PROFIT *hunters*

ARTEMIS Strategic Assets *Fund*

Manager's Report and Financial Statements for the year ended 31 August 2013

ARTEMIS
The PROFIT Hunter

General information

Company profile

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

The company has grown to the extent that it now manages an asset base of some £15.8 billion*. This is spread across a range of unit trusts, an investment trust, a hedge fund, a venture capital trust and both pooled and segregated institutional portfolios.

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

* Source: Artemis as at 30 September 2013.

Fund status

Artemis Strategic Assets Fund was constituted by a Trust Deed dated 7 April 2009 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000. The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook of the Financial Conduct Authority.

Investment objective

The objective of the fund is to achieve long-term growth through investment in a portfolio of UK and international assets.

Investment policy

The fund may invest in all of the asset classes eligible for a UCITS scheme to invest in including equities, fixed income instruments, other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions for investment purposes (including taking long and short positions). The fund may also seek exposure indirectly to other asset classes such as commodities and property (for example).

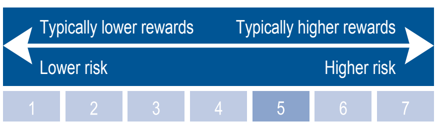
The manager actively manages the portfolio and allocation between the asset classes in order to achieve the objective and, in particular when market conditions are less favourable, a higher proportion of the fund's scheme property may be invested in cash and near cash. The manager will not be restricted in the choice of investments either by industry, or in terms of the geographical split of the portfolio and may invest in overseas assets including taking exposure to currency.

The fund may be wholly invested in any one of the asset classes listed above at any time (with the exception of units of collective investment schemes, in which it can only invest up to 10% of the scheme property, and warrants, in which it can only invest up to 5% of the scheme property).

Buying and selling

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

Risk and reward profile



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

The risk indicator for the fund is as above because:

- The price of units, and the income from them, can fall and rise because of stockmarket and currency movements.
- Stockmarket prices, currencies and interest rates can move irrationally and can be affected unpredictably by diverse factors, including political and economic events.
- A portion of the fund's assets may be invested in a currency other than the fund's accounting currency (sterling). The value of these assets, and the income from them, may decrease if the currency falls in relation to sterling, in which the fund is valued and priced.
- The fund may hold derivatives with the aim of profiting from falling prices. If the related assets rise in value the fund will lose money.
- A portion of the fund's assets may be invested in new, emerging markets. Investment in emerging markets can involve greater risk than that usually associated with more established markets. This means that above-average rises and falls in unit prices can be expected.
- Investing in small and medium-sized companies can involve more risk than investing in larger, more established companies. Shares in smaller companies are often not as easy to sell as shares in larger companies are. This can cause difficulty in buying, valuing and selling those shares. Also, reliable information for deciding their value or the risks may not be available.
- Investments in fixed interest securities are subject to market and credit risk and will be impacted by movements in interest rates. Interest rate movements are determined by a number of economic factors, in particular market expectations of future inflation.
- The fund can invest in higher-yielding bonds, which may increase the risk to your capital due to a higher likelihood of the company issuing the bonds failing to pay returns on investments. Changes to market

General information (continued)

conditions and interest rates can have a larger effect on the values of higher-yielding bonds than other bonds.

- If the fund holds a large percentage of cash when markets are rising, the return on your investment could be less than if it were fully invested in other types of asset.
- Prices of ETFs may be higher or lower than the value of the underlying investments. These prices are also influenced by: supply and demand of the commodity involved; inflation, currency exchange and interest rates; and political, economic or financial events.

Prospectus

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

Manager

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

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

Investment adviser

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

Trustee

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

Registrar

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

Auditor

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

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

Statement of the trustee's responsibilities

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

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

Report of the trustee

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

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

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

National Westminster Bank Plc
Trustee & Depositary Services

Edinburgh
17 October 2013

Statement of the manager's responsibilities

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

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

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

(iii) follow applicable accounting standards;

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

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

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

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

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

Report of the manager

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

R J Turpin
Director

M R J Tyndall
Director

17 October 2013

Independent auditor's report to the unitholders of the Artemis Strategic Assets Fund

We have audited the financial statements of Artemis Strategic Assets Fund (the "fund") for the year ended 31 August 2013 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, balance sheet, the related notes 1 to 17 and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the unitholders of the fund, as a body, pursuant to paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority (formerly the Financial Services Authority). Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the manager and auditor

As explained more fully in the manager's responsibilities statement set out on page 2, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the manager's report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the fund as at 31 August 2013 and of the net expenses and the net gains on the scheme property of the fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

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

In our opinion:

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

Ernst & Young LLP
Statutory Auditor

Edinburgh
17 October 2013

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

Investment review

- The fund outperforms the FTSE All-Share Index.
- Equity and currency positions work well.
- Our bond shorts start to pay off. We look for more to come.

Performance – Growing capital with caution …

By investing in a range of assets, we look to preserve and grow capital as safely as possible. Unlike traditional, long-only equity funds we may not always be fully invested. So the fund has a dual objective rather than a formal benchmark: over a rolling three-year period, we look to achieve a return that is greater than cash or the FTSE All-Share index (whichever is the higher). Over the last three years, the fund has risen by 32.7%*. This compares with a total return of 40.5%* from the FTSE All-Share Index and a negligible return from cash.

Over the year to 31 August 2013, the fund rose by 20.7%* while the FTSE All-Share Index rose by 18.9%*. Equities and currencies provided the bulk of this return. Our bond shorts also made a small positive contribution. Our positions in precious metals cost the fund just under 1%. As in the previous year, our overly cautious view on equities (where our average net exposure over the year was 54%) was, with hindsight, a misjudgement. But given our cautious stance, we believe a return of over 20% is a creditable result.

Economic background

The overarching belief directing this fund is that there will be some sort of sovereign-debt crisis in the developed world. We offer no view as to when this will happen but we do note that all the necessary preconditions for such a crisis are in place. It could happen at any stage. Why are we so certain of this outcome? For an answer we need to look back in history.

In 1942 William Beveridge produced his eponymous report in which he identified five 'Giant Evils': squalor, ignorance, want, idleness and disease. Beveridge, an eminent economist, proposed widespread reform of the social welfare system to tackle these issues. The post-war Attlee government adopted the Beveridge proposals and created the modern welfare state. These reforms have, broadly, been adopted by other developed nations. Today, voters in the UK expect "free" education and healthcare and assistance with pensions. Payments are made to those unable to work and to those who cannot find work. The social contract in Europe, Japan and the US is similar.

Fast forward to 2007. The system appeared to have been broadly successful. Government debt-to-GDP ratios were high but manageable. Across developed economies, government spending accounted for somewhere between a third and a half of GDP. Then came the global financial crisis of 2008-09. Governments felt compelled to intervene, spending more money to prevent a financial meltdown. Already high debt levels ratcheted up even further.

Here we need to introduce demographics. The Hutton report (2011) on public-sector pensions found that in the mid-1950s a female teacher retiring aged 60 could be expected to live for another twenty years. Today, life expectancy is far higher. From an actuarial viewpoint, Hutton described how teachers retiring at the age of 60 are expected to live for a further thirty-two years. This means the government needs to provide far more in pension payments than was envisaged when the Beveridge reforms were introduced. Similar pressures apply to the National Health Service. In recent times, governments have become accustomed to spending far more than they earn in taxation revenues. Over the last five years, budget deficits in the UK, US and Japan have averaged 9%, 10% and 10% respectively. In the UK, the government's priority since its election in 2010 has been to repair the nation's finances. Despite this, the budget deficit for the year ending March 2014 is estimated to be £120bn – equivalent to £1,900 for every man, woman and child in Britain. In my view, these deficits have become structural.

