

CF Cornelian Defensive Fund

a sub-fund of CF Cornelian Investment Funds

ACD's Annual Short Report

for the year ended 15 April 2013

Investment Objective and Policy

The objective of the CF Cornelian Defensive Fund ('the Fund') is to achieve long term capital growth and income by creating a well diversified portfolio investing in a broad range of underlying assets that have relatively low volatility. The majority of these assets will be invested in fixed income funds and cash and 'near cash' instruments. To enable the creation of a diversified portfolio the Fund may also invest in equities, bonds, government securities and other collective investment schemes. There is no specific limit in exposure to any geographical or industrial sector and the Fund may, where permitted, include alternative investments such as (closed-ended) property funds, absolute return funds and funds with exposure to private equity. There may be occasions when it is deemed necessary to hold a high level of cash or money market instruments.

Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

Accounting and Distribution Dates

	Accounting	Distribution
Interim	15 October	15 December
Final	15 April	15 June

Ongoing Charges Figure

Expense Type	15.04.13 %			
	'A'	'B'	'C'	'D'
ACD's periodic charge	1.70	1.50	1.25	0.75
Rebate of ACD's periodic charge*	(0.17)	–	–	–
	1.53	1.50	1.25	0.75
Other expenses**	0.22	0.22	0.22	0.22
	1.75	1.72	1.47	0.97
Collective investment scheme costs	0.28	0.28	0.28	0.28
Ongoing charges figure	2.03	2.00	1.75	1.25

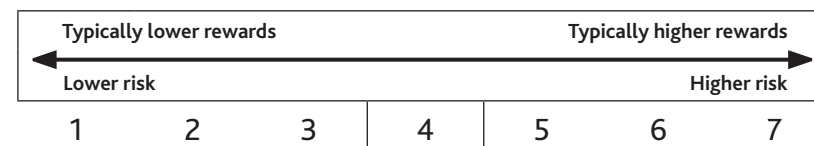
Expense Type	15.04.12 %			
	'A'	'B'	'C'	'D'***
ACD's periodic charge	1.70	1.50	1.25	0.89
Rebate of ACD's periodic charge*	(0.50)	(0.30)	(0.05)	–
	1.20	1.20	1.20	0.89
Other expenses	0.51	0.51	0.51	0.51
	1.71	1.71	1.71	1.40
Collective investment scheme costs	0.30	0.30	0.30	0.30
Ongoing charges figure	2.01	2.01	2.01	1.70

* Rebate to limit the Total Expense Ratio to 2%. The comparative figure has been restated on this basis.

** Net of discretionary reimbursement of expenses by the Investment Adviser.

*** As at 2 April 2012 the ACD's periodic charge changed from 0.90% to 0.75%. This rate has been annualised.

Synthetic Risk and Reward Indicator



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

Distributions

Share Class	Interim 15.10.12 pence per share	Final 15.04.13 pence per share
'A' Income	0.7771	0.4871
'A' Accumulation	0.7974	0.4905
'B' Income	0.7823	0.5843
'B' Accumulation	0.8096	0.6211
'C' Income	0.9560	0.8080
'C' Accumulation	0.9840	0.8360
'D' Income	1.0040	0.8502
'D' Accumulation	1.0320	0.9078

Performance Record

'A' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.53	97.60	0.3861
2011	106.67	100.60	1.2866
2012	112.32	103.84	1.3693
2013*	117.98	112.63	0.4871

'A' Accumulation shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.68	97.60	0.4148
2011	107.88	101.74	1.3112
2012	115.60	105.54	1.3921
2013*	121.43	115.92	0.4905

'B' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.71	97.59	0.5400
2011	106.60	100.54	1.3192
2012	112.26	103.77	1.3308
2013*	117.92	112.57	0.5843

'B' Accumulation shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.89	97.59	0.5413
2011	107.98	101.84	1.3341
2012	115.70	105.65	1.3729
2013*	121.53	116.02	0.6211

'C' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.71	97.59	0.5440
2011	106.77	100.71	1.2920
2012	112.54	103.84	1.4800
2013*	118.32	112.85	0.8080

'C' Accumulation shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.91	97.59	0.5400
2011	108.03	101.91	1.3160
2012	116.14	105.67	1.5440
2013*	122.11	116.45	0.8360

'D' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.75	97.61	0.5760
2011	106.80	100.77	1.3840
2012	112.54	103.87	1.5920
2013*	118.38	112.84	0.8502

'D' Accumulation shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2010#	105.91	97.59	0.5400
2011	108.08	102.01	1.4320
2012	116.38	105.80	1.6520
2013*	122.43	116.70	0.9078

From 22 April 2010.

