MFM Slater Growth Fund

Short Report

For the period from 1st January 2013 to 30th June 2013

Marlborough Fund Managers Limited

Fund Details
MFM Slater Growth Fund

Manager and Registrar

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

Customer Support: (0808) 145 2500 FREEPHONE

Authorised and regulated by the Financial Conduct Authority

Trustee

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Authorised and regulated by the Financial Conduct Authority

Investment Adviser

Slater Investments Limited
16 Eastcheap
London
EC3M 1BD
Telephone: (020) 7 2209460
Fax: (020) 7 2209469

Authorised and regulated by the Financial Conduct Authority

Auditors

Barlow Andrews LLP
Carlyle House
78 Chorley New Road
Bolton
BL1 4BY

GENERAL INFORMATION

Investment Objective

The investment objective is to achieve capital growth by investing in companies both in the UK and overseas but concentrating mainly on UK shares. The Scheme will focus in particular on shares which the Manager believes are currently under-valued and that have the potential of a significant re-rating. Other investments including bonds, warrants, deposits and collective investment schemes may be used where it is considered that they meet the investment objective. It is also intended where appropriate to take advantage of underwritings and placings. At times it may be appropriate for the Scheme not to be fully invested but to hold cash and near cash. The Scheme may invest in derivatives and forward transactions but only for hedging purposes.

Risk Profile

The portfolio is primarily invested in a portfolio of UK equities which carry risks such as market price risk and liquidity risk. These risks are monitored by the investment adviser in pursuit of the investment objectives as set above. In addition to the UK equity shares the portfolio may hold overseas equities which carry an additional currency risk. The fund may also invest in derivatives and forward transactions for the purpose of hedging with the aim of reducing the fund's risk profile. The investment adviser, having considered the portfolio, believes that its composition has a prudent spread of risk.

Reports and Accounts

The purpose of sending this Short Report is to present you with a summary of how the fund has performed during the accounting period in accordance with the FCA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.

Change in Prospectus

From 31 December 2012 class B units and class P units became available for purchase in the Fund, the existing units were reclassified as class A units. Also from that date, the manager's periodic charge and trustee's fees are calculated on a daily basis. From 1 September 2013 the minimum initial investment in class P units will be increased from £1,000,000 to £5,000,000.

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

Risk Warning

Past performance is not necessarily a guide to future. The value of investments and the income from them may go down as well as up. Investors may not get back their original investment. The fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of investment. This fund invests in smaller companies and carries a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The fund has a concentrated portfolio which means greater exposure to a smaller number of securities than a more diversified portfolio. The Fund invests mainly in the UK. Therefore it may be more vulnerable to market sentiment in that country.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 30 June 2013

Percentage change and sector position to 30 June 2013

	Six months	1 year	3 years	5 years	Since launch**
MFM Slater Growth Fund	5.91%	14.94%	65.96%	122.08%	157.75%
Quartile Ranking*	4	4	1	1	1

* Based on ranking within IMA UK All Companies Sector ** Launched 30 March 2005
External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

A temporary resolution to the US "fiscal cliff" crisis and a barrage of upbeat global economic data helped push Eurozone concerns firmly into the background. The bizarre and inconclusive outcome of the Italian general election in February, which would have triggered a major correction a year earlier, was shrugged off within two days. Similarly, the crisis in Cyprus, resulting in bank depositors bailing out banks, only led to a small pull-back in mid-March. Despite regular reminders about sluggish conditions in Europe and slowing growth in China, investors were reassured by robust US economic progress and continued to switch funds out of cash and into stocks.

The strongly bullish tone went sharply into reverse on 22nd May when the Federal Reserve laid out its roadmap to "tapering" Quantitative Easing – the UK stockmarket fell 8% from its 22nd May highpoint by 30th June, bond yields jumped and emerging debt and equity markets were hit especially hard. The Federal Reserve's plan is clearly dependent on strong economic data. Investors are now assuming that the Federal Reserve will reduce its bond buying in the next few months and will cease altogether midway through 2014. This is a few months earlier than investors had previously assumed but the main reasons for the negative reaction were that prices had gone up in a straight line for many months and investors were beginning to forget that Quantitative Easing had to end one day.

