MFM Slater Growth Fund

Short Report

For the period from 1st January 2012 to 31st December 2012

Slater Investments Ltd

MARLBOROUGH
Fund Managers Limited

Fund Details
MFM Slater Growth Fund

Manager and Registrar

Marlborough Fund Managers Ltd
Marlborough House
59 Chorley New Road
Bolton BL1 4QP

Customer Support: (0808) 145 2500 FREEPHONE

Authorised and regulated by the Financial Services Authority

Trustee

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Authorised and regulated by the Financial Services Authority

Investment Adviser

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Authorised and regulated by the Financial Services Authority

Auditors

Barlow Andrews LLP
Carlyle House
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Bolton
BL1 4BY

GENERAL INFORMATION

Investment Objective

The investment objective is to achieve capital growth by investing in companies both in the UK and overseas but concentrating mainly on UK shares. The Scheme will focus in particular on shares which the Manager believes are currently under-valued and that have the potential of a significant re-rating. Other investments including bonds, warrants, deposits and collective investment schemes may be used where it is considered that they meet the investment objective. It is also intended where appropriate to take advantage of underwritings and placings. At times it may be appropriate for the Scheme not to be fully invested but to hold cash and near cash. The Scheme may invest in derivatives and forward transactions but only for hedging purposes.

Risk Profile

The portfolio is primarily invested in a portfolio of UK equities which carry risks such as market price risk and liquidity risk. These risks are monitored by the investment adviser in pursuit of the investment objectives as set above. In addition to the UK equity shares the portfolio may hold overseas equities which carry an additional currency risk. The fund may also invest in derivatives and forward transactions for the purpose of hedging with the aim of reducing the fund’s risk profile. The investment adviser, having considered the portfolio, believes that its composition has a prudent spread of risk.

Reports and Accounts

The purpose of sending this Short Report is to present you with a summary of how the fund has performed during the accounting period in accordance with the FSA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.

Change in Prospectus

From 31 December 2012 class B units and class P units became available for purchase in the Fund, the existing units were reclassified as class A units.
Also from that date, the manager’s periodic charge and trustee’s fees are calculated on a daily basis.

Up to date key investor information documents, the full prospectus and manager’s reports and accounts for any fund within the manager’s range, can be requested by the investor at any time.

Risk Warning

Past performance is not necessarily a guide to future. The value of investments and the income from them may go down as well as up. Investors may not get back their original investment. The fund has a concentrated portfolio which means greater exposure to a smaller number of securities than a more diversified portfolio. The fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of investment. This fund invests in smaller companies and carries a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The fund can also invest in smaller companies listed on the Alternative Investment Market (AIM) which also carry the risks described above. The Fund invests mainly in the UK. Therefore it may be more vulnerable to market sentiment in that country.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 31 December 2012

Percentage change and sector position to 31 December 2012

	Six months	1 year	3 years	5 years	Since launch**
MFM Slater Growth Fund	8.53%	10.48%	95.75%	84.46%	143.36%
Quartile Ranking*	3	4	1	1	1

* Based on ranking within IMA UK All Companies Sector ** Launched 30 March 2005
External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

With negative sentiment so commonplace at the end of 2011, markets were spring loaded to respond aggressively to even modestly good news. In the first few months of the year, economic data in the US was impressive. The ECB's second round of Long-Term Refinancing Operation was also perceived positively. This was enough to send investors back into "risk on" mode. The strongest areas tended to be those that had been weakest before – banks, financials and cyclical stocks.

By the second calendar quarter, however, the Greek crisis had spread to Spain. Markets went into "risk off" mode again and fell sharply. By late May / early June the major market was down 9% from its March levels - a point at which the Fund was outperforming significantly. The last weeks of June witnessed a 5% rally in the main index while several portfolio companies released disappointing statements.