Governments have responded to these challenges in two ways. They have tried either to reduce expenditure or to grow their way out of trouble by spending more. This has given rise to the growth-versus-austerity debate. Countries in the eurozone have been unable to attempt to grow their way out of recession, mainly because they do not control their own currency. So austerity has been tried. It hasn't worked. Unemployment levels in some parts of Europe are over 25%. Youth unemployment in Greece and Spain exceeds 50%. Furthermore, austerity is proving deeply unpopular and is invariably rejected in elections.

In the US, Japan and the UK, governments have been able to carry on spending beyond their means thanks to the simple expedient of printing money to buy their own government bonds, thereby suppressing bond yields. This has allowed governments to reduce their interest bills and remain profligate. Of course, central bankers don't portray quantitative easing in those terms, but there is little doubt that it has prevented the bond market from sending a signal to governments that spending is out of control.

We believe that, over time, a number of developed economies will renege on their debts, either through default or, more probably, inflation. In some countries, notably Japan and France, some form of sovereign-debt crisis seems inevitable. In others, such as the UK and US, it is merely probable.

* Source: Lipper Limited, R accumulation, bid to bid basis in sterling with net income reinvested. Data from 26 May 2009 due to the fixed price period of the fund. Benchmark is the higher of cash and the FTSE All-Share Index over a rolling three-year period.

Equities

We began the year with a net equity position of 54% and ended it at 53%. Why the caution? Partly because we are worried that earnings growth will disappoint. Corporate profits as a percentage of GDP have fluctuated within a certain range throughout the last hundred years. This ratio has been near its all-time high for several years now and, if the past is a reliable guide, should decline as margins contract. Moreover, earnings per share have not kept pace with the upward movement in share prices, so price-to-earnings ratios have risen. Investors are, in effect, paying a relatively high multiple for profits which, in turn, look cyclically high.

The greater reason for our caution is fear of a sovereign-debt crisis. Were any of the major developed world sovereign borrowers to get into difficulties rolling over their vast debts, we suspect that equities would fall sharply. This presents us with a dilemma. We expect that a sovereign-debt crisis will happen – we just don't know when. When it happens, shares will probably fall sharply, but until then, equities look cheap versus government bonds. Further money printing will also help prop up shares in the short run. So, we believe shares offer reasonable value as long as the authorities can keep the show on the road.

This analysis makes us want to reduce weightings when shares rise, but also encourages us to increase positions when they fall. Over the year, our net equity weighting was 48% at its lowest point and 61% at its highest.

Our largest sector is still oil. Oil shares are unloved (hated?) by fund managers and consequently trade on low multiples of their earnings. But given the growth in the world population and the future urbanisation of the developing world, we believe the oil price will remain robust. Oil shares account for 21% of our long equity holdings. Our second biggest weighting is in banks. These account for 9% of our long equity holdings.

We are invested in UK and US-based banks. This is mainly a re-rating story. Before the global financial crisis, good banks were valued at more than twice book value, mainly because the barriers to entry in banking are so formidable. Today, however, there are good banks trading on small premia – or even discounts – to book value. We expect the re-rating of the banking sector to continue as investors become increasingly comfortable paying a premium to book value for the better companies in the sector.

Currently 54% of our long equities are in the UK with 46% invested overseas. In time, we expect to increase our weightings in global equities. As the accounting year closed, emerging markets were falling sharply. We have started making small investments in this area.

Bonds

This year, our bond shorts made a small positive contribution to returns. One day, we expect they will make a far larger contribution.

At the fund's year end, it had a position equivalent to 98% of its net asset value (NAV) shorting government bonds. The maximum government bond short position allowed in this fund is 100% of NAV and we have, in effect, been at that maximum all year. Where there has been a change is to the mix of countries where we are short. We reduced the shorts in the UK and US, adding to Japan and France, and started a position in Italy. At the year end, the split was: 64% Japan, 13% France, 13% UK, 5% US and 3% Italy.

Our largest short position is in Japanese government bonds. Here, 10-year government bond yields are a paltry 0.7%. For the last five years the Japanese government has been running with budget deficits equivalent to about 10% of GDP. The government's net-debt-to-GDP currently stands at 143%. A bleak demographic outlook will make it tough for Japan to service this debt. The country's birth rate is just 1.4 children per woman – and the over-65 age cohort is growing dramatically.

The rest of the developed world faces a similar situation, as the post-war baby boom generation reaches retirement. We are watching a form of generational theft, one that has been going on for some time. The generation currently approaching retirement has enjoyed free healthcare and education. It also expects to be looked after in its retirement. But who will pay? The burden will fall on the younger generation, many of whom now leave education burdened by debt. But in the demographically challenged developed world, the ratio of working to non-working people is falling sharply. Something will have to give. The Japanese government has reacted to this dilemma by promising to print Yen at a rate of 15% of their GDP per annum for the next two years until inflation gets to 2%. While this ought to make bondholders nervous, a long bull market in bonds has actually left them feeling invulnerable. We cannot see the Japanese government repaying its loans in anything other than a heavily debased currency.

Bond yields would have to rise sharply for us to not have a short position in government bonds that is close to the maximum level permitted. In part, we view these short positions as a hedge to protect the rest of the portfolio. A sovereign-debt crisis and/ or the return of serious inflation would almost certainly cause the value of our equities to fall sharply. But we also expect to make money from our short positions even if a sovereign-debt crisis does not occur. Yields are close to multi-century lows and are barely positive in real terms. Historically, bondholders have demanded much higher nominal and real yields to protect them against the risks inherent in their investments.

Currencies

The fund owns overseas assets (shares and commodities). We do not hedge the currency risk to Sterling-based investors of these positions. We run a separate currency overlay in which we attempt to profit by being long of appreciating currencies and short of depreciating ones. We take

Investment review (continued)

the view that, over the long run, successful economies will have stronger currencies than weaker economies. Our currency strategy allows us to invest in successful countries without taking equity or bond risk.

Over the year, the currency strategy produced good returns. Our two biggest gains were from our short positions in the Japanese Yen and the Australian Dollar. We reduced our Australian Dollar short as we recognise that Australia has many attractive characteristics, particularly low levels of sovereign debt and substantial commodity reserves. We have, however, retained a short position because – as anyone who has recently visited the country could testify – it still looks expensive. In addition, the future of China, its biggest export customer, is unclear.

Although the Yen weakened materially over the year we have broadly retained our short position at the same level. This is because we expect their massive money printing operation will weigh on the currency. We also regard a sovereign-debt crisis as almost inevitable. If – or when – this were to happen, the Yen would suffer.

We made two notable changes to our currency overlay during the year. First, we added to Sterling. This was mainly because the currency was depreciating whilst the underlying economic picture was improving. At the beginning of the fund's year, we were 7% short of Sterling in the currency overlay. Twelve months later, we were 8% long. We view this long position as tactical; should Sterling appreciate, we would almost certainly reduce our position. Our second main move was to reduce our position in the Malaysian Ringgit from 10% to 6%. Although we view the prospects for Malaysia as being good, we were worried about the disappointing news emanating from emerging-market economies. We will probably rebuild our Malaysian position once emerging markets appear ready to settle.

We retain significant currency positions in Singapore, Taiwan and Hong Kong. We take the view that these countries will continue to grow more strongly than economies in the so-called developed world. Without a sovereign-debt crisis, we expect these currencies to gently appreciate against a basket of developed-world currencies. These countries have very little sovereign-debt risk, so if there were to be a full-blown sovereign debt crisis in the developed world, we would expect their currencies to rise sharply.

