

## Investment Objective and Policy

The investment objective of the Fund is to provide a combination of income and capital growth over the medium to long term.

The Fund will achieve this by investing in a diversified portfolio of assets including, but not limited to, transferable securities (including but not limited to shares in property companies), fixed interest securities, units or shares in collective investment schemes (including but not limited to regulated collective investment schemes whose investments include shares in property companies) and money market instruments. The Fund's investment in equities may also include some exposure to overseas markets, although the core focus will be in the UK market. The Investment Manager will invest the Fund on a cautious basis with the intention that the Fund will maintain a low risk and low volatility profile.

Subject to 60 days notice to Shareholders, the Investment Manager may make use of derivatives for investment purposes (gaining both long and short exposure to the underlying assets) and for efficient portfolio management. The ACD does not anticipate that such use of derivatives will have any significant adverse effect on the risk profile of the Fund.

The Fund's Investment powers in relation to derivatives and warrants means that for regulatory purposes it will be regarded as a high volatility fund. However, the Investment Manager's use of derivative techniques and investment in warrants will have the overall intention of reducing the volatility of returns, reflecting the investment policy for the Company generally.

The Fund will aim to provide both capital and income growth. For investors requiring a regular income there is an income share class available, whilst for investors seeking a total capital return, there is an accumulation share class.

## Investment Manager's Report

for the period ended 28 February 2014

The second half of 2013 opened with a wave of forward guidance, as the Bank of England and European Central Bank announced that monetary policy would remain accommodative for an extended period. Later, in the UK there were downward revisions to unemployment and upward revisions to growth contributed to an upbeat Autumn Statement, while the European Central Bank cut rates to new lows and further small steps were taken towards a banking union. Late in the year, Japan passed a new supplementary budget deal ahead of April's VAT hike, while Chinese authorities focused on rebalancing and reform on the back of slower growth. Elsewhere, risks remained in emerging markets (EM), where improvement in the core has not removed the probability of stagflation in some of the larger economies.

However, news flow for the second half of 2013 was largely US-dominated. The continuing reaction to the US Federal Reserve (Fed)'s potential tapering of bond buying pushed global yields relentlessly upwards, with the UK 10-year gilt touching 3.0% during September. Following the Fed's initial delaying in tapering (beyond its assumed start date) the market stabilised as the third quarter drew to a close. US events remained centre stage throughout the fourth quarter, though; October began with political impasse and a government shutdown, while December closed with a new budget deal and the US Federal Reserve's decision to finally begin tapering.

The Fund rose both in absolute terms and ahead of its benchmark over 2013 as a whole. We were also able to produce a healthy income for unitholders.

As yields rose during the third quarter, we took profits on a broad

front, increasing cash in reserve. In particular, credit spreads on insurers had tightened by a couple of hundred basis points over the last year and we judged that there were better opportunities elsewhere, particularly in some of the banks where yields can be still affected by the occasional political grandstanding. UK equities performed very well on a relative basis, beating the index, whilst the global equities lagged somewhat, giving back some of their outperformance from earlier in the year.

Despite the rally following the Fed's tapering delay, investors gradually got round to thinking about the next opportunity for the Fed to scale back its bond buying. November saw a number of stronger economic data releases and the market faced up to the inevitability of tapering, and yields duly rose again. In the run up to Christmas we had further stronger than expected data and in thin markets over the holiday period both UK and US 10-year yields nudged above 3%. Corporations continued to raise new money at lower yields while they could.

Against this backdrop, there was little change to the Fund's broad asset allocation (positive on equities and cautious on bonds) that has been in place (and has worked well) for most of 2013. Equity markets ended the year strongly, some markets posting their best return in over 15 years. Valuations are now broadly in line with historic averages, and as such during 2014 we will be looking for real earnings growth to match the multiple expansion we saw in 2013. Meanwhile, bonds are unlikely to benefit from the gradual yield compression that was such a tailwind even a year ago, meaning that significant returns are unlikely, although the alternative of cash (offering returns below inflation) is particularly unrewarding.

**Sarasin & Partners LLP**

## Fund Facts

### Accounting & distribution dates\*

	Accounting	Distribution
Final	31 August	30 September
Interim	28 February	31 March

\*In addition to the interim and final periods, the Fund makes distributions on the last accounting day of each month, payable on the last business day of the following month.

