the net asset value of the relevant sub-funds.

Shareholders are not liable for the debts of the Company.

Shareholders are not liable to make any further payment to the Company after they have paid the purchase price of the shares.

Credit and settlement risk

Sub-funds will be exposed to credit risk on parties with whom they trade and may also bear the risk of settlement default. The ACD may instruct the Custodian to settle transactions on a delivery versus payment basis where the ACD believes that this form of settlement is appropriate. Shareholders should be aware, however, that this may result in a loss to the sub-fund if a transaction fails to settle and the Custodian will not be liable to the sub-fund or shareholders for such a loss.

Inflation risk

Inflation erodes the real value of investments and changes in the anticipated rate of inflation could lead to capital losses in the sub-fund's investments.

Political risks

The value of the sub-fund's assets may be affected by uncertainties, such as political developments, changes in government policies, taxation and currency repatriation and restrictions on foreign investment in some of the countries in which the sub-fund may invest.

Derivative instruments

Funds may employ certain derivative instruments and forward transactions for efficient portfolio management.

The Cazenove Managed Portfolio Fund, Cazenove UK Smaller Companies Fund, Cazenove UK Corporate Bond Fund, Cazenove Strategic Bond and Cazenove European Income Fund may use derivative instruments and forward transactions for efficient portfolio management and to meet the investment objectives of those sub-funds. The use of derivative and forward transactions for investment purposes involves special risks which may:

- significantly raise the risk profile of the sub-fund;
- increase the volatility of the sub-fund when taking additional market or securities exposure;
- depend on the ability of the ACD to predict movements in the prices of securities;
- place some reliance on the imperfect correlation between instruments and the underlying securities; and
- involve investing in instruments not traded on exchanges and not standardised, which in turn may involve negotiations on transactions on an individual basis.

Risk factors (continued)

Volatility

The following generic risks are particularly relevant in terms of the use of derivatives and forward transactions in the Cazenove UK Corporate Bond Fund and the Cazenove Strategic Bond Fund:

- Market risk: the risk of loss due to adverse market movements in assets held by the sub-fund or changes in the anticipated or calculated volatility of these movements.
- Interest rate risk: the risk associated with changes in interest rates which will impact the market value of assets held in the sub-fund.
- Credit risk: the risk that issuers of bonds and other credit instruments default.
- Foreign exchange risk: investing in overseas securities will be affected by currency fluctuations, in addition to usual stock market fluctuations. Where an asset is held in a currency denomination other than Sterling, the assets value will be affected by changes in exchange rates between the United Kingdom and the currency of the country in which the security is held.

Taxation

Derivatives held in the Cazenove UK Corporate Bond Fund and the Cazenove Strategic Bond Fund will be accounted for and taxed in accordance with the Statement of Recommended Practice for Financial Statements of Authorised Funds. The way in which HM Revenue & Customs taxes derivatives held in collective investment schemes may change, which could adversely affect the tax paid by these sub-funds.

Minimum subsequent Investment

With effect from 1 October 2013 the X class shares minimum subsequent investment was reduced from £500,000 to £100,000.

Director's report

The Authorised Corporate Director ("ACD") presents its report and financial statements of the Company for the year ended 31 December 2013.

Authorised status

CIFCo is an investment company with variable capital under Regulation 12 of the OEIC Regulations, incorporated with limited liability in England and Wales and authorised by the FCA under Regulation 14 of the OEIC Regulations.

For information on the Company's ACD, Depositary, Independent Auditors, Administrator and Registrar please refer to page 204.

Incorporation and share capital

CIFCo is an investment company with variable capital incorporated with limited liability in England and Wales under number IC000030 and authorised by the FCA on 6 May 1999.

The maximum share capital of the Company is £500,000,000,000 and the minimum share capital is £100. The shares have no par value. The share capital of the Company at all times equals the net asset values of its sub-funds.

The base currency for the Company is United Kingdom Pounds Sterling ("Sterling"). The Company is of unlimited duration.

Significant events

On 18 February 2013 the Cazenove European Income Fund launched new A Income Hedged and X Income Hedged share classes.

On 8 May 2013 the Cazenove European Income Fund launched a new A Income share class and the Cazenove UK Equity Income Fund launched a new A Accumulation share class.

On 1 October 2013 Cazenove European Fund launched new L Income and L Accumulation share classes, Cazenove European Income Fund launched new L Income and L Accumulation share classes, Cazenove UK Corporate Bond Fund launched a new B Income share class Cazenove UK Equity Income Fund launched new B Accumulation, L Income and L Accumulation share classes, Cazenove UK Growth and Income Fund launched new L Income and L Accumulation share classes and Cazenove UK Opportunities Fund launched new D Income and D Accumulation share classes.

On 1 November 2013 Cazenove European Fund, Cazenove European Income Fund, Cazenove Managed Portfolio Fund, Cazenove Strategic Bond Fund, Cazenove UK Corporate Bond Fund, Cazenove UK Equity Income Fund, Cazenove UK Growth and Income Fund, Cazenove UK Opportunities Fund and Cazenove UK Smaller Companies Fund all launched a new S Income share class.

The new share classes were created due to client demand.

Cazenove Capital Holdings Limited ("Cazenove Capital") was the ultimate holding company of Cazenove Investment Fund Management Limited, the ACD of Cazenove Investment Fund Company prior to its acquisition by Schroders plc ("Schroders") on 2 July 2013.

On 25 March 2013, the boards of Schroders and Cazenove Capital announced that they had reached agreement on the terms of the recommended acquisition by Schroders of the entire issued and to be issued share capital of Cazenove Capital by way of Scheme of Arrangement.

All regulatory approvals were obtained, and the Royal Court of Jersey sanctioned the Scheme of Arrangement on 1 July 2013. The Scheme of Arrangement became effective on 2 July and an announcement was made on that date.

Director's report (continued)

Significant events (continued)

In order to integrate the two firms, we are making a number of changes to our combined business and fund range. With effect from 24 March 2014, the Cazenove Capital funds are changing names to:

- Cazenove Managed Portfolio Fund - Schroder Multi Manager Managed Portfolio Fund
- Cazenove UK Opportunities Fund - Schroder UK Opportunities Fund
- Cazenove UK Smaller Companies Fund - Schroder UK Dynamic Smaller Companies Fund
- Cazenove UK Corporate Bond Fund - Schroder UK Corporate Bond Fund
- Cazenove European Fund - Schroder European Opportunities Fund
- Cazenove UK Growth and Income Fund - Schroder Core UK Equity Fund
- Cazenove UK Equity Income Fund - Schroder UK Alpha Income Fund
- Cazenove Strategic Bond Fund - Schroder Strategic Credit Fund
- Cazenove European Income Fund - Schroder European Alpha Income Fund

We are also renaming the shares class names for some of the funds (e.g. B class for funds of Cazenove Investment Fund Company will be renamed as A class shares). For further information on how the share classes are named and fees that apply please see the details schedule in the investors letter to Shareholders.

To ensure that the quality of administration is consistent across all Schroder funds, we are making some changes to the service providers behind the funds. These changes will have no impact on the way the funds are managed and are simply part of a process Schroders is going through to simplify our operations.

Authorised Corporate Director

Cazenove Investment Fund Management Limited - Schroder Unit Trusts Limited

Manager

Cazenove Investment Fund Management Limited - Schroder Unit Trusts Limited

ISA Plan Manager

Cazenove Investment Fund Management Limited - Schroder Unit Trusts Limited

Investment Manager

Cazenove Investment Fund Management Limited - Schroder Investment Management Limited

Transfer Agent

JP Morgan Europe Limited - International Financial Data Services Limited

Registrar

JP Morgan Europe Limited - Schroder Unit Trusts Limited

Principal activities

The Company's principal activity is to carry on business as an open ended investment company. The Company is structured as an umbrella company and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA.

Principal activities

The Company's principal activity is to carry on business as an open ended investment company. The Company is structured as an umbrella company and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA.

The sub-funds are operated separately and the assets of each sub-fund are managed in accordance with the investment objective and policy applicable to that sub-fund.

Post Balance sheet event

On 19 February 2014, the CME exchange was added as an eligible derivatives market for Cazenove UK Corporate Bond Fund.

Economic and market overview

The economic backdrop

It is not just on the weather front that we have been faced with the repercussions of inclement conditions in the US. 2013 was a year that various waves of worry with regard to fiscal and monetary policy crossed the oceans to batter confidence in still fragile economies elsewhere in the world. Despite this, the year ended with the economic climate feeling more temperate, particularly in the UK where it became apparent that activity had gained considerably more momentum than had been widely anticipated.

It was only three months ago that temporary deadlock in the US political system, resulting in a failure to agree and enact legislation for government funding, threatened to cause a prolonged shut down of government. In the event, an agreement was reached after a couple of weeks, and the crisis passed. This was just one of a series of political clashes between Democrats and Republicans during the year, which started with the intense debate over the implementation of measures designed to curtail the budget deficit. The end result was that a fiscal tightening created something of a headwind for the economy during the year, but it was nowhere near as severe as it might have been.

Meanwhile, the guardians of US (and some would say world) monetary policy in the Federal Reserve (the Fed) were wrestling with how to bring to a close the prolonged period of quantitative easing (QE). A new policy concept, that of tapering, entered the dictionary of popular economics terms. Tapering, or gradually slowing the rate at which additional liquidity is added to the system, was widely expected to start in September. In the event, the Fed baulked at the last moment, only to announce after its December meeting that tapering would begin in January 2014. So, as we move into the new year, we will see the first very tentative steps towards policy normalisation. Even so, it will take most of 2014 before QE is actually concluded, and no one has yet begun to contemplate when or how monetary policy might begin to be tightened.

Throughout 2013, the world economy had to battle through the consequences not just of the machinations in US policy but also of fiscal tightening elsewhere in the developed world, a possible resurgence of the Eurozone debt crisis, a potential hard landing in China and various international political disturbances. More helpfully, the approach of central banks remained essentially dovish in both deed and word, and during the final months of the year there was more concrete reassurance from upside surprises in economic data in a majority of western economies.

After allowing for the appreciable tightening in fiscal policy and a gradual increase in long term interest rates during 2013, the performance of the US economy was reasonably impressive. The US has outperformed all other major industrialised economies since the peak of the previous cycle and is likely to remain the driver of global growth in 2014. With less of a fiscal headwind (equivalent to approximately -0.5% of GDP in 2014, down from -1.5% in 2013), we believe the economy should grow by 2.5%. Within this, we would hope to see an improving contribution from small and medium sized enterprises (SMEs). This would help provide the economy with greater resilience, most importantly through the positive impact it would have on the labour market. More generally, the US economy would benefit from the rising employment becoming associated with slightly stronger wage growth. Helped by stronger activity, the budget deficit should shrink further as tax receipts pick up, while the trade deficit should reflect the positive impact on imports from rising domestic energy output.

There are encouraging signs that Europe is now in a phase of recovery and realignment. In the UK, the economy grew appreciably faster in 2013 than was widely anticipated at the start of the year. Improved momentum was particularly evident in the second half of the year. Within the consumer economy, there is no doubt that activity has been boosted by the help provided by the government to the housing market. More worryingly, while corporate confidence has recovered, capital investment levels have been disappointing and productivity growth has been disappointing as a result. While we expect growth to be faster in 2014 than in 2013, we believe there is a risk that expectations run ahead of reality. Sure, the UK economy is on the mend (and has probably grown more over the past couple of years than official statistics indicate). But, for the economy to develop more resilience, we must see productivity-based increases in real wages, and these can only come through once we have seen an upswing in the investment cycle.

In the Eurozone, the Purchasing Managers' Index (PMI) for manufacturing ended 2013 at a 31 month high, with Germany posting a robust reading while Spain and Italy improved further on rising new orders. Despite this, the situation within the euro area remains very mixed, and although we expect growth trends to improve in 2014, there will still be very evident stresses. Most positively, perhaps, growth in southern Europe appears to have resumed, albeit from a very low base. Germany should also post better numbers in the year ahead than in 2013, although its reliance on exports to Asia has hampered its recovery. At the weaker end of the scale, France remains hamstrung by confused macro policies and structural inflexibility. Generally, 2014 should see less drag from austerity, and some help from easier credit conditions and improving world trade. As in the UK, however, we need to see stronger corporate capital spending during the next phase of the cycle. Without this, the trends in productivity and wages will remain weak. It is interesting that the European Central Bank has focused more attention on falling price inflation over recent months – something that has persuaded it to continue to ease monetary policy. In our view, the greater deflationary threat comes not from lower consumer price inflation but from negative real wage growth.

Economic and market overview (continued)

The economic backdrop (continued)

Japan regained investors' attention in 2013 thanks to its bold economic revitalization plan, namely 'Abenomics', which encompasses fiscal, monetary and structural reform. The most obvious consequence of the Bank of Japan's (BOJ) unprecedented monetary easing has been the 17.7% slide in the yen. There is some evidence that greater competitiveness has boosted exports and that rising inflation expectations have helped trigger stronger growth in household spending – both of which have helped raise GDP growth. Other indicators, such as the manufacturing PMI, corporate confidence and labour market conditions, are also looking more positive, encouraging the view that Japan is now emerging from more than 15 years of deflation.

The constructive case for 2014 is based on the joint arguments that rising wage inflation will support stronger household spending and that improved corporate confidence and profitability will kick start the investment cycle. The risk to this assessment is that the drag from an impending hike in the consumption tax, which will take effect in April 2014, will delay the recovery in consumption and that renewed uncertainty will cause companies to hold back on capital investment. Reassuringly, the Japanese government has rolled out an offsetting package of fiscal measures and the BOJ is likely to ease if the negative impact of the hike in sales tax becomes too great. Against this backdrop, it is unlikely to be until later in 2014 that we can reach a firm conclusion on medium term prospects.

In China, activity stabilized toward the end of the third quarter after the government introduced mini fiscal stimulus and injected liquidity into the interbank market. Having said that, more recent indicators have been disappointing, raising concerns that the economy is set for a hard landing. Although it is clear that China aims to rebalance growth toward consumption, it is likely that investment will continue to drive growth in 2014. In policy terms, the People's Bank of China is likely to remain relatively flexible and as the reserve requirement ratio is at 20%, there is ample room for easing if activity continues to decelerate. After the third Plenum, the government rolled out a comprehensive reform package covering financial, economic and social aspects. As what are intended to be reforms come through, there should be clear longer term winners (private companies focused on the home market) and losers (state owned enterprises). Before this, the focus for 2014 will be the extent to which there has been a real loss of economic momentum.

Financial markets

Equities

2013 proved to be a very strong year for developed market (DM) equities. While investors' confidence was boosted by expectations of improved growth trends, support continued to be provided by accommodative monetary policies. Major DM equity indices posted notable total returns, with some closing the year at or near record levels. The Japanese Nikkei topped the league table, thanks to Abenomics, returning 59.3%. It was followed by the US S&P (+32.4%), the Spanish IBEX 35 (+27.8%), the German DAX (+25.5%), the European Stoxx 600 (+21.6%), the Italian FTSEMIB (+20.4%) and the UK FTSE All Share (+20.8%). Emerging market (EM) equities were the major laggards, with a negative total return from the MSCI EM Index of (2.4%) for the year, dragged by the Bovespa (-15.5%) and Shanghai Composite (-3.9%).

Although we remain constructive on equities as an asset class, increased valuations in developed markets suggest that returns during 2014 are likely to be more modest than in 2013. To the extent that returns achieved in 2013 were attributable to stronger growth expectations (resulting in appreciable Price/ Earning expansion), those expectations need to be validated by improved profits growth in 2014. We believe this leaves little room for a further rerating during the year ahead. Accordingly, DM equity returns are likely to be less exciting but still positive, most likely dropping from double to single digit percentages.

As the cycle matures further in 2014, we will start to consider reducing exposure to cyclical sectors, rotating to those that are likely to benefit from stable growth. Currently, we have a modest valuation based bias towards European market. This will be validated if we begin to see upwards earnings revisions in Europe. Within Europe, we are more positive on the UK. Elsewhere, we do not see the need to change our neutral stance on Japan. There is the potential for China to make greater headway in 2014 if early benefits from the government's recently announced reform plan appear to come through. The valuation of the Chinese equity market looks attractive but it is important to gain exposure through domestically focused companies.

Fixed income

Following the Fed's announcement that QE tapering would begin in January 2014, both the UK 10 year gilt yield and the 10 year US treasury yield moved back above 3%, albeit marginally. Amongst the major bond markets, total returns over 2013 for UK gilts (-4.2%), US treasuries (-3.3%) and German bunds (-2.2%) all ended in the red. Italian BTPs and Spanish government bonds returned 7.2% and 11.0%, respectively, as peripheral spreads continued to tighten. Continually undermined by the prospect of tapering, emerging market bonds continued to underperform, returning (-6.1%) during the year.

Economic and market overview (continued)

Financial markets (continued)

Fixed income (continued)

Turning to credit markets, UK, European and US high yield debt posted returns of 11.8%, 9.4% and 6.4%, respectively. Non investment grade returns were considerably more attractive when compared to investment grade corporate credit or government bonds.

Despite the increase in yields in 2013, 10 year government bonds (and investment grade corporate bonds) remain unattractive from an economic cycle and valuation perspective, with risk still skewed in one direction. Longer dated government bonds look more favourably valued but still yield only slightly more than equities. Given our concern that central banks are overly complacent on the medium term outlook for inflation, we will explore adding to index linked positions if inflation expectations continue to fall at the same time that conventional yields edge upwards.

Currencies

Given QE tapering and the relative strength of US economic data, the dollar index surprisingly ended 2013 close to where it was at the start of the year (+0.3%). The euro and sterling strengthened 4.2% and 1.9% versus the dollar during the year. The Japanese yen (-17.6%) and the Australian dollar (-14.2%) were the worst performing G10 currencies over the twelve months. The Japanese yen saw its worst year since 1979 as a result of Abenomics, while the Australian dollar came under persistent downward pressure as a result of the faltering commodity cycle and two rate cuts during the year. EM weakness was also a major theme in 2013 with the Indonesian rupiah (-19.5%), South African rand (-19.2%), and Turkish lira (-16.9%) amongst the biggest losers against the dollar.

While we do not have strong views on most of the major currencies, the Japanese yen is likely to continue to be undermined by the aggressive monetary easing which will remain in place for the next two years.

Results

The results for each sub fund are set out in detail in the relevant section of the report.

Charles Helmstetter

Cazenove Investment Fund Management Limited

On behalf of the Authorised Corporate Director

24 February 2014

Directors' statement

This report was approved for publication on 24 February 2014

Charles Helmstetter

Directors of Cazenove Investment Fund Management Limited

Carolyn Sims

Statement of ACD's responsibilities

The ACD is responsible for managing and administering the Company's affairs. The ACD provides investment management, administrative, accounting and secretarial services to the Company.

In accordance with the FCA's Collective Investment Schemes Sourcebook ('COLL'), the ACD is required to prepare financial statements for each annual and half yearly accounting period, which give a true and fair view of the financial position of the Company, of its revenue and the net gain or loss on the property of the Company for the year. In preparing the financial statements, the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the Prospectus, the Statement of Recommended Practice for financial statements of Authorised Funds issued by the IMA in October 2010, the COLL and generally accepted accounting principles and applicable accounting standards;
- make judgements and estimates that are reasonable and prudent; and
- keep proper accounting records which enable it to demonstrate that the Company complies with the above requirements.

The financial statements should comply with the disclosure requirements of the OEIC Regulations, COLL, and any relevant provisions of the Company's Instrument of Incorporation.

The ACD is responsible for:

- maintaining proper books of accounts which disclose with reasonable accuracy, at any time, the financial position of the Company;
- taking all reasonable steps for the prevention and detection of fraud and other irregularities.
- preparing the financial statements on a going concern basis unless it is inappropriate to presume that this Company will continue in operation.

Certification of financial statements by Directors of the ACD

This report was approved for publication on 24 February 2014.

C Helmstetter	Director of the ACD
C Sims	Director of the ACD

Statement of Depositary's responsibilities and report of the Depositary

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

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed by the Authorised Corporate Director in accordance with the Financial Conduct Authority's Collective Investment Scheme Sourcebook ("the COLL Sourcebook"), the Open Ended Investment Companies Regulations 2001 (SI 2001/1228) ('the OEIC Regulations') and the Company's Instrument of Incorporation and Prospectus, as appropriate, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and borrowing powers of the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the COLL Sourcebook, and where applicable, the OEIC Regulations and the Company's Instrument of Incorporation and Prospectus; and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

J.P. Morgan Trustee and Depositary Company Limited
Bournemouth
30 January 2014

Independent Auditors' report to the members of Cazenove Investment Fund Company

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the financial position of the Company and each of the sub-funds at 31 December 2013 and of the net revenue/(expenses) and the net capital gains/(losses) of the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

What we have audited

The financial statements, which are prepared by the Company, comprise:

- the aggregated balance sheet of the Company as at 31 December 2013;
- the aggregated statement of total return of the Company for the year then ended;
- the aggregated statement of change in net assets attributable to shareholders of the Company for the year then ended;
- the balance sheets as at 31 December 2013 together with the statements of total return and statements of changes in net assets attributable to shareholders for each of the Company's sub-funds;
- the notes to the Company's financial statements and each of the Company's sub-funds, which include a summary of significant accounting policies and other explanatory information; 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) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

In applying the financial reporting framework, the directors have made judgements where appropriate, for example in respect of substantive accounting estimates. In preparing such estimates, they have considered future events and related assumptions.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). 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 Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and
- the overall presentation of the financial statements.

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

Opinion on matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' report to the members of Cazenove Investment Fund Company (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Collective Investment Schemes sourcebook we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Authorised Corporate Director

As explained more fully in the Authorised Corporate Director's Responsibilities Statement the Authorised Corporate Director 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose.

We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
24 February 2014

- (a) The maintenance and integrity of the Cazenove website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Aggregated statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		1,133,862		449,096
Revenue	3	184,192		119,960	
Expenses	4	(55,532)		(31,242)	
Finance costs: Interest	6	(19)		(58)	
Net revenue before taxation		128,641		88,660	
Taxation	5	1,439		(3,525)	
Net revenue after taxation			130,080		85,135
Total return before distributions			1,263,942		534,231
Finance costs: Distributions	6		(146,772)		(97,989)
Change in net assets attributable to shareholders from investment activities			1,117,170		436,242

Aggregated statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			3,677,709		2,483,333
Amounts transferred to other funds*			-		(27,900)
Amounts receivable on issue of shares		3,092,218		1,363,471	
Less: Amounts payable on cancellation of shares		(822,315)		(616,052)	
			2,269,903		747,419
Stamp duty reserve tax			(3,071)		(1,054)
Change in net assets attributable to shareholders from investment activities (see above)			1,117,170		436,242
Retained distribution on accumulation shares			63,055		39,629
Unclaimed distributions	11		32		40
Closing net assets attributable to shareholders			7,124,798		3,677,709

The notes on pages 15 to 24 form an integral part of these financial statements.

* The investments transferred as part of the in-specie were valued in accordance with the accounting policy on the valuation of investments shown in the Notes to the financial statements and the Prospectus, on the date of the transfer.

Aggregated balance sheet

as at 31 December 2013

		31.12.13	31.12.12
	Note	£'000	£'000
ASSETS			
Investment assets		6,882,962	3,576,465
Debtors	7	84,894	40,888
Cash and bank balances	8	306,068	110,147
Total other assets		390,962	151,035
Total assets		7,273,924	3,727,500
LIABILITIES			
Investment liabilities		473	3,702
Creditors	9	91,940	20,294
Bank overdraft		15,629	1,034
Distribution payable on income shares		41,084	24,761
Total other liabilities		148,653	46,089
Total liabilities		149,126	49,791
Net assets attributable to shareholders		7,124,798	3,677,709

The notes on pages 15 to 24 form an integral part of these financial statements.

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 applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practices) and with the Statement of Recommended Practice for Financial Statements of Authorised Funds issued in October 2010 ("IMA SORP").

b) Aggregated financial statements

The aggregated financial statements contain an aggregated statement of total return, an aggregated statement of change in net assets attributable to shareholders and an aggregated balance sheet with supporting notes. These items comprise an aggregation of the relevant items from the financial statements of the individual sub-funds. Details of the sub-funds' portfolios are set out in the sub-funds themselves.

c) Investments

The investments of the Company are valued at bid market values, defined by the IMA SORP as fair value, at close of business on 31 December 2013 being the last business day of the accounting year, net of any accrued interest. Futures, options, swaps, forwards and investments for which published market values are not available are valued in accordance with the fair value policy operated by the ACD.

d) Foreign exchange

Assets and liabilities in foreign currencies are translated at the exchange rates ruling at the end of the accounting year. Revenue items denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the date of the transaction. Exchange differences arising from investments are included in 'Net capital gains' in the Statement of total return. Exchange differences arising from capital items other than investments are also included in 'Net capital gains' in the Statement of total return. Exchange differences arising from the receipt of overseas revenue are included in 'Revenue' in the Statement of total return.

e) Revenue recognition

Revenue relating to each sub-fund is allocated on a daily basis to the share classes based on the proportion of net assets held within the share class.

Dividends on quoted ordinary shares, preference shares and collective investment schemes are recognised when the securities are quoted ex-dividend. Where such securities are not quoted, dividends on them are recognised when they are declared.

Dividends and property income distributions receivable from Real Estate Investment Trusts are recognised when the securities are first quoted ex dividend.

Dividend revenue from offshore reporting funds is recognised when the securities are quoted ex-dividend. Non-dividend revenue from offshore reporting funds is recognised when declared, and treated as revenue for taxation and distribution purposes.

Overseas dividends that are received after the deduction of withholding tax are shown gross of taxation.

Special dividends are treated as revenue or capital according to the nature of the event giving rise to the payment.

All distributions from accumulation holdings in collective investment schemes are treated as revenue. Equalisations on distributions received and accrued from collective investment schemes are treated as capital.

Interest on bank deposits is recognised on an earned basis.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life. In the event of impairment or distress to a debt security, any accrued coupon revenue previously recognised may be provided against and no further accruals recognised, and any amortisation revenue previously recognised from the last coupon payment date may be provided against and no further amortisation recognised.

f) Rebates of management fees from underlying investments

The rebate of management fees from underlying investments is accrued daily and treated as revenue or capital depending on how the underlying investments account for their management fees.

1. Accounting policies (continued)

g) Stock dividends

The sub-funds may elect to receive stock dividends. Where an ordinary stock dividend is received the whole amount is recognised as revenue, on the basis of the market value of the shares on the date they are quoted ex-dividend. Where an enhancement is offered, the amount by which the market value of the shares (on the date they are quoted ex-dividend) exceeds the cash dividend is taken to capital.

h) Underwriting commission

Underwriting commission is wholly recognised as revenue when the issue takes place, except where the Company is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission received is deducted from the cost of those shares.

i) Expenses

All expenses, other than those relating to the purchase and sale of investments, SDRT and Finance costs, are included in 'Expenses' in the Statement of total return and are recognised on an accruals basis. Finance costs are disclosed separately in the Statement of total return. Transaction charges relating to the purchase and sale of investments are charged to the sub-funds and are included in note 2: Net capital gains, as 'Expenses relating to the purchase and sale of investments'.

Expenses relating to each sub-fund are allocated on a daily basis to the share classes based on the proportion of net assets held within the share class. The ACD charge is charged directly to each share class on a daily basis.

j) Taxation

Cazenove UK Corporate Bond Fund and Cazenove Strategic Bond Fund satisfied the qualifying investments test of Statutory Instrument 2006/964 Authorised Investment Funds (Tax) Regulations 2006 Regulation 19 throughout the year. All distributions made are therefore made as interest distributions. The sub-funds have no corporation tax liability as interest distributions are tax deductible.

Corporation tax is provided for on the revenue liable to corporation tax less deductible expenses. The tax effect of different items of revenue or expenses is allocated between revenue and capital using the marginal basis. This includes any gains made on non-reporting offshore funds.

Deferred taxation is provided on a full provision basis on timing differences arising from the different treatment of items for accounting and tax purposes. Potential future liabilities and assets are recognised at the average rate expected to apply on transactions or events giving rise to them before the balance sheet date.

k) Distribution policy

The whole of the revenue after expenses and tax, and after transfers to capital of ACD charges on specific sub-funds, is required to be distributed from each sub-fund at the end of the Company's financial year. Interim distributions will usually be for the whole of revenue, after charging expenses determined at the end of the interim accounting period. The ACD may, however at interim, distribute a lesser amount, or make no distribution.

For sub-funds focused on providing revenue returns, the ACD fee and Depositary fees (and where appropriate the associated taxation) are added back for distribution purposes and are ultimately borne by the capital of the sub-fund. Where the ACD fee or Depositary fee is ultimately borne by capital, the distribution will be higher than would otherwise be the case (see note 6 of the relevant sub-fund financial statements).

l) Derivatives and forward currency transactions

Where appropriate, certain permitted financial instruments such as derivatives or forward currency contracts are used for efficient portfolio management. Where such financial instruments are used to protect or enhance revenue, the revenue and expenses derived therefrom are included in 'Revenue' or 'Expenses' in the Statement of total return. Where such financial instruments are used to protect or enhance capital, the gains and losses derived therefrom are included in 'Net capital gains' in the Statement of total return. Any positions on such financial instruments open at the year end are reflected in the Balance sheet at their marked to market value.

Open credit default swaps ('CDS') are shown in the Portfolio statement at fair value as stated in accounting policy 1(c). Net gains and losses are reflected in 'Net capital gains'. Initial premiums paid and received on CDS positions are reflected in 'Net capital gains'. Subsequent periodic premia received/paid are reflected in 'Revenue'/'Finance costs' in the Statement of total return where appropriate.

1. Accounting policies (continued)

m) Shares

The sub-funds currently have up to twelve share classes: Retail ('A' and 'B' classes) income and accumulation share classes and institutional ('D', 'L', 'S' and 'X' class) income and accumulation share classes. Where a sub-fund has more than one share class, each class may incur different expenses. Consequently the level of net revenue and price attributable to each share class will differ.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities*	1,137,158	439,696
Derivative securities	1,860	3,092
Rebate of capital management fees from underlying investments	10	30
Forward currency contracts	(2,495)	8,960
Currency losses from other capital items	(2,671)	(2,682)
Total	1,133,862	449,096

*The effective yield method of accounting for income from fixed income securities may in some circumstances result in adjusting net capital gains or losses as a result of revised cash flow expectations. These adjustments are a requirement of FRS26 application guidance 8 (AG8).

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
UK dividends	89,163	31,942
Overseas dividends	58,950	32,587
Interest on UK debt securities	28,668	29,176
Interest on overseas debt securities	2,913	23,092
Net interest from credit default swaps	1,670	1,378
Property income dividends from real estate investment trusts	886	312
Bank interest	882	303
Underwriting commission	488	203
Franked dividend distributions from collective investment schemes	245	349
Rebate of revenue management fees from underlying investments	137	155
Unfranked interest distributions from collective investment schemes	98	187
Offshore investments	62	42
Stock dividends	30	200
Unfranked dividend distributions from collective investment schemes	-	34
Total	184,192	119,960

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	51,563	28,663
Payable to the Depositary or associate of the Depositary		
Depositary fees	609	387
Safe custody fees	401	274
Total payable to the Depositary or associate of the Depositary	1,010	661
Payable to other related parties and third parties		
Transfer agency fees	1,883	1,161
Administration fees	851	563
Other expenses	130	105
Audit fee	95	89
Total payable to other related parties and third parties	2,959	1,918
Total	55,532	31,242
Expenses include VAT, where applicable.		

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Taxation on offshore fund gains payable	(9)	131
Overseas tax	(1,430)	3,394
Current tax charge (see note 5(b))	(1,439)	3,525
(b) Factors affecting current tax charge		
Net revenue before taxation	128,641	88,660
Corporation tax at 20% (2012: 20%)	25,730	17,733
Effects of:		
Franked investment income not taxable	(23,854)	(6,458)
Revenue from offshore investment companies and/or overseas dividends not subject to corporation tax	(2,323)	(6,527)
Overseas tax	(1,430)	3,394
Stock dividends not taxable	(6)	(40)
Excess expenses not utilised	10,489	5,886
Interest distributions deductible for tax purposes	(10,038)	(10,600)
Taxable items not reflected in net revenue	(7)	137
Current tax charge (see note 5(a))	(1,439)	3,525

(c) Details of unrecognised deferred tax assets are disclosed in the financial statements of the sub-funds.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
First interim	2,776	2,879
Second interim	64,035	40,428
Third interim	4,506	3,343
Final	81,722	53,978
	153,039	100,628
Add: Revenue deducted on cancellation of shares	12,613	6,948
Deduct: Revenue received on creation of shares	(18,880)	(9,587)
Distributions	146,772	97,989
Interest	19	58
Total finance costs	146,791	98,047
Movement between distributions and net revenue after taxation		
Distributions	146,772	97,989
Less: ACD fee taken to capital	(15,466)	(12,385)
Less: Depositary fee taken to capital	(237)	(198)
Less: Taxation relief on capital items	(2)	(11)
Less: Taxation on offshore fund gains	9	(131)
Less: Net expense payable from capital on share classes in deficit	(530)	(129)
Less: Equalisation on conversions	(466)	-
Net revenue after taxation	130,080	85,135

Details of the distributions are disclosed in the financial statements of the sub-funds.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Amounts receivable on creation of shares	27,949	16,257
Sales awaiting settlement	27,890	4,137
Accrued revenue	26,702	18,046
Overseas tax recoverable	2,222	2,272
Income tax recoverable	131	176
Total	84,894	40,888

8. Cash and bank balances

	31.12.13 £'000	31.12.12 £'000
Cash and bank balances	305,949	108,901
Amounts held at futures clearing houses	119	1,246
Total	306,068	110,147

9. Creditors

	31.12.13 £'000	31.12.12 £'000
Purchases awaiting settlement	64,015	6,841
Accrued expenses	17,639	3,837
Amounts payable on cancellation of shares	5,598	4,500
Income tax payable	4,688	4,985
Taxation on offshore fund gains payable	-	131
Total	91,940	20,294

10. Contingent liabilities

Contingent liabilities are disclosed in the financial statements of the sub-funds.

11. Unclaimed distributions

The sum of £32,449 (31 December 2012: £39,078) has been credited to the capital property of the sub-funds during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

ACD fees are disclosed in the financial statements of the sub-funds.

13. Derivatives and other financial instruments

The numerical disclosures required under FRS 13 are included in the notes to the financial statements of the individual sub-funds where applicable.

The Company's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations. For example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for cancellations of shares, and debtors for accrued revenue.

The Company may enter into derivatives transactions in the form of forward foreign currency contracts. Forward foreign currency contracts are used to manage currency risk arising from holdings of overseas securities. Forward contracts, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and 'cash' trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies they trade and these markets can experience periods of illiquidity, sometimes of significant duration. Disruptions can occur in any market traded by the Company due to unusually high trading volumes, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the ACD would otherwise recommend, to the possible detriment of the Company. In respect of such trading, the Company is subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with regard to such contracts. Market illiquidity or disruption could result in major losses to the Company.

13. Derivatives and other financial instruments (continued)

The Company may invest in closed ended investment trusts and companies which themselves may invest in alternative investments, including hedge funds and property. Investments in fund of hedge funds, investment trusts and companies and in property investment companies will, in general, provide the Company with risk reduction benefits through diversification. However, the underlying hedge funds may deal infrequently, may limit redemptions and may contain investments which are not readily realisable, in which case it may be difficult to deal in these investments or to obtain reliable information about their value or the extent of risk to which these are exposed. Property investment companies may invest in real estate which may be illiquid and the value of which will be determined by external valuers. Such investment companies may carry out valuations infrequently and the valuations will be the opinion of the valuer at a particular time, may not be supported by recent transactions and are liable to revision up or down.

The Company may also write (or sell) financial options in order to generate additional capital or revenue to the benefit of shareholders. The seller ('writer') of a put option which is covered (i.e. the writer has a short position in the underlying security or currency) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is 'fully hedged' if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

The writer of a call option which is covered (e.g. the writer holds the underlying security) assumes the risk of decline in the market price of the underlying security below the value of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of the call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security, currency or commodity. In entering into a closing purchase transaction, the Company may be subject to the risk of loss to the extent that the premium paid for entering into a closing purchase transaction exceeds the premium received when the option was written.