Apart from a brief wobble during July, markets rose steadily during the summer in anticipation of the third round of Quantitative Easing. This was against a background of weak numbers coming out of China and a growing number of large multinationals complaining about economic headwinds, particularly in Europe. Euphoria following the US Presidential election result was short-lived and investors shifted their focus instead to the looming "fiscal cliff," downgraded Eurozone growth prospects and renewed concerns about Spanish and Greek debt. In November, these issues saw markets fall to their lowest levels since July. However, the finalisation of a new rescue package for Greece led to a strong rally. Political wrangling in the US ahead of the "fiscal cliff" led to some jitters towards the end of December but the tone of investors remained upbeat and far from risk averse.

The Fund outperformed strongly in the first five months of the financial year. However, June was poor, with disappointing announcements from three portfolio companies (Cape, Andor Technology and Alliance Pharma) in the same month. During the second half, the Fund slightly underperformed the broader market and was marginally behind the UK All Companies sector owing to the portfolio's minimal holdings in financials and cyclicals which performed exceptionally well. It is difficult for us to find investments in these areas which meet our criteria. Some growth companies also lagged, having performed strongly previously.

Classically defensive stocks like British American Tobacco (-4%) and Imperial Tobacco (-3%) were left behind in the second half of the year as investors went into "risk on" mode again in a determined fashion.

Other more dynamic growth companies which did not participate materially in the generally bullish mood included Serco (unchanged) and Cupid (unchanged) despite both reporting trading in line with expectations. Dialight, a major holding, rose only 2% though in early January 2013 the company delivered an upbeat trading update and we see no reason why strong gains will not follow. The company sells LED lighting solutions into regulated markets where it has leading market positions (traffic lights, strobes for telephone towers and tall structures etc) and is moving aggressively into the nascent but much larger industrial and hazardous environments market (mines, oil rigs, refineries etc). Dialight enjoys first mover advantage, competing mainly against companies with non-LED legacy businesses whose hands are tied to some extent. The offer to customers is compelling – lower power usage, greater reliability, five to ten year guarantees and a pay back on investment of between 12 and 18 months. Dialight is also a beneficiary of the falling cost and increasing effectiveness of LEDs. Earnings are growing at about 30% per annum assuming no scale benefits. Based on a likely 30% drop through to the bottom line, growth forecasts could be much higher. On a prospective PE of 20 and the likelihood of rapid growth for many years, the PEG ratio is compelling.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

It was surprising to see Hutchison China MediTech, another large investment, gain only 1% despite excellent operational progress. Its share price did not respond materially to the excellent news that Nestle will enter into a 50/50 joint venture to take Hutchison's digestion-related drug through Phase 3 trials. This will involve Nestle putting up $125m if everything proceeds according to plan. We are delighted that Hutchison has managed to de-risk the funding of what could be a multi-billion dollar drug. Following an earlier deal with AstraZeneca on another drug, the value of the intellectual property in Hutchison's R&D division's pipeline is plain to see. We believe that it is valued at zero by the current share price as the company's core Chinese Healthcare division should be worth more than the market capitalisation by itself.

On a more positive note, shares in Entertainment One have started to be re-rated, rising 8% (+0.77% contribution to overall returns in the second half). During the first half the shares fell back after the board announced that its strategic review had not resulted in a bid high enough to merit recommendation. The share price was then depressed by a lengthy and public auction of Alliance Films and the possibility of a rights issue to finance a deal. In September, the company announced the acquisition of Alliance. The C$225m deal was cheaper than expected, synergy estimates are very conservative and the combined entity's market positions in the UK and Canada are significantly enhanced. The £110m share issue to raise cash was well supported by shareholders, including the Fund. Interim results were in line with forecasts though this year the company will see a strong second half weighting owing to the timing of investments. This prompted a small fall in the share price but it had been well-flagged and management point to very high levels of second half visibility. The PE multiple is a modest 9, absurdly low given the value of the library and the earnings growth rate. During the first week of January the company announced that its Alliance Films acquisition has been waived through by the Canadian competition authorities. This triggered a sharp upwards move in the share price. We think there is much more to come.

