CF Miton Diversified Growth Fund

a sub-fund of CF Miton Investment Funds 2

ACD's Interim Unaudited Short Report

for the half year ended 15 July 2013

Investment Objective and Policy

The investment objective of CF Miton Diversified Growth Fund ('the Fund') is to achieve long-term capital growth by investing in a balanced and well diversified portfolio of UK and international equities, and fixed interest securities including government and corporate bonds. Investments will also be made in regulated collective investment schemes, money markets and cash deposits to provide further diversification to the Fund in accordance with applicable regulations.

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, foreign currency 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.

Accounting and Distribution Dates

	Accounting	Distribution
Interim	15 July	15 September
Final	15 January	15 March

Ongoing Charges Figure

Expense Type	15.07.13 %			15.01.13 %		
	'A'	'B'	'N'	'A'	'B'	'N'
ACD's periodic charge	1.40	0.75	1.00	1.40	0.75	1.00
Other expenses	0.08	0.08	0.08	0.07	0.07	0.07
	1.48	0.83	1.08	1.47	0.82	1.07
Collective investment scheme costs	0.47	0.47	0.47	0.50	0.50	0.50
Ongoing charges figure	1.95	1.30	1.55	1.97	1.32	1.57

Synthetic Risk and Reward Indicator

Typically lower rewards						Typically higher rewards
Lower risk						Higher risk
1	2	3	4	**5**	6	7

This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 5 because its volatility has been measured as above average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of the Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

Distributions

Share Class	Interim 15.07.13 pence per share
'A' Accumulation	1.3862
'B' Accumulation	1.1953
'N' Accumulation	0.9024

Performance Record

'A' Accumulation shares

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2008	176.95	108.16	3.2446
2009	151.50	100.25	2.5434
2010	172.53	147.02	2.3835
2011	178.76	154.97	1.0426
2012	178.59	162.58	1.7273
2013*	200.96	179.43	2.3877

'B' Accumulation shares

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2012#	103.68	95.20	0.5320
2013*	116.94	104.17	1.8101

'N' Accumulation shares

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2012#	103.50	95.15	0.3680
2013*	116.52	104.00	1.4904

From 26 March 2012.
* To 15 July 2013.

Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
15.01.11	'A' Accumulation	316,785,008	183,515,865	172.62
15.01.12	'A' Accumulation	225,571,213	137,571,411	163.97
15.01.13	'A' Accumulation	187,009,219	102,092,420	183.18
	'B' Accumulation	1,148,522	1,079,822	106.36
	'N' Accumulation	265	250	106.16
15.07.13	'A' Accumulation	172,285,560	87,226,953	197.51
	'B' Accumulation	2,702,213	2,348,561	115.06
	'N' Accumulation	28,855	25,178	114.60

Fund Performance to 15 July 2013 (%)

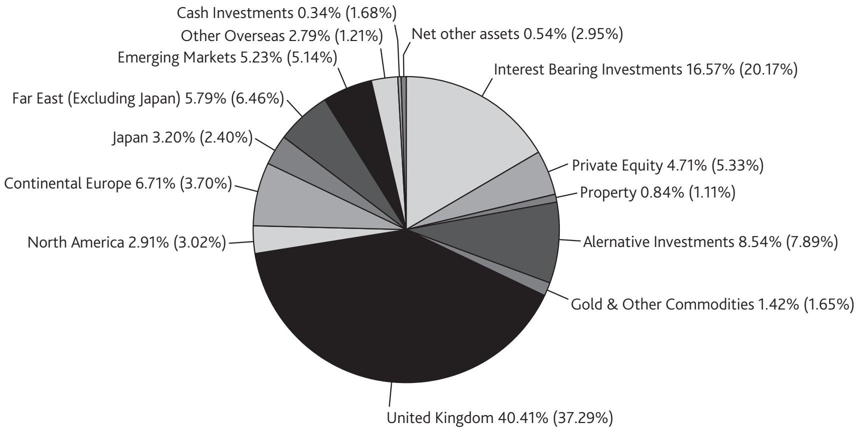
	6 months	1 year	3 years	5 years
CF Miton Diversified Growth Fund	7.49	16.62	27.53	37.21

The performance of the Fund is based on the published price per 'A' Accumulation share which includes reinvested income.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



The figures in brackets show allocations at 15 January 2013.