The Company may make use of futures contracts which will present the same types of volatility and leverage risks associated with transactions in derivative instruments generally. In addition, such transactions present a number of risks which might not be associated with the purchase and sale of other types of investment products. Prior to expiration, a futures contract can be terminated only by entering into an offsetting transaction. This requires a liquid secondary market on the exchange on which the original position was established. While the Company will enter into futures and option positions only if, in the judgment of the ACD, there appears to be a liquid secondary market for such instruments, there can be no assurance that such a market will exist for any particular contract at any point in time. In that event, it might not be possible to establish or liquidate a position.

The Company may use single name credit default swaps ('CDS') and index CDS contracts. A CDS is a financial contract that allows the holder to take or reduce default exposure, generally on bonds or loans. The use of CDS may result in lower or negative returns for the sub-fund. There is no guarantee that a Fund will be able to enter into an offsetting closing transaction for a particular CDS purchased or sold. When selling protection a Fund is at risk of material capital loss if credit market conditions deteriorate. If the issuer defaults, the seller of protection will be required to accept the defaulted bonds in return for paying the buyer of the protection the nominal value of the bond. The credit risk position is thus similar to that of owning a bond. When buying protection, a Fund is at risk of material capital loss if credit conditions improve. In the event of a default, the buyer of protection delivers to the seller of protection defaulted bonds with a face amount equal to the notional amount of the credit default swap contract. The seller of protection then delivers the notional amount on the CDS contract in cash to the buyer of protection.

The main risks arising from the Company's financial instruments are correlation, credit, foreign exchange, interest rate, legal, leveraged, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised below and have been applied throughout the year and the prior year.

Correlation risk

Derivatives do not always perfectly or even highly correlate or track the value of the securities, rates or indices they are designed to track. Consequently, the sub-fund's use of derivative techniques may not always be an effective means of, and sometimes could be counter productive to, the sub-fund's investment objective. An adverse price movement in a derivative position may require cash payments of variation margin that might in turn require, if there is insufficient cash available in the portfolio, the sale of a Company's investments under disadvantageous conditions.

13. Derivatives and other financial instruments (continued)

Credit risk

The Company is exposed to credit risk, which is the risk of loss due to another party not being able to meet its financial obligations. One source of this risk to the Company are trade counterparties who may fail to meet their transaction commitments. This risk is managed by appraising the credit profile of trade counterparties and financial instruments.

Foreign exchange risk

Investing in overseas securities will be affected by currency fluctuations, in addition to usual stock market fluctuations. Where an asset is held in a currency denomination other than Sterling, the asset's value will be affected by changes in exchange rates between the United Kingdom and the currency of the country in which the security is held.

Foreign exchange risk is an ongoing consideration during the asset allocation and investment selection process.

Interest rate risk

The Company invests in debt securities and holds cash. The revenue of the Company may be affected by changes to interest rates relevant to particular securities or as a result of the ACD being unable to secure similar returns on the expiry of contracts or sale of securities. The value of debt securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Interest rate risk is an ongoing consideration during the asset allocation and investment selection process.

Legal risk

There are legal risks involved in using derivatives which may result in loss due to the unexpected application of a law or regulation or because contracts are not legally enforceable or documented correctly.

Leveraged risk

Since many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss regardless of the size of the initial investment. If there is a default by the other party to any such transaction, there will be contractual remedies; however, exercising such contractual rights may involve delays or costs which could result in the value of the total assets of the related portfolio being less than if the transaction had not been entered.

The ACD has established and maintains a permanent risk management function responsible for examining the impact of Financial Derivative Instruments ('FDIs') on the total market risk on the investment portfolio of each sub-fund. The risk measurement approach will vary according to the complexity of the relevant sub-fund portfolio, the nature and extent of FDI use, and the regulatory requirements. For sub-funds that use FDIs in a non complex manner, the commitment approach is used to calculate exposure levels in which each sub-fund's FDI positions are converted into the equivalent positions of the underlying assets. For sub-funds that use FDI in a complex manner the ACD uses the most appropriate Value at Risk (VaR) model. VaR provides an estimate of the worst expected loss of a FDI position, positions or portfolio which contains FDI other than in negligible size or amounts resulting from market movements over a period of time with a given confidence level under normal market conditions.

The ACD reviews, approves and monitors all counterparties in order to reduce contractual risks. This process involves detailed due diligence on proposed counterparties and, once selected, subsequent monitoring of the counterparty for regulatory capital and fiduciary oversight. All counterparties are periodically reviewed to ensure they remain suitable. For exchange traded futures, agreements with counterparties will generally follow standard prevailing terms in the markets. Where FDIs are not traded on a recognised exchange, the ACD will only enter into contracts on behalf of a sub-fund with an Approved Counterparty (within the meaning of the FCA Rules). The contract with the Approved Counterparty will generally follow the standards set by the International Securities and Dealers Association for FDI master agreements.

Liquidity risk

The Company is also exposed to liquidity risk in that it may be unable to meet its own commitments, in the event that there is insufficient cash available within its bank accounts. This risk is managed by forecasting cash balances and the sub-funds are permitted to overdraw, if necessary, to meet their obligations.

Market price risk

Market price risk arises from the Company's financial instruments, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate movement.

These risks are monitored by the ACD in pursuance of the investment objectives and policy as set out on in this ACD's report. Adherence to investment guidelines and to investment and borrowing powers set out in the Provisions of the Instrument of Incorporation, the Prospectus and in the rules of the Collective Investment Schemes Sourcebook ('COLL') mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the ACD's report and Portfolio statement.

13. Derivatives and other financial instruments (continued)

Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Company, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Company is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Company.

The borrowing facilities available to the Company as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Company.

The Company has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no other borrowing at the balance sheet date.

14. Related parties

The Company's ACD is related to the Company as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Company, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	16,149	2,930
Amounts receivable on creation of shares	(27,949)	(16,257)
Amounts payable on cancellation of shares	5,598	4,500
Total receivable from the ACD or associate of the ACD	(6,202)	(8,827)

Investments made in related party entities are disclosed in the financial statements of the sub-funds.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove Managed Portfolio Fund's ("the Fund") investment objective is to deliver long term capital growth from a diversified portfolio of investments including equities, bonds, fixed interest, cash and any other permitted assets deemed appropriate to meet the investment objective. The Fund will seek to achieve a moderate income.

The Fund will invest both in the United Kingdom and in overseas markets.

The Fund will invest primarily through authorised unit trusts, open ended investment companies, exchange traded funds and other collective investment schemes. Where it is considered appropriate, the Fund may also invest in closed ended funds, individual transferable securities, money market instruments, deposits and/or other securities and instruments in which the Fund may invest.

The Fund may seek investment diversification by obtaining exposure to alternative asset classes including hedge funds, private equity, property and commodities through investment in closed ended funds and other securities and instruments in which the Fund may invest.

The Fund may utilise derivatives for efficient portfolio management purposes and may seek to protect capital through active asset allocation and the use of derivatives where appropriate.

Performance

The Fund returned +19.6% (B Accumulation share class) versus the in-house benchmark (composition shown on page 27) return of +14.8%, to outperform by +4.8% over the 12 months to 31 December 2013.

Our continued skew to areas of Western cyclical value in our equity holdings benefited performance through the year. In particular, overweights to both Europe and Japan provided strong relative returns with Invesco Perpetual European Equity Fund (+40.1%) and GLG Japan CoreAlpha Equity Fund (Hedged USD) (+57.0%) assisting in this cause.

In what proved to be a difficult year for fixed interest assets, our ongoing underweight to this area, expressed through our relatively high cash balance, proved beneficial. Where exposure was sought – in flexible managers with low duration – positive returns were possible with the likes of M&G Optimal Income Fund producing +7.7%.

Weaker performers included small, tactical holdings in depressed, natural resource related areas added during the summer months. BlackRock Gold & General Fund produced -8.1% in the six months to the year end.

Market review

A positive final quarter of the year for broad equity markets brought to end a year where risk assets once again prospered with the tailwind of ongoing central bank intervention. Returns broadly mirrored the pattern of late 2012, with developed market equities – in particular in the US – leading the charge as emerging markets, government bonds and all things natural resource related continued to lag on a relative basis.

The eventual decision to taper US quantitative easing late in December was a welcome, albeit distant, glimpse of the finish line. However, it should not be forgotten amongst all the hubris that US authorities continue to inflate their balance sheet to the tune of US\$75bn per month – not an insignificant figure, even in these times of wilful monetary abandon.

With equity markets continuing to hit near term highs, investor behaviour through the year pointed to this perception of an ongoing backstop. Market wobbles mid year (the so called 'taper tantrum'), quickly dissipated as the US Federal Reserve looked to allay fears that short term interest rates would move from their current lows. But this remains an increasingly risky premise in our eyes given the decreasing marginal impact of stimulus, a lack of valuation support and the knowledge that central bank balance sheets will have to shrink at some stage. Central bank action has undoubtedly reduced the tail risks in many markets. However, going forward it seems unlikely that markets will be able to deal as easily with potential macro economic wobbles or even earnings disappointments, given the significant gains already realised.

Fixed interest assets continue to price in a more 'normal' economic backdrop with interest rates on most Western government bonds back to their highs of the mid year taper tantrum. The ability of the now widely adopted 'forward guidance' policy directive to control the pace of interest rate adjustment will be one of the more interesting stories to follow in the new year. As we see in the summer, any sign of turmoil in bond markets are unlikely to go unnoticed in equity markets and, at the very least, this points to a period of greater volatility across asset classes.

Authorised Corporate Director's investment report (continued)

Portfolio activity

In equity, our holding of Franklin Templeton UK Mid Cap Fund was switched into a new position in Franklin Templeton UK Smaller Companies Fund to reflect a desire to move away from the strongly performing Mid Cap area of the UK Stockmarket. A similar shift in our other UK holdings saw the strongly performing FIL UK Special Situations Fund reduced to fund a new holding in Majedie UK Equity Fund.

Through the summer months, we initiated two small positions in the natural resources space. BlackRock Gold & General Fund and JPMorgan Natural Resources Fund provide us liquid exposure to this still depressed space within equities.

Our alternatives exposure shifted with the retirement of a manager (Jupiter Absolute Return Fund) and a broader upturn in investor sentiment. This part of our portfolio continues to concentrate on uncorrelated or negatively correlated ideas relative to the rest of portfolio. As such, increases to our holding in the more flexible, relative value manager Majedie Tortoise Fund was noted and a new holding in Morgan Stanley Diversified Alpha Plus Fund was added.

Outlook

Our strategy for much of 2013 has been to concentrate on those areas we felt had 'catch up' ability. Predominantly this meant selective, potentially under earning, cyclical areas in developed equity markets, across the likes of Europe and Japan.

Having benefited handsomely from being early into these areas, we find ourselves at the point where relative valuations no longer look as attractive. In addition, the stampede of newly bullish investors into markets at what appear more stretched levels makes us somewhat uncomfortable. Whilst by no means outright bearish, a degree of caution and a more balanced equity portfolio feels more appropriate to us at this stage.

As many investors will have noted, we have maintained a healthy cash balance through the year, predicated on our dislike of the opportunity set within fixed interest markets. Investment requires attractive valuations and we have never felt that we should deploy the optionality that cash provides simply for the sake of being fully invested – something which proved invaluable in the market wobbles through the early summer. Given the shift up in Western government bonds yields, though, there may be selective tactical opportunities in this space in periods of heightened volatility going forward.

Up to this point, our cash balance has not materially impacted longer term relative performance given the skew of our equity holdings and their degree of outperformance. We are mindful, though, that our portfolio structure today makes such relative performance susceptible to periods where both equity markets surge and bond yields fall in tandem. However, we assign a low probability to both of these events occurring at the same time from here. Undoubtedly, markets can run higher for longer than you expect. But in a scenario where sustainable economic growth drives equity markets ever upwards, we would expect fixed interest markets to react negatively and yields to increase accordingly. On the flip side, equity markets look vulnerable to any pullback in macro economic conditions. Of course, the experience of the last few years has highlighted the difficulty in remaining too dogmatic in the face of unexpected events, so we remain ever watchful with this in mind.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 5.

The Fund invests in funds that buy bonds that pay a high rate of interest. The companies that issue these bonds may have uncertain futures and so there is a greater risk that the bond holders will not be paid interest on the bond and/or that they may not get their initial investment back. The Fund invests in funds that hold alternative investments where it may be difficult to sell the underlying assets and/or to get reliable information about the value of those assets. The Fund invests in funds that invest in stock markets of developing countries where share prices may fluctuate more markedly than in more developed economies and stock markets. Investment funds that invest in shares, bonds and other assets are subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE All Share Index* (£)	3,609.63	3,093.41	16.69	20.81
FTSE All World Ex UK Index* (£)	426.32	356.18	19.69	22.69
FTSE A Govt. All Stocks Index* (£)	159.46	172.01	(7.30)	(3.94)
UK IPD Property Index* (£)	948.02	854.81	10.90	10.90
HFRI Fund of Funds Composite*** (£)	3,311.58	3,101.53	6.77	6.77
Goldman Sachs Commodity Index^^ (£)	2,915.90	3,007.70	(3.05)	(3.05)
Benchmark (Calculated in-house)***	-	-	-	14.84

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

^ Source: Website (www.hedgefundresearch.com).

^^ Source: Bloomberg.

** Due to the nature of the pricing of these investments, the indices are subject to change.

*** Benchmark Description: 50% FTSE All Share, 15% FTSE All World Ex UK, 10% FTSE A Govt All Stock, 10% UK IPD, 10% HFRI, 5% GS Commodity.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income****	179.47	150.03	19.62	19.86
A Accumulation****	225.53	188.16	19.86	19.86
B Accumulation****	213.83	178.85	19.56	19.56
S Income****	50.20	50.00 ⁺	0.40	0.40
X Accumulation****	234.30	194.98	20.17	20.17

**** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

+ As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Accumulation		S Income	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	149.89	179.49	188.07	225.55	178.76	213.94	49.37	50.20
2012	134.03	150.66	167.47	188.96	159.43	179.62	-	-
2011	126.59	142.91	157.56	177.87	150.28	169.70	-	-
2010	122.54	139.69	151.13	172.76	144.68	165.03	-	-
2009	98.55	126.69	120.86	155.93	115.91	149.30	-	-
Calendar year	X Accumulation							
	Lowest price p	Highest price p						
2013	194.88	234.30						
2012	173.22	195.78						
2011	162.72	183.64						
2010	155.50	178.12						
2009	124.07	160.38						

A Income shares and A Accumulation shares were first issued on 2 July 1999 at a price of 134.46p.

X Accumulation shares were first issued on 22 February 2000 at a price of 154.46p.

B Accumulation shares were first issued on 25 February 2002 at a price of 119.02p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period. The OCF calculation includes a synthetic adjustment for the year to 31 December 2013 of 0.65% (31 December 2012: 0.80%) in respect of investments in other funds based on the year end net asset value.

	31.12.13 %	31.12.12 %
A Income	1.79	1.95
A Accumulation	1.79	1.94
B Accumulation	2.04	2.21
S Income	1.16	-
X Accumulation	1.54	1.70

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	25,712,294	14,332,874	179.39
A Accumulation	13,069,039	5,797,333	225.43
B Accumulation	8,802,030	4,118,063	213.74
S Income*	1,505	3,000	50.18
X Accumulation	13,629,399	5,819,461	234.20
	61,214,267	30,070,731	
31 December 2012			
A Income	27,022,254	18,027,493	149.89
A Accumulation	11,426,367	6,074,651	188.10
B Accumulation	6,212,324	3,474,648	178.79
X Accumulation	1,615,636	828,864	194.92
	46,276,581	28,405,656	
31 December 2011			
A Income	31,094,796	23,228,876	133.86
A Accumulation	19,410,514	11,604,721	167.26
B Accumulation	5,567,318	3,492,952	159.39
X Accumulation	1,534,052	887,275	172.89
	57,606,680	39,213,824	

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	0.2327	0.0000	0.2327
2012	0.5052	0.0847	0.5899
2011	0.5799	0.4744	1.0543
2010	0.3887	0.3620	0.7507
2009	0.4302	0.2308	0.6610
A Accumulation			
2013	0.2913	0.0000	0.2913
2012	0.6285	0.1114	0.7399
2011	0.7216	0.5917	1.3133
2010	0.4690	0.4423	0.9113
2009	0.4951	0.2623	0.7574
B Accumulation			
2013	0.0410	0.0000	0.0410
2012	0.3818	0.0000	0.3818
2011	0.4818	0.3641	0.8459
2010	0.2940	0.2187	0.5127
2009	0.4133	0.1395	0.5528
S Income*			
2013	-	0.0000	0.0000
X Accumulation			
2013	0.5703	0.0000	0.5703
2012	0.8063	0.4101	1.2164
2011	0.9507	0.8428	1.7935
2010	0.6402	0.7025	1.3427
2009	0.6487	0.4346	1.0833

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
Alternatives 21.95 (31 December 2012 12.63%)			
2,150,000	Artemis Strategic Assets Fund (R Accumulation)	1,637,010	2.67
2,100,000	Majedie Tortoise Fund (G GBP Accumulation) [‡]	3,622,710	5.92
66,500	Morgan Stanley Diversified Alpha Plus Fund (Z GBP Hedged) [‡]	2,171,890	3.55
51,405	Schroder Special Situations Sterling Liquidity Plus Fund (I Accumulation) ^{‡ #}	6,003,598	9.81
		13,435,208	21.95
Fixed income 4.49 (31 December 2012 8.60%)			
2,050,000	Invesco Perpetual Tactical Bond Fund (Income)	1,192,485	1.95
1,100,000	M&G Optimal Income Fund (I Income)	1,557,710	2.54
		2,750,195	4.49
Equities 52.50 (31 December 2012 66.89%)			
1,040,000	Artemis European Growth Fund (Accumulation)	2,488,720	4.07
136,000	BlackRock Asian Dragon Fund (A GBP Income) [‡]	2,426,240	3.97
93,000	BlackRock Gold & General Fund (A Accumulation)	607,290	0.99
66,000	FIL UK Special Situations Fund (A Accumulation)	1,868,460	3.05
52,000	Findlay Park American Fund (USD) [‡]	2,241,690	3.66
1,900,000	Franklin Templeton UK Smaller Companies Fund (W Accumulation)	3,164,830	5.17
6,500	GLG Japan CoreAlpha Equity Fund (I Hedged USD) [‡]	579,653	0.95
2,175,000	GLG Japan CoreAlpha Professional Fund (D Distribution) [‡]	3,445,200	5.63
1,000,000	Invesco Perpetual European Equity Fund (Z Accumulation)	3,048,800	4.98
700,000	Investec UK Special Situations Fund (Income)	2,992,010	4.89
1,370,000	JPMorgan Global Consumer Trends Fund (A Income)	1,096,137	1.79
136,500	JPMorgan Natural Resources Fund (A Accumulation)	789,926	1.29
18,450	Legg Mason Capital Management Opportunity Fund (Premier USD Accumulation) [‡]	1,862,211	3.04
3,200,000	Majedie UK Equity Fund (X Income)	4,285,440	7.00
900,000	Treligga Ardevora UK Income Fund (C Income) [‡]	1,237,950	2.02
		32,134,557	52.50
Net investment assets		48,319,960	78.94
Net other assets		12,894,307	21.06
Net assets attributable to shareholders		61,214,267	100.00

All holdings are collective investments unless otherwise stated.

[‡] Offshore investments.[#] A related party to the Fund (Note 14).

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		9,234		6,062
Revenue	3	571		776	
Expenses	4	(603)		(567)	
Finance costs: Interest	6	-		(1)	
Net (expense)/revenue before taxation		(32)		208	
Taxation	5	12		(131)	
Net (expense)/revenue after taxation			(20)		77
Total return before distributions			9,214		6,139
Finance costs: Distributions	6		(68)		(219)
Change in net assets attributable to shareholders from investment activities			9,146		5,920

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			46,277		57,607
Amounts receivable on issue of shares		12,447		4,363	
Less: Amounts payable on cancellation of shares		(6,684)		(21,674)	
			5,763		(17,311)
Stamp duty reserve tax			(8)		(15)
Change in net assets attributable to shareholders from investment activities (see above)			9,146		5,920
Retained distribution on accumulation shares			33		71
Unclaimed distributions	11		3		5
Closing net assets attributable to shareholders			61,214		46,277

The notes on pages 33 to 38 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		48,320	40,778
Debtors	7	424	686
Cash and bank balances		12,873	5,729
Total other assets		13,297	6,415
Total assets		61,617	47,193
LIABILITIES			
Creditors	8	335	393
Bank overdraft		68	508
Distribution payable on income shares		-	15
Total other liabilities		403	916
Total liabilities		403	916
Net assets attributable to shareholders		61,214	46,277

The notes on pages 33 to 38 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the Managed Portfolio Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	9,056	6,090
Currency gains/(losses) from other capital items	185	(41)
Rebate of capital management fees from underlying investments	10	30
Forward currency contracts	(17)	(17)
Total	9,234	6,062

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Franked dividend distributions from collective investment schemes	245	349
Rebate of revenue management fees from underlying investments	137	155
Unfranked interest distributions from collective investment schemes	98	187
Offshore investments	62	42
Bank interest	29	9
Unfranked dividend distributions from collective investment schemes	-	34
Total	571	776

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	535	500
Payable to the Depositary or associate of the Depositary		
Depositary fees	16	15
Safe custody fees	1	1
Total payable to the Depositary or associate of the Depositary	17	16
Payable to other related parties and third parties		
Administration fees	20	20
Transfer agency fees	16	16
Audit fee*	11	10
Other expenses	4	5
Total payable to other related parties and third parties	51	51
Total	603	567

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £8,860 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Taxation on offshore fund gains payable	(9)	131
Overseas tax	(3)	-
Current tax charge (see note 5(b))	(12)	131
(b) Factors affecting current tax charge		
Net revenue before taxation	(32)	208
Corporation tax at 20% (2012: 20%)	(6)	42
Effects of:		
Franked investment income not taxable	(49)	(70)
Revenue from offshore investment companies and/or overseas dividends not subject to corporation tax	(12)	(9)
Taxable items not reflected in net revenue	(7)	137
Overseas tax	(3)	-
Excess expenses not utilised	65	31
Current tax charge (see note 5(a))	(12)	131

(c) At 31 December 2013 there is a potential deferred tax asset of £162,109 (31 December 2012: £96,211) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	69	156
Final	-	26
	69	182
Add: Revenue deducted on cancellation of shares	7	46
Deduct: Revenue received on creation of shares	(8)	(9)
Net distributions	68	219
Interest	-	1
Total finance costs	68	220
Movement between net distributions and net (expense)/revenue after taxation		
Net distributions	68	219
Less: Taxation relief on capital items	(2)	(11)
Less: Taxation on offshore fund gains	9	(131)
Less: Net expense payable from capital on share classes in deficit	(92)	-
Less: Equalisation on conversions	(3)	-
Net (expense)/revenue after taxation	(20)	77

Details of the distributions are set out on page 39.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Amounts receivable on creation of shares	261	1
Accrued revenue	99	83
Income tax recoverable	64	95
Sales awaiting settlement	-	507
Total	424	686

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Accrued expenses	184	65
Amounts payable on cancellation of shares	151	197
Taxation on offshore fund gains payable	-	131
Total	335	393

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	27,776	15,661
Commissions	-	5
Total purchase costs	-	5
Gross purchase total	27,776	15,666
Gross sales in year before transaction costs	29,294	34,170
Commissions	-	(5)
Total sales costs	-	(5)
Total sales net of transaction costs	29,294	34,165

11. Unclaimed distributions

The sum of £3,400 (31 December 2012: £4,942) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

During the year the Fund had 4 share classes; A, B, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%

Share Class B: 1.25%

Share Class S: 0.375%

Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 28. The distribution per share class is given in the distribution tables on page 39.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are credit, foreign exchange, interest rate, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

A proportion of the net assets of the Fund are denominated in currencies other than Sterling, with the effect that the balance sheet and total return can be affected by currency movements.

Currency	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
The net currency assets at 31 December 2013 were:			
Sterling	8,432	43,636	52,068
US dollar	4,462	4,684	9,146
Total	12,894	48,320	61,214

The net currency assets at 31 December 2012 were:

Euro	-	3,640	3,640
Sterling	1,131	28,716	29,847
US dollar	4,368	8,422	12,790
Total	5,499	40,778	46,277

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Financial assets not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:			
Sterling	8,410	44,061	52,471
US dollar	4,463	4,683	9,146
Total	12,873	48,744	61,617

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Euro	-	4,148	4,148
Sterling	1,361	28,894	30,255
US dollar	4,368	8,422	12,790
Total	5,729	41,464	47,193

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:			
Sterling	68	335	403
Total	68	335	403

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Euro	-	508	508
Sterling	-	408	408
Total	-	916	916

13. Derivatives and other financial instruments (continued)

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no other borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	147	40
Amounts receivable on creation of shares	(261)	(1)
Amounts payable on cancellation of shares	151	197
Total payable to the ACD or associate of the ACD	37	236

During the year the Fund sold holdings in Cazenove European Equity (ex UK) Fund and bought holdings in Schroder Special Situations Sterling Liquidity Plus Fund (I Accumulation). The aggregate value of these transactions was £9,973,464.

At year end the Fund had holdings in Schroder Special Situations Sterling Liquidity Plus Fund (I Accumulation) as disclosed in the Portfolio statement on page 30. The revenue received from related party funds was £37,227.

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.0000000	0.0000000	-	0.0000000	0.0846580
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	0.0846580
A Accumulation					
Group 1	0.0000000	0.0000000	-	0.0000000	0.1113840
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	0.1113840
B Accumulation					
Group 1	0.0000000	0.0000000	-	0.0000000	0.0000000
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
S Income					
Group 1	0.0000000	0.0000000	-	0.0000000	-
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	-
X Accumulation					
Group 1	0.0000000	0.0000000	-	0.0000000	0.4101409
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	0.4101409

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.0258609	0.2327486	-	0.2327486	0.5051877
Group 2	0.0026048	0.0234435	0.2093051	0.2327486	0.5051877
A Accumulation					
Group 1	0.0323684	0.2913158	-	0.2913158	0.6285379
Group 2	0.0114185	0.1027668	0.1885490	0.2913158	0.6285379
B Accumulation					
Group 1	0.0045592	0.0410332	-	0.0410332	0.3817750
Group 2	0.0000000	0.0000000	0.0410332	0.0410332	0.3817750
X Accumulation					
Group 1	0.0633690	0.5703218	-	0.5703218	0.8063395
Group 2	0.0270766	0.2436898	0.3266320	0.5703218	0.8063395

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution paid on 31 August 2013 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove UK Opportunities Fund ("the Fund") aims to achieve an income return, together with long term capital growth, by investing in any economic sector of the UK market. The ACD invests predominantly in UK equities.

Performance

Over the year ended December 2013, the Fund returned +33.1% (B Accumulation share class) outperforming a rise in the benchmark (FTSE All Share Index) of +20.8% by +12.3%.

The significant outperformance of the Fund reflected strong returns from both the right business cycle positioning (or sector selection) and strong returns from stock selection. These returns were achieved well within our risk parameters. Our business cycle process is designed to capture beta and generate alpha. In 2013, our pro cyclical skew enabled us to capture beta in the market (over 80% of stocks in the FTSE 350 rose with a median return approaching 25%) and we generated alpha since our portfolio beta was around 1 for the year.

Specifically, the outperformance was driven by our pro-cyclical stance with an emphasis on industrial and consumer cyclical business cycle groupings and our decision to remain underweight commodity cyclical and value defensives. At the sector level our overweight stance in electronics, media and financial services and our underweight in mining all contributed positively to relative returns. On the negative side, our overweight in nonlife insurance and our underweight in mobile telecoms were unhelpful.

Market review

In the UK mid and small cap stocks led the market higher with the FTSE 250 Index +28.8% and Small Cap +40.2%. The FTSE 100 Index underperformed the broader market +14.4%. Business cycle factors dominated in 2013 with industrial, consumer and financial stocks leading. Commodities were the weakest performers. If the conditions exist for equities in general to increase further it seems unlikely that these sectors will fall again.

Despite the angst over the taper debate equity markets rose on the actual announcement. We should not forget that liquidity is still pouring into financial markets. There has not been a move in monetary policy but we have begun to see some changes to macro prudential policies and the long end of the yield curve has risen. This should serve to temper leverage growth and remove some of the froth in junk debt markets and keep the probability of a 'big' market wide correction down.

Portfolio activity

In 2013 we looked to reduce our exposure to consumer cyclicals after a good run, selling out of easyJet and taking substantial profits in Howden Joinery. We have also reduced financial holdings selling Lloyds Banking, Aviva and 3i. We have reinvested some of the proceeds into lower rated financials such as Ashmore and Aberdeen Asset Management. We have maintained the fund's pro-cyclical stance through industrial cyclicals, adding exposure to larger cap names such as Smiths and adding to Melrose. We have reduced our underweight in commodity cyclicals adding Rio Tinto and Royal Dutch Shell. In defensives we have sold highly rated Diageo and Babcock International reinvesting in lower rated Pearson, while adding to Reed Elsevier and National Express.

Outlook

Right now, we do not see either bulls or bears dominating the market call. As we enter the sixth year of this equity 'bull' market we are closer to the highpoint of expectation without delivery for this cycle. Earnings now need to start beating forecasts. We think this can happen as we are still in the early part of the economic recovery. We do not expect any sudden dislocation in trend from 2013 but the riskiest period for markets is likely to be the first quarter reporting period.

We are minded to stay pro-cyclical; beyond the world of financial asset price inflation there is little sign of inflation anywhere else. A period of benign inflationary pressure may allow the market one more big move up. So long as the improvement in the real economy is steady and nothing occurs to force the Fed to tighten ahead of time. Overall we expect UK equities can still perform well in 2014 but we expect dispersion and volatility will rise.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 6.

The Fund will invest in medium and smaller sized companies and it may have a more concentrated portfolio of shares than is usual in most funds. This Fund's share price may fluctuate more than funds that invest entirely in larger sized companies and/or those which hold a larger number of investments. Investments in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE All Share Index* (£)	3,609.63	3,093.41	16.69	20.81

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	323.75	246.96	31.09	33.69
A Accumulation**	428.29	320.25	33.74	33.74
B Accumulation**	394.28	296.31	33.06	33.06
D Income**	52.18	50.00 ⁺	4.36	4.36
D Accumulation**	52.18	50.00 ⁺	4.36	4.36
S Income**	50.26	50.00 ⁺	0.52	0.52
X Income**	432.48	329.85	31.11	34.03
X Accumulation**	449.13	334.98	34.08	34.08

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

⁺ As at 1 October 2013, the share class launch date.

* As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Accumulation		D Income	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	250.64	325.30	327.84	430.34	303.30	396.51	49.13	52.41
2012	186.59	250.45	240.67	324.78	223.78	300.53	-	-
2011	168.53	207.38	213.41	262.60	198.81	244.78	-	-
2010	153.10	189.06	188.29	235.79	176.72	220.35	-	-
2009	97.91	160.67	117.21	195.87	110.55	183.94	-	-

Calendar year	D Accumulation		S Income		X Income		X Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	49.13	52.41	48.13	50.34	334.38	434.37	342.93	451.09
2012	-	-	-	-	251.02	334.49	251.10	339.68
2011	-	-	-	-	239.82	253.42	222.44	273.63
2010	-	-	-	-	-	-	195.49	245.35
2009	-	-	-	-	-	-	121.38	203.30

A Income shares, Accumulation shares and X Accumulation shares were first issued on 2 July 1999 at a price of 135.27p.

B Accumulation shares were first issued on 25 February 2002 at a price of 110.56p.

X Income shares were first issued on 1 December 2011 at a price of 250.64p.

D Income shares and D Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	1.06	1.07
A Accumulation	1.06	1.07
B Accumulation	1.56	1.57
D Income	0.73	-
D Accumulation	0.73	-
S Income	0.43	-
X Income	0.81	0.83
X Accumulation	0.81	0.82

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	122,730,107	38,170,812	321.53
A Accumulation	126,878,686	29,628,344	428.23
B Accumulation	505,656,964	128,264,584	394.23
D Income ⁺	1,559	3,000	51.96
D Accumulation ⁺	1,565	3,000	52.18
S Income [*]	1,504	3,000	50.14
X Income	712,876,653	166,179,900	428.98
X Accumulation	1,299,311,670	289,331,282	449.07
	2,767,458,708	651,583,922	
31 December 2012			
A Income	73,308,302	29,972,600	244.58
A Accumulation	85,225,692	26,658,185	319.70
B Accumulation	212,411,009	71,809,837	295.80
X Income	225,069,595	68,979,240	326.29
X Accumulation	391,621,345	117,112,127	334.40
	987,635,943	314,531,989	
31 December 2011			
A Income	37,991,686	20,360,013	186.60
A Accumulation	38,106,628	15,971,571	238.59
B Accumulation	76,188,239	34,340,820	221.86
X Income	6,806,926	2,736,223	248.77
X Accumulation	50,327,853	20,230,529	248.77
	209,421,332	93,639,156	

+ D Income shares and D Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	3.3929	2.1837	5.5766
2012	2.8383	1.9489	4.7872
2011	1.7682	1.8434	3.6116
2010	2.1914	1.2105	3.4019
2009	2.1863	1.3924	3.5787
A Accumulation			
2013	4.4311	2.8837	7.3148
2012	3.6295	2.5302	6.1597
2011	2.2185	2.0763	4.2948
2010	2.7144	1.5381	4.2525
2009	2.6228	1.6976	4.3204
B Accumulation			
2013	3.3087	1.7070	5.0157
2012	2.7708	1.6570	4.4278
2011	1.5397	1.7976	3.3373
2010	2.0766	0.9323	3.0089
2009	2.1229	1.1614	3.2843
D Income⁺			
2013	-	0.2130	0.2130
D Accumulation⁺			
2013	-	0.2130	0.2130
S Income⁺			
2013	-	0.1173	0.1173
X Income			
2013	4.9765	3.4452	8.4217
2012	4.1568	2.9970	7.1538
2011	-	0.0225	0.0225
X Accumulation			
2013	5.1000	3.5765	8.6765
2012	4.1697	3.0372	7.2069
2011	2.6235	3.3189	5.9424
2010	3.0903	1.8876	4.9779
2009	2.9274	2.0152	4.9426

+ D Income shares and D Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities 98.18% (31 December 2012 96.03%)			
Aerospace & defence 2.02% (31 December 2012 5.75%)			
12,450,000	Cobham	34,137,900	1.23
1,126,853	Ultra Electronics	21,725,726	0.79
		55,863,626	2.02
Automobiles & parts 2.85% (31 December 2012 3.61%)			
21,189,187	GKN	78,950,911	2.85
Banks 4.47% (31 December 2012 8.04%)			
45,500,000	Barclays	123,691,750	4.47
Beverages 0.17% (31 December 2012 3.59%)			
1,658,436	Stock Spirits	4,627,037	0.17
Chemicals 1.61% (31 December 2012 1.51%)			
8,409,460	Alent	29,391,063	1.06
5,615,429	Elementis	15,099,888	0.55
		44,490,951	1.61
Construction & materials 0.47% (31 December 2012 0.71%)			
18,228,600	Low & Bonar	13,079,021	0.47
Electronics & electrical equipment 4.38% (31 December 2012 1.14%)			
7,915,971	Hellermannntyton	23,478,770	0.85
8,200,000	Morgan Crucible	25,912,000	0.94
352,330	Spectris	8,987,938	0.32
5,607,149	Xaar	62,800,069	2.27
		121,178,777	4.38
Equity investment instruments 0.00% (31 December 2012 0.02%)			
126,289	Brookwell 'D' (Preference) [†]	67,565	-
Financial services 8.60% (31 December 2012 6.96%)			
17,380,000	Aberdeen Asset Management	86,048,380	3.11
22,000,000	Ashmore	88,286,000	3.19
10,840,850	Intermediate Capital	45,412,321	1.64
1,130,493	Provident Financial	18,313,986	0.66
		238,060,687	8.60
Food & drug retailers 1.45% (31 December 2012 5.36%)			
24,625,000	Booker	39,991,000	1.45
Food producers 2.10% (31 December 2012 0.00%)			
6,791,450	Devro	19,403,172	0.70
1,449,301	Premier Foods	1,789,887	0.07
4,567,611	Tate & Lyle	36,929,135	1.33
		58,122,194	2.10
General industrials 4.26% (31 December 2012 2.62%)			
11,960,000	DS Smith	39,707,200	1.44
5,285,000	Smiths	78,165,150	2.82
		117,872,350	4.26

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
General retailers 4.01% (31 December 2012 1.60%)			
9,409,472	Brown (N)	50,058,391	1.81
41,249,000	Debenhams	30,111,770	1.09
5,025,000	Inchcape	30,828,375	1.11
		110,998,536	4.01
Healthcare equipment & services 1.82% (31 December 2012 2.37%)			
5,858,085	Smith & Nephew	50,408,821	1.82
Industrial engineering 4.47% (31 December 2012 3.90%)			
615,854	Bodycote	4,120,063	0.15
39,150,000	Melrose	119,681,550	4.32
		123,801,613	4.47
Industrial transportation 0.00% (31 December 2012 1.08%)			
272,515	Minorplanet Systems [†] *	16,487	-
Life insurance 5.64% (31 December 2012 8.22%)			
5,206,642	Just Retirement	10,933,948	0.39
48,000,000	Legal & General	106,848,000	3.86
5,560,900	Partnership Assurance	16,321,242	0.59
3,049,334	Phoenix	22,061,931	0.80
		156,165,121	5.64
Media 14.94% (31 December 2012 11.31%)			
3,364,150	British Sky Broadcasting	28,393,426	1.02
5,420,000	Daily Mail & General Trust 'A'	51,517,100	1.86
5,930,000	Informa	33,949,250	1.23
8,200,000	ITE	25,182,200	0.91
20,000,000	ITV	38,760,000	1.40
7,650,000	Pearson	102,586,500	3.71
8,260,971	Perform	18,504,575	0.67
10,867,500	Reed Elsevier	97,644,488	3.53
2,609,514	UBM	17,053,174	0.61
		413,590,713	14.94
Mining 6.77% (31 December 2012 0.00%)			
2,466,392	Kazakhmys	5,386,600	0.20
5,340,000	Rio Tinto	181,853,700	6.57
		187,240,300	6.77
Non-life insurance 0.99% (31 December 2012 3.31%)			
11,100,000	Esure	27,328,200	0.99
Oil & gas producers 5.02% (31 December 2012 0.74%)			
6,100,000	Royal Dutch Shell 'B'	139,049,500	5.02
Oil equipment, services & distribution 2.73% (31 December 2012 0.00%)			
6,200,000	Petrofac	75,516,000	2.73

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Pharmaceuticals & biotechnology 3.14% (31 December 2012 1.26%)			
5,900,000	BTG	33,836,500	1.22
1,859,825	Shire	53,023,611	1.92
		86,860,111	3.14
Real estate 1.23% (31 December 2012 1.71%)			
31,500,000	Hansteen	34,020,000	1.23
Software & computer services 3.74% (31 December 2012 3.80%)			
1,298,119	EMIS [†]	8,243,056	0.30
31,000,000	Innovation	10,695,000	0.39
19,403,100	Sage	78,330,315	2.83
489,452	Wandisco	6,142,622	0.22
		103,410,993	3.74
Support services 6.19% (31 December 2012 12.35%)			
17,810,000	Hogg Robinson	14,025,375	0.51
12,900,000	Howden Joinery	44,401,800	1.60
3,498,786	John Menzies	24,771,405	0.90
28,225,000	Premier Farnell	62,603,050	2.26
5,100,000	Serco	25,459,200	0.92
		171,260,830	6.19
Technology hardware & equipment 1.17% (31 December 2012 0.00%)			
6,778,987	Sepura	9,422,792	0.34
22,240,500	Spirent Communications	23,018,917	0.83
		32,441,709	1.17
Travel & leisure 3.94% (31 December 2012 5.07%)			
2,297,012	Bwin.Party Digital Entertainment	2,816,137	0.10
11,909,660	Marston's	17,078,452	0.62
6,140,000	Merlin Entertainments	21,790,860	0.79
8,660,480	National Express	23,790,339	0.86
26,000,000	Thomas Cook	43,446,000	1.57
		108,921,788	3.94
Net investment assets		2,717,026,591	98.18
Net other assets		50,432,117	1.82
Net assets attributable to shareholders		2,767,458,708	100.00

* Delisted security.

