

Morgan Stanley  
Funds (UK)

**Semi-Annual  
Report (Unaudited)**

31st March 2013

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## About Morgan Stanley Funds (UK)

Morgan Stanley Funds (UK) (the “Company”) is an investment company with variable capital (“ICVC”), also known as Open Ended Investment Company (“OEIC”). The Company is incorporated in England and Wales, and is authorised by the Financial Conduct Authority. The Company currently consists of three sub-funds (“Funds”), each with a different investment objective.

# About Morgan Stanley and Morgan Stanley Investment Management Limited

Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. The firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 1,200 offices in 43 countries.

Morgan Stanley Investment Management Limited, a division of Morgan Stanley Investment Management, offers one of the industry's broadest product selections, with investment strategies covering all major markets, asset classes and investment styles. It manages a full range of equities and fixed income investments in developed and emerging markets and products are offered through a variety of investment vehicles designed to meet client's differing needs.

21st May 2013

# Directory

## REGISTERED OFFICE

25 Cabot Square  
Canary Wharf  
London  
E14 4QA  
United Kingdom

## AUTHORISED CORPORATE DIRECTOR

**Morgan Stanley Investment Management (ACD) Limited**  
25 Cabot Square  
Canary Wharf  
London  
E14 4QA  
United Kingdom  
Authorised and regulated by The Financial Conduct Authority

## DEALING OFFICE

**International Financial Data Services Limited**  
PO Box 9025  
Chelmsford  
CM99 2WE  
United Kingdom  
Phone 0800 328 1571

## INVESTMENT MANAGER

**Morgan Stanley Investment Management Limited**  
25 Cabot Square  
Canary Wharf  
London  
E14 4QA  
United Kingdom  
Authorised and regulated by The Financial Conduct Authority

## ADMINISTRATOR

**State Street Bank and Trust Company**  
20 Churchill Place  
London  
E14 5HJ  
United Kingdom

## DEPOSITARY

**State Street Trustees Limited**  
525 Ferry Road  
Edinburgh  
EH5 2AW  
United Kingdom  
Authorised and regulated by The Financial Conduct Authority

## INDEPENDENT AUDITORS

**Ernst & Young LLP**  
Ten George Street  
Edinburgh  
EH2 2DZ  
United Kingdom

## LEGAL ADVISERS

**Eversheds LLP**  
One Wood Street  
London  
EC2V 7WS  
United Kingdom

# Report of the Authorised Corporate Director of Morgan Stanley Funds (UK)

For the period ended 31st March 2013

The Authorised Corporate Director (“ACD”) of Morgan Stanley Funds (UK) (the “Company”) is Morgan Stanley Investment Management (ACD) Limited. The ACD is the sole director of the Company. The Depositary is State Street Trustees Limited and the Independent Auditors are Ernst & Young LLP.

The Company is an authorised open-ended investment company with variable capital under Regulation 12 (Authorisation) of the OEIC regulations and the shareholders are not liable for the debts of the Company. The Company is structured as an umbrella company with each underlying sub-fund (“Fund”) having the investment powers equivalent to those of a securities company. In the future, there may be other Funds within the Company. As each Fund is not a legal entity, if the assets attributable to any Fund were insufficient to meet the liabilities attributable to it, the shortfall might have to be met out of the assets attributable to one or more other Funds of the Company.

The investment objective of each Fund, the Company’s policy for pursuing that objective and a review of each Fund’s investment activities for the relevant year are set out in the individual fund reviews contained in this Annual Report and Financial Statements.

## STATEMENT OF AUTHORISED CORPORATE DIRECTOR’S RESPONSIBILITIES

These semi-annual financial statements have been prepared by the ACD in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010 and the rules contained in the Financial Conduct Authority’s Collective Investment Scheme Sourcebook (together the “Regulations”) and give a true and fair view of the net revenue and gains of the scheme property of the Company and each Fund and the financial position of the Company and each Fund at the end of the accounting period.

The ACD is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enables the ACD to ensure that the financial statements comply with the Regulations. In preparing this semi-annual report, the Authorised Corporate Director has:

- prepared the financial statements on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared financial statements in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010.

The ACD confirms that they have complied with the above requirements in preparing the financial statements. The ACD is responsible for the management of the Company in accordance with the Company’s Instrument of Incorporation, Prospectus and the Regulations. The ACD is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Ruairi O’Healai  
Director  
on behalf of

Morgan Stanley Investment Management (ACD) Limited  
as Authorised Corporate Director of Morgan Stanley Funds (UK)  
21st May 2013

# Aggregated Financial Statements

## Aggregated Statement of Total Return

FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|   | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Income</b>   |                   |                   |                   |                   |
| Net capital gains   |                   | 82,644,524        |                   | 40,831,334        |
| Revenue   | 7,744,193         |                   | 5,025,210         |                   |
| Expenses  | (2,977,002)       |                   | (1,830,336)       |                   |
| Finance costs: Interest   | (33)              |                   | (32)              |                   |
| Net revenue before taxation   | 4,767,158         |                   | 3,194,842         |                   |
| Taxation  | (283,929)         |                   | (246,068)         |                   |
| Net revenue after taxation  |                   | 4,483,229         |                   | 2,948,774         |
| <b>Total return before distributions</b>  |                   | <b>87,127,753</b> |                   | <b>43,780,108</b> |
| Finance costs: Distributions  |                   | (4,483,246)       |                   | (2,948,774)       |
| <b>Change in net assets attributable to shareholders from investment activities</b> |                   | <b>82,644,507</b> |                   | <b>40,831,334</b> |

## Aggregated Statement of Change in Net Assets Attributable to Shareholders

FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£)  | 31st Mar 2012 (£) | 31st Mar 2012 (£)  |
|--|-------------------|--------------------|-------------------|--------------------|
| <b>Opening net assets attributable to shareholders</b>                       |                   | <b>518,481,031</b> |                   | <b>323,418,222</b> |
| Amounts received on issue of shares  | 163,645,896       |                    | 68,117,921        |                    |
| Amounts paid on cancellation of shares                                       | (76,011,970)      |                    | (40,921,600)      |                    |
|  |                   | 87,633,926         |                   | 27,196,321         |
| Dilution levy  |                   | 89,029             |                   | 28,947             |
| Change in net assets attributable to shareholders from investment activities |                   | 82,644,507         |                   | 40,831,334         |
| Retained distribution on accumulation shares                                 |                   | 3,654,723          |                   | 2,514,181          |
| <b>Closing net assets attributable to shareholders</b>                       |                   | <b>692,503,216</b> |                   | <b>393,989,005</b> |

## Aggregated Balance Sheet

AS AT 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£)  | 30th Sep 2012 (£) | 30th Sep 2012 (£)  |
|--|-------------------|--------------------|-------------------|--------------------|
| <b>Assets</b>                                  |                   |                    |                   |                    |
| Investment assets                              |                   | 671,515,247        |                   | 501,656,106        |
| Debtors  | 8,822,963         |                    | 7,213,187         |                    |
| Cash and bank balances                         | 16,056,220        |                    | 15,315,400        |                    |
| Total other assets                             |                   | 24,879,183         |                   | 22,528,587         |
| <b>Total assets</b>                            |                   | <b>696,394,430</b> |                   | <b>524,184,693</b> |
| <b>Liabilities</b>                             |                   |                    |                   |                    |
| Investment liabilities                         |                   | 3,960              |                   | –                  |
| Bank overdrafts                                | 2,847,263         |                    | 4,440,449         |                    |
| Distribution payable on income shares          | 1,039,991         |                    | 1,263,213         |                    |
| Total other liabilities                        |                   | 3,887,254          |                   | 5,703,662          |
| <b>Total liabilities</b>                       |                   | <b>3,891,214</b>   |                   | <b>5,703,662</b>   |
| <b>Net assets attributable to shareholders</b> |                   | <b>692,503,216</b> |                   | <b>518,481,031</b> |

Aggregation – The aggregate financial statements represent the sum of the individual sub-funds within the Umbrella Company. Further analysis of the distribution and the net asset position of each sub-fund can be found within the financial statements of the individual sub-fund.

# Europe (ex UK) Equity Alpha Fund

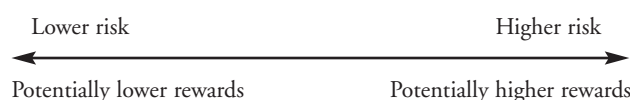
## Fund Review

### INVESTMENT OBJECTIVE

The objective of the Fund is to seek long-term capital appreciation, through investment primarily in a concentrated portfolio of equity securities issued in Europe, excluding the United Kingdom. Investments will be sought in equity securities which the Investment Manager believes to have the highest potential for long-term capital appreciation based primarily on fundamental market factors and stock specific research.

The Fund aims to outperform the FTSE World Index Series Europe (ex UK) by 1-2 per cent per annum over a full market cycle of three to five years.

### RISK AND REWARD PROFILE



|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The Fund is in this category because it invests in company shares, which tend to be more volatile than fixed income securities.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The Fund may be impacted by movements in the exchange rates between the Fund's currency and the currencies of the fund's investments.

### PERFORMANCE

|   | Since 31/03/00<br>% change<br>cumulative | 1 year<br>% change<br>cumulative | 6 months<br>% change<br>cumulative |
|---|--|----------------------------------|------------------------------------|
| FTSE World Index Series Europe (ex UK)  | 59.87                                    | 17.98                            | 18.93                              |
| Europe (ex UK) Equity Alpha Fund A Acc* | 28.43                                    | 19.13                            | 18.91                              |
| Europe (ex UK) Equity Alpha Fund I Acc* | 42.00                                    | 20.02                            | 19.35                              |

Source Index: Factsheet as at 31st March 2013 on a bid to bid price basis with net income reinvested.

Source Fund: State Street.

