



Marlborough UK Primary Opportunities Fund

Short Report

For the period from 1st February 2013 to 31st July 2013

Fund Details

Marlborough UK Primary Opportunities Fund

Registered Office

Marlborough House
59 Chorley New Road
Bolton BL1 4QP

Authorised Corporate Director and Registrar

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

Authorised and regulated by the Financial Conduct Authority

Customer Support: 0808 145 2500 (FREEPHONE)

Depository

HSBC Bank plc
8 Canada Square
London E14 5HQ

Authorised and regulated by the Financial Conduct Authority

Investment Adviser

RC Brown Investment Management PLC
1 The Square
Temple Quay
Bristol
BS1 6DG

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

GENERAL INFORMATION

Investment Objective

The Fund aims to provide you with a total return that is greater than that provided by the FTSE All-Share Index by investing in a concentrated portfolio of companies carefully selected from the full range listed on the London Stock Exchange, or its equivalent successor.

The Fund may invest in derivatives and forward transactions for the purposes of hedging only.

Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the investment objective as summarised above.

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. 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.

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.

Change in Prospectus

No changes have been made since the last report.

Up to date key investor information documents, the full prospectus and manager's reports and accounts for any fund within the manager's range, can be requested by the investor at any time.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 31 July 2013

Percentage change and sector position to 31 July 2013

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>Since launch**</u>
Marlborough UK Primary Opportunities Fund	5.20%	18.46%	11.64%	20.45%	289.89%
FTSE All-Share	8.92%	24.28%	43.37%	53.13%	236.75%
Quartile Ranking*	4	4	4	4	1

The above performance is based on the Class A shares of the fund.

*Based on ranking within UK All Companies Sector.

**5 January 1996

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



Performance to 31 July 2013

Performance in the period was disappointing. Our overweight holdings in relatively defensive sectors such as utilities and food retail were unhelpful in a sharply stronger market. We also suffered from falls in two of our larger holdings, RSA and Aviva, on unexpected dividend cuts. We anticipate this underperformance reversing during the course of the year and are excited by the numerous wholesale market opportunities which are expected to arise in the remainder of 2013 aided by stronger markets and pent up demand for corporate activity.

Market Background

Markets enjoyed a strong period rising 8.9%.

February saw the strong start to 2013 continue as markets hit five year highs as investors continued to favour risk assets. Moody's decision to strip the UK of its AAA rating had little impact whilst Italy's inconclusive elections and lower than expected US GDP growth resulted in only temporary setbacks.

Markets again trended higher in March on strong US payrolls. A €10bn Cypriot bailout and plans for it to impose a levy on deposits over €100,000 again highlighted the ongoing risks of the Eurozone crisis.

Newsflow was largely negative in April with weak US payrolls and lower than expected Chinese growth. Britain also saw its AAA rating stripped by another rating agency. Nevertheless, ample central bank liquidity nudged the markets higher.

May saw markets hit their highest levels since 2000 on news that US employment was at its highest since December 2008. The Bank of England also revised upwards its UK economic outlook for the first time in five years. May was the twelfth consecutive monthly rise in the FTSE – a record.

The buoyancy in the markets ended abruptly in June as the Federal Reserve indicated it would reduce its monthly \$85bn bond buying programme and potentially stop all together in mid 2014. This together with weaker renewed concerns over Chinese growth and its banking system, resulted in a sharp sell off as investors became concerned about the effects and lack of market support that may result from the withdrawal of quantitative easing. Towards the end of the period markets recovered some poise as longer term investors saw the recent setback as a buying opportunity.

In July markets enjoyed a strong rebound aided by dovish comments from a number of the major central banks including the new governor of the Bank of England, Mark Carney. There was also relief that Chinese second quarter GDP figures were no worse than expected.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

The Bank of England held rates at the record low of 0.5%. The new governor has indicated they will stay low for the foreseeable future and until unemployment falls to 7%.

Income

On 31 July 2013, a distribution of 4.5603pps (pence per share) was declared on the A income shares, 5.2961pps on the B income shares and 5.6273pps on the P income shares.