[†] Listed on Alternative Investment Market (AIM).

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

Statement of total return

for the year ended 31 December 2013

			Year ended 31.12.13	Year ended 31.12.12
	Note	£'000	£'000	£'000
Income				
Net capital gains	2		452,190	132,743
Revenue	3	55,099		15,548
Expenses	4	(18,594)		(5,380)
Finance costs: Interest	6	(1)		(4)
Net revenue before taxation		36,504		10,164
Taxation	5	-		-
Net revenue after taxation			36,504	10,164
Total return before distributions			488,694	142,907
Finance costs: Distributions	6		(36,618)	(10,164)
Change in net assets attributable to shareholders from investment activities			452,076	132,743

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

			Year ended 31.12.13	Year ended 31.12.12
	Note	£'000	£'000	£'000
Opening net assets attributable to shareholders			987,636	209,421
Amounts receivable on issue of shares		1,353,022		651,266
Less: Amounts payable on cancellation of shares		(53,060)		(15,320)
			1,299,962	635,946
Stamp duty reserve tax			(1,395)	(285)
Change in net assets attributable to shareholders from investment activities (see above)			452,076	132,743
Retained distribution on accumulation shares			29,179	9,806
Unclaimed distributions	11		1	5
Closing net assets attributable to shareholders			2,767,459	987,636

The notes on pages 50 to 53 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		2,717,027	948,469
Debtors	7	39,539	7,797
Cash and bank balances		79,963	40,374
Total other assets		119,502	48,171
Total assets		2,836,529	996,640
LIABILITIES			
Creditors	8	62,511	6,353
Distribution payable on income shares		6,559	2,651
Total other liabilities		69,070	9,004
Total liabilities		69,070	9,004
Net assets attributable to shareholders		2,767,459	987,636

The notes on pages 50 to 53 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the UK Opportunities Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	452,747	132,261
Derivative securities	(557)	482
Total	452,190	132,743

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
UK dividends	51,426	13,360
Overseas dividends	2,647	1,834
Property income dividends from real estate investment trusts	527	-
Underwriting commission	390	170
Bank interest	109	58
Stock dividends	-	126
Total	55,099	15,548

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	17,500	5,032
Payable to the Depositary or associate of the Depositary		
Depositary fees	186	60
Safe custody fees	41	11
Total payable to the Depositary or associate of the Depositary	227	71
Payable to other related parties and third parties		
Transfer agency fees	607	183
Administration fees	230	80
Other expenses	19	4
Audit fee*	11	10
Total payable to other related parties and third parties	867	277
Total	18,594	5,380

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £8,860 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	-	-
Current tax charge (see note 5(b))	-	-
(b) Factors affecting current tax charge		
Net revenue before taxation	36,504	10,164
Corporation tax at 20% (2012: 20%)	7,301	2,033
Effects of:		
Franked investment income not taxable	(10,286)	(2,672)
Revenue from offshore investment companies and/or overseas dividends not subject to corporation tax	(529)	(367)
Stock dividends not taxable	-	(25)
Excess expenses not utilised	3,514	1,031
Current tax charge (see note 5(a))	-	-

(c) At 31 December 2013 there is a potential deferred tax asset of £6,346,475 (31 December 2012: £2,832,809) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	22,197	5,795
Final	19,950	8,073
	42,147	13,868
Add: Revenue deducted on cancellation of shares	246	79
Deduct: Revenue received on creation of shares	(5,775)	(3,783)
Net distributions	36,618	10,164
Interest	1	4
Total finance costs	36,619	10,168
Movement between net distributions and net revenue after taxation		
Net distributions	36,618	10,164
Less: Equalisation on conversions	(114)	-
Net revenue after taxation	36,504	10,164

Details of the distributions are set out on pages 54 and 55.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Sales awaiting settlement	27,527	157
Amounts receivable on creation of shares	6,357	6,292
Accrued revenue	5,655	1,345
Income tax recoverable	-	3
Total	39,539	7,797

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Purchases awaiting settlement	55,386	5,421
Accrued expenses	6,510	863
Amounts payable on cancellation of shares	615	69
Total	62,511	6,353

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	2,891,446	1,267,713
Commissions	4,110	1,778
Taxes	12,443	5,651
Total purchase costs	16,553	7,429
Gross purchase total	2,907,999	1,275,142
Gross sales in year before transaction costs	1,594,584	660,243
Commissions	(2,381)	(989)
Taxes	(1)	(1)
Total sales costs	(2,382)	(990)
Total sales net of transaction costs	1,592,202	659,253

11. Unclaimed distributions

The sum of £1,305 (31 December 2012: £4,584) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

During the year the Fund had 5 share classes; A, B, D, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%
 Share Class B: 1.50%
 Share Class D: 0.675%
 Share Class S: 0.375%
 Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 43. The distribution per share class is given in the distribution tables on pages 54 and 55.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are credit, foreign exchange, interest rate, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

At the balance sheet date and at 31 December 2012, the Fund's net assets were all denominated in Sterling with the effect that the balance sheet and total return will not be affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

At the balance sheet date, 2.89% (31 December 2012: 4.09%) of the assets of the Fund and 0.00% (31 December 2012: 0.00%) of the liabilities of the Fund were interest bearing cash and bank balances with the effect that the balance sheet and total return will not be significantly affected by changes to interest rates. Numerical disclosures are therefore not required.

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	5,981	734
Amounts receivable on creation of shares	(6,357)	(6,292)
Amounts payable on cancellation of shares	615	69
Total payable/(receivable) to/(from) the ACD or associate of the ACD	239	(5,489)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.2426304	2.1836732	-	2.1836732	1.9489365
Group 2	0.1918748	1.7268730	0.4568002	2.1836732	1.9489365
A Accumulation					
Group 1	0.3204118	2.8837061	-	2.8837061	2.5302487
Group 2	0.1424379	1.2819412	1.6017649	2.8837061	2.5302487
B Accumulation					
Group 1	0.1896637	1.7069734	-	1.7069734	1.6570310
Group 2	0.0990547	0.8914926	0.8154808	1.7069734	1.6570310
D Income					
Group 1	0.0236667	0.2130000	-	0.2130000	-
Group 2	0.0236667	0.2130000	0.0000000	0.2130000	-
D Accumulation					
Group 1	0.0236667	0.2130000	-	0.2130000	-
Group 2	0.0236667	0.2130000	0.0000000	0.2130000	-
S Income					
Group 1	0.0130370	0.1173333	-	0.1173333	-
Group 2	0.0130370	0.1173333	0.0000000	0.1173333	-
X Income					
Group 1	0.3827987	3.4451881	-	3.4451881	2.9969800
Group 2	0.2684148	2.4157331	1.0294550	3.4451881	2.9969800
X Accumulation					
Group 1	0.3973880	3.5764920	-	3.5764920	3.0371596
Group 2	0.1599601	1.4396413	2.1368507	3.5764920	3.0371596

Distribution tables (continued)

for the year ended 31 December 2013

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.3769849	3.3928639	-	3.3928639	2.8383799
Group 2	0.2210654	1.9895890	1.4032749	3.3928639	2.8383799
A Accumulation					
Group 1	0.4923492	4.4311430	-	4.4311430	3.6295278
Group 2	0.2990420	2.6913776	1.7397654	4.4311430	3.6295278
B Accumulation					
Group 1	0.3676294	3.3086648	-	3.3086648	2.7708000
Group 2	0.2205172	1.9846549	1.3240099	3.3086648	2.7708000
X Income					
Group 1	0.5529400	4.9764596	-	4.9764596	4.1568938
Group 2	0.3275121	2.9476093	2.0288503	4.9764596	4.1568938
X Accumulation					
Group 1	0.5666695	5.1000257	-	5.1000257	4.1697572
Group 2	0.3317529	2.9857764	2.1142493	5.1000257	4.1697572

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

D Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

D Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

S Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 August 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove UK Smaller Companies Fund's ("the Fund") investment objective is to achieve long term capital growth by investing primarily in UK smaller companies. The Fund will invest at least 80 per cent of its assets in UK listed companies that form the bottom 10 per cent by market capitalisation. The Fund may also invest in companies which are headquartered or have significant activities in the UK which are quoted on a stock exchange outside the UK.

The ACD seeks to invest in high quality smaller companies that are capable of producing shareholder value through above average growth in earnings and dividends over the medium to long term. The Fund should benefit from holding a broadly spread portfolio of such companies which will dilute the specific risk inherent in smaller company investment. The Fund will usually maintain a portfolio predominantly invested in equities. It is the intention of the ACD that transactions in derivative instruments may be entered into for efficient portfolio management purposes. Any transaction in derivatives would be undertaken on a covered basis. The borrowing powers permitted by the FCA Rules may be utilised from time to time.

Performance

Over the year to 31 December 2013, the Fund returned +48.1% (X Accumulation share class) against a benchmark return of +43.9%.

Market review

2013 was another very strong year for smaller companies as a whole, the Fund managed to comfortably outperform the peer group and the benchmark again. The Fund exhibited similar characteristics to 2012 with a modest start and a strong mid year period when wider markets were more nervous.

Earnings expectations for the year were for a strong bounce from the declines of 2012 and to some extent the strong performance of indices in 2012 demanded this. In the event it proved to be a second year of earnings rebasing downwards to end flat for the year while share prices continued to rise. Value was a good place to be, especially where stocks were being rehabilitated by the market like Premier Foods, Wincanton or Johnson Service. While the rising tide lifted all boats, those that moved the furthest for us were generally where upgrades rather than downgrades were the norm such as Xaar, Clinigen and Telford Homes. We saw a strong recovery in the market for new issues as the year progressed and we took part in a number of successful debuts such as Stock Spirits, Crest Nicholson and Arrow Global. However, we were less successful with two financial Initial Public Offerings (IPOs), Esure and Partnership Assurance. We also saw the return of merger and acquisition (M&A) to the market in Q4 with bids for Manroy and Andor Technology both from trade buyers.

Portfolio activity

In addition to the new names mentioned above from the IPO market, other significant investments included Marston's, the UK regional brewer and Cranswick the field to fork pork producer and processor. We also took a significant stake in bathroom equipment maker Norcros and drug company BTG in placings. We exited mid caps Renishaw and Ultra Electronics after periods of strong performance, and Chemring and SDL after profits warnings. We also exited our long term position in Elementis having made in c10x our money from the point of initial purchase. We took some profits in car dealers Pendragon and Vertu Motors after strong periods of performance. In a period of strong asset growth we also sold a few names that we felt we would struggle to build into meaningful positions such as Consort Medical, Gresham Computing and Dart.

Outlook

We believe upgrades will be ever more important to deliver performance in the coming months as scope for upward rerating looks limited. You will recall that the last two years have been a story of high earning per share (EPS) growth expectations in January followed by sequential earnings downgrades but strong share price performance. So if earnings do go up 15% this time then the average small cap will probably match that rise, if they don't then 13.5x looks full. Therefore our focus is on finding the best prospects for earnings growth and positive surprises thereof. We don't operate in a vacuum in this quest, and therefore it is not surprising that we've been involved in plenty of new issues and fundraisings where some of this potential is more modestly rated in return for the risk of unproven businesses at the point of floatation.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 6.

The Fund invests in small companies which may be risky and may be difficult to sell with the result that the Fund's share prices may fluctuate more markedly than a fund that invests in larger companies. Investments in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE Small Cap Index (excluding investment trusts)* (£)	4,014.92	2,862.91	40.24	43.86

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	299.12	203.62	46.90	47.74
A Accumulation**	330.78	223.87	47.76	47.76
B Accumulation**	309.35	210.41	47.02	47.02
S Income**	52.49	50.00 ⁺	4.98	4.98
X Income**	342.41	233.07	46.91	48.12
X Accumulation**	348.21	235.07	48.13	48.13

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

⁺ As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	205.70	299.12	226.37	330.78	212.75	309.35
2012	149.20	203.62	163.11	223.87	154.06	210.41
2011	144.00	180.92	156.72	196.88	148.06	186.42
2010	106.50	149.13	113.49	160.25	108.08	152.12
2009	60.59	113.81	64.00	120.88	61.28	115.43

Calendar year	S Income		X Income		X Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	50.03	52.49	235.19	342.41	237.70	348.21
2012	-	-	170.61	233.07	170.85	235.07
2011	-	-	164.14	171.49	164.14	205.97
2010	-	-	-	-	118.40	167.43
2009	-	-	-	-	66.52	125.89

A Income shares, A Accumulation shares and X Accumulation shares were first issued on 2 July 1999 at a price of 59.98p.

B Accumulation shares were first issued on 25 February 2002 at a price of 72.11p.

X Income shares were first issued on 1 December 2011 at a price of 169.96p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	1.07	1.11
A Accumulation	1.06	1.11
B Accumulation	1.57	1.61
S Income	0.44	-
X Income	0.81	0.85
X Accumulation	0.81	0.86

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	76,597,975	25,816,681	296.70
A Accumulation	95,486,463	29,065,496	328.52
B Accumulation	581,578,131	189,289,479	307.24
S Income ⁺	1,562	3,000	52.06
X Income	74,595,736	21,989,395	339.24
X Accumulation	395,166,097	114,265,465	345.83
	1,223,425,964	380,429,516	
31 December 2012			
A Income	41,190,926	20,465,161	201.27
A Accumulation	42,481,531	19,179,179	221.50
B Accumulation	107,752,597	51,754,503	208.20
X Income	20,173,430	8,766,626	230.12
X Accumulation	108,002,041	46,437,560	232.57
	319,600,525	146,603,029	
31 December 2011			
A Income	17,779,779	12,069,688	147.31
A Accumulation	10,412,385	6,465,259	161.05
B Accumulation	27,829,994	18,293,043	152.13
X Income	1,087,600	645,635	168.45
X Accumulation	31,678,526	18,779,502	168.69
	88,788,284	56,253,127	

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	1.1595	0.3808	1.5403
2012	0.9657	0.1837	1.1494
2011	1.3994	0.6800	2.0794
2010	0.9413	0.6770	1.6183
2009	0.4942	0.3932	0.8874
A Accumulation			
2013	1.2623	0.4226	1.6849
2012	1.0708	0.2041	1.2749
2011	1.5086	0.7425	2.2511
2010	0.9840	0.7264	1.7104
2009	0.4875	0.3814	0.8689
B Accumulation			
2013	0.7432	0.0000	0.7432
2012	0.6289	0.0000	0.6289
2011	1.0634	0.3042	1.3676
2010	0.6817	0.3536	1.0353
2009	0.3144	0.1417	0.4561
S Income*			
2013	-	0.0773	0.0773
X Income			
2013	1.6863	0.8356	2.5219
2012	1.4019	0.4835	1.8854
2011	-	0.2331	0.2331
X Accumulation			
2013	1.6594	0.8510	2.5104
2012	1.3105	0.4879	1.7984
2011	1.7957	1.0032	2.7989
2010	1.2016	0.9415	2.1431
2009	0.6449	0.5737	1.2186

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities 91.68% (31 December 2012 97.18%)			
Aerospace & defence 0.10% (31 December 2012 1.09%)			
1,746,474	Manroy [†]	1,222,532	0.10
Banks 0.91% (31 December 2012 1.47%)			
384,665	Secure Trust Bank [†]	11,155,285	0.91
Beverages 2.90% (31 December 2012 1.36%)			
998,920	Nichols [†]	11,747,299	0.96
8,492,838	Stock Spirits	23,695,018	1.94
		35,442,317	2.90
Chemicals 2.29% (31 December 2012 3.12%)			
13,152,858	Scapa [†]	14,928,494	1.22
1,703,269	Treant	13,115,171	1.07
		28,043,665	2.29
Construction & materials 2.51% (31 December 2012 2.40%)			
14,907,000	Low & Bonar	10,695,772	0.88
85,000,000	Norcros	19,975,000	1.63
		30,670,772	2.51
Electricity 0.49% (31 December 2012 1.18%)			
2,673,912	Good Energy	6,016,302	0.49
Electronics & electrical equipment 8.87% (31 December 2012 9.75%)			
1,971,701	Andor Technology [†]	10,292,279	0.84
2,375,200	Gooch & Housego [†]	16,745,160	1.37
6,522,436	Hellermannntyton	19,345,545	1.58
622,446	Judges Scientific	12,635,654	1.03
2,660,000	Volex	3,118,850	0.26
4,142,274	Xaar	46,393,469	3.79
		108,530,957	8.87
Equity investment instruments 0.01% (31 December 2012 0.03%)			
144,169	Brookwell 'D' (Preference) [†]	77,130	0.01
Financial services 3.02% (31 December 2012 4.31%)			
6,876,029	Arrow Global	18,221,477	1.49
7,784,024	FairPoint	10,119,231	0.83
26,364,992	Record	8,568,622	0.70
		36,909,330	3.02
Fixed line telecommunications 1.38% (31 December 2012 0.00%)			
30,000,000	Cable & Wireless Communications	16,875,000	1.38
Food & drug retailers 3.50% (31 December 2012 3.85%)			
7,750,000	Booker	12,586,000	1.03
5,162,624	Clinigen	30,278,790	2.47
		42,864,790	3.50

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Food producers 3.62% (31 December 2012 1.88%)			
1,728,245	Cranswick	20,496,986	1.67
12,450,146	Premier Foods	15,375,930	1.26
1,357,079	Wynnstay [†]	8,481,744	0.69
		44,354,660	3.62
General industrials 2.48% (31 December 2012 4.40%)			
1,850,117	Avon Rubber	10,730,679	0.88
3,066,153	British Polythene Industries	19,623,379	1.60
		30,354,058	2.48
General retailers 7.35% (31 December 2012 4.10%)			
6,250,000	Bonmarche [†]	14,500,000	1.19
5,708,923	CVS	14,843,200	1.21
8,696,492	Lookers	10,522,755	0.86
47,547,983	Pendragon	16,166,314	1.32
14,650,000	Topps Tiles	17,067,250	1.39
28,539,600	Vertu Motors	16,838,364	1.38
		89,937,883	7.35
Health care equipment & services 0.75% (31 December 2012 2.10%)			
27,787,290	EFK Diagnostics	9,239,274	0.75
Household goods & home construction 5.59% (31 December 2012 4.40%)			
5,805,735	Crest Nicholson	21,196,738	1.73
13,000,000	Mar City [†]	12,350,000	1.01
5,091,274	Telford Homes [†]	17,475,798	1.43
10,193,965	Walker Greenbank [†]	17,329,741	1.42
		68,352,277	5.59
Industrial engineering 2.44% (31 December 2012 4.42%)			
35,739,214	Renold	17,690,911	1.45
1,939,000	Vitec	12,157,530	0.99
		29,848,441	2.44
Industrial Transportation 1.36% (31 December 2012 0.00%)			
13,202,229	Wincanton	16,634,809	1.36
Media 3.15% (31 December 2012 6.21%)			
6,020,300	Entertainment One	15,532,374	1.27
58,536,119	Johnston Press	9,365,779	0.77
6,091,989	Perform	13,646,055	1.11
		38,544,208	3.15
Non-life insurance 1.82% (31 December 2012 1.03%)			
23,102,000	Brightside	3,927,340	0.32
7,438,834	Esure	18,314,409	1.50
		22,241,749	1.82
Oil equipment, services & distribution 0.00% (31 December 2012 1.52%)			

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Pharmaceuticals & biotechnology 3.03% (31 December 2012 0.00%)			
2,680,757	Abcam	13,162,517	1.07
4,177,000	BTG	23,955,095	1.96
		37,117,612	3.03
Real estate 6.46% (31 December 2012 2.66%)			
1,392,264	CLS	18,795,564	1.54
17,372,957	Hansteen	18,762,794	1.53
3,500,000	LSL Property Services	15,365,000	1.26
1,350,000	Savills	8,640,000	0.71
4,742,364	Serviced Office Group [†]	5,927,955	0.48
3,150,000	St. Modwen Properties	11,529,000	0.94
		79,020,313	6.46
Software & computer services 8.53% (31 December 2012 11.91%)			
4,187,839	Brady [†]	3,015,244	0.25
2,060,946	Computacenter	12,983,960	1.06
1,859,366	EMIS [†]	11,806,974	0.97
3,324,673	Escher	7,979,215	0.65
20,475,000	Forbidden Technologies [†]	6,142,500	0.50
9,435,000	Infonic*	-	-
43,377,046	Innovation	14,965,081	1.22
70,564,710	Quindell [†]	13,583,707	1.11
6,424,581	Servelec	14,776,536	1.21
1,514,500	Wandisco	19,006,975	1.55
2,430,446	Zattikka	60,761	0.01
		104,320,953	8.53
Support services 10.64% (31 December 2012 14.96%)			
10,878,000	Augean	4,895,100	0.40
74,566,682	Green Compliance [†]	782,950	0.06
13,187,289	Hogg Robinson	10,384,990	0.85
3,038,474	John Menzies	21,512,396	1.76
30,092,708	Johnson Service [†]	16,024,367	1.31
4,052,680	Keywords Studios [†]	4,498,475	0.37
9,254,883	Restore	14,159,971	1.16
3,284,052	Robert Walters	10,229,822	0.83
5,446,848	Smart Metering Systems [†]	16,177,139	1.32
3,050,000	Staffline [†]	16,775,000	1.37
2,222,994	VP	14,805,140	1.21
		130,245,350	10.64
Technology hardware & equipment 3.70% (31 December 2012 4.64%)			
1,986,753	CML Microsystems	10,827,804	0.89
6,056,730	Laird	16,789,256	1.37
9,390,452	Sapura	13,052,728	1.07
3,134,429	Wolfson Microelectronics	4,568,430	0.37
		45,238,218	3.70

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Travel & leisure 4.78% (31 December 2012 4.39%)			
17,243,490	Marston's	24,727,165	2.02
8,778,000	Prezzo	10,884,720	0.89
16,500,000	Spirit Pub	12,663,750	1.04
562,350	Young & Co's Brewery 'A'	5,454,795	0.45
631,100	Young & Co's Brewery Non-Voting	4,701,695	0.38
		58,432,125	4.78
	Net investment assets	1,121,690,010	91.68
	Net other assets	101,735,954	8.32
	Net assets attributable to shareholders	1,223,425,964	100.00

* Delisted security.

† Listed on Alternative Investment Market (AIM).

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		261,913		49,800
Revenue	3	11,719		2,993	
Expenses	4	(8,374)		(2,094)	
Finance costs: Interest	6	-		(4)	
Net revenue before taxation		3,345		895	
Taxation	5	-		-	
Net revenue after taxation			3,345		895
Total return before distributions			265,258		50,695
Finance costs: Distributions	6		(3,866)		(1,024)
Change in net assets attributable to shareholders from investment activities			261,392		49,671

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			319,601		88,788
Amounts receivable on issue of shares		718,085		193,020	
Less: Amounts payable on cancellation of shares		(78,293)		(12,573)	
			639,792		180,447
Stamp duty reserve tax			(830)		(177)
Change in net assets attributable to shareholders from investment activities (see above)			261,392		49,671
Retained distribution on accumulation shares			3,471		872
Closing net assets attributable to shareholders			1,223,426		319,601

The notes on pages 68 to 71 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		1,121,690	310,591
Debtors	7	16,090	4,228
Cash and bank balances		91,989	5,529
Total other assets		108,079	9,757
Total assets		1,229,769	320,348
LIABILITIES			
Creditors	8	6,061	667
Distribution payable on income shares		282	80
Total other liabilities		6,343	747
Total liabilities		6,343	747
Net assets attributable to shareholders		1,223,426	319,601

The notes on pages 68 to 71 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the UK Smaller Companies Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	261,913	49,800

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
UK dividends	11,333	2,968
Property income dividends from real estate investment trusts	295	-
Bank interest	91	14
Underwriting commission	-	11
Total	11,719	2,993

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	7,911	1,912
Payable to the Depositary or associate of the Depositary		
Depositary fees	79	30
Safe custody fees	14	4
Total payable to the Depositary or associate of the Depositary	93	34
Payable to other related parties and third parties		
Transfer agency fees	238	90
Administration fees	105	43
Other expenses	16	5
Audit fee*	11	10
Total payable to other related parties and third parties	370	148
Total	8,374	2,094

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £8,860 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	-	-
Current tax charge (see note 5(b))	-	-
(b) Factors affecting current tax charge		
Net revenue before taxation	3,345	895
Corporation tax at 20% (2012: 20%)	669	179
Effects of:		
Franked investment income not taxable	(2,267)	(594)
Excess expenses not utilised	1,598	415
Current tax charge (see note 5(a))	-	-

(c) At 31 December 2013 there is a potential deferred tax asset of £3,512,170 (31 December 2012: £1,914,458) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	2,917	836
Final	1,377	345
	4,294	1,181
Add: Revenue deducted on cancellation of shares	140	14
Deduct: Revenue received on creation of shares	(568)	(171)
Net distributions	3,866	1,024
Interest	-	4
Total finance costs	3,866	1,028
Movement between net distributions and net revenue after taxation		
Net distributions	3,866	1,024
Less: Net expense payable from capital on share classes in deficit	(438)	(129)
Less: Equalisation on conversions	(83)	-
Net revenue after taxation	3,345	895

Details of the distributions are set out on pages 72 and 73.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Amounts receivable on creation of shares	13,988	3,656
Accrued revenue	1,924	267
Sales awaiting settlement	178	305
Total	16,090	4,228

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Accrued expenses	3,362	341
Amounts payable on cancellation of shares	2,581	16
Purchases awaiting settlement	118	310
Total	6,061	667

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	655,940	225,930
Commissions	684	313
Taxes	2,525	991
Total purchase costs	3,209	1,304
Gross purchase total	659,149	227,234
Gross sales in year before transaction costs	110,093	51,939
Commissions	(131)	(78)
Total sales costs	(131)	(78)
Total sales net of transaction costs	109,962	51,861

11. Shareholders' funds

During the year the Fund had 4 share classes; A, B, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%

Share Class B: 1.50%

Share Class S: 0.375%

Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 60. The distribution per share class is given in the distribution tables on pages 72 and 73.

All share classes have the same rights on winding up.

12. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are credit, foreign exchange, interest rate, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

At the balance sheet date and as at 31 December 2012, the Fund's net assets were all denominated in Sterling with the effect that the balance sheet and total return will not be affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

At the balance sheet date, 7.52% (31 December 2012: 1.73%) of the assets of the Fund were interest bearing cash and bank balances with the effect that the balance sheet and total return will not be significantly affected by changes to interest rates. Numerical disclosures are therefore not required.

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

13. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	3,133	277
Amounts receivable on creation of shares	(13,988)	(3,656)
Amounts payable on cancellation of shares	2,581	16
Total receivable from the ACD or associate of the ACD	(8,274)	(3,363)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.0423126	0.3808137	-	0.3808137	0.1836645
Group 2	0.0236216	0.2125951	0.1682186	0.3808137	0.1836645
A Accumulation					
Group 1	0.0469566	0.4226094	-	0.4226094	0.2040717
Group 2	0.0249831	0.2248480	0.1977614	0.4226094	0.2040717
B Accumulation					
Group 1	0.0000000	0.0000000	-	0.0000000	0.0000000
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
S Income					
Group 1	0.0085926	0.0773333	-	0.0773333	-
Group 2	0.0085926	0.0773333	0.0000000	0.0773333	-
X Income					
Group 1	0.0928446	0.8356016	-	0.8356016	0.4835463
Group 2	0.0504642	0.4541778	0.3814238	0.8356016	0.4835463
X Accumulation					
Group 1	0.0945519	0.8509672	-	0.8509672	0.4878517
Group 2	0.0488516	0.4396643	0.4113029	0.8509672	0.4878517

Distribution tables (continued)

for the year ended 31 December 2013

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.1288295	1.1594656	-	1.1594656	0.9657295
Group 2	0.0977842	0.8800578	0.2794078	1.1594656	0.9657295
A Accumulation					
Group 1	0.1402595	1.2623354	-	1.2623354	1.0708057
Group 2	0.1063316	0.9569843	0.3053511	1.2623354	1.0708057
B Accumulation					
Group 1	0.0825731	0.7431582	-	0.7431582	0.6289480
Group 2	0.0656303	0.5906724	0.1524858	0.7431582	0.6289480
X Income					
Group 1	0.1873719	1.6863471	-	1.6863471	1.4019049
Group 2	0.1510539	1.3594855	0.3268616	1.6863471	1.4019049
X Accumulation					
Group 1	0.1843734	1.6593610	-	1.6593610	1.3104871
Group 2	0.1070774	0.9636970	0.6956640	1.6593610	1.3104871

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

S Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 August 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove UK Corporate Bond Fund ("the Fund") aims to achieve a high income return together with capital growth by investing primarily in fixed income instruments including bonds, notes of fixed and variable interest, preference shares, convertible and other securities issued by government, quasi-government, supranational, bank and corporate entities, and derivative instruments.

The Fund may use forward foreign currency exchange transactions, credit default swaps, interest rate and government bond futures, and other exchange traded and off exchange traded derivative contracts for the purposes of efficient portfolio management and/or meeting the investment objectives of the Fund. Such derivative contracts have the potential to significantly increase the Fund's risk profile.

The ACD employs a risk management process that seeks to control the volatility of Fund returns.

The Fund's net exposure to non-investment grade instruments, as determined by the ACD, may not exceed 20 per cent of net asset value.

Performance

The Fund return approximately +1.1% (B Income share class) over the year compared to the Bank of America Merrill Lynch Sterling non Gilt Index return of +0.8%. Outperformance was largely attributable to the Fund's relatively short duration.

Market review

The gilt market saw yields rise steadily through to mid February as the lack of any real bad news from Europe and the extension to the US debt ceiling negotiation deadline boosted risk appetites. 10 year gilt yields rose from 1.8% at the end of 2012 to a high of 2.3% during this phase. However, there was a sharp turnaround at the end of February as US politicians bumbled their way into automatic budget cuts. Weak UK economic data and concerns over Cyprus helped push that yield down to 1.6% again in early April. The announcement by the US Federal Reserve (the Fed) of its intention to start reining in its Quantitative Easing (QE) program caused extreme volatility in the markets in the second quarter. Yields moved steadily higher with 10 year gilts hitting 3%. This move was halted when the Fed surprised markets at its September meeting by not reducing its stimulus after all. Bond yields, in general, fell for a while partly in reaction to the sharp rise in yields over the previous few months and partly due to a weakening in economic data, particularly in Europe. The latter was sufficient to force the European Central Bank to cut its main refinancing rate to 0.25% from 0.5% at its November meeting. This backdrop proved very positive for risk markets. Over the year as a whole, yields in general rose markedly with 10 year gilt yields rising 1.2% to 3.02% - the highest since July 2011. Credit outperformed gilts significantly with the average sterling investment grade yield spread falling from 1.75% to 1.20%.

When the Fed did announce a modest reduction in its QE bond purchases, markets took it in their stride. This reaction was prompted by the Fed's statement of their intention to keep official interest rates lower for even longer than many had assumed.

Portfolio activity

Holdings were reduced in a few more volatile/less liquid issues such as junior subordinated bank bonds, Telecom Italia and sold Telefonica. The Fund subscribed to new issues from Affinity Water, Kelda, Anglian Water, Virgin Media, Pannon, Arqiva, AT&T (in Euros), Verizon (in dollars) and BUPA, which was sold later in the year. The Fund added long dated bonds of LCR (HS1 rail link), Network Rail, and Lloyds Banking (covered). Duration was lengthened from 5.9 to 6.3 vs benchmark 7.7.

Outlook

With the economic outlook continuing to strengthen especially for developed markets, the momentum has been for higher yields and strong risk markets. There is probably a bit more to go in this direction in the short term but it's always worth considering how much adjustment has been made already. For example, 10 year gilt yields hit a low of 1.41 % in July 2012 and are now 3.02%. The implied level of 5 year gilt yields in five years time is approaching 4.5% or 1.6% higher than in April. This level is close to the consensus forecast level of nominal Gross Domestic Product growth over the next few years – around 4.6% across 2014 and 2015 according to Bloomberg's survey. Similarly credit spreads have travelled a very long way and are back to 2007 levels. So a lot of positive news has been priced in and/or negative risks priced out.