\* On 30th January 2003, shareholders approved the reclassification of A and I income shares to A and I accumulation shares.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the levels shown.

### NET ASSET VALUES

| Date                                 | Net<br>asset value<br>of share class (£) | Shares in<br>issue | Net<br>asset value<br>per share (£) |
|--------------------------------------|--|--------------------|-------------------------------------|
| <b>Share Class A – Accumulation*</b> |  |                    |                                     |
| 31.03.13                             | 237,693                                  | 20,810             | 11.42                               |
| 30.09.12                             | 212,780                                  | 22,048             | 9.65                                |
| 30.09.11                             | 205,911                                  | 23,855             | 8.63                                |
| 30.09.10                             | 236,677                                  | 24,002             | 9.86                                |
| <b>Share Class I – Accumulation*</b> |  |                    |                                     |
| 31.03.13                             | 11,742,920                               | 929,760            | 12.63                               |
| 30.09.12                             | 10,270,555                               | 965,908            | 10.63                               |
| 30.09.11                             | 9,761,499                                | 1,034,218          | 9.44                                |
| 30.09.10                             | 12,734,017                               | 1,190,043          | 10.70                               |

\* Valued at bid basis.

### SHARE PRICE AND INCOME RECORD

| Calendar Year                        | Highest<br>share<br>price (£) | Lowest<br>share<br>price (£) | Net<br>income<br>per<br>share (p) |
|--------------------------------------|-------------------------------|------------------------------|-----------------------------------|
| <b>Share Class A – Accumulation*</b> |                               |                              |                                   |
| 2013                                 | 11.94 <sup>(1)</sup>          | 10.50 <sup>(1)</sup>         | 0.3673                            |
| 2012                                 | 10.49                         | 8.36                         | 14.3196                           |
| 2011                                 | 11.40                         | 8.02                         | 15.0650                           |
| 2010                                 | 10.75                         | 8.80                         | 11.3397                           |
| 2009                                 | 10.38                         | 6.62                         | 16.0557                           |
| 2008                                 | 11.50                         | 7.00                         | 14.0616                           |
| <b>Share Class I – Accumulation*</b> |                               |                              |                                   |
| 2013                                 | 13.20 <sup>(1)</sup>          | 11.59 <sup>(1)</sup>         | 4.6923                            |
| 2012                                 | 11.58                         | 9.19                         | 23.3388                           |
| 2011                                 | 12.43                         | 8.76                         | 25.0410                           |
| 2010                                 | 11.69                         | 9.53                         | 20.3441                           |
| 2009                                 | 11.17                         | 7.09                         | 22.7903                           |
| 2008                                 | 12.23                         | 7.48                         | 23.0411                           |

\* Valued at mid basis.

<sup>(1)</sup> 1st January to 31st March 2013.

### ONGOING CHARGE FIGURE ("OCF")

The Total Ongoing Charge Figure (OCF) per share class are as follows:

| Date     | Class of Share | Operating<br>expenses<br>(excluding<br>Transaction<br>charge) | Transaction<br>charges<br>payable to the<br>Depositary | Ongoing<br>Charge<br>Figure (OCF) |
|----------|----------------|---|--|-----------------------------------|
| 31.03.13 | 'A' Class      | 1.75%   | 0.05%  | 1.80%                             |
|          | 'I' Class      | 1.00%   | 0.05%  | 1.05%                             |
| 30.09.12 | 'A' Class      | 1.75%   | 0.05%  | 1.80%                             |
|          | 'I' Class      | 1.00%   | 0.05%  | 1.05%                             |

The OCF shows the annual expenses of the Sub-Fund as a percentage of the average net asset value. The comparative figure has been adjusted to conform with current year reporting format.



# Europe (ex UK) Equity Alpha Fund

## Fund Review (continued)

### PERFORMANCE REVIEW

For the six-month period ending 31st March 2013, the fund's I share class outperformed the benchmark FTSE World Index Series Europe ex-UK Index, returning 19.35% versus 18.93% for the index.

Positive contributors to the performance came from stock selection in financial services, health care, media, banks and insurance. In addition, both our stock selection and underweight allocation to telecommunications along with our underweight allocation to utilities positively contributed to the overall performance. Detractors from performance included stock selection in automobiles & parts and travel & leisure. Additionally, our underweight allocation to both technology and personal & household goods negatively contributed to the overall performance.

### MARKET REVIEW

The continental European markets enjoyed a significant rally in the period considered, fuelled by the intervention of central banks around the globe, injecting liquidity into the system via additional QE measures. In Europe, Mario Draghi (President of the ECB) made an important statement at the end of July 2012, mentioning that he will do whatever it takes to save the euro. This statement strongly diminished the concerns of a possible break-up of the single currency, and it initiated a rally in both equities and fixed income. In the equity market, the rally has been led by cyclical sectors in the final part of 2012, while in the first quarter of 2013, more defensive sectors (namely health care and household products) led the market. While it is quite rare to see defensive sectors outperforming in rising markets, it is not the first time. A combination of low interest rates along with a poor economic outlook for Europe supported a positive sentiment for defensive sectors, which have traditionally provided a good and reliable return for investors, thanks to their cash-rich balance sheet.

While the macroeconomic outlook for Europe remains stable, the political scenario is improving, as there is less uncertainty for a Euro break-up thanks to the ECB's backstop. The Cyprus bailout and the inconclusive Italian elections are two recent examples to prove that the road to form a more cohesive euro area will be bumpy.

Peripheral Europe has already undergone severe adjustment in activity levels. We think this is healthy. The past overconsumption is being addressed and periphery is much closer to sustainable levels of activity. For example, car registrations in Italy and Spain are down 60-70% from their peaks and we would expect them to stabilise going forward. In addition, current accounts are moving into surplus and Unit Labour Costs are on the way down.

Equities rank well relative to other assets with respect to the prospective returns and yield they can offer. They are also shielded in the potential outcome of a continued increase in inflationary expectations. Stocks are still an under-owned asset class within institutional and private portfolios. This could support asset rotation over the medium-term.

### PORTFOLIO ACTIVITY

We made a number of changes to the portfolio. We reduced our weight in a German industrial conglomerate following strong performance. We added to the portfolio a French retail bank, where we feel that the valuation (0.7 P/TNAV) does not fairly reflect the improvements made to the cost base (having exited Greece and its brokerage business) and the stability of the company's core business (retail customer base and asset management). The French bank we added to the portfolio is the leader of retail banking in France and its position has been reinforced in 2007 with the acquisition of a French competitor. The Bank is also diversified in asset management, corporate and investment banking and international retail.

We also initiated a position in Svenska Cellulosa, a Swedish consumer goods and pulp and paper manufacturer. Its main products include personal care (incontinence products and baby diapers), tissue (toilet issue, kitchen towels and napkins), packaging and publication papers. Incontinence care should remain a core growth driver for the company in the future, thanks to the company's global leadership position (25% market share) in what is an attractive growth market in both developed and emerging markets. In the Tissue category, the Company is the European leader with 35% market share.

We decided to exit our position in the port of Hamburg, as the company had disappointing results and we do not see any short-term catalyst. We also completely sold our position in a French steel company, as we believe that valuation remains attractive, but we cannot see material catalysts in the near term.

### STRATEGY & OUTLOOK

We continue to believe that careful stock selection can be an important source of investment performance. We apply a disciplined and proven investment process to identify individual stocks that we feel are attractively valued relative to their future prospects. Typically, companies that we focus on are characterised by strong business models, financial strength and management teams of demonstrable competence.

In terms of sectors, the fund remains overweight to industrials and health care. It is underweight to financials, utilities and technology.

**All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.**

# Europe (ex UK) Equity Alpha Fund

## Portfolio Statement

AS AT 31st MARCH 2013 (UNAUDITED)