Elsewhere, Oxford Instruments rose 15% (+1.16% contribution in the second half) after interim results which showed adjusted earnings up 20% and news of a bolt-on acquisition. The company's nanotechnology tools division is enjoying a strong tail wind. NCC Group gained 15% (+0.92% contribution) following a trading statement pointing to growth in line with expectations. Alliance Pharma gained 35% (+0.81% contribution) following news of another earnings enhancing acquisition. CML Microsystems rose 39% (+1.14% contribution) after delivering a 20% increase in interim pre-tax profits. The business is well-placed to address much larger markets with its new products.

Quindell Portfolio was the portfolio's star performer, gaining 229% (+2.76% contribution) on a flurry of contract awards and forecast upgrades. Since the year end we said a very profitable farewell to Tikit, the leading provider of software to law firms, when BT Group agreed a cash bid with the board. The stock gained 30% (+0.95% contribution). Judges Scientific's much deserved re-rating continued apace. The shares appreciated 53% (+0.97% contribution) as the company continued to beat forecasts. James Fisher is benefiting from strong trading conditions in Asia and saw its shares rise 32% (+1.09% contribution).

Some smaller positions also made welcome contributions to returns. Weir Group, up 23% (+0.23% contribution), announced that 2012 would see double digit profits growth despite the dislocation in the US onshore drilling market caused by the shift from gas to liquids. Diploma gained 23% (+0.26% contribution) after excellent full year results which showed a 19% increase in earnings on a 13% rise in turnover. BSkyB gained 10% following solid first quarter figures in November. OPG Power rose 43% (+0.24% contribution) after confirming that its ambitious plans to increase capacity are on track. Restore Group's bolt-on acquisition formula is working well and the shares put on 27% (+0.43% contribution). Meanwhile, RWS gained 21% (+0.24% contribution).

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

A number of holdings faced specific challenges that led to share price falls. Chemring fell 16% (-0.42% contribution) on news that bid talks had been abandoned, preceeded by significant downgrades to profit guidance. Forecasts now seem conservative and the new management team is highly regarded but it will take time for the shares to re-rate given the tough defence industry backcloth and the extent of recent downgrades. CSF Group saw its shares fall 39% (-0.39% contribution) in relatively thin trading. Changes by the anchor tenant to the specification of a new data centre will cause delays and impact profits in the near term. Ultimately the centre will be larger, leading to higher profits in a few years. Avanti Communications fell 22% (-0.23% contribution) after adopting more conservative profits guidance prior to moving to the Full List. This involved removing any possibility of winning large potential contracts from the forecasts and focusing only on more predictable revenue streams. The ramp up in revenues, however, remains on track, and looks like it will accelerate. City of London Investment Group cost the Fund 0.54% of performance after the loss of a large mandate. The shares have been sold. Advanced Medical Solutions fell 3% (-0.08% contribution) after revealing weaker than hoped sales of a new product through its US distribution partners. Phoenix IT announced accounting irregularities in one of its divisions. The shares fell sharply and we sold the entire position on the day of the news, costing the Fund 0.51% in terms of performance contribution in the second half. William Sinclair's share price fell 29% (-0.96% contribution) following profit downgrades as a result of the exceptional rainfall in the spring and summer. However, we are not tempted to sell this investment as it is a clear market leader in a long term growth sector, strongly supported by hard assets and with scope to multiply profits threefold over the next few years.

During the second half of the year the Fund took partial profits on its holdings in British American Tobacco, Imperial Tobacco, Oxford Instruments, CML Microsystems, Andor Technology and Quindell Portfolio. The investment in Avanti Communications was also reduced. The positions in Cape, William Morrison and City of London Investment Group were sold in their entirety. The proceeds were used to increase the investments in Alliance Pharma, NCC Group, Hutchison China, Cupid and Avation. A new investment in First Derivatives was also made.

Looking back over 2012, the exceptionally strong performance of financials and cyclicals meant it had to be a difficult year for the Fund in relative performance terms. The Fund's share selection criteria are rarely met by companies of those kinds. It was pleasing to see many of the portfolio's investments reporting strong results and delivering healthy share price gains. Those companies that made excellent operational progress whose share prices remained static are effectively storing up value to be released in the months ahead. We believe that the Fund's approach is particularly well-suited to the current environment. Companies that can deliver dynamic and reliable earnings growth against a generally lacklustre backcloth should be disproportionately rewarded over time, especially when one buys their shares with the margin of safety provided by a low PEG and strong cash flow.