Central banks will have an increasingly tough job juggling the need to withdraw stimulus without seeing yields spike ever higher. Consider also that many of the fundamental headwinds we have mentioned over the years are not any closer to resolution. Take as examples Europe's fundamentally flawed nature as a currency area or the worsening demographics in much of the developed world. The International Monetary Fund warns of the historically extreme debt burdens in the developed world and the potential need for a wave of debt restructurings in coming years. It seems likely that these and other problems will continue to raise their heads in the coming months and years and provide us with significant investment opportunities.

Authorised Corporate Director's investment report (continued)

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 4.

The Fund buys bonds that pay a high rate of interest. The companies that issue these bonds may have uncertain futures and so there is a greater risk that the bond holders will not be paid interest on the bond and/or that they may not get their initial investment back. The Fund buys securities (known as derivatives) whose price is dependent upon or derived from one or more underlying assets. Such investments can significantly raise the Fund's risk profile and cause its share price to fluctuate. Since many derivatives have a borrowing component, changes in the value of the underlying shares or bonds can cause a loss to the Fund which is substantially greater than the amount invested in the derivative itself. Investment in bonds and other fixed interest securities is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	N/A	31 May
Interim	30 June	31 August
Interim	N/A	30 November
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
Bank of America Merrill Lynch Sterling non Gilt* (£)	300.11	297.84	0.76	0.76

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	57.04	58.52	(2.53)	1.37
A Accumulation**	110.31	108.83	1.36	1.36
B Income**	58.16	59.83	(2.79)	1.11
B Accumulation**	58.18	58.13*	0.09	0.09
S Income**	49.31	50.00*	(1.38)	(1.38)
X Income**	109.74	112.33	(2.31)	1.63
X Accumulation**	115.88	114.04	1.61	1.61

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

+ As at 1 October 2013, the share class launch date.

* As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Income		B Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	56.33	59.86	106.91	113.44	57.52	61.14	58.12	59.30
2012	53.83	58.54	97.01	108.87	55.17	59.85	-	-
2011	53.03	56.27	92.52	99.12	54.38	57.73	-	-
2010	52.31	57.33	86.10	96.89	53.89	58.95	-	-
2009	46.94	53.71	74.48	87.42	48.45	55.34	-	-

Calendar year	S Income		X Income		X Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	49.44	50.00	108.25	114.98	112.18	118.98
2012	-	-	105.46	112.37	101.40	114.08
2011	-	-	-	-	96.48	103.50
2010	-	-	-	-	89.55	100.90
2009	-	-	-	-	77.28	90.91

A Income shares and A Accumulation shares were first issued on 2 July 1999 at a price of 57.66p.

X Accumulation shares were first issued on 19 December 2000 at a price of 62.13p.

B Income shares were first issued on 25 February 2002 at a price of 60.15p.

X Income shares were first issued on 11 May 2012 at a price of 106.50p.

B Accumulation shares were first issued on 1 October 2013 at a price of 58.13p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	0.86	0.86
A Accumulation	0.86	0.86
B Income	1.11	1.11
B Accumulation	1.11	-
S Income	0.48	-
X Income	0.61	0.61
X Accumulation	0.61	0.61

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	75,886,992	134,946,250	56.23
A Accumulation	18,043,404	16,420,241	109.89
B Income	20,493,788	35,736,438	57.35
B Accumulation ⁺	3,247,316	5,602,932	57.96
S Income [*]	1,464	3,000	48.80
X Income	35,859,143	33,141,800	108.20
X Accumulation	42,563,892	36,871,873	115.44
	196,095,999	262,722,534	
31 December 2012			
A Income	102,025,005	177,061,128	57.62
A Accumulation	17,407,126	16,084,571	108.22
B Income	29,801,434	50,588,135	58.91
X Income	24,145,773	21,833,206	110.59
X Accumulation	56,172,645	49,531,556	113.41
	229,551,983	315,098,596	
31 December 2011			
A Income	112,739,690	210,818,787	53.48
A Accumulation	19,980,108	20,732,246	96.37
B Income	26,657,440	48,636,267	54.81
X Accumulation	45,874,511	45,538,797	100.74
	205,251,749	325,726,097	

+ B Accumulation shares were first issued on 1 October 2013 at a price of 58.13p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	First interim 31.03 p	Second interim 30.06 p	Third interim 30.09 p	Final 31.12 p	Total p
A Income					
2013	0.5335	0.5911	0.5645	0.5824	2.2715
2012	0.5994	0.6163	0.5509	0.5716	2.3382
2011	0.6205	0.6258	0.6115	0.6158	2.4736
2010	0.6061	0.6176	0.6494	0.6208	2.4939
2009	0.5509	0.5435	0.5713	0.5850	2.2507
A Accumulation					
2013	1.0026	1.1202	1.0812	1.1262	4.3302
2012	1.0800	1.1225	1.0138	1.0674	4.2837
2011	1.0674	1.0898	1.0773	1.0971	4.3316
2010	0.9935	1.0306	1.1008	1.0596	4.1845
2009	0.8654	0.8627	0.9177	0.9509	3.5967
B Income					
2013	0.5466	0.6041	0.5764	0.5938	2.3209
2012	0.6141	0.6310	0.5639	0.5854	2.3944
2011	0.6365	0.6422	0.6275	0.6315	2.5377
2010	0.6261	0.6367	0.6673	0.6396	2.5697
2009	0.5714	0.5641	0.5917	0.6053	2.3325
B Accumulation*					
2013	-	-	-	0.6057	0.6057
S Income*					
2013	-	-	-	0.3180	0.3180
X Income					
2013	1.0318	1.1340	1.0858	1.1188	4.3704
2012	-	0.6072	1.0615	1.1191	2.7878
X Accumulation					
2013	1.0532	1.1754	1.1338	1.1822	4.5446
2012	1.1293	1.1745	1.0624	1.1193	4.4855
2011	1.1122	1.1374	1.1251	1.1467	4.5214
2010	1.0432	1.0743	1.1423	1.1065	4.3663
2009	0.9042	0.9063	0.9612	0.9974	3.7691

+ B Accumulation shares were first issued on 1 October 2013 at a price of 58.13p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities 78.99% (31 December 2012 76.76%)			
United Kingdom government bonds 2.70% (31 December 2012 7.82%)			
£2,800,000	Treasury 4.75% Stock 07/12/2038	3,332,840	1.70
£1,500,000	Treasury 6% Stock 07/12/2028	1,955,250	1.00
		5,288,090	2.70
United Kingdom corporate bonds 76.29% (31 December 2012 68.89%)			
£2,125,000	Abbey National Treasury Services 5.25% Medium Term Notes 16/02/2029	2,369,375	1.21
£1,000,000	Abbey National Treasury Services 5.75% Medium Term Notes 02/03/2026	1,166,760	0.59
£2,000,000	Amlin 6.5% Floating Rate Subordinated Notes 19/12/2026	2,051,000	1.05
£500,000	Anglian Water Services 4.5% Guaranteed Asset Backed Bonds 22/02/2026	479,749	0.24
£4,950,000	Annington Finance No.4 0% Bonds 07/12/2022	3,566,822	1.82
£6,380,000	Annington Finance No.4 0% Bonds 10/01/2023	4,390,665	2.24
£1,200,000	Arqiva Financing 4.882% Notes 31/12/2032	1,181,441	0.60
£1,900,000	Bank of Scotland 11% Bonds 17/01/2014	1,905,050	0.97
£2,000,000	Barclays 5.75% Senior Medium Term Notes 17/08/2021	2,266,706	1.16
£1,500,000	Barclays 6.75% Bonds 16/01/2023	1,634,004	0.83
£755,000	Barclays 10% Subordinated Notes 21/05/2021	974,026	0.50
£2,000,000	BG Energy Capital 5% Guaranteed Notes 04/11/2036	2,115,916	1.08
£1,000,000	BUPA Finance 6.125% Call Subordinated Perpetual Guaranteed Bonds	1,042,120	0.53
£2,500,000	BUPA Finance 7.5% Senior Notes 04/07/2016	2,829,990	1.44
£2,000,000	Care UK Health & Social Care 9.75% Notes 01/08/2017	2,115,000	1.08
£2,250,000	Centrica 4.25% Notes 12/09/2044	2,057,495	1.05
£1,500,000	Coventry Building Society 4.625% Bonds 19/04/2018	1,637,474	0.83
£3,500,000	Coventry Building Society 6% Senior Unsecured Notes 16/10/2019	3,998,565	2.04
£2,000,000	ENW Finance 6.125% Medium Term Notes 21/07/2021	2,299,514	1.17
£1,000,000	Eversholt Funding 5.831% Guaranteed Medium Term Notes 02/12/2020	1,126,115	0.57
£1,110,000	F&C Commercial Property Finance 5.23% Bonds 30/06/2017	1,158,307	0.59
£1,561,000	Fidelity International 6.75% Senior Bonds 19/10/2020	1,736,323	0.89
£1,700,000	Fidelity International 7.125% Senior Bonds 13/02/2024	1,877,533	0.96
£1,750,000	First Hydro Finance 9% Guaranteed Secured Bonds 31/07/2021	2,289,945	1.17
£3,149,000	Friends Provident 12% Guaranteed Subordinated Notes 21/05/2021	4,053,720	2.07
£1,500,000	G4S 7.75% Notes 13/05/2019	1,759,233	0.90
£1,150,000	GlaxoSmithKline 3.375% Guaranteed Senior Notes 20/12/2027	1,040,966	0.53
£2,050,000	GlaxoSmithKline 5.25% Guaranteed Medium Term Notes 20/12/2033	2,293,800	1.17
£1,659,000	Guardian Royal Exchange 6.625% Bonds 21/08/2023	1,893,450	0.97
£1,600,000	Hammerson 6.875% Bonds 31/03/2020	1,893,395	0.97
£2,548,000	Henderson UK Finance 7.25% Notes 24/03/2016	2,689,414	1.37
£1,500,000	HSBC Bank 4.75% Notes 29/09/2020	1,550,262	0.79
£1,536,000	Infinis 7% Senior Bonds 15/02/2019	1,639,680	0.84
£1,924,000	Investec Bank 9.625% Subordinate Notes 17/02/2022	2,119,940	1.08
£1,000,000	Kelda Finance 5.75% Guaranteed Medium Term Notes 17/02/2020	1,027,750	0.52
£3,200,000	LCR Finance 4.5% Guaranteed Asset Backed Notes 07/12/2028	3,404,387	1.74
£2,000,000	Legal & General Floating Rate Bonds 23/07/2041	2,662,060	1.36
£2,000,000	Lloyds TSB Bank 6% Bonds 08/02/2029	2,412,028	1.23
£2,175,000	Lloyds TSB Bank Floating Rate Bonds 29/05/2020	2,272,592	1.16
£1,250,000	London Stock Exchange 6.125% Notes 07/07/2016	1,358,979	0.69
£1,000,000	Motability Operations 5.375% Guaranteed Senior Medium Term Note 28/06/2022	1,120,040	0.57
£1,750,000	National Express 6.25% Guaranteed Senior Notes 13/01/2017	1,916,408	0.98

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities (continued)			
United Kingdom corporate bonds (continued)			
£2,000,000	National Westminster Bank 7.625% Undated Subordinated Perpetual Step-Up Notes	1,850,000	0.94
£3,000,000	Nationwide Building Society 5.625% Medium Term Notes 09/09/2019	3,379,068	1.72
£340,000	Nationwide Building Society 6% Floating Rate Notes 12/02/2018	340,567	0.17
£2,000,000	Network Rail Infrastructure Finance 4.75% Notes 22/01/2024	2,230,696	1.14
£1,600,000	NIE Finance 6.375% Notes 02/06/2026	1,834,845	0.94
£1,660,000	Pennon 6.75% Perpetual Bonds	1,750,785	0.89
£1,500,000	Phoenix Natural Gas Finance 5.5% Guaranteed Bonds 10/07/2017	1,636,647	0.83
£1,235,000	Prudential 6.875% Bonds 20/01/2023	1,514,293	0.77
£882,000	Punch Taverns Finance 6.82% Notes 15/07/2020	925,368	0.47
£2,000,000	Reed Elsevier 5.625% Guaranteed Notes 20/10/2016	2,194,004	1.12
£1,000,000	Royal Bank of Scotland 5.125% Convertible Bonds 13/01/2025	1,108,504	0.56
£2,500,000	Royal Bank of Scotland 6.625% European Medium Term Notes 17/09/2018	2,908,990	1.48
£3,200,000	Royal London Finance 6.125% Perpetual Bonds	3,228,800	1.65
£3,000,000	RSA Insurance 8.5% Cumulative Step-Up Perpetual Notes	3,093,360	1.58
£3,150,000	RWE Finance 6.125% Guaranteed Medium Term Notes 06/07/2039	3,600,759	1.84
£1,333,605	Sceptre Funding No 1 5.253% Bonds 09/02/2027	1,492,618	0.76
£2,300,000	Scottish & Southern Energy 5.453% Perpetual Notes	2,379,396	1.21
£1,350,000	Severn Trent Finance 4.875% Guaranteed Senior Notes 24/01/2042	1,389,056	0.71
£800,000	Severn Trent Utilities Finance 6.25% Guaranteed Bonds 07/06/2029	958,586	0.49
£1,000,000	Slough Estates 5.625% Bonds 07/12/2020	1,114,554	0.57
£1,465,000	South Eastern Power Networks 6.375% Senior Unsecured Notes 12/11/2031	1,764,664	0.90
£2,500,000	Southern Water 5% Bonds 31/03/2021	2,684,200	1.37
£1,000,000	Telereal Securitisation 4.0902% Bonds 10/12/2033	991,280	0.51
£1,920,767	Telereal Securitisation 4.9741% Bonds 10/12/2033	2,089,034	1.07
£2,440,000	Telereal Securitisation 6.1645% Asset Backed Bonds 10/12/2033	2,787,358	1.42
£1,150,000	Tesco Personal Finance 5.2% Bonds 24/08/2018	1,209,800	0.62
£1,660,343	Tesco Property Finance 5.6611% Notes 13/10/2041	1,744,572	0.89
£990,601	Tesco Property Finance 5.744% Bonds 13/04/2040	1,063,076	0.54
£900,000	Thames Water (Kemble) Utilities 7.75% Medium Term Notes 01/04/2019	981,090	0.50
£1,125,000	Wales & West Utilities Finance 5% Medium Term Note 07/03/2028	1,182,492	0.60
£1,500,000	Wales & West Utilities Finance 6.25% Guaranteed Bonds 30/11/2021	1,759,371	0.90
£1,000,000	Western Power 5.75% 23/03/2040	1,148,657	0.59
£2,000,000	Western Power Distribution 5.75% Notes 16/04/2032	2,251,880	1.15
£450,000	Western Power Distribution 5.75% Senior Bonds 23/03/2040	516,594	0.26
£1,100,000	Westfield UK & Europe Finance 4.25% Notes 11/07/2022	1,124,520	0.57
£1,830,000	Yorkshire Building Society 4.75% Guaranteed Rate Notes 23/03/2016	1,986,719	1.01
		149,594,202	76.29
United Kingdom equities 0.00% (31 December 2012 0.05%)			
Overseas debt securities 17.18% (31 December 2012 18.25%)			
Overseas corporate bonds 17.18% (31 December 2012 18.25%)			
£1,000,000	Affinity Water Programme Finance 3.625% Guaranteed Senior Notes 30/09/2022	987,640	0.50
£750,000	Affinity Water Programme Finance 4.5% Guaranteed Senior Notes 31/03/2036	746,893	0.38

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Overseas debt securities (continued)			
Overseas corporate bonds (continued)			
€1,000,000	Ardagh Packaging Finance 7.375% Senior Notes 15/10/2017	891,289	0.46
€500,000	Ardagh Packaging Finance 9.25% Senior Notes 15/10/2020	452,384	0.23
£2,000,000	ASIF III (Jersey) 5.375% Medium Term Notes 14/10/2016	2,180,132	1.11
£1,000,000	AT&T 3.5% Bonds 17/12/2025	839,166	0.43
£1,000,000	Bank of America 6.125% Senior Notes 15/09/2021	1,149,528	0.59
£1,600,000	Belfius Funding Netherlands 5.875% Floating Rate Notes 09/02/2017	1,400,160	0.71
€2,165,525	Boats Investments 11% European Medium Term Notes 31/03/2017	864,793	0.44
€1,500,000	Convatec Healthcare 7.375% Notes 15/12/2017	1,316,717	0.67
£2,950,000	Iberdrola 7.375% European Medium Term Notes 29/01/2024	3,479,661	1.77
£1,000,000	ING Bank London 6.875% European Medium Term Bonds 29/05/2023	1,094,564	0.56
£1,600,000	Lynx I 6% Senior Bonds 2021	1,644,000	0.84
£2,000,000	National Australia Bank 3.625% Senior Medium Term Notes 08/11/2017	2,104,832	1.07
£2,000,000	Pepsico 2.5% Bonds 01/11/2022	1,845,040	0.94
£1,030,000	QBE Insurance 10% Senior Notes 14/03/2014	1,045,106	0.53
€500,000	Rabobank Nederland 6.875% Senior Notes 19/03/2020	470,423	0.24
\$2,600,000	Sable International Finance 7.75% Senior Notes 15/02/2017	1,638,491	0.84
£490,000	Standard Life Funding 6.14% Guaranteed Perpetual Subordinated Notes	493,430	0.25
£1,000,000	Statoilhydro 6.875% Notes 11/03/2031	1,323,543	0.68
£1,000,000	Telecom Italia 7.375% Medium Term Notes 15/12/2017	1,100,350	0.56
£1,500,000	Temasek Financial 5.125% Guaranteed Notes 26/07/2040	1,715,758	0.88
£1,000,000	UBS 6.375% Senior Medium Term Notes 20/07/2016	1,115,840	0.57
€1,070,000	Unitymedia 5.75% Bonds 15/01/2023	917,092	0.47
£1,066,000	Verizon Communications 6.55% Bonds 15/09/2043	753,012	0.38
£1,100,000	Westfield Financial 5.5% Guaranteed Notes 27/06/2017	1,218,765	0.62
£1,000,000	Yorkshire Water Services Bradford Finance 3.625% Unwrapped Bonds 01/12/2049	906,133	0.46
		33,694,742	17.18
Derivatives (0.02)% (31 December 2012 (0.26)%)			
Credit default swaps (0.13)% (31 December 2012 (0.22)%)			
€3,000,000	CDS - Smurfit Kappa Funding 5% 20/03/2016	(245,967)	(0.13)
Forward currency hedges 0.09% (31 December 2012 (0.06)%)			
€543,076	Buy Euro 07/02/2014, Sell Sterling 457,224	(4,688)	-
£836,879	Buy Sterling 07/02/2014, Sell Euro 995,770	7,123	-
£4,426,521	Buy Sterling 27/02/2014, Sell Euro 5,219,000	77,032	0.04
£5,202,830	Buy Sterling 15/05/2014, Sell Euro 6,208,680	25,045	0.02
£1,883,587	Buy Sterling 11/04/2014, Sell US Dollars 3,010,000	60,800	0.03
£650,545	Buy Sterling 15/05/2014, Sell US Dollars 1,064,753	5,569	-
		170,881	0.09

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Derivatives (continued)			
Futures 0.02% (31 December 2012 0.02%)			
(16)	Long Gilt Future March 2014	39,911	0.02
Net investment assets		188,541,859	96.15
Net other assets		7,554,140	3.85
Net assets attributable to shareholders		196,095,999	100.00

At 31 December 2013, 9.38% of the debt securities of £188,577,034 were rated below investment grade (31 December 2012: 8.30%) and 6.25% were unrated (31 December 2012: 5.34%).

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital (losses)/gains	2		(3,550)		18,123
Revenue	3	10,717		11,862	
Expenses	4	(1,698)		(1,845)	
Finance costs: Interest	6	-		(4)	
Net revenue before taxation		9,019		10,013	
Taxation	5	-		-	
Net revenue after taxation			9,019		10,013
Total return before distributions			5,469		28,136
Finance costs: Distributions	6		(10,538)		(11,659)
Change in net assets attributable to shareholders from investment activities			(5,069)		16,477

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			229,552		205,252
Amounts receivable on issue of shares		28,008		53,353	
Less: Amounts payable on cancellation of shares		(58,859)		(48,482)	
			(30,851)		4,871
Change in net assets attributable to shareholders from investment activities (see above)			(5,069)		16,477
Retained distribution on accumulation shares			2,451		2,934
Unclaimed distributions	12		13		18
Closing net assets attributable to shareholders			196,096		229,552

The notes on pages 87 to 93 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		188,793	218,229
Debtors	7	4,421	4,582
Cash and bank balances	8	7,512	11,510
Total other assets		11,933	16,092
Total assets		200,726	234,321
LIABILITIES			
Investment liabilities		251	733
Creditors	9	1,546	2,483
Bank overdraft		1,464	-
Distribution payable on income shares		1,369	1,553
Total other liabilities		4,379	4,036
Total liabilities		4,630	4,769
Net assets attributable to shareholders		196,096	229,552

The notes on pages 87 to 93 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the UK Corporate Bond Fund are included in the notes to the aggregated financial statements.

2. Net capital (losses)/gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities*	(4,057)	17,739
Derivative securities	702	(248)
Forward currency contracts	(137)	647
Currency losses from other capital items	(58)	(15)
Total	(3,550)	18,123

*The effective yield method of accounting for income from fixed income securities may in some circumstances result in adjusting net capital gains or losses as a result of revised cash flow expectations. These adjustments are a requirement of FRS26 application guidance 8 (AG8).

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interest on UK debt securities	7,978	8,766
Interest on overseas debt securities	2,908	3,300
Bank interest	21	40
Net interest from credit default swaps	(190)	(244)
Total	10,717	11,862

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	1,485	1,611
Payable to the Depositary or associate of the Depositary		
Depositary fees	34	35
Safe custody fees	21	23
Total payable to the Depositary or associate of the Depositary	55	58
Payable to other related parties and third parties		
Transfer agency fees	79	88
Administration fees	59	63
Audit fee*	13	10
Other expenses	7	15
Total payable to other related parties and third parties	158	176
Total	1,698	1,845

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £10,660 (31 December 2012: £8,540).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	-	-
Current tax charge (see note 5(b))	-	-
(b) Factors affecting current tax charge		
Net revenue before taxation	9,019	10,013
Corporation tax at 20% (2012: 20%)	1,804	2,003
Effects of:		
Excess expenses not utilised	304	329
Interest distributions deductible for tax purposes	(2,108)	(2,332)
Current tax charge (see note 5(a))	-	-

(c) At 31 December 2013 there is a potential deferred tax asset of £4,225,066 (31 December 2012: £3,921,302) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
First interim	2,524	2,879
Second interim	2,697	3,056
Third interim	2,582	2,873
Final	2,545	2,848
	10,348	11,656
Add: Revenue deducted on cancellation of shares	574	234
Deduct: Revenue received on creation of shares	(384)	(231)
Distributions	10,538	11,659
Interest	-	4
Total finance costs	10,538	11,663
Movement between distributions and net revenue after taxation		
Distributions	10,538	11,659
Less: ACD fee taken to capital	(1,485)	(1,611)
Less: Depositary fee taken to capital	(34)	(35)
Net revenue after taxation	9,019	10,013

Details of the distributions are set out on pages 94 to 96.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Accrued revenue	4,278	4,476
Amounts receivable on creation of shares	143	106
Total	4,421	4,582

8. Cash and bank balances

	31.12.13 £'000	31.12.12 £'000
Cash and bank balances	7,499	11,001
Amounts held at futures clearing houses	13	509
Total	7,512	11,510

9. Creditors

	31.12.13 £'000	31.12.12 £'000
Income tax payable	811	904
Accrued expenses	466	215
Amounts payable on cancellation of shares	269	1,364
Total	1,546	2,483

10. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

11. Portfolio transaction costs

Given the nature of the investments held, no transaction costs were incurred on the Fund's gross purchases of £51,980,265 or gross sales of £77,529,416 during the year to 31 December 2013, or during the comparative year ended 31 December 2012.

12. Unclaimed distributions

The sum of £12,647 (31 December 2012: £17,522) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

13. Shareholders' funds

During the year the Fund had 4 share classes; A, B, S and X.

The ACD fee on each share class is as follows:

Share Class A: 0.75%

Share Class B: 1.00%

Share Class S: 0.375%

Share Class X: 0.50%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 79. The distribution per share class is given in the distribution tables on pages 94 to 96.

All share classes have the same rights on winding up.

14. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are credit, correlation, foreign exchange, interest rate, legal, leveraged, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

Value at Risk (VaR)

Value at Risk (VaR) is an estimate, generated by a statistical model, of the minimum level of loss to be suffered by a fund over a given time horizon with a given probability. VaR is based on portfolio holdings and model parameters at a point in time and is, therefore, likely to change over time.

The Fund is monitored on a daily basis using an outsourced risk measurement service provided by J.P. Morgan Investment Analytics and Consulting.

J.P. Morgan Investment Analytics and Consulting uses risk management software from Algorithmics in order to calculate the VaR (one-month projection period and 99% confidence level). In addition, a number of stress tests are carried out daily which examine how the portfolio might react to moves in a number of factors such as yield curves and credit spreads.

VaR is calculated daily based on the previous day's closing positions. It should be noted that, given the dynamic nature of the portfolio's construction, the VaR is likely to vary considerably over time. As such, the VaR at any point in time should not be relied upon to gauge the average level of risk taken during the accounting period, or the likely level of risk in the future. It should also be noted that, all other things being equal, the VaR will be driven by the prevailing level of volatility in the market.

Also the VaR estimated by the model may underestimate (overestimate) the risk facing the portfolio during the projection period if volatility increases (decreases) materially after the measurement point. It is important to note that if and when actual portfolio losses exceed the levels implied by the VaR model, they may do so by a substantial margin.

Some limitations of VaR analysis are:

- the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- market price risk information is an estimate of risk rather than a precise and accurate number;
- the VaR estimate would be expected to be exceeded on a number of occasions, the frequency depending on the confidence interval chosen; and
- future market conditions could vary significantly from those experienced in the past.

At 31 December 2013, the estimated VaR (one-month, 99%) was 3.03% (31 December 2012: 2.11%) of net asset value.

14. Derivatives and other financial instruments (continued)

(a) Currency exposure

At the balance sheet date, 0.10% (31 December 2012: 0.09%) of the net assets of the Fund were denominated in currencies other than Sterling with the effect that the balance sheet and total return will not be significantly affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:				
Euro	4,101	5,752	524	10,377
Sterling	7,850	175,940	17,332	201,122
US dollar	55	2,391	58	2,504
Total	12,006	184,083	17,914	214,003

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Euro	195	11,099	(11,107)	187
Sterling	20,388	195,591	17,408	233,387
US dollar	-	1,711	(1,697)	14
Total	20,583	208,401	4,604	233,588

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities* £'000	Financial liabilities not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:			
Euro	246	10,357	10,603
Sterling	1,464	3,372	4,836
US dollar	-	2,468	2,468
Total	1,710	16,197	17,907

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Sterling	-	4,036	4,036
Total	-	4,036	4,036

*The floating rate financial liabilities include Sterling bank overdrafts that bore interest at variable rates.

14. Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets and liabilities (continued)

The following table represents the weighted average interest rate on the market value of the Fund and the weighted average period for which the rate is fixed for fixed rate investments and will not necessarily reflect the yield of the Fund.

	Weighted average interest rate %	Weighted average period for which rate is fixed
As at 31 December 2013:		
Euro		
Bonds	4.18	6.21 years
Sterling		
Bonds	4.00	11.12 years
Perpetual bonds	4.89	Undated
US dollar		
Bonds	5.61	11.48 years
As at 31 December 2012:		
Euro		
Bonds	3.46	5.05 years
Sterling		
Bonds	3.81	11.45 years
Perpetual bonds	6.60	Undated
US dollar		
Bonds	4.04	4.10 years

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

15. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	356	137
Amounts receivable on creation of shares	(143)	(106)
Amounts payable on cancellation of shares	269	1,364
Total payable to the ACD or associate of the ACD	482	1,395

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 September 2013

Group 2 – Shares purchased on 1 October 2013 to 31 December 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income						
Group 1	0.7280389	0.1456078	0.5824311	-	0.5824311	0.5715788
Group 2	0.3244973	0.0648995	0.2595978	0.3228333	0.5824311	0.5715788
A Accumulation						
Group 1	1.4077750	0.2815550	1.1262200	-	1.1262200	1.0674102
Group 2	0.6035023	0.1207005	0.4828018	0.6434182	1.1262200	1.0674102
B Income						
Group 1	0.7422461	0.1484492	0.5937969	-	0.5937969	0.5853842
Group 2	0.3580574	0.0716115	0.2864459	0.3073510	0.5937969	0.5853842
B Accumulation						
Group 1	0.7571453	0.1514291	0.6057162	-	0.6057162	-
Group 2	0.0923249	0.0184650	0.0738599	0.5318563	0.6057162	-
S Income						
Group 1	0.3975000	0.0795000	0.3180000	-	0.3180000	-
Group 2	0.3975000	0.0795000	0.3180000	0.0000000	0.3180000	-
X Income						
Group 1	1.3985519	0.2797104	1.1188415	-	1.1188415	1.1191160
Group 2	0.6217996	0.1243599	0.4974397	0.6214018	1.1188415	1.1191160
X Accumulation						
Group 1	1.4777090	0.2955418	1.1821672	-	1.1821672	1.1192538
Group 2	0.5759440	0.1151888	0.4607552	0.7214120	1.1821672	1.1192538

Distribution tables (continued)

for the year ended 31 December 2013

Third interim distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 30 September 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Paid 30.11.13 total p	Paid 30.11.12 total p
A Income						
Group 1	0.7056624	0.1411325	0.5645299	-	0.5645299	0.5509302
Group 2	0.2818084	0.0563617	0.2254467	0.3390832	0.5645299	0.5509302
A Accumulation						
Group 1	1.3515433	0.2703087	1.0812346	-	1.0812346	1.0138206
Group 2	0.7618928	0.1523786	0.6095142	0.4717204	1.0812346	1.0138206
B Income						
Group 1	0.7205103	0.1441021	0.5764082	-	0.5764082	0.5639495
Group 2	0.3365893	0.0673179	0.2692714	0.3071368	0.5764082	0.5639495
X Income						
Group 1	1.3573058	0.2714612	1.0858446	-	1.0858446	1.0614653
Group 2	0.7457046	0.1491409	0.5965637	0.4892809	1.0858446	1.0614653
X Accumulation						
Group 1	1.4172145	0.2834429	1.1337716	-	1.1337716	1.0623649
Group 2	0.6251766	0.1250353	0.5001413	0.6336303	1.1337716	1.0623649

Second interim distribution

Group 1 – Shares purchased on or before 31 March 2013

Group 2 – Shares purchased on 1 April 2013 to 30 June 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income						
Group 1	0.7389194	0.1477839	0.5911355	-	0.5911355	0.6162679
Group 2	0.3831089	0.0766218	0.3064871	0.2846484	0.5911355	0.6162679
A Accumulation						
Group 1	1.4002285	0.2800457	1.1201828	-	1.1201828	1.1225258
Group 2	0.7642724	0.1528545	0.6114179	0.5087649	1.1201828	1.1225258
B Income						
Group 1	0.7550998	0.1510200	0.6040798	-	0.6040798	0.6310392
Group 2	0.4198390	0.0839678	0.3358712	0.2682086	0.6040798	0.6310392
X Income						
Group 1	1.4175458	0.2835092	1.1340366	-	1.1340366	0.6072195
Group 2	0.6046063	0.1209213	0.4836850	0.6503516	1.1340366	0.6072195
X Accumulation						
Group 1	1.4692644	0.2938529	1.1754115	-	1.1754115	1.1744577
Group 2	0.4711378	0.0942276	0.3769102	0.7985013	1.1754115	1.1744577

Distribution tables (continued)

for the year ended 31 December 2013

First interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 31 March 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Paid 31.05.13 total p	Paid 31.05.12 total p
A Income						
Group 1	0.6668372	0.1333674	0.5334698	-	0.5334698	0.5993746
Group 2	0.2917088	0.0583417	0.2333671	0.3001027	0.5334698	0.5993746
A Accumulation						
Group 1	1.2533035	0.2506607	1.0026428	-	1.0026428	1.0800408
Group 2	0.7703893	0.1540778	0.6163115	0.3863313	1.0026428	1.0800408
B Income						
Group 1	0.6832610	0.1366522	0.5466088	-	0.5466088	0.6141175
Group 2	0.2851386	0.0570277	0.2281109	0.3184979	0.5466088	0.6141175
X Income						
Group 1	1.2897020	0.2579404	1.0317616	-	1.0317616	-
Group 2	0.6387006	0.1277401	0.5109605	0.5208011	1.0317616	-
X Accumulation						
Group 1	1.3164672	0.2632934	1.0531738	-	1.0531738	1.1292937
Group 2	0.7683786	0.1536757	0.6147029	0.4384709	1.0531738	1.1292937

* Equalisation

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

Counterparty Exposure

The types of derivatives held at the balance sheet date were credit default swaps, forward currency contracts and futures contracts. Details of individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

Counterparty	Credit default swaps £000	Forward currency contracts £000	Future contracts £000	Total £000
JP Morgan	2,499	171	-	2,670
UBS	-	-	(1,705)	(1,705)

At the balance sheet date no collateral was held by the fund on behalf of the counterparties in respect of the above.

JP Morgan acts as prime broker in relation to the credit default swaps held by the Fund, but uses a number of other counterparties for various business reasons. The Fund is therefore indirectly exposed to BNP Paribas, Credit Suisse, Deutsche Bank, Goldman Sachs, Merrill Lynch and Morgan Stanley, through its direct exposure to JP Morgan.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove European Fund's ("the Fund") investment objective is to achieve long term capital growth by investing in any or all European markets, excluding the UK, and any or all economic sectors.

The Fund aims to maximise the overall rate of return with capital growth as the primary goal. The ACD seeks to invest in a diversified list of companies. Industry groups exhibiting above average growth prospects, strong financial characteristics and proven management are emphasised. A stock selection process seeks to balance value and growth without imposing restrictions upon the size of market capitalisation. Additional diversification is provided by a flexible country allocation strategy.

Performance

Over the year the Fund returned +31.8% (B Accumulation share class) compared to the FTSE World Europe (Ex UK) Index in sterling, which returned +25.2%.

Market review

2013 will go down in market history as the year the bull market in bonds came to an end, and investors finally gave up on commodities and emerging markets. As a result of the price earnings ratio (PER) expansion developed equity market returns were driven by a rise in valuations rather than strength in fundamentals as measured by corporate earnings. The main driver of this process in the first half of the year was the continued rerating of secure or growth assets, which unusually even outperformed in the first quarter. This favoured the US equity market, high quality investment bonds, and sectors such as Food and Beverage and Personal Care. The investment landscape shifted markedly on 22 May 2013 when the Federal Reserve of the US signaled the end of their bond purchasing program, which caused bond like equities and emerging markets and commodities to collapse in June. The second half of the year was all about mean reversion, as the valuations of low risk and high risk began to converge again after a long period of divergence. This process favoured peripheral European economies which had begun to register some Gross Domestic Product growth and more cyclical sectors such as industrials, financials, and consumer cyclicals.

Portfolio activity

We began the year with a value bias but increased it further over the first half year, as we increased weightings in financials via Unicredit and Mediolanum in Italy, and Ageas in Belgium, reflecting our view of rising yields which is positive for banks and insurers. We also moved overweight industrial cyclicals in the light of improving survey data from manufacturers, by adding engineers Sulzer and SKF, and car component supplier Valeo, as we expect global car production to rise in the second half. As a result of rising bond yields we sold growth stocks, like Remy Cointreau, and growth defensives like Sodexo, especially those with exposure to emerging markets, which have seen weaker demand growth. We also see value in Spain and Italy, as their economies try to escape recession, and made these overweight positions in the second half of the year, adding Gamesa in Spain and Intesa SanPaolo in Italy. This was funded by selling down stocks with exposure to struggling France, such as Air France and BIC.

