



Marlborough High Yield Fixed Interest Fund

Short Report

For the period from 1st January 2013 to 31st December 2013

Fund Details

Marlborough High Yield Fixed Interest Fund

Manager and Registrar

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

Customer Support: 0808 145 2500 (FREEPHONE)

Authorised and regulated by the Financial Conduct Authority

Trustee

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Investment Adviser

Aberdeen Asset Managers Limited
10 Queens Terrace
Aberdeen
Aberdeenshire AB10 1YG

Authorised and regulated by the Financial Conduct Authority

Auditors

Barlow Andrews LLP
Carlyle House
78 Chorley New Road
Bolton BL1 4BY

Directors of Marlborough Fund Managers Ltd

Andrew Staley	Chairman
Nicholas F J Cooling	Deputy Chairman
Allan Hamer	Joint Managing Director
Wayne D Green	Joint Managing Director
B John Leyland	Finance Director
Geoffrey Hitchin	Investment Director
Keith Ounsworth	Director - Sales
John R Heap	Director – Strategic Development

GENERAL INFORMATION

Investment Objective	<p>The investment objective is to provide a high level of income with the opportunity for some long-term capital growth. The Scheme will be invested in a portfolio largely comprising fixed and variable rate and index related securities issued by corporates, government, supranational institutions and local and regional agencies, both in the UK and internationally, as well as other securities deemed to be appropriate by the Manager. At times it may be appropriate for the Scheme not to be fully invested but to hold cash and near cash. The Scheme is permitted to invest in derivatives and forward transactions for the purposes of hedging only.</p>
Risk Profile	<p>The Fund aims to provide a high level of income from a portfolio of securities which mainly pay a regular fixed income in sterling or euros. The main risks are market price risks, due to market fluctuations or a change in credit risk, and foreign currency risk as a result of movement in the sterling/euro exchange rate. Both risks may affect the level of income arising in the Fund but will be monitored by the manager in accordance with investment objective and policy set out in the Prospectus. Changes in interest rates can affect the value of investments in the portfolio although the short dated nature of most holdings limits fluctuations. Some holdings may be subject to liquidity risk from time to time although most are readily realisable.</p>
Reports and Accounts	<p>The purpose of sending this Short Report is to present you with a summary of how the Fund has performed during the accounting period in accordance with the FCA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.</p>
Change in Prospectus	<p>No changes have been made since the last report.</p> <p>Up to date key investor information documents, the Prospectus and manager's reports and accounts for any fund within the manager's range, can be requested by the investor at any time.</p>
Risk Warning	<p>The past is not necessarily a guide to future performance. Investments and the income derived from them can fall as well as rise and the investor may not get back the amount originally invested. The Fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of the investment. Changes in exchange rates between currencies may cause the value of the investment to diminish or increase. To ensure that the principal objective of providing a high level of income can be met, 50% of the annual management charge is deducted from capital rather than income. Future capital growth may be constrained as a result. Investments in fixed interest securities are subject to market and credit risk and will be impacted by interest rates. Investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a higher risk of default and have a negative impact on income and capital value. The Fund may use derivatives to protect the value of the Fund's assets or to reduce the costs of investing, although this may not be achieved. It is not anticipated that the use of derivatives will have any significant effect on the risk profile of the Fund.</p>

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 31 December 2013

Percentage change and sector position to 31 December 2013

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 Years</u>	<u>Since launch**</u>
Marlborough High Yield Fixed Interest Fund	7.72%	7.08%	20.86%	148.13%	64.60%
Quartile Ranking*	1	2	3	1	3

* Based on ranking within IMA £ High Yield Sector

** launched 8 November 2004

External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

Market Review

The European High Yield (HY) asset class closed the year in great style, posting a 10% total return using Merrill Lynch data for the full year in euro currency terms, compared to negative returns from government and investment grade bonds showing the asset class to have low duration compared to most credit products, with this fund having a modified duration of 2.9 years and a low correlation to government bonds during the year.

We have seen European HY new issuance set a number of new records in 2013: an annual volume of Eur70.4bn, a deal count of 212, with 103 deals being debut issuers to market (Eur29.9bn), sponsor-backed volume amounting to Eur25.2bn, and PIK-toggles coming from 12 companies.

