Annual Short Report and Financial Statements for MGTS Clarion Meridian Fund

For the year ended 31 January 2014

HEAD OFFICE
1 SOVEREIGN COURT
GRAHAM STREET
BIRMINGHAM
B1 3JR

TELEPHONE: 0121 236 2380
FACSIMILE: 0121 236 2330

MARGETTS FUND MANAGEMENT LTD

www.margetts.com
VAT No. (GB) 795 0415 16
Registered in England No. 4158249

Authorised and Regulated by
the Financial Conduct Authority

DEALING
PO BOX 12081
BRENTWOOD
CM14 9ND

TELEPHONE: 0845 607 6808
FACSIMILE: 0131 525 9900

ACD

Margetts Fund Management Limited
1 Sovereign Court
Graham Street
Birmingham
B1 3JR

Tel: 0121 236 2380
Fax: 0121 236 2330

(Authorised and regulated by the Financial Conduct Authority)

Directors of the ACD

T J Ricketts
T H Ricketts
A J M Quy
J E J Clay
M D Jealous
A S Weston
G M W Oakley (non-exec)

Depositary

BNY Mellon Trust & Depositary (UK) Ltd
The Bank of New York Mellon Centre
160 Queen Victoria Street
London
EC4V 4LA

(Authorised and regulated by the Financial Conduct Authority)

Administrator and Registrar

The Bank of New York Mellon (International) Limited
PO Box 23705
Edinburgh
EH7 5NJ

Tel: 0845 607 6808
Fax: 0131 525 9900

(Authorised and regulated by the Financial Conduct Authority)

Auditors

Shipleys LLP
Chartered Accountants & Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

Investment Advisers

Clarion Investment Management Ltd
Marble Arch
King Street
Knutsford
WA16 6HD

(Authorised and regulated by the Financial Conduct Authority)

Contents

Investment Adviser's Report

For year ended 31 January 2014

Investment Objective & Policy

The objective of the Fund is to deliver total returns. The Fund will achieve its objective by investing in a portfolio of assets which the Investment Adviser considers to be medium and high risk investments targeted for both income and capital growth with the intention of generating medium to long term returns.

Investment Review

MGTS Clarion Meridian Portfolio R Acc	7.89%
MGTS Clarion Meridian Portfolio L Acc	7.35%

Benchmark

IMA Mixed Investment 40-85% Shares Sector	7.51%

Source: Morningstar Direct. Performance is bid to bid with income reinvested.

The MGTS Clarion Meridian fund has outperformed the benchmark due to its overweight equity allocation, which has been predominantly based in developed markets. In addition, the fund benefitted from the underweight gilts and a short duration position in bonds, which have exposure to corporate debt.

The year has been volatile and mainly driven by central bank policy rather than macro-economic factors. Overall, the US and Japanese stock markets have been the strongest area of investment, providing returns of c. 17% over the year to the end of January 2014, however the vast majority of positive return was achieved in the first six months. In the second half of the year the UK and European stock markets outperformed, returning c.10% over the year. The Asian and Emerging Markets stock markets fell in value, recording a loss of 0.1% and 15% respectively[1].

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

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

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

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

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

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

[1] Source: Morningstar Direct. Post tax return with income reinvested. 1-2-13 to 31-1-14

Investment Adviser's Report (continued)

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

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

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

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

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

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

The growth in developed stock markets, particularly the US stock market, reflects improving investor confidence. Stock market valuations have been driven up to long-term averages and on some measures higher than the long-term average values. In order for the US stock market to continue to grow, earnings growth must be sustained. To date, much of corporate earnings growth has come from refinancing at historically low levels of interest rates and cost cutting. Moving forward, with unemployment falling and scope for further cost reductions diminishing, earnings growth will need to be generated from revenue growth, which has been much slower to recover. Investor confidence has been especially evident in technology or similar companies, like Facebook, which was oversubscribed at $38 per share when it listed on stock markets in 2012 and has since seen its share price rise to c. $65 per share. The average price/earnings (PE) ratio for the US stock market is c. 16x. The PE valuation of Facebook is currently c. 78x[2], this means that at the current level of earnings it would take 78 years before company earnings have paid back the original investment. For the price of Facebook to be justified, the rate of growth that is expected has to enormous. The valuations in some stocks are akin to the technology bubble that burst in 2000. Although the prevalence of technology shares in stock markets is not comparable to the late 1990s, it is a worrying indicator and we feel that investors may experience a reality check at some point.