Outlook

Europe has finally moved out of recession in the second half of 2013, and as the peripheral markets see their bond yield spread with Germany come down, the virtuous circle of lower cost of capital should fuel faster growth as the banking sector restores its profitability. As a result of the Asset Quality Review by the European Central Bank, banks should be in a position to respond to credit demand as it picks up slowly over the year, so finally ending the credit crunch in 2014. The biggest risk to this is the political risk of the European Parliamentary elections in May when an anti Europe vote could do surprisingly well in France, where recession still lingers. We shall be more cautious in the spring ahead of these elections, but we remain fundamentally positive on the upturn in European earnings in 2014. Rising bond yields in the US should mean price earning ratios can no longer expand and so earnings must grow for markets to make progress in 2014.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 6.

The Fund invests primarily in European shares. As such it may face increased risk because of currency movements. For example many of the shares bought for the Fund will be valued in euros so the value of your investment will fall if the value of sterling rises against the euro. Investments in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	N/A
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE World Europe (Ex. UK) Index*^ (£)	430.40	355.63	21.02	25.18

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

^ This relates to the FTSE World Index.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	600.97	518.17 [‡]	15.98	15.98
A Accumulation**	600.95	453.53	32.51	32.51
B Accumulation**	569.73	432.14	31.84	31.84
L Income**	53.91	50.00 ⁺	7.82	7.82
L Accumulation**	53.91	50.00 ⁺	7.82	7.82
S Income**	50.64	50.00 ⁺	1.28	1.28
X Income**	589.01	452.35	30.21	32.80
X Accumulation**	626.23	471.40	32.84	32.84

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

[‡] As at 8 May 2013, the share class launch date.

* As at 1 October 2013, the share class launch date.

+ As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Accumulation		L Income	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	484.41	603.33	460.24	603.31	438.49	572.00	50.25	54.12
2012	-	-	359.43	459.10	343.48	437.51	-	-
2011	-	-	342.44	479.53	328.41	460.78	-	-
2010	-	-	378.59	453.29	365.30	437.93	-	-
2009	-	-	286.82	451.01	278.38	436.76	-	-

Calendar year	L Accumulation		S Income		X Income		X Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	50.25	54.12	48.37	50.84	449.97	591.31	478.40	628.67
2012	-	-	-	-	357.97	457.87	373.06	477.16
2011	-	-	-	-	354.79	496.34	349.32	488.68
2010	-	-	-	-	391.04	466.49	391.03	467.87
2009	-	-	-	-	-	-	295.32	464.99

A Accumulation shares and X Accumulation shares were first issued on 2 July 1999 at a price of 241.21p.

B Accumulation shares were first issued on 25 February 2002 at a price of 217.60p.

X Income shares were first issued on 1 April 2010 at a price of 464.66p.

A Income shares were first issued on 8 May 2013 at a price of 518.17p.

L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	1.10	-
A Accumulation	1.10	1.10
B Accumulation	1.60	1.60
L Income	0.77	-
L Accumulation	0.77	-
S Income	0.47	-
X Income	0.85	0.85
X Accumulation	0.85	0.85

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income [‡]	7,654,985	1,300,811	588.48
A Accumulation	137,473,322	22,900,589	600.30
B Accumulation	388,589,045	68,280,110	569.11
L Income [*]	1,615	3,000	53.85
L Accumulation [*]	1,615	3,000	53.85
S Income ⁺	1,518	3,000	50.58
X Income	42,193,315	7,331,615	575.50
X Accumulation	224,303,170	35,856,807	625.55
	800,218,585	135,678,932	
31 December 2012			
A Accumulation	172,703,935	38,320,438	450.68
B Accumulation	362,321,570	84,372,136	429.43
X Income	67,573,781	15,338,120	440.56
X Accumulation	233,856,486	49,920,973	468.45
	836,455,772	187,951,667	
31 December 2011			
A Accumulation	146,438,204	39,105,668	374.47
B Accumulation	332,225,743	92,633,788	358.64
X Income	65,197,694	17,500,512	372.55
X Accumulation	241,524,120	62,211,379	388.23
	785,385,761	211,451,347	

‡ A Income shares were first issued on 8 May 2013 at a price of 518.17p.

* L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Final 31.12 p	Total p
A Income[‡]		
2013	11.8289	11.8289
A Accumulation		
2013	11.8213	11.8213
2012	7.9778	7.9778
2011	8.4637	8.4637
2010	6.5225	6.5225
2009	8.1319	8.1319
B Accumulation		
2013	8.7211	8.7211
2012	5.6858	5.6858
2011	6.0973	6.0973
2010	4.4935	4.4935
2009	6.1607	6.1607
L Income[*]		
2013	0.0000	0.0000
L Accumulation[*]		
2013	0.0000	0.0000
S Income⁺		
2013	0.0000	0.0000
X Income		
2013	12.8829	12.8829
2012	8.9536	8.9536
2011	9.7038	9.7038
2010	7.0550	7.0550
X Accumulation		
2013	13.6982	13.6982
2012	9.3317	9.3317
2011	9.8099	9.8099
2010	7.6064	7.6064
2009	9.5080	9.5080

‡ A Income shares were first issued on 8 May 2013 at a price of 518.17p.

* L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
Overseas equities 96.84% (31 December 2012 98.40%)			
Belgium 4.59% (31 December 2012 3.24%)			
474,487	Ageas	12,217,787	1.53
118,494	EVS Broadcast Equipment	4,603,846	0.57
581,959	KBC Groep	19,916,428	2.49
		36,738,061	4.59
Denmark 3.18% (31 December 2012 0.00%)			
205,270	DS Norden	6,524,064	0.81
578,391	Pandora	18,956,971	2.37
		25,481,035	3.18
Finland 1.74% (31 December 2012 0.00%)			
975,020	Nokia	4,717,054	0.59
905,490	UPM-Kymmene	9,251,019	1.15
		13,968,073	1.74
France 25.90% (31 December 2012 30.51%)			
1,276,210	AXA	21,458,335	2.68
602,253	BNP Paribas	28,364,798	3.54
351,414	EDF	7,509,417	0.94
69,576	Eurofins Scientific	11,310,755	1.41
260,015	Legrand Pronesse	8,665,965	1.08
71,150	Michelin	4,572,787	0.57
307,085	Publicis	16,992,337	2.12
258,252	Renault	12,558,443	1.57
614,127	Societe Generale	21,571,681	2.70
921,394	Total	34,135,451	4.27
264,131	Valeo	17,672,216	2.21
210,494	Zodiac Aerospace	22,477,249	2.81
		207,289,434	25.90
Germany 19.70% (31 December 2012 27.83%)			
104,600	Allianz (Registered)	11,347,935	1.42
289,417	Bayer	24,584,272	3.08
112,450	Beiersdorf	6,893,133	0.86
880,510	Commerzbank	8,570,925	1.07
50,983	Continental	6,763,282	0.84
1,600,203	Deutsche Telekom	16,588,254	2.08
1,021,438	Deutsche Wohnen	11,540,360	1.44
515,130	E.On	5,762,159	0.72
186,923	Henkel Ag & Co	13,142,513	1.64
709,070	Infineon Technologies	4,583,716	0.57
113,057	Leg Immobilien	4,035,174	0.50
280,301	ProSiebenSat. 1 Media	8,391,773	1.05
262,989	SAP	13,681,496	1.71
262,688	Siemens	21,747,760	2.72
		157,632,752	19.70
Italy 7.73% (31 December 2012 5.67%)			
278,656	Azimut	4,590,301	0.57
928,059	Indesit	7,373,718	0.92
8,606,040	Intesa SanPaolo	12,844,978	1.61

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
Overseas equities (continued)			
Italy (continued)			
1,523,934	Moleskine	2,028,587	0.25
4,561,885	Sham	15,409,124	1.93
12,305,830	Telecom Italia	7,376,536	0.92
2,725,742	Unicredit	12,200,415	1.53
		61,823,659	7.73
Netherlands 0.45% (31 December 2012 2.13%)			
119,991	Nutreco	3,588,849	0.45
Norway 2.82% (31 December 2012 3.54%)			
330,060	Statoil	4,825,314	0.60
1,079,370	Storebrand 'A'	4,067,958	0.51
948,768	Telenor	13,653,349	1.71
		22,546,621	2.82
Spain 9.97% (31 December 2012 1.98%)			
2,330,290	Banco Popular Espanol	8,452,867	1.06
3,248,446	Distribuidora Internacional de Alimentacion	17,539,932	2.19
644,393	Fomento de Construciones y Contratas	8,671,669	1.08
2,108,497	Gamesa	13,200,399	1.65
585,070	Indra Sistemas 'A'	5,841,127	0.73
1,825,938	Mediaset Espana Comunicacion	12,608,740	1.58
1,099,269	Prosegur Compania Seguridad	4,435,609	0.55
226,008	Red Electrica	9,025,528	1.13
		79,775,871	9.97
Sweden 1.38% (31 December 2012 2.64%)			
477,110	Ericsson 'B'	3,518,639	0.44
948,939	Volvo 'B'	7,529,116	0.94
		11,047,755	1.38
Switzerland 19.38% (31 December 2012 20.86%)			
82,812	Basilea Pharmaceutica (Registered)	5,925,640	0.74
511,351	Credit Suisse	9,466,853	1.19
46,483	Dufry	4,932,357	0.62
362,506	GAM	4,257,579	0.53
270,519	Implenla	11,900,746	1.49
287,629	Nestle	12,741,325	1.59
522,617	Novartis (Registered)	25,244,097	3.16
758,640	OC Oerlikon	6,875,724	0.86
99,125	RIETER	14,078,173	1.76
180,519	Roche	30,527,979	3.81
55,923	Sulzer	5,459,473	0.68
254,557	Swiss Re	14,170,993	1.77
824,622	UBS	9,466,729	1.18
		155,047,668	19.38
United States of America 0.00% (31 December 2012 0.00%)			
980,000	mcy.com*	59	-

Portfolio statement (continued)

as at 31 December 2013

Stock description	Market value £	Percentage of net assets %
Net investment assets	774,939,837	96.84
Net other assets	25,278,748	3.16
Net assets attributable to shareholders	800,218,585	100.00

* Delisted security.

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		223,493		125,444
Revenue	3	30,394		27,965	
Expenses	4	(10,979)		(9,559)	
Finance costs: Interest	6	(1)		(17)	
Net revenue before taxation		19,414		18,389	
Taxation	5	2,027		(3,214)	
Net revenue after taxation			21,441		15,175
Total return before distributions			244,934		140,619
Finance costs: Distributions	6		(21,696)		(15,175)
Change in net assets attributable to shareholders from investment activities			223,238		125,444

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			836,456		785,386
Amounts transferred to other funds*			-		(27,900)
Amounts receivable on issue of shares		121,362		122,674	
Less: Amounts payable on cancellation of shares		(394,411)		(181,666)	
			(273,049)		(58,992)
Change in net assets attributable to shareholders from investment activities (see above)			223,238		125,444
Retained distribution on accumulation shares			13,574		12,513
Unclaimed distributions	11		-		5
Closing net assets attributable to shareholders			800,219		836,456

The notes on pages 106 to 111 form an integral part of these financial statements.

* The investments transferred as part of the in-specie were valued in accordance with the accounting policy on the valuation of investments shown in the Notes to the financial statements and the Prospectus, on the date of the transfer.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		774,940	823,062
Debtors	7	3,074	3,649
Cash and bank balances		48,758	12,664
Total other assets		51,832	16,313
Total assets		826,772	839,375
LIABILITIES			
Creditors	8	11,358	1,546
Bank overdrafts		14,097	-
Distribution payable on income shares		1,098	1,373
Total other liabilities		26,553	2,919
Total liabilities		26,553	2,919
Net assets attributable to shareholders		800,219	836,456

The notes on pages 106 to 111 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the European Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	225,556	127,675
Currency losses from other capital items	(2,063)	(2,231)
Total	223,493	125,444

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Overseas dividends	29,852	27,749
Bank interest	507	17
Stock dividends	30	74
Interest on overseas debt securities	5	125
Total	30,394	27,965

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	10,151	8,834
Payable to the Depositary or associate of the Depositary		
Safe custody fees	206	154
Depositary fees	91	84
Total payable to the Depositary or associate of the Depositary	297	238
Payable to other related parties and third parties		
Transfer agency fees	367	315
Administration fees	121	108
Other expenses	34	54
Audit fee*	9	10
Total payable to other related parties and third parties	531	487
Total	10,979	9,559

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £7,830 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	(2,027)	3,214
Current tax charge (see note 5(b))	(2,027)	3,214
(b) Factors affecting current tax charge		
Net revenue before taxation	19,414	18,389
Corporation tax at 20% (2012: 20%)	3,883	3,678
Effects of:		
Revenue from offshore investment companies and/or overseas dividends not subject to corporation tax	(5,971)	(5,550)
Overseas tax	(2,027)	3,214
Excess expenses not utilised	2,094	1,887
Stock dividends not taxable	(6)	(15)
Current tax charge (see note 5(a))	(2,027)	3,214

(c) At 31 December 2013 there is a potential deferred tax asset of £7,535,896 (31 December 2012: £5,442,276) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distribution take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Final	14,672	13,886
Add: Revenue deducted on cancellation of shares	8,133	3,296
Deduct: Revenue received on creation of shares	(1,109)	(2,007)
Net distributions	21,696	15,175
Interest	1	17
Total finance costs	21,697	15,192
Movement between net distributions and net revenue after taxation		
Net distributions	21,696	15,175
Less: Equalisation on conversions	(255)	-
Net revenue after taxation	21,441	15,175

Details of the distribution are set out on page 112.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Overseas tax recoverable	1,691	2,151
Amounts receivable on creation of shares	1,383	1,485
Accrued revenue	-	13
Total	3,074	3,649

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Purchases awaiting settlement	7,946	-
Accrued expenses	2,728	1,063
Amounts payable on cancellation of shares	684	483
Total	11,358	1,546

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	625,962	833,878
Commissions	837	1,169
Taxes	370	265
Total purchase costs	1,207	1,434
Gross purchase total	627,169	835,312
Gross sales in year before transaction costs	901,975	902,825
Commissions	(1,083)	(1,184)
Total sales costs	(1,083)	(1,184)
Total sales net of transaction costs	900,892	901,641

11. Unclaimed distributions

The sum of nil (31 December 2012: £4,706) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

During the year the Fund had 5 share classes; A, B, L, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%

Share Class B: 1.50%

Share Class L: 0.675%

Share Class S: 0.375%

Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 99. The distribution per share class is given in the distribution table on page 112.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are correlation, credit, foreign exchange, interest rate, legal, leveraged, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

A proportion of the net assets of the Fund are denominated in currencies other than Sterling, with the effect that the balance sheet and total return can be affected by currency movements.

Currency	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
The net currency assets at 31 December 2013 were:			
Danish krone	(336)	25,481	25,145
Euro	28,681	560,817	589,498
Norwegian krone	(81)	22,546	22,465
Sterling	(1,546)	-	(1,546)
Swedish krona	(118)	11,048	10,930
Swiss franc	(1,347)	155,048	153,701
US dollar	26	-	26
Total	25,279	774,940	800,219

The net currency assets at 31 December 2012 were:

Euro	1,244	596,889	598,133
Norwegian krone	-	29,608	29,608
Sterling	11,204	-	11,204
Swedish krona	-	22,109	22,109
Swiss franc	946	174,456	175,402
Total	13,394	823,062	836,456

13. Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:				
Danish krone	-	-	25,480	25,480
Euro	33,085	-	561,720	594,805
Norwegian krone	-	-	22,760	22,760
Sterling	15,673	-	1,383	17,056
Swedish krona	-	-	11,074	11,074
Swiss franc	-	-	155,571	155,571
US dollar	-	-	26	26
Total	48,758	-	778,014	826,772

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Euro	29	-	598,104	598,133
Norwegian krone	-	-	29,608	29,608
Sterling	12,635	-	1,488	14,123
Swedish krona	-	-	22,109	22,109
Swiss franc	-	734	174,668	175,402
Total	12,664	734	825,977	839,375

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities* £'000	Financial liabilities not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:			
Danish krone	-	335	335
Euro	-	5,307	5,307
Norwegian krone	-	295	295
Sterling	14,092	4,510	18,602
Swedish krona	-	144	144
Swiss franc	5	1,865	1,870
Total	14,097	12,456	26,553

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Sterling	-	2,919	2,919
Total	-	2,919	2,919

*The floating rate financial liabilities include Sterling bank overdrafts that bore interest at variable rates.

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	2,338	801
Amounts receivable on creation of shares	(1,383)	(1,485)
Amounts payable on cancellation of shares	684	483
Total payable/(receivable) to/(from) the ACD or associate of the ACD	1,639	(201)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	1.3143236	11.8289120	-	11.8289120	-
Group 2	0.1422801	1.2805205	10.5483915	11.8289120	-
A Accumulation					
Group 1	1.3134803	11.8213231	-	11.8213231	7.9777793
Group 2	0.6350413	5.7153721	6.1059510	11.8213231	7.9777793
B Accumulation					
Group 1	0.9690205	8.7211843	-	8.7211843	5.6857501
Group 2	0.3260662	2.9345955	5.7865888	8.7211843	5.6857501
L Income					
Group 1	0.0000000	0.0000000	-	0.0000000	-
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	-
L Accumulation					
Group 1	0.0000000	0.0000000	-	0.0000000	-
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	-
S Income					
Group 1	0.0000000	0.0000000	-	0.0000000	-
Group 2	0.0000000	0.0000000	0.0000000	0.0000000	-
X Income					
Group 1	1.4314357	12.8829210	-	12.8829210	8.9535767
Group 2	0.7712421	6.9411787	5.9417423	12.8829210	8.9535767
X Accumulation					
Group 1	1.5220224	13.6982014	-	13.6982014	9.3317357
Group 2	0.4789380	4.3104420	9.3877594	13.6982014	9.3317357

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Income

- (i) 0.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Accumulation

- (i) 0.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

S Income

- (i) 0.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove UK Growth and Income Fund ("the Fund") aims to achieve long term capital and income growth through investment primarily in the United Kingdom. Investments will be made predominantly in UK equities, fixed interest and other securities.

Performance

The Fund returned +25.8% (X Accumulation share class) versus +20.8% for the FTSE All Share Index (close on close, Factset estimates). Positives included overweights in Financial Services, Media and Automobiles & parts, underweights in Tobacco, Beverages and Gas & Water; overweights in outperforming 3i, International Consolidated Airlines and Daily Mail & General Trust and underweights in BHP Billiton, Standard Chartered and Royal Dutch Shell. Negatives included overweights in Mining and Oil & Gas Producers, underweights in Mobile Telecommunications and Household Goods; overweights in Anglo American, Spirent Communications and Premier Oil and underweights in Vodafone, BT and Rolls Royce.

Market review

The FTSE All Share Index returned +20.8%; the FTSE100 Index, +18.7%; the FTSE250 Index +32.3% and the FTSE Small Cap Index +43.9%. The best sectors were Automobiles (+39% relative), Fixed Line Telecom (+39%) and Forestry & Paper (+34%); the weakest, Metals (-39%), Mining (-28%) and Oil Services (-18%).

Portfolio activity

We increased Commodity Cyclical, adding to Mining by buying BHP Billiton and increasing Glencore Xstrata and Rio Tinto; in Oils we augmented Hunting and Royal Dutch Shell. We added to Industrial Cyclical, buying Electrocomponents, Fenner, GKN, Hellenic Petroleum and Morgan Advanced Materials. Subsequent re-ratings prompted disposals of Regus. These investments were financed by reductions of re-rated Consumer Cyclical and Financials. In consumers, we sold Carnival and Howden Joinery and top sliced Carphone Warehouse, Daily Mail & General Trust, International Consolidated Airlines, Marks & Spencer and WPP. Regarding Financials, we sold 3i and ICAP and trimmed Barclays, Jupiter Fund Management, Lloyds Banking, London Stock Exchange, Prudential and Workspace. In defensives, we bought Royal Mail, Pearson and Britvic and added to Imperial Tobacco and Tesco. Other purchases included Amlin, Ashmore, Foxtons, Hammerson, Marston's and RPC. We sold Babcock International, Invensys and Synergy and reduced AstraZeneca, BP, BG and Vodafone.

Outlook

The outlook is encouraging given an improving global economy and the nascent policy normalisation of US Federal Reserve tapering. Other positives include a US budget deal while reforms in China and Japan are promising. Lowish growth, low inflation and low rates are supportive factors while high cash levels and increasing investment should drive corporate volume, earnings and dividend growth. Given this background, we expect further positive returns from an attractively valued UK market (PE for 2015 of 11.9x and yield of 4.1%) and we maintain a pro-cyclical tilt.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 6.

Investments in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE All Share Index* (£)	3,609.63	3,093.41	16.69	20.81

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	196.10	161.64	21.32	25.45
A Accumulation**	280.78	223.72	25.51	25.51
B Income**	186.02	154.11	20.71	24.82
B Accumulation**	266.77	213.63	24.87	24.87
L Income**	52.97	50.00 ⁺	5.94	5.94
L Accumulation**	52.97	50.00 ⁺	5.94	5.94
S Income**	50.73	50.00 ⁺	1.46	1.46
X Income**	201.79	165.91	21.63	25.76
X Accumulation**	289.21	229.87	25.81	25.81

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

⁺ As at 1 October 2013, the share class launch date.

* As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Income		B Accumulation	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	163.32	196.10	229.20	280.78	155.70	186.02	218.85	266.77
2012	139.56	163.40	189.11	226.16	133.44	155.79	181.11	215.96
2011	133.01	169.05	177.26	221.32	127.39	162.40	170.10	213.03
2010	131.33	165.89	169.95	214.67	126.56	159.48	164.09	206.79
2009	94.77	149.06	116.01	186.49	91.94	144.09	112.70	180.61

Calendar year	L Income		L Accumulation		S Income		X Income	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	50.00	54.08	49.35	52.97	48.42	50.73	167.64	201.79
2012	-	-	-	-	-	-	143.04	167.71
2011	-	-	-	-	-	-	136.09	172.70
2010	-	-	-	-	-	-	133.97	169.41
2009	-	-	-	-	-	-	96.34	151.80

Price history (continued)

Calendar year	X Accumulation	
	Lowest price p	Highest price p
2013	235.49	289.21
2012	194.02	232.36
2011	181.54	226.34
2010	173.53	219.46
2009	118.00	190.07

A Income shares, A Accumulation shares, B Income shares, B Accumulation shares, X Income shares and X Accumulation shares were first issued on 31 December 2002 at a price of 100.00p.

L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	1.08	1.09
A Accumulation	1.08	1.09
B Income	1.58	1.59
B Accumulation	1.58	1.59
L Income	0.76	-
L Accumulation	0.76	-
S Income	0.46	-
X Income	0.83	0.84
X Accumulation	0.83	0.84

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	43,191,882	22,322,316	193.49
A Accumulation	17,309,580	6,171,662	280.47
B Income	20,823,832	11,345,587	183.54
B Accumulation	125,689,156	47,166,543	266.48
L Income ⁺	1,578	3,000	52.61
L Accumulation ⁺	1,587	3,000	52.91
S Income [*]	1,515	3,000	50.51
X Income	89,288,096	44,843,945	199.11
X Accumulation	71,304,790	24,681,934	288.89
	367,612,016	156,540,987	
31 December 2012			
A Income	42,012,838	26,396,957	159.16
A Accumulation	17,426,428	7,801,546	223.37
B Income	22,402,141	14,763,886	151.74
B Accumulation	98,315,702	46,094,937	213.29
X Income	78,141,707	47,832,532	163.37
X Accumulation	49,663,625	21,639,653	229.50
	307,962,441	164,529,511	
31 December 2011			
A Income	55,522,596	38,314,690	144.91
A Accumulation	18,568,409	9,456,509	196.36
B Income	36,415,209	26,224,539	138.86
B Accumulation	123,426,442	65,498,144	188.44
X Income	123,791,002	83,435,469	148.37
X Accumulation	51,510,958	25,596,798	201.24
	409,234,616	248,526,149	

+ L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	3.4751	2.3941	5.8692
2012	3.0797	2.2275	5.3072
2011	2.8934	2.4260	5.3194
2010	2.6071	1.9075	4.5146
2009	2.5933	2.1339	4.7272
A Accumulation			
2013	4.8771	3.4278	8.3049
2012	4.1732	3.0834	7.2566
2011	3.7888	3.2331	7.0219
2010	3.2890	2.4655	5.7545
2009	3.1515	2.6370	5.7885
B Income			
2013	3.3086	2.2742	5.5828
2012	2.9469	2.1265	5.0734
2011	2.7782	2.3234	5.1016
2010	2.5148	1.8333	4.3481
2009	2.5144	2.0581	4.5725
B Accumulation			
2013	4.6507	3.2616	7.9123
2012	3.9995	2.9484	6.9479
2011	3.6444	3.1026	6.7470
2010	3.1989	2.3781	5.5770
2009	3.0841	2.5789	5.6630
L Income⁺			
2013	0.0000	0.2943	0.2943
L Accumulation⁺			
2013	0.0000	0.2943	0.2943
S Income[*]			
2013	0.0000	0.1627	0.1627
X Income			
2013	3.5694	2.4618	6.0312
2012	3.1553	2.2848	5.4401
2011	2.9559	2.4822	5.4381
2010	2.6623	1.9488	4.6111
2009	2.6406	2.1778	4.8184
X Accumulation			
2013	5.0147	3.5244	8.5391
2012	4.2799	3.1659	7.4458
2011	3.8737	3.3115	7.1852
2010	3.3838	2.5308	5.9146
2009	3.2333	2.7265	5.9598

+ L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

* S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities 98.03% (31 December 2012 98.72%)			
Aerospace & defence 2.59% (31 December 2012 3.24%)			
1,316,000	BAE Systems	5,718,020	1.55
197,500	Ultra Electronics	3,807,800	1.04
		9,525,820	2.59
Automobiles & parts 1.41% (31 December 2012 0.00%)			
1,393,000	GKN	5,190,318	1.41
Banks 9.71% (31 December 2012 9.96%)			
4,566,250	Barclays	12,413,351	3.38
1,660,500	HSBC	10,997,492	2.99
10,375,300	Lloyds Banking	8,160,173	2.22
1,216,000	Royal Bank of Scotland	4,111,296	1.12
		35,682,312	9.71
Beverages 0.68% (31 December 2012 0.00%)			
360,000	Britvic	2,482,200	0.68
Chemicals 0.45% (31 December 2012 0.48%)			
474,000	Alent	1,656,630	0.45
Construction & materials 0.95% (31 December 2012 1.05%)			
1,211,000	Balfour Beatty	3,474,359	0.95
Electronics & electrical equipment 1.73% (31 December 2012 0.00%)			
973,900	Hellermannntyton	2,888,587	0.79
1,097,000	Morgan Advanced Materials	3,466,520	0.94
		6,355,107	1.73
Financial services 5.36% (31 December 2012 7.01%)			
953,000	Ashmore	3,824,389	1.04
453,000	Intermediate Capital	1,897,617	0.52
1,123,000	Jupiter Fund Management	4,322,427	1.17
183,000	London Stock Exchange	3,169,560	0.86
250,000	Schroders [#]	6,495,000	1.77
		19,708,993	5.36
Food & drug retailers 2.28% (31 December 2012 1.83%)			
2,511,000	Tesco	8,395,529	2.28
General industrials 2.63% (31 December 2012 1.24%)			
1,065,000	DS Smith	3,535,800	0.96
410,000	RPC	2,419,000	0.66
731,393	Vesuvius	3,726,447	1.01
		9,681,247	2.63
General retailers 1.10% (31 December 2012 1.64%)			
780,000	Carphone Warehouse	2,112,240	0.58
445,000	Marks & Spencer	1,925,070	0.52
		4,037,310	1.10
Healthcare equipment & services 1.67% (31 December 2012 3.21%)			
712,000	Smith & Nephew	6,126,760	1.67

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Industrial engineering 1.41% (31 December 2012 0.80%)			
689,000	Fenner	3,340,272	0.91
85,500	Weir	1,822,860	0.50
		5,163,132	1.41
Industrial transportation 1.32% (31 December 2012 1.57%)			
817,000	BBA Aviation	2,619,302	0.72
390,220	Royal Mail	2,212,547	0.60
		4,831,849	1.32
Life insurance 5.92% (31 December 2012 5.54%)			
2,025,000	Aviva	9,104,400	2.48
401,000	Prudential	5,369,390	1.46
2,064,000	Resolution	7,300,368	1.98
		21,774,158	5.92
Media 7.67% (31 December 2012 7.57%)			
427,300	Daily Mail & General Trust 'A'	4,061,487	1.10
910,000	Informa	5,209,750	1.42
1,297,000	MoneySupermarket.com	2,342,382	0.64
421,000	Pearson	5,645,610	1.54
667,400	Reed Elsevier	5,996,589	1.63
358,000	WPP	4,936,820	1.34
		28,192,638	7.67
Mining 9.95% (31 December 2012 9.84%)			
546,000	Anglo American	7,207,200	1.96
181,000	BHP Billiton	3,377,460	0.92
3,204,000	Glencore Xstrata	10,018,908	2.72
469,400	Rio Tinto	15,985,417	4.35
		36,588,985	9.95
Mobile telecommunications 2.80% (31 December 2012 3.82%)			
4,339,700	Vodafone	10,285,089	2.80
Non-life insurance 0.82% (31 December 2012 0.36%)			
661,300	Amlin	3,024,786	0.82
Oil & gas producers 16.49% (31 December 2012 18.28%)			
860,600	BG	11,166,285	3.04
3,362,000	BP	16,408,241	4.46
1,615,000	Cairn Energy	4,357,270	1.19
3,179,000	EnQuest	4,278,934	1.16
1,633,000	Premier Oil	5,121,088	1.39
793,200	Royal Dutch Shell 'B'	18,080,994	4.92
874,500	Trinity Exploration & Production	1,215,555	0.33
		60,628,367	16.49
Oil equipment, services & distribution 0.77% (31 December 2012 0.40%)			
364,000	Hunting	2,837,380	0.77

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Pharmaceuticals & biotechnology 6.28% (31 December 2012 8.52%)			
163,200	AstraZeneca	5,833,584	1.58
1,071,500	GlaxoSmithKline	17,267,223	4.70
		23,100,807	6.28
Real estate 2.17% (31 December 2012 1.35%)			
1,037,829	Foxtons	3,446,630	0.94
547,000	Hammerson	2,745,940	0.75
337,500	Workspace	1,776,937	0.48
		7,969,507	2.17
Software & computer services 1.48% (31 December 2012 2.46%)			
1,349,876	Sage	5,449,449	1.48
Support services 3.17% (31 December 2012 4.31%)			
1,727,000	Electrocomponents	4,811,422	1.31
2,527,000	Hays	3,264,884	0.89
574,630	Keywords Studios	637,839	0.17
1,325,000	Premier Farnell	2,938,850	0.80
		11,652,995	3.17
Technology hardware & equipment 0.65% (31 December 2012 0.28%)			
2,324,000	Spirent Communications	2,405,340	0.65
Tobacco 2.48% (31 December 2012 1.33%)			
389,700	Imperial Tobacco	9,107,289	2.48
Travel & leisure 4.09% (31 December 2012 2.63%)			
177,600	Go-Ahead	3,122,208	0.85
685,800	International Consolidated Airlines	2,751,430	0.75
1,668,000	Marston's	2,391,912	0.65
716,725	Merlin Entertainments	2,543,657	0.69
714,000	Millennium & Copthorne Hotels	4,226,880	1.15
		15,036,087	4.09
Net investment assets		360,364,443	98.03
Net other assets		7,247,573	1.97
Net assets attributable to shareholders		367,612,016	100.00

A related party to the fund (Note 14).

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

Statement of total return

for the year ended 31 December 2013

			Year ended 31.12.13	Year ended 31.12.12
	Note	£'000	£'000	£'000
Income				
Net capital gains	2		69,191	40,168
Revenue	3	11,330		13,429
Expenses	4	(4,002)		(4,502)
Finance costs: Interest	6	-		(10)
Net revenue before taxation		7,328		8,917
Taxation	5	-		(8)
Net revenue after taxation			7,328	8,909
Total return before distributions			76,519	49,077
Finance costs: Distributions	6		(11,106)	(13,149)
Change in net assets attributable to shareholders from investment activities			65,413	35,928

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

			Year ended 31.12.13	Year ended 31.12.12
	Note	£'000	£'000	£'000
Opening net assets attributable to shareholders			307,962	409,235
Amounts receivable on issue of shares		63,021		67,322
Less: Amounts payable on cancellation of shares		(74,408)		(210,746)
			(11,387)	(143,424)
Stamp duty reserve tax			(460)	(526)
Change in net assets attributable to shareholders from investment activities (see above)			65,413	35,928
Retained distribution on accumulation shares			6,081	6,746
Unclaimed distributions	11		3	3
Closing net assets attributable to shareholders			367,612	307,962

The notes on pages 124 to 128 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		360,364	304,012
Debtors	7	3,083	856
Cash and bank balances		7,844	6,387
Total other assets		10,927	7,243
Total assets		371,291	311,255
LIABILITIES			
Creditors	8	1,783	1,298
Distribution payable on income shares		1,896	1,995
Total other liabilities		3,679	3,293
Total liabilities		3,679	3,293
Net assets attributable to shareholders		367,612	307,962

The notes on pages 124 to 128 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the UK Growth and Income Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	69,191	40,168

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
UK dividends	10,138	11,572
Overseas dividends	1,083	1,553
Property income dividends from real estate investment trusts	64	278
Bank interest	23	26
Underwriting commission	22	-
Total	11,330	13,429

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	3,733	4,191
Payable to the Depositary or associate of the Depositary		
Depositary fees	45	49
Safe custody fees	8	9
Total payable to the Depositary or associate of the Depositary	53	58
Payable to other related parties and third parties		
Transfer agency fees	139	170
Administration fees	57	67
Other expenses	11	6
Audit fee*	9	10
Total payable to other related parties and third parties	216	253
Total	4,002	4,502

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £7,830 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	-	8
Current tax charge (see note 5(b))	-	8
(b) Factors affecting current tax charge		
Net revenue before taxation	7,328	8,917
Corporation tax at 20% (2012: 20%)	1,466	1,783
Effects of:		
Franked investment income not taxable	(2,028)	(2,314)
Revenue from overseas dividends not subject to corporation tax	(217)	(311)
Overseas tax	-	8
Excess expenses not utilised	779	842
Current tax charge (see note 5(a))	-	8

(c) At 31 December 2013 there is a potential deferred tax asset of £10,783,098 (31 December 2012: £10,004,280) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	6,424	7,660
Final	4,516	4,280
	10,940	11,940
Add: Revenue deducted on cancellation of shares	676	1,698
Deduct: Revenue received on creation of shares	(510)	(489)
Net distributions	11,106	13,149
Interest	-	10
Total finance costs	11,106	13,159
Movement between net distributions and net revenue after taxation		
Net distributions	11,106	13,149
Less: ACD fee taken to capital	(3,733)	(4,191)
Less: Depositary fee taken to capital	(45)	(49)
Net revenue after taxation	7,328	8,909

Details of the distributions are set out on pages 129 and 130.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Amounts receivable on creation of shares	2,358	22
Accrued revenue	665	763
Income tax recoverable	60	71
Total	3,083	856

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Accrued expenses	1,117	389
Amounts payable on cancellation of shares	666	909
Total	1,783	1,298

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	97,908	109,595
Commissions	135	164
Taxes	442	501
Total purchase costs	577	665
Gross purchase total	98,485	110,260
Gross sales in year before transaction costs	111,492	246,051
Commissions	(159)	(320)
Taxes	-	(1)
Total sales costs	(159)	(321)
Total sales net of transaction costs	111,333	245,730

11. Unclaimed distributions

The sum of £3,326 (31 December 2012: £2,838) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

During the year the Fund had 5 share classes; A, B, L, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%

Share Class B: 1.50%

Share Class L: 0.675%

Share Class S: 0.375%

Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 117. The distribution per share class is given in the distribution tables on page 129 and 130.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are credit, interest rate, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

At the balance sheet date, 0.00% (31 December 2012: 0.00%) of the net assets of the Fund were denominated in currencies other than Sterling with the effect that the balance sheet and total return will not be significantly affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

At the balance sheet date, 2.13% (31 December 2012: 2.07%) of the assets of the Fund and 0.00% (31 December 2012: 0.00%) of the liabilities of the Fund were interest bearing cash and bank balances with the effect that the balance sheet and total return will not be significantly affected by changes to interest rates. Numerical disclosures are therefore not required.

