



Annual Short Report and Financial Statements for MGTS Clarion Prudence Fund

For the year ended 31 January 2014

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Investment Adviser's Report

For the year ended 31 January 2014

Investment Objective & Policy

The objective of the Fund is to deliver total returns. The Fund will achieve its objective by investing in a portfolio of assets which the Investment Adviser considers to be primarily low and medium risk investments with some exposure to some higher risk elements with the intention of creating total returns.

Investment Review

MGTS Clarion Prudence Portfolio R Acc	6.44%
MGTS Clarion Prudence Portfolio L Acc	5.90%

Benchmark

IMA Mixed Investment 20-60% Shares Sector	4.73%
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Source: Morningstar Direct. Performance is bid to bid with income reinvested.

The MGTS Clarion Prudence fund has outperformed the benchmark over the period, driven by an overweight equity allocation, predominantly based in developed markets. In addition, the fund benefitted from the underweight gilts and short duration position in bonds, which have exposure to corporate debt.

The year has been volatile and mainly driven by central bank policy rather than macro-economic factors. Overall, the US and Japanese stock markets have been the strongest area of investment, providing returns of c. 17% over the year to the end of January 2014, however the vast majority of positive return was achieved in the first six months. In the second half of the year the UK and European stock markets outperformed, returning c.10% over the year. The Asian and Emerging Markets stock markets fell in value, recording a loss of 0.1% and 15% respectively¹.

UK Government Bonds (gilts) provided a flat return during the year with capital losses offset by the yield.

At the start of 2013 it appeared that stock market investors were playing a 'win-win' game with momentum, driving returns higher. The 'win-win' game was based on the premise that if economic data was poor then the central banks pumped liquidity into the economy through quantitative easing, which pushed up markets; a 'win'. Alternatively, if the data was positive then the recovery justifies a higher value and stock markets also go up; another 'win'.

This was exacerbated when the Japanese Central Bank announced its own increased Quantitative Easing Policy in April 2013.

Quantitative Easing is the process of using printed money to buy assets, normally government debt, and has been used extensively by the US and UK in the aftermath of the credit crisis of 2007/8 in order to increase the money supply, bring down interest rates and stimulate demand to avoid recession. The key risk of QE is that the additional money supply creates inflationary pressures.

Whilst Japan is a relative latecomer to the QE party, they announced a programme on an entirely larger scale. Japan targeted to spend \$70Bn per month, which compared at the time to the US' \$85Bn per month, however Japan's economy is around a third of the size. Japan's objective was to double the amount of money in circulation with the aim of reversing the deflationary cycle, which Japan has suffered for decades. This plan was initially greeted enthusiastically by the Japanese stock market, whilst the Yen depreciated significantly; an intended consequence to produce a boost for Japanese exports.

Investors may be forgiven for observing that central banks have found the magic bullet for all economic woes through the process of QE. Unfortunately this may not be the case. The process creates a number of risks – in the short term the abundance of cash can create asset bubbles and there is some evidence of this in fixed interest markets, which we continue to believe are generally overvalued, despite recent falls. Longer term, the biggest risk is that inflation increases beyond desirable levels.

¹ Source: Morningstar Direct. Post tax return with income reinvested. 1-2-13 to 21-1-14

Investment Adviser's Report (continued)

Although the announcement of Japanese QE initially led to a significant rally in Japanese stocks as well as other main stock markets, the rally abruptly ended on 22 May 2013, when all major stock markets fell sharply in value. What was unusual about the period following 22 May is that bonds and most other asset classes also fell in value.

It would appear that comments made by Ben Bernanke (The US Federal Reserve Chairman) triggered the selloff when he *hinted* that quantitative easing may be tapered this year in the US.

We believe that Mr Bernanke's comments were made as a warning to avoid a bubble being formed in stock markets. However, the significant fall in values after his comments illustrate how highly manipulated financial assets had become in the wake of the credit crisis. The mere hint of a reduction in the amount of money that the US Federal Reserve pumps into the economy, currently \$85Bn a month, was enough to set investors into a panic, despite the generally improving economic data.