|                           | Holdings | Investments                     | Market Value (£) | % of net asset value 31st Mar 2013 | % of net asset value 30th Sep 2012 |
|---------------------------|----------|---------------------------------|------------------|------------------------------------|------------------------------------|
| <b>Belgium – 1.61%</b>    | 6,235    | Umicore                         | 192,700          | 1.61                               |                                    |
|                           |          |                                 | <b>192,700</b>   | <b>1.61</b>                        | <b>1.96</b>                        |
| <b>Finland – 2.11%</b>    | 4,896    | Kone                            | 253,330          | 2.11                               |                                    |
|                           |          |                                 | <b>253,330</b>   | <b>2.11</b>                        | <b>2.64</b>                        |
| <b>France – 17.64%</b>    | 9,044    | Accor                           | 206,709          | 1.73                               |                                    |
|                           | 29,399   | AXA                             | 332,500          | 2.78                               |                                    |
|                           | 10,523   | BNP Paribas                     | 355,356          | 2.97                               |                                    |
|                           | 39,149   | Crédit Agricole                 | 212,174          | 1.77                               |                                    |
|                           | 13,165   | Faurecia                        | 137,681          | 1.15                               |                                    |
|                           | 3,501    | Pernod-Ricard                   | 287,034          | 2.40                               |                                    |
|                           | 7,097    | Schneider Electric              | 341,177          | 2.85                               |                                    |
|                           | 11,054   | Société Générale                | 238,945          | 1.99                               |                                    |
|                           |          |                                 | <b>2,111,576</b> | <b>17.64</b>                       | <b>16.54</b>                       |
| <b>Germany – 24.34%</b>   | 4,059    | Allianz                         | 362,702          | 3.03                               |                                    |
|                           | 5,785    | Bayer                           | 392,616          | 3.28                               |                                    |
|                           | 9,597    | Daimler                         | 343,552          | 2.87                               |                                    |
|                           | 2,806    | Fresenius                       | 227,876          | 1.90                               |                                    |
|                           | 4,688    | Henkel                          | 296,893          | 2.48                               |                                    |
|                           | 2,867    | MAN                             | 202,799          | 1.69                               |                                    |
|                           | 2,687    | Muenchener Rueckversicherungs   | 330,639          | 2.76                               |                                    |
|                           | 6,076    | Siemens                         | 430,609          | 3.59                               |                                    |
|                           | 2,514    | Volkswagen                      | 328,645          | 2.74                               |                                    |
|                           |          |                                 | <b>2,916,331</b> | <b>24.34</b>                       | <b>25.51</b>                       |
| <b>Ireland – 2.01%</b>    | 16,592   | CRH (EU listed)                 | 240,970          | 2.01                               |                                    |
|                           |          |                                 | <b>240,970</b>   | <b>2.01</b>                        | <b>1.91</b>                        |
| <b>Italy – 6.72%</b>      | 33,885   | Ansaldo                         | 222,912          | 1.86                               |                                    |
|                           | 19,721   | Azimut                          | 209,903          | 1.75                               |                                    |
|                           | 25,179   | ENI                             | 372,264          | 3.11                               |                                    |
|                           |          |                                 | <b>805,079</b>   | <b>6.72</b>                        | <b>6.90</b>                        |
| <b>Luxembourg – 3.56%</b> | 3,358    | Millicom International Cellular | 176,326          | 1.47                               |                                    |
|                           | 12,157   | SES                             | 250,689          | 2.09                               |                                    |
|                           |          |                                 | <b>427,015</b>   | <b>3.56</b>                        | <b>5.02</b>                        |
| <b>Portugal – 1.86%</b>   | 21,651   | Galp Energia SGPS               | 223,141          | 1.86                               |                                    |
|                           |          |                                 | <b>223,141</b>   | <b>1.86</b>                        | <b>2.07</b>                        |
| <b>Spain – 7.09%</b>      | 15,821   | Amadeus                         | 281,210          | 2.35                               |                                    |
|                           | 55,226   | BBVA                            | 315,002          | 2.63                               |                                    |
|                           | 28,576   | Telefonica                      | 252,818          | 2.11                               |                                    |
|                           |          |                                 | <b>849,030</b>   | <b>7.09</b>                        | <b>7.53</b>                        |
| <b>Sweden – 2.05%</b>     | 14,478   | Svenska Cellulosa               | 245,376          | 2.05                               |                                    |
|                           |          |                                 | <b>245,376</b>   | <b>2.05</b>                        | <b>0.00</b>                        |

# Europe (ex UK) Equity Alpha Fund

## Portfolio Statement (continued)

AS AT 31st MARCH 2013 (UNAUDITED)

|                                 | Holdings | Investments                     | Market Value (£)  | % of net asset value 31st Mar 2013 | % of net asset value 30th Sep 2012 |
|---------------------------------|----------|---------------------------------|-------------------|------------------------------------|------------------------------------|
| <b>Switzerland – 17.55%</b>     |          |                                 |                   |                                    |                                    |
|                                 | 17,102   | Nestlé                          | 813,161           | 6.79                               |                                    |
|                                 | 13,834   | Novartis                        | 646,277           | 5.39                               |                                    |
|                                 | 4,203    | Roche                           | 643,340           | 5.37                               |                                    |
|                                 |          |                                 | <b>2,102,778</b>  | <b>17.55</b>                       | <b>16.64</b>                       |
| <b>The Netherlands – 12.13%</b> |          |                                 |                   |                                    |                                    |
|                                 | 25,799   | DE Master Blenders              | 262,193           | 2.19                               |                                    |
|                                 | 29,953   | Koninklijke KPN                 | 302,009           | 2.52                               |                                    |
|                                 | 24,382   | Reed Elsevier                   | 274,833           | 2.29                               |                                    |
|                                 | 10,392   | Royal Dutch Shell 'A' Shares    | 220,779           | 1.84                               |                                    |
|                                 | 14,613   | Unilever                        | 393,830           | 3.29                               |                                    |
|                                 |          |                                 | <b>1,453,644</b>  | <b>12.13</b>                       | <b>11.32</b>                       |
|                                 |          | <b>Portfolio of investments</b> | <b>11,820,970</b> | <b>98.67</b>                       | <b>98.04</b>                       |
|                                 |          | <b>Net other assets</b>         | <b>159,643</b>    | <b>1.33</b>                        | <b>1.96</b>                        |
|                                 |          | <b>Net assets</b>               | <b>11,980,613</b> | <b>100.00</b>                      | <b>100.00</b>                      |

All holdings are ordinary shares unless otherwise stated.

## Portfolio Turnover Rate ("PTR")

|  | For the period ended 31st Mar 2013 | For the year ended 30th Sep 2012 |
|--|------------------------------------|----------------------------------|
|  | <b>7.53%</b>                       | <b>24.86%</b>                    |

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for six months.

# Europe (ex UK) Equity Alpha Fund

## Statement of Total Return

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|   | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Income</b>   |                   |                   |                   |                   |
| Net capital gains   |                   | 1,894,890         |                   | 1,172,558         |
| Revenue   | 121,417           |                   | 139,470           |                   |
| Expenses  | (59,987)          |                   | (53,392)          |                   |
| Finance costs: Interest   | –                 |                   | (32)              |                   |
| Net revenue before taxation   | 61,430            |                   | 86,046            |                   |
| Taxation  | (16,964)          |                   | (18,196)          |                   |
| Net revenue after taxation  |                   | 44,466            |                   | 67,850            |
| <b>Total return before distributions</b>  |                   | <b>1,939,356</b>  |                   | <b>1,240,408</b>  |
| Finance costs: Distributions  |                   | (44,467)          |                   | (67,850)          |
| <b>Change in net assets attributable to shareholders from investment activities</b> |                   | <b>1,894,889</b>  |                   | <b>1,172,558</b>  |

## Statement of Change in Net Assets Attributable to Shareholders

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Opening net assets attributable to shareholders</b>                       |                   | <b>10,483,335</b> |                   | <b>9,967,410</b>  |
| Amounts received on issue of shares  | 197,791           |                   | 582,004           |                   |
| Amounts paid on cancellation of shares                                       | (639,107)         |                   | (943,850)         |                   |
|  |                   | (441,316)         |                   | (361,846)         |
| Dilution levy  |                   | –                 |                   | 3,754             |
| Change in net assets attributable to shareholders from investment activities |                   | 1,894,889         |                   | 1,172,558         |
| Retained distribution on accumulation shares                                 |                   | 43,705            |                   | 65,874            |
| <b>Closing net assets attributable to shareholders</b>                       |                   | <b>11,980,613</b> |                   | <b>10,847,750</b> |

Comparatives are for the six months to 31st March 2012.

## Balance Sheet

### AS AT 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 30th Sep 2012 (£) | 30th Sep 2012 (£) |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Assets</b>                                  |                   |                   |                   |                   |
| Investment assets                              |                   | 11,820,970        |                   | 10,277,366        |
| Debtors  | 199,816           |                   | 68,451            |                   |
| Cash and bank balances                         | 67,152            |                   | 168,469           |                   |
| Total other assets                             |                   | 266,968           |                   | 236,920           |
| <b>Total assets</b>                            |                   | <b>12,087,938</b> |                   | <b>10,514,286</b> |
| <b>Liabilities</b>                             |                   |                   |                   |                   |
| Creditors                                      | 107,325           |                   | 30,951            |                   |
| <b>Total liabilities</b>                       |                   | <b>107,325</b>    |                   | <b>30,951</b>     |
| <b>Net assets attributable to shareholders</b> |                   | <b>11,980,613</b> |                   | <b>10,483,335</b> |

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30th September 2012 and are described in those annual financial statements.

# Europe (ex UK) Equity Alpha Fund

## Distribution Table

**FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)**

### INTERIM

Group 1 – shares purchased prior to 1st October 2012

Group 2 – shares purchased between 1st October 2012 and 31st March 2013

|                                     | Net<br>Income | Equalisation | Distribution<br>payable<br>31st May 2013 | Distribution<br>paid<br>31st May 2012 |
|-------------------------------------|---------------|--------------|--|---------------------------------------|
| <b>Share Class A – Accumulation</b> |               |              |  |                                       |
| Group 1                             | 0.3673p       | –            | 0.3673p                                  | 2.4883p                               |
| Group 2                             | 0.3673p       | –            | 0.3673p                                  | 2.4883p                               |
| <b>Share Class I – Accumulation</b> |               |              |  |                                       |
| Group 1                             | 4.6923p       | –            | 4.6923p                                  | 6.5122p                               |
| Group 2                             | 3.5938p       | 1.0985p      | 4.6923p                                  | 6.5122p                               |

### EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

# Global Brands Fund

## Fund Review

### INVESTMENT OBJECTIVE

The objective of the Fund is to provide long-term capital appreciation through investment primarily in equity securities issued worldwide.

### RISK AND REWARD PROFILE



The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in company shares, which tend to be more volatile than fixed income securities.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

## PERFORMANCE

|                           | Since inception<br>03/02/03<br>% change<br>cumulative | 1 year<br>% change<br>cumulative | 6 months<br>% change<br>cumulative |
|---------------------------|---|----------------------------------|------------------------------------|
| MSCI World (Net) Index    | 145.14  | 17.69                            | 17.42                              |
| Global Brands Fund A Acc  | 231.01  | 17.13                            | 15.52                              |
| Global Brands Fund A Inc* | 30.02   | 16.98                            | 15.43                              |
| Global Brands Fund I Acc  | 256.95  | 18.00                            | 15.95                              |
| Global Brands Fund I Inc† | 40.78   | 17.71                            | 15.80                              |

Source Index: Factsheet as at 31st March 2013 on a bid to bid price basis with net income reinvested.

Source Fund: State Street.

† Launched 25th February 2011.

\* Launched 6th May 2011.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the levels shown.

