MFM Slater Recovery Fund

Short Report

For the period from 1st December 2012 to 30th November 2013

Slater Investments Ltd

MARLBOROUGH
Fund Managers Limited

Fund Details
MFM Slater Recovery Fund

Manager and Registrar

Marlborough Fund Managers Ltd
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Bolton BL1 4QP

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Trustee

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London
E14 5HQ

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Investment Adviser

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Authorised and regulated by the Financial Conduct Authority

Auditors

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Carlyle House
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Bolton
BL1 4BY

GENERAL INFORMATION

Investment Objective

The investment objective is to achieve capital growth. The Scheme will invest in companies both in the UK and overseas but concentrating mainly or, where appropriate, exclusively on UK shares. Other investments including bonds, warrants and options, within the limits imposed by the trust deed may also be used where it is considered that they meet the investment objective. It is also intended where appropriate to take advantage of underwritings and placings. At times it may be appropriate for the Scheme not to be fully invested but to hold cash and near cash. The Scheme has powers to borrow as specified in COLL and may invest in derivatives and forward transactions for hedging purposes only.

Risk Profile

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

Risk Warning

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. The Fund invests in smaller companies which carry a higher degree of risk than larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The Fund invests mainly in the UK. Therefore it may be more vulnerable to market sentiment in that country.

Reports and Accounts

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

Change in Prospectus

From 31 December 2012 class B units and class P units became available for purchase in the Fund, the existing units were reclassified as class A units.
Also from that date, the manager's periodic charge and trustee's fees are calculated on a daily basis.
From 1st February 2014 the minimum initial investment in Class P units will increase from £1million to £5million.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 30 November 2013

Percentage change and sector position to 30 November 2013

	Six months	1 year	3 years	5 years	Since launch**
MFM Slater Recovery Fund	11.06%	21.31%	8.24%	128.96%	177.40%
Quartile Ranking*	1	3	4	2	2

*Based on ranking within UK All Companies Sector
**10 March 2003
External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

Despite regular reminders about sluggish conditions in Europe, slowing growth in China and occasional political wrangling over the United States (US) debt ceiling, investors were reassured by robust US economic progress and continued to switch funds out of cash and into stocks. However, the strongly bullish tone went sharply into reverse on 22nd May 2013 when the Federal Reserve laid out its roadmap to "tapering" Quantitative Easing (QE) – the United Kingdom (UK) stockmarket fell 8% from its 22nd May 2013 highpoint by 30th June 2013, bond yields jumped and emerging debt and equity markets were hit especially hard.

Stockmarkets rebounded in July following June's sharp falls as investors accepted reassurance from the Federal Reserve and other central banks that any unwinding of QE would be carefully calibrated. During August, markets retreated on fears of military intervention in Syria. Emerging Markets (EM) were extremely volatile, with some falling sharply as investors wrestled with the potential impact of the end of QE on EM economies and currencies. In September, global stockmarkets rallied as the prospect of military action in Syria receded and as the Federal Reserve surprised investors by deferring the much-anticipated beginning of tapering. However, political posturing over the US debt ceiling then took centre stage towards the end of September as the deadline approached, prompting markets to give back some of their gains. Equity indices continued to fall in early October as the debt ceiling loomed but a political fix (or at least a deferral) prompted a powerful rally, taking UK and US stockmarkets back up towards their highs. November was a relatively quiet month during which stockmarkets gave back a little of their gains.

This was very much a year of two halves for the Fund. The portfolio suffered during the second half of 2012 when cyclical and financial stocks boomed as such companies rarely meet our stock selection criteria. This continued for much of the first half of the year under review.

However, as we flagged in our interim report, many of the Fund's investee companies were making excellent operational progress which was not reflected in their share prices. We expected them to start to perform better and we are delighted that they have done so. The second half of the financial year saw healthy outperformance and we are encouraged that this outperformance has accelerated in the two months since the year end.

Most of the Fund's larger positions in growth companies contributed meaningfully to returns in the second half.