Sterling issuance was a record £11.5bn in 2013, up from £3.9bn in 2012.

Defaults have remained low at 3.1% during the last twelve months according to Moody's, with predicted forecasts for the next year remaining in the 2-3% range, as macro conditions in Europe look to improve and global growth slows down.

The USA 10 year treasury having touched a low point yield of 1.5%, had reached 3% by the year end as Tapering was the buzz word and the timing for Central banks to withdraw liquidity from markets in a controlled manner.

Portfolio review

We increased the number of holdings to 101, thereby increasing the diversification within the Fund and reflecting the high amount of new issuance, even though we remained very disciplined in our approach to new issues. We ended the year with 11% in CCC rated bonds, as we reduced the beta in the Fund, reflecting the fact that the yield on the market had reached 4.76% using JP Morgan data, so the reward for taking extra risk has reduced greatly and we have seen CCC rated bonds return 16.6% for the full year. We had no defaults in the Fund but we did have a corporate action in our Ceva bonds which meant we had to convert 55% of the bonds into equity.

Outlook

We expect total returns in European High Yield sector for 2014 to be sub 5%, as spreads have reached 423 basis points over governments at the year end. We would also expect to see more monthly volatility in the asset class as Tapering starts and Central banks have to eventually withdraw the liquidity they have injected in the last 5 years to markets.

So the discussion on interest rates will continue, but the prospect of an increase in European short rates is more likely for 2016 and beyond, whereas it could happen in the USA in 2015.

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Distributions	Year 2014	Year 2013	Year 2012	Year 2011
<u>Class A</u>				
Net income paid 28 February	1.131053ppu	1.585570ppu	1.588374ppu	1.757250ppu
Net income paid 31 May		1.215565ppu	1.276076ppu	1.634830ppu
Net income paid 31 August		1.575557ppu	1.556596ppu	1.540901ppu
Net income paid 30 November		1.357691ppu	1.459866ppu	1.453333ppu
<u>Class B</u>				
Net income paid 28 February	1.212809ppu			
Net income paid 31 May		1.074020ppu		
Net income paid 31 August		1.630185ppu		
Net income paid 30 November		1.453890ppu		
<u>Class P</u>				
Net income paid 28 February	1.236083ppu			
Net income paid 31 May		1.405856ppu		
Net income paid 31 August		1.713729ppu		
Net income paid 30 November		1.446038ppu		

Paul Reed / Mark Sanders
7 January 2014

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Material Portfolio Changes

For the year ended 31 December 2013

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Bite Finance International FRN 15/02/18	898,609	Bank of Ireland 4.625% 08/04/13	1,872,181
Matalan Finance 8.875% 29/04/16	832,465	Boats Invest Netherlands 11% 31.03.17	1,607,817
Eco-Bat Finance 7.75% 15/02/17	749,148	Edcon Proprietary 9.5% 01/03/18	1,120,683
Trionista 5% 15/05/20	679,401	LBG Capital No 1 11.04% 19/03/20	1,115,600
Cegedim 6.75% 31/03/20	678,970	Lowell Group Finance 10.75% 01/04/19	1,092,500
Pearl Group Holdings 6.5864% FRN	669,092	TVN 12% 15/05/17	988,934
Wepa Hygieneprodukte 6.5% 15/05/20	622,361	New World Resources 7.375% 15/05/15	801,480
Loxam 7.375% 24/01/20	595,551	Axa Fixed/FRN Perp	770,115
Elli Finance UK 8.75% 15/06/19	555,430	Ontex 7.5% 15/04/18	723,133
Oberthur Tech Holdings 9.25% 30/04/20	519,968	Castle Holdco 4 10% 08/05/18	718,436
IDH Finance 6% 1/12/18	502,817	International Personal Fin 11.5% 06/08/15	702,151
1st Credit Holdings 11% 10/6/20	500,000	Bank of Ireland (Gov & Co of)	646,009
Grainger 5% 16/12/20	500,000	Codere Finance (Lux) 8.25% 15/06/15	625,868
Telefonica (Europe) 7% 26/11/20	500,000	EC Finance 9.75% 01/08/17	596,767
Voyage Care Bondco 6.5% 01/08/16	471,103	Kerling 10.625% 28/01/17	584,203
Maisons Du Monde 9% 01/08/20	459,938	TDS Investor Corp FRN 01/09/14	555,860
Kraussmaffei 8.75% 17/12/20	455,644	Cirsa Funding Luxembourg 8.75% 15/05/18	517,478
Matterhorn Midco 7.75% 15/02/20	435,899	Edcon Proprietary FRN 15/06/14	516,542
UPC 6.75% 15/05/23	434,814	British Airways 8.75% 23/08/16	515,813
Gamenet 7.25% 01/08/18	411,297	Ontex 9% 15/04/19	435,239
Other purchases	10,271,401	Other sales	7,503,710
Total purchases for the year	21,743,908	Total sales for the year	24,010,519

