MFM Slater Recovery Fund

Short Report

For the period from 1st December 2012 to 31st May 2013

Slater Investments Ltd

MARLBOROUGH
Fund Managers Limited

Fund Details
MFM Slater Recovery Fund

Manager and Registrar

Marlborough Fund Managers Ltd
Marlborough House
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Bolton BL1 4QP

Customer Support: (0808) 145 2500 FREEPHONE

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Trustee

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London
E14 5HQ

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Investment Adviser

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Auditors

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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.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 31 May 2013

Percentage change and sector position to 31 May 2013

	Six months	1 year	3 years	5 years	Since launch**
MFM Slater Recovery Fund	9.24%	8.99%	26.09%	28.82%	149.78%
Quartile Ranking*	4	4	4	3	3

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

The finalisation of a new rescue package for Greece meant that the UK stockmarket started December strongly. Political wrangling in the US ahead of the "fiscal cliff" led to some jitters towards the end of December but a temporary resolution to the problem, deferral, and a barrage of upbeat global economic data helped push Eurozone concerns firmly into the background. The bizarre and inconclusive outcome of the Italian general election, which would have triggered a major correction a year earlier, was shrugged off within two days. Similarly, the crisis in Cyprus, resulting in bank depositors bailing out banks, only led to a small pull-back in mid-March. The very positive tone in equity markets led to significant flows of investor cash out of deposits and into stocks which continued through to mid-May.

The strongly bullish tone went sharply into reverse on 22nd May when the Federal Reserve laid out its roadmap to "tapering" QE – the UK stockmarket fell, bond yields jumped and emerging debt and equity markets were hit especially hard. The Fed's plan is clearly dependent on strong economic data. Investors are now assuming that the Fed will reduce its bond buying in the next few months and will cease altogether midway through 2014. This is a few months earlier than investors had previously assumed but the main reasons for the negative reaction were that prices had gone up in a straight line for many months and investors were beginning to forget that QE had to end one day.

The Fund's lack of cyclical and financial stocks meant that it lagged the main indices during the first half of the financial year – such stocks continued to perform exceptionally well but rarely meet our share selection criteria. However, it was encouraging to see a wide range of the Fund's holdings start to perform better after a very quiet period in the previous financial year. This was overdue and we see scope for more as many of the Fund's investee companies are delivering excellent operational progress which is not yet reflected properly in their share prices.

For example, the Fund's two largest holdings made significant operational progress in the previous six months but their share prices started to move in the first half of the current financial year. Shares in Entertainment One rose 20% (+1.72% contribution). The acquisition of Alliance Films was approved by Canada's anti-trust authorities in January and management has since confirmed strong fourth quarter trading with final results slightly ahead of forecasts and a strong start to the new financial year. The integration of Alliance is ahead of schedule and we envisage synergies substantially ahead of market forecasts. The company's transfer to the Premium list of the London Stock Exchange should see it entering the Mid 250 index in the fourth quarter which will create significant index buying. Meanwhile, the business is attractively priced on less than 10 times earnings with 15% plus earnings growth in prospect for several years. Meanwhile, Hutchison China MediTech gained 24% (+2.39% contribution). Final results confirmed that its Chinese healthcare division made reasonable progress last year, growing net profits by 11%. With raw material prices normalising, the company expects growth rates to rise back up towards 20% in the coming years. Investors are also becoming increasingly aware of the value that has been created in the drug R&D division following validation from Nestle and AstraZeneca. A crude read across based on a recent piece of research by Morgan Stanley would value the five drugs in phases 1 and 2 in the portfolio at $450m – equivalent to more than the entire market capitalisation of the group. This ignores the rest of the drug portfolio, including one drug in phase 3 trials. We believe that the healthcare business is worth more than the market capitalisation too so we expect further upside.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Dialight and Domino's Pizza were two other laggards that started to move. Dialight gained 19% (+0.91% contribution) following preliminary results confirming 32% growth in continuing earnings. The fast-growing industrial lighting division (40% of group sales) added 73% to its top line and has doubled its sales force which bodes well for next year. We expect to see profits more than double in the next three years though this could prove to be conservative. Domino's Pizza (up 40%, +0.75% contribution) announced full year profits 14% ahead (excluding German and Swiss start up losses). First quarter trading was also stronger than forecast. The early signs are that the expansion into Germany is working well.