### Fund performance

Share Class	Net asset value as at 28.02.14 (pence per share)	Net asset value as at 31.08.13 (pence per share)	Net asset value % change
Class A Income	100.25	98.88	1.39
Class A Accumulation	109.22	106.02	3.02
Class B Income	110.11	108.87	1.14
Class B Accumulation	105.68	102.84	2.76

### Net asset values

Year as at 31 August	Class A Income Shares^^		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	201,810	215,722	93.55
2012	1,250,361	1,270,435	98.42
2013	2,338,116	2,364,642	98.88
2014^	2,481,142	2,474,929	100.25

Year as at 31 August	Class A Accumulation Shares		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	252,379	268,603	93.96
2012	2,874,557	2,815,014	102.12
2013	2,346,650	2,213,441	106.02
2014^	2,110,111	1,932,060	109.22

Year as at 31 August	Class B Income Shares		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	2,424,921	2,330,965	104.03
2012	4,790,604	4,398,451	108.92
2013	2,370,070	2,176,877	108.87
2014^	2,160,111	1,961,747	110.11

Year as at 31 August	Class B Accumulation Shares		
	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)
2011	11,648,720	12,641,641	92.15
2012	8,444,771	8,474,473	99.65
2013	2,089,938	2,032,243	102.84
2014^	1,610,397	1,523,899	105.68

^ As at 28 February 2014

^^ Share Class A Income was launched 11 July 2011

## Fund Facts

continued

### Price history & distribution record

The table below shows the highest and lowest prices and the net distribution on a calendar year basis in pence per share for the last five full calendar years. Past performance is not necessarily a guide to the future performance.

Year	Class A Income Shares <sup>^</sup>		
	Highest (pence)	Lowest (pence)	Distribution per share (pence)
2009	N/A	N/A	N/A
2010	N/A	N/A	N/A
2011	100.19	90.55	1.3215
2012	100.25	94.38	2.9982
2013	104.37	97.59	3.3111
2014 <sup>^^</sup>	100.96	99.41	0.5651

Year	Class A Accumulation Shares		
	Highest (pence)	Lowest (pence)	Distribution per share (pence)
2009	92.69	77.56	2.8301
2010	100.42	91.86	3.0827
2011	100.82	91.17	3.7238
2012	104.68	95.71	3.0929
2013	110.72	103.79	3.5181
2014 <sup>^^</sup>	109.59	107.70	0.6129

Year	Class B Income Shares <sup>^^</sup>		
	Highest (pence)	Lowest (pence)	Distribution per share (pence)
2009	109.80	97.29	1.5747
2010	115.36	108.10	3.3109
2011	113.44	100.68	3.7608
2012	110.81	104.78	3.3110
2013	115.09	107.56	3.6423
2014 <sup>^^</sup>	110.95	109.27	0.6209

Year	Class B Accumulation Shares		
	Highest (pence)	Lowest (pence)	Distribution per share (pence)
2009	91.56	76.80	2.4181
2010	98.80	90.64	2.8115
2011	99.05	89.38	3.7026
2012	101.88	93.71	3.0263
2013	107.55	100.77	3.4122
2014 <sup>^^</sup>	106.04	104.29	0.5935

<sup>^</sup> Share Class A Income was launched 11 July 2011

<sup>^^</sup> Share Class B Income was launched 1 June 2009

<sup>^^</sup> As at 28 February 2014

### Ongoing charges

Expense Type	Class A Income Shares %	Class A Accumulation Shares %	Class B Income Shares %	Class B Accumulation Shares %
<b>28 February 2014<sup>^</sup></b>				
ACD's periodic charge	1.00	1.00	1.50	1.50
Other expenses	0.65	0.65	0.65	0.65
Transaction charge	0.02	0.02	0.02	0.02
<b>Ongoing charge</b>	<b>1.67</b>	<b>1.67</b>	<b>2.17</b>	<b>2.17</b>

<sup>^</sup> The ongoing charge is annualised based on the fees incurred during the accounting period.

### Synthetic risk & reward indicator

The risk and reward indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the risk and reward indicator.