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

TOP TEN HOLDINGS AS AT 31 DECEMBER 2013

	%
Lloyds TSB Bank 13% Perp	3.19
Wienerberger 6.5% 09/02/17	2.30
Foodcorp 8.75% 01/03/18	2.30
Cirsa Funding 8.75% 15/05/18	2.30
Inaer Aviation Finance 9.5% 01/08/17	2.10
Gtech 8.25% 31/03/66	2.08
R & R Ice Cream 8.375% 15/11/17	2.04
Mapfre 5.921% 24.07.37	1.93
Pipe Holdings 9.75% 01/11/15	1.91
House of Frasar 8.875% 15/08/18	1.87

TOP TEN HOLDINGS AS AT 31 DECEMBER 2012

	%
Boats Investment (Ecobat) 11% 31.03.17	3.84
Lloyds TSB Bank 13% Perp	3.34
Bank of Ireland 4.625% 08.04.13	3.33
Lowell Group Finance 10.75% 01.04.19	2.55
Inaer Aviation Finance 9.5% 01.08.17	2.55
International Personal Finance 11.5% 06.08.15	2.54
Cirsa Funding 8.75% 15.05.18	2.40
Foodcorp 8.75% 01.03.18	2.34
LBG Capital No 1 11.04% 19.03.2020	2.15
Edcon Proprietary 9.5% 01.03.18	2.03

FUND FACTS

Launched Income Units

8 November 2004 at 100p

On 31 December 2012 the units were reclassified as Class A. Class B and Class P units became available for purchase on 31 December 2012.

Accounting Dates	(Final)	31 December
	(Interim-no report)	31 March
	(Interim)	30 June
	(Interim-no report)	30 September

Distribution Dates	(Final)	28 February
	(Interim-no report)	31 May
	(Interim)	31 August
	(Interim-no report)	30 November

Minimum Investment	Class A	£1,000
	Class B	£50,000
	Class P	£1,000,000

IMA Sector	£ High Yield
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Ongoing Charge Figure as at 31 December 2013

Class A 1.60%, Class B 1.11%, Class P 0.86%

Ongoing Charge Figure as at 31 December 2012

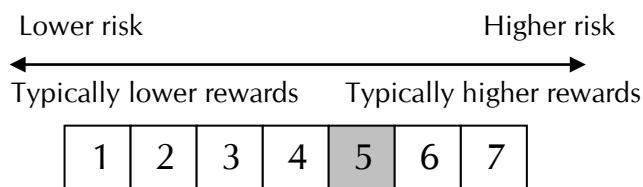
Class A 1.57%

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

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

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

Synthetic risk and reward indicator



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

This fund has been measured as 5 because it has experienced significant volatility historically.