## NET ASSET VALUES

| Date  | Net<br>asset value<br>of share class (£) | Shares in<br>issue | Net<br>asset value<br>per share (£) |
|---|--|--------------------|-------------------------------------|
| <b>Share Class A – Accumulation*</b>        |  |                    |                                     |
| 31.03.13                                    | 14,925,333                               | 361,997            | 41.23                               |
| 30.09.12                                    | 15,542,977                               | 434,166            | 35.80                               |
| 30.09.11                                    | 6,979,271                                | 221,949            | 31.45                               |
| 30.09.10                                    | 3,528,833                                | 124,966            | 28.24                               |
| <b>Share Class A – Income<sup>(1)</sup></b> |  |                    |                                     |
| 31.03.13                                    | 1,185,298                                | 92,831             | 12.77                               |
| 30.09.12                                    | 950,187                                  | 85,416             | 11.12                               |
| 30.09.11                                    | 458,120                                  | 46,453             | 9.86                                |
| <b>Share Class I – Accumulation</b>         |  |                    |                                     |
| 31.03.13                                    | 509,767,012                              | 11,464,506         | 44.46                               |
| 30.09.12                                    | 368,172,569                              | 9,571,595          | 38.47                               |
| 30.09.11                                    | 272,959,237                              | 8,138,998          | 33.54                               |
| 30.09.10                                    | 183,673,089                              | 6,144,834          | 29.89                               |
| <b>Share Class I – Income<sup>(2)</sup></b> |  |                    |                                     |
| 31.03.13                                    | 145,139,526                              | 10,693,907         | 13.57                               |
| 30.09.12                                    | 115,602,952                              | 9,779,917          | 11.82                               |
| 30.09.11                                    | 26,987,231                               | 2,571,640          | 10.49                               |

\* Valued at bid basis.

<sup>(1)</sup> Launched 6th May 2011.

<sup>(2)</sup> Launched 25th February 2011.

# Global Brands Fund

## Fund Review (continued)

### SHARE PRICE AND INCOME RECORD

| Calendar Year                        | Highest share price (£) | Lowest share price (£) | Net income per share (p) |
|--------------------------------------|-------------------------|------------------------|--------------------------|
| <b>Share Class A – Accumulation*</b> |                         |                        |                          |
| 2013                                 | 41.38 <sup>(1)</sup>    | 35.80 <sup>(1)</sup>   | 12.5404                  |
| 2012                                 | 36.82                   | 32.53                  | 38.7703                  |
| 2011                                 | 33.44                   | 28.80                  | 37.1258                  |
| 2010                                 | 30.52                   | 25.42                  | 32.8482                  |
| 2009                                 | 26.17                   | 18.17                  | 29.2047                  |
| 2008                                 | 23.18                   | 17.76                  | 28.2072                  |
| <b>Share Class A – Income*</b>       |                         |                        |                          |
| 2013                                 | 12.86 <sup>(1)</sup>    | 11.12 <sup>(1)</sup>   | 4.3575                   |
| 2012                                 | 11.44                   | 10.20                  | 10.5296                  |
| 2011                                 | 10.52 <sup>(2)</sup>    | 9.35 <sup>(2)</sup>    | 3.8951                   |
| <b>Share Class I – Accumulation*</b> |                         |                        |                          |
| 2013                                 | 44.62 <sup>(1)</sup>    | 38.54 <sup>(1)</sup>   | 30.2410                  |
| 2012                                 | 39.62                   | 34.78                  | 68.3332                  |
| 2011                                 | 35.59                   | 30.59                  | 62.9912                  |
| 2010                                 | 32.36                   | 26.75                  | 54.4745                  |
| 2009                                 | 27.52                   | 19.00                  | 47.4687                  |
| 2008                                 | 24.02                   | 18.52                  | 41.8638                  |
| <b>Share Class I – Income*</b>       |                         |                        |                          |
| 2013                                 | 13.71 <sup>(1)</sup>    | 11.84 <sup>(1)</sup>   | 9.2976                   |
| 2012                                 | 12.18                   | 10.88                  | 21.3223                  |
| 2011                                 | 11.30 <sup>(3)</sup>    | 9.71 <sup>(3)</sup>    | 15.1404                  |

\* Valued at mid basis.

<sup>(1)</sup> 1st January to 31st March 2013.

<sup>(2)</sup> 6th May to 31st December 2011.

<sup>(3)</sup> 25th February to 31st December 2011.

### ONGOING CHARGE FIGURE (“OCF”)

The Total Ongoing Charge Figure (OCF) per share class are as follows:

| Date     | Class of Share | Operating expenses (excluding Transaction charge) | Transaction charges payable to the Depositary | Ongoing Charge Figure (OCF) |
|----------|----------------|---|---|-----------------------------|
| 31.03.13 | 'A' Class      | 1.75%   | 0.00%   | 1.75%                       |
|          | 'I' Class      | 1.00%   | 0.00%   | 1.00%                       |
| 30.09.12 | 'A' Class      | 1.75%   | 0.00%   | 1.75%                       |
|          | 'I' Class      | 1.00%   | 0.00%   | 1.00%                       |

The OCF shows the annual expenses of the Sub-Fund as a percentage of the average net asset value. The comparative figure has been adjusted to conform with current year reporting format.

### PERFORMANCE REVIEW

For the six-month period ending 31st March 2013, the fund's I class shares underperformed the benchmark MSCI World (Net) Index, returning 15.95% (net of fees) versus 17.42% for the index (in sterling). Long-term performance remains very strong in absolute and relative terms. Indeed, since inception the fund returned 13.35% outperforming its benchmark by 4.12% (annualised).

The relative underperformance for the six months ending 31st March was mainly due to our stock selection in consumer staples. The portfolio's underweight in financials, consumer discretionary and industrials also detracted from performance. This was partly offset by our stock selection in information technology and zero weight in energy, materials, telecommunication services and utilities.

### MARKET REVIEW

The MSCI World index advanced a further 17.42% in sterling terms for the period under review. During the last six months global equities have been fairly strong, helped in sterling terms by the weak currency. This was more about rerating rather than strong earnings, due to the perceived reduction of risk particularly with regard to the Euro-area.

### PORTFOLIO ACTIVITY

Over the six month period, we initiated a position in the customer discretionary sector, a global sports footwear Company. We added to existing tobacco, consumer staples and pharmaceutical holdings and made some reductions in Financials, Industrials and Information Technology holdings.

During the period we sold out of a long held industrial name, for valuation reasons.

### STRATEGY & OUTLOOK

In a continuously uncertain world, we remain comfortable with our positioning in the portfolio, where bottom-up, stock by stock, absolute valuations of quality stocks remain attractive particularly in the context of the extremely low yield on “risk free” assets. In our view, this remains an environment in which we believe investors should take comfort in the quality of the portfolio and we continue to seek attractively valued high quality franchises, built on dominant and durable intangible assets, which possess pricing power and low capital intensity.

**All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.**

# Global Brands Fund

## Portfolio Statement (continued)

AS AT 31st MARCH 2013 (UNAUDITED)

|                                | Holdings  | Investments  | Market Value (£)  | % of net asset value 31st Mar 2013   | % of net asset value 30th Sep 2012 |
|--------------------------------|---|--|---|--|------------------------------------|
| <b>Cayman Islands – 1.43%</b>  | 394,347   | Herbalife  | 9,607,232<br><b>9,607,232</b>   | 1.43<br><b>1.43</b>  | <b>0.00</b>                        |
| <b>Finland – 0.00%</b>         |   |  | –   | –  | <b>2.86</b>                        |
| <b>France – 6.08%</b>          | 300,380<br>481,519  | Legrand<br>Sanofi  | 8,618,580<br>32,192,351<br><b>40,810,931</b>  | 1.28<br>4.80<br><b>6.08</b>  | <b>6.23</b>                        |
| <b>Germany – 4.42%</b>         | 562,497   | SAP  | 29,650,406<br><b>29,650,406</b>   | 4.42<br><b>4.42</b>  | <b>3.46</b>                        |
| <b>Ireland – 1.54%</b>         | 911,691   | Experian   | 10,393,277<br><b>10,393,277</b>   | 1.54<br><b>1.54</b>  | <b>1.76</b>                        |
| <b>Italy – 0.91%</b>           | 1,191,063   | Davide Campari-Milano  | 6,097,529<br><b>6,097,529</b>   | 0.91<br><b>0.91</b>  | <b>1.43</b>                        |
| <b>Sweden – 2.29%</b>          | 754,078   | Swedish Match  | 15,389,580<br><b>15,389,580</b>   | 2.29<br><b>2.29</b>  | <b>3.73</b>                        |
| <b>Switzerland – 9.45%</b>     | 1,333,483   | Nestlé   | 63,404,077<br><b>63,404,077</b>   | 9.45<br><b>9.45</b>  | <b>9.72</b>                        |
| <b>The Netherlands – 2.43%</b> | 1,603,711   | DE Master Blenders   | 16,298,347<br><b>16,298,347</b>   | 2.43<br><b>2.43</b>  | <b>2.02</b>                        |
| <b>United Kingdom – 34.95%</b> | 350,193<br>1,854,042<br>1,540,258<br>1,488,979<br>1,043,994<br>1,760,121  | Admiral<br>British American Tobacco<br>Diageo<br>Imperial Tobacco<br>Reckitt Benckiser<br>Unilever   | 4,664,571<br>65,392,061<br>31,960,354<br>34,231,627<br>49,255,637<br>49,001,769<br><b>234,506,019</b>   | 0.70<br>9.75<br>4.76<br>5.10<br>7.34<br>7.30<br><b>34.95</b>   | <b>31.65</b>                       |
| <b>United States – 33.50%</b>  | 619,497<br>846,293<br>337,187<br>287,823<br>1,539,355<br>695,800<br>344,499<br>189,937<br>520,700<br>611,496<br>153,718 | Accenture<br>Dr Pepper Snapple<br>Herbalife<br>Mead Johnson Nutrition<br>Microsoft<br>Mondelez International<br>Moody's<br>Nike<br>Philip Morris International<br>Procter & Gamble<br>Visa | 30,847,755<br>25,929,093<br>11,486,382<br>14,538,060<br>28,912,485<br>14,014,208<br>11,934,489<br>7,264,552<br>31,715,439<br>31,192,014<br>16,888,039<br><b>224,722,516</b> | 4.60<br>3.86<br>1.71<br>2.17<br>4.31<br>2.09<br>1.78<br>1.08<br>4.73<br>4.65<br>2.52<br><b>33.50</b> | <b>33.92</b>                       |
|                                |   | <b>Portfolio of investments</b>  | <b>650,879,914</b>  | <b>97.00</b>   | <b>96.78</b>                       |
|                                |   | <b>Net other assets</b>  | <b>20,137,255</b>   | <b>3.00</b>  | <b>3.22</b>                        |
|                                |   | <b>Net assets</b>  | <b>671,017,169</b>  | <b>100.00</b>  | <b>100.00</b>                      |

All holdings are ordinary shares unless otherwise stated.

