MFM Slater OEIC

Short Report

For the period from 1st May 2013 to 31st October 2013

Marlborough Fund Managers Limited

Fund Details
MFM Slater OEIC

Registered Office
Marlborough House
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Bolton BL1 4QP

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Bolton BL1 4QP

Customer Support: (0808) 145 2500 FREEPHONE

Authorised and regulated by the Financial Conduct Authority

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Auditors
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Carlyle House
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GENERAL INFORMATION

Investment Objective

The investment objective of the Fund is to produce an attractive and increasing level of income while additionally seeking long term capital growth by investing predominantly in the shares of UK listed companies across the full range of market capitalisations, including those listed on the Alternative Investment Market (AIM). From time to time the Fund may also hold the shares of companies listed overseas as well as cash, money market instruments, the units of collective investment schemes, bonds and warrants as permitted by the rules applicable to UCITS schemes and the Prospectus. It is intended that the assets of the Fund will be managed so that it is eligible for quotation in the Investment Management Association's UK Equity Income sector. The Fund has powers to borrow as specified in the FCA Collective Investment Schemes Sourcebook and may use derivatives for hedging and efficient portfolio management purposes only.

Risk Profile

The principal risk the Fund faces through the holding of financial instruments is market price risk. The Fund aims to reduce its risk through a diversified portfolio of investments. Liquidity risk is reviewed monthly by the Authorised Corporate Director (ACD). The ACD does not consider that the Fund has significant exposure to credit risk or interest rate 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. The Fund may use derivatives to protect the value of the Fund's assets or to reduce the cost of investing, although this may not be achieved. It is not anticipated that the use of derivatives will have any significant effect on the risk profile of the Fund. To ensure that the principal objective of providing an above average and subsequently increasing level of income can be met, the annual management charge is deducted from capital rather than income. Future capital growth may be constrained as a result.

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.

Change in Prospectus

No changes have been made since the last report.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 31 October 2013

Percentage change and sector position to 31 October 2013

	Six months	1 year	Since launch**
MFM Slater Income Fund	17.46%	34.26%	56.84%
Quartile Ranking*	1	1	1

*Based on ranking within UK Equity Income Sector
**19 September 2011
External Source of Economic Data: Morningstar (mid to mid, net income reinvested)

Despite regular reminders about sluggish conditions in Europe and slowing growth in China, 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 when the Federal Reserve laid out its roadmap to “tapering” Quantitative Easing (QE) – the UK stockmarket fell 8% from its 22nd May highpoint by 30th June, 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.

It is worth recapping the Fund’s objective and the way in which the portfolio has been invested. The Fund aims to provide investors with at least 110% of the FTSE All-Share’s average dividend yield. The index currently yields 3.52%, making our target 3.87%. The Fund’s equity investments are currently yielding 4.18%, with 4.67% in prospect in twelve months. The dividends paid during the financial year are set out on page 4.

The MFM Slater Income Fund invests across the market cap spectrum in companies that offer the prospect of attractive and growing dividends as well as capital growth upside. With 90% of the high yield universe outside the FTSE 100, we see no logic in restricting ourselves to large cap high yielders as many income funds choose to do. So long as we can achieve reasonable aggregate liquidity, we prefer to invest on the basis of value, not size. At the period end, the portfolio was 26.93% invested in FTSE 100 companies, 32.96% in the Mid 250, 22.59% in the Small Cap index, 1.60% in Fledgling companies, 11.67% in AIM companies, 2.73% in other categories including overseas companies and 1.52% in cash.

In earlier reports we have explained that the portfolio is broadly divided into three categories: growth companies with attractive yields; dividend stalwarts with earnings pointing upwards; and high yielders with more cyclical upside whose earnings have at least reached a degree of stability. The first and third categories performed particularly strongly with the stalwart “bucket” producing relatively lacklustre returns. This report will examine each category in turn.

The first category, growth companies with attractive yields, extended the excellent returns achieved in the previous reporting period. These businesses are typically growing their earnings at an above average rate and often boast attractive PEG (Price / Earnings Growth) ratios as well. Their earnings growth rates are steady and reliable as opposed to dynamic, usually in the 8-12% per annum range.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

The standout growth company performers in the first half included mail order and internet retailer N Brown which gained 18% (+0.60% contribution). New management is likely to accelerate the company's internet-driven growth. Arbuthnot, the private bank, saw its shares put on a further 23% (+0.45% contribution). The company, and its listed subsidiary Secure Trust, is well-placed to gain market share in areas of lending abandoned by other players as a result of the financial crisis. Photo-Me International, a new holding during the period, was the largest contributor to returns, contributing +1.12%. We expect more earnings upgrades as the core photo booth business continues to expand and as the company's laundry business is rolled out. Meanwhile, a reasonable ordinary dividend is likely to be supplemented by a matching special dividend giving a yield of over 5% based on the price at the period end. Bloomsbury Publishing continues to impress – the shares appreciated 51% (+0.56% contribution) – thanks to good progress in moving into publishing academic and professional titles. Cineworld and Motivcom contributed +0.79% and +0.66% respectively after share price rises of 29% and 44%.