Entertainment One gained 26% (+2.28% contribution). The company continues to trade well and the shares attracted wider interest after being included in the Mid 250 index. At the period end the shares traded on a still reasonable Price-Earnings ratio (PE) of 12. Given the size of the holding, though, we decided to take some profits. Hutchison China MediTech appreciated 9% (+0.90% contribution) after announcing two further deals involving large pharmaceutical companies financing its drugs. We see scope for significant additional upside. After rectifying a number of operational issues that arose in the first half, NCC Group had a better second half, rising 52% (+1.26% contribution). The business has just reported record trading results. Quindell Portfolio's efforts to explain its working capital cycle and acquisition plans to shareholders paid off. Buoyed by a stream of positive trading updates and contract wins, the shares rose 92% (+1.40% contribution). Despite the rise, the shares remained lowly rated. All of the above companies have seen their shares continue to perform strongly since the period end, rising 22%, 11%, 20% and 28% respectively at the time of writing.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Shares in aircraft lessor Avation soared 109% (+1.62% contribution) following a stunning 60% earnings upgrade. The business still offers excellent growth prospects while trading on a single digit PE multiple and at a discount to net asset value. CML Microsystems put on 28% (+1.05% contribution) after continued solid progress. Andor Technology gained 46% (+0.79% contribution) after receiving a cash bid from another portfolio constituent, Oxford Instruments. Two new holdings made noteworthy contributions. Photo-Me International gained 53% from our initial purchase price (+0.85% contribution) driven by rapid growth in the core photo booth business, the rollout of its new laundry concept in France, 20% per annum dividend growth and the prospect of another special dividend to match the ordinary dividend. Meanwhile, 1Spatial rose 56% from our purchase price (+0.32% contribution).

Other growth companies which performed well in the second half included Advanced Medical Solutions (up 37%, +0.38% contribution), Diploma (up 32%, +0.55% contribution), Restore (+0.36% contribution) and Trifast (up 40%, +0.59% contribution). Smaller contributors included Walt Disney (up 12% in dollar terms).

A number of growth companies did less well. Three in particular stand out. Dialight proved to be a big disappointment as delayed orders triggered a 28% fall in the share's price. At one point this was a major holding but timely sales reduced the negative impact – the position cost the portfolio -1.01% in terms of overall performance. Given erratic signals from management, we decided to sell our entire holding, a process we completed prior to a further profits warning from the company in January 2014. We sold Avanti Communications which saw its share price fall after a poor trading update which showed further delays in achieving targeted sales levels. This delay raised the risk that banking covenants might be breached so we decided to exit the position which reduced performance by -0.75% in the second half. Domino's Pizza fell back 22% (-0.48% contribution) following news that its German expansion will take longer to reach profitability than expected. We have sold much of this investment at higher levels both during and before the second half of the year which mitigated the impact.

There were lacklustre performances from a handful of other growth investments that had a minimal impact on returns. These companies included Alliance Pharma (down 4%), British American Tobacco (down 10%), City of London Investment Group (down 10%), Centrica (down 11%), Ocean Wilsons (down 1%), Weir Group (down 8%) and Oxford Instruments (down 10%). The holding in Serco was sold at a loss (-0.14% impact in the second half) on news of contractual irregularities.

Some of the Fund's special situation investments had a strong second half. Eserveglobal, the mobile payments business, stood out. The shares gained 52% (+0.69% contribution) as the company expanded its footprint further. Since the period end, a deal with Mastercard validated the company's approach and offers the prospect of much faster growth. WYG's recovery continued to beat expectations. The shares rose 35% (+0.46% contribution). Augean also overcame the resignation of its CEO to post a 34% gain (+0.44% contribution). After a difficult few years, the business seems to be on a much stronger footing. There were also solid performances from some smaller positions NewRiver Retail which gained 28% as investors began to chase companies with high and covered dividend yields. This Real Estate Investment Trust (REIT) has continued to perform well since the period end and we see further upside from yield compression. Every 0.25% of yield compression should add at least 7% to net asset value (NAV). This ignores additional potential for development profits. There are clear signs that property investors are beginning to target the kinds of shopping centres that NewRiver Retail owns. The small holding in Terrace Hill jumped 52% (+0.20% contribution) while XP Power appreciated 23% (+0.36% contribution) on news that the business is seeing some signs of recovery in its markets. Another company that is seeing some signs of improvement is Empresaria which gained 28% (+0.12% contribution).