Strategy

Since we launched Primary Opportunities (formerly Quantock) in December 1995 most purchases have been made in primary markets. These consist of companies seeking a new listing (IPO), those undertaking equity fund raisings for restructuring and/or growth opportunities. We also buy secondary shares from large strategic or forced sellers typically at a substantial discount to the price. We also subunderwrite rights issues and buy the rump. The reasoning behind this approach is to buy shares at discount to fair value or the prevailing market price. We will continue to operate this unique investment style. In times of market volatility we are not afraid to increase our cash levels with the aim of buying large FTSE companies in the secondary market on setbacks.

The Portfolio

We participated in a number of placings including St. Modwen Properties, British Land, Severfield- Rowen, Mears and Thomas Cook.

The IPO market came alive again with us participating in Crest Nicholson, Esure and HellermannTyton.

Notable sales included:

- Lloyds 9.25% Pref following exceptional performance since we purchased in the dark days of 2008. We now consider there to be greater gains elsewhere in the sector.
- We reduced large holdings in Sainsbury's, BAE Systems, SSE and United Utilities.
- Indus Gas was sold for a large profit. Newsflow around the stock has dried up and we were concerned over the lack of liquidity in the shares.
- Given a number of wholesale opportunities in the property sector, we sold Safestore and Big Yellow Group so as not to increase our overweight position in the sector further.

Ten Largest Holdings

1. **HSBC 6.55%** - In April 2009 we subunderwrote the rights, took up our rights and added via the rump. We added to the holding on severe market weakness in November 2011 which we partially reduced in April 2012 on strength. We are marginally underweight the Index 6.9%.
2. **Vodafone 5.49%** - The stock provides stability, a rising dividend and exposure to an array of emerging markets. Has proved strong recently on the agreement to sell its 45% stake in Verizon Wireless for \$130bn. We are overweight the Index 4.8%.
3. **BP 5.19%** - We purchased the shares following their sharp fall as a result of the Gulf of Mexico oil spill. Concerns over the rising cost of litigation continue to weigh on the stock. We are overweight the Index 4.3%.
4. **Rio Tinto 3.73%** - The shares were acquired in 2009 as part of a rights issue to reduce debt following a number of acquisitions prior to the credit crunch.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

5. **SAB Miller 3.60%** The shares were purchased in October 2011 at a time of market turbulence for their stability and exposure to emerging markets. They have appreciated over 50%.
6. **Standard Chartered 3.54%** - A long term holding which we increased in December 2008, when all banks were strengthening their balance sheets. It has underperformed other banks recently on concerns over emerging market growth.
7. **Royal Dutch Shell B 3.45%** - The largest constituent of the FTSE 100 providing stability and yield though, like other oil majors, it has underperformed recently. We are underweight the Index 7.1%.
8. **Prudential 3.40%** - A strong long term performer. We have recently reduced the holding given its large weighting in the portfolio and our exposure to other companies in the sector.
9. **Primary Health Properties 2.83%** - We purchased these shares in June 2013 as part of a fund raising to expand its property portfolio. The shares offer an attractive yield in excess of 5%.
10. **J Sainsbury 2.63%** - The shares were purchased from a forced seller during the dark days in October 2008. The Company continues to gain market share in the UK. We recently reduced the holding on strength.

Investment Outlook

Market volatility has increased recently as investors worried about the impact of the Federal Reserve's stated intention to reduce and eventually stop its bond buying programme. The recent bounce and dovish comments from the major central banks that interest rates will remain low for a considerable time, suggest this was a healthy market correction rather than anything more severe.

Despite the concerns over the eventual withdrawal of quantitative easing, signs of stronger growth in the US and UK and a Eurozone whose situation has not worsened, has to be positive for equities over the longer term. Central banks are mindful of the effects of tightening interest rates too early and will want to see signs of a significant recovery in economic activity and inflationary pressures before doing so.

We continue to believe that equity looks reasonable value and should continue to offer a satisfactory return to the long term investor. The yield on cash remains negligible, that on ten year gilts is 2.6% in spite of a sharp rise. UK companies are generally well financed and offer a safe and growing yield of 3.5%.