Major Holdings

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

Holding	% of Fund as at 15.07.13	Holding	% of Fund as at 15.01.13
AJ Bell Holdings	3.58	AJ Bell Holdings	3.33
JPMorgan 0% 2013 (linked to the DJ EuroSTOXX 50)	1.91	Royal London Sterling Extra Yield Bond	2.43
Royal London Short Duration Global High Yield Bond	1.71	Muzinich Short Duration High Yield	1.94
TwentyFour Income	1.66	PFS TwentyFour Dynamic Bond	1.87
M&G Global Macro Bond	1.63	New Capital Wealthy Nations Bond	1.80
Halley Asian Prosperity	1.63	Experian	1.78
Royal London Sterling Extra Yield Bond	1.62	Invesco Perpectual Global Financial Capital	1.72
Old Mutual	1.62	Prusik Invest Asian Equity Income	1.71
River and Mercantile World Recovery	1.60	JPMorgan 0% 2013 (linked to the DJ EuroSTOXX 50)	1.69
Standard Chartered	1.58	Invesco GBP Select	1.68

INVESTMENT MANAGER'S REPORT

for the half year ended 15 July 2013

Philosophy

We aim to increase the wealth of our clients by accumulating capital through the investment cycle, without taking undue risk. In order to achieve this we adopt a highly liquid multi-asset approach that reduces downside risk via diversification, but at the same time increases the opportunity set from which we can generate capital gains.

Tactical asset allocation within pre-defined asset allocation ranges allows us to dynamically tilt the portfolio towards those asset classes offering the most attractive risk reward characteristics in the prevailing economic environment.

We combine this top-down approach with fundamental bottom-up analysis in order to generate alpha and use both our asset allocation and investment selection to express our view of those secular trends that will shape the world that we live in, including urbanisation, consumerism and strong global population growth in a world of finite commodity supply.

Quite simply, we believe that tactical asset allocation, thematic investing and superior investment selection should drive out-performance and deliver attractive returns for our clients over the cycle.

- Tactical asset allocation
- Thematic investing
- Superior investment selection
- Strong risk-adjusted returns

Performance

	6 months	1 year	3 years	5 years	10 years
CF Miton Diversified Growth Fund 'A' Acc	7.5%	16.6%	27.5%	37.2%	110.8%
IMA Mixed Investment 40-85% Shares[2]	8.8%	18.3%	28.9%	39.4%	99.4%

Source: Financial Miton Capital/Financial Express.
Note: The figures quoted are to 15 July 2013.

The Fund delivered a healthy 7.5%[1] return over the 6 months to 15 July 2013, whilst the multi-asset construct served to dampen volatility during more turbulent times. UK equities contributed the most to performance, as a result of strong stock selection, together with an overweight position that was adopted towards the end of 2012. Thomas Cook Group was the best performing individual holding, followed by Marks & Spencer Group. An investment was made in both companies in recognition that new management and strategies to improve business performance were likely to be successful. We also felt that both companies were placed to benefit from an improving outlook for the UK consumer. As such, both investments were made as part of one of our four investment strategies adopted within UK equities – 'management turnaround'.

In terms of Overseas Equities, all equity regions contributed positively to performance, especially Japanese equities. All exposure to Japanese equities is deliberately hedged back to sterling so that weakness in the Japanese yen doesn't detract from performance. The Fund's Asian and Emerging Market managers also performed exceptionally well in an environment where regional benchmark indices struggled to make any headway.

Performance *(continued)*
As expected following a marked tightening in credit spreads last year, returns from Fixed Interest were relatively muted, but still reasonable. Strength in the Singapore dollar and US dollar helped to boost returns, as did strong performance from a new investment - the TwentyFour Income Fund that provides exposure to European asset backed securities.

Returns within the Fund's Alternative Assets were mixed. Private Equity contributed positively as a result of healthy dividends from the Fund's largest holding, AJ Bell Holdings and as a consequence of strong net asset value ('NAV') performance by HG Capital Trust, supported by significant share price gains. Property also contributed positively as Asian real estate rose in value, whilst Commodities and 'Other Alternative Assets' detracted. Despite having a reasonably good run last year in a difficult market, Hedge Funds struggled to deliver any meaningful performance in the first half.

Two new investments, both closed end vehicles, one specialising in aircraft leasing (Doric Nimrod Air Three) and the other in global reinsurance (Blue Capital Global Reinsurance) performed well, as did the Fund's position in an ETF that benefits from falling industrial metal prices. The Fund's hedging instruments also helped to reduce Fund NAV volatility and provide a degree of mitigation in the face of drawdowns. By the end of the period and in light of the improving investor outlook, all hedging instruments had been exited.