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Detractors in the special situation segment in the second half included Spanish Mountain Gold (down 45%, -0.21% contribution) which continued to suffer as junior gold miners remained extremely out of favour. Marwyn Management Partners remained at a deep discount to net asset value as the company continued to look to resolve its cash shortage. The shares fell 37% (-0.31% contribution). A challenging mining backcloth saw Goldplat fall 30% (-0.24% contribution) while project delays and a weak Indian stockmarket saw SKIL Group surrender 28% (-0.34% contribution). The latter's new port project is now underway. Asian Plantations is on target operationally but the shares drifted 17% (-0.30% contribution) as emerging markets lost ground. Others that had a minimal negative impact included OPG Power (down 8%), Parity (down 2%) and London Capital Group (down 13%).

During the second half, the holdings in Avanti Communications and Serco were sold for the reasons given above. BSkyB was sold as its earnings are unlikely to progress in the next two years given the aggressive competition from BT in bidding for content. The holding in Chemring was also sold after a strong rally in the shares. Though the new management team is impressive, the market in which Chemring operates is extremely challenging and we felt the shares had risen too far, too fast. We also sold out of Lonrho in response to an agreed cash bid at a substantial premium. The Fund also took profits on a number of positions after healthy gains. These included NCC Group, Entertainment One, Dialight, Diploma, WYG, Domino's Pizza, CML Microsystems, Trifast and Parity.

The proceeds were reinvested in a number of new investments: marketing services group Communisis, photo booth operator Photo-Me International, oil company Soco, document storage business Restore, support services group Mears, housebuilders Barratt Developments, Bovis, Bellway, Galliford Try and Redrow, paper supplier DS Smith, fund manager Polar Capital, serviced office leader Regus, 3D mapping leader 1Spatial, marketing services group Next 15, retailer Bonmarche and Stanley Gibbons, the stamp specialist.

It is worth touching briefly on some of these companies. Housebuilders have been featuring on our low PEG screens for a while now but recently it has become more prevalent so we decided to establish initial positions in five of the more attractive names. The last time housebuilders featured prominently in our process was between 2000 and 2005 and they proved to be very profitable investments. Photo-Me International offers both attractively priced growth and a high dividend yield, with growth in its core business being supplemented by new products. Restore is a leading player in document storage, a business which offers annuity style revenues and the prospect of very earnings enhancing acquisitions. Communisis is nearing the end of its investment phase that is enabling the business to win very large orders. Regus is a rollout which should also benefit from the improving economic outlook. Mears has a very strong market position following consolidation in its sector. Soco is unusual for an oil company in that it trades on a modest PE multiple, a discount to its asset value and offers a 10% dividend yield. Stanley Gibbons has recently acquired Noble, the coin dealer. We see significant scope for cross marketing and are interested in the company's online strategy, the potential upside of which is not reflected in the share price at all.

Several existing holdings were also increased, notably Quindell.

We believe that the recent additions to the portfolio offer considerable upside. Meanwhile, we are encouraged that most of the portfolio's companies are reporting solid trading progress. Some companies, including some of the portfolio's larger holdings, have started to move after a quiet period and have plenty of scope for further upside. Others have reported progress that is not remotely reflected in their current share prices. We therefore see significant pregnant value in the portfolio.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Distributions

		Year 2014	Year 2013	Year 2012	Year 2011
Class A					
Net income paid 31 January	(acc units)	0.0000ppu	0.2997ppu	0.0000ppu	0.4478ppu
Net income paid 31 July	(acc units)		0.0000ppu	0.0000ppu	0.0000ppu
Class B					
Net income paid 31 January	(acc units)	0.2618ppu	n/a	n/a	n/a
Net income paid 31 July	(acc units)		0.0000ppu		
Class P					
Net income paid 31 January	(acc units)	0.4075ppu	n/a	n/a	n/a
Net income paid 31 July	(acc units)		0.0000ppu		