Distributions

	Year 2013	Year 2012	Year 2011	Year 2010
Net income paid last day of February	0.5930ppu	0.5411ppu	1.6913ppu	1.1908ppu
Net income paid 31 August	report only (only distributes at final xd)			

Slater Investments Ltd
20 February 2013

Material Portfolio Changes

For the year ended 31 December 2012

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Entertainment One	1,469,863	Cape	1,453,581
Cupid	1,438,509	British American Tobacco	1,071,609
NCC Group	1,161,591	City of London Investment Group	1,028,873
Quindell Portfolio	1,057,602	Quindell Portfolio	909,220
First Derivatives	1,039,905	Andor Technology	872,345
Serco Group	895,028	Imperial Tobacco Group	808,335
Restore	691,250	Tesco	776,268
Chemring Group	557,152	Phoenix IT Group	700,595
Alliance Pharma	510,055	Whitbread	551,110
Hargreaves Services	488,949	Morrison (Wm) Supermarkets	404,695
Advanced Medical Solutions Group	400,289	Oxford Instruments	376,405
Cape	317,812	Globo	373,250
Judges Scientific	221,400	CSF Group	312,519
Hutchison China Meditech	160,801	SuperGroup	293,510
Avation	53,471	Patsystems	238,000
Diploma	45,216	Entertainment One	199,600
		Dialight	179,639
		CML Microsystems	164,833
		RSM Tenon Group	123,685
		Avanti Communications Group	65,347
Total purchases for the year	10,508,893	Total sales for the year	10,903,419

TOP TEN HOLDINGS AS AT 31 DECEMBER 2012

	%
Entertainment One	8.52
Oxford Instruments	8.26
Hutchison China Meditech	7.80
NCC Group	7.69
Dialight	7.22
Fisher (James) & Sons	4.31
Tikit Group	3.93
CML Microsystems	3.54
Alliance Pharma	2.99
Advanced Medical Solutions Group	2.75

TOP TEN HOLDINGS AS AT 31 DECEMBER 2011

	%
Entertainment One	7.80
Oxford Instruments	6.77
Hutchison China MediTech	6.02
Andor Technology	5.96
Dialight	5.64
NCC Group	5.34
British American Tobacco	4.20
Imperial Tobacco Group	3.87
Advanced Medical Solutions Group	3.65
Cape	3.45

FUND FACTS

Launched Accumulation Units		30 March 2005 at 100p
Accounting Dates	(Final)	31 December
	(Interim-report only)	30 June
Distribution Dates	(Final)	28 February
Minimum Investment		£3,000
IMA Sector		UK All Companies

Ongoing Charges Figure as at 31 December 2012 1.55%

The ongoing charge figure is based on expenses for the year ending 31 December 2012. This figure may vary from year to year. It excludes:

- Performance fees
- Portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment scheme.

Synthetic risk and reward indicator

Lower risk ⟷ Higher risk

Typically lower rewards — Typically higher rewards

1	2	3	4	5	6	7

The risk and reward indicator above aims to provide you with an indication of the overall risk and reward profile of the fund. It is calculated based on the volatility of the fund using weekly historic returns over the last five years. If five years data is not available for a fund, the returns of a representative portfolio are used.