* To 15 April 2013.

Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
15.04.11	'A' Income	322,389	307,036	105.00
	'A' Accumulation	7,652,745	7,206,254	106.20
	'B' Income	130,570	124,430	104.93
	'B' Accumulation	67,069	63,101	106.29
	'C' Income	263	250	105.08
	'C' Accumulation	266	250	106.32
	'D' Income	263	250	105.08
	'D' Accumulation	266	250	106.36
15.04.12	'A' Income	345,711	323,905	106.73
	'A' Accumulation	9,424,592	8,639,637	109.09
	'B' Income	170,283	159,626	106.68
	'B' Accumulation	150,708	138,064	109.16
	'C' Income	267	250	106.83
	'C' Accumulation	273	250	109.27
	'D' Income	267	250	106.84
	'D' Accumulation	274	250	109.46
15.04.13	'A' Income	502,859	429,301	117.13
	'A' Accumulation	11,229,268	9,276,420	121.05
	'B' Income	187,396	160,068	117.07
	'B' Accumulation	582,943	480,683	121.27
	'C' Income	293	250	117.28
	'C' Accumulation	305	250	121.87
	'D' Income	256,378	218,559	117.30
	'D' Accumulation	404,352	330,940	122.18

Fund Performance to 15 April 2013 (%)

	1 year	Since launch*
CF Cornelian Defensive Fund	10.83	21.18

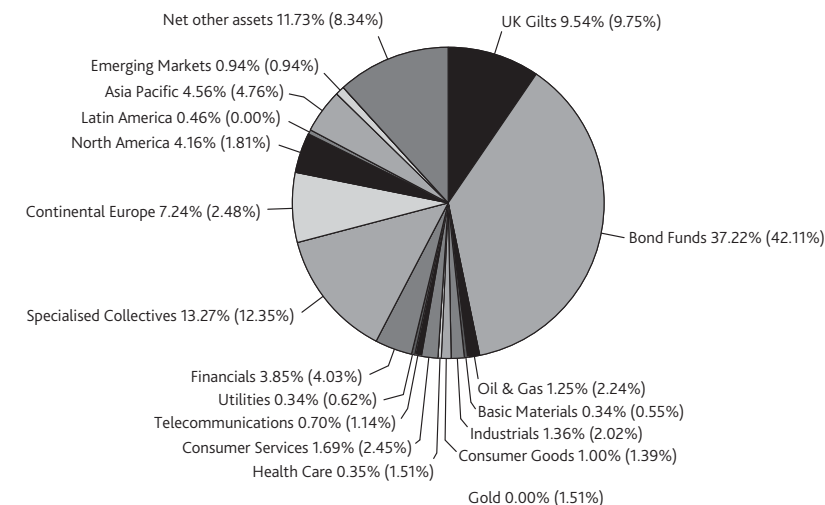
* Launch date 22 April 2010.

The performance of the Fund is based on the published price per 'A' Accumulation share which includes reinvested income.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



The figures in brackets show allocations at 15 April 2012.

Major Holdings

The top ten holdings at the end of each year are shown below.

Holding	% of Fund as at 15.04.13	Holding	% of Fund as at 15.04.12
PIMCO Global Investment Grade Credit	9.88	PIMCO Global Investment Grade Credit	9.64
Legal & General Dynamic Bond Trust	9.67	Legal & General Dynamic Bond Trust	9.56
JPMorgan Strategic Bond	6.99	M&G Corporate Bond	7.71
M&G Corporate Bond	5.30	JPMorgan Strategic Bond	6.90
BH Global	3.62	Schroder International Selection Global Convertible Bond	3.45
Schroder International Selection Global Convertible Bond	3.43	International Public Partnerships	3.00
International Public Partnerships	3.00	Fidelity Sterling Core Plus	2.88
TwentyFour Income	2.88	BH Global	2.79
iShares S&P 500	2.84	NB Global Floating Rate income	2.45
BlueCrest AllBlue	2.58	Edinburgh Dragon Trust	2.43

ACD'S REPORT

for the year ended 15 April 2013

Important Information

From 12 November 2012, the minimum lump sum investment for the D share classes decreased from £1,000,000 to £1,000.

Full details of the changes can be found in the revised Prospectus dated 12 November 2012.