Slater Investments Ltd
20 January 2014

Material Portfolio Changes

For the year ended 30 November 2013

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Restore	711,041	Hutchison China Meditech	1,262,242
Regus	582,768	Entertainment One	1,181,789
Photo-Me International	573,432	Oxford Instruments	995,898
Mears Group	564,806	Diploma	859,868
Soco International	543,465	Dialight	709,930
Walt Disney	527,782	Chemring Group	667,642
Bovis Homes	289,115	Cape	642,106
Eservglobal	288,960	Domino's Pizza Group	629,610
Next Fifteen Communications Group	288,658	Cathay International Holdings	547,073
Redrow	285,899	British Sky Broadcasting Group	544,978
Galliford Try	285,708	Lonrho	465,741
Barratt Developments	281,138	CML Microsystems	464,361
Smith DS	277,441	WYG	447,627
Bellway	277,063	Fortuna Silver Mines	355,174
Communisis	266,595	Serco Group	342,088
Bonmarche Holdings	256,000	XP Power	313,518
Quindell Portfolio	206,400	Avanti Communications Group	310,126
Hargreaves Services	185,457	British American Tobacco	265,923
Stanley Gibbons Group	164,561	Andor Technology	218,332
1Spatial	147,000	Centrica	203,710
Other purchases	245,320	Other sales	1,226,394
Total purchases for the year	7,248,609	Total sales for the year	12,654,130

TOP TEN HOLDINGS AS AT 30 NOVEMBER 2013	%	TOP TEN HOLDINGS AS AT 30 NOVEMBER 2012	%
Hutchison China Meditech	9.59	Hutchison China Meditech	10.50
Entertainment One	8.23	Entertainment One	8.24
CML Microsystems	4.05	Dialight	4.37
Ocean Wilson Holding	3.70	Oxford Instruments	4.37
Quindell Portfolio	3.30	CML Microsystems	3.94
NCC Group	3.05	Diploma	3.43
Aviation	2.88	Ocean Wilson Holdings	3.33
Photo-Me International	2.83	NCC Group	2.92
Restore	2.83	Domino's Pizza Group	2.83
Parity Group	2.48	Alliance Pharma	2.67

FUND FACTS

Launched Accumulation Units 10 March 2003 at 50p

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

Accounting Dates	(Final)	30 November
	(Interim)	31 May
Distribution Dates	(Final)	31 January
	(Interim)	31 July
Minimum Investment	Class A	£3,000
	Class B	£100,000
	Class P	£1,000,000
IMA Sector		UK All Companies

Ongoing charge figure as at 30 November 2013 Class A 1.59%, Class B 1.08%*, Class P 0.83%*
Ongoing charge figure as at 30 November 2012 Class A 1.58%
*period 31 December 2012 to 30 November 2013

The ongoing charge figure is based on expenses for the year, except as indicated. The ongoing charge figure has been annualised to give a more accurate representation of the true costs over one 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.

