



The Marlborough No. 2 OEIC

Annual Report and Audited Financial Statements
for the year ended 31st July 2017

THE MARLBOROUGH NO 2 OEIC

Registered Office

Marlborough House
59 Chorley New Road
Bolton
BL1 4QP

Authorised Corporate Director and Registrar

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

Investor Support: (0808) 145 2500 (FREEPHONE)

Authorised and regulated by the Financial Conduct Authority.

Depository

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Investment Advisers

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

Marlborough Multi Cap Income Fund and Marlborough Nano-Cap Growth Fund
Hargreave Hale Limited
Talisman House
Boardmans Way
Blackpool
Lancashire
FY4 5FY

Authorised and regulated by the Financial Conduct Authority.

Auditor

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

Directors of Marlborough Fund Managers Ltd

Andrew Staley	Chairman
Nicholas F J Cooling	Deputy Chairman
Allan Hamer	Joint Managing Director
Wayne D Green	Joint Managing Director
Dom M Clarke	Finance Director
Geoffrey Hitchin	Investment Director
Helen Derbyshire	Director – Compliance & Risk
Guy Sears	Non-Executive Director (appointed 10 April 2017)
Keith Ounsworth	Director – Sales (resigned 6 April 2017)
John R Heap	Director – Strategic Development (resigned 9 February 2017)
B John Leyland	Director (resigned 9 February 2017)

THE MARLBOROUGH NO 2 OEIC

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THE MARLBOROUGH NO 2 OEIC

AUTHORISED STATUS AND GENERAL INFORMATION

Authorised Status

The Marlborough No 2 OEIC is an investment company with variable capital incorporated under the Open Ended Investment Company (OEIC) Regulations 2001. It is a UCITS scheme as defined in the Collective Investment Schemes Sourcebook (COLL) and is an umbrella company for the purposes of the OEIC Regulations. The Company is incorporated in England and Wales with the registration number IC000415 and is authorised and regulated by the Financial Conduct Authority with effect from 21 October 2005. The shareholders are not liable for the debts of the Company.

The sub-Funds of the Company are segregated by law under the Protected Cell Regime. In the event that one sub-fund in the Company is unable to meet its liabilities, the assets of another sub-fund within the Company will not be used to settle these liabilities.

The Company currently has three sub-Funds, the Marlborough Far East Growth Fund, Marlborough Multi Cap Income Fund and Marlborough Nano-Cap Growth Fund.

Investment Objectives

Marlborough Far East Growth Fund

The investment objective of the Marlborough Far East Growth Fund is to provide long term capital growth from an actively managed portfolio of securities.

The Fund will invest primarily in securities in the Pacific Basin region, excluding Japan, in order to achieve long term capital growth.

Marlborough Multi Cap Income Fund

The investment objective of the Marlborough Multi Cap Income Fund is to seek to generate an attractive and growing level of dividend income in addition to long term capital growth by investing in a diversified portfolio of equities predominantly listed in the UK.

The Fund will aim to achieve its objective by investing primarily in the shares of small to medium capitalisation companies where both capital and dividend growth are anticipated. From time to time the Fund may also hold the shares of large capitalisation companies as well as cash and money market instruments.

The Fund may also invest in other transferable securities including, but not limited to, warrants and government and public securities, and units in collective investment schemes, near cash and deposits. The Fund may enter into derivatives and forward transactions for the purposes of efficient portfolio management (including hedging), and may borrow and enter into stock lending arrangements.

It is intended that the Fund will be managed so that it is eligible for quotation within The Investment Association's UK Equity Income sector.

Marlborough Nano-Cap Growth Fund

The investment objective of the Marlborough Nano-Cap Growth Fund is to seek to provide capital growth in excess of that achieved by the FTSE SmallCap Index (excluding investment companies) over the long term.

The Fund will aim to achieve its investment objective by investing primarily in the shares of small, UK listed equities having a market capitalisation of £100 million or less at the time of investment. The Fund will be actively managed.

The Fund may also invest in other transferable securities including, but not limited to, warrants and government and public securities, money market instruments, units/shares in collective investment schemes, cash and near cash, and deposits. The Fund is permitted to invest in derivatives and forward transactions for the purposes of efficient portfolio management (including hedging), and may borrow and enter into stock lending arrangements in accordance with the Regulations.

The Fund will invest in very small companies which will have wider bid/offer spreads and may be more volatile than larger companies. This may impact on short term performance. Any investment in this Fund should be considered as long term (i.e. over 10 years).

Rights and Terms Attaching to Each Share Class

Each share of each class represents a proportional entitlement to the assets of the scheme. The allocation of income and taxation and the rights of each share in the event the scheme is wound up are on the same proportional basis.

THE MARLBOROUGH NO 2 OEIC

AUTHORISED STATUS AND GENERAL INFORMATION

Change in Prospectus

No changes have been made since the last report.

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

Cross Holdings

No sub-funds had holdings in any other sub-funds of the Company at the end of the period.

Remuneration policy

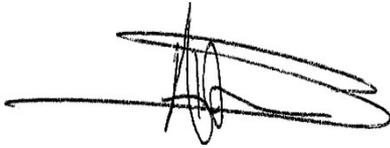
In line with the requirement of UCITS V, Marlborough Fund Managers Ltd is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under UCITS V. The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its senior staff is in line with the risk policies and objectives of the UCITS funds it manages.

The quantitative remuneration disclosures have not been included in the annual report as the information is not yet available. The authorised corporate director has not completed a full financial period since the regulations were introduced. Implementation of the policy remains ongoing and the disclosures will be included in the annual report for the year ended 31 July 2018.

THE MARLBOROUGH NO 2 OEIC

AUTHORISED CORPORATE DIRECTOR'S STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority.



ALLAN HAMER
JOINT MANAGING DIRECTOR



G R HITCHIN
INVESTMENT DIRECTOR

MARLBOROUGH FUND MANAGERS LTD
14 September 2017

STATEMENT OF AUTHORISED CORPORATE DIRECTOR'S RESPONSIBILITIES

Marlborough Fund Managers Ltd is the Authorised Corporate Director (ACD).

The rules contained in the Collective Investment Schemes Sourcebook (COLL) and made by the Financial Conduct Authority pursuant to the Financial Services and Markets Act 2000 require the ACD to prepare financial statements for each annual accounting period, reporting the financial position of the Company as at the end of that period and of its income for the period. In preparing those financial statements the ACD is required to:

- Comply with the Statement of Recommended Practice relating to Authorised Funds issued by The Investment Association, the Instrument of Incorporation, and the rules in the COLL.
- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records and to manage the Company in accordance with the Regulations, the Instrument of Incorporation and the Prospectus.