Mr Bernanke did not say that QE was coming to an end, or that the policy was being reversed, he only hinted that the rate at which the Fed is buying bonds may be reduced as the economy recovers. This would appear to be sensible policy, removing the stimulus as the recovery gathers pace to avoid inflation.

During the second half of the period, economic data has continued to improve and stock markets recovered from falls. As the data improved, over the course of two monetary policy meetings the US Federal Reserve started to reduce the level of QE injected into the economy from \$85Bn to \$65Bn per month in December 2013 and January 2014.

The investment team feel that this shift in policy is encouraging. It signals that the US Fed is more comfortable that the economy can sustain growth without the prop of QE and starts the process of normalisation. Although stock market returns have been mixed during this period, we feel that investors have started to consider real economic data and fundamentals, rather than focus purely on noise created by policy rhetoric.

The growth in developed stock markets, particularly the US stock market, reflects improving investor confidence. Stock market valuations have been driven up to long-term averages and on some measures higher than the long-term average values. In order for the US stock market to continue to grow, earnings growth must be sustained. To date, much of corporate earnings growth has come from refinancing at historically low levels of interest rates and cost cutting. Moving forward, with unemployment falling and scope for further cost reductions diminishing, earnings growth will need to be generated from revenue growth, which has been much slower to recover.

Investor confidence has been especially evident in technology or similar companies, like Facebook, which was oversubscribed at \$38 per share when it listed on stock markets in 2012 and has since seen its share price rise to c. \$65 per share. The average price/earnings (PE) ratio for the US stock market is c. 16x. The PE valuation of Facebook is currently c. $78x^2$, this means that at the current level of earnings it would take 78 years before company earnings have paid back the original investment. For the price of Facebook to be justified, the rate of growth that is expected has to be enormous. The valuations in some stocks are akin to the technology bubble that burst in 2000. Although the prevalence of technology shares in stock markets is not comparable to the late 1990s, it is a worrying indicator and we feel that investors may experience a reality check at some point.

More generally, we believe that stock markets still offer the best opportunity for investment, however general investment commentary indicates that investors view developed stock markets through rose tinted glasses, pricing in a continued strong recovery. Although we do not disagree with the view of a continued recovery this appears to be at odds with the view of Asia and Global Emerging Markets, which are priced at levels similar to the credit crisis in 2008. This disparate view of the global economy is the same but reversed view seen during the credit crisis, when investors thought that Asia and Emerging Markets could decouple from the global economy and continue to grow at almost double digit rates, whilst the developed economies slumped. Then, like now, we do not believe that the global economy will decouple. Our view is that whilst China has significant issues to deal with from a rapidly expanding credit market, it also has the significant resources to deal with them. If unsuccessful, then this will have a knock-on effect on developed economies.

² Source: Bloomberg

Investment Adviser's Report (continued)

Equally, if the recovery continues to strengthen in the US, then it will have economic benefits globally, including the developing markets, which are more likely to avoid the credit crisis being priced in. In summary, we believe there is more scope for positive surprises in Asian and Emerging Markets, given the very low expectations, and greater risk of negative surprises in the US economy, where expectations are high.

Therefore, we expect the significant discount between developing stock markets and developed stock markets to narrow, although the team are monitoring the falls in emerging stock markets and their currencies as the risk of contagion may grow if certain economies continue to face outflows despite the fundamentals.

Over the period the manager has maintained a significantly lower allocation to bonds than the long-term expectation and has further reduced the sensitivity of the portfolio to yield rises through the sale of Fidelity Money Builder Income. The proceeds were distributed over the remaining bond holdings.

The equity allocation has remained broadly similar over the period in an overweight position, which has helped the fund to outperform. In addition, the main exposure is through developed markets, which have performed relatively well.

The Vanguard FTSE UK Equity Income fund was sold and replaced with Troy Trojan Income to provide more defensive properties should the stock market volatility increase.