Financials and cyclicals led the stockmarket in the first half with many enjoying aggressive re-ratings. The Fund lagged as a result as stocks in these areas rarely meet our investment criteria. This was despite most of the Fund's holdings delivering respectable performances.

Advanced Medical Solutions reported solid progress. The shares gained 17% (+0.57% contribution). Alliance Pharma put on 13% (+0.44% contribution). Its model of making earnings enhancing acquisitions of cast off drugs owned by large pharmaceutical companies is extremely effective. CML Microsystems continued to perform, putting on 26% (+1.02% contribution) following an upbeat pre-closing statement in May. June's year-end figures showed pre-tax profits growing 28% and a fast-rising net cash balance.

The Fund's two largest holdings made significant operational progress in the first half. Shares in Entertainment One rose 14% (+1.47% contribution). The acquisition of Alliance Films was approved by Canada's anti-trust authorities in January and final results came in slightly ahead of forecasts with a strong start to the new financial year. The integration of Alliance Films is ahead of schedule and we envisage synergies substantially ahead of market forecasts. The company's transfer to the Premium list of the London Stock Exchange should see it entering the Mid 250 index in the fourth quarter which will create significant index buying. Meanwhile, the business is attractively priced on less than 10 times earnings with 15% plus earnings growth in prospect for several years. Meanwhile, Hutchison China MediTech gained 20% (+1.82% contribution). Final results confirmed that its Chinese healthcare division made reasonable progress last year, growing net profits by 11%. With raw material prices normalising, the company expects growth rates to rise back up towards 20% in the coming years. The company's joint venture with Nestle was approved by the Chinese authorities, paving the way for global phase 3 trials for a very promising drug. Solid progress with another drug triggered a $5m milestone payment by AstraZeneca. Investors are beginning to focus on the hidden value in Hutchison's R&D division. A crude read across based on a recent piece of research by Morgan Stanley would value the five drugs in phases 1 and 2 in the portfolio at $450m – equivalent to more than the entire market capitalisation of the group. This ignores the rest of the drug portfolio, including one drug in phase 3 trials.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Dialight gained 5%, contributing +0.76% in part due to some timely sales in the region of 1300p a share, compared with the 1103p prevailing at 30th June 2013. Preliminary results confirmed 32% growth in continuing earnings. The fast-growing industrial lighting division (40% of group sales) added 73% to its top line and has doubled its sales force which bodes well for next year. However, the shares gave back some of their gains after the pre-interim statement which flagged that profits would be more second half weighted than usual owing to delays in orders from US telephone tower companies for the Obstruction division. One of the delayed contracts has since been announced and we expect the company to meet current year forecasts. More importantly, we see profit more than doubling in the next three years, driven by rapid growth in the industrial lighting division.

Oxford Instruments also benefited from timely share sales in the region of 1500p to 1700p per share compared with 1229p at 30th June. The company contributed +0.63% to returns, despite a 14% fall in the share price by period end. Updates in February and April were reassuring. Preliminary results showed earnings 11% ahead. However, this was based on revenues only 4% ahead after a sluggish second half with pressure on industrial and US research spending. The new financial year has also started slowly. We do not see this as a change in the long term growth trend – month to month swings of this kind are normal for the company. Oxford is very well-placed to ride the nanotechnology wave with leading market positions – revenue growth of 10-20% per annum should be feasible as nanotechnology is used in a wider range of products and industries. There is also scope for margins to rise from 14% to nearer 20% in the medium term.