CML Microsystems continued to perform, putting on 15% (+0.55% contribution) following an upbeat pre-closing statement in May. June's year-end figures showed pre-tax profits growing 28% and a fast-rising net cash balance. Diploma gained 11% (+0.53% contribution) after May's solid interim results. Alliance Pharma appreciated 16% (+0.45% contribution). Oxford Instruments continued to perform well, rising 24% (+0.93% contribution) following reassuring trading updates in February and April. Post the period end, Oxford's shares slipped back after a preliminary results statement which referred to a slow start to the new financial year. We do not see this as a change in the long term growth trend – month to month changes of this kind are normal for the company. Oxford is very well-placed to ride the nanotechnology wave with leading market positions – revenue growth of 10-20% per annum should be feasible as nanotechnology is used in a wider range of products and industries. There is also scope for margins to rise from 14% to nearer 20% in the medium term.

Other growth companies that produced reasonable contributions to returns included Advanced Medical Solutions (up 12%, +0.17% contribution), British American Tobacco (up 10%, +0.17% contribution), Hargreave Services (up 15%, +0.26% contribution), Serco (up 12%, +0.14% contribution), Centrica (up 17%, +0.26% contribution) and Weir Group (up 23%, +0.28% contribution).

A number of growth companies suffered reverses. NCC Group fell 21% (-0.72% contribution) after stating that "a number of small, unrelated factors have held back the Group's overall rate of expected growth." This prompted 3-4% forecast downgrades. The problems were mainly to do with personnel issues and the integration of acquisitions. It was encouraging to hear management confirm that everything is again on track in a meeting following the full year results in early July. The shares have also rebounded. Avation fell 27% (-0.51% contribution) after a discounted 1 for 10 share issue to finance growth. However, earnings rose 22% at the interim stage and, on a PE of 9, the company's growth prospects are not reflected in the share price. Quindell Portfolio's shares fell 48% (-1.46% contribution) having rocketed last year. Despite continuing to win many impressive contracts, investors baulked at the number of acquisitions the company is making and worried about high levels of debtors. Management has since taken steps to explain its cash conversion and acquisition strategy to investors, resulting in a surge in the share price since the end of May. CSF Group made a very disappointing announcement that two large tenants of its data centres want to negotiate early breaks. This has prompted a strategic review. The shares fell 58% (-0.67% contribution). The company has a very strong cash position and some valuable assets. Finally, Cupid, an online dating business, cost the Fund -1.04% in terms of contribution. Investigative journalists began reporting that the company lures people to its websites under false pretences. Though the company strenuously denied the allegations, the share price was hit extremely hard. We decided to exit the position owing to the risk that the company's growth prospects have been seriously undermined.

Laggards which had minimal impact included Andor Technology (down 10%), Augean (up 5%), BSkyB (up 3%), Lonrho (up 9% after receiving a cash bid) and Ocean Wilsons (up 7%).

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Several special situation positions made healthy contributions to returns. Parity rose 53% (+1.04% contribution) after a poor 2012. Management confirmed that the turnaround plan was nearly complete, with a move into solid profit. The first acquisition is exceeding expectations and the board moved to the second stage of their plan, raising £7m of cash with a view to completing several other deals. Cape rebounded 41% (+0.68% contribution) after falling last year. Final results confirmed that no new issues had emerged. As expected, there was a slew of provisions and write downs but the generous dividend was held and management expressed optimism about 2013 and in particular about 2014. XP Power gained 25% (+0.39% contribution). First quarter numbers were fairly flat but second quarter results (released at the beginning of July) flagged improvement. All Leisure jumped 48% (+0.61% contribution). Despite challenges in the cruising market following the Costa Concordia debacle and the cancellation of a cruise charter, last year's Page & Moy acquisition has traded very strongly and enabled the group to report solid results.

OPG Power (up 44%, +0.53% contribution) is trading in line with its ambitious expansion plan that should see a 200% addition to capacity translate into EBITDA 5.5 times higher in three years. The business is well-placed to benefit from India's chronic power shortages. Trifast gained 29% (+0.37% contribution) as the new management team is successfully turning the business around. June's full year results showed pre-tax profits 45% ahead on an 8% increase in revenues. WYG's turnaround is also progressing well. June's final results beat expectations in relation to earnings, profits and cash and flagged up current year profits coming in 10% higher than forecast. The shares rose 32% (+0.45% contribution). Genagro gained 13% (+0.84% contribution) following a capital repayment and an upwards revaluation of its farm land holdings. These shares are being retained as the company remains private though it is moving towards a listing on the Brazilian stock exchange. Elsewhere, Chemring put on 15% (+0.27% contribution), Terrace Hill gained 103% (+0.20% contribution) while new position Eserveglobal contributed +0.22% to returns.

Two special situation investments performed poorly. Spanish Mountain Gold continued to suffer from the falling gold price and extreme aversion on the part of investors towards junior mining companies. The shares fell 68% (-0.86% contribution). Marwyn Management Partners fell 36% (-0.42% contribution). The company is cash poor but asset rich, with net asset value representing a multiple of the current share price.