Capita Financial Managers Limited

ACD of CF Cornelian Defensive Fund

8 July 2013

INVESTMENT ADVISER'S REPORT

for the year ended 15 April 2013

Market Overview

Concerns over global growth and the ability of European policymakers to come together to produce a definitive solution to the eurozone debt crisis, resulted in a sharp sell-off in 'risk' assets (ie. equities and corporate debt) during the first half of the review period. However, better news on the macro-economic front (from the US and China) steadied markets and the announcement by France and Germany of progress on attempts to resolve the difficulties in the eurozone, alongside news that the Chairman of the European Central Bank ('ECB') was prepared to 'do whatever it takes' to achieve stability buoyed markets. The equity market rally continued to the end of the review period helped by growing confidence that the US economy had turned a corner and was beginning to generate self sustaining growth, in part due to being further down the line in terms of restructuring both its banking sector and its housing market.

Overall, equity markets made significant gains, with the Japanese stock market leading the way as a result of a decisive election victory by the Liberal Democrats which has heralded a period of extreme monetary policy intervention designed to weaken the currency materially, boost inflation expectations and economic growth. Asian and emerging market equities lagged as economic growth has disappointed and the resurgent competitiveness of the Japanese economy has begun to weigh on investors' minds.

UK Gilts made healthy returns once again as global growth and inflation expectations turned down in the latter part of the period. The search for yield ensured that UK Corporate Bonds continued to perform.

Trading Update

Equities

Recent trades have included selling the Fund's position in G4S which has rallied strongly and buying BHP Billiton with the proceeds. BHP Billiton is a well diversified commodity producer that will benefit if global economic growth starts to surprise positively. Aviva was sold from the Fund as we believed that recent divestments seriously impinged upon the cash generating capability of the company and therefore called into question whether the dividend payout could be sustained. Following the sale of the shares, Aviva announced a substantial cut in their dividend. The proceeds of this sale were invested in Legal & General Group which is strongly capitalised and cash generative and the Fund's position in fast growing Prudential was also added to.

Furthermore, we have sold the Fund's stake in oil service company Hunting, following a disappointing meeting with management. The Funds raised were used to support the float of insurance company, eSure Group, which is backed and chaired by Peter Wood, one of the UK's most successful insurance entrepreneurs.

Following the strong showing of equity markets against a backdrop of deteriorating economic momentum in developed and some emerging markets, the decision was taken to top slice some of our overseas equity Exchange Traded Fund's ('ETFs') holdings. The proceeds have been left in cash, although after period end some of it has been invested in six month US Treasury Bills as we remain concerned that the sterling is overvalued against the US dollar.

Fixed Income

Recently, Gilt prices have been strong as the turmoil in Cyprus alongside poor UK economic data has resulted in investors returning to the market. This is despite the fact that George Osborne has flagged the possibility of diminishing the Bank of England's inflation remit still further and another AAA debt downgrade (this time by Moody's). As the UK economy flatlines, the prospect of seeing the UK's debt pile begin to shrink (as a proportion of GDP) recedes further into the distance.

The Government's naked attempt to influence house prices via the 'Help to Buy' program is misplaced in our view and will only have a short term impact. It is clear that house prices remain too high for first time buyers and yet the Government seems determined to support prices and encourage consumers who cannot afford to get onto the housing ladder to do so by taking on debt which the tax payer will underwrite the first loss on. Has the banking crisis not taught us anything? We remain of the view that Gilt prices are too high and, in time, Gilt prices will fall.

Given the stress in the eurozone, it is not surprising to see German Bunds back at levels close to their all time lows and Swiss Government yields remain exceptionally low. Should confidence return then there is scope for these asset classes to be sold off aggressively. However, it is surprising to see periphery government bond prices rise substantially, given the poor macro economic data emanating from the region. These price rises have been aided by the recognition that bank depositors may be called upon before the taxpayer when additional bank bailouts are required going forward; the possibility that Japanese investors may look to invest overseas should the yen weakness continue; and also the prospect of further liquidity injections driven by central bank policy.

High yield corporate debt still offers a good spread above Gilt yields and we prefer to invest here, on the assumption that the global economy does not retrench. Investment grade debt also offers value relative to Gilts although in absolute terms the asset class is looking fully priced. Whilst substantial Quantitative Easing programs remain in place, downside risks will be moderated.

Towards the end of the period, we switched the Fidelity Sterling Core Plus Bond fund into the TwentyFour Income collective. The Fidelity fund has a long duration and this means that should interest rates rise there will be a disproportionately negative impact upon this fund's value. The TwentyFour Income fund invests in asset backed debt in the UK and Europe. The fund has substantially lower interest rate risk than the Fidelity fund and is targeting a significantly higher yield.