Typically lower rewards, lower risk				Typically higher rewards, higher risk		
1	2	3	4	5	6	7

The Fund is classified in the level 4 risk category, this is due to the historical movement of the share price, which reflects the movement in the underlying assets. The lowest risk category does not mean that your investment will be risk free.

### Risk warning

An investment in an Investment Company with Variable Capital should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the revenue from them can fall as well as rise and investors may not received back the full amount invested. Past performance is not a guide to future performance. Investors denominated in currencies other than the base currency are subject of fluctuation in exchange rates, which can be favourable or unfavourable.

## Fund Facts

continued

### Sector classification of investments

All sectors in percentage order are shown below.

Sector	% of Fund as at 28.02.14	Sector	% of Fund as at 31.08.13
Fixed Income	70.05	Fixed Income	67.59
Financials	8.74	Financials	11.29
Industrials	3.84	Industrials	3.88
Oil & Gas	2.64	Consumer Goods	3.07
Basic Materials	2.39	Oil & Gas	2.51
Health Care	2.03	Health Care	2.17
Telecommunications	1.99	Telecommunications	2.06
Consumer Goods	1.74	Basic Materials	1.88
Consumer Services	1.52	Consumer Services	1.87
Utilities	0.86	Technology	1.20
Technology	0.85	Utilities	0.77
Forwards	0.06	Net other assets	1.71
Net other assets	3.29		

### Major Holdings

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

Holding	% of Fund as at 28.02.14	Holding	% of Fund as at 31.08.13
Treasury 4.25% 07.12.2040	7.61	Treasury 4.25% 07.12.2040	6.90
Treasury 4.25% 07.12.2027	5.41	Treasury 4.25% 07.12.2027	4.93
Treasury 3.75% 07.09.2020	4.59	Treasury 3.75% 07.09.2021	4.83
Treasury 3.75% 07.09.2021	4.59	Treasury 3.75% 07.09.2020	4.24
Porterbrook Rail 6.50% 20.10.2020	2.11	Porterbrook Rail 6.50% 20.10.2020	1.94
BK Nederlandse Gemeenten 5.375% 07.06.2021	2.09	BK Nederlandse Gemeenten 5.375% 07.06.2021	1.92
Legal & General 6.385% Variable Perpetual	1.91	GlaxoSmithKline Capital 5.25% 19.12.2033	1.87
Eastern Power Networks 8.50% 31.03.2025	1.65	Tesco Property Finance 5.744% 13.04.2040	1.73
Dignity Finance 8.151% 31.12.2030	1.65	Legal & General 6.385% 02.05.2017	1.70
Royal Bank of Scotland 7.50% 29.04.2024	1.55	Eastern Power Networks 8.50% 31.03.2025	1.53

## General Information

### Buying and selling shares

The ACD will accept orders for the purchase and sale of shares on normal business days between 8.30am and 4.30pm. Instructions to buy or sell shares may either be in writing to:

PO Box 10717, Chelmsford, Essex, CM1 9PQ

Or by telephone to:

0845 0264 289

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

### Report and accounts

This document is a short report of HC Sequel Monthly Income Fund for the period ended 28 February 2014. The full Report and Accounts for the Fund is available free of charge upon written request to Host Capital Limited, 73 New Bond Street, London W1S 1RS

### Other information

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

### Significant information

With effect from 7 October 2013 the Host Capital Caerus Investment Funds were rebranded Host Capital Sequel Investment Funds.

## Directory

### Authorised Corporate Director

Host Capital Limited  
73 New Bond Street, London W1S 1RS  
Telephone: 0207 290 9490  
(Authorised and regulated by the Financial Conduct Authority)

### Investment Manager

Sarasin & Partners LLP  
Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU  
(Authorised and regulated by the Financial Conduct Authority)

### Depository

Citibank International plc  
Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB  
(Authorised and regulated by the Financial Conduct Authority)

### Auditor

Grant Thornton UK LLP  
30 Finsbury Square, London EC2P 2YU

### Fund Accountants, Administrator and Registrar

Phoenix Fund Services (UK) Ltd  
Springfield Lodge  
Colchester Road, Springfield, Chelmsford, Essex CM2 5PW  
(Authorised and Regulated by the Financial Conduct Authority)