THE MARLBOROUGH NO 2 OEIC

DEPOSITARY'S REPORT TO THE SHAREHOLDERS OF THE MARLBOROUGH NO 2 OEIC

Statement of the Depositary's Responsibilities in Respect of the Company and Report of the Depositary to the Shareholders of The Marlborough No 2 OEIC ("the Company") for the period ended 31 July 2017

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI2001/1228), as amended, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Company's Instrument of Incorporation and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of the shares of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM"), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as depositary of the Company it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

HSBC BANK PLC

LONDON

14 September 2017

THE MARLBOROUGH NO 2 OEIC

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE MARLBOROUGH NO 2 OEIC

Opinion

We have audited the financial statements of the Marlborough No 2 OEIC (the 'company') for the year ended 31 July 2017 which comprise the statement of total return, the statement of change in net assets attributable to shareholders, the balance sheet and related notes for each sub-fund. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2017 and of its net revenue and net capital gains or losses on the company property for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by The Investment Association, the rules contained in the Collective Investment Schemes Sourcebook and the Instrument of Incorporation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the authorised corporate director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the authorised corporate director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The authorised corporate director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Collective Investment Schemes Sourcebook

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the report of the authorised corporate director for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- we have been given all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

THE MARLBOROUGH NO 2 OEIC

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE MARLBOROUGH NO 2 OEIC

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the report of the authorised corporate director.

We have nothing to report in respect of the following matters to which the Collective Investment Schemes Sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the company have not been kept; or
- the financial statements are not in agreement with those records.

Responsibilities of the authorised corporate director

As explained more fully in the Statement of Authorised Corporate Director's Responsibilities set out on page 4, the authorised corporate director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the authorised corporate director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the authorised corporate director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the authorised corporate director either intends to liquidate the fund or to cease activity, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

This report is made solely to the company's shareholders, as a body, in accordance with paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Barlow Andrews LLP
Chartered Accountants
Statutory Auditor
Carlisle House
78 Chorley New Road
Bolton

14 September 2017

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

Percentage change and sector position to 31 July 2017

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>
Marlborough Far East Growth Fund	12.71%	33.55%	59.79%	76.75%
Quartile Ranking*	2	1	1	2

*Based on ranking within The Investment Association's Asia Pacific ex Japan sector

Launched 31 October 2005

External Source of Economic Data: Morningstar (Class P - mid to mid, net income reinvested)

Class P shares first priced on 2 January 2013. In the period to that date, past performance information for the Class A shares has been used.



In the year to 31 July, the Far East fund rose by 33.55%, comfortably beating the rise in both the MSCI Asia Ex Japan Index, which rose by 27.7%, and the IA Asia Pacific Ex Japan Sector, which rose by 23.22%, all in Sterling terms.

Northern Asian markets have led the region throughout this period, with the best being MSCI China, which rose by 39.6% in Sterling terms, closely followed by Korea (30.9%) and Taiwan (28.9%). Markets have seen increasing divergence in the performance of the different Chinese indices over the last year. MSCI China now includes the US listed internet giants, such as Alibaba and Baidu and in future will include Chinese A shares. Already this is leading to a strong divergence in performance between A shares, which have fallen over this period, the banks-heavy HSCEI and MSCI China, as Alibaba and Baidu, along with HK listed Tencent, have come to dominate indices. These companies, together with the mighty Samsung, are now so large that tech stocks represent more than 30% of the entire region's indices. It is no coincidence that all four of these stocks serve the consumer in one form or another. Asian economies have continued to expand healthily during

the period under review, with China, India, The Philippines and Vietnam all recording more than 6% increases in GDP and this has powered consumer spending. Meanwhile, in the West, the Internet of Things has continued to develop at great speed, fuelling demand for connected gadgets from fridges to phones to cars. As a result, Taiwan, which manufactures so much of the generic technology necessary to power IoT and our holdings in Sunny Optical, Geely, Hynix, and ASM Pacific have all been spectacular. SK Hynix, the laggard of the pack, appreciated by a mere 93% in Sterling terms, as the need for chips with everything in the new connected world and its position as the leading DRAM maker in a highly consolidated industry drove price upwards. On the same trend, our holding in semiconductor equipment maker ASM, rose by 111% in the period under review, but was heavily eclipsed by Chinese car manufacturer Geely, whose ownership of Volvo and high quality internal research and development came together to boost our holding by 145% over the period. All paled in comparison, however, to Sunny Optical, which saw demand skyrocketing for both its smartphone camera lenses and its vehicle camera lenses. Its shares rose another 201% during the period under review and at the time of writing the company has just reported results for the half year to June 2017 up another 149%. As the company still trades on sensible valuations and has just announced that it has begun commercial production of time-of-flight camera lenses for drones and LIDAR in cars, we remain happy holders of this stock.

Remarkably, these were not the best Chinese holdings this year, as tight restrictions on property construction and mortgage availability a few years ago led to the inevitable upward squeeze in property prices in Mainland China. Our holding in developer Country Garden rose 256%, leaving our other holding in the sector, looking pedestrian at a mere 90% return.

These are extraordinary numbers and in every case, we have been cautiously taking profits throughout the year. We may achieve higher returns if we continue to hold on, and for the moment, with markets stuck in a single trend, as if in aspic, the lower exposure is less helpful, but we continually reappraise valuations and limit risk accordingly.

Korea has had an unwelcome pantheon of news this year. In the autumn, it was revealed that President Park had shared state secrets with her long-term confidante, Choi Soon Il. The scandal built until she was impeached early this year. As North Korea used the power vacuum to rattle sabres, America took advantage of the interregnum to push for the highly unpopular Terminal High Altitude Area Defense System (THAAD) to be installed in Seoul, contrary to the wishes of all of the opposition parties (and in particular the wishes of eventual election victor, Moon Jae In). The system has such a wide range that it directly threatens both China and Russia and this led to a major boycott of Korea's goods by China, severely damaging trade between the two countries and leading to many companies reporting drops in revenue over 80% yoy. Had it not been for the escalation in aggression between North Korea and the US, it looks unlikely that the THAAD system would have been approved by Parliament at all. At the time of writing, President Moon Jae In has just - reluctantly - agreed to pay for an additional four batteries of the system, following the extreme increase in rhetoric between the two countries.