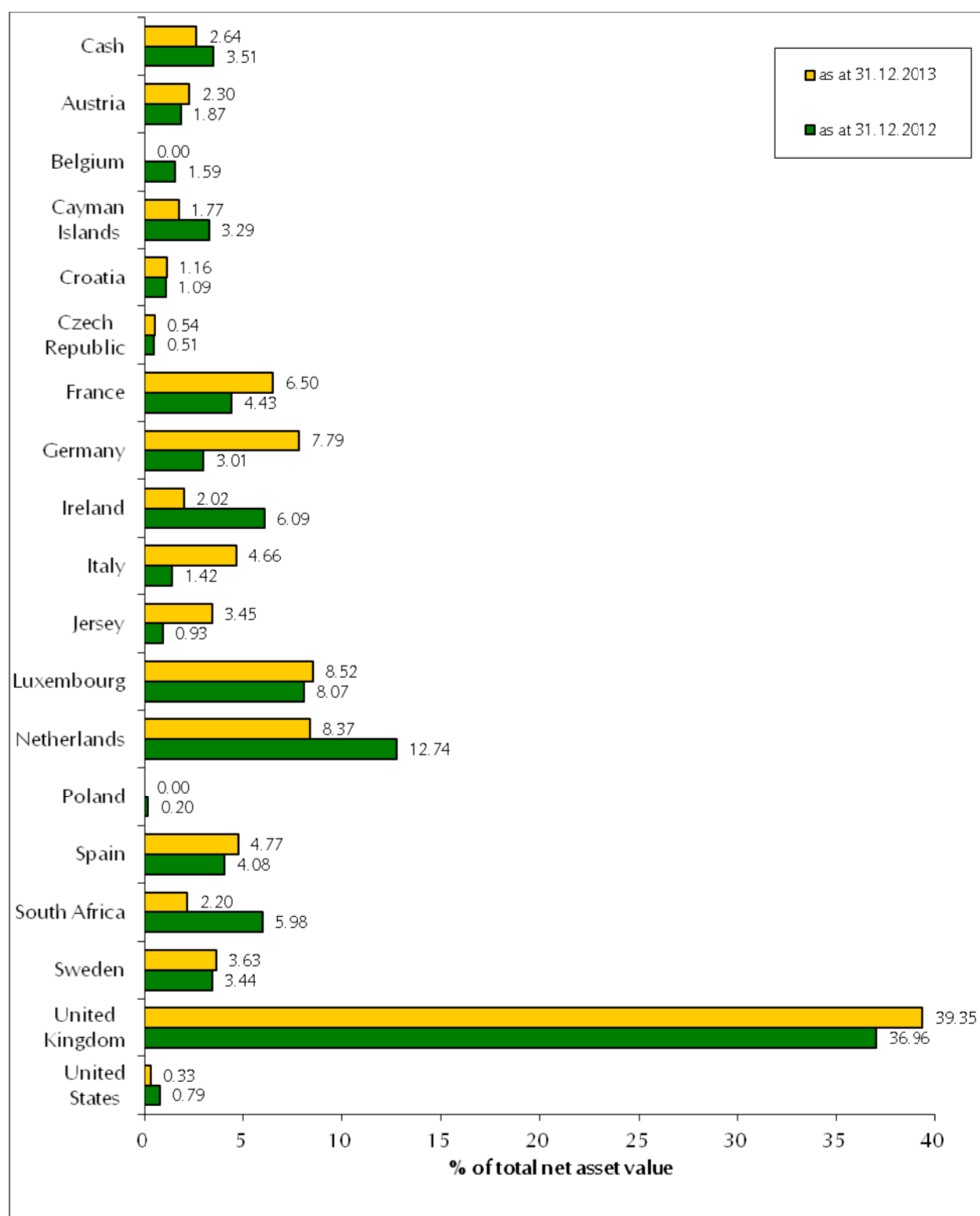
SUMMARY OF FUND PERFORMANCE

Unit Type	Year	Highest Offer Price	Lowest Bid Price	Distribution Per Unit
<u>Class A</u>				
Income	2009	83.56p	43.64p	6.924740p
Income	2010	88.67p	75.73p	6.648356p
Income	2011	89.00p	64.63p	6.217438p
Income	2012	82.04p	66.20p	5.878108p
Income	2013	83.27p	72.52p	5.279866p
<u>Class B</u>				
Income	2013	83.18p	73.10p	5.370904p
<u>Class P</u>				
Income	2013	80.05p	72.95p	5.801706p

	Net Asset Value of Scheme Property	Income units in issue	Net Asset Value Per Unit
<u>Class A</u>			
31 December 2011	£43,377,717	66,795,635	64.94p
31 December 2012	£54,083,106	71,799,279	75.33p
31 December 2013	£42,691,604	56,641,123	75.37p
<u>Class B</u>			
31 December 2013	£275,590	364,665	75.57p
<u>Class P</u>			
31 December 2013	£9,481,468	12,531,508	75.66p

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

GEOGRAPHICAL BREAKDOWN



Marlborough Fund Managers Limited
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Intermediary

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