Commodities

We began the year with 6% of the fund held in precious metals and ended it with 9%. The gold price fell sharply over the year and the fund lost money here. We were able to mitigate some of this fall by having greater exposure to platinum, which did not fall as far. We still think the future for precious metals is good. We believe governments will print money in ever greater amounts, which should provide a good backdrop for gold – the only money that cannot be printed. The more people come to distrust central banks, the more likely they will be to seek protection by buying gold. We have seen this in India, where the currency has fallen sharply and Indians have sought refuge in gold, even though its price in rupees is near an all-time high.

The biggest worry for gold holders would be if a central banker were to try to emulate what Paul Volcker did in the early 1980s. He returned the USA to a sound money platform by jacking up interest rates to stamp out inflation. Today, however, government debts in the West are so vast and the deficits so large and intractable that any attempt to push interest rates up would probably tip economies (and governments) over the edge. Given that the prevailing wisdom is that quantitative easing has been a successful policy, why reverse it? A Volcker figure is therefore unlikely to emerge and we expect real interest rates to remain negative for some time. Eventually, we would expect that global money printing will produce proper inflation, but central bankers will be unable to respond by increasing interest rates, fearing the repercussions for both private and public-sector finances. Gold would then be highly sought after.

Outlook – Money-printing and its consequences …

A generation ago, money printing was seen as the preserve of dodgy dictatorships. Today, however, it is viewed as a respectable tool of the modern central banker. Prominent economists have given it their blessing. Furthermore, it tends to be warmly received by electorates: after all, who would vote for austerity when 'growth' is the alternative? So we expect we will see yet more money printing. Will it work? History says not. Once governments have started down this route, it has been hard for them to change direction. It gives politicians cover not to make unpopular decisions regarding government spending.

Common sense also suggests that quantitative easing cannot work in the long run. If it really were that simple, wouldn't it have been tried before? Where are the examples from history showing its success? Where are the Nobel laureates for economics awarded for academic research into quantitative easing? We firmly believe quantitative easing will not be costless. At present, the results look reasonable and it appears to be pain free. But history suggests that inflation – and possibly worse events – will come if central bankers keep resorting to the printing press.

Central bankers might, of course, cease their money printing. They may even seek to reverse it. But if they were to try, we would expect asset prices to fall, possibly sharply. There could be serious damage to economies that have grown dependent on monetary medicine. An alternative, and in our view more likely, scenario would see central bankers continuing to administer more of the same. But large deficits paid for by freshly printed money will eventually cause inflation and/or central bankers to lose control of the bond markets.

Governments are trapped. Demographic and electoral pressures have created overly indebted states with colossal budget deficits. Quantitative easing has suppressed bond yields, but if the printing presses stop, the interest bill for governments will soar, threatening their financial viability. Japan seems the most cornered, followed closely by a number of European countries. The USA and the UK are not far behind. We cannot see a successful way out for these countries and eventually expect to see some form of default, either through inflation or a refusal to pay their loans.

This view permeates the way we regard every asset class in which we invest. It explains why we are so heavily short of government bonds, why we prefer Asian currencies to those in the developed world and why we like gold. It is also what prevents us from having larger holdings in equities, our preferred asset class.

Updates ...

We encourage unitholders to follow the progress of the fund using the manager's website, artemis.co.uk, where a comprehensive factsheet on the fund is available each month.

William Littlewood
Fund manager

Investment information

Five largest purchases and sales for the year ended 31 August 2013

Purchases	Cost £'000	Sales	Proceeds £'000
Gold Bullion Securities	40,914	Lloyds Banking Group	25,218
Microsoft	23,670	Berkshire Hathaway (B shares)	20,814
EMC	17,328	East Japan Railway	17,475
Agrium	16,509	BG Group	17,378
Statoil	15,640	Royal Bank of Scotland Group	16,966

Portfolio statement as at 31 August 2013

Investment	Holding	Valuation £'000	% of net assets
Long equities – 65.30% (60.92%)			
United Kingdom – 31.88% (34.39%)			
Basic Materials – 1.99% (0.38%)			
African Barrick Gold	4,202,244	7,837	0.78
BHP Billiton	125,000	2,360	0.23
Rio Tinto	340,000	9,942	0.98
		20,139	**1.99**
Consumer Goods – 0.26% (0.28%)			
Reckitt Benckiser Group	60,000	2,640	0.26
		2,640	**0.26**
Consumer Services – 4.90% (7.94%)			
Brown (N.) Group	3,726,027	20,251	2.01
Conviviality Retail #	1,800,000	2,664	0.26
Rangers International Football Club #	3,050,000	1,525	0.15
SuperGroup	1,150,000	12,822	1.27
The Hut Group (A2 shares) +	134,112	7,917	0.78
The Hut Group (A3 shares) +	20,800	1,228	0.12
Vertu Motors #	6,000,000	3,090	0.31
		49,497	**4.90**
Financials – 8.62% (8.70%)			
Albemarle & Bond Holdings #	3,505,962	4,978	0.49
Barclays	3,000,000	8,515	0.84
H&T Group #	2,900,000	4,060	0.40
Helical Bar	1,300,000	3,477	0.35
HSBC Holdings	1,800,000	12,298	1.22
IG Group	4,500,000	25,425	2.52
Intu Properties (REIT)	600,000	1,838	0.18
Lloyds Banking Group	24,000,000	17,640	1.75
London Capital Group Holdings #	5,000,000	1,950	0.19
Royal Bank of Scotland Group	500,000	1,674	0.17
RSA Insurance Group	4,300,000	5,160	0.51
		87,015	**8.62**
Health Care – 2.35% (1.60%)			
Abcam #	984,413	4,447	0.44
Consort Medical	1,700,000	13,940	1.38
GlaxoSmithKline	325,000	5,390	0.53
		23,777	**2.35**

Investment	Holding	Valuation £'000	% of net assets
Industrials – 2.86% (4.56%)			
De La Rue	100,000	993	0.10
HellermannTyton Group	5,800,000	15,283	1.51
Mears Group	950,000	3,867	0.38
Serco Group	1,250,000	6,856	0.68
Severfield-Rowen	1,350,453	753	0.08
Volex	1,075,270	1,132	0.11
		28,884	**2.86**
Oil & Gas – 8.03% (9.02%)			
BP	7,100,000	31,684	3.14
Hurricane Energy +	3,933,340	2,478	0.24
Rockhopper Exploration #	5,750,000	6,641	0.66
Royal Dutch Shell (A shares)	775,000	16,213	1.61
Royal Dutch Shell (B shares)	900,000	19,607	1.94
Wood Group (John)	550,000	4,474	0.44
		81,097	**8.03**
Technology – 0.49% (0.23%)			
Emis Group	400,000	2,800	0.28
Laird	200,000	430	0.04
Promethean World	10,103,000	1,692	0.17
		4,922	**0.49**
Telecommunications – 1.54% (0.79%)			
BT Group	600,000	1,985	0.20
Vodafone Group	6,500,000	13,546	1.34
		15,531	**1.54**
Utilities – 0.84% (0.89%)			
Centrica	1,800,000	6,914	0.68
SSE	100,000	1,575	0.16
		8,489	**0.84**
Overseas – 33.42% (26.53%)			
Canada – 5.87% (3.69%)			
Agrium	270,000	14,994	1.48
Barrick Gold (US dollar)	400,000	5,080	0.50
Canadian Natural Resources (US dollar)	140,000	2,810	0.28
Cenovus Energy	150,000	2,820	0.28
Central Fund of Canada	700,000	7,292	0.72
Ithaca Energy	5,500,000	6,614	0.66
Potash Corp of Saskatchewan	250,000	4,773	0.47
Silver Wheaton	350,000	6,012	0.60
Suncor Energy (US dollar)	400,000	8,848	0.88
		59,243	**5.87**
Cayman Islands – 0.13% (0.39%)			
Edwards Group (ADR)	214,361	1,352	0.13
		1,352	**0.13**
India – 0.25% (0.00%)			
Cairn India (Morgan Stanley warrants 2016)	800,000	2,491	0.25
		2,491	**0.25**