## Portfolio Turnover Rate ("PTR")

|  | For the period ended 31st Mar 2013 | For the year ended 30th Sep 2012 |
|--|------------------------------------|----------------------------------|
|  | 0.53%                              | 19.11%                           |

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for six months.



# Global Brands Fund

## Statement of Total Return

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|   | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Income</b>   |                   |                   |                   |                   |
| Net capital gains   |                   | 80,416,704        |                   | 39,318,841        |
| Revenue   | 7,426,200         |                   | 4,707,447         |                   |
| Expenses  | (2,882,132)       |                   | (1,755,772)       |                   |
| Net revenue before taxation   | 4,544,068         |                   | 2,951,675         |                   |
| Taxation  | (266,961)         |                   | (227,789)         |                   |
| Net revenue after taxation  |                   | 4,277,107         |                   | 2,723,886         |
| <b>Total return before distributions</b>  |                   | <b>84,693,811</b> |                   | <b>42,042,727</b> |
| Finance costs: Distributions  |                   | (4,277,119)       |                   | (2,723,886)       |
| <b>Change in net assets attributable to shareholders from investment activities</b> |                   | <b>80,416,692</b> |                   | <b>39,318,841</b> |

## Statement of Change in Net Assets Attributable to Shareholders

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£)  | 31st Mar 2012 (£) | 31st Mar 2012 (£)  |
|--|-------------------|--------------------|-------------------|--------------------|
| <b>Opening net assets attributable to shareholders</b>                       |                   | <b>500,268,685</b> |                   | <b>307,383,859</b> |
| Amounts received on issue of shares  | 160,987,157       |                    | 66,691,394        |                    |
| Amounts paid on cancellation of shares                                       | (74,247,020)      |                    | (39,037,663)      |                    |
|  |                   | 86,740,137         |                   | 27,653,731         |
| Dilution levy  |                   | 79,275             |                   | –                  |
| Change in net assets attributable to shareholders from investment activities |                   | 80,416,692         |                   | 39,318,841         |
| Retained distribution on accumulation shares                                 |                   | 3,512,380          |                   | 2,349,596          |
| <b>Closing net assets attributable to shareholders</b>                       |                   | <b>671,017,169</b> |                   | <b>376,706,027</b> |

Comparatives are for the six months to 31st March 2012.

## Balance Sheet

### AS AT 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£)  | 30th Sep 2012 (£) | 30th Sep 2012 (£)  |
|--|-------------------|--------------------|-------------------|--------------------|
| <b>Assets</b>                                  |                   |                    |                   |                    |
| Investment assets                              |                   | 650,879,914        |                   | 484,154,405        |
| Debtors  | 7,703,445         |                    | 6,625,041         |                    |
| Cash and bank balances                         | 15,386,534        |                    | 14,757,406        |                    |
| Total other assets                             |                   | 23,089,979         |                   | 21,382,447         |
| <b>Total assets</b>                            |                   | <b>673,969,893</b> |                   | <b>505,536,852</b> |
| <b>Liabilities</b>                             |                   |                    |                   |                    |
| Creditors                                      | 1,954,401         |                    | 4,039,314         |                    |
| Distribution payable on income shares          | 998,323           |                    | 1,228,853         |                    |
| <b>Total liabilities</b>                       |                   | <b>2,952,724</b>   |                   | <b>5,268,167</b>   |
| <b>Net assets attributable to shareholders</b> |                   | <b>671,017,169</b> |                   | <b>500,268,685</b> |

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30th September 2012 and are described in those annual financial statements.

# Global Brands Fund

## Distribution Table

**FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)**

### INTERIM

Group 1 – shares purchased prior to 1st October 2012

Group 2 – shares purchased between 1st October 2012 and 31st March 2013

|                                     | Net<br>Income | Equalisation | Distribution<br>payable<br>31st May 2013 | Distribution<br>paid<br>31st May 2012 |
|-------------------------------------|---------------|--------------|--|---------------------------------------|
| <b>Share Class A – Accumulation</b> |               |              |  |                                       |
| Group 1                             | 12.5404p      | –            | 12.5404p                                 | 14.5510p                              |
| Group 2                             | 12.0321p      | 0.5083p      | 12.5404p                                 | 14.5510p                              |
| <b>Share Class A – Income</b>       |               |              |  |                                       |
| Group 1                             | 4.3575p       | –            | 4.3575p                                  | 2.7623p                               |
| Group 2                             | 4.2516p       | 0.1059p      | 4.3575p                                  | 2.7623p                               |
| <b>Share Class I – Accumulation</b> |               |              |  |                                       |
| Group 1                             | 30.2410p      | –            | 30.2410p                                 | 28.1277p                              |
| Group 2                             | 20.0931p      | 10.1479p     | 30.2410p                                 | 28.1277p                              |
| <b>Share Class I – Income</b>       |               |              |  |                                       |
| Group 1                             | 9.2976p       | –            | 9.2976p                                  | 8.8251p                               |
| Group 2                             | 6.6370p       | 2.6606p      | 9.2976p                                  | 8.8251p                               |

### EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

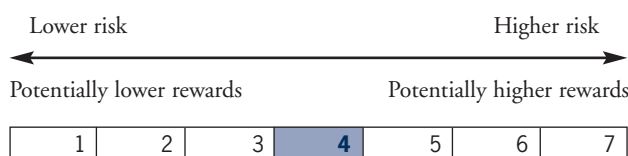
# Sterling Corporate Bond Fund

## Fund Review

### INVESTMENT OBJECTIVE

The objective of the Fund is to provide an attractive rate of return through investment primarily in sterling corporate and other sterling non-gilt fixed interest securities. A proportion of the Fund may also invest in non-sterling fixed interest securities as well as UK Gilts.

### RISK AND REWARD PROFILE



The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in fixed income securities, which tend to be less volatile than company shares.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The value of bonds are likely to decrease if interest rates rise and vice versa.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating. Investors may be compensated for this with higher interest payments.

## PERFORMANCE

|  | Since inception<br>11/12/00<br>% change<br>cumulative | 1 year<br>% change<br>cumulative | 6 months<br>% change<br>cumulative |
|--|---|----------------------------------|------------------------------------|
| Merrill Lynch No-Gilts 10+ Years Index | 114.98  | 17.98                            | 3.81                               |
| Sterling Corporate Bond Fund A Acc*    | 73.48   | 14.10                            | 4.99                               |
| Sterling Corporate Bond Fund A Inc*    | 59.56   | 13.75                            | 4.91                               |
| Sterling Corporate Bond Fund I Acc*    | 107.39  | 14.65                            | 5.17                               |
| Sterling Corporate Bond Fund I Inc*    | 65.36   | 14.23                            | 5.14                               |

Source Index: Factsheet as at 31st March 2013 on a bid to bid price basis with net income reinvested.

Source Fund: State Street.

\* The A Accumulation, A Income and I Income share classes were launched on 3rd February 2003.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the same levels shown.

## NET ASSET VALUES

| Date                                 | Net<br>asset value<br>of share class (£) | Shares in<br>issue | Net<br>asset value<br>per share (£) |
|--------------------------------------|--|--------------------|-------------------------------------|
| <b>Share Class A – Accumulation*</b> |  |                    |                                     |
| 31.03.13                             | 2,075,289                                | 104,860            | 19.79                               |
| 30.09.12                             | 1,118,823                                | 59,637             | 18.76                               |
| 30.09.11                             | 1,042,530                                | 65,537             | 15.91                               |
| 30.09.10                             | 919,567                                  | 56,655             | 16.23                               |
| <b>Share Class A – Income*</b>       |  |                    |                                     |
| 31.03.13                             | 895,291                                  | 63,983             | 13.99                               |
| 30.09.12                             | 719,365                                  | 53,524             | 13.44                               |
| 30.09.11                             | 642,822                                  | 54,468             | 11.80                               |
| 30.09.10                             | 674,232                                  | 53,980             | 12.49                               |
| <b>Share Class I – Accumulation*</b> |  |                    |                                     |
| 31.03.13                             | 4,640,697                                | 223,798            | 20.74                               |
| 30.09.12                             | 4,669,264                                | 238,112            | 19.61                               |
| 30.09.11                             | 3,133,819                                | 190,062            | 16.49                               |
| 30.09.10                             | 31,846,917                               | 1,893,753          | 16.82                               |
| <b>Share Class I – Income*</b>       |  |                    |                                     |
| 31.03.13                             | 1,894,157                                | 135,632            | 13.97                               |
| 30.09.12                             | 1,221,559                                | 91,069             | 13.41                               |
| 30.09.11                             | 1,247,782                                | 105,962            | 11.78                               |
| 30.09.10                             | 2,453,743                                | 196,834            | 12.47                               |

\* Valued at bid basis.