Other meaningful contributors included Judges Scientific (up 43%, +0.99% contribution), James Fisher (up 23%, +1.12% contribution), OPG Power (up 52%, +0.49% contribution), First Derivatives (up 11%, +0.26% contribution), Hargreave Services (up 36%, +0.36% contribution), Restore (up 11%, +0.23% contribution), RWS (up 21%, +0.27% contribution), Serco (up 15%, +0.35% contribution) and Weir Group (up 15%, +0.19% contribution). Chemring was sold during the period but contributed +0.43%. Lonrho was a bright spot. After a disappointing year of delays and missed forecasts, the company agreed to a cash bid at a substantial premium. The shares rose 19%, contributing +0.26% to returns. Four new positions also made worthwhile contributions – Cineworld (+0.21%), William Hill (+0.17%), Trifast (+0.16%) and John Menzies (+0.11%).

A small number of companies suffered reverses. The two most costly were NCC Group and Cupid. NCC Group fell 26% (-2.19% contribution) after stating that "a number of small, unrelated factors have held back the Group's overall rate of expected growth." This prompted 3-4% forecast downgrades. The problems were mainly to do with personnel issues and the integration of acquisitions. It was encouraging to hear management confirm that everything is again on track in a meeting following the full year results in early July 2013. The shares have also rebounded strongly. Cupid, an online dating business, cost the Fund -1.9% in terms of contribution. Investigative journalists began reporting that the company lures people to its websites under false pretences. Though the company strenuously denied the allegations, the share price was hit extremely hard. We decided to exit the position owing to the risk that the company's growth prospects have been seriously undermined.

Elsewhere, Avation fell 15% (-0.36% contribution) after a discounted 1 for 10 share issue to finance growth. However, earnings rose 22% at the interim stage and, on a PE of 9, the company's growth prospects are not reflected in the share price. Quindell Portfolio's shares fell 33% (-0.85% contribution) having rocketed last year. Despite continuing to win many impressive contracts, investors baulked at the number of acquisitions the company is making and worried about high levels of debtors. Management has since taken steps to explain its cash conversion and acquisition strategy to investors. Meanwhile, shares in Andor Technology fell 27% (-0.57% contribution) after news of delays in orders from US customers. This position has been reduced in size over the past year; we continue to believe that Andor is a business of quality.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

During the period, complete exits were made from Software Radio, Cupid, XP Power and Chemring. Partial profits were also taken in Oxford Instruments, Advanced Medical Solutions, Judges Scientific, Dialight, James Fisher, Serco and Hutchison China. Additions were made to existing investments in First Derivatives, OPG Power, Restore and Avation. A number of new investments were also made, including John Menzies, Trifast, Next Fifteen, Cineworld, William Hill, Staffline, Amec and Walt Disney.

The Fund's share selection criteria are rarely met by financials and cyclicals. Given the extremely strong performance of these kinds of companies during the first six months of the year it is unsurprising that the Fund lagged. However, we expect growth companies to catch up at some point and are encouraged that most of the portfolio's companies are reporting solid trading progress. Some companies, including some of the portfolio's larger holdings, have started to move but, looking back a year or so, have a lot of catching up to do, especially given recent results that are not remotely reflected in their current share prices. We therefore see significant pregnant value in the portfolio.

Distributions

	Year 2013	Year 2012	Year 2011	Year 2010
Net income paid last day of February	0.5930ppu	0.5411ppu	1.6913ppu	1.1908ppu
Net income paid 31 August	report only (only distributes at final xd)			

Slater Investments Ltd
7th August 2013

TOP TEN HOLDINGS AS AT 30 JUNE 2013

	%
Entertainment One	10.12
Hutchison China Meditech	8.49
Dialight	7.18
NCC Group	6.26
CML Microsystems	4.90
Fisher (James) & Sons	4.60
Alliance Pharma	3.74
First Derivatives	2.85
Sinclair (William) Holdings	2.58
Aviation	2.54

TOP TEN HOLDINGS AS AT 31 DECEMBER 2012

	%
Entertainment One	8.52
Oxford Instruments	8.26
Hutchison China MediTech	7.80
NCC Group	7.69
Dialight	7.22
Fisher (James) & Sons	4.31
Tikit Group	3.93
CML Microsystems	3.54
Alliance Pharma	2.99
Advanced Medical Solutions Group	2.75