Investment information (continued)

Investment	Holding	Valuation £'000	% of net assets
Ireland – 0.63% (0.75%)			
Accenture (A shares)	80,000	3,752	0.37
DCC	100,000	2,566	0.26
		6,318	**0.63**
Israel – 0.73% (0.00%)			
Teva Pharmaceutical Industries (ADR)	300,000	7,390	0.73
		7,390	**0.73**
Japan – 0.92% (2.41%)			
Ebara	701,000	2,408	0.24
West Japan Railway	260,000	6,925	0.68
		9,333	**0.92**
Jersey – 1.78% (0.90%)			
Genel Energy	450,000	4,180	0.41
Glencore Xstrata	1,800,000	5,486	0.54
Shire	350,000	8,348	0.83
		18,014	**1.78**
Kenya – 0.01% (0.00%)			
Safaricom (Merrill Lynch warrants 2016)	1,190,000	61	0.01
		61	**0.01**
Netherlands – 1.43% (0.81%)			
Nielsen	300,000	6,682	0.66
Reed Elsevier	650,000	7,724	0.77
		14,406	**1.43**
Norway – 1.50% (0.00%)			
Statoil	1,075,000	15,192	1.50
		15,192	**1.50**
Russia – 0.77% (0.00%)			
Lukoil (ADR)	120,000	4,497	0.45
Rosneft (GDR)	676,548	3,223	0.32
		7,720	**0.77**
South Korea – 2.11% (0.29%)			
Hyundai Motor (GDR)	30,000	907	0.09
KT Corporation (ADR)	400,000	4,154	0.41
Samsung Electronics (GDR)	5,300	2,084	0.21
Samsung Electronics (GDR) (preference)	54,000	14,177	1.40
		21,322	**2.11**
Switzerland – 3.80% (1.93%)			
Nestlé	275,000	11,631	1.15
Novartis	440,000	20,700	2.05
Roche	10,000	1,620	0.16
Transocean	150,000	4,404	0.44
		38,355	**3.80**
USA – 13.49% (15.27%)			
Apache	50,000	2,537	0.25
Berkshire Hathaway (B shares)	200,000	14,440	1.43
Blackstone Group	300,000	4,265	0.42
Capital One Financial	200,000	8,306	0.82

Investment	Notional exposure ^ £'000	Holding	Valuation £'000	% of net assets
Deere & Co.		240,000	12,973	1.28
EMC		1,100,000	18,349	1.82
Goldman Sachs Group		75,000	7,433	0.74
IBM Corporation		35,000	4,121	0.41
Microsoft		850,000	18,401	1.82
Newmont Mining		600,000	12,319	1.22
Norfolk Southern		155,000	7,268	0.72
Oracle		225,000	4,598	0.46
PNC Financial Services Group		190,000	8,897	0.88
The Mosaic		80,000	2,144	0.21
US Bancorp		340,000	7,918	0.78
Varian Medical Systems		50,000	2,302	0.23
			136,271	**13.49**
Commodities – 8.72% (6.31%)				
ETFS Physical Palladium		190,000	8,652	0.86
ETFS Physical Platinum		230,000	21,746	2.15
ETFS Physical Silver		550,000	8,133	0.81
ETFS Sugar		250,000	2,688	0.27
Gold Bullion Securities		540,000	46,791	4.63
			88,010	**8.72**
Derivatives – (3.16)% (-3.94%) Contracts for difference: Australia (shorts) – (0.09)% (0.00%)				
Commonwealth Bank of Australia	(3,356)	(80,000)	(362)	(0.03)
National Australia Bank	(2,335)	(125,000)	(311)	(0.03)
Westpac Banking	(2,527)	(140,000)	(288)	(0.03)
	(8,218)		**(961)**	**(0.09)**
Contracts for difference: France (shorts) – 0.00% (0.00%)				
Pernod Ricard	(754)	(10,000)	25	0.00
	(754)		**25**	**0.00**
Contracts for difference: Sweden (shorts) – (0.03)% (0.00%)				
Hennes & Mauritz	(4,540)	(190,000)	(265)	(0.03)
	(4,540)		**(265)**	**(0.03)**
Contracts for difference: United Kingdom (shorts) – (0.60)% (-0.27%)				
Admiral Group	(1,586)	(125,000)	93	0.01
Berkeley Group (B shares)	(1,914)	(90,000)	(474)	(0.05)
British Sky Broadcasting Group	(849)	(100,000)	27	–
Carnival	(604)	(25,000)	40	–
Compass Group	(864)	(100,000)	(86)	(0.01)
Croda International	(2,091)	(80,000)	(132)	(0.01)
Dunelm Group	(568)	(60,000)	47	–
Experian	(2,566)	(225,000)	(258)	(0.03)
Great Portland Estates	(1,067)	(200,000)	109	0.01
IMI	(3,743)	(260,000)	(516)	(0.05)
Imperial Tobacco Group	(536)	(25,000)	32	–
Intercontinental Hotels Group	(3,639)	(200,000)	(50)	–
Intertek Group	(4,486)	(140,000)	(491)	(0.05)

Investment information (continued)

Investment	Notional exposure ^ £'000	Holding	Valuation £'000	% of net assets
Kingfisher	(1,943)	(500,000)	(118)	(0.01)
Land Securities Group	(669)	(75,000)	47	–
Marks & Spencer Group	(3,382)	(700,000)	(283)	(0.03)
Michael Page	(1,395)	(300,000)	(42)	–
National Grid	(40)	(5,326)	(40)	–
Persimmon	(8,077)	(725,000)	(2,277)	(0.22)
Rolls-Royce Group	(838)	(75,000)	(117)	(0.01)
SABMiller	(1,550)	(50,000)	22	–
Savills	(2,206)	(365,000)	(276)	(0.03)
Spectris	(3,324)	(150,000)	(252)	(0.02)
Unite Group	(392)	(109,459)	(41)	–
WHSmith	(5,070)	(600,000)	(1,059)	(0.10)
	(53,399)		**(6,095)**	**(0.60)**
Contracts for difference: USA (shorts) – (0.65)% (-0.51%)				
Amazon.com	(4,031)	(22,000)	(5)	–
Best Buy	(1,172)	(50,000)	(227)	(0.02)
Boeing	(5,076)	(75,000)	(710)	(0.07)
Caterpillar	(799)	(15,000)	42	–
Chipotle Mexican Grill	(4,987)	(19,000)	(781)	(0.08)
Cummins	(1,991)	(25,000)	(100)	(0.01)
Fastenal	(860)	(30,000)	127	0.01
Gamestop Corporation	(4,740)	(145,000)	(1,198)	(0.12)
International Paper	(1,539)	(50,000)	(235)	(0.02)
LinkedIn	(778)	(5,000)	(30)	–
Lululemon Athletica	(2,294)	(50,000)	90	–
Mohawk Industries	(2,987)	(38,568)	(680)	(0.07)
Precision Castparts	(689)	(5,000)	(144)	(0.01)
Salesforce.com	(2,815)	(100,000)	(230)	(0.02)
Sotheby's	(1,502)	(50,000)	(174)	(0.02)
Starbucks Corporation	(689)	(15,000)	11	–
Starwood Hotels & Resorts Worldwide	(2,477)	(60,000)	(173)	(0.02)
T. Rowe Price Group	(2,511)	(55,000)	(277)	(0.03)
Target	(2,851)	(70,000)	153	0.02
Wal-Mart Stores	(701)	(15,000)	52	0.01
Whole Foods Market	(4,738)	(140,000)	(2,045)	(0.20)
	(50,227)		**(6,534)**	**(0.65)**
Forward foreign exchange contracts – (0.10)% (-0.29%)				
Sold Euro – 15 November 2013		(360,000,000)	(307,702)	(30.47)
Bought Sterling – 15 November 2013		309,629,485	309,629	30.66
Sold Sterling – 15 November 2013		(265,488,985)	(265,489)	(26.29)
Bought Singapore Dollar – 15 November 2013		520,000,000	263,371	26.08
Sold Japanese Yen – 15 November 2013		(37,500,000,000)	(246,553)	(24.41)
Bought Sterling – 15 November 2013		246,657,787	246,658	24.42
Sold Sterling – 15 November 2013		(125,508,526)	(125,509)	(12.43)
Bought Taiwan Dollar – 15 November 2013		5,800,000,000	125,377	12.42
Sold Australian Dollar – 15 November 2013		(185,000,000)	(106,209)	(10.52)
Bought Sterling – 15 November 2013		108,564,890	108,565	10.75