Distributions

		Year 2013	Year 2012	Year 2011	Year 2010
Class A					
Net income paid 31 March	(inc shares)	2.7767pps	1.0798pps	0.7759pps	0.8899pps
	(acc shares)	3.4852pps	1.3302pps	0.9377pps	1.1888pps
Net income paid 30 September	(inc shares)	4.5603pps	3.7885pps	5.1073pps	1.7400pps
	(acc shares)	5.7791pps	4.6858pps	6.1869pps	2.0897pps
Class B					
Net income paid 31 March	(inc shares)	3.2932pps	1.7649pps	1.5146pps	1.6542pps
	(acc shares)	4.2620pps	2.2298pps	1.8679pps	1.9365pps
Net income paid 30 September	(inc shares)	5.2961pps	4.5247pps	5.9111pps	2.4538pps
	(acc shares)	6.9324pps	5.7543pps	7.3250pps	3.0002pps

MARLBOROUGH UK PRIMARY OPPORTUNITIES FUND

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Distributions (continued)

Class P

Net income paid 31 March	(inc shares)	2.9600pps	N/A	N/A	N/A
	(acc shares)	N/A	N/A	N/A	N/A
Net income paid 30 September	(inc shares)	5.6273pps	N/A	N/A	N/A
	(acc shares)	5.6273pps	N/A	N/A	N/A

Class C (ISA)

Net income paid 31 March	(inc shares)	N/A	N/A	N/A	0.7571pps
	(acc shares)	N/A	N/A	N/A	0.9630pps
Net income paid 30 September	(inc shares)	N/A	N/A	N/A	N/A
	(acc shares)	N/A	N/A	N/A	N/A

Bob Brown - R C Brown Investment Management PLC
Investment Manager
2 September 2013

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Material Portfolio Changes

For the six month period ended 31 July 2013

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Savills	301,189	Lloyds TSB Group 9.25% Prf	771,120
Primary Health Properties	298,217	Indus Gas	448,218
Intu	244,498	Savills	328,125
Thomas Cook Group	240,573	RSA Insurance Group	319,725
British Land Company	219,707	United Utilities Group	270,645
BTG	170,924	Intu	258,568
Esure Group	167,814	Barclays 14% 15/06/19	255,705
Unite Group	167,376	Safestore Holdings	211,298
St Modwen Properties	159,287	St Modwen Properties	188,299
Moneysupermarket.com Group	156,490	Sainsbury (J)	171,672
Hargreave Services	148,366	SSE	169,489
Hellermannntyton Group	143,524	Centrica	152,157
Carphone Warehouse Group	141,756	Lonmin	138,130
Firstgroup	138,887	Aviva	120,902
Mears Group	121,213	BAE Systems	116,635
St James's Place	116,813	Vodafone Group	113,604
Crest Nicholson Holdings	115,788	Prudential	106,486
Unilever	106,160	Velti	98,480
Brewin Dolphin Holdings	105,000	BP	96,115
G4S	99,704	National Grid	82,383
Other purchases	298,062	Other sales	407,792
Total purchases for the period	3,661,348	Total sales for the period	4,825,548