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	984	289
Amounts receivable on creation of shares	(2,358)	(22)
Amounts payable on cancellation of shares	666	909
Total (receivable)/payable (from)/to the ACD or associate of the ACD	(708)	1,176

At year end the Fund had a holding in Schroders as disclosed in the Portfolio statement on page 121. The revenue received from the related party holding was £115,000.

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.2660107	2.3940962	-	2.3940962	2.2275154
Group 2	0.0494443	0.4449985	1.9490977	2.3940962	2.2275154
A Accumulation					
Group 1	0.3808689	3.4278197	-	3.4278197	3.0833631
Group 2	0.1660604	1.4945435	1.9332762	3.4278197	3.0833631
B Income					
Group 1	0.2526929	2.2742365	-	2.2742365	2.1265090
Group 2	0.1050041	0.9450372	1.3291993	2.2742365	2.1265090
B Accumulation					
Group 1	0.3624047	3.2616425	-	3.2616425	2.9483702
Group 2	0.1592014	1.4328122	1.8288303	3.2616425	2.9483702
L Income					
Group 1	0.0327037	0.2943333	-	0.2943333	-
Group 2	0.0327037	0.2943333	0.0000000	0.2943333	-
L Accumulation					
Group 1	0.0327037	0.2943333	-	0.2943333	-
Group 2	0.0327037	0.2943333	0.0000000	0.2943333	-
S Income					
Group 1	0.0180741	0.1626666	-	0.1626666	-
Group 2	0.0180741	0.1626666	0.0000000	0.1626666	-
X Income					
Group 1	0.2735358	2.4618221	-	2.4618221	2.2847775
Group 2	0.0998894	0.8990049	1.5628172	2.4618221	2.2847775
X Accumulation					
Group 1	0.3916028	3.5244254	-	3.5244254	3.1658950
Group 2	0.2420789	2.1787102	1.3457152	3.5244254	3.1658950

Distribution tables (continued)

for the year ended 31 December 2013

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation*	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.3861168	3.4750510	-	3.4750510	3.0796918
Group 2	0.1364442	1.2279977	2.2470533	3.4750510	3.0796918
A Accumulation					
Group 1	0.5418983	4.8770851	-	4.8770851	4.1731979
Group 2	0.2848012	2.5632109	2.3138742	4.8770851	4.1731979
B Income					
Group 1	0.3676199	3.3085792	-	3.3085792	2.9469474
Group 2	0.2306110	2.0754990	1.2330802	3.3085792	2.9469474
B Accumulation					
Group 1	0.5167451	4.6507055	-	4.6507055	3.9995099
Group 2	0.2129117	1.9162054	2.7345001	4.6507055	3.9995099
X Income					
Group 1	0.3965996	3.5693960	-	3.5693960	3.1552585
Group 2	0.2095812	1.8862309	1.6831651	3.5693960	3.1552585
X Accumulation					
Group 1	0.5571912	5.0147211	-	5.0147211	4.2799195
Group 2	0.3152784	2.8375057	2.1772154	5.0147211	4.2799195

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

S Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 August 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The UK Equity Income Fund ("the Fund") aims to provide a high level of income together with long term capital growth by investing predominantly in United Kingdom equities. Whilst the Fund will invest primarily in United Kingdom equities it may also invest in fixed interest securities, cash, deposits and money market instruments and in other markets.

Performance

Over the year to 31 December 2013 the Fund returned +28.8% (B Income share class) against a benchmark total return of +20.8% (FTSE All Share Index).

Market review

Markets delivered another strong year with the FTSE All Share Index recording a total return of +20.8% led higher by Mid and Small Caps which were up over 32% and 43% respectively. At the sector level Consumer and Industrial Cyclical dominated returns with Automobiles & parts, Paper, Industrial Transport and Travel & Leisure sectors the best of these cyclical areas. Conversely, Commodity Cyclical (mainly Oils and Miners) were the worst performing parts of the market as commodity prices drifted and the economic growth in emerging markets waned. With the exception of Telecommunications, most defensive areas also lagged the rising market with Utilities, Food & Drug Retailers and Tobacco all underperformed in the period.

Performance review

At the sector level the Fund benefitted from overweight positions in the Travel & Leisure, Media and Financials Services sectors and underweights in the Oil & Gas and Mining sectors. On the negative tack, overweight positions in Food & Drug Retailers, Oil Equipment and General Retailers and the underweight position in the Mobile Telecommunications sector held back returns. Key stock drivers to performance included easyJet, ITV and DS Smith within cyclical while Financials also added value via holdings in 3i, Beazley and Legal & General among others. Detractors to overall performance were positions in John Wood, Partnership Assurance and Ladbroke's and the Fund's underweight exposures to Prudential and Lloyds Banking which delivered substantial outperformance against the market.

Portfolio activity

Over the period the Fund reduced its preference for early cycle cyclical, with disposals of easyJet, Taylor Wimpey, WH Smith and WPP. The proceeds were used to reduce the underweight in Commodity Cyclical, establishing a new holding in Glencore Xstrata and adding to the existing position in Rio Tinto. Elsewhere the Fund selectively added exposure to defensive stocks such as BT and Vodafone.

Outlook

After three years in which earnings forecast have been reduced, we anticipate an upgrade cycle as the economic recovery broadens out. After the strong performance of early cycle assets such as Consumer Cyclical we are tilting the portfolio towards later cycle assets including Industrial Cyclical and selectively to Defensive Growth stocks which will be better placed for the maturing business cycle. In addition, with the current yield on the market at 3.4% and the potential for robust dividend growth over the next twelve months, the outlook for UK income seeking investors remains positive.

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest. The risk and reward indicator for the Fund is 6.

Investments in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE All Share Index (£)*	3,609.63	3,093.41	16.69	20.81

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	169.05	135.84	24.45	29.44
A Accumulation**	172.73	155.60 [†]	11.01	11.01
B Income**	161.79	130.67	23.82	28.80
B Accumulation**	161.80	152.45 [‡]	6.13	6.13
L Income**	53.17	50.00 [‡]	6.34	6.34
L Accumulation**	53.17	50.00 [‡]	6.34	6.34
S Income**	50.52	50.00 [‡]	1.04	1.04
X Income**	173.23	138.83	24.78	29.77
X Accumulation**	180.22	138.84	29.80	29.80

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

[†] As at 8 May 2013, the share class launch date.

* As at 1 October 2013 the share class launch date.

+ As at 1 November 2013 the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Income		B Accumulation	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	136.13	169.05	147.46	172.73	130.95	161.79	150.28	161.80
2012	116.06	136.98	-	-	112.19	131.77	-	-
2011	103.86	124.79	-	-	100.60	121.02	-	-
2010	96.46	120.76	-	-	93.93	117.33	-	-
2009	72.70	107.56	-	-	71.29	105.07	-	-

Calendar year	L Income		L Accumulation		S Income		X Income	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	49.30	53.17	49.30	53.17	48.50	50.52	139.12	173.23
2012	-	-	-	-	-	-	118.29	139.99
2011	-	-	-	-	-	-	105.76	126.96
2010	-	-	-	-	-	-	98.00	122.68
2009	-	-	-	-	-	-	73.59	109.11

Calendar year	X Accumulation	
	Lowest price	Highest price
	p	p
2013	141.68	180.22
2012	136.67	140.00
2011	-	-
2010	-	-
2009	-	-

A Income shares, B Income shares and X Income shares were first issued on 6 May 2005 at a price of 100.00p.

X Accumulation shares were first issued on 3 December 2012 at a price of 136.84p.

A Accumulation shares were first issued on 8 May 2013 at a price of 155.60p.

B Accumulation shares were first issued on 1 October 2013 at a price of 152.45p.

L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	1.07	1.11
A Accumulation	1.07	-
B Income	1.57	1.62
B Accumulation	1.57	-
L Income	0.75	-
L Accumulation	0.75	-
S Income	0.45	-
X Income	0.82	0.86
X Accumulation	0.82	0.86

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	76,614,632	46,194,127	165.85
A Accumulation [‡]	14,752,454	8,543,965	172.67
B Income	103,573,667	65,244,138	158.75
B Accumulation [#]	1,823,583	1,127,467	161.74
L Income [*]	1,582	3,000	52.73
L Accumulation [*]	1,594	3,000	53.15
S Income ⁺	1,507	3,000	50.24
X Income	563,284,898	331,494,168	169.92
X Accumulation	35,207,668	19,542,848	180.16
	795,261,585	472,155,713	
31 December 2012			
A Income	55,114,194	41,423,062	133.05
B Income	50,460,672	39,424,137	127.99
X Income	63,477,638	46,687,472	135.96
X Accumulation [†]	759,197	548,029	138.53
	169,811,701	128,082,700	
31 December 2011			
A Income	42,049,093	36,522,797	115.13
B Income	8,674,022	7,792,846	111.31
X Income	7,048,285	6,006,638	117.34
	57,771,400	50,322,281	

[‡] A Accumulation shares were first issued on 8 May 2013 at a price of 155.60p.

[#] B Accumulation shares were first issued on 1 October 2013 at a price of 152.45p.

^{*} L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

⁺ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

[†] X Accumulation shares were first issued on 3 December 2012 at a price of 136.84p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	3.2522	3.1318	6.3840
2012	2.8280	2.4876	5.3156
2011	2.6680	2.3541	5.0221
2010	2.6948	1.9579	4.6527
2009	2.6948	2.2520	4.9468
A Accumulation[‡]			
2013	3.2522	3.1942	6.4464
B Income			
2013	3.1472	2.9792	6.1264
2012	2.7367	2.3906	5.1273
2011	2.5818	2.2794	4.8612
2010	2.6603	1.8930	4.5533
2009	2.6603	2.1758	4.8361
B Accumulation[†]			
2013	-	2.9825	2.9825
L Income[*]			
2013	-	0.4263	0.4263
L Accumulation[*]			
2013	-	0.4263	0.4263
S Income⁺			
2013	-	0.2690	0.2690
X Income			
2013	3.2935	3.2389	6.5324
2012	2.8639	2.5606	5.4245
2011	2.7018	2.3974	5.0992
2010	2.7507	1.9251	4.6758
2009	2.7507	2.3384	5.0891
X Accumulation			
2013	3.2935	3.4222	6.7157
2012	-	0.1464	0.1464

‡ A Accumulation shares were first issued on 8 May 2013 at a price of 155.60p.

† B Accumulation shares were first issued on 1 October 2013 at a price of 152.45p.

* L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities 98.50%% (31 December 2012 96.60%)			
Aerospace & defence 2.41% (31 December 2012 1.79%)			
3,600,000	BAE Systems	15,642,000	1.96
1,300,000	Cobham	3,564,600	0.45
		19,206,600	2.41
Automobiles & parts 0.00% (31 December 2012 1.89%)			
Banks 3.47% (31 December 2012 9.79%)			
10,145,990	Barclays	27,581,874	3.47
Chemicals 0.00% (31 December 2012 1.96%)			
Construction & materials 2.10% (31 December 2012 0.00%)			
2,200,000	Balfour Beatty	6,311,800	0.79
567,000	Kier	10,370,430	1.31
		16,682,230	2.10
Electricity 0.22% (31 December 2012 1.92%)			
750,000	Infinis Energy	1,738,125	0.22
Electronics & electrical equipment 2.05% (31 December 2012 0.00%)			
2,200,000	Hellermannntyton	6,525,200	0.82
3,100,000	Morgan Advanced Materials	9,796,000	1.23
		16,321,200	2.05
Financial services 7.84% (31 December 2012 8.59%)			
2,323,000	3i	8,945,873	1.12
3,000,000	Aberdeen Asset Management	14,853,000	1.87
900,000	Close Brothers	12,330,000	1.55
2,400,000	Intermediate Capital	10,053,599	1.26
2,944,730	Jupiter Fund Management	11,334,266	1.43
4,947,000	Man	4,202,477	0.53
700,000	Sherborne Investors	651,000	0.08
		62,370,215	7.84
Fixed line telecommunications 3.36% (31 December 2012 2.65%)			
7,056,000	BT	26,742,240	3.36
Food & drug retailers 2.10% (31 December 2012 2.67%)			
5,000,000	Tesco	16,717,500	2.10
Food producers 1.53% (31 December 2012 1.34%)			
1,502,000	Tate & Lyle	12,143,670	1.53
Gas water & multiutilities 2.87% (31 December 2012 1.47%)			
2,900,000	National Grid	22,852,000	2.87
General industrials 1.74% (31 December 2012 2.26%)			
4,174,000	DS Smith	13,857,680	1.74

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
General retailers 2.33% (31 December 2012 2.83%)			
3,500,000	Carphone Warehouse	9,478,000	1.19
12,379,000	Debenhams	9,036,670	1.14
		18,514,670	2.33
Household goods & home construction 0.00% (31 December 2012 1.36%)			
Industrial engineering 1.48% (31 December 2012 1.32%)			
3,858,147	Melrose	11,794,355	1.48
Industrial transportation 0.73% (31 December 2012 0.00%)			
1,809,834	BBA Aviation	5,802,328	0.73
Life insurance 6.65% (31 December 2012 6.26%)			
3,620,000	Aviva	16,275,520	2.05
8,946,000	Legal & General	19,913,796	2.50
1,000,000	Partnership Assurance	2,935,000	0.37
3,900,000	Resolution	13,794,300	1.73
		52,918,616	6.65
Media 8.20% (31 December 2012 6.01%)			
1,570,000	British Sky Broadcasting	13,250,800	1.67
1,400,000	Daily Mail & General Trust 'A'	13,307,000	1.67
2,000,000	Informa	11,450,000	1.44
6,600,000	ITV	12,790,800	1.61
1,600,000	Reed Elsevier	14,376,000	1.81
		65,174,600	8.20
Mining 5.21% (31 December 2012 4.13%)			
3,447,000	Glencore Xstrata	10,778,769	1.36
900,000	Rio Tinto	30,649,500	3.85
		41,428,269	5.21
Mobile telecommunications 4.92% (31 December 2012 4.73%)			
16,519,000	Vodafone	39,150,030	4.92
Non-life insurance 3.45% (31 December 2012 2.41%)			
602,000	Admiral	7,880,180	0.99
5,200,000	Beazley	14,102,400	1.78
2,200,000	Esure	5,416,400	0.68
		27,398,980	3.45
Oil & gas producers 5.83% (31 December 2012 2.60%)			
9,500,000	BP	46,364,750	5.83
Oil equipment, services & distribution 1.38% (31 December 2012 0.00%)			
1,600,000	John Wood	10,944,000	1.38
Pharmaceuticals & biotechnology 7.97% (31 December 2012 3.43%)			
600,000	AstraZeneca	21,447,000	2.70
2,604,000	GlaxoSmithKline	41,963,460	5.27
		63,410,460	7.97

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities (continued)			
Real estate 0.97% (31 December 2012 0.00%)			
1,200,000	Savills	7,680,000	0.97
Software & computer services 2.79% (31 December 2012 2.11%)			
1,000,000	Micro Focus International	7,660,000	0.96
3,600,000	Sage	14,533,200	1.83
		22,193,200	2.79
Support services 5.29% (31 December 2012 7.30%)			
900,000	Babcock International	12,168,000	1.53
800,000	Berendsen	7,420,000	0.93
1,572,000	Howden Joinery	5,410,824	0.68
998,000	John Menzies	7,065,840	0.89
4,507,000	Premier Farnell	9,996,526	1.26
		42,061,190	5.29
Tobacco 3.58% (31 December 2012 6.41%)			
880,000	British American Tobacco	28,476,800	3.58
Travel & leisure 8.03% (31 December 2012 9.37%)			
1,900,000	Cineworld	7,186,750	0.90
1,600,000	Compass	15,480,000	1.95
1,100,000	Greene King	9,685,500	1.22
3,700,000	International Consolidated Airlines	14,844,400	1.87
4,550,000	National Express	12,498,850	1.57
5,408,000	Spirit Pub	4,150,640	0.52
		63,846,140	8.03
Net investment assets		783,371,722	98.50
Net other assets		11,889,863	1.50
Net assets attributable to shareholders		795,261,585	100.00

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		76,389		15,747
Revenue	3	17,544		4,263	
Expenses	4	(4,445)		(1,207)	
Finance costs: Interest	6	(10)		(3)	
Net revenue before taxation		13,089		3,053	
Taxation	5	-		-	
Net revenue after taxation			13,089		3,053
Total return before distributions			89,478		18,800
Finance costs: Distributions	6		(17,299)		(4,169)
Change in net assets attributable to shareholders from investment activities			72,179		14,631

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			169,812		57,771
Amounts receivable on issue of shares		583,589		103,146	
Less: Amounts payable on cancellation of shares		(31,111)		(5,692)	
			552,478		97,454
Stamp duty reserve tax			(377)		(49)
Change in net assets attributable to shareholders from investment activities (see above)			72,179		14,631
Retained distribution on accumulation shares			1,158		1
Unclaimed distributions	11		12		4
Closing net assets attributable to shareholders			795,262		169,812

The notes on pages 143 to 148 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		783,372	164,032
Debtors	7	4,822	1,942
Cash and bank balances		23,201	8,436
Total other assets		28,023	10,378
Total assets		811,395	174,410
LIABILITIES			
Creditors	8	2,006	1,430
Distribution payable on income shares		14,127	3,168
Total other liabilities		16,133	4,598
Total liabilities		16,133	4,598
Net assets attributable to shareholders		795,262	169,812

The notes on pages 143 to 148 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the UK Equity Income Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities	76,389	15,747

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
UK dividends	16,266	3,936
Overseas dividends	1,139	256
Underwriting commission	76	22
Bank interest	63	15
Property income dividends from real estate investment trusts	-	34
Total	17,544	4,263

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	4,144	1,092
Payable to the Depositary or associate of the Depositary		
Depositary fees	55	24
Safe custody fees	9	2
Total payable to the Depositary or associate of the Depositary	64	26
Payable to other related parties and third parties		
Transfer agency fees	142	42
Administration fees	75	31
Other expenses	11	6
Audit fee*	9	10
Total payable to other related parties and third parties	237	89
Total	4,445	1,207

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £7,830 (31 December 2012: £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	-	-
Current tax charge (see note 5(b))	-	-
(b) Factors affecting current tax charge		
Net revenue before taxation	13,089	3,053
Corporation tax at 20% (2012: 20%)	2,618	611
Effects of:		
Franked investment income not taxable	(3,253)	(787)
Revenue from overseas dividends not subject to corporation tax	(228)	(51)
Excess expenses not utilised	863	227
Current tax charge (see note 5(a))	-	-

(c) At 31 December 2013 there is a potential deferred tax asset of £1,746,427 (31 December 2012: £883,280) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	8,470	2,290
Final	15,102	3,169
	23,572	5,459
Add: Revenue deducted on cancellation of shares	364	69
Deduct: Revenue received on creation of shares	(6,637)	(1,359)
Net distributions	17,299	4,169
Interest	10	3
Total finance costs	17,309	4,172
Movement between net distributions and net revenue after taxation		
Net distributions	17,299	4,169
Less: ACD fee taken to capital	(4,144)	(1,092)
Less: Depositary fee taken to capital	(55)	(24)
Less: Equalisation on conversions	(11)	-
Net revenue after taxation	13,089	3,053

Details of the distributions are set out on pages 159 and 150.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Accrued revenue	3,093	452
Amounts receivable on creation of shares	1,537	508
Sales awaiting settlement	185	975
Income tax recoverable	7	7
Total	4,822	1,942

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Accrued expenses	1,732	196
Amounts payable on cancellation of shares	175	124
Purchases awaiting settlement	99	1,110
Total	2,006	1,430

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	743,661	158,629
Commissions	776	213
Taxes	3,403	740
Total purchase costs	4,179	953
Gross purchase total	747,840	159,582
Gross sales in year before transaction costs	205,207	67,674
Commissions	(306)	(100)
Total sales costs	(306)	(100)
Total sales net of transaction costs	204,901	67,574

11. Unclaimed distributions

The sum of £11,771 (31 December 2012: £4,486) has been credited to the capital property of the Fund during the year and represents unclaimed distributions which have remained unclaimed by shareholders for six years.

12. Shareholders' funds

During the year the Fund had 5 share classes; A, B, L, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%
 Share Class B: 1.50%
 Share Class L: 0.675%
 Share Class S: 0.375%
 Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 136. The distribution per share class is given in the distribution tables on pages 149 and 150.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements

The main risks arising from the Fund's financial instruments are credit, interest rate, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

At the balance sheet date, 0.00% (31 December 2012: 0.00%) of the net assets of the Fund were denominated in currencies other than Sterling with the effect that the balance sheet and total return will not be significantly affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
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The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:

Sterling	23,201	-	788,194	811,395
Total	23,201	-	788,194	811,395

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Sterling	8,423	-	165,974	174,397
US dollar	13	-	-	13
Total	8,436	-	165,974	174,410

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total market value £'000
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The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:

Sterling	-	16,133	16,133
Total	-	16,133	16,133

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Sterling	-	4,598	4,598
Total	-	4,598	4,598

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	1,579	151
Amounts receivable on creation of shares	(1,537)	(508)
Amounts payable on cancellation of shares	175	124
Total payable/(receivable) to/(from) the ACD or associate of the ACD	217	(233)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.3479809	3.1318280	-	3.1318280	2.4876031
Group 2	0.1329371	1.1964340	1.9353940	3.1318280	2.4876031
A Accumulation					
Group 1	0.3549096	3.1941863	-	3.1941863	-
Group 2	0.0925961	0.8333646	2.3608217	3.1941863	-
B Income					
Group 1	0.3310180	2.9791623	-	2.9791623	2.3905801
Group 2	0.1469833	1.3228493	1.6563130	2.9791623	2.3905801
B Accumulation					
Group 1	0.3313887	2.9824979	-	2.9824979	-
Group 2	0.0116471	0.1048239	2.8776740	2.9824979	-
L Income					
Group 1	0.0473704	0.4263333	-	0.4263333	-
Group 2	0.0473704	0.4263333	0.0000000	0.4263333	-
L Accumulation					
Group 1	0.0473704	0.4263333	-	0.4263333	-
Group 2	0.0473704	0.4263333	0.0000000	0.4263333	-
S Income					
Group 1	0.0298889	0.2690000	-	0.2690000	-
Group 2	0.0298889	0.2690000	0.0000000	0.2690000	-
X Income					
Group 1	0.3598724	3.2388518	-	3.2388518	2.5606094
Group 2	0.1300780	1.1707017	2.0681501	3.2388518	2.5606094
X Accumulation					
Group 1	0.3802499	3.4222493	-	3.4222493	0.1464339
Group 2	0.0803862	0.7234757	2.6987736	3.4222493	0.1464339

Distribution tables (continued)

for the year ended 31 December 2013

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation*	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.3613556	3.2522000	-	3.2522000	2.8280000
Group 2	0.1991522	1.7923697	1.4598303	3.2522000	2.8280000
A Accumulation					
Group 1	0.3613556	3.2522000	-	3.2522000	-
Group 2	0.0229843	0.2068587	3.0453413	3.2522000	-
B Income					
Group 1	0.3496894	3.1472050	-	3.1472050	2.7367000
Group 2	0.1689395	1.5204559	1.6267491	3.1472050	2.7367000
X Income					
Group 1	0.3659428	3.2934850	-	3.2934850	2.8639000
Group 2	0.1987507	1.7887566	1.5047284	3.2934850	2.8639000
X Accumulation					
Group 1	0.3659428	3.2934850	-	3.2934850	-
Group 2	0.0664946	0.5984512	2.6950338	3.2934850	-

* Equalisation

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

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

S Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 August 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Authorised Corporate Director's investment report

Investment objective and policy

The Cazenove Strategic Bond Fund ("the Fund") aims to generate a total return above Sterling cash interest rates, primarily through a flexible allocation to investment grade bonds, non-investment grade bonds and derivative instruments. The Fund may invest in rated and unrated securities including bonds, notes of fixed and variable interest, preference shares, equities, convertible and other securities issued by government, quasi-government, supranational, bank and corporate entities, and derivative instruments. The Fund may invest in cash, near cash and deposits without limitation.

The Fund may use forward foreign exchange transactions, futures, credit default swaps and other exchange traded and off-exchange traded derivative contracts for the purposes of efficient portfolio management and/or meeting the investment objectives of the Fund. Such derivative contracts have the potential to significantly increase the Fund's risk profile and may create leveraged exposure to the credit market. Investment in lower rated bonds or non-investment grade debt instruments may also expose the Fund to greater risk of default on individual securities than would normally be the case for a fund invested in higher grade fixed interest securities.

The ACD employs a risk management process that seeks to control the volatility of the Fund. Information about this process is available from the ACD.

Performance

The Fund returned +4.1% over 2013 (X share class), compared to a return of +0.3% on three month UK Treasury Bills. Throughout the period we maintained a positive stance on credit spreads, helping to beat our target of Libor plus 3%. During the past twelve months, the Fund's benefitted from generic spread tightening at the BB level.

Market review

The strength of Anglo Saxon economies translated into higher government bond yields, but lower credit spreads. UK Government bonds suffered their worst year since 1994, with a total return of -4.3%.

Non-investment grade debt outperformed most expectations in 2013 as investors sought yield in a world of low interest rates. The Merrill Lynch BB-B European High Yield Constrained Index generated a total return of 9.9%, composed of 3.2% price appreciation and 6.7% interest income. The yield spread on BB-B rated European bonds tightened by 190bp from 520bp to 330bp. The excess return, above government securities was consequently 10.8%.

The best performing countries were those of the Mediterranean, which benefitted from economic stability in the Eurozone. Insurance, other financials and real estate beat the wider market, demonstrating a healthy appetite for risk amongst investors.

Portfolio activity

We have experienced a high number of maturities this year, as issuers exercised their right to redeem bonds early. Early redemptions included those exercised by Ineos, Ardagh, Smurfit Kappa and Unity Media. Consequently many of our purchases were replacements of and additions to existing positions, such as Jaguar Landrover, Royal London, Virgin Media, Ardagh Glass, Smurfit Kappa, Ineos, Daily Mail & General Trust and Befesa Zinc, Wind Telecom and RSA. We participated in several new high yield bond issues, including Pennon, Infinis, Arqiva, Zobebe, Grainger, Rhiag and Domestic & General.

At the end of 2013, the Fund had an average life to call of 3.4 years. The portfolio's effective interest rate duration was 1.8 and expected yield to call was 3.9% per annum. The portfolio has a 77% exposure to BBB, high yield and unrated securities, although one fifth of that exposure is likely to mature in the next two years. The largest commercial sectors, in order of size, are senior banks (18.3%), healthcare (9.5%), telecom (8.6%), basic industry (7.0%), capital goods (6.3%) and media (6.3%).

Outlook

There is no denying that we are now receiving coupons slightly below the long term average yield spread to government securities. At the end of December, a Credit Suisse index of BB rated bonds yielded 299bp above Treasuries, compared to a long term mean of 382bp (US companies between 1986 and 2013). We do not find this yield spread prohibitively expensive, when compared with Moody's average loss rates, which are approximately 1.1% per annum from 1984 to 2013. At the end of December 2013, the risk premium on BB rated bonds was 2.7 times the long term loss rate. The same can not be said of single B bonds, where the current risk premium of 452bp was only 1.5 times the long term loss rate.

Risk warning

The Fund has substantial exposure to non-investment grade instruments, which have historically experienced a much higher default rate than traditional corporate bonds. The Fund can also invest in derivative instruments which may create leverage, short positions and increase the volatility of returns. The Fund has flexibility to invest in convertible bonds.

Authorised Corporate Director's investment report (continued)

Synthetic risk & reward indicator

The synthetic risk and reward indicator ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 5.

The Fund buys bonds that pay a high rate of interest. The companies that issue these bonds may have uncertain futures and so there is a greater risk that the bond holders will not be paid interest on the bond and/or that they may not get their initial investment back. The Fund buys securities (known as derivatives) whose price is dependent upon or derived from one or more underlying assets. Such investments can significantly raise the Fund's risk profile and cause its share price to fluctuate. Since many derivatives have a borrowing component, changes in the value of the underlying shares or bonds can cause a loss to the Fund which is substantially greater than the amount invested in the derivative itself.

Investment in bonds and other fixed interest securities is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	30 June	31 August
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Total return % change
3 month UK Treasury Bills*	0.30	0.31	0.30

* Source: DMO (Debt Management Office). Total return has been calculated on the duration of the year.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	99.80	100.87	(1.06)	3.78
A Accumulation**	144.58	139.30	3.79	3.79
B Income**	98.22	99.52	(1.31)	3.52
B Accumulation**	143.08	138.21	3.52	3.52
S Income**	50.31	50.00 ⁺	0.62	0.62
X Income**	101.79	102.61	(0.80)	4.05
X Accumulation**	147.56	141.82	4.05	4.05

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

+ As at 1 November 2013, the share class launch date.

Price history

Calendar year	A Income		A Accumulation		B Income		B Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	96.21	101.07	138.96	144.61	94.81	99.62	137.72	143.11
2012	92.00	100.87	124.10	139.30	91.00	99.52	123.43	138.21
2011	91.43	101.55	120.44	130.67	90.49	100.60	119.87	130.17
2010	95.99	102.05	117.87	128.16	95.31	101.22	117.81	127.84
2009	79.81	99.45	93.01	118.95	79.53	98.88	93.16	118.90

Calendar year	S Income		X Income		X Accumulation	
	Lowest price p	Highest price p	Lowest price p	Highest price p	Lowest price p	Highest price p
2013	48.50	50.52	98.00	102.91	141.51	147.59
2012	-	-	93.36	102.61	126.03	141.82
2011	-	-	92.72	102.88	122.24	132.50
2010	-	-	97.04	103.24	119.10	129.78
2009	-	-	80.37	100.40	93.71	120.18

A Income shares, A Accumulation shares, B Income shares, B Accumulation shares, X Income shares and X Accumulation shares were first issued on 4 April 2006 at a price of 100.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.12.13 %	31.12.12 %
A Income	0.84	0.83
A Accumulation	0.84	0.83
B Income	1.09	1.09
B Accumulation	1.09	1.09
S Income	0.12	-
X Income	0.58	0.58
X Accumulation	0.58	0.58

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	147,836,761	152,203,206	97.13
A Accumulation	79,966,407	55,507,658	144.06
B Income	95,760,325	100,184,454	95.58
B Accumulation	32,225,055	22,602,537	142.57
S Income ⁺	1,493	3,000	49.78
X Income	296,303,134	299,103,413	99.06
X Accumulation	30,195,446	20,536,030	147.04
	682,288,621	650,140,298	
31 December 2012			
A Income	149,149,120	152,330,584	97.91
A Accumulation	71,638,924	51,729,722	138.49
B Income	167,801,999	173,709,747	96.60
B Accumulation	48,738,536	35,472,553	137.40
X Income	226,576,093	227,471,286	99.61
X Accumulation	19,311,681	13,697,323	140.99
	683,216,353	654,411,215	
31 December 2011			
A Income	131,141,643	143,779,127	91.21
A Accumulation	59,202,137	48,111,410	123.05
B Income	190,580,079	211,246,831	90.22
B Accumulation	54,769,737	44,748,477	122.39
X Income	215,162,473	232,471,183	92.55
X Accumulation	19,016,682	15,217,529	124.97
	669,872,751	695,574,557	

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Net revenue distributions

Calendar year	Interim 30.06 p	Final 31.12 p	Total p
A Income			
2013	2.3385	2.3203	4.6588
2012	2.2609	2.3668	4.6277
2011	2.3210	2.2006	4.5216
2010	2.3258	2.4210	4.7468
2009	2.3389	2.4256	4.7645
A Accumulation			
2013	3.3090	3.3611	6.6701
2012	3.0497	3.2687	6.3184
2011	2.9869	2.8989	5.8858
2010	2.8456	3.0439	5.8895
2009	2.7116	2.8909	5.6025
B Income			
2013	2.3054	2.2848	4.5902
2012	2.2349	2.3353	4.5702
2011	2.3001	2.1781	4.4782
2010	2.3100	2.4017	4.7117
2009	2.3333	2.4177	4.7510
B Accumulation			
2013	3.2777	3.3284	6.6061
2012	3.0315	3.2416	6.2731
2011	2.9765	2.8852	5.8617
2010	2.8525	3.0338	5.8863
2009	2.7301	2.9258	5.6559
S Income⁺			
2013	0.0000	0.3593	0.3593
X Income			
2013	2.3822	2.3648	4.7470
2012	2.2957	2.4051	4.7008
2011	2.3508	2.2316	4.5824
2010	2.3625	2.4486	4.8111
2009	2.3607	2.4525	4.8132
X Accumulation			
2013	3.3742	3.4282	6.8024
2012	3.0990	3.3253	6.4243
2011	3.0279	2.9423	5.9702
2010	2.8855	3.0778	5.9633
2009	2.7510	2.9332	5.6842

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Portfolio statement

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities 54.21% (31 December 2012 51.61%)			
United Kingdom corporate bonds 54.21% (31 December 2012 51.59%)			
£1,700,000	Abbey National Treasury Services 5.5% Notes 18/06/2014	1,733,759	0.25
£9,350,000	Abbey National Treasury Services Floating Rate Convertible Bonds 16/02/2015	9,485,893	1.39
€1,280,000	Algeco Scotsman Global Finance 9% Bonds 15/10/2018	1,152,777	0.17
£1,370,000	Amlin 6.5% Floating Rate Subordinated Notes 19/12/2026	1,404,935	0.21
£4,300,000	Arqiva Financing 4.04% Notes 30/06/2035	4,273,121	0.63
£1,950,000	Aviva 6.625% Floating Rate Notes 03/06/2041	2,135,934	0.31
£1,460,000	Bank of Scotland 11% Bonds 17/01/2014	1,463,881	0.21
£4,650,000	Barclays Bank Floating Rate Convertible Bonds 20/01/2015	4,713,965	0.69
£2,170,000	Beazley 7.25% Floating Rate Subordinated Notes 17/10/2026	2,206,261	0.32
£7,250,000	Boparan Holdings 9.875% Notes 30/04/2018	7,939,475	1.16
£4,339,000	British Airways 7.25% Bonds 23/08/2016	4,903,070	0.72
£1,670,000	BUPA Finance 5% Notes 25/04/2023	1,646,827	0.24
£2,300,000	BUPA Finance 7.5% Senior Notes 04/07/2016	2,603,591	0.38
£5,090,000	Cable & Wireless International Finance 8.625% Bonds 25/03/2019	5,802,600	0.85
£7,985,000	Care UK Health & Social Care 9.75% Notes 01/08/2017	8,444,137	1.24
£1,850,000	Centrica 7% Notes 19/09/2018	2,194,629	0.32
£5,116,000	Clydesdale Bank Floating Rate Convertible Bonds 08/06/2015	5,214,754	0.76
£3,685,000	Co-operative Bank 5.125% Medium Term Senior Notes 20/09/2017	3,703,425	0.54
£7,795,000	Coventry Building Society 5.875% Notes 28/09/2022	8,883,455	1.30
£1,545,000	Coventry Building Society 6% Senior Unsecured Notes 16/10/2019	1,765,081	0.26
£4,700,000	Coventry Building Society Floating Rate Notes 10/02/2015	4,770,754	0.70
£1,200,000	CPUK Finance 7.239% Notes 28/02/2042	1,429,938	0.21
£10,669,000	Crown Newco 7% Senior Notes 15/02/2018	11,229,122	1.65
£1,141,000	Daily Mail & General Trust 5.75% Bonds 07/12/2018	1,236,699	0.18
£800,000	Daily Mail & General Trust 6.375% Bonds 21/06/2027	846,761	0.12
£4,430,000	Daily Mail & General Trust 10% Bonds 09/04/2021	5,696,094	0.84
€470,000	Eco Bat Finance 7.75% Guaranteed Secured Bonds 15/02/2017	408,622	0.06
£8,940,000	Elli Finance UK 8.75% Notes 15/06/2019	9,901,050	1.45
£660,000	Equiniti Newco 7.125% Bonds 15/12/2018	696,300	0.10
£2,311,000	Equiniti Newco Floating Rate Notes 15/12/2018	2,339,887	0.34
£629,000	F&C Asset Management Floating Rate Subordinated Notes 20/12/2026	569,069	0.08
£5,381,000	F&C Finance 9% Notes 20/12/2016	5,926,859	0.87
£1,450,000	FCE Bank 4.825% European Medium Term Notes 15/02/2017	1,556,724	0.23
£7,300,000	FCE Bank 5.125% Medium Term Senior Notes 16/11/2015	7,752,600	1.14
€2,000,000	FCE Bank 9.375% Medium Term Notes 17/01/2014	1,668,672	0.24
£6,270,000	First Hydro Finance 9% Guaranteed Secured Bonds 31/07/2021	8,204,546	1.20
£2,800,000	GKN 5.375% Bonds 19/09/2022	2,908,007	0.43
£1,837,000	GKN 6.75% Bonds 28/10/2019	2,074,708	0.30
£2,800,000	Grainger 5% Bonds 16/12/2020	2,842,000	0.42
£700,000	Hammerson 5.25% Bonds 15/12/2016	763,604	0.11
£1,400,000	Hammerson 6.875% Bonds 31/03/2020	1,656,721	0.24
£8,332,000	Henderson UK Finance 7.25% Notes 24/03/2016	8,794,426	1.29
£10,700,000	HSBC Floating Rate Notes 16/06/2014	10,725,680	1.57
£2,430,000	IDH Finance 6% Senior Notes 01/12/2018	2,454,300	0.36
£650,000	IDH Finance Floating Rate Senior Notes 01/12/2018	658,450	0.10
£750,000	Imperial Tobacco Finance 9% Notes 17/02/2022	991,376	0.15