India performed poorly, rising a mere 19.7%, although its recovery from the self-inflicted wounds of demonetisation has been notable. At the time of writing, the country is also reeling from the introduction of a new Goods and Services Tax (GST) and despite the protestations of both analysts and companies that neither event had any effect on them, corporate results have been well below expectations for the third quarter in a row. It has been immensely hard to assess the real impact of the demonetisation, as government data are notoriously unreliable in capturing what is happening in the rural economy, where some 70% of the population live. The Purchasing Managers composite Index has dropped from 55.4, which signals strong expansion, prior to the move, to just 46.0, indicating strong contraction, now and inflation has doubled this last month, led by food prices, which one should note are not subject to GST, but the planting of whose seeds, was severely curtailed by demonetisation. Industrial production has decelerated steadily since mid-2016 and is now contracting annually.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

ASEAN countries trailed badly in the period, with none of their markets outperforming the regional indices and the Philippines actually falling by almost 6% in the period, as investors reacted unfavourably to the presidency of political outsider Rodrigo Duterte. At the time of writing, Thailand is still mourning the loss of her beloved King, King Bhumipol Adulyadej, which has stifled consumption in the country since his death in October last year and deterred tourists, who were already wary of the military government there, from visiting. Singapore was the best market in ASEAN, rising by just over 21%, but like Malaysia, which rose just 3% in the period, as the 1MDB scandal kept reappearing, it has been hampered by the weakness of global oil prices. The financial health of companies in the oil and gas sector continues to beset Singapore. Whilst other countries are starting to see some improvement in this sector, as Singapore's industry has concentrated so heavily on deeper water servicers, it is being hit hard by the persistently low crude prices.

Looking into the current statistical season, all Asian economies other than India are starting to show stronger fundamental data than the previous quarter and contrary to normal trends (optimism usually abounds in January, but reality hits in August), earnings estimates are being revised up, not down, led by tech stocks. India, however, is seeing downward earnings revisions below the averages of the last 16 years. Debt remains a serious concern around the region, and as a result interest rates are on hold everywhere. Levels of debt should be a concern in India, the Philippines, Thailand and Singapore, but the widespread scare about corporate debt in China is overstated, because the level of repayment burden as a percentage of GDP remains low.

Looking ahead, the most important event for China – and possibly, the world – in the Autumn will be the Chinese National People's Congress, at which China will announce the new leadership for the coming five to ten years. With five members of the seven strong Standing Committee stepping down, leaving only Xi Jinping and Li Keqiang for continuity, China has been understandably paranoid about the handover. Add to that the fact that Governor of the PBOC, Zhou Xiaochuan also reaches the end of his term and one can see why China has locked down every aspect of its politics and economy all year, taking no chances with poor news. Once this has passed (we assume uneventfully), policy announcements and diplomatic action, with all their implications for regional and global demand for resources, will resume. Our current expectations are for a continuation of the environmental clean-up, continued rebalancing of the economy towards higher value-added and services sectors and strong support for the One Belt, One Road new Silk Road project. China's anti-corruption campaign also looks set to remain in force. In November, India will reach the anniversary of its demonetisation and this should, in theory at least, begin to give a low base to all profits and data. However, as the market is already well-owned and not cheap, the ability to move up further may be constrained, unless the restructuring of the banking system can be achieved without too much pain. We see substantial risks from the housing loans being extended without income documentation in India now, but we do not expect this particular accident to happen in the next six months. Elsewhere, we are exceptionally positive, not least because we do not expect the North Korean situation to worsen from here. Once China has her new leadership and America has been paid for THAAD, the way looks clear for Moon Jae In to pursue the detailed peace initiative he proposed in early July. As he does so, South Korea stands poised to benefit, with rapidly improving corporate governance, a cheap stock market, low company debt and a potential resumption of Chinese trade. All of these factors look likely to continue to drive markets upwards over the coming year and the portfolio will be positioned accordingly.

Sally Macdonald - Marlborough Fund Managers Ltd

18 August 2017

Distributions (pence per share)

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Class A Income</u>				
Net income paid 31 March	0.0000	0.9217	0.8770	1.1354
Net income paid 30 September	2.3910	3.9215	2.1060	2.1042
<u>Class A Accumulation</u>				
Net income paid 31 March	0.0000	1.0603	0.9876	1.2523
Net income paid 30 September	2.8216	4.5263	2.3840	2.3391
<u>Class B Income</u>				
Net income paid 31 March	0.4622	1.4360	1.3158	1.5763
Net income paid 30 September	2.9999	4.4674	2.5815	3.0350
<u>Class B Accumulation</u>				
Net income paid 31 March	0.5056	1.5276	0.0000	1.7118
Net income paid 30 September	3.5244	4.6726	0.0000	3.3313
<u>Class P Income</u>				
Net income paid 31 March	0.7043	1.5143	1.4970	1.7277
Net income paid 30 September	3.2589	4.5396	2.7674	2.6629
<u>Class P Accumulation</u>				
Net income paid 31 March	0.7791	1.6221	1.5632	1.7538
Net income paid 30 September	3.6230	4.9133	2.9153	2.7355

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

AUTHORISED INVESTMENT ADVISER'S REPORT
for the year ended 31 July 2017

Material Portfolio Changes

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
POSCO	631,687	ASM Pacific Technology	1,078,796
Fubon Financial Holding Co	598,732	Geely Automobile Holdings	951,156
China Everbright International	573,225	Fubon Financial Holding Co	698,642
Pacific Basin Shipping	571,229	China Vanke Co 'H'	626,933
Mega Financial Holding Co	570,588	Country Garden Holdings Co	591,915
Nexen Tire	566,668	Greatview Aseptic Packaging Co	521,587
King Yuan Electronics Co	561,466	Nexteer Automotive Group	513,258
WT Microelectronics Co	528,934	E. Sun Financial Holding Co	456,955
Longfor Properties Co	507,729	Samsung Electronics Co	427,974
Bank Rakyat Indonesia (Persero)	454,773	Semen Indonesia (Persero)	403,232
ICICI Bank ADR	440,496	Wasion Group Holdings	391,609
Johnson Electric Holdings	418,571	Huvitz Co	375,927
China Life Insurance Co	411,141	Sunny Optical Technology Group Co	373,734
Bank of China 'H'	385,290	Hon Hai Precision Industry Co	373,613
Hyundai Engineering & Construction Co	320,510	Khon Kaen Sugar Industry	356,427
Padini Holdings	282,504	Yes Bank	319,815
Haitong International Securities Group	271,984	Astra International	317,175
Wistron NeWeb	264,861	Sands China	296,300
Samsung Life Insurance Co	263,242	SK hynix	279,548
Samsung Electronics Co 'Non-vtg'	262,857	Taiwan Semiconductor Manufacturing Co	275,135
Other purchases	1,683,092	Other sales	2,081,671
Total purchases for the year	10,569,579	Total sales for the year	11,711,402

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

COMPARATIVE TABLE

Class A and Class B income and accumulation shares were first offered at 100p on 31 October 2005. On 31 December 2012 Class P shares became available for purchase.