Other impressive performers amongst the Fund's growth company investments in the first half included John Menzies (up 13%, +0.40% contribution) and 4Imprint (up 26%, +0.32% contribution). Contributions in the region of +0.15% to +0.60% were generated by Conviviality, IG Group, Paypoint, Soco and S&U.

Two companies disappointed in the growth category. Moneysupermarket fell when Google started to make more aggressive efforts to enter the price comparison market. The position was sold, producing a -0.15% loss for the first half. Garden supplies business William Sinclair continued to struggle with the impact of poor weather and production problems. The shares fell 22% (-0.19% contribution).

The second category, dividend stalwarts, was less profitable than the other two categories during the period. Nonetheless, some companies in this group did well. Kcom gained 19% (+0.42% contribution) and Phoenix Group put on 23% (+0.40% contribution). Vodafone appreciated 14% (+0.35% contribution) as the sale of its US operations finally become a reality. Restructuring boosted Vivendi which gained 8% (+0.24% contribution). New holding Legal & General contributed +0.33%. Meanwhile, the Fund's REITs produced solid returns – Hansteen Holdings rose 22% (+0.27% contribution) while NewRiver Retail and McKay Securities each put on 25% and 33%, contributing +0.52% and +0.35% respectively.

While there were no major disappointments from this category of companies, several contributed negative returns between -0.02% and -0.19% including Londonmetric Properties, Royal Dutch Shell, Restaurant Group, Centrica and HSBC. Others broke even for the period – BHP Billiton, Aberdeen Asset Management and National Grid. Sainsbury managed a modest 4% return. The relatively lacklustre performance from this category detracted from returns given the opportunities available elsewhere though these companies made healthy contributions to the Fund's income generation and, owing to their liquidity and substantial market capitalisations, provide a degree of stability to the portfolio.

The third category saw many companies making meaningful gains. These high yielding companies have more cyclical upside potential with the important caveat that we believe their earnings have reached a degree of stability. These are not aggressive recovery plays. Instead, they are solid businesses that offer the prospect of significant earnings growth when the tide turns and a healthy yield while we wait.

Construction, fit out or support services-related businesses performed particularly well as trading conditions improved. Galliford Try gained 16% (+0.52% contribution) while ISG put on 99% (+0.92% contribution), Interserve gained 30% (+0.96% contribution), Kier Group rose 54% (+0.58% contribution), Balfour Beatty rose 32% (+0.41% contribution), Costain gained 3% (+0.11% contribution) and Morgan Sindall appreciated 37% (+0.51% contribution). In all cases, we believe that valuations remain reasonable given recovery trends and trading prospects.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Solid gains were also generated by other businesses operating in a wide range of industries. Media companies Centaur and UTV contributed +0.30% and +0.25%, transport operators First Group, Go-Ahead and Stobart contributed between +0.20% and +0.25%. Recruiters Harvey Nash and Hydrogen gained 20% and 12% respectively, contributing between +0.20% and +0.27%. Braemar Shipping is beginning to see some improvement in its markets and the shares rose 39% (+0.42% contribution). BAE Systems continues to generate solid returns, rising 21% (+0.57% contribution). Insolvency practitioner Begbies Traynor gained 10% (+0.14% contribution) while printer and marketing services group Communisis rose 16% (+0.17% contribution).

During the first six months the Fund added to its investments in a range of companies, including Go-Ahead, Hydrogen, S&U, Town Centre, Phoenix Group, AstraZeneca, Braemar Shipping, Vivendi, Sainsbury, Segro, British American Tobacco, Imperial Tobacco, Haynes Publishing, Motivcom, GlaxoSmithKline and Marstons.

A wide range of new investments were also established, including Photo-Me International, Legal & General, First Group, Laura Ashley, Plus 500, Conviviality, Rio Tinto and BHP Billiton, Stobart, Amino Technologies, HSBC, ACM Shipping, Primary Health Properties, UTV Media, Soco, Polar Capital and Chesnara.

Three of these holdings were sold relatively quickly – Plus 500, Conviviality and Primary Health Properties. Seven other companies were also sold in their entirety – William Hill, BSkyB, Moneysupermarket, Londonmetric Properties, De La Rue, Cape and Redhall.

Partial profits were also taken on BAE Systems, Cineworld, Morgan Sindall, N Brown, John Menzies and Paypoint after strong price rises.