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

[2] Source: Bloomberg

Investment Adviser's Report (continued)

Asian and Emerging Markets, given the very low expectations, and greater risk of negative surprises in the US economy, where expectations are high.

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

In the first half of the period the Fidelity MoneyBuilder Income fund was sold and replaced with Kames Investment Grade Bond fund. Despite a strong track record, the Fidelity fund was sold due to the investment team's concerns over liquidity in bond markets and the Kames fund is significantly smaller in size. In addition, Kames has a shorter duration and can invest overseas, which decreased duration in the portfolio and increased liquidity.

The manager also reduced the exposure to equities, selling part of the Royal London US tracker fund. This decision was taken during a period of strong momentum as the team wished to increase the defensive qualities of the portfolio should markets fall and reduce exposure to the US markets, where sentiment had been strongly positive.

In the second half of the year the manager sold the Vanguard US Tracker fund in favour of an active manager. Research had shown that trackers had consistently outperformed active managers over the previous years. The manager felt that liquidity and other monetary policy factors had driven the stock market in general, rather than the individual companies and that the differential was too high. It was felt that as momentum faded and as markets normalised, active managers would be better placed to assess value and differentiate between winners and losers and that this had possibly been the reason for the level of underperformance in a momentum-driven market.

The investment committee are monitoring outflows from Emerging Markets and are prepared to reduce the allocation to affected areas if there is a perceived risk that a contagion may spread.

Clarion Investment Management Ltd
Investment Adviser
30 April 2014

Certification of Accounts by Directors of the ACD

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

T J Ricketts **M D Jealous**

Margetts Fund Management Ltd
07 May 2014

Authorised Status

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

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

Portfolio statement

As at 31 January 2014

Holding	Portfolio of Investments	Value (£)	Total Net Assets 31.01.14 %	Total Net Assets 31.01.13 %
	UK			
1,203,702	Cazenove UK Equity Income X Inc	2,001,276	7.89	
1,155,441	Franklin UK Mid Cap W Acc	1,865,112	7.35	
1,180,018	Investec UK Special Situations Inst Acc Net	1,861,361	7.34	
1,572,748	Majedie Asset UK Equity X Acc	2,143,027	8.45	
9,268	Vanguard FTSE UK Equity Income Index GBP Acc	1,899,615	7.49	
9,814	Vanguard FTSE UK Equity Index Acc	1,848,129	7.28	
	Total UK	**11,618,520**	**45.80**	**44.44**
	European			
691,324	Jupiter European Special Situations I Acc	2,050,261	8.08	
	Total European	**2,050,261**	**8.08**	**8.14**
	Asia Pacific			
805,582	Aberdeen Asia Pacific C Acc	1,488,554	5.87	
423,185	First State Asia Pacific Leaders Inst B	1,709,204	6.74	
	Total Asia Pacific	**3,197,758**	**12.61**	**14.64**
	Bond			
1,034,245	Kames Investment Grade Bond B Acc	1,551,161	6.11	
1,181,526	M&G Optimal Income I Inc	1,681,430	6.63	
	Total Bond	**3,232,591**	**12.74**	**13.03**
	US			
763,840	Royal London US Tracker Z Acc	1,284,016	5.06	
1,141,646	The Boston Company US Opportunities W Acc	1,502,291	5.92	
	Total US	**2,786,307**	**10.98**	**13.36**
	Money Markets			
1,780,000	Goldman Sachs Sterling Liquid Reserves Admin Dist	1,780,000	7.02	
	Total Money Markets	**1,780,000**	**7.02**	**-**
	Portfolio of Investments	**24,665,437**	**97.23**	**93.61**
	Net Current Assets	**704,542**	**2.77**	**6.39**
	Net Assets	**25,369,979**	**100**	**100**

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

Net Asset Value per Share and Comparative Tables

Price and Income History

L Income shares (Legacy)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2011	120.54	102.15	0.1245
2012	122.03	109.91	0.8188
2013	140.48	121.56	0.5814
2014*	141.37	136.70	0.2076

L Accumulation shares (Legacy)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2011	121.24	103.21	0.1252
2012	124.99	111.05	0.4963
2013	144.62	124.51	0.5887
2014*	145.54	140.73	0.2131

R Income shares (RDR)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2011	119.83	101.56	0.1270
2012	121.53	109.28	0.3330
2013	140.38	121.07	0.4401
2014*	141.38	136.72	-