# Sterling Corporate Bond Fund

## Fund Review (continued)

### SHARE PRICE AND INCOME RECORD

| Calendar Year                        | Highest share price (£) | Lowest share price (£) | Net income per share (p) |
|--------------------------------------|-------------------------|------------------------|--------------------------|
| <b>Share Class A – Accumulation*</b> |                         |                        |                          |
| 2013                                 | 19.84 <sup>(1)</sup>    | 19.21 <sup>(1)</sup>   | 25.9600                  |
| 2012                                 | 19.49                   | 16.30                  | 62.9207                  |
| 2011                                 | 16.73                   | 15.63                  | 57.0339                  |
| 2010                                 | 16.40                   | 14.92                  | 48.2732                  |
| 2009                                 | 15.09                   | 12.56                  | 47.2153                  |
| 2008                                 | 13.58                   | 12.15                  | 50.0444                  |
| <b>Share Class A – Income*</b>       |                         |                        |                          |
| 2013                                 | 14.22 <sup>(1)</sup>    | 13.76 <sup>(1)</sup>   | 18.6040                  |
| 2012                                 | 13.96                   | 12.10                  | 46.2991                  |
| 2011                                 | 12.88                   | 11.69                  | 43.9344                  |
| 2010                                 | 12.94                   | 11.84                  | 38.6178                  |
| 2009                                 | 12.19                   | 10.30                  | 38.8859                  |
| 2008                                 | 11.43                   | 9.99                   | 42.3222                  |
| <b>Share Class I – Accumulation*</b> |                         |                        |                          |
| 2013                                 | 20.79 <sup>(1)</sup>    | 20.11 <sup>(1)</sup>   | 31.9118                  |
| 2012                                 | 20.40                   | 16.98                  | 74.0940                  |
| 2011                                 | 17.40                   | 16.22                  | 66.0684                  |
| 2010                                 | 17.00                   | 15.41                  | 58.0785                  |
| 2009                                 | 15.58                   | 12.92                  | 56.4172                  |
| 2008                                 | 13.70                   | 12.51                  | 58.1644                  |
| <b>Share Class I – Income*</b>       |                         |                        |                          |
| 2013                                 | 14.22 <sup>(1)</sup>    | 13.76 <sup>(1)</sup>   | 21.9449                  |
| 2012                                 | 13.95                   | 12.08                  | 52.3414                  |
| 2011                                 | 12.90                   | 11.68                  | 49.9402                  |
| 2010                                 | 12.97                   | 11.83                  | 44.6008                  |
| 2009                                 | 12.23                   | 10.30                  | 44.8067                  |
| 2008                                 | 11.43                   | 9.97                   | 47.9552                  |

\* Valued at mid basis.

<sup>(1)</sup> 1st January to 31st March 2013.

### ONGOING CHARGE FIGURE (“OCF”)

The Total Ongoing Charge Figure (OCF) per share class are as follows:

| Date     | Class of Share | Operating expenses (excluding Transaction charge) | Transaction charges payable to the Depositary | Ongoing Charge Figure (OCF) |
|----------|----------------|---|---|-----------------------------|
| 31.03.13 | 'A' Class      | 1.20%   | 0.06%   | 1.26%                       |
|          | 'I' Class      | 0.60%   | 0.06%   | 0.66%                       |
| 30.09.12 | 'A' Class      | 1.20%   | 0.07%   | 1.27%                       |
|          | 'I' Class      | 0.60%   | 0.07%   | 0.67%                       |

The OCF shows the annual expenses of the Sub-Fund as a percentage of the average net asset value. The comparative figure has been adjusted to conform with current year reporting format.

### PERFORMANCE REVIEW

For the six-month period ending 31st March 2013, the fund's I class shares outperformed the benchmark Bank of America-Merrill Lynch Sterling Non-Gilt All Stocks Index, returning 5.17% (net of fees) versus 3.81% for the index.

The outperformance of the fund was mainly due to the overweight positions in financials and industrials. Over the period, gilt yields were little changed across the curve, so the underweight position had little effect on performance. The fund also benefited from an average yield advantage of around 1% relative to the benchmark over the period.

### MARKET REVIEW

The fund has benefited from the strong performance of sterling credit (i.e. non-government bonds) over the last six months. The actions of central banks across the world in providing liquidity has helped to boost the attractiveness of risk assets, in an environment where returns from government bonds do not look particularly attractive. The ECB's commitment to unlimited quantities of Outright Market Transactions (OMT) – large scale purchases of the bonds of financially troubled euro area governments (provided that those governments meet certain conditions), helped reduce the impact on the markets of adverse events such as the inconclusive Italian election result and the bank failures in Cyprus.

Although gilt yields ended the period little changed, there was some volatility. For example, ten-year gilt yields traded in a range between 1.7% and 2.2%. Factors that helped to support gilts were the demand for safe assets and the support from the Bank of England's QE measures. However, a perceived loosening of the inflation target and its persistent failure to fall to the target, together with uncertainty over the direction of policy when Mark Carney becomes governor, did provoke periodic weakness. The fall in sterling of nearly 6% over the period more accurately reflects the markets' concerns. The size of the Asset Purchase Programme remained at £375bn. The Funding for Lending Scheme (FLS) is helping to ease credit conditions, but its effects remain limited.

The UK economy continues to flirt with recession. With the government having no fiscal room, monetary policy remains the only policy lever to counter further economic weakness.

### PORTFOLIO ACTIVITY

The fund has remained active throughout the period in new issues, particularly when there was a significant discount on these bonds relative to existing securities. This added to the portfolio's performance.

# Sterling Corporate Bond Fund

## Fund Review (continued)

### STRATEGY & OUTLOOK

We continue to look for slow economic growth in the UK and across Europe. Downside risks remain, but we believe that central banks will help to support the markets.

Government bonds will remain supported by easy money, not great economic conditions, e.g., nominal GDP growth is still falling in many countries, and potential capital exports from Japan. We are not believers that Japanese money moving offshore in search of higher yields will have material effects on government bond yields. US and German government bond yields are already very, very low. What it does do, in our opinion, is bolster the case for higher yielding instruments, credit or sovereign. As such, we continue to advocate carefully allocating money to corporate bonds, particularly financials, high yield and peripheral Europe, even if we have a few 'bumps in the night' along the way. UK government bonds look expensive at the margin. However, we do not bet on a trend change yet: we look to find something better, at least for the time being.

Valuation levels for UK credit remain attractive – even after a year of excellent performance by the asset class. Implied default rates are high relative to the historical experience.

In relation to financials, the secular risk decline, driven largely by regulation, continues to support the sector. In addition, the valuation of financials versus non-financial issuers bolsters the investment case.

**All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.**

# Sterling Corporate Bond Fund

## Portfolio Statement

AS AT 31st MARCH 2013 (UNAUDITED)