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities (continued)			
United Kingdom corporate bonds (continued)			
€6,861,000	Ineos Finance Floating Rate Senior Notes 15/02/2019	6,064,904	0.89
€1,023,959	Ineos Group 7.875% Bonds 15/02/2016	858,292	0.13
£8,063,000	Infinis 7% Bonds 15/02/2019	8,607,253	1.26
\$1,800,000	Inmarsat Finance 7.375% Bonds 01/12/2017	1,130,264	0.17
\$1,800,000	Jaguar Land Rover 4.125% Notes 15/12/2018	1,093,585	0.16
£6,830,000	Jaguar Land Rover 8.125% Bonds 15/05/2018	7,393,475	1.08
£1,443,000	Jaguar Land Rover 8.25% Bonds 15/03/2020	1,634,198	0.24
€800,000	Kerling 10.625% Bonds 01/02/2017	705,510	0.10
£1,000,000	LBG Capital (No.2) 8.5% Guaranteed Medium Term Notes 07/06/2032	1,069,210	0.16
£2,105,000	LBG Capital (No.2) 9% Guaranteed Medium Term Notes 15/12/2019	2,252,350	0.33
£1,165,000	LBG Capital (No.2) 9% Guaranteed Medium Term Notes 15/07/2029	1,255,870	0.18
£3,450,000	LBG Capital (No.2) 14.5% Guaranteed Medium Term Notes 30/01/2022	4,451,018	0.65
£899,000	LBG Capital (No.2) 15% Guaranteed Notes 22/01/2029	1,440,468	0.21
£3,150,000	Leeds Building Society 0% Medium Term Notes 20/03/2015	3,195,798	0.47
£3,000,000	Legal & General Floating Rate Bonds 23/07/2041	3,993,090	0.59
£4,167,000	Lloyds TSB Bank Floating Rate Notes 29/05/2020	4,353,973	0.64
£300,000	Matalan Finance 8.875% Bonds 29/04/2016	309,000	0.05
£1,200,000	Motability Operations 6.625% Notes 10/12/2019	1,431,463	0.21
£1,680,000	National Express 6.25% Guaranteed Senior Notes 13/01/2017	1,839,751	0.27
£1,385,000	National Grid 6.125% European Medium Term Notes 15/04/2014	1,404,135	0.21
£9,300,000	Nationwide Building Society Floating Rate Convertible Bonds 23/01/2015	9,441,555	1.38
£7,000,000	Nationwide Building Society Floating Rate Medium Term Notes 27/08/2015	7,102,550	1.04
£2,350,000	NIE Finance 6.375% Notes 02/06/2026	2,694,928	0.40
£1,395,000	Novae Group 6.5% Bonds 27/04/2017	1,327,761	0.19
£4,080,000	Old Mutual 7.125% Medium Term Notes 19/10/2016	4,541,705	0.67
£1,450,000	Old Mutual 8% Medium Term Notes 03/06/2021	1,540,532	0.23
£6,820,000	Pennon Group 6.75% Bonds Perpetual	7,192,986	1.05
€2,550,000	Rentokil Initial 4.625% Notes 27/03/2014	2,138,767	0.31
£7,510,000	Rentokil Initial 5.75% Notes 31/03/2016	8,057,757	1.18
€600,000	Royal Bank of Scotland 4.35% Medium Term Notes 23/01/2017	521,618	0.08
€870,000	Royal Bank of Scotland 4.875% Medium Term Notes 22/04/2015	752,352	0.11
£6,430,000	Royal Bank of Scotland 6.375% Notes 29/04/2014	6,537,072	0.96
£1,800,000	Royal Bank of Scotland 6.625% European Medium Term Notes 17/09/2018	2,094,473	0.31
£2,300,000	Royal London Finance 6.125% Bonds 30/11/2043	2,278,201	0.33
£6,975,000	Royal London Finance Variable Perpetual Bonds	7,037,775	1.03
£10,210,000	RSA Insurance 8.5% Cumulative Step-Up Perpetual Notes	10,527,735	1.54
£4,599,000	Santander 9.625% Subordinate Call Step-Up Notes 30/10/2023	5,410,926	0.79
£2,600,000	Scottish & Southern Energy 5.75% Notes 05/02/2014	2,610,010	0.38
£1,903,000	Scottish & Southern Energy Variable Perpetual Notes	1,968,692	0.29
£1,340,000	Southern Water (Greensands) Financing 8.5% Notes 15/04/2019	1,488,820	0.22
£340,000	Spirit Issuer Floating Rate Bonds 6.582% 28/12/2027 'A4'	351,900	0.05
£1,750,000	Spirit Issuer Floating Rate Notes 28/12/2031	1,505,000	0.22
£2,400,000	Telereal Securitisation 4.0902% Bonds 10/12/2033	2,379,072	0.35
£2,050,000	Telereal Securitisation Floating Rate Bonds 10/12/2033	1,595,107	0.23
£475,000	Tesco 5% Notes 24/02/2014	477,537	0.07
£2,260,000	Thames Water (Kemble) Finance 7.75% Medium Term Notes 01/04/2019	2,463,626	0.36

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities (continued)			
United Kingdom corporate bonds (continued)			
£2,400,000	Thomas Cook 7.75% Guaranteed Notes 22/06/2017	2,605,200	0.38
£450,000	Travelex Financing 8% Bonds 01/08/2018	465,750	0.07
£1,100,000	Unilever 4% Guaranteed Medium Term Senior Notes 19/12/2014	1,132,207	0.17
\$2,700,000	Vedanta Resources 6.75% Bonds 07/06/2016	1,689,886	0.25
\$500,000	Vedanta Resources 9.5% Unsecured Notes 18/07/2018	334,660	0.05
£9,665,000	Virgin Media Secured Finance 7% Notes 15/01/2018	10,027,437	1.47
£7,357,000	Virgin Media Secured Finance 8.875% Guaranteed Medium Term Notes	7,989,702	1.17
£2,450,000	Voyage Care Bondco 6.5% Bonds 01/08/2018	2,522,275	0.37
£690,000	William Hill 4.25% Guaranteed Notes 05/06/2020	669,300	0.10
£4,922,000	William Hill 7.125% Guaranteed Bond 11/11/2016	5,569,440	0.82
£8,400,000	Yorkshire Building Society Guaranteed Floating Rate Notes 23/03/2016	8,587,488	1.26
		369,889,948	54.21
United Kingdom equities 0.00% (31 December 2012 0.02%)			
Overseas debt securities 41.37% (31 December 2012 45.98%)			
Australia 2.44% (31 December 2012 4.40%)			
£1,000,000	Commonwealth Bank of Australia Medium Term Notes 3.875% 14/12/2015	1,048,853	0.15
£1,700,000	Commonwealth Bank of Australia Floating Rate Notes 30/09/2014	1,701,258	0.25
£3,000,000	National Australia Bank Floating Rate Notes 12/11/2016	3,001,800	0.44
£1,500,000	QBE Insurance 6.125% Medium Term Notes 28/09/2015	1,599,533	0.23
£9,300,000	Westpac Banking Corporation Floating Rate Notes 03/06/2014	9,323,250	1.37
		16,674,694	2.44
Austria 0.45% (31 December 2012 0.47%)			
\$1,000,000	Sappi Papier 7.5% Bond 15/06/2032	467,925	0.07
\$3,930,000	Sappi Papier 7.75% Senior Notes 15/07/2017	2,598,249	0.38
		3,066,174	0.45
Belgium 0.00% (31 December 2012 0.62%)			
Bermuda 0.73% (31 December 2012 0.79%)			
€1,010,000	Central European Media Enterprises 11.625% Senior Notes 15/09/2016	838,189	0.12
£755,000	Fidelity International 6.75% Senior Bonds 19/10/2020	839,798	0.13
£2,964,000	Fidelity International 7.125% Bonds 13/02/2024	3,273,533	0.48
		4,951,520	0.73
Canada 1.34% (31 December 2012 1.35%)			
£6,000,000	Bank of Montreal Floating Rate Notes 24/10/2016	5,999,994	0.88
\$840,000	Bombardier 4.25% Senior Notes 15/01/2016	529,993	0.08
€3,000,000	Bombardier 7.25% Senior Notes 15/11/2016	2,613,217	0.38
		9,143,204	1.34
Cayman Islands 1.33% (31 December 2012 1.71%)			
\$14,425,000	Sable International Finance 7.75% Senior Notes 15/02/2017	9,090,472	1.33
Channel Islands 0.73% (31 December 2012 0.34%)			
£2,900,000	AA Bond 4.2487% Medium Term Notes 31/07/2020	2,840,251	0.42
£2,100,000	Galaxy Bidco Floating Rate Notes 15/11/2019	2,111,970	0.31
		4,952,221	0.73

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Overseas debt securities (continued)			
Denmark 0.43% (31 December 2012 0.57%)			
€3,251,000	TDC 5.875% Medium Term Notes 16/12/2015	2,965,389	0.43
France 3.14% (31 December 2012 2.02%)			
£3,300,000	BNP Paribas Floating Rate Notes 16/05/2016	3,296,093	0.48
€400,000	Cegedim 6.75% Bonds 01/04/2020	342,006	0.05
€3,000,000	Crown Euro 7.125% Notes 15/08/2018	2,658,143	0.39
€1,420,000	Faurecia 8.75% Senior Notes 15/06/2019	1,353,586	0.20
€1,700,000	Faurecia 9.375% Bonds 15/12/2016	1,684,489	0.25
€8,400,000	Labco S.A.S. 8.5% Senior Notes 15/01/2018	7,425,331	1.09
£572,000	Lafarge 8.75% Notes 30/05/2017	677,923	0.10
€660,000	Medi-Partenaires 7% Bonds 15/05/2020	562,828	0.08
\$3,850,000	Rhodia 6.875% Bonds 15/09/2020	2,602,684	0.38
€936,000	Rhodia 7% Bonds 15/05/2018	822,356	0.12
		21,425,439	3.14
Germany 6.67% (31 December 2012 6.15%)			
£11,300,000	Deutsche Bank Floating Rate Notes 11/12/2014	11,300,113	1.66
€400,000	Deutsche Raststaetten 6.75% Bonds 30/12/2020	348,595	0.05
€4,220,000	Grohe Holdings Floating Rate Notes 15/09/2017	3,510,913	0.51
€5,640,000	Heckler & Koch 9.5% Bonds 15/05/2018	4,727,502	0.69
€750,000	HeidelbergCement 6.75% European Medium Term Notes 15/12/2015	684,815	0.10
€500,000	HeidelbergCement 8.5% Guaranteed Bonds 31/10/2019	529,341	0.08
€2,585,000	KP Germany Erste 11.625% Bonds 15/07/2017	2,479,690	0.36
£3,000,000	KFW Floating Rate Notes 09/03/2015	3,002,700	0.44
£5,360,000	Landeskreditbank Baden-Wuerttemberg Floating Rate Notes 11/07/2014	5,366,432	0.79
€2,520,000	SGL Carbon Floating Rate Senior Notes 16/05/2015	2,094,048	0.31
€660,000	Unity Media 5.625% Guaranteed Senior Notes 15/04/2023	556,760	0.08
€4,580,000	Unity Media 5.75% Bonds 15/01/2023	3,925,496	0.58
€5,800,000	Unity Media 7.5% Guaranteed Senior Notes 15/03/2019	5,247,939	0.77
€1,800,000	Unity Media 9.5% Notes 15/03/2021	1,738,516	0.25
		45,512,860	6.67
Ireland 3.82% (31 December 2012 3.88%)			
€8,410,000	Ardagh Glass Finance 9.25% Notes 01/07/2016	7,346,709	1.08
€1,340,000	Ardagh Packaging Finance 7.375% Bonds 15/10/2017	1,194,328	0.17
€5,000,000	Ardagh Packaging Finance 7.375% Senior Notes 15/10/2017	4,456,446	0.65
€1,400,000	Ardagh Packaging Finance 9.25% Senior Notes 15/10/2020	1,266,674	0.18
€390,000	Eircom Finance 9.25% Notes 15/05/2020	343,158	0.05
£4,340,000	General Electric Capital UK 2.25% Notes 08/09/2015	4,417,699	0.65
£4,620,000	General Electric Capital UK Floating Rate Notes 09/05/2016	4,610,497	0.68
€1,510,000	Rootapharm 6.125% Bonds 15/11/2019	1,306,651	0.19
€1,250,000	Smurfit Kappa Acquisition 7.75% Bonds 15/11/2019	1,133,559	0.17
		26,075,721	3.82
Italy 1.58% (31 December 2012 0.90%)			
€4,240,000	Guala Closures Floating Rate Notes 15/11/2019	3,571,600	0.52
€1,050,000	Rhino Bondco 7.25% Bonds 15/11/2020	887,633	0.13
€2,700,000	Rhino Bondco Floating Rate Senior Notes 15/12/2019	2,235,087	0.33
£1,100,000	Telecom Italia 6.375% European Medium Term Notes 24/06/2019	1,148,840	0.17

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Overseas debt securities (continued)			
Italy (continued)			
€3,350,000	Zobele Holdings 7.875% Guaranteed Senior Notes 01/02/2018	2,935,456	0.43
		10,778,616	1.58
Luxembourg 7.02% (31 December 2012 7.93%)			
CHF3,600,000	Aguila 7.875% Senior Notes 31/01/2018	2,593,784	0.38
€2,751,000	Convatec Healthcare 10.875% Senior Notes 15/12/2018	2,574,843	0.38
€1,500,000	Fiat Finance & Trade 7.75% Medium Term Notes 17/10/2016	1,384,121	0.20
€300,000	Fiat Industrial Finance 5.25% Medium Term Notes 11/03/2015	260,020	0.04
€3,600,000	Fiat Industrial Finance 6.25% Medium Term Notes 09/03/2018	3,395,685	0.50
€1,350,000	Gategroup Finance Luxembourg 6.75% Medium Term Notes 01/03/2019	1,189,987	0.17
€850,000	GCS Holdco Finance 6.5% Notes 15/11/2018	725,738	0.11
€1,920,000	Ineos Group Holdings 6.5% Guaranteed Senior Notes 15/08/2018	1,637,317	0.24
€450,000	Kion Finance 7.875% Notes 15/04/2018	394,978	0.06
€1,881,707	Kleopatra Holdings 10.25% Senior Notes 15/08/2017	1,639,886	0.24
€2,200,000	Lecta 8.875% Bonds 15/05/2019	1,738,817	0.25
CHF6,700,000	Matterhorn Mobile 6.75% Notes 15/05/2019	4,935,213	0.72
CHF2,460,000	Matterhorn Mobile Floating Rate Notes 15/05/2019	1,686,778	0.25
€900,000	Ontex IV 7.5% Medium Term Notes 15/04/2018	785,313	0.13
€2,800,000	Ontex IV 9% Bonds 15/04/2019	2,527,524	0.37
€1,600,000	Ontex IV Floating Rate Notes 15/04/2018	1,331,152	0.20
\$3,167,000	Prologis International Funding II 4.875% Bonds 15/02/2020	1,914,598	0.28
CHF1,000,000	Sunrise Communications 5.625% Senior Secured Notes 31/12/2017	706,049	0.10
CHF8,820,000	Sunrise Communications 7% Senior Secured Notes 31/12/2017	7,177,212	1.05
\$900,000	Wind Acquisition Finance 7.25% Bonds 15/02/2018	569,207	0.08
€7,640,000	Wind Acquisition Finance 7.375% Bonds 15/02/2018	6,718,683	0.98
€2,200,000	Zinc Capital 8.875% Notes 15/05/2018	1,990,488	0.29
		47,877,393	7.02
Mexico 1.13% (31 December 2012 1.19%)			
£6,300,000	Petroleos Mexicanos 8.25% Bonds 02/06/2022	7,705,234	1.13
Netherlands 5.53% (31 December 2012 8.38%)			
€14,780,217	Boats Investments 11% European Medium Term Notes 31/03/2017	5,902,413	0.87
£2,470,000	Heineken 7.25% Bonds 10/03/2015	2,632,462	0.39
£1,110,000	Linde Finance Fixed to Floating Rate Subordinated Bonds 14/07/2066	1,261,249	0.17
€7,860,000	New World Resources 7.875% Notes 01/05/2018	4,917,541	0.72
€1,500,000	Phoenix PIB Finance 9.625% Bonds 15/07/2014	1,299,570	0.19
€800,000	PortAventura Entertainment Barcelona 7.25% Bonds 01/12/2020	678,887	0.10
€750,000	PortAventura Entertainment Barcelona Floating Rate Notes 01/12/2019	614,618	0.09
£10,350,000	Rabobank Nederland Floating Rate Notes 06/06/2014	10,367,502	1.52
£2,680,000	Rabobank Nederland Floating Rate Notes 07/09/2015	2,694,185	0.38
€700,000	Refresco Group 7.375% Senior Notes 15/05/2018	622,505	0.09
€700,000	Refresco Group Floating Rate Notes 15/05/2018	588,203	0.09
€330,000	Schaeffler Finance 4.25% Bonds 15/05/2018	285,532	0.04
€2,000,000	Schaeffler Finance 8.75% Bonds 15/02/2019	1,888,571	0.28
€1,650,000	Stampos 6.125% Bonds 30/11/2043	1,399,189	0.21
€1,180,000	Stork Technical 11% Bonds 15/08/2017	991,542	0.15
€1,880,000	Ziggo Finance 6.125% Bonds 15/11/2017	1,617,204	0.24
		37,761,173	5.53

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Overseas debt securities (continued)			
South Africa 0.00% (31 December 2012 0.59%)			
Spain 0.40% (31 December 2012 0.33%)			
€500,000	Campofrio Food Group 8.25% 31/10/2016 'S'	436,784	0.07
\$809,000	Cemex Espana 9.875% Notes 30/04/2019	558,057	0.08
€400,000	Empark Funding 6.75% Bonds 15/12/2019	341,939	0.05
€500,000	Empark Funding Floating Rate Senior Notes 15/12/2019	414,159	0.06
£900,000	Telefonica Emisiones 5.597% Medium Term Notes 12/03/2020	960,151	0.14
		2,711,090	0.40
Supranational 0.54% (31 December 2012 0.54%)			
£3,680,000	European Investment Bank Floating Rate Notes 5/01/2016	3,678,528	0.54
Sweden 1.65% (31 December 2012 1.76%)			
€1,074,551	Corral Petroleum 15% Bonds 31/12/2017	929,754	0.14
\$1,000,000	Eileme 2 11.625% Notes 31/01/2020	723,761	0.11
€1,570,000	Eileme 2 11.75% Notes 31/01/2020	1,573,962	0.23
£3,600,000	Skandinaviska Enskilda Banken 6.625% Senior Term Senior Notes 09/07/2014	3,704,519	0.54
£4,300,000	Svenska Handelsbanken Floating Rate Senior European Medium Term Notes 20/1/2014	4,302,012	0.63
		11,234,008	1.65
United States of America 2.44% (31 December 2012 2.06%)			
£500,000	American Express Credit 5.375% Medium Term Senior Notes 01/10/2014	516,393	0.08
\$1,400,000	Fresenius Medical Care 6.5% Bonds 15/09/2018	955,170	0.14
\$11,200,000	Fresenius US Finance 9% Bonds 15/07/2015	7,472,302	1.09
\$2,445,000	Fresenius US Finance II 9% Bonds 15/07/2015	1,631,230	0.24
€900,000	Iron Mountain 6.75% Senior Bonds 15/10/2018	756,358	0.11
€2,720,000	MPT Operating Partnership 5.75% Medium Term Notes 01/10/2020	2,383,635	0.35
£2,820,000	Virgin Media 6% Senior Notes 15/04/2021	2,897,550	0.43
		16,612,638	2.44
Overseas equities 0.11% (31 December 2012 0.07%)			
Luxembourg 0.11% (31 December 2012 0.07%)			
123,324	Largo Redeemable A Shares*	73,873	0.01
1,109,920	Largo Redeemable B Shares*	664,863	0.10
		738,736	0.11
Derivatives 1.11% (31 December 2012 0.21%)			
Credit default swaps 0.64% (31 December 2012 0.40%)			
€2,000,000	CDS - Aviva 9.50% 20/12/2017	24,658	-
€3,000,000	CDS - Avlon 9.50% 20/03/2018	34,996	0.01
€1,000,000	CDS - Avlon 9.50% 20/06/2018	10,360	-
\$3,000,000	CDS - Bombardier 5% 20/09/2016	195,807	0.03
\$4,000,000	CDS - Bombardier 7.45% 20/03/2018	286,520	0.04
\$2,000,000	CDS - Bombardier 7.45% 20/12/2017	143,685	0.02
\$3,000,000	CDS - BP Capital Markets 1% 20/03/2014	4,415	-
\$3,000,000	CDS - BP Capital Markets 1% 20/06/2014	8,848	-
€2,000,000	CDS - British Telecommunications 0.455% 20/06/2014	(3,275)	-

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Derivatives (continued)			
Credit default swaps (continued)			
€2,000,000	CDS - British Telecommunications 1% 20/12/2015	27,833	-
€7,000,000	CDS - Cable & Wireless 5.75% 21/03/2016	632,196	0.09
€2,000,000	CDS - Cable & Wireless International Finance 5% 20/09/2018	204,205	0.03
£2,000,000	CDS - Cable & Wireless International Finance 5% 21/03/2016	185,432	0.03
€2,000,000	CDS - Cable & Wireless Worldwide 5% 20/03/2016	180,563	0.03
€1,000,000	CDS - Convatec Healthcare 5% 20/03/2017	80,874	0.01
€2,000,000	CDS - Convatec Healthcare 5% 20/06/2018	150,956	0.02
€14,000,000	CDS - Credit Suisse 1% 20/06/2014	55,417	0.01
€3,000,000	CDS - Eileme 2 AB 11.75% 20/12/2018	389,458	0.06
\$7,000,000	CDS - Emirate Abu Dhabi 5.5% 20/03/2015	50,039	0.01
\$8,000,000	CDS - France (Govt. of) 0.25% 21/12/2015	8,195	-
€2,000,000	CDS - Fresenius US Finance II 1% 20/03/2016	27,581	-
\$3,000,000	CDS - General Electric 5.6% 20/12/2014	15,186	-
€2,000,000	CDS - HSBC 1% 20/06/2018	32,852	-
€2,000,000	CDS - Jaguar Land Rover 5% 20/06/2014	39,789	0.01
€2,000,000	CDS - Jaguar Land Rover 5% 20/12/2017	227,651	0.03
€2,000,000	CDS - Jaguar Land Rover 5% 20/12/2018	238,682	0.04
€2,000,000	CDS - Old Mutual 1% 20/03/2015	14,790	-
€2,000,000	CDS - Rentokil Initial 1% 20/09/2014	(11,157)	-
€3,000,000	CDS - Royal Bank of Scotland 1% 20/09/2018	(1,479)	-
€2,000,000	CDS - Royal Bank of Scotland 1% 20/12/2018	(5,060)	-
€2,000,000	CDS - Santander UK 1% 20/09/2016	10,833	-
€2,000,000	CDS - Santander UK 5% 20/09/2016	183,152	0.03
€4,000,000	CDS - Santander UK 7.95 % 20/09/2016	(103,110)	(0.02)
€6,000,000	CDS - Smurfit Kappa Acquisitions 5% 20/12/2018	620,696	0.09
€2,000,000	CDS - Smurfit Kappa Funding 5% 20/09/2017	251,956	0.04
€1,000,000	CDS - Smurfit Kappa Funding 5% 20/12/2014	39,308	0.01
€13,000,000	CDS - UBS 1% 20/06/2014	51,591	0.01
€1,000,000	CDS - Virgin Media Finance 5.125% 20/06/2018	76,242	0.01
		4,380,685	0.64
Forward currency hedges 0.40% (31 December 2012 (0.20)%)			
€8,118,087	Buy Euro 07/02/2014, Sell Sterling 6,815,862	(51,214)	(0.01)
£16,067,830	Buy Sterling 15/01/2014, Sell Euro 19,189,547	80,013	0.01
£69,305,936	Buy Sterling 07/02/2014, Sell Euro 82,272,263	750,014	0.11
£56,898,309	Buy Sterling 27/02/2014, Sell Euro 67,096,650	980,289	0.15
£32,486,237	Buy Sterling 15/05/2014, Sell Euro 38,766,562	156,511	0.02
£12,403,670	Buy Sterling 07/02/2014, Sell Swiss Franc 18,266,513	(7,800)	-
£25,488,364	Buy Sterling 11/04/2014, Sell US Dollars 40,823,740	766,450	0.11
£10,808,729	Buy Sterling 15/05/2014, Sell US Dollars 17,693,839	90,658	0.01
\$314,088	Buy US Dollars 11/04/2014, Sell Sterling 192,809	(2,605)	-
\$516,850	Buy US Dollars 15/05/2014, Sell Sterling 315,850	(2,767)	-
		2,759,549	0.40
Futures 0.07% (31 December 2012 0.01%)			
(30)	Euro BOBL Futures March 2014	27,492	-
(156)	Long Gilt Futures March 2014	385,751	0.05

Portfolio statement (continued)

as at 31 December 2013

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Derivatives (continued)			
Futures (continued)			
(68)	US 5 Year Treasury Note Futures March 2014	61,706	0.02
		474,949	0.07
Net investment assets		660,460,241	96.80
Net other assets		21,828,380	3.20
Net assets attributable to shareholders		682,288,621	100.00

* Delisted security.

At 31 December 2013, 48.03% of the debt securities of £652,106,322 were rated below investment grade (31 December 2012: 43.63%) and 7.23% were unrated (31 December 2012: 5.57%).

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital (losses)/gains	2		(122)		53,576
Revenue	3	40,130		41,881	
Expenses	4	(5,378)		(5,753)	
Finance costs: Interest	6	(4)		(14)	
Net revenue before taxation		34,748		36,114	
Taxation	5	3		-	
Net revenue after taxation			34,751		36,114
Total return before distributions			34,629		89,690
Finance costs: Distributions	6		(39,647)		(41,399)
Change in net assets attributable to shareholders from investment activities			(5,018)		48,291

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Year ended 31.12.12	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			683,216		669,873
Amounts receivable on issue of shares		101,769		77,307	
Less: Amounts payable on cancellation of shares		(104,118)		(118,899)	
			(2,349)		(41,592)
Stamp duty reserve tax			(1)		(2)
Change in net assets attributable to shareholders from investment activities (see above)			(5,018)		48,291
Retained distribution on accumulation shares			6,441		6,646
Closing net assets attributable to shareholders			682,289		683,216

The notes on pages 168 to 175 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		660,649	671,627
Debtors	7	12,037	16,743
Cash and bank balances	8	28,444	17,503
Total other assets		40,481	34,246
Total assets		701,130	705,873
LIABILITIES			
Investment liabilities		188	2,969
Creditors	9	5,759	6,029
Bank overdrafts		-	526
Distribution payable on income shares		12,894	13,133
Total other liabilities		18,653	19,688
Total liabilities		18,841	22,657
Net assets attributable to shareholders		682,289	683,216

The notes on pages 168 to 175 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the Strategic Bond Fund are included in the notes to the aggregated financial statements.

2. Net capital (losses)/gains

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Non-derivative securities*	1,794	42,698
Derivative securities	1,715	2,858
Forward currency contracts	(3,029)	8,312
Currency losses from other capital items	(602)	(292)
Total	(122)	53,576

*The effective yield method of accounting for income from fixed income securities may in some circumstances result in adjusting net capital gains or losses as a result of revised cash flow expectations. These adjustments are a requirement of FRS26 application guidance 8 (AG8).

3. Revenue

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interest on UK debt securities	20,643	20,410
Interest on overseas debt securities	17,592	19,667
Net interest from credit default swaps	1,860	1,622
Bank interest	35	122
UK dividends	-	60
Total	40,130	41,881

4. Expenses

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Payable to the ACD		
ACD fee	4,822	5,206
Payable to the Depositary or associate of the Depositary		
Depositary fees	74	79
Safe custody fees	68	64
Total payable to the Depositary or associate of the Depositary	142	143
Payable to other related parties and third parties		
Transfer agency fees	246	248
Administration fees	141	138
Other expenses	14	8
Audit fee*	13	10
Total payable to other related parties and third parties	414	404
Total	5,378	5,753

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the year is £10,660 (31 December 2012: £8,540).

5. Taxation

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	(3)	-
Current tax charge (see note 5(b))	(3)	-
(b) Factors affecting current tax charge		
Net revenue before taxation	34,748	36,114
Corporation tax at 20% (2012: 20%)	6,950	7,223
Effects of:		
Franked investment income not taxable	-	(12)
Overseas tax	(3)	-
Excess expenses not utilised	980	1,057
Interest distributions deductible for tax purposes	(7,930)	(8,268)
Current tax charge (see note 5(a))	(3)	-

(c) At 31 December 2013 there is a potential deferred tax asset of £4,655,859 (31 December 2012: £3,675,740) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current or prior year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Interim	19,555	20,302
Final	20,270	20,537
	39,825	40,839
Add: Revenue deducted on cancellation of shares	2,106	1,504
Deduct: Revenue received on creation of shares	(2,284)	(944)
Distributions	39,647	41,399
Interest	4	14
Total finance costs	39,651	41,413
Movement between distributions and net revenue		
Distributions	39,647	41,399
Less: ACD fee taken to capital	(4,822)	(5,206)
Less: Depositary fee taken to capital	(74)	(79)
Net revenue after taxation	34,751	36,114

Details of the distributions are set out on pages 176 and 177.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Accrued revenue	10,987	10,642
Amounts receivable on creation of shares	1,050	3,908
Sales awaiting settlement	-	2,193
Total	12,037	16,743

8. Cash and bank balances

	31.12.13 £'000	31.12.12 £'000
Cash and bank balances	28,338	16,766
Amounts held at futures clearing houses	106	737
Total	28,444	17,503

9. Creditors

	31.12.13 £'000	31.12.12 £'000
Income tax payable	3,877	4,081
Accrued expenses	1,457	610
Amounts payable on cancellation of shares	425	1,338
Total	5,759	6,029

10. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities (31 December 2012: nil).

11. Portfolio transaction costs

	Year ended 31.12.13 £'000	Year ended 31.12.12 £'000
Purchases in year before transaction costs	163,185	257,212
Commissions	-	1
Total purchase costs	-	1
Gross purchase total	163,185	257,213
 Gross sales in year before transaction costs	 179,407	 241,196
Commissions	-	(1)
Total sales net of transaction costs	179,407	241,195

12. Shareholders' funds

During the year the Fund had 4 share classes; A, B, S and X.

The ACD fee on each share class is as follows:

Share Class A: 0.75%

Share Class B: 1.00%

Share Class S: 0.375%

Share Class X: 0.50%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 156. The distribution per share class is given in the distribution tables on pages 176 and 177.

All share classes have the same rights on winding up.

13. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are correlation, credit, foreign exchange, interest rate, legal, leveraged, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

Value at Risk (VaR)

Value at Risk (VaR) is an estimate, generated by a statistical model, of the minimum level of loss to be suffered by a fund over a given time horizon with a given probability. VaR is based on portfolio holdings and model parameters at a point in time and is, therefore, likely to change over time.

The Fund is monitored on a daily basis using an outsourced risk measurement service provided by J.P. Morgan Investment Analytics and Consulting.

J.P. Morgan Investment Analytics and Consulting uses risk management software from Algorithmics in order to calculate the VaR (one month projection period and 99% confidence level). In addition, a number of stress tests are carried out daily which examine how the portfolio might react to moves in a number of factors such as yield curves and credit spreads.

VaR is calculated daily based on the previous day's closing positions. It should be noted that, given the dynamic nature of the portfolio's construction, the VaR is likely to vary considerably over time. As such, the VaR at any point in time should not be relied upon to gauge the average level of risk taken during the accounting period, or the likely level of risk in the future. It should also be noted that, all other things being equal, the VaR will be driven by the prevailing level of volatility in the market.

Also the VaR estimated by the model may underestimate (overestimate) the risk facing the portfolio during the projection period if volatility increases (decreases) materially after the measurement point. It is important to note that if and when actual portfolio losses exceed the levels implied by the VaR model, they may do so by a substantial margin.

Some limitations of VaR analysis are:

- the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- market price risk information is an estimate of risk rather than a precise and accurate number;
- the VaR estimate would be expected to be exceeded on a number of occasions, the frequency depending on the confidence interval chosen; and
- future market conditions could vary significantly from those experienced in the past.

At 31 December 2013, the estimated VaR (one month, 99%) was 1.07% (31 December 2012: 0.86%) of net asset value.

(a) Currency exposure

A proportion of the net assets of the Fund are denominated in currencies other than Sterling, with the effect that the balance sheet and total return can be affected by currency movements.

Currency	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
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The net currency assets at 31 December 2013 were:

Euro	(151,978)	149,432	(2,546)
Sterling	222,682	462,417	685,099
Swiss franc	(12,171)	12,429	258
US dollar	(33,946)	33,424	(522)
Total	24,587	657,702	682,289

The net currency assets at 31 December 2012 were:

Euro	(180,867)	180,794	(73)
Sterling	239,327	443,599	682,926
Swiss franc	(11,577)	12,004	427
US dollar	(33,776)	33,712	(64)
Total	13,107	670,109	683,216

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
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The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:

Euro	29,548	131,075	9,622	170,245
Sterling	167,683	307,029	236,488	711,200
Swiss franc	1,720	10,742	207	12,669
US dollar	129	33,363	1,426	34,918
Total	199,080	482,209	247,743	929,032

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Euro	19,324	159,036	(178,433)	(73)
Sterling	138,773	321,637	241,678	702,088
Swiss franc	1,376	10,629	(11,578)	427
US dollar	60	33,353	(32,951)	462
Total	159,533	524,655	18,716	702,904

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total market value £'000
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The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:

Euro	-	172,791	172,791
Sterling	-	26,101	26,101
Swiss franc	-	12,411	12,411
US dollar	-	35,440	35,440
Total	-	246,743	246,743

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Sterling	-	19,162	19,162
US dollar	526	-	526
Total	526	19,162	19,688

The following table represents the weighted average interest rate on the market value of the Fund and the weighted average period for which the rate is fixed for fixed rate investments and will not necessarily reflect the yield of the Fund.