Investment	Notional exposure ^ £'000	Holding or nominal value	Valuation £'000	% of net assets
Sold Sterling – 15 November 2013		(96,111,657)	(96,112)	(9.52)
Bought Hong Kong Dollar – 15 November 2013		1,150,000,000	95,727	9.48
Sold Sterling – 15 November 2013		(89,973,859)	(89,974)	(8.91)
Bought Norwegian Krone – 15 November 2013		825,000,000	86,872	8.60
Sold Sterling – 15 November 2013		(57,191,315)	(57,191)	(5.66)
Bought Malaysian Ringgit – 15 November 2013		290,000,000	56,683	5.61
Sold US Dollar – 15 November 2013		(73,000,000)	(47,116)	(4.66)
Bought Sterling – 15 November 2013		47,336,971	47,337	4.69
Sold New Zealand Dollar – 15 November 2013		(80,000,000)	(39,912)	(3.95)
Bought Sterling – 15 November 2013		41,039,531	41,040	4.06
Sold Sterling – 15 November 2013		(39,706,371)	(39,706)	(3.93)
Bought Swedish Krona – 15 November 2013		400,000,000	38,987	3.86
Sold Canadian Dollar – 15 November 2013		(15,000,000)	(9,184)	(0.91)
Bought Sterling – 15 November 2013		9,372,218	9,372	0.93
Sold Sterling – 15 November 2013		(5,737,235)	(5,737)	(0.57)
Bought Australian Dollar – 15 November 2013		10,000,000	5,741	0.57
Sold Sterling – 20 June 2014		(4,655,927)	(4,656)	(0.46)
Bought Russian Rouble – 20 June 2014		250,000,000	4,641	0.46
			(1,050)	**(0.10)**
Futures – (0.27)% (-0.17%)				
OAT 10-year bond September 2013	(138,354)	(1,225)	2,645	0.26
SGX Nikkei 225 Index September 2013	5,263	120	155	0.02
BTP Futures Index September 2013	(26,220)	(275)	145	0.01
US 20-year long bond December 2013	(31,760)	(375)	70	0.01
US 10-year note December 2013	(16,027)	(200)	37	–
UK 10-year long gilt December 2013	(65,691)	(600)	(171)	(0.02)
Japan 10-year bond September 2013	(559,414)	(590)	(5,552)	(0.55)
	(832,203)		**(2,671)**	**(0.27)**
Interest rate swaps – (1.42)% (-2.70%)				
UBS pay 2.1100% receive variable 28 January 2030	(657)	¥100,000,000	(65)	(0.01)
UBS pay 2.1250% receive variable 5 February 2030	(5,912)	¥900,000,000	(599)	(0.06)
UBS pay 2.1450% receive variable 24 February 2030	(3,284)	¥500,000,000	(338)	(0.03)
UBS pay 2.1150% receive variable 12 March 2030	(3,284)	¥500,000,000	(350)	(0.03)
UBS pay 2.1425% receive variable 30 March 2030	(6,568)	¥1,000,000,000	(722)	(0.07)
UBS pay 2.1613% receive variable 8 April 2030	(6,568)	¥1,000,000,000	(737)	(0.07)
UBS pay 2.1550% receive variable 14 April 2030	(6,568)	¥1,000,000,000	(728)	(0.07)
UBS pay 2.0950% receive variable 22 April 2030	(6,568)	¥1,000,000,000	(661)	(0.07)
UBS pay 2.1225% receive variable 28 April 2030	(6,568)	¥1,000,000,000	(687)	(0.07)
UBS pay 2.0600% receive variable 10 May 2030	(6,568)	¥1,000,000,000	(617)	(0.06)
UBS pay 2.1125% receive variable 13 April 2031	(4,598)	¥700,000,000	(454)	(0.05)
UBS pay 1.73125% receive variable 20 August 2033	(9,853)	¥1,500,000,000	(109)	(0.01)
UBS pay 3.8800% receive variable 8 November 2040	(5,000)	£5,000,000	(589)	(0.06)
UBS pay 3.9100% receive variable 10 November 2040	(5,000)	£5,000,000	(617)	(0.06)
UBS pay 3.9425% receive variable 11 November 2040	(5,000)	£5,000,000	(647)	(0.06)
UBS pay 2.0425% receive variable 25 November 2040	(5,255)	¥800,000,000	(266)	(0.03)
UBS pay 4.0000% receive variable 30 November 2040	(5,000)	£5,000,000	(696)	(0.07)
UBS pay 4.0425% receive variable 1 December 2040	(5,000)	£5,000,000	(734)	(0.07)
UBS pay 4.1420% receive variable 7 December 2040	(5,000)	£5,000,000	(828)	(0.08)

Investment information (continued)

Investment	Notional exposure ^ £'000	Holding or nominal value	Valuation £'000	% of net assets
UBS pay 4.0525% receive variable 29 December 2040	(5,000)	£5,000,000	(733)	(0.07)
UBS pay 3.9450% receive variable 31 December 2040	(5,000)	£5,000,000	(630)	(0.06)
UBS pay 1.9150% receive variable 5 January 2041	(5,255)	¥800,000,000	(98)	(0.01)
UBS pay 4.1020% receive variable 25 January 2041	(5,000)	£5,000,000	(769)	(0.08)
UBS pay 4.1730% receive variable 7 April 2041	(5,000)	£5,000,000	(893)	(0.09)
UBS pay 4.0830% receive variable 18 April 2041	(5,000)	£5,000,000	(801)	(0.08)
	(132,506)		**(14,368)**	**(1.42)**
Portfolio of investments †			715,550	70.86
Net other assets			294,319	29.14
Net assets attributable to unitholders			1,009,869	100.00

All holdings are listed ordinary shares unless otherwise stated.
The figures in brackets represent percentages as at 31 August 2012. At this date the portfolio included an exposure to the Isle of Man (0.09%).
Alternative Investment Market traded investments: 2.90% (2012: 2.96%).
+ Unquoted investments: 1.14% (2012: 1.25%).
† Includes derivative liabilities.
^ The notional exposure shows the nominal value for each contract. The valuation is the gain or loss on this nominal value. For interest rate swaps, the notional exposure represents the nominal value of the variable interest rate side of the swap. The notional exposure of the fixed interest side of the swap offsets the notional exposure of the variable interest rate side of the swap.
ADR represents American Depositary Receipts.
GDR represents Global Depositary Receipts.
REIT represents Real Estate Investment Trusts.