MARLBOROUGH UK PRIMARY OPPORTUNITIES FUND

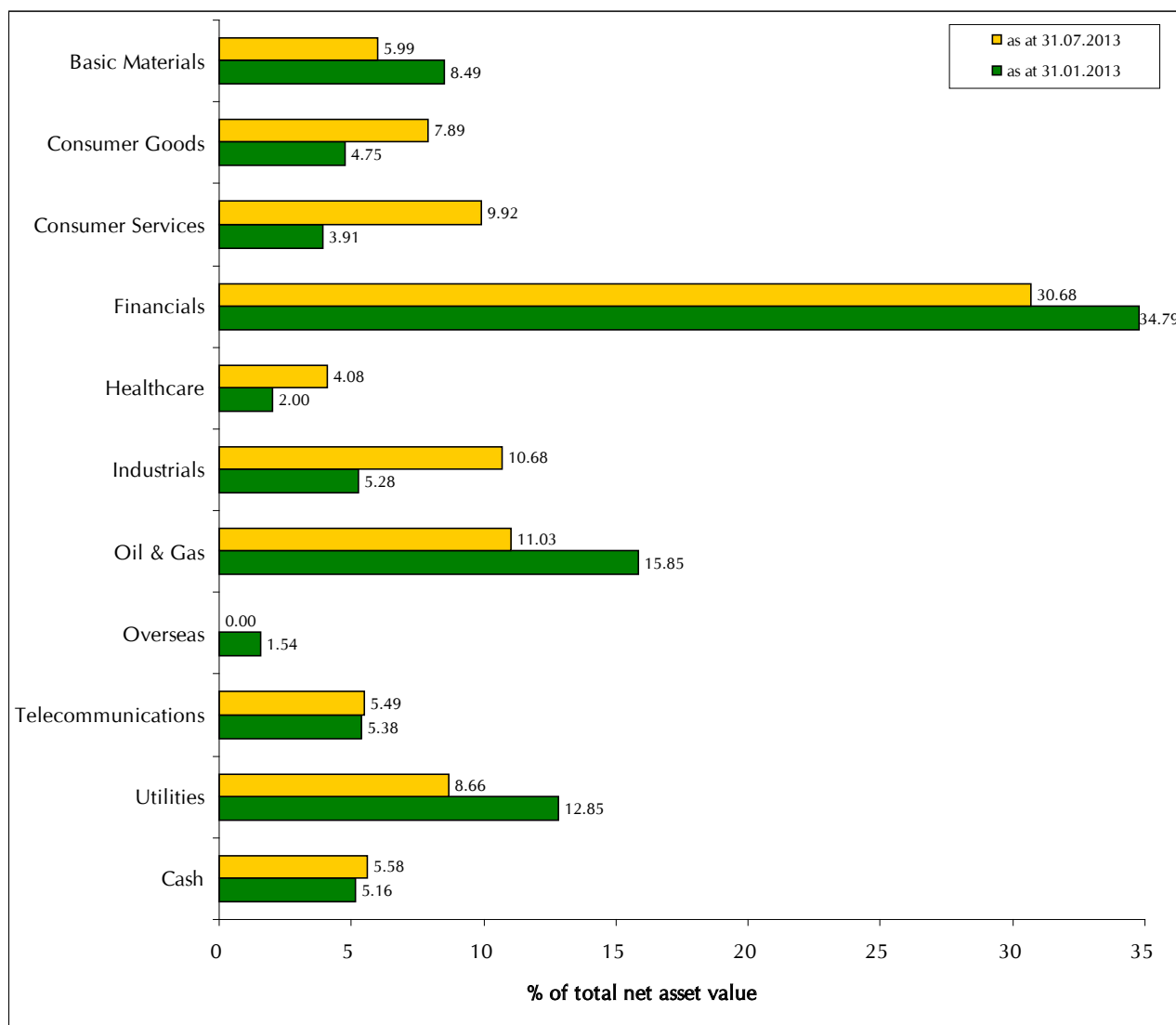
TOP TEN HOLDINGS AS AT 31 JULY 2013

	%
HSBC Holdings	6.55
Vodafone Group	5.49
BP	5.19
Rio Tinto	3.73
SABMiller	3.60
Standard Chartered	3.54
Royal Dutch Shell 'B'	3.45
Prudential	3.40
Primary Health Properties	2.83
Sainsbury (J)	2.63

TOP TEN HOLDINGS AS AT 31 JANUARY 2013

	%
HSBC Holdings	6.61
Lloyds TSB Group 9.25% Non-Cum Pref	6.20
BP	5.88
Vodafone	5.38
Rio Tinto	4.22
Barclays 14% Step-Up Call Perp	4.11
United Utilities	4.09
RSA Insurance Group	3.96
Indus Gas	3.82
Standard Chartered	3.65

PORTFOLIO BREAKDOWN



MARLBOROUGH UK PRIMARY OPPORTUNITIES FUND

FUND FACTS

Launched Income and Accumulation Shares 5 January 1996 at 100p
On 31 December 2012 Class P shares became available for purchase