Synthetic risk and reward indicator

Lower risk ← → Higher risk

Typically lower rewards Typically higher rewards

1	2	3	4	5	6	7

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

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

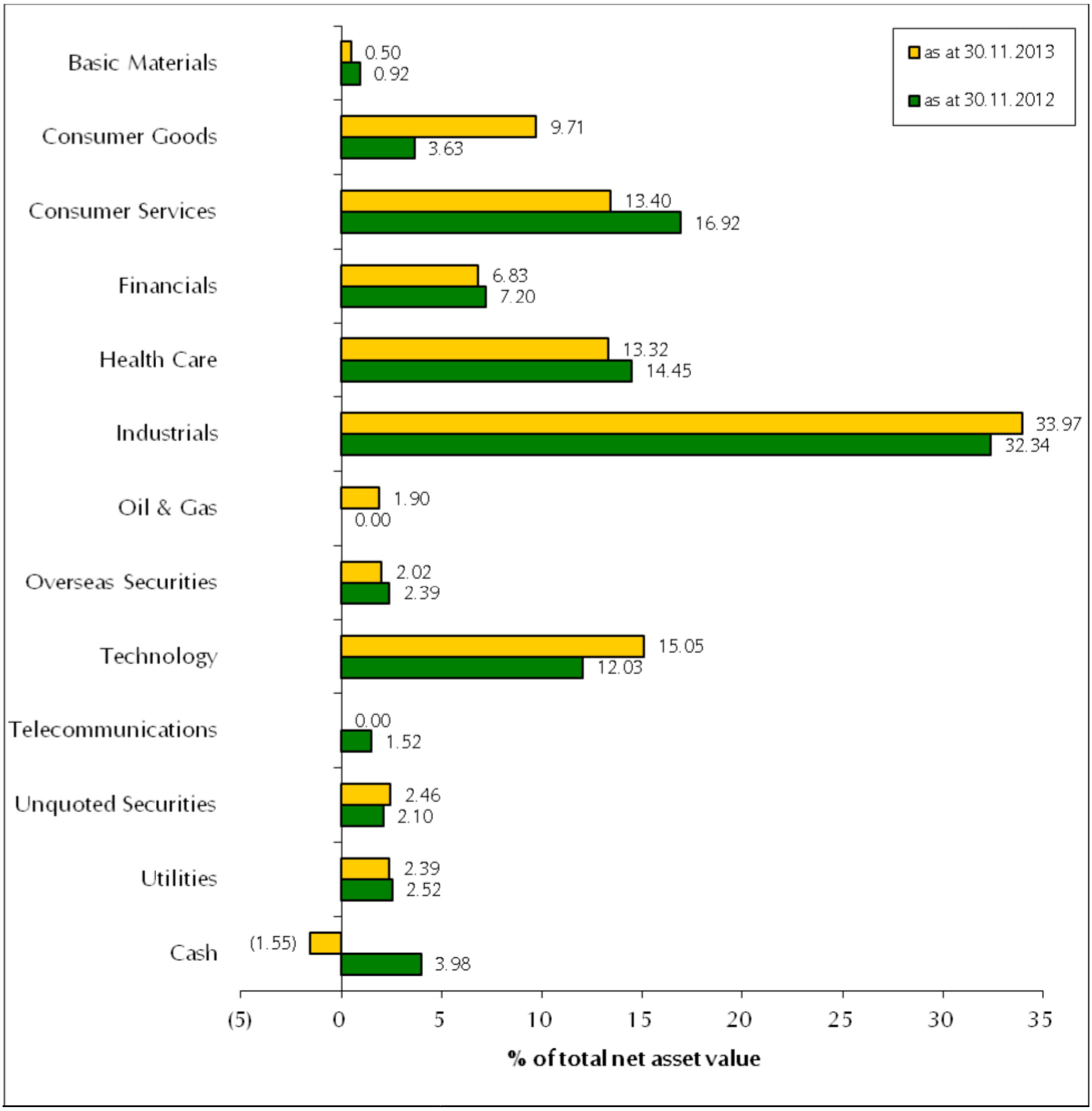
SUMMARY OF FUND PERFORMANCE

Unit Type	Year	Highest Price	Lowest Price	Distribution Per Unit
Class A				
Accumulation	2008	106.78p	55.54p	1.3045p
Accumulation	2009	97.48p	53.80p	0.6205p
Accumulation	2010	135.85p	88.81p	0.4478p
Accumulation	2011	141.60p	107.63p	0.0000p
Accumulation	2012	127.62p	103.36p	0.2997p
Accumulation	2013*	141.98p	110.97p	0.0000p
Class B				
Accumulation	2013*	136.86p	111.90p	0.2618p
Class P				
Accumulation	2013*	137.10p	111.90p	0.4075p

*up to 30 November 2013

	Net Asset Value of Scheme Property	Number of accumulation units in issue	Net Asset Value Per Accumulation Unit
Class A			
30 November 2011	£41,084,937	37,925,597	108.33p
30 November 2012	£29,994,774	27,827,376	107.80p
30 November 2013	£25,887,021	19,745,386	131.10p
Class B			
30 November 2013	£145,674	110,596	131.72p
Class P			
30 November 2013	£2,320,576	1,758,575	131.96p

PORTFOLIO BREAKDOWN



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