Fund exposure *

31 August 2013	Long positions (% of net assets)	Short positions (% of net assets)	Gross exposure (% of net assets)	Net exposure (% of net assets)
Equities	65.84	(12.96)	78.80	52.88
Bonds	–	(97.75)	97.75	(97.75)
Currencies	74.25	(74.35)	148.60	(0.10)
Commodities	8.72	–	8.72	8.72
Net other assets	29.14	–	29.14	29.14
31 August 2012	**Long positions (% of net assets)**	**Short positions (% of net assets)**	**Gross exposure (% of net assets)**	**Net exposure (% of net assets)**
Equities	62.73	(8.69)	71.42	54.04
Bonds	–	(99.39)	99.39	(99.39)
Currencies	82.07	(82.36)	164.43	(0.29)
Commodities	6.31	–	6.31	6.31
Net other assets	36.71	–	36.71	36.71

* For derivatives the percentage of net assets has been calculated based on the sum of the notional exposure and the valuation of each contract. For all other asset types the percentage of net assets has been calculated based on the valuation of each holding. The gross exposure is the long position plus the absolute value of the short position. The net exposure is the long position less the short position.

Statement of total return for the year ended 31 August 2013

	Note	31 August 2013 £'000	31 August 2013 £'000	31 August 2012 £'000	31 August 2012 £'000
Income					
Net capital gains	4		161,472		43,942
Revenue	6	12,793		21,129	
Expenses	7	(12,450)		(12,479)	
Finance costs: interest	9	–		(65)	
Net revenue before taxation		343		8,585	
Taxation	8	(819)		(972)	
Net (expenses)/revenue after taxation			(476)		7,613
Total return before distribution			**160,996**		**51,555**
Finance costs: distribution	9		(806)		(7,613)
Change in net assets attributable to unitholders from investment activities			160,190		43,942

Statement of change in net assets attributable to unitholders for the year ended 31 August 2013

	31 August 2013 £'000	31 August 2013 £'000	31 August 2012 £'000	31 August 2012 £'000
Opening net assets attributable to unitholders		812,452		895,923
Amounts receivable on issue of units	110,714		47,159	
Amounts payable on cancellation of units	(74,326)		(181,109)	
		36,388		(133,950)
Stamp duty reserve tax		(284)		(386)
Change in net assets attributable to unitholders from investment activities		160,190		43,942
Retained distribution on accumulation units		1,123		6,923
Closing net assets attributable to unitholders		1,009,869		812,452

Balance sheet as at 31 August 2013

	Note	31 August 2013 £'000	31 August 2013 £'000	31 August 2012 £'000	31 August 2012 £'000
Assets					
Investment assets			757,367		551,148
Debtors	10	11,405		3,915	
Cash and bank balances	11	287,995		301,560	
Total other assets			299,400		305,475
Total assets			**1,056,767**		**856,623**
Liabilities					
Derivative liabilities			41,817		36,956
Creditors	12	5,081		7,215	
Total other liabilities			5,081		7,215
Total liabilities			**46,898**		**44,171**
Net assets attributable to unitholders			1,009,869		812,452

Notes to the financial statements

1. Accounting policies

(a) Basis of accounting. The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

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

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

(d) Derivatives. Where appropriate, certain permitted transactions such as derivatives or forward foreign exchange transactions are used for investment purposes or efficient portfolio management. Derivatives are valued at 12 noon on the last working day of the accounting period. Exchange traded derivatives are priced at fair value, which is deemed to be the bid price. Over-the-counter derivatives are priced at fair values using valuation models or data sourced from market data providers. Contracts for Difference ('CFDs') held in the portfolio are valued based on the price of the underlying security or index which they are purchased to reflect. Amounts equivalent to the dividend value on CFDs are recognised as revenue when the underlying securities are quoted ex-dividend. Interest on margin accounts held with brokers is included in the revenue return. All other gains/losses and cash flows from derivatives are included in the capital return.

(e) Revenue. Dividends receivable from equity and non-equity shares, including UK Real Estate Investment Trusts ('REITs'), are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. Dividends on unquoted stocks are credited to revenue when the dividend is declared. Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. It is likely that where a special dividend results in a significant reduction in the capital value of a holding, then the dividend will generally be treated as capital, otherwise this will be recognised as revenue. Bank interest is recognised on an accruals basis. Underwriting commission is recognised when the issue underwritten takes place.

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

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

2. Distribution policy

The distribution policy of the fund is to accumulate all available revenue, after deduction of expenses properly chargeable against revenue.

Gains and losses on investments, derivatives and currencies, whether realised or unrealised, if taken to capital are not available for distribution. The fund is not more than 60% invested in qualifying investments (as defined in section 468L, Income and Corporation Taxes Act 1988) and will pay a dividend distribution. With the exception of the manager's annual management charge, which is directly attributable to each unit class, all income and expenses are apportioned to each unit class pro-rata to the value of the net assets of the relevant unit class on the day that the income or expense is recognised.

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

3. Risk management policies

The fund's financial instruments comprise equities, forward foreign exchange contracts, exchange traded futures, contracts for difference, interest rate swaps, cash balances, commodities and liquid resources which include debtors and creditors. The fund holds such financial instruments in accordance with its investment objective and policy which is provided on page 1. The fund is exposed to a number of risks that are associated with the financial instruments and markets in which it invests. The most significant risks which the fund is exposed to are market risk, credit risk, liquidity risk and derivative risk.

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

(i) Interest rate risk. Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, governments' fiscal positions, short-term interest rates and international market comparisons. As part of the ongoing review of the portfolio, the manager monitors and reviews these factors. The interest rate swaps entered into pay interest at a fixed rate, and receive interest at a variable rate based on the value of the London Interbank Offer Rate ('LIBOR') for the currency of the swap. These contracts have been entered into for investment purposes, to take advantage of anticipated movements in interest rates. Interest rate swaps open at 31 August 2013 and 31 August 2012 are disclosed in the portfolio statement on pages 13 to 14.

(ii) Currency risk. A portion of the net assets of the fund is denominated in currencies other than Sterling, and therefore the balance sheet and total return can be affected by currency movements (see note 15). Therefore, the manager may decide that a proportion of the investments that are not priced in Sterling, may be covered by forward foreign exchange contracts, so that the fund's exposure to currency risk is reduced. The unrealised loss of £1,050,000 arising on open forward foreign exchange contracts as at 31 August 2013 (2012: unrealised loss of £2,327,000) is shown in the portfolio statement on pages 12 to 13.

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

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

Equity CFDs can be held both long and short and are selected by the manager in pursuit of the investment objective of the fund to take advantage of anticipated movements in market prices. Increases in the value of equities underlying CFDs held long and decreases in the value of equities underlying CFDs held short will be received by the fund from the counterparty. Decreases in the value of equities underlying CFDs held long and increases in the value of equities underlying CFDs held short will be paid by the fund to the counterparty.