Material Portfolio Changes

For the six month period ended 30 June 2013

Purchases	Cost (£)	Sales	Proceeds (£)
Walt Disney	729,439	Oxford Instruments	3,675,284
Trifast	540,483	Tikit Group	2,080,000
Cineworld	503,835	Chemring Group	1,048,748
William Hill	499,961	Advanced Medical Solutions Group	1,037,126
Menzies (John)	492,821	Hutchison China Meditech	830,536
AMEC	489,212	Dialight	795,255
Next Fifteen Communications Group	246,559	Judges Scientific	651,178
Staffline Group	240,235	Fisher (James) & Sons	619,357
First Derivatives	225,893	Cupid	545,461
Avation	87,750	XP Power	485,271
OPG Power Ventures	52,582	Entertainment One	337,086
Restore	8,140	Software Radio Technology	265,833
		Serco Group	221,918
Total purchases for the period	4,116,910	Total sales for the period	12,593,053

FUND FACTS

Launched Accumulation Units 30 March 2005 at 100p
On 31 December 2012 the units were reclassified as Class A. Class B and Class P units became available for purchase on 31 December 2012.

Accounting Dates	(Final)	31 December
	(Interim-report only)	30 June
Distribution Dates	(Final)	28 February
Minimum Investment	Class A	£3,000
	Class B	£100,000
	Class P	£5,000,000
IMA Sector		UK All Companies

Ongoing Charges Figure: **as at 30 June 2013** Class A 1.56%, Class B 1.06% and Class P 0.81%
as at 31 December 2012 Class A 1.55%
The ongoing charge figure is based on expenses for the year, except Class B and P, where the expenses are for the period 31 December 2012 to 30 June 2013 and the ongoing charge figure has been annualised to give a more accurate representation of the true costs over one year. This figure may vary from year to year. It excludes:

- Performance fees
- Portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment scheme.

Synthetic risk and reward indicator

Lower risk Higher risk

Typically lower rewards Typically higher rewards

1	2	3	4	5	6	7

The risk and reward indicator above aims to provide you with an indication of the overall risk and reward profile of the fund. It is calculated based on the volatility of the fund using weekly historic returns over the last five years. If five years data is not available for a fund, the returns of a representative portfolio are used.

This Fund has been measured as 6 because it has experienced high volatility historically.