Despite the rise in the stockmarket, we remain convinced that well-chosen equities are the best source of an attractive yield coupled with the prospect of capital growth and some degree of inflation protection. We believe the Fund is well-placed and like the balance provided by its spread of growth companies, solid cyclicals and dividend stalwarts. We are also encouraged that we are still able to find plenty of attractive situations to replace those companies where we have decided to take profits.

Distributions		**Year 2013**	**Year 2012**
Class A	Net income paid 31 March	0.9279pps	1.4053pps
	Net income paid 30 June	1.3677pps	1.2475pps
	Net income paid 30 September	1.5660pps	1.4052pps
	Net income paid 31 December	1.7934pps	1.4134pps
Class B	Net income paid 31 March	0.9329pps	1.4057pps
	Net income paid 30 June	1.3798pps	1.2504pps
	Net income paid 30 September	1.5782pps	1.4095pps
	Net income paid 31 December	1.7980pps	1.4198pps
Class P	Net income paid 31 March	0.9200pps	
	Net income paid 30 June	1.3654pps	
	Net income paid 30 September	1.5714pps	
	Net income paid 31 December	1.7944pps	

Slater Investments Limited.
5 December 2013

TOP TEN HOLDINGS AS AT 31 OCTOBER 2013

	%
Interserve	3.32
Galliford Try	3.11
Photo-Me International	3.05
GlaxoSmithKline	3.04
Soco International	2.74
Menzies (John)	2.26
Aberdeen Asset Management	2.25
Marston's	2.13
Legal & General Group	2.10
Brown (N) Group	2.07

TOP TEN HOLDINGS AS AT 30 APRIL 2013

	%
BAE Systems	3.56
GlaxoSmithKline	3.54
Galliford Try	3.36
William Hill	3.35
Interserve	3.25
Brown (N) Group	3.22
Aberdeen Asset Management	2.91
Menzies (John)	2.61
Inmersat	2.49
Cineworld Group	2.39

Material Portfolio Changes

For the six month period ended 31 October 2013

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Soco International	1,033,821	William Hill	1,158,565
Photo-Me International	910,068	Restauraunt Group	756,401
HSBC Holdings	812,343	BAE Systems	580,057
Legal and General Group	761,637	Moneysupermarket.com Group	546,220
RSA Insurance	757,911	British Sky Broadcasting Group	534,317
Go-Ahead Group	568,301	Chemring	496,027
FirstGroup	521,319	RPC Group	488,994
Imperial Tobacco Group	493,382	Paypoint	391,696
Chesnara	418,941	Brown (N) Group	365,647
UTV Media	392,471	Primary Health Properties	359,373
Stobart Group	389,645	Cineworld Group	351,250
S & U	389,493	Londonmetric Property	350,500
Primary Health Properties	346,500	Conviviality	296,553
British American Tobacco	335,642	De La Rue	293,935
Motivcom	279,298	Cape	291,264
Hydrogen Group	230,010	Morgan Sindall Group	274,351
Plus 500	219,998	Greggs	247,014
BHP Billiton	206,528	Plus 500	242,413
Man Group	201,753	All Leisure Group	122,541
Conviviality	200,000	Soco International 'B'	113,169
Other purchases	3,162,005	Other sales	72,346
Total purchases for the period	12,631,066	Total sales for the period	8,332,633

FUND FACTS

Launched Income Shares		19 September 2011 at 100p

Class P became available for purchase on 31 December 2012.

Accounting Dates	(Final)	30 April
	(Interim)	30 July
	(Interim)	31 October
	(Interim)	31 January
Distribution Dates	(Final)	30 June
	(Interim)	30 September
	(Interim)	31 December
	(Interim)	31 March
Minimum Investment	Class A	£1,000
	Class B	£100,000
	Class P	£1,000,000
IMA Sector		UK Equity Income

Ongoing Charge Figure as at 31 October 2013	Class A 1.58%	Class B 1.08%	Class P 0.84%**
Ongoing Charge Figure as at 30 April 2013	Class A 1.56%	Class B 1.06%	Class P 0.83%*

* period 31 December 2012 to 30 April 2013
** period 31 December 2012 to 31 October 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. 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.