The team are monitoring outflows from Emerging Markets and are prepared to sell the Newton Asian Income fund if there is a perceived risk that contagion may spread.

Clarion Investment Management Ltd
Investment Adviser
28 February 2014

Certification of Accounts by Directors of the ACD

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

T J Ricketts **M D Jealous**

Margetts Fund Management Ltd
08 May 2014

Authorised Status

The MGTS Clarion Prudence Fund is a sub-fund of the MGTS Clarion Portfolio ICVC with investment powers equivalent to those of a UCITS Scheme. The umbrella company is MGTS Clarion Portfolio ICVC which is an open-ended investment company with variable capital incorporated in England and Wales under regulation number IC590 and authorised by the Financial Conduct Authority with effect from 28 November 2007.

The fund is classed as a Non-UCITS Retail Fund (NURS) scheme. Shareholders are not liable for the debts of the fund.

Portfolio statement

As at 31 January 14

Holding	Portfolio of Investments	Value (£)	Total Net Assets	
			31.01.14 %	31.01.13 %
	UK			
591,086	Artemis Income Institutional Acc	1,931,967	7.09	
1,494,262	Aviva UK Equity Income Sc 2	1,980,944	7.27	
284,008	Royal London Equity Inc B	1,932,963	7.09	
1,604,368	Threadneedle UK Equity Income ZNI	1,973,374	7.24	
896,514	Trojan Income O Acc	2,002,095	7.35	
	Total UK	9,821,343	36.04	34.69
	Bonds			
1,546,099	IFDS Brown Shipley Sterling Bond I Acc	1,939,118	7.12	
1,341,609	M&G Optimal Income I Inc	1,909,244	7.01	
	M&G UK Inflation Linked Corporate Bond I			
1,576,503	Acc	1,827,483	6.71	
1,882,505	Smith & Williamson Short-Dated Corp Bond B	1,881,752	6.91	
676,669	Standard Life Gbl Index Linked Bond Inst Acc	1,079,288	3.96	
	Total Bonds	8,636,885	31.71	30.83
	Europe (excl. UK)			
2,121,025	Standard Life European Eq Inc Inst Acc	1,971,493	7.24	
	Total Europe (excl. UK)	1,971,493	7.24	7.60
	Asia Pacific (excl. Japan)			
1,441,823	Newton Asian Income Instl W Net Acc	1,486,665	5.46	
	Total Asia Pacific (excl. Japan)	1,486,665	5.46	7.65
	US			
1,517,416	Jupiter North American Income I Acc	1,367,192	5.02	
	Total US	1,367,192	5.02	7.11
	Money Markets			
	Goldman Sachs Sterling Liquid Reserves			
1,700,000	Admin Dist	1,700,000	6.24	
1,700,000	Invesco Sterling Liquidity Select Class Fund	1,700,000	6.24	
	Total Money Markets	3,400,000	12.48	-
	Portfolio of Investments	26,683,578	97.95	87.88
	Net Current Assets	557,300	2.05	12.12
	Net Assets	27,240,878	100	100

The investments are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds.

Net Asset Value per Share and Comparative Tables

Price and Income History

L Income shares (Legacy)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	107.99	96.74	0.5604
2011	110.60	98.96	1.8666
2012	114.11	103.98	2.2691
2013	125.68	113.68	1.5593
2014*	126.03	123.58	0.5567

L Accumulation shares (Legacy)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	111.03	99.46	0.6221
2011	114.56	103.04	1.9335
2012	121.15	108.27	2.3949
2013	135.12	120.70	1.6923
2014*	135.50	132.87	0.5984

R Income shares (RDR)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	112.24	100.31	-
2011	116.13	104.57	-
2012	123.70	110.01	-
2013	138.57	123.26	-
2014*	139.11	136.42	-