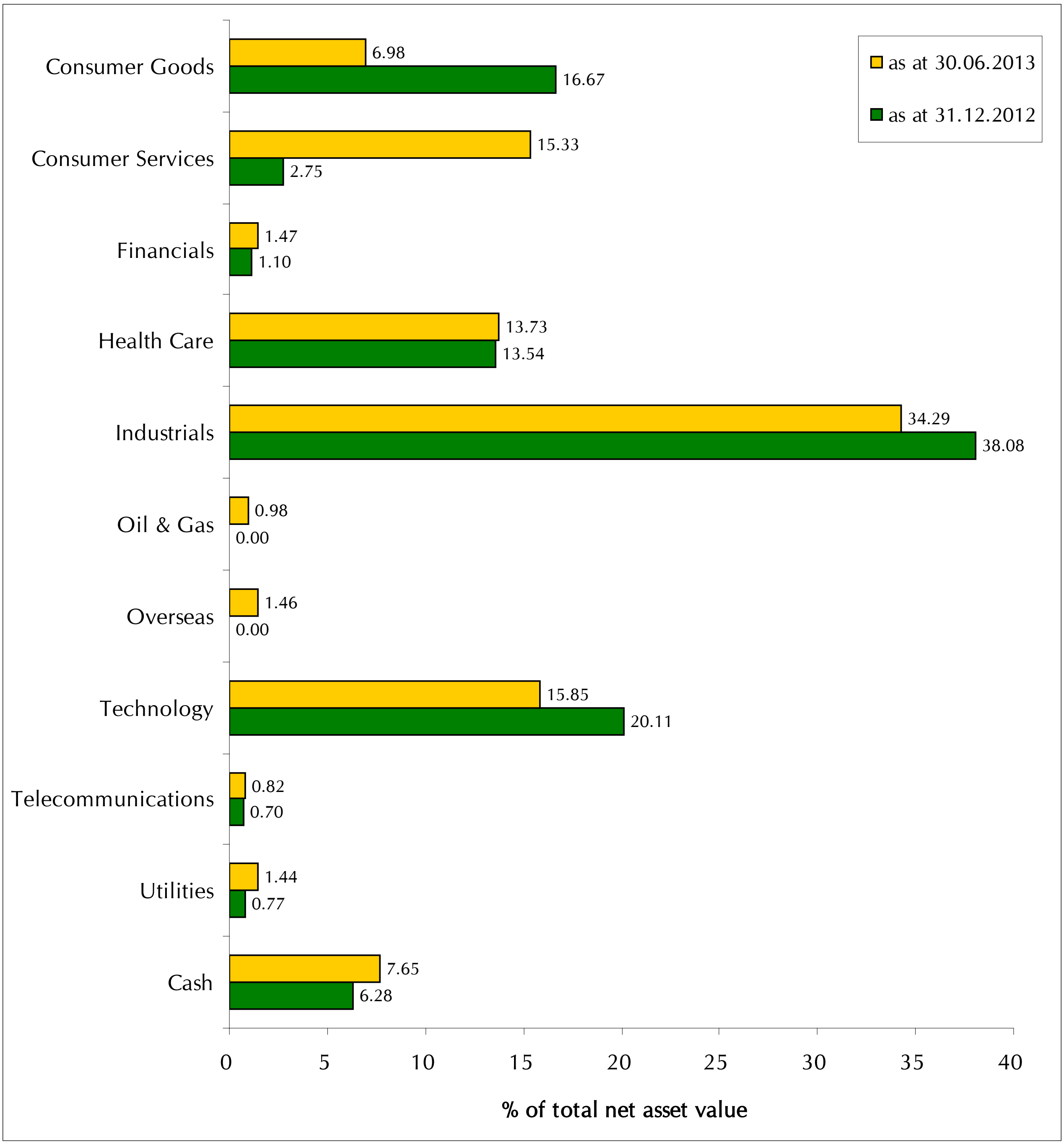
SUMMARY OF FUND PERFORMANCE

Unit Type	Year	Highest Price	Lowest Price	Distribution Per Unit
Class A				
Accumulation	2008	134.43p	75.19p	2.2769p
Accumulation	2009	119.02p	73.83p	1.1908p
Accumulation	2010	221.84p	119.75p	1.6913p
Accumulation	2011	251.32p	198.18p	0.5411p
Accumulation	2012	252.28p	208.84p	0.5930p
Accumulation	2013*	268.49p	231.83p	-
Class B				
Accumulation	2013*	267.08p	236.39p	-
Class P				
Accumulation	2013*	268.85p	236.39p	-

*up to 30 June 2013

	Net Asset Value of Scheme Property	Accumulation units in issue	Net Asset Value Per Accumulation Unit
Class A			
31 December 2010	£23,638,557	11,424,643	206.91p
31 December 2011	£47,081,065	22,717,331	207.25p
31 December 2012	£52,197,449	22,829,883	228.64p
30 June 2013	£46,012,586	18,939,056	243.00p
Class B			
30 June 2013	£340,608	139,810	243.62p
Class P			
30 June 2013	£966,656	396,083	244.05p

PORTFOLIO BREAKDOWN



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

Customer
Support: 0808 145 2500

Intermediary
Support: 0808 145 2502

Dealing: 0808 145 2501

Fax: 01204 533045

Email: enquiries@marlboroughfunds.com

Website: www.marlboroughfunds.com

Marlborough Fund Managers Limited
Registered in England No. 2061177
Authorised and regulated by the Financial Conduct
Authority and a member of IMA