(b) Credit and counterparty risk. Credit and counterparty risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment it has entered into with the fund, resulting in a financial loss. From time to time, the fund may be subject to short-term credit risk with counterparties pending settlement of investment transactions. The manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis. The largest counterparty risk is with JP Morgan, the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JP Morgan may cause the fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The trustee receives and reviews a report semi-annually on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments. The manager is permitted to use one or more separate counterparties for derivative transactions. As a result, the fund may enter into transactions in over-the-counter ("OTC") markets that expose it to the credit of its counterparties and their ability to satisfy the terms of such contracts. Where the fund enters into derivative contracts, it will be exposed to the risk that the counterparty may default on its obligations to perform under the relevant contract. In the event of bankruptcy or insolvency of a counterparty, the fund could experience delays in liquidating the position and may incur significant losses. There may be a risk that a counterparty will be unable to meet its obligations with regard to the return of the collateral and may not meet other payments due to the fund. To minimise such risk the manager will assess the creditworthiness of any counterparty that it engages.

On a daily basis the manager assesses the level of assets with each counterparty to ensure that the exposure is within the defined limits per the regulations. Cash accounts are maintained at several counterparties.

JP Morgan is the counterparty for the futures contracts, UBS is the counterparty for the swap contracts, the forward foreign exchange contracts and the European CFDs, and Goldman Sachs is the counterparty for the

Notes to the financial statements (continued)

US CFDs. Aside from the custodian, the derivative counterparties and brokers where trades are pending settlement, there were no significant concentrations of credit risk as at 31 August 2013 or 31 August 2012.

(c) Liquidity risk. Some of the fund's financial instruments can include securities that are traded on AIM or are not listed on a recognised stock exchange and which may not always be readily realisable. As a result, the fund may not be able to realise these investments quickly at their fair value to respond to specific events such as deterioration in the creditworthiness of any particular issuer. These holdings are disclosed in the portfolio statement on pages 8 to 14. In order to manage liquidity requirements, the fund seeks to maintain sufficient cash to pay creditors. The fund's overall liquidity risk is managed by the manager in accordance with the requirements stipulated in the Collective Investment Schemes Sourcebook and the Prospectus.

(d) Derivatives. The use of derivatives and forward transactions, as described above, in both exchange traded and OTC markets, in the pursuit of the fund's objective will mean that the Net Asset Value of the fund may at times be volatile. There are some derivatives whose value falls even though the market is rising. The use of derivatives will include creating synthetic short positions.

The use of these strategies is subject to a risk management process and the manager has engaged an external provider to provide an analysis of the overall risk position of the fund on a daily basis, which is then used by the manager to evaluate the exposures and risks in the portfolio.

As part of this process, the Value at Risk ('VaR') is calculated on a daily basis to estimate the market price risk on the fund. VaR expresses the maximum expected loss by the fund in a defined period within a defined confidence level. The model used for the fund has a confidence level of 99%, uses three year risk factor data over a 20 day period (i.e. it predicts the maximum loss that could arise over a 20 day period) and is based on the portfolio at the point of calculation. At 31 August 2013 the VaR was estimated at 7.3% (2012: 8.4%).

It should be noted that VaR assumes that risk in the future can be predicted from the historic distribution of returns and so this methodology can be vulnerable to extreme, unforeseen events and therefore the VaR analysis is complemented with additional scenario and stress testing.

4. Net capital gains

	31 August 2013 £'000	31 August 2012 £'000
Non-derivative securities	111,437	66,353
Forward foreign exchange contracts	41,291	24,347
Derivative contracts	4,463	(43,748)
Currency gains/(losses)	4,281	(3,010)
Net capital gains	161,472	43,942

5. Portfolio transaction costs

	31 August 2013		31 August 2012	
	£'000	£'000	£'000	£'000
Analysis of total purchases costs				
Purchases before transaction costs		689,516		420,853
Commissions	577		392	
Taxes	1,132		896	
Total purchases costs		1,709		1,288
Gross purchases total		691,225		422,141
Analysis of total sales costs				
Gross sales before transaction costs		601,887		752,091
Commissions	(569)		(781)	
Taxes	(6)		(7)	
Total sales costs		(575)		(788)
Total sales net of transaction costs		601,312		751,303

6. Revenue

	31 August 2013 £'000	31 August 2012 £'000
UK dividends	8,999	13,172
Overseas dividends	6,593	8,280
Bank interest	253	433
Interest on margin accounts	137	–
Derivative revenue	(3,189)	(756)
Total revenue	12,793	21,129

7. Expenses

	31 August 2013 £'000	31 August 2012 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	12,000	11,952
Payable to the trustee, associates of the trustee and agents of either of them:		
Trustee fee	110	111
Other expenses:		
Administration fee	155	212
Registration fee	101	114
Operational fees	52	54
Safe custody fees	20	25
Auditor's remuneration: audit fee*	12	11
Total expenses	12,450	12,479

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amount disclosed above include VAT at the rate of 20%. The audit fee (excluding VAT) accrued during the period was £9,750 (2012: £9,360).

8. Taxation

	31 August 2013 £'000	31 August 2012 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	819	972
Total taxation (note 8b)	819	972
b) Factors affecting the tax charge for the year		
Net revenue before taxation	343	8,585
Corporation tax at 20% (2012: 20%)	69	1,717
Effects of:		
Unutilised management expenses	3,040	2,573
Irrecoverable overseas tax	819	972
Income taxable in different periods	(12)	–
Non-taxable overseas dividends	(1,297)	(1,656)
Non-taxable UK dividends	(1,800)	(2,634)
Tax charge for the year (note 8a)	819	972

c) Provision for deferred tax

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

d) Factors that may affect future tax charges

The fund has not recognised a deferred tax asset of £9,318,000 (2012: £6,278,000) arising as a result of having unutilised management expenses of £46,594,000 (2012: £31,392,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

Notes to the financial statements (continued)

9. Finance costs: distribution and interest

	31 August 2013 £'000	31 August 2012 £'000
Final distribution	1,123	6,923
Add: amounts deducted on cancellation of units	143	1,015
Deduct: amounts added on issue of units	(460)	(325)
Finance costs: distribution	**806**	**7,613**
Finance costs: interest	–	65
Total finance costs	806	7,678
Movement between net (expenses)/revenue and distribution		
Net (expenses)/revenue after taxation	(476)	7,613
Add: revenue deficit transferred to capital	1,227	–
Add: revenue received on conversion of units	55	–
	806	7,613

The distribution takes account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distribution per unit are set out in the distribution table on page 23.

10. Debtors

	31 August 2013 £'000	31 August 2012 £'000
Amounts receivable for issue of units	9,139	39
Accrued revenue	1,822	1,257
Overseas withholding tax recoverable	444	471
Sales awaiting settlement	–	2,147
Prepaid expenses	–	1
Total debtors	11,405	3,915

11. Cash and bank balances

	31 August 2013 £'000	31 August 2012 £'000
Cash and bank balances	187,387	170,498
Amounts held in JP Morgan Liquidity Fund	90,000	78,000
Amounts held at futures clearing houses and brokers	10,608	53,062
Total cash and bank balances	287,995	301,560

12. Creditors

	31 August 2013 £'000	31 August 2012 £'000
Purchases awaiting settlement	3,321	–
Accrued annual management charge	1,056	943
Accrued interest on interest rate swaps	573	828
Accrued other expenses	121	108
Accrued trustee fee	10	9
Amounts payable for cancellation of units	–	5,327
Total creditors	5,081	7,215

13. Contingent liabilities and commitments

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

14. Related party transactions

The manager and trustee are deemed to be related parties. All transactions and balances associated with the manager and trustee are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 15 and notes 7, 10 and 12 on pages 19 and 20 including all issues and cancellations where the manager acted as principal. The balance due from the manager as at 31 August 2013 in respect of these transactions was £8,083,000 (2012: £6,231,000 due to the manager). The balance due to the trustee as at 31 August 2013 in respect of these transactions was £10,000 (2012: £9,000).