Other Assets

The Fund currently has no direct exposure to Gold or Gold equities. We believe that improved confidence in the US economy as the year progresses (and, as a result, improving prospects for other economies) will reduce investors' appetite for Gold. Should investors begin to withdraw funds from Gold ETCs, the impact on the Gold price could be fairly dramatic.

With the rise in equity markets, private equity firms can revise up the valuations of the companies that they hold, and deal activity is likely to start to improve. This should improve sentiment towards the sector and see current large discounts to NAV narrow further.

We have low exposure to commercial real estate equity and see no reason to add to positions, whilst the banks consider ways to off load their books of property equity and loans. We are currently more interested in property debt opportunities.

Market Outlook

Whilst we have been right about the rise in the markets year to date and firmly believe that the risk over the next twelve months is for the markets to push higher, we do see a meaningful risk of a pull back in equity markets in the near term. The reason for our unease is that many of the so called 'safe haven' assets (which currently include Bunds, Gilts and Treasuries) have rallied in conjunction with the rising equity market and rising prices for 'unsafe' periphery government bond prices. Our thesis was that the equity market would rise on improving confidence and we would see investors start selling overpriced 'safe haven' assets in a meaningful way. This has yet to happen, and it would appear that equity investors and sovereign bond investors are expecting differing outcomes.

One does not have to look far to see where the nervousness of bond and currency investors stems from.

Cyprus has been an astonishing and brutal wake up call. The prospect that depositors at major regional banks within the eurozone might lose more than 40% of their deposits (above 100,000 euros) felt preposterous just two months ago. The model was that banks in the eurozone were bailed out by their tax payers, rather than by their depositors. Recent events have turned this on its head.

One wonders whether the parliamentarians in Cyprus now regret turning down the original deal where everyone with deposits above 20,000 euros received a hair cut of between 5%-10%. This included the local branches of overseas banks that were holding deposits in Cyprus. Instead, the lion's share of the depositor bail in will come from Bank of Cyprus and Laiki Bank customers only, such that it may well transpire that all deposits above 100,000 euros in Laiki Bank will be confiscated. It is possible that this was the price that had to be paid by Cypriots to ensure Russian co-operation in the refinancing of the outstanding Cypriot debt held by the Russian authorities.

As described above, this is brutal and will have much larger ramifications for affected businesses and individuals than the original proposal that spread the pain over a much wider depositor base. The economic impacts of businesses going to the wall and suppliers not being paid are higher as a result. The tentacles of this will reach further than currently envisaged and the ECB will be on heightened alert to deal generously and quickly with any 'knock on' effects.

For the first time we have seen dramatic evidence that the value of a euro is different in different parts of the eurozone. Not only have Cypriots had to endure a massive raid on their deposit base but capital controls have been put in place. This makes a mockery of a harmonised free market and the eurozone concept as a whole. It also explains why investors continue to buy short dated Swiss Government debt at levels, which if held to maturity will guarantee a loss to the holder.

The impact on confidence in other periphery countries with impaired banking sectors is likely to be significant and people should take steps to protect deposits that are not covered by the deposit insurance scheme. We will be watching indicators of capital flight intensely in the coming months. Our central belief, however, is that material capital flight will only occur if the populace of any given country believe a tipping point has been reached concerning their domestic banking sector. The ECB will do everything in its power to prevent this happening in countries that are deemed to be 'good Europeans' (ie. ones that are implementing austerity and have robust regulatory oversight).

Market Outlook (continued)

We believe the US economy is beginning to show rude signs of life. The banks have restructured aggressively. The consumer has retrenched and house prices, which have fallen a long way, have started to rise once again as banks start to lend again. There is little not to like concerning the US economy except the fact that they are only in the foot hills of a fiscal retrenchment. Automatic tax rises and spending cuts are beginning to impact the economy, and whilst we do not believe they are big enough to change the direction of travel, investors are likely to have to endure a few months of disappointing statistics as these measures are digested by the economy.

Any equity market retrenchment should be seen as a good buying opportunity as investors in bonds will look to start switching into equities as the year progresses, particularly if the volatility of equity markets remains subdued.

Cornelian Asset Managers Limited

Investment Adviser

3 May 2013

Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 922 0044.

A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Reports and Accounts

This document is a short report of the CF Cornelian Defensive Fund for the year ended 15 April 2013. The full Report and Accounts for the Fund is available free of charge upon written request to Capita Financial Managers Limited, Ibex House, 42 – 47 Minories, London EC3N 1DX and can be found on our website, www.capitafinancial.com, by following the link 'Fund Information'.

Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the year it covers and the results of those activities at the end of the year.

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