Overview
Over the last few years we have been explaining to investors how we now find ourselves in an increasingly policy led environment. It was as evident during the period as at any other time that policy makers were having a significant influence on asset price determination. In a bold quest to finally defeat deflation in Japan, aggressive policy action by the newly elected premier Abe propelled the Japanese equity market to as high as 74% above its recent lows. Later in the period, remarks by the Federal Reserve ('the Fed') Chairman Ben Bernanke with respect to an eventual tapering of Quantitative Easing asset purchases sent government bond markets into a tail-spin.

Indeed, it was Ben Bernanke's comments that derailed what was proving to be a very strong period for asset markets in general and caused a temporary revival in fears relating to the eurozone crisis. Italian and Spanish government bond yields rose markedly, as did those core government bond markets such as the US, UK and Germany.

This market adjustment removed an element of froth that had crept into equity and credit markets, we believed that the initial market reaction to Bernanke's comments were overdone and consequently judged the ensuing market weakness as an opportunity to further increase the Fund's equity exposure. This has subsequently meant that the Fund is overweight equities at the end of the interim period with an allocation of 67.0%; 8.0% higher than at the beginning of the period. Commensurately, the Fund is now underweight Fixed Interest, with an allocation of 16.6%; 3.6% lower than at the start of the period. Cash balances have also been reduced, whilst the Fund's weighting to Alternative Assets is little changed.

Although the US economy is recovering and ostensibly in better shape than most other advanced economies, the recovery is nevertheless relatively modest and there exists very little in the way of inflationary pressures. As such, we believe that monetary policy both in the US and around the globe will remain loose and continue to support risk assets through financial repression.

There will come a time when such a monetary stance isn't appropriate and at that stage its withdrawal could well have a profoundly negative impact on equity markets, as well as other risk assets such as credit markets, but we do not believe that we are at that stage yet.

Portfolio Activity

Fund Asset Structure at 15 July 2013

Investment	Fund %	Core Allocation[3] %
Equities		
UK	40.4	30.0
North America	2.9	6.0
Europe	6.7	6.0
Japan	3.2	3.0
Emerging Markets	5.2	6.0
Far East (ex Japan)	5.8	6.0
Other Overseas	2.8	3.0
Total Equities	67.0	60.0
Interest Bearing Investments	16.6	20.0
Alternative Assets	8.5	7.5
Private Equity	4.7	5.0
Commodities	1.4	2.5
Property	0.9	2.5
Cash and Net Other Assets	0.9	2.5
Total	100.0	100.0

[3] *Source: Miton Capital.*

UK Equities (40.41%)
Towards the end of 2012 we were increasingly confident that the UK equity market was on the verge of breaking out to the upside. The reasoning was as much technical as fundamental. Having been range bound for many years, but sequentially making higher lows in each correction, there was evidently significant upward pressure on the market. Combined with this technical pressure, we felt that actions taken by the European Central Bank, European Commission and the Fed had also significantly reduced systemic risk, fundamentally supporting equity markets moving higher. We are pleased to report that the UK equity portfolio subsequently performed strongly and helped drive the advancement in the Fund's NAV.

As a reminder, our UK equity themes are companies that offer either "deep value", are consistent "economic earners", or are in transition under new management that is likely to unlock shareholder value. New UK equity investments spanned all of these potential sources of alpha.

UK Equities (40.41%) *(continued)*

New 'deep value' investments included Debenhams and National Express Group. The Fund exited its previous position in Debenhams towards the end of last year, having achieved a return of almost 35% on the initial investment. However, post exiting the position, the shares de-rated after the company warned that profits would be below short term estimates. We felt that the share price reaction was overdone and were able to reinstate the position at similar levels to which it had been initiated previously, despite profits and the dividend having grown since then. The company is highly cash generative, has a strong balance sheet and a credible medium-term plan under relatively new management to improve shareholder returns, including substantial cash returns via both dividends and share buybacks. National Express Group operates bus and coach contracts both in the UK and abroad, which includes the US where the provision of bus travel is increasingly being privatised and consequently should serve as an engine of growth for the business. The market appeared to be ignoring the fact that the prospects for the business were improving, as demonstrated by the 5% plus yield the shares were trading at the time of purchase.

Two new "themed" UK equity investments included FTSE 100 stock WPP and lesser well known Alent. WPP is one of the world's largest media companies, deriving a significant proportion of its earnings from fast growing emerging markets. We felt that the valuation didn't fairly reflect the potential growth of the business; especially should global economic conditions improve. Alent enjoys large market share for its speciality solder products and materials that are used in fast growing markets such as smart phones, tablets and auto electronics which are benefitting from emerging market and Asian consumerism. The business is asset light and highly cash generative, but little known by the market having only recently demerged from Cookson.