Other laggards, which had a minimal impact, included City of London Investment Group (up 2%), London Capital (up 3%), New River Retail (up 9%) and SKIL Group (up 2%).

During the first six months of the financial year, profits were taken on WYG, Oxford Instruments, Domino's Pizza, Andor Technology, CML Microsystems, Diploma, Entertainment One and Hutchinson China, the last two for risk control purposes as the position sizes reached limits. The entire holdings in Cupid and Fortuna Silver were sold. The proceeds were invested in additions to existing holdings in Parity, Hargreave Services, Marwyn Management Partners and Avation (taking up rights) and buying two new positions – Walt Disney and Eserveglobal.

It is not uncommon for our investment style to lag in markets which favour cyclicals and financials, only to move ahead later. In addition, we can identify a great deal of pregnant value in the portfolio. We are encouraged that most of the portfolio's companies are reporting solid trading progress but as many of them, including some of the portfolio's larger holdings, have only recently started to move, we believe they remain at an early stage in the re-rating process and that there is much further to go.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Distributions

Class A		**Year 2013**	**Year 2012**	**Year 2011**	**Year 2010**
Net income paid 31 January	(acc units)	0.2997ppu	0.0000ppu	0.4478ppu	0.6205ppu
Net income paid 31 July	(acc units)	0.0000ppu	0.0000ppu	0.0000ppu	0.0000ppu
Class B					
Net income paid 31 January	(acc units)	n/a	n/a	n/a	n/a
Net income paid 31 July	(acc units)	0.0000ppu			
Class P					
Net income paid 31 January	(acc units)	n/a	n/a	n/a	n/a
Net income paid 31 July	(acc units)	0.0000ppu			

Slater Investments Ltd
10 July 2013

Material Portfolio Changes

For the six month period ended 31 May 2013

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Walt Disney	395,754	Hutchison China Meditech	1,240,878
Eservglobal	288,960	Oxford Instruments	738,870
Hargreaves Services	144,331	Diploma	664,610
Avation	31,068	Cathay International Holdings	547,073
Marwyn Management Partners	29,089	Entertainment One	421,284
Parity Group	20,000	Domino's Pizza Group	358,747
		Fortuna Silver Mines	355,174
		Cape	323,198
		CML Microsystems	305,658
		WYG	274,430
		British American Tobacco	265,923
		Dialight	243,460
		Chemring Group	200,389
		Alliance Pharma	198,961
		Cupid	179,334
		Andor Technology	159,937
		Advanced Medical Solutions Group	153,297
		Weir Group	149,765
		British Sky Broadcasting Group	127,588
		XP Power	115,487
		Other sales	315,377
Total purchases for the period	909,202	Total sales for the period	7,339,440

MFM SLATER RECOVERY FUND

TOP TEN HOLDINGS AS AT 31 MAY 2013

	%
Hutchison China Meditech	9.44
Entertainment One	9.43
Dialight	4.82
Ocean Wilson Holding	4.05
CML Microsystems	3.82
Oxford Instruments	3.02
Parity Group	2.82
Genagro	2.81
Alliance Pharma	2.71
NCC Group	2.52

TOP TEN HOLDINGS AS AT 30 NOVEMBER 2012

	%
Hutchison China Meditech	10.50
Entertainment One	8.24
Dialight	4.37
Oxford Instruments	4.37
CML Microsystems	3.94
Diploma	3.43
Ocean Wilson Holdings	3.33
NCC Group	2.92
Domino's Pizza Group	2.83
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 31 May 2013 Class A 1.59%, Class B 1.07%, Class P 0.82%
Ongoing charge figure as at 30 November 2012 Class A 1.58%

The ongoing charge figure is based on expenses for the year, except Class B and P, where the expenses are for the period 31 December 2012 to 31 May 2013 and 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*	129.54p	110.97p	0.0000p
Class B				
Accumulation	2013*	126.07p	111.90p	0.0000p
Class P				
Accumulation	2013*	126.07p	111.90p	0.0000p

*up to 31 May 2013

	Net Asset Value of Scheme Property	Number of accumulation units in issue	Net Asset Value Per Accumulation Unit
Class A			
30 November 2010	£45,855,057	37,754,716	121.46p
30 November 2011	£41,084,937	37,925,597	108.33p
30 November 2012	£29,994,774	27,827,376	107.80p
31 May 2013	£26,455,161	22,450,094	117.84p
Class B			
31 May 2013	£130,627	110,596	118.11p
Class P			
31 May 2013	£19,959	16,886	118.20p

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