15. Risk disclosures

Currency risk

	Net foreign currency assets/(liabilities)			
Currency	Investments £'000	Net other assets/ (liabilities) £'000	Forward foreign exchange contracts £'000	Total £'000
31 August 2013				
US Dollar	325,657	(4,044)	(47,116)	274,497
Singapore Dollar	–	–	263,371	263,371
Taiwan Dollar	–	–	125,377	125,377
Norwegian Krone	15,192	–	86,872	102,064
Hong Kong Dollar	–	–	95,727	95,727
Malaysian Ringgit	–	–	56,683	56,683
Swedish Krona	(265)	(137)	38,987	38,585
Swiss Franc	33,951	(73)	–	33,878
Russian Rouble	–	–	4,641	4,641
Canadian Dollar	–	–	(9,184)	(9,184)
New Zealand Dollar	–	–	(39,912)	(39,912)
Australian Dollar	(961)	(265)	(100,468)	(101,694)
Japanese Yen	(2,495)	7,371	(246,553)	(241,677)
Euro	10,539	1,807	(307,702)	(295,356)
31 August 2012				
Singapore Dollar	–	–	237,696	237,696
US Dollar	203,328	2,624	(9,473)	196,479
Taiwan Dollar	–	–	95,043	95,043
Hong Kong Dollar	–	–	93,661	93,661
Malaysian Ringgit	–	–	84,430	84,430
Norwegian Krone	–	–	67,906	67,906
Swedish Krona	–	–	61,673	61,673
Swiss Franc	15,672	425	26,511	42,608
New Zealand Dollar	–	–	(25,210)	(25,210)
Australian Dollar	–	–	(126,354)	(126,354)
Japanese Yen	9,923	3,467	(211,490)	(198,100)
Euro	12,672	532	(238,626)	(225,422)

Notes to the financial statements (continued)

Interest rate risk

Currency	Floating rate financial assets/ (liabilities) £'000	Fixed rate financial assets £'000	Financial assets/ (liabilities) not carrying interest £'000	Total £'000
31 August 2013				
UK Sterling	218,326	55,000	351,316	624,642
US Dollar	(2,082)	–	323,695	321,613
Swiss Franc	–	–	33,878	33,878
Norwegian Krone	–	–	15,192	15,192
Euro	1,763	–	10,583	12,346
Japanese Yen	(76,566)	77,506	3,936	4,876
Swedish Krona	(137)	–	(265)	(402)
Australian Dollar	(183)	–	(1,043)	(1,226)
31 August 2012				
UK Sterling	226,115	55,000	285,021	566,136
US Dollar	2,395	–	203,557	205,952
Swiss Franc	–	–	16,097	16,097
Japanese Yen	(87,956)	82,750	18,596	13,390
Euro	504	–	12,700	13,204

Forward foreign exchange contracts are not included within this table. These can be found in the portfolio statement on pages 12 and 13.

The benchmark rate for determining interest payments for floating rate instruments is usually based on an accepted benchmark such as the LIBOR. Interest earned and paid on bank balances during the year was at a variable rate. The weighted average interest rates at the end of the year were 6.5% credit (2012: 4.0%) and 0.1% debit (2012: 0.3%). There is no interest rate risk associated with other short-term creditors or debtors at 31 August 2013 or 31 August 2012. The fund does not have any long-term financial liabilities.

16. Unit classes

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

R accumulation: 1.50%
I accumulation: 0.75%

The net asset value per unit and the number of units in each class are given in the comparative tables on page 24. The distribution per unit class is given in the distribution table on page 23. All classes have the same rights.

17. Post balance sheet event

Since 31 August 2013, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p) 16 October 2013	31 August 2013	Movement
R accumulation	74.69	76.42	(2.3)%
I accumulation	77.22	78.93	(2.2)%

Distribution table

Final dividend distribution for the year ended 31 August 2013.

Group 1 – Units purchased prior to 1 September 2012.
Group 2 – Units purchased from 1 September 2012 to 31 August 2013.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 October 2013	Distribution per unit (p) 31 October 2012
R accumulation				
Group 1	–	–	–	0.4721
Group 2	–	–	–	0.4721
I accumulation				
Group 1	0.3961	–	0.3961	0.9549
Group 2	0.0550	0.3411	0.3961	0.9549

Corporate unitholders should note that:

1. 100.00% of the revenue distribution together with the tax credit is received as franked investment income.

2. 0.00% of the revenue distribution is received as an annual payment received after deduction of income tax at the lower rate and may be liable to corporation tax. It is not franked investment income.

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

Comparative tables

Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
31 August 2011	895,922,796		
R accumulation		59.68	1,258,557,664
I accumulation		60.73	238,406,214
31 August 2012	812,451,540		
R accumulation		63.39	1,091,910,891
I accumulation		65.00	185,132,146
31 August 2013	1,009,869,223		
R accumulation		76.42	1,028,657,941
I accumulation		78.93	283,526,998

Ongoing charges

Expense	31 August 2013
R accumulation	
Annual management charge	1.50%
Other expenses	0.09%
Ongoing charges	1.59%
I accumulation	
Annual management charge	0.75%
Other expenses	0.09%
Ongoing charges	0.84%

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

Net revenue distribution & unit price range

Year	Net revenue per unit (p)	Highest offer price (p)	Lowest bid price (p)
R accumulation			
2009 *	–	60.18	46.58
2010	0.4776	69.76	55.36
2011	0.5803	71.39	56.48
2012	0.4721	70.72	58.17
2013 **	–	81.20	67.28
I accumulation			
2009 *	–	58.03	46.61
2010	0.9998	67.78	55.66
2011	1.0771	69.42	57.52
2012	0.9549	69.76	59.53
2013 **	0.3961	80.44	69.16

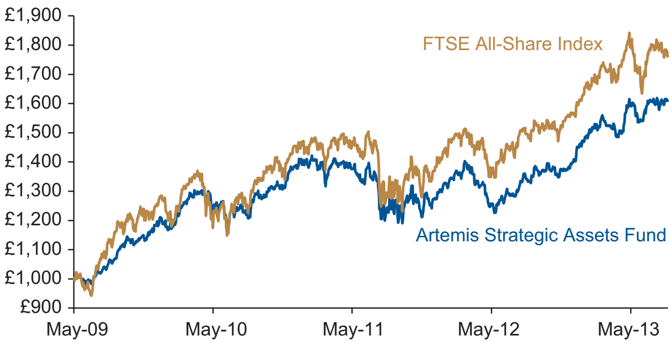
Net revenue includes all amounts paid and payable in each calendar year.
* From 5 May 2009.
** To 31 August 2013.

Fund performance

	Since launch *	3 years	1 year	6 months
Artemis Strategic Assets Fund	61.0	32.7	20.7	6.6
FTSE All-Share Index	76.2	40.5	18.9	4.1
FTSE APCIMS/Growth Index	62.8	34.6	15.2	2.5
Sector average	53.0	28.1	14.3	2.0
Position in sector	27/96	30/101	18/116	8/120
Quartile	2	2	1	1

* Data from 26 May 2009. Source: Lipper Limited, R accumulation, bid to bid in sterling with net income reinvested to 31 August 2013. All performance figures show total return percentage growth. Sector is IMA Flexible Investment.

Value of £1,000 invested at launch to 31 August 2013



ARTEMIS
The PROFIT Hunter