R Accumulation shares (RDR)

Calendar Year	Highest Price (Pence)	Lowest Price (Pence)	Net Income (Pence per share)
2011	122.91	104.76	0.1270
2012	127.65	112.85	1.3951
2013	148.32	127.16	1.2622
2014*	149.42	144.50	0.5851

* To 31 January 2014

Net Asset Value

Date	Share Class	Net Asset Value (£)	Shares in Issue	Net Asset Value (Pence per share)
31.01.12	L Income	1,098,432	972,931	112.90
31.01.12	L Accumulation	11,318,910	9,868,916	114.69
31.01.12	R Income	228	202	112.70
31.01.12	R Accumulation	7,198,706	6,173,427	116.61
31.01.13	L Income	1,235,948	965,675	127.99
31.01.13	L Accumulation	12,806,699	9,769,025	131.09
31.01.13	R Income	258	202	127.50
31.01.13	R Accumulation	8,579,524	6,405,373	133.94
31.01.14	L Income	1,308,539	957,823	136.62
31.01.14	L Accumulation	11,118,155	7,893,074	140.86
31.01.14	R Income	277	202	136.85
31.01.14	R Accumulation	12,943,008	8,948,259	144.64

Net Asset Value per Share and Comparative Tables (continued)

Risk Warning

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

Prices per Share

Date	Share Class	Price (Pence)	Yield (%)
01.02.2014	L Income	136.64	0.25
01.02.2014	L Accumulation	140.88	0.25
01.02.2014	R Income	136.87	0.74
01.02.2014	R Accumulation	144.66	0.74

Fund Performance

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

Ongoing charges figure	**31.01.14**	**31.01.13**
	%	**%**
ACD's Annual Management Charge	1.50	1.50
Other expenses	0.16	0.17
Total Expense Ratio	**1.66**	**1.67**
Synthetic TER	0.66	0.74
Complete OCF	**2.32**	**2.41**
Ongoing charges - R Class		
ACD's Annual Management Charge	1.00	1.00
Other expenses	0.16	0.17
Total Expense Ratio	**1.16**	**1.17**
Synthetic TER	0.66	0.74
Complete OCF	**1.82**	**1.91**

Distribution Table

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

Interim
Group 1 – shares purchased prior to 01 February 2013
Group 2 – shares purchased on or after 01 February 2013

L Income Shares

Units	Net Income	Equalisation	Paid 30.09.13	Paid 30.09.12
Group 1	0.1321	-	0.1321	0.2027
Group 2	0.1321	-	0.1321	0.2027

L Accumulation Shares

Units	Net Income	Equalisation	Allocated 30.09.13	Allocated 30.09.12
Group 1	0.1352	-	0.1352	0.2051
Group 2	0.0457	0.0895	0.1352	0.2051

R Income Shares

Units	Net Income	Equalisation	Paid 30.09.13	Paid 30.09.12
Group 1	-	-	-	0.1489
Group 2	-	-	-	0.1489

R Accumulation Shares

Units	Net Income	Equalisation	Allocated 30.09.13	Allocated 30.09.12
Group 1	0.4877	-	0.4877	0.5070
Group 2	0.0464	0.4413	0.4877	0.5070

Final
Group 1 – shares purchased prior to 01 August 2013
Group 2 – shares purchased on or after 01 August 2013

L Income Shares

Units	Net Income	Equalisation	Payable 31.03.14	Paid 31.03.13
Group 1	0.2076	-	0.2076	0.4493
Group 2	0.2076	-	0.2076	0.4493

L Accumulation Shares

Units	Net Income	Equalisation	Allocating 31.03.14	Allocated 31.03.13
Group 1	0.2131	-	0.2131	0.4535
Group 2	0.0273	0.1858	0.2131	0.4535

R Income Shares

Units	Net Income	Equalisation	Payable 31.03.14	Paid 31.03.13
Group 1	-	-	-	0.4401
Group 2	-	-	-	0.4401

R Accumulation Shares

Units	Net Income	Equalisation	Allocating 31.03.14	Allocated 31.03.13
Group 1	0.5851	-	0.5851	0.7745
Group 2	-	0.5851	0.5851	0.7745

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

General Information

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

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

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

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

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

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

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

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

The prospectus has been updated to state that The Bank of New York Mellon's charges for transfer agency services are now subject to annual inflationary increases, capped at 3% per annum.

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

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

This page has been intentionally left blank.