<u>Class A income shares</u>	Year to	Year to	Year to
Change in net assets per share	31.07.2017	31.07.2016	31.07.2015
	pence	pence	pence
Opening net asset value per share	181.11	161.92	160.96
Return before operating charges*	63.00	27.57	7.02
Operating charges	(3.75)	(3.54)	(3.08)
Return after operating charges*	59.25	24.03	3.94
Distribution on income shares	(2.39)	(4.84)	(2.98)
Closing net asset value per share	237.97	181.11	161.92

* after direct transaction costs of: 0.53 0.55 0.60

Performance

Return after charges 32.71% 14.84% 2.45%

Other information

Closing net asset value	£3,483,967	£3,102,564	£6,438,841
Closing number of shares	1,464,058	1,713,074	3,976,509
Operating charges	1.74%	2.22%	1.82%
Direct transaction costs	0.24%	0.32%	0.35%

Prices

Highest share price	243.35p	186.95p	191.78p
Lowest share price	179.60p	136.89p	156.52p

Class A accumulation shares

Change in net assets per share	Year to	Year to	Year to
	31.07.2017	31.07.2016	31.07.2015
	pence	pence	pence
Opening net asset value per share	213.48	185.68	181.27
Return before operating charges*	74.13	31.87	7.89
Operating charges	(4.48)	(4.07)	(3.48)
Return after operating charges*	69.65	27.80	4.41
Distributions	(2.82)	(5.59)	(3.37)
Retained distributions on accumulation shares	2.82	5.59	3.37
Closing net asset value per share	283.13	213.48	185.68

* after direct transaction costs of: 0.63 0.63 0.68

Performance

Return after charges 32.63% 14.97% 2.43%

Other information

Closing net asset value	£11,093,070	£4,903,976	£4,854,691
Closing number of shares	3,917,961	2,297,120	2,614,570
Operating charges	1.74%	2.22%	1.82%
Direct transaction costs	0.24%	0.32%	0.35%

Prices

Highest share price	286.66p	215.70p	217.10p
Lowest share price	211.65p	156.97p	176.26p

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

COMPARATIVE TABLE

<u>Class B income shares</u>	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share			
	pence	pence	pence
Opening net asset value per share	186.80	166.98	165.71
Return before operating charges*	64.78	28.55	7.47
Operating charges	(2.74)	(2.83)	(2.30)
Return after operating charges*	62.04	25.72	5.17
Distribution on income shares	(3.46)	(5.90)	(3.90)
Closing net asset value per share	245.38	186.80	166.98
* after direct transaction costs of:	0.54	0.58	0.60
Performance			
Return after charges	33.21%	15.40%	3.12%
Other information			
Closing net asset value	£1,002	£1,042	£932
Closing number of shares	408	558	558
Operating charges	1.24%	1.72%	1.32%
Direct transaction costs	0.24%	0.32%	0.35%
Prices			
Highest share price	251.50p	193.22p	197.90p
Lowest share price	185.22p	141.21p	161.36p
<u>Class B accumulation shares</u>			
Change in net assets per share			
	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
	pence	pence	pence
Opening net asset value per share	213.52	185.22	-
Return before operating charges*	74.59	31.47	-
Operating charges	(3.39)	(3.17)	-
Return after operating charges*	71.20	28.30	-
Distributions	(4.03)	(6.20)	-
Retained distributions on accumulation shares	4.03	6.20	-
Closing net asset value per share	284.72	213.52	-
* after direct transaction costs of:	0.67	0.65	-
Performance			
Return after charges	33.35%	15.28%	-
Other information			
Closing net asset value	£54,343	£1,136	-
Closing number of shares	19,086	532	-
Operating charges	1.24%	1.72%	-
Direct transaction costs	0.24%	0.32%	-
Prices			
Highest share price	288.21p	215.81p	-
Lowest share price	211.78p	157.82p	-

There were no 'Class B' accumulation shares in issue as at 31 July 2015.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

COMPARATIVE TABLE

<u>Class P income shares</u>	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share	pence	pence	pence
Opening net asset value per share	181.31	162.06	161.02
Return before operating charges*	63.12	27.65	7.11
Operating charges	(2.15)	(2.35)	(1.81)
Return after operating charges*	60.97	25.30	5.30
Distribution on income shares	(3.96)	(6.05)	(4.26)
Closing net asset value per share	238.32	181.31	162.06

* after direct transaction costs of: 0.53 0.54 0.60

Performance

Return after charges 33.63% 15.61% 3.29%

Other information

Closing net asset value	£6,199,934	£4,541,460	£1,192,775
Closing number of shares	2,601,527	2,504,782	735,997
Operating charges	0.99%	1.47%	1.07%
Direct transaction costs	0.24%	0.32%	0.35%

Prices

Highest share price	244.53p	187.75p	192.14p
Lowest share price	179.82p	137.10p	156.86p

Class P accumulation shares

Change in net assets per share	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
	pence	pence	pence
Opening net asset value per share	201.14	173.64	168.14
Return before operating charges*	69.99	30.03	7.40
Operating charges	(2.36)	(2.53)	(1.90)
Return after operating charges*	67.63	27.50	5.50
Distributions	(4.40)	(6.54)	(4.48)
Retained distributions on accumulation shares	4.40	6.54	4.48
Closing net asset value per share	268.77	201.14	173.64

* after direct transaction costs of: 0.58 0.58 0.63

Performance

Return after charges 33.62% 15.84% 3.27%

Other information

Closing net asset value	£7,802,713	£9,943,463	£4,880,308
Closing number of shares	2,903,141	4,943,615	2,810,531
Operating charges	0.99%	1.47%	1.07%
Direct transaction costs	0.24%	0.32%	0.35%

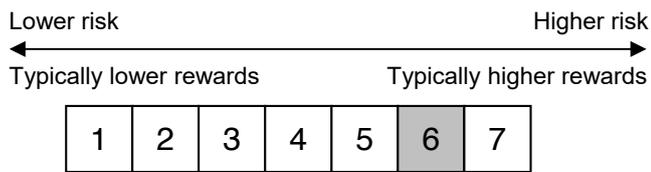
Prices

Highest share price	272.05p	203.22p	202.42p
Lowest share price	199.43p	146.89p	163.79p

Operating charges are the same as the ongoing charges and are the total expenses paid by each share class in the year. Direct transaction costs are the total charges for the year, included in the purchase and sale of investments in the portfolio of the Fund. These amounts are expressed as a percentage of the average net asset value over the year and the average shares in issue for the pence per share figures.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

SYNTHETIC RISK AND REWARD INDICATOR



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.