|                                 | Holdings | Investments                                       | Market Value (£) | % of net asset value 31st Mar 2013 | % of net asset value 30th Sep 2012 |
|---------------------------------|----------|---|------------------|------------------------------------|------------------------------------|
| <b>Corporate Bonds – 81.26%</b> |          |   |                  |                                    |                                    |
|                                 | 150,000  | Abbey National 4.125% 2017                        | 163,226          | 1.72                               |                                    |
|                                 | 100,000  | ABN Amro 4.875% 2019                              | 113,152          | 1.19                               |                                    |
|                                 | 100,000  | ABP Finance 6.25% 2026                            | 115,171          | 1.21                               |                                    |
|                                 | 100,000  | America Movil 5.00% 2026                          | 114,851          | 1.21                               |                                    |
|                                 | 100,000  | APT Pipelines 4.25% 2024                          | 105,925          | 1.11                               |                                    |
|                                 | 100,000  | BAA Funding 6.00% 2020                            | 115,182          | 1.21                               |                                    |
|                                 | 100,000  | Bank of America 6.125% 2021                       | 120,827          | 1.27                               |                                    |
|                                 | 50,000   | BAT International Finance 6.00% 2022              | 62,792           | 0.66                               |                                    |
|                                 | 50,000   | BAT International Finance 6.00% 2034              | 64,086           | 0.67                               |                                    |
|                                 | 100,000  | BBVA Subordinated Capital 1.23688% 2018           | 83,750           | 0.88                               |                                    |
|                                 | 100,000  | BHP Billiton Finance 3.25% 2024                   | 100,423          | 1.06                               |                                    |
|                                 | 90,000   | BNP Paribas 3.50% 2016                            | 95,958           | 1.01                               |                                    |
|                                 | 50,000   | Canary Wharf Finance II 5.952% 2035               | 64,457           | 0.68                               |                                    |
|                                 | 100,000  | Citigroup 7.375% 2039                             | 141,470          | 1.49                               |                                    |
|                                 | 100,000  | Commonwealth Bank of Australia 3.00% 2026         | 99,813           | 1.05                               |                                    |
|                                 | 50,000   | Coventry Building Society 5.875% 2022             | 60,083           | 0.63                               |                                    |
|                                 | 150,000  | Crédit Agricole 7.375% 2023                       | 182,275          | 1.92                               |                                    |
|                                 | 100,000  | Credit Suisse Finance 7.00% 2020                  | 119,869          | 1.26                               |                                    |
|                                 | 60,000   | Deutsche Telecom 7.625% 2030                      | 85,635           | 0.90                               |                                    |
|                                 | 100,000  | Electricite De France 5.50% 2041                  | 109,862          | 1.16                               |                                    |
|                                 | 150,000  | ENEL 5.75% 2040                                   | 134,101          | 1.41                               |                                    |
|                                 | 100,000  | Finmeccanica Finance 8.00% 2019                   | 107,073          | 1.13                               |                                    |
|                                 | 50,000   | Firstgroup 6.875% 2024                            | 58,108           | 0.61                               |                                    |
|                                 | 100,000  | France Telecom 5.375% 2050                        | 104,523          | 1.10                               |                                    |
|                                 | 100,000  | Gatwick Funding 5.75% 2037                        | 114,752          | 1.21                               |                                    |
|                                 | 20,000   | GE Capital UK Funding 2.25% 2015                  | 20,540           | 0.22                               |                                    |
|                                 | 50,000   | General Electric Capital 4.125% 2017              | 55,094           | 0.58                               |                                    |
|                                 | 100,000  | General Electric Capital 5.125% 2023              | 115,818          | 1.22                               |                                    |
|                                 | 100,000  | GlaxoSmithKline Capital 3.375% 2027               | 99,776           | 1.05                               |                                    |
|                                 | 125,000  | Goldman Sachs 6.125% 2017                         | 139,738          | 1.47                               |                                    |
|                                 | 75,000   | Heathrow Funding 6.25% 2018                       | 86,974           | 0.91                               |                                    |
|                                 | 100,000  | High Speed Rail Finance 4.375% 2038               | 104,808          | 1.10                               |                                    |
|                                 | 100,000  | HSBC Bank 6.50% 2024                              | 127,854          | 1.34                               |                                    |
|                                 | 50,000   | ING 3.875% 2016                                   | 53,875           | 0.57                               |                                    |
|                                 | 100,000  | ING Bank 6.875% 2023                              | 113,984          | 1.20                               |                                    |
|                                 | 100,000  | InterContinental Hotels 3.875% 2022               | 105,864          | 1.11                               |                                    |
|                                 | 100,000  | INTU Finance 3.875% 2023                          | 103,515          | 1.09                               |                                    |
|                                 | 100,000  | IPIC GMTN 6.875% 2026                             | 127,740          | 1.34                               |                                    |
|                                 | 170,000  | KFW 6.00% 2028                                    | 241,060          | 2.54                               |                                    |
|                                 | 100,000  | Koninklijke KPN 6.875% 2073                       | 99,750           | 1.05                               |                                    |
|                                 | 50,000   | Lafarge 10.00% 2017                               | 61,126           | 0.64                               |                                    |
|                                 | 150,000  | Lloyds TSB Bank 7.625% 2025                       | 179,074          | 1.88                               |                                    |
|                                 | 100,000  | London Power Networks 5.125% 2023                 | 117,471          | 1.24                               |                                    |
|                                 | 100,000  | Marks & Spencer 6.125% 2021                       | 112,194          | 1.18                               |                                    |
|                                 | 100,000  | Metropolitan Life Global Funding I 3.50% 2026     | 103,195          | 1.09                               |                                    |
|                                 | 100,000  | Motability Operations 4.375% 2027                 | 109,016          | 1.15                               |                                    |
|                                 | 100,000  | National Grid Electricity Transmission 4.00% 2027 | 102,929          | 1.08                               |                                    |
|                                 | 125,000  | Nationwide Building Society 5.625% 2019           | 148,296          | 1.56                               |                                    |
|                                 | 100,000  | NGG Finance 5.625% 2073                           | 99,550           | 1.05                               |                                    |
|                                 | 60,000   | Pemex Project Trust 7.50% 2013                    | 62,813           | 0.66                               |                                    |
|                                 | 100,000  | PepsiCo 2.50% 2022                                | 100,361          | 1.06                               |                                    |
|                                 | 100,000  | Petrobras Global Finance 5.375% 2029              | 103,836          | 1.09                               |                                    |
|                                 | 50,000   | Porterbrook Rail Finance 7.125% 2026              | 67,576           | 0.71                               |                                    |
|                                 | 100,000  | Prudential 1.25% 2015                             | 100,508          | 1.06                               |                                    |
|                                 | 50,000   | Rentokil Initial 5.75% 2016                       | 54,636           | 0.57                               |                                    |
|                                 | 150,000  | Royal Bank of Scotland 6.625% 2018                | 182,680          | 1.92                               |                                    |
|                                 | 100,000  | RWE 7.00% 2049                                    | 107,500          | 1.13                               |                                    |
|                                 | 100,000  | Siemens Financieringsmaatschappij 3.75% 2042      | 94,247           | 0.99                               |                                    |
|                                 | 125,000  | Société Générale 5.40% 2018                       | 134,060          | 1.41                               |                                    |
|                                 | 50,000   | Stagecoach 5.75% 2016                             | 56,029           | 0.59                               |                                    |
|                                 | 100,000  | Svenska Handelsbanken 2.75% 2022                  | 100,051          | 1.05                               |                                    |
|                                 | 100,000  | Telecom Italia 5.625% 2015                        | 106,726          | 1.12                               |                                    |
|                                 | 50,000   | Telecom Italia 5.875% 2023                        | 49,757           | 0.52                               |                                    |
|                                 | 100,000  | Telefonica Emision 5.289% 2022                    | 103,426          | 1.09                               |                                    |
|                                 | 96,710   | Tesco Property Finance 7.6227% 2039               | 130,354          | 1.37                               |                                    |
|                                 | 100,000  | Thames Water Utilities Cayman Finance 5.75% 2030  | 116,064          | 1.22                               |                                    |
|                                 | 100,000  | Together Housing Finance 4.50% 2042               | 98,815           | 1.04                               |                                    |
|                                 | 100,000  | Transport for London 3.875% 2042                  | 101,668          | 1.07                               |                                    |
|                                 | 100,000  | Virgin Media Secured Finance 5.50% 2021           | 102,186          | 1.08                               |                                    |

# Sterling Corporate Bond Fund

## Portfolio Statement (continued)

AS AT 31st MARCH 2013 (UNAUDITED)

|   | Holdings | Investments  | Market Value (£) | % of net asset value 31st Mar 2013 | % of net asset value 30th Sep 2012 |
|---|----------|--|------------------|------------------------------------|------------------------------------|
| <b>Corporate Bonds – 81.26% (continued)</b> |          |  |                  |                                    |                                    |
|   | 35,000   | Volkswagen Financial Services 2.00% 2015             | 35,881           | 0.38                               |                                    |
|   | 100,000  | Voyage Care Bondco 6.50% 2018                        | 102,469          | 1.08                               |                                    |
|   | 50,000   | Washington Mutual Bank 5.50% 2019*                   | 48               | 0.00                               |                                    |
|   | 100,000  | Western Power Distribution East Midlands 5.25% 2023  | 118,372          | 1.24                               |                                    |
|   | 100,000  | Westfield UK & Europe Finance 4.25% 2022             | 108,735          | 1.14                               |                                    |
|   | 50,000   | Xstrata Canada Financial 7.375% 2020                 | 62,530           | 0.66                               |                                    |
|   | 50,000   | Yorkshire Water Services Bradford Finance 6.00% 2025 | 56,650           | 0.60                               |                                    |
|   |          |  | <b>7,724,583</b> | <b>81.26</b>                       | <b>80.43</b>                       |
| <b>Perpetual Call Bonds – 7.21%</b>         |          |  |                  |                                    |                                    |
|   | 100,000  | Aviva 6.125%   | 97,337           | 1.02                               |                                    |
|   | 50,000   | Barclays Bank 14.00%                                 | 67,500           | 0.71                               |                                    |
|   | 50,000   | Barclays Bank 8.25%                                  | 52,606           | 0.55                               |                                    |
|   | 100,000  | DNB Nor Bank 6.0116%                                 | 103,458          | 1.09                               |                                    |
|   | 100,000  | ELM 6.3024%  | 103,500          | 1.09                               |                                    |
|   | 150,000  | Generali Finance 6.214%                              | 125,027          | 1.32                               |                                    |
|   | 50,000   | Legal & General Group 5.875%                         | 52,000           | 0.55                               |                                    |
|   | 100,000  | National Westminster 7.125%*                         | 83,497           | 0.88                               |                                    |
|   |          |  | <b>684,925</b>   | <b>7.21</b>                        | <b>7.80</b>                        |
| <b>Supra-national Borrowers – 4.26%</b>     |          |  |                  |                                    |                                    |
|   | 50,000   | European Investment Bank 4.75% 2018                  | 59,594           | 0.63                               |                                    |
|   | 270,000  | European Investment Bank 5.50% 2025                  | 345,261          | 3.63                               |                                    |
|   |          |  | <b>404,855</b>   | <b>4.26</b>                        | <b>5.22</b>                        |
| <b>Futures Contracts – (0.04%)</b>          |          |  |                  |                                    |                                    |
|   | (1)      | UK Long Gilt Bond Futures December 2012              | (3,960)          | (0.04)                             |                                    |
|   |          |  | <b>(3,960)</b>   | <b>(0.04)</b>                      | <b>0.02</b>                        |
| <b>Portfolio of investments</b>             |          |  | <b>8,810,403</b> | <b>92.69</b>                       | <b>93.47</b>                       |
| <b>Net other assets</b>                     |          |  | <b>695,031</b>   | <b>7.31</b>                        | <b>6.53</b>                        |
| <b>Net assets</b>                           |          |  | <b>9,505,434</b> | <b>100.00</b>                      | <b>100.00</b>                      |

\* Stale priced.