We consider both InterContinental Hotels Group and Shire Pharmaceuticals as two companies that are 'economic earners'. InterContinental Hotels Group is one of the world's largest international hotel operators. Over the last several years the company has been selling its real estate assets and moving towards an asset light, franchised business model, with capital proceeds from asset sales being distributed to shareholders via share buybacks and special dividends. All of this has led to significantly improved returns on invested capital and strong cash generation. The company is well placed to benefit from recovering room rates and from its significant pipeline of new hotels. With respect to Shire Pharmaceuticals, we believe that the business still has the potential to deliver consistently high returns on invested capital through successful innovation in markets with high barriers to entry. The firm's small molecule medications within the therapeutic areas of behavioural health have been highly successful in the US and the company is working hard to make them as successful in Europe. At the same time, margins are exceptionally high in the rare diseases market and regenerative medicine (stem cells) is an exciting new venture for the business.

In addition to both Thomas Cook Group and Marks & Spencer Group mentioned previously, Xchanging is another example of a company in transition with new management at the helm. The business process outsourcing company is being refocused back to its core strengths, whilst management are driving growth through innovation of proprietary technologies, as well as expansion in fast growing overseas markets such as Asia and emerging markets.

Whilst some of the new investments were funded from cash balances and reducing the Fund's fixed interest weighting, several of the Fund's successful investments from last year were exited having performed very strongly. These included Senior, Howden Joinery Group, Dixons Retail and TalkTalk Telecom Group.

Overseas Equities (26.63%)

At the end of the period, the Fund remained underweight overseas equities, despite several significant new investments being made. This underweight positioning (at 26.6% compared to a core allocation of 30%) is more than offset by an overweight position in UK equities, leaving the Fund overweight equities as a whole, standing at 67.0%.

By geography, the Fund is underweight US equities, whilst also being modestly underweight Asian and emerging market equities. Whilst the US economy is ostensibly in better shape than many other developed economies, investors have to pay for this by way of much higher valuations. New investments have been within emerging markets, such as the JP Morgan Emerging Market Small Cap fund and Renaissance Select Eastern European fund. Recent weakness in emerging markets has unlocked value in the asset class which is generally unloved at present amongst global investors. A new investment was also made within Asian equities, in the form of the Halley Asian Prosperity fund which provides exposure to a favoured theme – burgeoning Asian consumption. We believe that the fund's relatively small size should enable it to out-perform competitor funds. It should be more nimble and focuses on investee companies at the smaller end of the market capitalization scale that have strong growth prospects, deliver high returns on equity, but trade on low valuations.

The Fund is close to its core allocation with respect to Japanese equities whilst being overweight European equities, where our active managers have been significantly outperforming the benchmark index[2]. European equities remain one of the lowest valued equity markets in the world and as such we sought to increase exposure via two new investments – F&C European Small Cap fund and Invesco Perpetual European Equity Income fund. Whilst Japanese equities have had a very strong run and valuations have increased as a result, Premier Abe's '3 arrows' are undoubtedly supportive of corporate Japan.

With respect to other new overseas equity positions, an investment was made in the River and Mercantile World Recovery fund, managed by Hugh Sergeant, who has an impressive track record when it comes to deep value investing.

Fixed Interest (16.57%)

Several holdings were exited so as to fund new equity investments. Furthermore, the interest rate sensitivity of the portfolio was pre-emptively reduced after credit spreads had tightened earlier in the year. The latter move benefitted performance towards the end of the interim period, when initial hawkish remarks by Ben Bernanke pushed interest rates higher across the yield curve.

Following a long period of significant yield compression and strength in the Singapore dollar, the New Capital Wealthy Nations Bond fund was exited. The fund had performed particularly well since initial investment over two years ago. However, future returns are likely to be much more muted and we have been deliberately reducing the Fund's foreign currency exposure as the outlook for the UK economy and thus sterling improves. The Nordea 1 Norwegian Bond fund was also exited on a similar basis.

Other exits included M&G UK Inflation Linked Corporate Bond fund and two zero dividend preference shares, the yields of which had compressed materially. By way of example, the F&C Private Equity zdp was originally purchased with a yield of 8.75%, but was yielding just 4% at the point of exit, producing a capital gain of over 43%.