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
CHINA/HONG KONG (40.61%, July 2016 - 41.45%)		
4,800 Alibaba Group Holding	576,022	2.01
2,476,000 Bank of China 'H'	927,532	3.24
1,123,000 China Construction Bank 'H'	711,003	2.48
6,543 China Everbright Greentech	3,485	0.01
530,000 China Everbright International	525,311	1.83
303,000 China Life Insurance Co 'H'	730,107	2.55
26,000 China Mobile	212,298	0.74
333,000 Chow Sang Sang Holdings International	587,990	2.05
582,000 Country Garden Holdings Co	618,866	2.16
50,305 db X-trackers Harvest CSI300 Index '1D' ETF	425,644	1.49
1,486,000 Haitong International Securities Group	650,897	2.27
1,380,000 Industrial and Commercial Bank of China 'H'	735,053	2.57
299,250 Johnson Electric Holdings	807,191	2.82
314,000 Longfor Properties Co	601,001	2.10
4,000,000 Pacific Basin Shipping	667,272	2.33
1,158,000 PetroChina Co 'H'	568,229	1.98
394,170 PICC Property & Casualty Co 'H'	559,876	1.96
115,600 Sands China	408,238	1.43
65,900 Sunny Optical Technology Group Co	597,882	2.09
23,400 Tencent Holdings	714,964	2.50
Total China/Hong Kong	<u>11,628,861</u>	<u>40.61</u>
INDIA (9.41%, July 2016 - 9.44%)		
102,520 ICICI Bank ADR	723,330	2.53
11,700 Infosys	139,960	0.49
11,942 Lyxor MSCI India 'C' ETF	170,638	0.60
60,510 NIIT Technologies	368,729	1.29
118,666 Oil India	409,443	1.43
220,000 Power Grid Corporation of India	582,574	2.03
13,900 Yes Bank	299,137	1.04
Total India	<u>2,693,811</u>	<u>9.41</u>
INDONESIA (1.90%, July 2016 - 4.09%)		
645,000 Bank Rakyat Indonesia (Persero)	544,905	1.90
Total Indonesia	<u>544,905</u>	<u>1.90</u>
MALAYSIA (3.91%, July 2016 - 4.26%)		
406,000 Alliance Financial Group	283,949	0.99
580,000 Gamuda	547,048	1.91
440,000 Padini Holdings	289,718	1.01
Total Malaysia	<u>1,120,715</u>	<u>3.91</u>
SINGAPORE (4.47%, July 2016 - 6.35%)		
649,700 Bumitama Agri	268,067	0.94
27,600 DBS Group Holdings	334,817	1.17
14,000 Jardine Cycle & Carriage	317,035	1.11
160,600 Singapore Telecommunications	357,915	1.25
Total Singapore	<u>1,277,834</u>	<u>4.47</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
SOUTH KOREA (20.66%, July 2016 - 15.55%)		
10,000 Hyundai Engineering & Construction Co	308,044	1.08
8,615 Hyundai Motor Co, 2nd Pref	618,048	2.16
58,177 Industrial Bank of Korea	609,237	2.13
37,060 Korean Reinsurance Co	325,094	1.13
57,000 Nexen Tire	515,514	1.80
4,000 POSCO	903,051	3.15
442 Samsung Electronics Co	724,359	2.53
220 Samsung Electronics Co 'Non-vtg'	288,732	1.01
8,350 Samsung Life Insurance Co	709,759	2.48
20,405 SK hynix	914,400	3.19
Total South Korea	<u>5,916,238</u>	<u>20.66</u>
TAIWAN (14.72%, July 2016 - 13.94%)		
162,586 ADLINK Technology	262,247	0.91
515,000 China Life Insurance Co	414,692	1.45
510,000 CTCI	633,030	2.21
680,000 King Yuan Electronics Co	514,993	1.80
870,000 Mega Financial Holding Co	559,123	1.95
277,000 SerComm	533,361	1.86
170,000 Taiwan Hon Chuan Enterprise Co	233,932	0.82
55,000 Taiwan Semiconductor Manufacturing Co	296,636	1.04
110,000 Wistron NeWeb	268,082	0.94
441,000 WT Microelectronics Co	497,370	1.74
Total Taiwan	<u>4,213,466</u>	<u>14.72</u>
THAILAND (1.51%, July 2016 - 2.48%)		
263,700 PTT Global Chemical	433,161	1.51
Total Thailand	<u>433,161</u>	<u>1.51</u>
Portfolio of investments	27,828,991	97.19
Net current assets	<u>806,038</u>	<u>2.81</u>
Net assets	<u>28,635,029</u>	<u>100.00</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

STATEMENT OF TOTAL RETURN

for the year ended 31 July 2017

	Notes	31 July 2017		31 July 2016	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		6,980,908		2,172,494
Revenue	6	775,944		767,395	
Expenses	7	<u>(334,925)</u>		<u>(312,269)</u>	
Net revenue/(expense) before taxation		441,019		455,126	
Taxation	8	<u>(49,055)</u>		<u>204,982</u>	
Net revenue/(expense) after taxation			<u>391,964</u>		<u>660,108</u>
Total return before distributions			7,372,872		2,832,602
Distributions	9		(395,114)		(660,108)
Change in net assets attributable to shareholders from investment activities			<u>6,977,758</u>		<u>2,172,494</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 July 2017