	Weighted average interest rate %	Weighted average period for which rate is fixed
As at 31 December 2013:		
Euro		
Bonds	5.12	4.28 years
Sterling		
Bonds	4.28	6.65 years
Perpetual bonds	6.09	Undated
Swiss franc		
Bonds	5.80	4.67 years
US dollar		
Bonds	4.21	3.58 years
As at 31 December 2012:		
Euro		
Bonds	5.26	4.44 years
Sterling		
Bonds	4.28	5.91 years
Perpetual bonds	7.56	Undated
Swiss franc		
Bonds	5.03	5.66 years
US dollar		
Bonds	3.87	4.43 years

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

14. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	1,178	438
Amounts receivable on creation of shares	(1,050)	(3,908)
Amounts payable on cancellation of shares	425	1,338
Total payable/(receivable) to/(from) the ACD or associate of the ACD	553	(2,132)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 31 December 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income						
Group 1	2.9003393	0.5800679	2.3202714	-	2.3202714	2.3668317
Group 2	1.3914621	0.2782924	1.1131697	1.2071017	2.3202714	2.3668317
A Accumulation						
Group 1	4.2013546	0.8402709	3.3610837	-	3.3610837	3.2687261
Group 2	1.8451025	0.3690205	1.4760820	1.8850017	3.3610837	3.2687261
B Income						
Group 1	2.8560126	0.5712025	2.2848101	-	2.2848101	2.3353293
Group 2	1.7589283	0.3517857	1.4071426	0.8776675	2.2848101	2.3353293
B Accumulation						
Group 1	4.1604836	0.8320967	3.3283869	-	3.3283869	3.2415956
Group 2	1.9825510	0.3965102	1.5860408	1.7423461	3.3283869	3.2415956
S Income						
Group 1	0.4491666	0.0898333	0.3593333	-	0.3593333	-
Group 2	0.4491666	0.0898333	0.3593333	0.0000000	0.3593333	-
X Income						
Group 1	2.9560456	0.5912091	2.3648365	-	2.3648365	2.4051295
Group 2	1.3100418	0.2620084	1.0480334	1.3168031	2.3648365	2.4051295
X Accumulation						
Group 1	4.2851945	0.8570389	3.4281556	-	3.4281556	3.3253018
Group 2	1.3665824	0.2733165	1.0932659	2.3348897	3.4281556	3.3253018

Distribution tables (continued)

for the year ended 31 December 2013

Interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 30 June 2013

Interest distribution	Gross revenue p	Income tax deducted at 20% p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income						
Group 1	2.9231145	0.5846229	2.3384916	-	2.3384916	2.2608761
Group 2	1.2891428	0.2578286	1.0313142	1.3071774	2.3384916	2.2608761
A Accumulation						
Group 1	4.1362830	0.8272566	3.3090264	-	3.3090264	3.0496634
Group 2	1.8848075	0.3769615	1.5078460	1.8011804	3.3090264	3.0496634
B Income						
Group 1	2.8817941	0.5763588	2.3054353	-	2.3054353	2.2348650
Group 2	1.8928801	0.3785760	1.5143041	0.7911312	2.3054353	2.2348650
B Accumulation						
Group 1	4.0971164	0.8194233	3.2776931	-	3.2776931	3.0314558
Group 2	1.9527585	0.3905517	1.5622068	1.7154863	3.2776931	3.0314558
X Income						
Group 1	2.9777060	0.5955412	2.3821648	-	2.3821648	2.2956898
Group 2	1.4648486	0.2929697	1.1718789	1.2102859	2.3821648	2.2956898
X Accumulation						
Group 1	4.2177714	0.8435543	3.3742171	-	3.3742171	3.0989566
Group 2	2.5019395	0.5003879	2.0015516	1.3726655	3.3742171	3.0989566

* Equalisation

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

Counterparty Exposure

The types of derivatives held at the balance sheet date were credit default swaps, forward currency contracts and futures contracts. Details of individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

	Credit default swaps £000	Forward currency contracts £000	Future contracts £000	Total £000
Counterparty				
JP Morgan	97,781	2,760	-	100,541
UBS	-	-	(24,643)	(24,643)

At the balance sheet date no collateral was held by the fund on behalf of the counterparties in respect of the above.

JP Morgan acts as prime broker in relation to the credit default swaps held by the Fund, but uses a number of other counterparties for various business reasons. The Fund is therefore indirectly exposed to BNP Paribas, Credit Suisse, Deutsche Bank, Goldman Sachs, Merrill Lynch and Morgan Stanley, through its direct exposure to JP Morgan.

Authorised Corporate Director's investment report

Investment objective and policy

The European Income Fund ("the Fund") aims to provide high income with some long term capital growth by investing predominantly in companies incorporated in a member state of the EEA or Switzerland or in companies which derive a predominant proportion of their revenues or profits from these countries or which are predominantly operating in them.

Investments will be made primarily in a concentrated portfolio of equities (typically between 30 and 50 holdings) of large or mid sized companies which pay high dividend yields and which the ACD considers offer prospects for long term growth. Investment may also be made in other equity related transferable securities issued by these companies, such as preferred shares and convertible securities.

Whilst the Fund will invest primarily in equities it may also invest in fixed interest securities, cash, deposits and money market instruments.

The Fund may utilise derivatives for efficient portfolio management purposes and for hedging.

Performance

The Fund returned +39.1% (B Accumulation share class), against the FTSE World Europe (ex UK) Index return of +25.2%, representing a first quartile performance among the peer group.

Market review

2013 for Europe was very much a continuation of a trend that started in the second half 2012 shortly after Mr Draghi's (Chairman of the European Central Bank) now infamous "do whatever it takes" speech, namely strong aggregate index performance off a low base led by cyclical value stocks which had previously underperformed, and lagged by secure global growth stocks or 'bond proxies'.

Perhaps the key difference between this year and last year was the spectre of less loose monetary policy in the US. The resultant effect on our market was an acceleration of the underperformance of bond proxies as yields rose between May and October.

Portfolio activity

We started the year with assets of £97.1m and ended with £231.2m. In the very broadest sense overall structure of the portfolio changed little, remaining overweight cyclical and value. However we did make a shift from early to later cycle stocks in Q2 and Q3 where the recovery is even less priced in and also increased our weighting to those very cheap domestic deflationary stocks which we think will stop underperforming as the European recovery drives away deflation fears.

We end the year with the following broad structure. Numbers do not add to 100% due to rounding and cash.

Dividend Style	% Fund 31/12/13
Cyclical Yield	55.7
Growth Yield	0.0
High Yield	28.1
Stable Yield	13.7

The Fund tends to do well when the following conditions pertain:

1. Europe appears 'less bad' in political and economic terms;
2. The core and the peripheral economies converge;
3. Core (e.g. US, UK, German) bond yields rise.

The main purchases during the year which were Scania, Delta Lloyd, and Orange. The main sales during the year were Azimut, Atresmedia Corporacion de Medios de Comunicacion, and Capgemini.

Outlook

On longer term metrics such as price to book or Schiller price earning ratio, Europe remains outstandingly cheap, in risk stocks in particular. Conversely the very safest, secure growth stocks are overvalued on a medium term view.

The most potent trade from here is that we experience something resembling a normal cycle. Clients might wish to apply the concepts of 'normalisation', 'convergence' or 'escape velocity' to Europe from which the portfolio should benefit. We would hope to see evidence of the very nascent recovery in Europe becoming more broad based, as has already happened in the US and UK. We do not, however, expect a particularly strong economic outcome – nor require one for our portfolio to outperform.

Authorised Corporate Director's investment report (continued)

Synthetic risk & reward indicator

The synthetic risk and reward indicator Fund ranges from 1 to 7, with 1 being the lowest risk. The risk and reward indicator for the Fund is 6.

The Fund invests primarily in European shares. As such it may face increased risk because of currency movements. For example many of the shares bought for the Fund will be valued in euros so the value of your investment will fall if the value of sterling rises against the euro. Investment in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed. The value of the Fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions. The Fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile. The lowest risk category does not mean an investment is risk free. The risk category shown is not a target or a guarantee and may change over time.

Fund facts

	Accounting date	Distribution payment date
Interim	N/A	31 May
Interim	30 June	31 August
Interim	N/A	30 November
Final	31 December	28 February

Performance record

	31.12.13	31.12.12	Capital return % change	Total return % change
FTSE World Europe (ex UK) Index (£) *	430.40	355.63	21.02	25.18

* Source: DATASTREAM. Total return includes reinvested income; capital return excludes income.

	31.12.13 p	31.12.12 p	Share price % change	Total return % change (net of tax)
A Income**	153.27	113.25	35.34	39.76
A Income Hedged**	159.56	125.15 [†]	27.50	30.51
A Accumulation**	159.57	114.16	39.78	39.78
B Income**	151.98	112.86	34.66	39.06
B Accumulation**	159.53	114.68	39.11	39.11
L Income**	53.44	50.00 [*]	6.88	6.88
L Accumulation**	53.44	50.00 [*]	6.88	6.88
S Income**	50.33	50.00 ⁺	0.66	0.66
X Income**	153.90	113.44	35.67	40.10
X Income Hedged**	159.96	125.39 [†]	27.57	30.58
X Accumulation**	161.48	115.23	40.14	40.14

** Source: Lipper. Total return includes net income reinvested (mid-mid, basic tax); capital return excludes income.

[†] As at 18 February 2013, the share class launch date.

^{*} As at 1 October 2013, the share class launch date.

⁺ As at 1 November 2013, the share class launch date.

The performance of a hedged share class may differ from other share classes of the fund because the return on unhedged share classes is based on both the performance of the fund's investments and the performance of the portfolio currencies relative to sterling whereas the return on a hedged share class is based only on the performance of the fund's investments.

Price history

Calendar year	A Income		A Income Hedged		A Accumulation		B Income	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	114.10	155.21	121.34	159.56	114.16	161.60	113.72	154.05
2012	91.43	114.63	-	-	101.62	115.55	91.33	114.25

Calendar year	B Accumulation		L Income		L Accumulation		S Income	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p	p	p
2013	116.43	161.70	50.20	54.08	50.00	53.95	48.50	50.52
2012	92.09	116.09	-	-	-	-	-	-

Calendar year	X Income		X Income Hedged		X Accumulation	
	Lowest price	Highest price	Lowest price	Highest price	Lowest price	Highest price
	p	p	p	p	p	p
2013	114.29	155.78	121.57	159.96	116.99	163.45
2012	91.50	114.82	-	-	92.23	116.63

A Income shares, B Income shares, B Accumulation shares, X Income shares and X Accumulation shares were first issued on 2 May 2012 at a price of 100.00p.

A Accumulation shares was first issued on 31 August 2012 at a price of 102.78p

A Income Hedged shares were first issued on 18 February 2013 at a price of 125.15p.

X Income Hedged shares were first issued on 18 February 2013 at a price of 125.39p.

L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

S Income shares were first issued on 1 November 2013 at a price of 50.00p.

Ongoing charges figure

An ongoing charges figure ("OCF") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period

	31.12.13 %	31.12.12 %
A Income	1.13	1.13
A Income Hedged	1.19	-
A Accumulation	1.13	1.14*
B Income	1.63	1.64
B Accumulation	1.63	1.64
L Income ⁺	0.81	-
L Accumulation ⁺	0.81	-
S Income ⁺	0.53	-
X Income	0.88	0.91
X Income Hedged	0.91	-
X Accumulation	0.87	0.92

*The OCF information as at 31.12.2012 was incorrect in the published Report and Accounts for the year ended 31 December 2012. In that Report the OCF was listed at 1.23%

Net asset value record

Date	Net asset value £	Number of shares in issue	Net asset value per share p
31 December 2013			
A Income	37,291,483	24,746,304	150.70
A Income Hedged [‡]	7,390,042	4,708,647	156.95
A Accumulation	8,963,784	5,633,116	159.13
B Income	2,148,605	1,437,756	149.44
B Accumulation	7,444,495	4,679,588	159.08
L Income [*]	1,595	3,000	53.15
L Accumulation [*]	1,599	3,000	53.29
S Income ⁺	1,503	3,000	50.11
X Income	137,940,164	91,160,640	151.32
X Income Hedged [†]	16,230,503	10,316,762	157.32
X Accumulation	13,807,047	8,574,444	161.03
	231,220,820	151,266,257	
31 December 2012			
A Income	9,549,467	8,560,334	111.55
A Accumulation	671,637	592,339	113.39
B Income	688,043	618,805	111.19
B Accumulation	693,391	608,685	113.92
X Income	83,956,681	75,140,326	111.73
X Accumulation	1,638,224	1,431,372	114.45
	97,197,443	86,951,861	

‡ A Income Hedged shares were first issued on 18 February 2013 at a price of 125.15p.

* L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

† X Income Hedged shares were first issued on 18 February 2013 at a price of 125.39p.

Net revenue distributions

Calendar year	First interim 31.03 p	Second interim 30.06 p	Third interim 30.09 p	Final 31.12 p	Total p
A Income					
2013	0.2496	1.5000	1.5000	2.1457	5.3953
2012	-	0.7900	0.7900	0.9304	2.5104
A Income Hedged[‡]					
2013	0.2324	1.5000	1.5000	2.1682	5.4006
A Accumulation					
2013	0.2692	1.5000	1.5000	2.2556	5.5248
2012	-	-	0.1723	0.3390	0.5113
B Income					
2013	0.2417	1.5000	1.5000	2.1180	5.3597
2012	-	0.7900	0.7900	0.9140	2.4940
B Accumulation					
2013	0.2539	1.5000	1.5000	2.2693	5.5232
2012	-	0.7900	0.7900	0.9579	2.5379
L Income[*]					
2013	-	-	-	0.1377	0.1377
L Accumulation[*]					
2013	-	-	-	0.1377	0.1377
S Income⁺					
2013	-	-	-	0.0837	0.0837
X Income					
2013	0.2464	1.5000	1.5000	2.1593	5.4057
2012	-	0.7900	0.7900	0.9416	2.5216
X Income Hedged[†]					
2013	0.2324	1.5000	1.5000	2.1974	5.4298
X Accumulation					
2013	0.2512	1.5000	1.5000	2.3106	5.5618
2012	-	0.7900	0.7900	0.9499	2.5299

‡ A Income Hedged shares were first issued on 18 February 2013 at a price of 125.15p.

* L Income shares and L Accumulation shares were first issued on 1 October 2013 at a price of 50.00p.

+ S Income shares were first issued on 1 November 2013 at a price of 50.00p.

† X Income Hedged shares were first issued on 18 February 2013 at a price of 125.39p.

Portfolio statement

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
United Kingdom equities 0.00% (31 December 2012 1.88%)			
Overseas equities 98.50% (31 December 2012 96.54%)			
Austria 2.98% (31 December 2012 0.00%)			
714,454	Wienerberger	6,883,200	2.98
Belgium 5.72% (31 December 2012 6.67%)			
162,866	Belgacom	2,913,919	1.26
151,591	KBC Groep	5,187,911	2.24
325,039	Tessenderlo Chemie	5,132,621	2.22
		13,234,451	5.72
Finland 1.82% (31 December 2012 0.00%)			
305,175	Fortum	4,222,297	1.82
France 32.26% (31 December 2012 22.78%)			
88,707	Arkema	6,253,943	2.70
526,206	AXA	8,847,686	3.83
145,495	BNP Paribas	6,852,496	2.96
215,600	Compagnie De St-Gobain	7,170,424	3.10
57,075	Euler Hermes	4,725,200	2.04
89,950	Imerys	4,722,132	2.04
956,668	France Telecom	7,163,270	3.10
205,843	Renault	10,009,864	4.33
88,610	Societe Generale	3,112,494	1.35
201,953	Total	7,481,877	3.24
123,455	Valeo	8,260,005	3.57
		74,599,391	32.26
Germany 2.68% (31 December 2012 15.56%)			
381,515	Deutsche Telekom	3,954,916	1.71
197,920	Deutsche Wohnen	2,236,130	0.97
		6,191,046	2.68
Italy 6.39% (31 December 2012 15.49%)			
212,750	ENI	3,095,758	1.34
313,556	Indesit	2,491,300	1.07
1,663,355	Sham	5,618,476	2.43
800,000	Unicredit	3,580,798	1.55
		14,786,332	6.39
Netherlands 5.65% (31 December 2012 1.91%)			
611,240	Delta Lloyd	9,135,799	3.95
470,000	ING Groep	3,937,630	1.70
		13,073,429	5.65
Norway 2.15% (31 December 2012 7.20%)			
377,571	Atea	2,245,161	0.97
1,885,002	Golden Ocean	2,720,136	1.18
		4,965,297	2.15
Portugal 1.37% (31 December 2012 0.00%)			
3,628,720	Sonae	3,160,878	1.37

Portfolio statement (continued)

as at 31 December 2013

Holding	Stock description	Market value £	Percentage of net assets %
Overseas equities (continued)			
Spain 12.07% (31 December 2012 2.92%)			
562,570	Atresmedia Corporacion de Medios de Comunicaion	5,569,691	2.41
1,876,522	Bankinter	7,774,824	3.36
258,256	Fomento de Construcciones Y Contratas	3,475,380	1.51
343,378	Grupo Catalana Occidente	7,241,991	3.13
96,135	Red Electrica	3,839,108	1.66
		27,900,994	12.07
Sweden 7.62% (31 December 2012 5.08%)			
784,956	Scania 'B'	9,290,397	4.02
510,397	Tele2	3,493,034	1.51
608,998	Volvo 'B'	4,831,940	2.09
		17,615,371	7.62
Switzerland 17.79% (31 December 2012 18.93%)			
6,791	Banque Cantonale Vaudoise	2,242,942	0.97
206,186	Bobst	4,234,342	1.83
70,790	Implenia	3,114,213	1.35
65,885	RIETER	9,357,280	4.05
51,132	Roche	8,647,049	3.74
104,147	Swiss Re	5,797,784	2.51
367,893	UBS	4,223,442	1.82
20,000	Zurich Insurance	3,507,162	1.52
		41,124,214	17.79
Derivatives 0.01% (31 December 2012 0.00%)			
Forward currency hedges 0.01% (31 December 2012 0.00%)			
£4,167,547	Buy Sterling 31/01/2014,Sell Swiss Franc 6,115,421	12,763	0.01
£16,492,658	Buy Sterling 31/01/2014,Sell Euro 19,749,459	36,589	0.01
£1,759,891	Buy Sterling 31/01/2014,Sell Swedish Krone 18,981,828	(31,207)	(0.01)
£516,391	Buy Sterling 31/01/2014,Sell Norwegian Krone 5,213,649	(2,633)	-
		15,512	0.01
Net investment assets		227,772,412	98.51
Net other assets		3,448,408	1.49
Net assets attributable to shareholders		231,220,820	100.00

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

The forward currency contracts are only entered into by the hedged share classes.

Statement of total return

for the year ended 31 December 2013

		Year ended 31.12.13		Period ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains	2		45,124		7,433
Revenue	3	6,688		1,243	
Expenses	4	(1,459)		(335)	
Finance costs: Interest	6	(3)		(1)	
Net revenue before taxation		5,226		907	
Taxation	5	(603)		(172)	
Net revenue after taxation			4,623		735
Total return before distributions			49,747		8,168
Finance costs: Distributions	6		(5,934)		(1,031)
Change in net assets attributable to shareholders from investment activities			43,813		7,137

Statement of change in net assets attributable to shareholders

for the year ended 31 December 2013

		Year ended 31.12.13		Period ended 31.12.12	
	Note	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			97,197		-
Amounts receivable on issue of shares		110,915		91,020	
Less: Amounts payable on cancellation of shares		(21,371)		(1,000)	
			89,544		90,020
Change in net assets attributable to shareholders from investment activities (see above)			43,813		7,137
Retained distribution on accumulation shares			667		40
Closing net assets attributable to shareholders			231,221		97,197

The notes on pages 188 to 194 form an integral part of these financial statements.

Balance sheet

as at 31 December 2013

	Note	31.12.13 £'000	31.12.12 £'000
ASSETS			
Investment assets		227,807	95,665
Debtors	7	1,404	405
Cash and bank balances		5,484	2,015
Total other assets		6,888	2,420
Total assets		234,695	98,085
LIABILITIES			
Investment liabilities		34	-
Creditors	8	581	95
Distribution payable on income shares		2,859	793
Total other liabilities		3,440	888
Total liabilities		3,474	888
Net assets attributable to shareholders		231,221	97,197

The notes on pages 188 to 194 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The applicable accounting policies adopted by the European Income Fund are included in the notes to the aggregated financial statements.

2. Net capital gains

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
Non-derivative securities	44,555	7,518
Forward currency contracts	688	18
Currency losses from other capital items	(119)	(103)
Total	45,124	7,433

The forward currency contracts are only entered into by the hedged share classes.

3. Revenue

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
Overseas dividends	6,684	1,195
Bank interest	4	2
UK dividends	-	46
Total	6,688	1,243

4. Expenses

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
Payable to the ACD		
ACD fee	1,282	285
Payable to the Depositary or associate of the Depositary		
Safe custody fees	33	6
Depositary fees	29	11
Total payable to the Depositary or associate of the Depositary	62	17
Payable to other related parties and third parties		
Transfer agency fees	49	9
Administration fees	43	13
Other expenses	14	2
Audit fee*	9	9
Total payable to other related parties and third parties	115	33
Total	1,459	335

Expenses include VAT, where applicable.

* Audit fee excluding VAT for the period is £7,830 (2012 £7,920).

5. Taxation

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
(a) Analysis of tax charge		
Overseas tax	603	172
Current tax charge (see note 5(b))	603	172
(b) Factors affecting current tax charge		
Net revenue before taxation	5,226	907
Corporation tax at 20% (2012 20%)	1,045	181
Effects of:		
Franked investment income not taxable	-	(9)
Revenue from overseas dividends not subject to corporation tax	(1,337)	(239)
Overseas tax	603	172
Excess expenses not utilised	292	67
Current tax charge (see note 5(a))	603	172

(c) At 31 December 2013 there is a potential deferred tax asset of £358,464 (2012 £66,893) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current year.

6. Finance costs

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
First interim	252	-
Second interim	1,706	333
Third interim	1,924	470
Final	3,290	814
	7,172	1,617
Add: Revenue deducted on cancellation of shares	317	8
Deduct: Revenue received on creation of shares	(1,555)	(594)
Net distributions	5,934	1,031
Interest	3	1
Total finance costs	5,937	1,032
Movement between net distributions and net revenue after taxation		
Net distributions	5,934	1,031
Less: ACD fee taken to capital	(1,282)	(285)
Less: Depositary fee taken to capital	(29)	(11)
Net revenue after taxation	4,623	735

Details of the distributions are set out on pages 195 to 198.

7. Debtors

	31.12.13 £'000	31.12.12 £'000
Amounts receivable on creation of shares	872	279
Overseas tax recoverable	531	121
Accrued revenue	1	5
Total	1,404	405

8. Creditors

	31.12.13 £'000	31.12.12 £'000
Accrued expenses	549	95
Amounts payable on cancellation of shares	32	-
Total	581	95

9. Contingent liabilities

As at 31 December 2013, the Fund had no contingent liabilities.

10. Portfolio transaction costs

	Year ended 31.12.13 £'000	Period ended 31.12.12 £'000
Purchases in year before transaction costs	188,319	112,630
Commissions	267	111
Taxes	124	38
Total purchase costs	391	149
Gross purchase total	188,710	112,779
Gross sales in year before transaction costs	101,356	24,678
Commissions	(146)	(37)
Total sales costs	(146)	(37)
Total sales net of transaction costs	101,210	24,641

11. Shareholders' funds

During the period the Fund had 5 share classes; A, B, L, S and X.

The ACD fee on each share class is as follows:

Share Class A: 1.00%

Share Class B: 1.50%

Share Class L: 0.675%

Share Class S: 0.375%

Share Class X: 0.75%

The net asset value of each share class, the net asset value per share, and the number of shares in each class are given on page 182. The distribution per share class is given in the distribution tables on pages 195 to 198.

All share classes have the same rights on winding up.

12. Derivatives and other financial instruments

The narrative disclosures required under FRS 13 are included in note 13 of the aggregated financial statements.

The main risks arising from the Fund's financial instruments are correlation, credit, foreign exchange, interest rate, legal, leveraged, liquidity and market price risks. The ACD's policies for dealing with these risks are summarised in note 13 of the aggregated financial statements and have been applied throughout the year and the prior year.

(a) Currency exposure

A proportion of the net assets of the Fund are denominated in currencies other than Sterling, with the effect that the balance sheet and total return can be affected by currency movements.

Currency	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
The net currency assets at 31 December 2013 were:			
Euro	(15,885)	164,052	148,167
Norwegian krone	(430)	4,965	4,535
Sterling	25,587	-	25,587
Swedish krona	(1,714)	17,615	15,901
Swiss franc	(4,098)	41,124	37,026
US dollar	5	-	5
Total	3,465	227,756	231,221
The net currency assets at 31 December 2012 were:			
Euro	221	63,509	63,730
Norwegian krone	-	6,999	6,999
Sterling	1,309	1,824	3,133
Swedish krona	-	4,933	4,933
Swiss franc	2	18,400	18,402
Total	1,532	95,665	97,197

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Financial assets not carrying interest £'000	Total market value £'000
----------	---	--	--------------------------------

The interest rate risk profile of the Fund's financial assets as at 31 December 2013 was:

Euro	267	164,356	164,623
Norwegian krone	-	5,054	5,054
Sterling	5,217	23,809	29,026
Swedish krona	-	17,692	17,692
Swiss franc	-	41,181	41,181
US dollar	-	5	5
Total	5,484	252,097	257,581

The interest rate risk profile of the Fund's financial assets as at 31 December 2012 was:

Euro	103	63,627	63,730
Norwegian krone	-	6,999	6,999
Sterling	1,912	2,109	4,021
Swedish krona	-	4,933	4,933
Swiss franc	-	18,402	18,402
Total	2,015	96,070	98,085

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Financial liabilities not carrying interest £'000	Total market value £'000
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The interest rate risk profile of the Fund's financial liabilities as at 31 December 2013 was:

Euro	16,456	16,456
Norwegian krone	519	519
Sterling	3,439	3,439
Swedish krona	1,791	1,791
Swiss franc	4,155	4,155
Total	26,360	26,360

The interest rate risk profile of the Fund's financial liabilities as at 31 December 2012 was:

Sterling	888	888
Total	888	888

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value. The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Fund, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Fund is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Fund.

The borrowing facilities available to the Fund as at 31 December 2013 comprise a bank overdraft facility of 10% of the value of the Fund.

The Fund has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

13. Related parties

The Fund's ACD is related to the Fund as defined by FRS 8 'Related Party Disclosures' and is named on page 204. Fees received by the ACD are disclosed in note 4 of the financial statements. By virtue of the regulations governing authorised funds, the ACD is party to every transaction in respect of shares of the Fund, which are summarised in the Statement of change in net assets attributable to shareholders. Balances outstanding at the year end for these transactions are as follows:

	31.12.13 £'000	31.12.12 £'000
ACD fee	452	63
Amounts receivable on creation of shares	(872)	(279)
Amounts payable on cancellation of shares	32	-
Total receivable from the ACD or associate of the ACD	(388)	(216)

Distribution tables

for the year ended 31 December 2013

Final distribution

Group 1 – Shares purchased on or before 30 September 2013

Group 2 – Shares purchased on 1 October 2013 to 31 December 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Payable 28.02.14 total p	Paid 28.02.13 total p
A Income					
Group 1	0.2384110	2.1456990	-	2.1456990	0.9304301
Group 2	0.0318321	0.2864891	1.8592099	2.1456990	0.9304301
A Income Hedged					
Group 1	0.2409076	2.1681688	-	2.1681688	-
Group 2	0.0377260	0.3395344	1.8286344	2.1681688	-
A Accumulation					
Group 1	0.2506187	2.2555687	-	2.2555687	0.3389630
Group 2	0.0326244	0.2936199	1.9619488	2.2555687	0.3389630
B Income					
Group 1	0.2353287	2.1179585	-	2.1179585	0.9140190
Group 2	0.0186775	0.1680976	1.9498609	2.1179585	0.9140190
B Accumulation					
Group 1	0.2521433	2.2692899	-	2.2692899	0.9578944
Group 2	0.0265091	0.2385823	2.0307076	2.2692899	0.9578944
L Income					
Group 1	0.0152963	0.1376666	-	0.1376666	-
Group 2	0.0152963	0.1376666	0.0000000	0.1376666	-
L Accumulation					
Group 1	0.0152963	0.1376666	-	0.1376666	-
Group 2	0.0152963	0.1376666	0.0000000	0.1376666	-
S Income					
Group 1	0.0092963	0.0836666	-	0.0836666	-
Group 2	0.0092963	0.0836666	0.0000000	0.0836666	-
X Income					
Group 1	0.2399169	2.1592517	-	2.1592517	0.9415804
Group 2	0.0198896	0.1790063	1.9802454	2.1592517	0.9415804
X Income Hedged					
Group 1	0.2441561	2.1974050	-	2.1974050	-
Group 2	0.0226680	0.2040119	1.9933931	2.1974050	-
X Accumulation					
Group 1	0.2567331	2.3105976	-	2.3105976	0.9499656
Group 2	0.0253003	0.2277030	2.0828946	2.3105976	0.9499656

Distribution tables (continued)

for the year ended 31 December 2013

Third interim distribution

Group 1 – Shares purchased on or before 30 June 2013

Group 2 – Shares purchased on 1 July 2013 to 30 September 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 30.11.13 total p	Paid 30.11.12 total p
A Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
A Income Hedged					
Group 1	0.1666667	1.5000000	-	1.5000000	-
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	-
A Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.1722587
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.1722587
B Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
B Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
X Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
X Income Hedged					
Group 1	0.1666667	1.5000000	-	1.5000000	-
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	-
X Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000

Distribution tables (continued)

for the year ended 31 December 2013

Second interim distribution

Group 1 – Shares purchased on or before 31 March 2013

Group 2 – Shares purchased on 1 April 2013 to 30 June 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 31.08.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
A Income Hedged					
Group 1	0.1666667	1.5000000	-	1.5000000	-
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	-
A Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
B Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
B Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
X Income					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000
X Income Hedged					
Group 1	0.1666667	1.5000000	-	1.5000000	-
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	-
X Accumulation					
Group 1	0.1666667	1.5000000	-	1.5000000	0.7900000
Group 2	0.0000000	0.0000000	1.5000000	1.5000000	0.7900000

Distribution tables (continued)

for the year ended 31 December 2013

First interim distribution

Group 1 – Shares purchased on or before 31 December 2012

Group 2 – Shares purchased on 1 January 2013 to 31 March 2013

Distribution	Tax credit p	Net revenue distributable p	Equalisation* p	Paid 31.05.13 total p	Paid 31.08.12 total p
A Income					
Group 1	0.0277314	0.2495826	-	0.2495826	-
Group 2	0.0177633	0.1598694	0.0897132	0.2495826	-
A Income Hedged					
Group 1	0.0258185	0.2323665	-	0.2323665	-
Group 2	0.0176802	0.1591219	0.0732446	0.2323665	-
A Accumulation					
Group 1	0.0299103	0.2691927	-	0.2691927	-
Group 2	0.0199077	0.1791691	0.0900236	0.2691927	-
B Income					
Group 1	0.0268510	0.2416591	-	0.2416591	-
Group 2	0.0168462	0.1516158	0.0900433	0.2416591	-
B Accumulation					
Group 1	0.0282152	0.2539371	-	0.2539371	-
Group 2	0.0211977	0.1907791	0.0631580	0.2539371	-
X Income					
Group 1	0.0273772	0.2463952	-	0.2463952	-
Group 2	0.0236599	0.2129395	0.0334557	0.2463952	-
X Income Hedged					
Group 1	0.0258202	0.2323819	-	0.2323819	-
Group 2	0.0201167	0.1810501	0.0513318	0.2323819	-
X Accumulation					
Group 1	0.0279093	0.2511837	-	0.2511837	-
Group 2	0.0222848	0.2005629	0.0506208	0.2511837	-

Note for corporate shareholders only (unaudited)

A shareholder within the charge to UK corporation tax receives the dividend distribution excluding any equalisation as unfranked income to the extent that the gross revenue less tax from which the dividend distribution is made is not franked investment income.

Where the gross revenue from which the dividend distribution is made is not wholly franked investment income (FII), part of the distribution is received as an annual payment from which income tax at the lower rate of 20% has been deducted.

For distribution years beginning on or after 6 April 1999, the maximum amount of income tax, if any, that may be reclaimed from HM Revenue & Customs is the corporate shareholder's portion of the Depositary's net liability to corporation tax in respect of the gross revenue.

For the dividend distribution payable on 28 February 2014 (unaudited):**A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Income Hedged

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

B Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

L Accumulation

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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

Note for corporate shareholders only (unaudited) (continued)

X Income Hedged

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

X Accumulation

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

For the dividend distribution paid on 30 November 2013 (unaudited):

A Income

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

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- (i) 100.00% of the total distribution together with the tax credit is received as FII;
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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 August 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Income Hedged

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Note for corporate shareholders only (unaudited) (continued)**For the dividend distribution paid on 31 May 2013 (unaudited):****A Income**

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Income Hedged

- (i) 100.00% of the total distribution together with the tax credit is received as FII;
- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

A Accumulation

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- (ii) 0.00% of the distribution is received as an annual payment, received after the deduction of income tax at the lower rate and is liable to corporation tax. It is not FII.

The Depositary had no net corporation tax liability.

Regulatory information and risk warnings

The contents of the Authorised Corporate Director's report are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and Cazenove Investment Fund Management Limited, its directors, officers and employees do not accept any liability or responsibility in respect of the information or any recommendations expressed herein which, moreover, are subject to change without notice.

Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice in any way. Past performance is not a guide to future performance. The value of investments and the revenue from them can go down as well as up and an investor may not get back the amount invested and may be affected by fluctuations in exchange rates. The levels and bases of, and reliefs from, taxation may change. You should obtain professional advice on taxation where appropriate before proceeding with any investment. You should be aware that investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a greater risk of default and have a negative impact on revenue and capital value. Revenue payments may constitute a return of capital in whole or in part. Revenue may be achieved by foregoing future capital growth. You should be aware of the additional risks associated with investment in emerging and developing markets.

Cazenove Investment Fund Management Limited can only promote its own products and services.

Stamp duty reserve tax

The redemption of shares by a shareholder may result in CIFCo incurring a liability for stamp duty reserve tax ("SDRT"). The SDRT liability (if any) will be determined by reference to the nature of the relevant sub-fund's underlying investments and by the number of shares issued in the relevant sub-fund during the week in which the redemption occurs and in the following week.

The Authorised Corporate Director ("ACD") will, as permitted by the COLL and the Regulations, pay any liability for SDRT out of the capital property of the relevant sub-fund. The maximum amount of SDRT which will be due is 0.5% of the value of the shares redeemed.

The ACD may also, where it believes that it is in the overall best interests of shareholders to do so, impose an SDRT provision on large deals. The imposition of an SDRT provision will have the effect of increasing the cost of buying shares or reducing the proceeds on selling shares. The ACD does not at present intend to charge an SDRT provision on other transactions.

The amount of the SDRT provision will not exceed 0.5% of the value of the transaction before the imposition of the provision. If the ACD receives an SDRT provision in respect of any share bought or sold it shall, forthwith upon receipt of that SDRT provision, pay it to the Depositary to become part of the Company property.

FTSE disclaimer

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Other information

Prospectus

The Prospectus for the Company has been prepared and is available from the ACD on request.

The Company

Cazenove Investment Fund Company
12 Moorgate, London EC2R 6DA.

Authorised Corporate Director

Cazenove Investment Fund Management Limited
Registered office: 12 Moorgate, London EC2R 6DA.
The ACD is authorised and regulated by the Financial Conduct Authority.

Directors of Cazenove Investment Fund Management Limited

A J S Ross (*Chairman*)
P Harrison (appointed 16 July 2013)
C E Helmstetter (appointed 2 October 2013)
R S Jeffrey (resigned 2 July 2013)
R Minter-Kemp (resigned 2 July 2013)
C Sims
R E Stoakley (appointed 18 July 2013)
J Troiano (appointed 4 September 2013)
J W J Turnbull (resigned 2 July 2013)
P C Wallace (appointed 15 July 2013)

Depository

J.P. Morgan Trustee and Depository Company Limited
Chaseside, Bournemouth BH7 7DA.
The Depository is authorised and regulated by the Financial Conduct Authority.

Independent Auditors

PricewaterhouseCoopers LLP
Erskine House, 68-73 Queen Street, Edinburgh, EH2 4NH.

Registrar

J.P. Morgan Europe Limited
1 Angel Court, London EC2R 7HJ.
The Registrar is authorised and regulated by the Financial Conduct Authority

Administrator

J.P. Morgan Europe Limited
3 Lochside View, Edinburgh Park, Edinburgh EH12 9DH.
The Administrator is authorised and regulated by the Financial Conduct Authority.

For more information

Please telephone the Business Development Department at Cazenove Investment Fund Management Limited, on 020 3479 1000, or access the website at www.cazenovecapital.com.