All investments in bond are held in Pound sterling.

| Rating Block                    | Market Value (£) |
|---------------------------------|------------------|
| AAA                             | 307,903          |
| AA+                             | 184,018          |
| AA                              | 103,195          |
| AA-                             | 199,801          |
| A+                              | 1,059,476        |
| A                               | 602,753          |
| A-                              | 1,607,249        |
| BBB+                            | 1,200,177        |
| BBB                             | 1,786,331        |
| BBB-                            | 644,715          |
| BB+                             | 357,334          |
| BB                              | 106,726          |
| B+                              | 97,337           |
| Unrated                         | 557,348          |
| <b>Portfolio of investments</b> | <b>8,814,363</b> |

## Portfolio Turnover Rate ("PTR")

|  | For the period ended 31st Mar 2013 | For the year ended 30th Sep 2012 |
|--|------------------------------------|----------------------------------|
|  | <b>178.50%</b>                     | <b>441.44%</b>                   |

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for six months.

# Sterling Corporate Bond Fund

## Statement of Total Return

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|   | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Income</b>   |                   |                   |                   |                   |
| Net capital gains   |                   | 332,930           |                   | 339,935           |
| Revenue   | 196,576           |                   | 178,293           |                   |
| Expenses  | (34,883)          |                   | (21,172)          |                   |
| Finance costs: Interest   | (33)              |                   | –                 |                   |
| Net revenue before taxation   | 161,660           |                   | 157,121           |                   |
| Taxation  | (4)               |                   | (83)              |                   |
| Net revenue after taxation  |                   | 161,656           |                   | 157,038           |
| <b>Total return before distributions</b>  |                   | <b>494,586</b>    |                   | <b>496,973</b>    |
| Finance costs: Distributions  |                   | (161,660)         |                   | (157,038)         |
| <b>Change in net assets attributable to shareholders from investment activities</b> |                   | <b>332,926</b>    |                   | <b>339,935</b>    |

## Statement of Change in Net Assets Attributable to Shareholders

### FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 31st Mar 2012 (£) | 31st Mar 2012 (£) |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Opening net assets attributable to shareholders</b>                       |                   | <b>7,729,011</b>  |                   | <b>6,066,953</b>  |
| Amounts received on issue of shares  | 2,460,948         |                   | 844,523           |                   |
| Amounts paid on cancellation of shares                                       | (1,125,843)       |                   | (940,087)         |                   |
|  |                   | 1,335,105         |                   | (95,564)          |
| Dilution levy  |                   | 9,754             |                   | 25,193            |
| Change in net assets attributable to shareholders from investment activities |                   | 332,926           |                   | 339,935           |
| Retained distribution on accumulation shares                                 |                   | 98,638            |                   | 98,711            |
| <b>Closing net assets attributable to shareholders</b>                       |                   | <b>9,505,434</b>  |                   | <b>6,435,228</b>  |

Comparatives are for the six months to 31st March 2012.

## Balance Sheet

### AS AT 31st MARCH 2013 (UNAUDITED)

|  | 31st Mar 2013 (£) | 31st Mar 2013 (£) | 30th Sep 2012 (£) | 30th Sep 2012 (£) |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Assets</b>                                  |                   |                   |                   |                   |
| Investment assets                              |                   | 8,814,363         |                   | 7,224,335         |
| Debtors  | 919,702           |                   | 519,695           |                   |
| Cash and bank balances                         | 602,534           |                   | 389,525           |                   |
| Total other assets                             |                   | 1,522,236         |                   | 909,220           |
| <b>Total assets</b>                            |                   | <b>10,336,599</b> |                   | <b>8,133,555</b>  |
| <b>Liabilities</b>                             |                   |                   |                   |                   |
| Investment liabilities                         |                   | 3,960             |                   | –                 |
| Creditors                                      | 785,537           |                   | 370,184           |                   |
| Distribution payable on income shares          | 41,668            |                   | 34,360            |                   |
| Total other liabilities                        |                   | 827,205           |                   | 404,544           |
| <b>Total liabilities</b>                       |                   | <b>831,165</b>    |                   | <b>404,544</b>    |
| <b>Net assets attributable to shareholders</b> |                   | <b>9,505,434</b>  |                   | <b>7,729,011</b>  |

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30th September 2012 and are described in those annual financial statements.



# Sterling Corporate Bond Fund

## Distribution Table

**FOR THE PERIOD ENDED 31st MARCH 2013 (UNAUDITED)**

### INTERIM

Group 1 – shares purchased prior to 1st October 2012

Group 2 – shares purchased between 1st October 2012 and 31st March 2013

|                                     | Gross<br>Income | Income<br>Tax | Net<br>Income | Equalisation | Distribution<br>payable<br>31st May 2013 | Distribution<br>paid<br>31st May 2012 |
|-------------------------------------|-----------------|---------------|---------------|--------------|--|---------------------------------------|
| <b>Share Class A – Accumulation</b> |                 |               |               |              |  |                                       |
| Group 1                             | 32.4500p        | 6.4900p       | 25.9600p      | –            | 25.9600p                                 | 32.9291p                              |
| Group 2                             | 19.8601p        | 3.9720p       | 15.8881p      | 10.0719p     | 25.9600p                                 | 32.9291p                              |
| <b>Share Class A – Income</b>       |                 |               |               |              |  |                                       |
| Group 1                             | 23.2550p        | 4.6510p       | 18.6040p      | –            | 18.6040p                                 | 24.3860p                              |
| Group 2                             | 11.1324p        | 2.2265p       | 8.9059p       | 9.6981p      | 18.6040p                                 | 24.3860p                              |
| <b>Share Class I – Accumulation</b> |                 |               |               |              |  |                                       |
| Group 1                             | 39.8898p        | 7.9780p       | 31.9118p      | –            | 31.9118p                                 | 38.3809p                              |
| Group 2                             | 17.0698p        | 3.4140p       | 13.6558p      | 18.2560p     | 31.9118p                                 | 38.3809p                              |
| <b>Share Class I – Income</b>       |                 |               |               |              |  |                                       |
| Group 1                             | 27.4311p        | 5.4862p       | 21.9449p      | –            | 21.9449p                                 | 27.4905p                              |
| Group 2                             | 6.0679p         | 1.2136p       | 4.8543p       | 17.0906p     | 21.9449p                                 | 27.4905p                              |

### EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

## Further information

### REPORTS & ACCOUNTS

Each year, you will be sent the short form report in accordance with the requirement of FCA's regulations. The annual and semi-annual report is available at our website [www.morganstanley.com](http://www.morganstanley.com) or by writing to Morgan Stanley Investment Management (ACD) Limited, 25 Cabot Square, Canary Wharf, London E14 4QA.

### UCITS IV

The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS IV") for the purpose of the Council Directive 2009/65/EC, transposed on 1st July 2011 into UK law.

### PROSPECTUS

The Fund Prospectus, an important document describing each Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds.

The ACD for Morgan Stanley Funds (UK) is Morgan Stanley Investment Management (ACD) Limited, located at 25 Cabot Square, Canary Wharf, London E14 4QA.

### TYPES OF SHARE AVAILABLE

Each of the Funds of Morgan Stanley Funds (UK) offers two classes of shares: Advisory or Class A shares and Institutional or Class I shares. The share classes are differentiated in terms of minimum initial and subsequent investment required and the annual management charge.

The Funds may issue Income and Accumulation shares in each Class.

With effect from 30th November 2012, the A share class of the Global Brands Fund closed to new subscriptions for the foreseeable future.

### MINIMUM INVESTMENT

For Class A shares, a minimum initial investment of £1,000 is required; additional investments may be subject to a £500 minimum injection. For Class I shares, a minimum initial investment of £50,000 is required; additional investments may be subject to a £2,500 minimum injection.

### MINIMUM REDEMPTION

The ACD may refuse a redemption request if the total value of the shares to be redeemed falls below a certain level. Redemptions below £500 can be refused in any share class. Partial redemptions can be rejected if the remaining balance left would be less than (i) £1,000 for A Shares or (ii) £50,000 for I shares..

### SWITCHING

Investors may sell their shares and transfer the proceeds into any of the other Funds by calling our dealing desk on 0800 328 1571.

### DISTRIBUTIONS

Income distributions are allocated to shareholders at the end of each accounting period (31st March and 30th September) and paid within 2 months following the end of each accounting period. Income allocated in respect of Income and Accumulation shares is automatically reinvested at no charge.

### PUBLICATION OF PRICES

The most recent share prices will be published daily in the Financial Times.

### CHARGES

A preliminary charge of 5.00% may be levied on the purchase of class A shares in all Funds. Part or all of the preliminary charge may be waived at the Authorised Corporate Director's (ACD's) discretion. On an exchange of shares of one Class or Fund for shares in another Class or Fund, the ACD may take a charge not exceeding the excess of the amount of the prevailing preliminary charge for the new shares being acquired over the preliminary charge levied on the acquisition of the original shares. There are no exit charges for Morgan Stanley Funds (UK). A proportion of the annual management charge is deducted from the net assets of each Fund on a daily basis. Charges for items such as administration, custody, and auditors fees are also deducted from each Fund.

### DILUTION LEVY

The transaction costs associated with Fund investments may vary from the mid market value used in calculating the Fund's share price. This may sometimes have an adverse effect on the shareholders' interest in the Fund, called "dilution". To prevent this effect, the ACD may apply a dilution levy to share purchases or redemptions. This charge is paid into and becomes part of the relevant Fund. For the Morgan Stanley Funds (UK), effective 5th May 2011, a swing factor of up to 1% will be applied if the net subscription or net redemption on a given day exceeds a pre-determined level (the "Swing Threshold").

Recipients of this document should not treat the contents as advice relating to legal, taxation or investment matters and should consult their own professional advisers concerning the acquisition, holding or disposing of investments in the Funds.

Past performance is not necessarily indicative of future performance and the value of the shares and income from them may fall as well as rise. On redemption of shares, the investor may receive back an amount less than the original amount of their investment. The assets of the Funds will be in a variety of currencies and therefore movements in the value of currencies may affect the value of an investor's holdings and the income from the holdings may fluctuate in value in money terms.

Issued by Morgan Stanley Investment Management (ACD) Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority.