	31 July 2017		31 July 2016	
	£	£	£	£
Opening net assets attributable to shareholders		22,493,641		17,367,547
Amounts receivable on issue of shares	1,251,999		4,284,873	
Amounts payable on cancellation of shares	(2,348,291)		(1,750,824)	
Amounts payable on share class conversions	<u>7,991</u>		<u>(2,907)</u>	
		(1,088,301)		2,531,142
Change in net assets attributable to shareholders from investment activities		6,977,758		2,172,494
Retained distribution on accumulation shares		249,285		422,458
Unclaimed distributions		2,646		0
Closing net assets attributable to shareholders		<u>28,635,029</u>		<u>22,493,641</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

BALANCE SHEET
as at 31 July 2017

	Notes	31 July 2017	31 July 2016
		£	£
Assets:			
Fixed Assets:			
Investments	15	27,828,991	21,944,665
Current Assets:			
Debtors	10	242,815	180,303
Cash and bank balances		738,879	706,436
Total assets		<u>28,810,685</u>	<u>22,831,404</u>
Liabilities:			
Creditors:			
Bank overdrafts		0	99,608
Distribution payable on income shares		119,802	180,913
Other creditors	11	55,854	57,242
Total liabilities		<u>175,656</u>	<u>337,763</u>
Net assets attributable to shareholders		<u>28,635,029</u>	<u>22,493,641</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

1 ACCOUNTING POLICIES

a Basis of preparation

The financial statements have been prepared in compliance with FRS102 and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by The Investment Association in May 2014.

The financial statements are prepared in sterling, which is the functional currency of the Fund. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of investments and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

b Going concern

The Authorised Corporate Director (ACD) has at the time of approving the financial statements, a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the financial statements.

c Revenue

Dividends from shares are recognised when the security is quoted ex-dividend.

Stock dividends, received as shares to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue.

Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. The tax treatment follows the accounting treatment of the principal amount.

Bank interest is accounted for on an accruals basis.

d Expenses

All expenses are accounted for on an accruals basis and, other than those relating to purchase and sale of investments, are charged against income as shown in these accounts.

e Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on net revenue for the year. The taxable amount differs from net revenue as reported in the Statement of Total Return (SOTR) because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the SOTR. Deferred tax assets and liabilities are offset when the Fund has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

f Valuation of investments

The investments of the Fund have been valued at their fair value at 12 noon on 31 July 2017. Fair value is normally the bid value of each security by reference to quoted prices from reputable sources; that is the market price. If the ACD believes that the quoted price is unreliable, or if no price exists, a valuation technique is used whereby fair value is the ACD's best estimate of a fair and reasonable value for that investment. The fair value excludes any element of accrued interest.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

ACCOUNTING POLICIES

g Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange ruling at the date of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the net capital gains/(losses) for the period.

h Cash and bank balances

Cash and bank balances include deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within creditors in liabilities.

i Financial assets

The ACD has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of the Fund's financial instruments.

Financial assets are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include amounts receivable for the issue of shares, accrued income and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition, less any reduction for impairment or uncollectability.

Basic financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the SOTR.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

j Financial liabilities

Financial liabilities are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified into specified categories. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of recognition.

Basic financial liabilities, which include amounts payable for cancellation of shares and accrued expenses, are initially measured at transaction price. Other financial liabilities are measured at fair value.

Financial liabilities are derecognised when, and only when, the Fund's obligations are discharged, cancelled, or they expire.

2 DISTRIBUTION POLICIES

a Basis of distribution

The policy of the Fund is to distribute any net revenue shown as such in the statement of total return. Revenue attributable to accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of revenue.

b Apportionment to multiple share classes

The ACD's periodic charge is directly attributable to individual share classes. All other income and expenses are allocated to the share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

DISTRIBUTION POLICIES

c Equalisation

Equalisation applies only to shares purchased during the distribution period. 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 UK income tax but must be deducted from the cost of the shares for UK capital gains tax purposes.

3 RISK MANAGEMENT POLICIES

In pursuing its investment objective as stated on page 2, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities held in accordance with the investment objectives and policies together with cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for issues and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the ACD's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations which are monitored by the ACD in pursuance of the investment objective and policy as set out in the Prospectus.

Investment limits set out in the Trust Deed, Prospectus and in the rules contained in the Collective Investment Schemes Sourcebook mitigate the risk of excessive exposure to any particular security or issuer.

Foreign currency risk

The income and capital value of the Fund's investments can be affected by foreign currency translation movements as most of the Fund's assets and income may be denominated in currencies other than sterling which is the Fund's functional currency.

The ACD has identified three principal areas where foreign currency risk could impact the Fund. These are, movements in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements in the period between when an investment purchase or sale is entered into and the date when settlement of the investment occurs, and finally movements in exchange rates affecting income received by the Fund. The Fund converts all receipts of income, received in currency, into sterling on the day of receipt.

Credit and counterparty risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty.

Interest rate risk

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The Fund's cash holdings are held in deposit accounts, whose rates are determined by the banks concerned on a daily basis.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any shares that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions. The liquidity of the Fund's assets is regularly reviewed by the ACD.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

4 NET CAPITAL GAINS/(LOSSES)

The net gains/(losses) on investments during the year comprise:

	31 July 2017	31 July 2016
	£	£
Non-derivative securities	7,026,150	2,155,055
Currency gains/(losses)	(38,656)	25,254
Transaction charges	(6,586)	(7,815)
Net capital gains/(losses)	<u>6,980,908</u>	<u>2,172,494</u>

5 PURCHASES, SALES AND TRANSACTION COSTS

(All purchases and sales are in the equity asset class)

	31 July 2017	31 July 2016
	£	£
Purchases excluding transaction costs	10,473,506	11,630,443
Corporate actions	72,790	67,628
	<u>10,546,296</u>	<u>11,698,071</u>
Commissions	19,357	19,027
Taxes and other charges	3,926	4,734
Total purchase transaction costs	<u>23,283</u>	<u>23,761</u>
Purchases including transaction costs	<u>10,569,579</u>	<u>11,721,832</u>

Purchase transaction costs expressed as a percentage of the principal amount:

Commissions	0.18%	0.16%
Taxes and other charges	0.04%	0.04%

Sales excluding transaction costs	11,752,896	8,850,870
Corporate actions	0	24,648
	<u>11,752,896</u>	<u>8,875,518</u>
Commissions	(22,281)	(18,668)
Taxes and other charges	(19,213)	(15,263)
Total sale transaction costs	<u>(41,494)</u>	<u>(33,931)</u>
Sales net of transaction costs	<u>11,711,402</u>	<u>8,841,587</u>

Sale transaction costs expressed as a percentage of the principal amount:

Commissions	0.19%	0.21%
Taxes and other charges	0.16%	0.17%

Total purchases and sales transaction costs expressed as a percentage of the average net asset value over the year:

	<u>0.24%</u>	<u>0.32%</u>
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Transaction handling charges

	<u>£6,586</u>	<u>£7,815</u>
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Average portfolio dealing spread

This spread represents the difference between the values determined respectively by reference to the bid and offer prices of investments expressed as a percentage of the value determined by reference to the offer price.