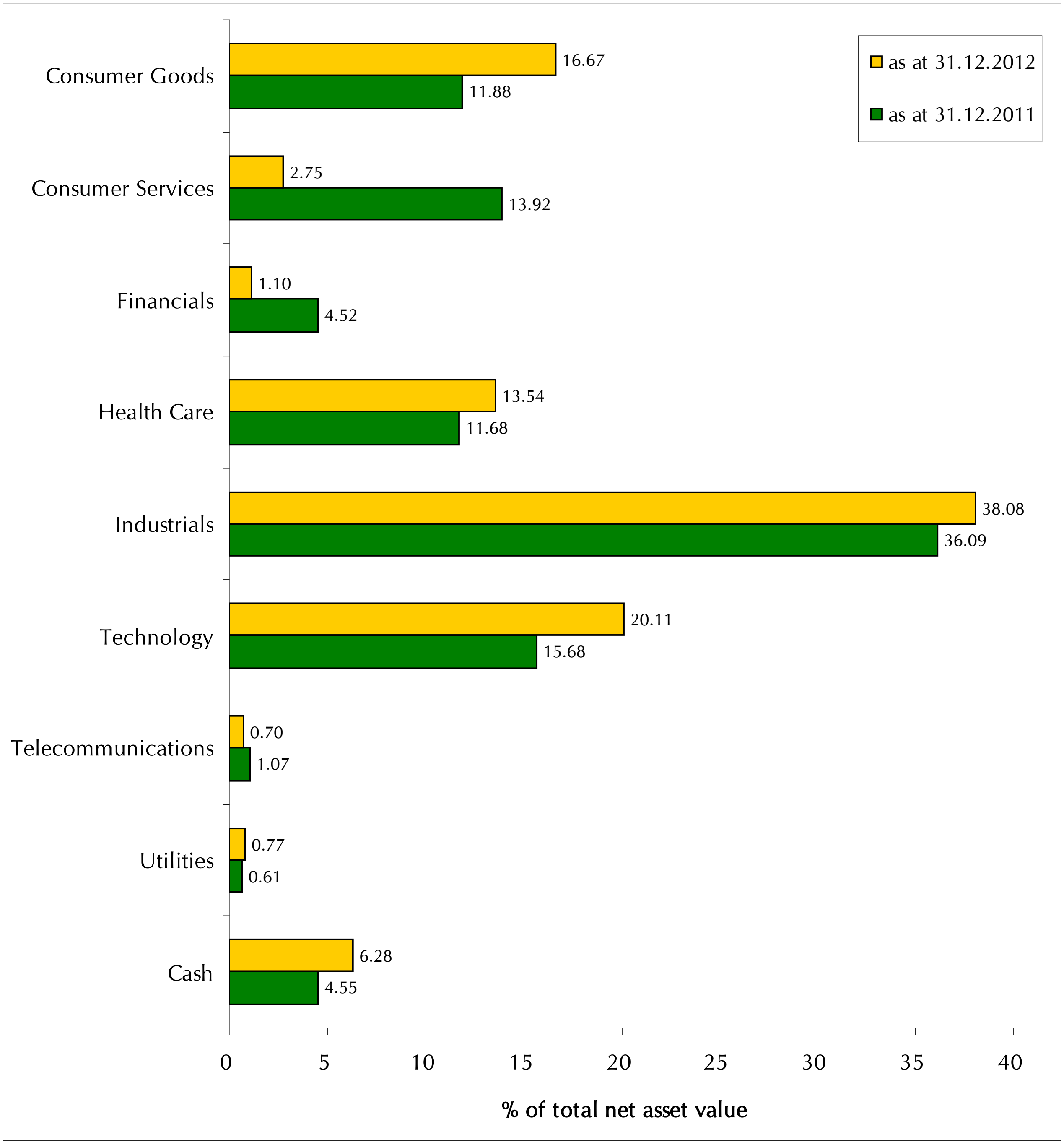
This Fund has been measured as 6 because it has experienced high volatility historically.

SUMMARY OF FUND PERFORMANCE

Unit Type	Year	Highest Price	Lowest Price	Distribution Per Unit
Accumulation	2008	134.43p	75.19p	2.2769p
Accumulation	2009	119.02p	73.83p	1.1908p
Accumulation	2010	221.84p	119.75p	1.6913p
Accumulation	2011	251.32p	198.18p	0.5411p
Accumulation	2012	252.28p	208.84p	0.5930p

	Net Asset Value of Scheme Property	Net Asset Value Per Accumulation Unit
31 December 2010	£23,638,557	206.91p
31 December 2011	£47,081,065	207.25p
31 December 2012	£52,197,449	228.64p

PORTFOLIO BREAKDOWN



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