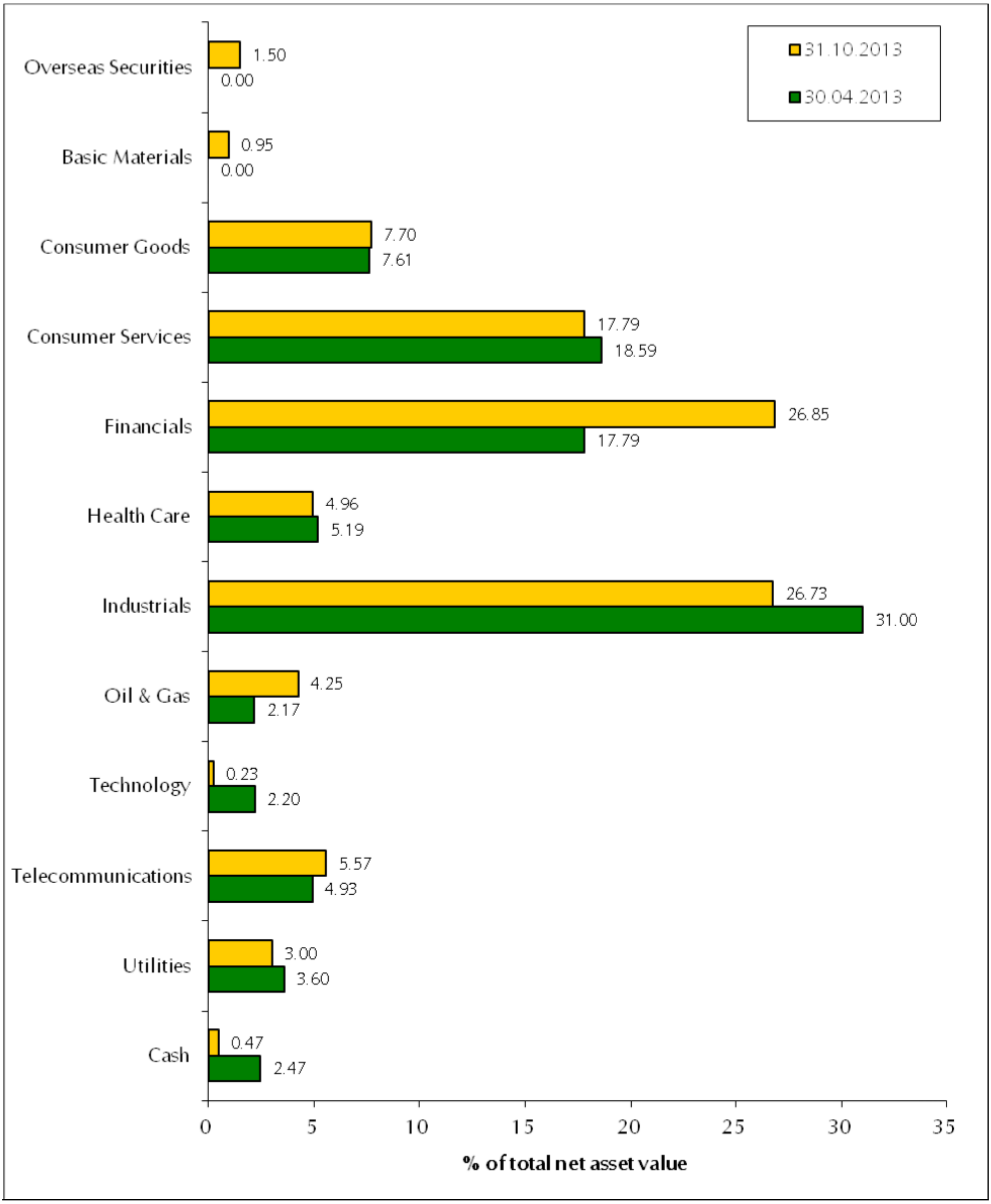
SUMMARY OF FUND PERFORMANCE

Share Type	Year	Highest Price	Lowest Price	Distribution Per Share
Class A				
Income	2011	104.31p	97.30p	-
Income	2012	112.52p	100.68p	5.4714p
Income	2013*	145.12p	113.00p	5.6550p
Class B				
Income	2011	104.34p	97.36p	-
Income	2012	113.06p	100.99p	5.4854p
Income	2013*	146.55p	113.64p	5.6889p
Class P				
Income	2013*	146.05p	113.00p	5.6512p

*up to 31 October 2013

		Net Asset Value of Fund	Income shares in issue	Net Asset Value Per Income Share
30 April 2012	Class A	£2,301,363	2,183,514	105.40p
30 April 2012	Class B	£9,057,145	8,569,218	105.69p
30 April 2013	Class A	£4,269,447	3,441,729	124.05p
30 April 2013	Class B	£28,108,088	22,494,602	124.95p
30 April 2013	Class P	£54,778	44,038	124.39p
31 October 2013	Class A	£6,485,411	4,550,887	142.51p
31 October 2013	Class B	£31,438,788	21,918,445	143.44p
31 October 2013	Class P	£3,487,815	2,437,901	143.07p

PORTFOLIO BREAKDOWN



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