Average portfolio dealing spread at the balance sheet date:	<u>0.26%</u>	<u>0.35%</u>
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6 REVENUE

	31 July 2017	31 July 2016
	£	£
Overseas dividends	706,641	698,863
Stock dividends	69,246	67,628
Bank interest	57	904
Total revenue	<u>775,944</u>	<u>767,395</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

7 EXPENSES

	31 July 2017	31 July 2016
	£	£
Payable to the ACD or associate:		
ACD's periodic charge	281,355	192,535
Registration fees	7,886	8,502
	<u>289,241</u>	<u>201,037</u>
Payable to the Depositary or associate:		
Depositary's fees	9,528	6,397
Safe Custody fees	21,384	14,470
Interest	0	830
	<u>30,912</u>	<u>21,697</u>
Other expenses:		
Financial Conduct Authority Fee	164	155
Audit fee	4,019	4,330
Tax agent fees	10,589	85,050
	<u>14,772</u>	<u>89,535</u>
Total expenses	<u><u>334,925</u></u>	<u><u>312,269</u></u>

8 TAXATION

	31 July 2017	31 July 2016
	£	£
a Analysis of the tax charge for the year		
Overseas tax	49,055	(204,982)
Total tax charge	<u><u>49,055</u></u>	<u><u>(204,982)</u></u>
b Factors affecting the tax charge for the year		
Net revenue before taxation	441,019	455,126
Corporation tax at 20%	88,204	91,025
Effects of:		
Revenue not subject to taxation	(155,177)	(153,298)
Unrelieved excess management expenses	66,973	62,273
Overseas tax	49,055	(204,982)
Current tax charge	<u><u>49,055</u></u>	<u><u>(204,982)</u></u>

At 31 July 2017 the Fund has deferred tax assets of £643,552 (31.07.16 - £576,578) arising from surplus management expenses, which have not been recognised due to uncertainty over the availability of future taxable profits.

9 DISTRIBUTIONS

	31 July 2017	31 July 2016
	£	£
The distributions take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:		
Interim	50,763	131,838
Final	336,209	527,811
Amounts deducted on cancellation of shares	2,477	10,492
Amounts added on issue of shares	(2,321)	(7,040)
Equalisation on conversions	7,991	(2,988)
Revenue brought forward	(5)	(5)
Distributions	<u><u>395,114</u></u>	<u><u>660,108</u></u>
Net deficit of revenue for the year	(3,150)	0
Net revenue after taxation for the year	<u><u>391,964</u></u>	<u><u>660,108</u></u>

Details of the distribution per share are set out in the distribution table in note 16.

**THE MARLBOROUGH NO 2 OEIC
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

10 DEBTORS

	31 July 2017	31 July 2016
	£	£
Amounts receivable for issue of shares	13,824	7,087
Sales awaiting settlement	0	2,550
Accrued income	213,086	125,193
Taxation recoverable	15,905	45,473
Total debtors	<u>242,815</u>	<u>180,303</u>

11 OTHER CREDITORS

	31 July 2017	31 July 2016
	£	£
Amounts payable for cancellation of shares	588	22,678
Accrued expenses	55,266	34,564
Total other creditors	<u>55,854</u>	<u>57,242</u>

12 RELATED PARTIES

The ACD is involved in all transactions in the shares of the Fund, the aggregate values of which are set out in the statement of change in net assets attributable to shareholders.

Amounts paid to the ACD in respect of the ACD's periodic charge and registration fees are disclosed in note 7. The total amounts due to/(from) the ACD at the year end were as follows:

	31 July 2017	31 July 2016
	£	£
Marlborough Fund Managers Ltd	14,566	35,418

In addition to the above, some shares in the Fund are owned by directors of Marlborough Fund Managers Ltd as set out below:

Proportion of shares owned by directors of Marlborough Fund Managers Ltd	0.01%	0.01%
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Distributions were payable on the above holdings at the rates applicable to other shareholders.

13 SHAREHOLDERS' FUNDS

The Fund currently has three share classes: Class A (minimum investment £1,000); Class B (minimum investment £50,000); and Class P (minimum investment £1,000,000). The annual management charges are 1.5%, 1.0% and 0.75% respectively.

During the year the ACD has issued, cancelled and converted shares from one share class to another as set out below:

Income shares	Class A	Class B	Class P
Opening shares in issue at 1 August 2016	1,713,074	558	2,504,782
Share issues	5,756	0	84,465
Share cancellations	(166,769)	0	(136,424)
Share conversions	(88,003)	(150)	148,704
Closing shares in issue at 31 July 2017	<u>1,464,058</u>	<u>408</u>	<u>2,601,527</u>
Accumulation shares	Class A	Class B	Class P
Opening shares in issue at 1 August 2016	2,297,120	532	4,943,615
Share issues	273,687	3,758	169,988
Share cancellations	(135,090)	(3,396)	(570,528)
Share conversions	1,482,244	18,192	(1,639,934)
Closing shares in issue at 31 July 2017	<u>3,917,961</u>	<u>19,086</u>	<u>2,903,141</u>

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

14 RISK DISCLOSURES

Market price risk sensitivity

A five per cent increase in the market prices of the Fund's portfolio would have the effect of increasing the return and net assets by £1,391,450 (31.07.16 - £1,097,233). A five per cent decrease would have an equal and opposite effect.

Foreign currency risk

At the year end date a portion of the net assets of the Fund were denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by exchange rate movements.