Fixed Interest (16.57%) *(continued)*

Although the Fund's overall fixed interest exposure was reduced over the period, several new investments were still made. These included the JP Morgan Global Convertible Bond fund, M&G Global Macro Bond fund, Royal London Short Duration Global High Yield Bond fund and Wells Fargo Lux Worldwide US Short Term High Yield Bond fund. The latter two investments were made in order to reduce the interest rate sensitivity of the portfolio and replaced the higher duration Baillie Gifford High Yield Bond fund and Wells Fargo Lux Worldwide US High Yield Bond fund.

The JP Morgan Convertible Bond fund was a new launch that we felt would be complementary to the existing fixed interest holdings in the Fund. Similar to the short duration funds, convertible bonds display very little in the way of interest rate sensitivity. We felt that the 5% yield on the convertible bond portfolio combined with the potential for significant capital growth was highly attractive.

Alternative Assets (8.54%)

As a reminder, Alternative Assets includes hedge funds, hedging instruments and 'Other Alternatives'. Reflecting our relatively bullish view on expected future returns, the Fund enters the second half of the year with no hedging instruments, except for an ETF that benefits from falling industrial metal prices. There was no change within the makeup of the hedge fund portfolio. Whilst merger arbitrage performed exceptionally well, this was largely offset by weak performance by the Fund's risk parity and managed futures strategy.

Three new investments were made within what we categorise as 'Other Alternatives'. Namely, Doric Nimrod Air Three, Blue Capital Global Reinsurance fund and an ETF that benefits from weakness in the Japanese yen against the US dollar. Doric Nimrod Air Three provides the Fund with exposure to a high single digit income stream from aircraft leasing as well as the potential for capital growth, whilst the Blue Capital Global Reinsurance fund provides exposure to attractive double digit yields that are on offer from the provision of catastrophe reinsurance.

Private Equity (4.71%)

We are pleased to report that AJ Bell Holdings (the Fund's only direct private equity holding) delivered solid results during the period, while continuing to provide a healthy dividend yield of over 4%.

HG Capital was exited, having delivered a solid 20% return over the previous twelve months. The Fund's weighting to private equity therefore fell over the period, although some additional money was committed to Better Capital, which has pleasingly extended its mandate to include Irish investments in a joint venture with the National Pensions Reserve Fund of Ireland.

Commodities (1.42%)

The recent rout in the gold market has left gold mining equities trading at an historically wide discount relative to the yellow metal's prevailing market price. Whilst we are not necessarily bullish on the price of gold per se, we feel that there is more than sufficient risk premium on offer to warrant exposure to the companies that 'dig the stuff out of the ground'. As such, post the gold mining sector's de-rating, an investment was made, in an ETF that provides diversified exposure to gold mining companies. The ETF is highly liquid and cost efficient.

Property (0.84%)

The Fund's sole property investment remains a fund providing exposure to Asian Real Estate Investment Trusts which are benefitting from low global interest rates, strong economic growth in the region and producing attractive income streams.

Outlook

The Fund has entered the second half of the year overweight equities, underweight fixed interest as well as cash and with a neutral weighting to alternative assets.

Tail risks appear to have fallen as a result of firm policy action and we believe that equities offer the best risk adjusted returns as a result. The outlooks for the businesses in which we are invested, both directly and indirectly through our overseas equity managers are positive and recent weakness in equity markets has provided nothing more than an opportunity to increase the Fund's exposure to these.

Following the announcement by the Fed regarding the 'tapering' of asset purchases, the market's initial digestion phase has unsurprisingly been volatile. However, once interest rate expectations have reset, equity and credit markets are likely to calm and we expect attractive returns to ensue. We would also suggest that given the modest economic recovery relative to history and the lack of inflationary pressures, monetary policy around the globe will likely remain relatively loose and continue to support risk assets through financial repression.

[1] *Source of data: FE Analytics*.

[2] *The Investment Manager has used the IMA Mixed Investment 40-85% Shares Index for comparison. As per the Prospectus no benchmark is required*.

Miton Capital Partners Limited
Investment Manager
2 August 2013

Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm and transactions will be effected at prices determined by the following valuation. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 606 6182. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Reports and Accounts

This document is a short report of the CF Miton Diversified Growth Fund for the half year ended 15 July 2013. The full Report and Accounts for the Fund is available free of charge upon written request to Capita Financial Managers Limited, Ibex House, 42 – 47 Minories, London EC3N 1DX and can be found on our website, www.capitafinancial.com, by following the link 'Fund Information'.

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 half year it covers and the results of those activities at the end of the half year.

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