Accounting Dates (Final) 31 January
(Interim) 31 July

Distribution Dates (Final) 31 March
(Interim) 30 September

Minimum Investment Class A £1,000 Class B £25,000 Class P £1,000,000

IMA Sector UK All Companies

Ongoing Charge Figure as at: 31 July 2013 Class A 1.63%, Class B 1.13%, Class P 0.87% **
31 January 2013 Class A 1.64%, Class B 1.12%, Class P 0.76% *

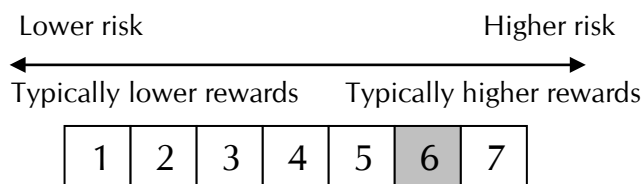
* 31 December 2012 to 31 January 2013

** 31 December 2012 to 31 July 2013

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

Synthetics 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 6 because it has experienced high volatility historically.

MARLBOROUGH UK PRIMARY OPPORTUNITIES FUND

SUMMARIES OF FUND PERFORMANCE

Calendar Year	Share Class	Share Type	Highest Price	Lowest Price	Distribution Per Share
2008	Class A	Income	319.08p	158.42p	2.2349p
2009	Class A	Income	266.08p	153.19p	5.4411p
2010†	Class A	Income	311.92p	254.82p	2.6299p
2011	Class A	Income	324.47p	239.78p	5.8832p
2012	Class A	Income	290.83p	247.71p	4.8683p
2013*	Class A	Income	306.94p	281.89p	7.3370p
2008	Class A	Accumulation	368.26p	184.06p	2.5712p
2009	Class A	Accumulation	318.30p	180.16p	6.3614p
2010†	Class A	Accumulation	376.92p	306.04p	3.2785p
2011	Class A	Accumulation	392.81p	295.39p	7.1246p
2012	Class A	Accumulation	359.72p	306.39p	6.0160p
2013*	Class A	Accumulation	388.98p	354.88p	9.2643p
2008	Class B	Income	320.40p	159.10p	3.8108p
2009	Class B	Income	267.15p	153.59p	6.4570p
2010	Class B	Income	313.38p	255.99p	4.1080p
2011	Class B	Income	325.41p	240.56p	7.4257p
2012	Class B	Income	291.46p	248.54p	6.2896p
2013*	Class B	Income	307.91p	282.96p	8.5893p
2008	Class B	Accumulation	383.73p	192.33p	4.5450p
2009	Class B	Accumulation	324.73p	183.21p	7.5911p
2010	Class B	Accumulation	386.49p	313.00p	4.9367p
2011	Class B	Accumulation	402.99p	303.94p	9.1929p
2012	Class B	Accumulation	370.67p	316.07p	7.9841p
2013*	Class B	Accumulation	403.05p	367.06p	11.1944p
2013*	Class P	Income	307.56p	282.71p	8.5873p
2013*	Class P	Accumulation	305.56p	282.71p	5.6273p

*up to 31 July 2013 †Class C (ISA) shares were converted to Class A shares on 30 June 2010.

Date	Share Class	Net Asset Value	Net Asset Value Per Share	
			Income	Accumulation
31 January 2011	Class A	£10,711,990	313.50p	379.77p
31 January 2011	Class B	£8,684,862	313.50p	388.50p
31 January 2012	Class A	£8,519,262	267.77p	331.20p
31 January 2012	Class B	£7,750,568	268.18p	341.07p
31 January 2013	Class A	£6,873,041	287.22p	364.00p
31 January 2013	Class B	£5,234,063	287.73p	376.64p
31 January 2013	Class P	£1,005	287.23p	-
31 July 2013	Class A	£6,310,347	298.23p	383.72p
31 July 2013	Class B	£5,044,832	298.75p	397.99p
31 July 2013	Class P	£33,411	298.20p	303.83p

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

Customer

Support: 0808 145 2500

Intermediary

Support: 0808 145 2502

Dealing: 0808 145 2501

Fax: 01204 533045

Email: enquiries@marlboroughfunds.com

Website: www.marlboroughfunds.com

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Registered in England No. 2061177
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