R Accumulation shares (RDR)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2010	112.24	100.31	0.6468
2011	116.13	104.57	1.9557
2012	123.70	110.01	3.2656
2013	138.57	123.26	2.3476
2014*	139.11	136.42	0.9568

* To 31 January 2014

Net Asset Value

Date	Share Class	Net Asset Value (£)	Shares in Issue	Net Asset Value (Pence per share)
31.01.12	L Income	1,266,638	1,191,984	106.26
31.01.12	L Accumulation	15,485,138	13,869,163	111.65
31.01.12	R Income	-	-	113.49
31.01.12	R Accumulation	2,603,686	2,294,258	113.49
31.01.13	L Income	1,254,706	1,061,041	118.25
31.01.13	L Accumulation	18,168,537	14,467,552	125.58
31.01.13	R Income	-	-	128.26
31.01.13	R Accumulation	3,202,826	2,497,139	128.26
31.01.14	L Income	1,240,446	1,009,717	122.85
31.01.14	L Accumulation	16,310,921	12,293,597	132.68
31.01.14	R Income	-	-	136.24
31.01.14	R Accumulation	9,689,513	7,112,302	136.24

Net Asset Value per Share and Comparative Tables (continued)

Risk Warning

An investment in an open-ended investment company (OEIC) should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance.

Prices per Share

Date	Share Class	Price (Pence)	Yield (%)
01.02.2014	L Income	122.90	1.00
01.02.2014	L Accumulation	132.73	1.00
01.02.2014	R Income	136.29	1.49
01.02.2014	R Accumulation	136.29	1.49

Fund Performance

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

Ongoing charges figure

	31.01.14	31.01.13
	%	%
ACD's Annual Management Charge	1.50	1.50
Other expenses	0.16	0.16
Total Expense Ratio	1.66	1.66
Synthetic TER	0.71	0.72
Complete OCF	2.37	2.38

Ongoing charges - R Class

ACD's Annual Management Charge	1.00	1.00
Other expenses	0.16	0.16
Total Expense Ratio	1.16	1.16
Synthetic TER	0.71	0.72
Complete OCF	1.87	1.88

Distribution Table

For the year ended 31 January 2014 – in pence per share

Interim

Group 1 – shares purchased prior to 01 February 2013

Group 2 – shares purchased on or after 01 February 2013

L Income Shares

Units	Net Income	Equalisation	Paid 30.09.13	Paid 30.09.12
Group 1	0.6788	-	0.6788	1.3042
Group 2	0.6788	-	0.6788	1.3042

L Accumulation Shares

Units	Net Income	Equalisation	Allocated 30.09.13	Allocated 30.09.12
Group 1	0.7255	-	0.7255	1.3614
Group 2	0.2746	0.4509	0.7255	1.3614

R Accumulation Shares

Units	Net Income	Equalisation	Allocated 30.09.13	Allocated 30.09.12
Group 1	1.0718	-	1.0718	1.6696
Group 2	0.3278	0.7440	1.0718	1.6696

Final

Group 1 – shares purchased prior to 01 August 2013

Group 2 – shares purchased on or after 01 August 2013

L Income Shares

Units	Net Income	Equalisation	Payable 31.03.14	Paid 31.03.13
Group 1	0.5567	-	0.5567	0.8805
Group 2	0.5567	-	0.5567	0.8805

L Accumulation Shares

Units	Net Income	Equalisation	Allocating 31.03.14	Allocated 31.03.13
Group 1	0.5984	-	0.5984	0.9668
Group 2	0.5029	0.0955	0.5984	0.9668

R Accumulation Shares

Units	Net Income	Equalisation	Allocating 31.03.14	Allocated 31.03.13
Group 1	0.9568	-	0.9568	1.2758
Group 2	0.2081	0.7487	0.9568	1.2758

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

General Information

Valuation Point

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

Buying and Selling of Shares

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

Prices

The most recent mid prices of shares are published on the Margetts website at www.margettsfundmanagement.com.

Other Information

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

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

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

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

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

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

Data Protection Act

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

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