Foreign currency exposure at 31 July 2017

	Investments £	Net current assets £	Total £
Chinese Yuan	0	95,182	95,182
Euro	170,638	0	170,638
Hong Kong Dollar	10,627,194	112,045	10,739,239
Indian Rupee	1,659,882	0	1,659,882
Indonesian Rupiah	544,905	0	544,905
Malaysian Ringgit	1,120,715	8	1,120,723
Singapore Dollar	1,277,834	0	1,277,834
South Korean Won	5,916,238	7,658	5,923,896
Taiwan Dollar	4,213,467	429,350	4,642,817
Thailand Baht	433,161	0	433,161
United States Dollar	1,864,957	11,640	1,876,597
	<u>27,828,991</u>	<u>655,883</u>	<u>28,484,874</u>

Foreign currency exposure at 31 July 2016

	Investments £	Net current assets £	Total £
Chinese Yuan	0	52,883	52,883
Euro	145,014	0	145,014
Hong Kong Dollar	8,756,046	4,133	8,760,179
Indian Rupee	1,591,134	6,856	1,597,990
Indonesian Rupiah	918,925	0	918,925
Malaysian Ringgit	957,812	0	957,812
Singapore Dollar	1,428,710	0	1,428,710
South Korean Won	3,498,903	9,616	3,508,519
Taiwan Dollar	3,133,142	449,631	3,582,773
Thailand Baht	559,161	0	559,161
United States Dollar	955,818	22,415	978,233
	<u>21,944,665</u>	<u>545,534</u>	<u>22,490,199</u>

Foreign currency risk sensitivity

A five per cent decrease in the value of sterling relative to the foreign currencies above would have the effect of increasing the return and net assets by £1,424,244 (31.07.16 - £1,124,510). A five per cent increase would have an equal and opposite effect.

Liquidity risk

The following table provides a maturity analysis of the Fund's financial liabilities:

	31 July 2017 £	31 July 2016 £
Within one year:		
Bank overdrafts	0	99,608
Distribution payable on income shares	119,802	180,913
Other creditors	55,854	57,242
	<u>175,656</u>	<u>337,763</u>

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

15 FAIR VALUE HIERARCHY FOR INVESTMENTS

Fair value hierarchy as at 31 July 2017

Valuation technique	31 July 2017		31 July 2016	
	Assets (£)	Liabilities (£)	Assets (£)	Liabilities (£)
Level 1	27,828,991	0	21,944,665	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	<u>27,828,991</u>	<u>0</u>	<u>21,944,665</u>	<u>0</u>

The intention of a fair value measurement is to estimate the price at which an asset or liability could be exchanged in the market conditions prevailing at the measurement date. The measurement assumes the exchange is an orderly transaction (that is, it is not a forced transaction, involuntary liquidation or distress sale) between knowledgeable, willing participants on an independent basis.

The purpose of the fair value hierarchy is to prioritise the inputs that should be used to measure the fair value of assets and liabilities. The highest priority is given to quoted prices at which a transaction can be entered into and the lowest priority to unobservable inputs.

In accordance with FRS102 the Fund classifies fair value measurement under the following levels:-

Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable (i.e. for which market date is unavailable) for the asset or liability.

**THE MARLBOROUGH NO 2 OEIC
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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2017

16 DISTRIBUTION TABLE

For the period from 1 August 2016 to 31 January 2017

INCOME SHARES

Group 1: shares purchased prior to 1 August 2016
Group 2: shares purchased on or after 1 August 2016

		Net revenue to 31-Jan-17 pence per share	Equalisation to 31-Jan-17 pence per share	Distribution paid 31-Mar-17 pence per share	Distribution paid 31-Mar-16 pence per share
Class 'A'	Group 1	0.0000p	0.0000p	0.0000p	0.9217p
	Group 2	0.0000p	0.0000p	0.0000p	0.9217p
Class 'B'	Group 1	0.4622p	0.0000p	0.4622p	1.4360p
	Group 2	0.4622p	0.0000p	0.4622p	1.4360p
Class 'P'	Group 1	0.7043p	0.0000p	0.7043p	1.5143p
	Group 2	0.2980p	0.4063p	0.7043p	1.5143p

ACCUMULATION SHARES

Group 1: shares purchased prior to 1 August 2016
Group 2: shares purchased on or after 1 August 2016

		Net revenue to 31-Jan-17 pence per share	Equalisation to 31-Jan-17 pence per share	Distribution paid 31-Mar-17 pence per share	Distribution paid 31-Mar-16 pence per share
Class 'A'	Group 1	0.0000p	0.0000p	0.0000p	1.0603p
	Group 2	0.0000p	0.0000p	0.0000p	1.0603p
Class 'B'	Group 1	0.5056p	0.0000p	0.5056p	1.5276p
	Group 2	0.5056p	0.0000p	0.5056p	1.5276p
Class 'P'	Group 1	0.7791p	0.0000p	0.7791p	1.6221p
	Group 2	0.3092p	0.4699p	0.7791p	1.6221p

For Corporate Shareholders the percentage split between Franked and Unfranked income relating to this distribution was:

Franked	100.00%	Unfranked	0.00%
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£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.
0.0000p is the depositary's net liability to corporation tax per share.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH FAR EAST GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

DISTRIBUTION TABLE

For the period from 1 February 2017 to 31 July 2017

INCOME SHARES

Group 1: shares purchased prior to 1 February 2017

Group 2: shares purchased on or after 1 February 2017

		Net revenue to 31-Jul-17 pence per share	Equalisation to 31-Jul-17 pence per share	Distribution payable 30-Sep-17 pence per share	Distribution paid 30-Sep-16 pence per share
Class 'A'	Group 1	2.3910p	0.0000p	2.3910p	3.9215p
	Group 2	2.3910p	0.0000p	2.3910p	3.9215p
Class 'B'	Group 1	2.9999p	0.0000p	2.9999p	4.4674p
	Group 2	2.9999p	0.0000p	2.9999p	4.4674p
Class 'P'	Group 1	3.2589p	0.0000p	3.2589p	4.5396p
	Group 2	2.8180p	0.4409p	3.2589p	4.5396p

ACCUMULATION SHARES

Group 1: shares purchased prior to 1 February 2017

Group 2: shares purchased on or after 1 February 2017

		Net revenue to 31-Jul-17 pence per share	Equalisation to 31-Jul-17 pence per share	Distribution payable 30-Sep-17 pence per share	Distribution paid 30-Sep-16 pence per share
Class 'A'	Group 1	2.8216p	0.0000p	2.8216p	4.5263p
	Group 2	2.4528p	0.3688p	2.8216p	4.5263p
Class 'B'	Group 1	3.5244p	0.0000p	3.5244p	4.6726p
	Group 2	2.2870p	1.2374p	3.5244p	4.6726p
Class 'P'	Group 1	3.6230p	0.0000p	3.6230p	4.9133p
	Group 2	3.2428p	0.3802p	3.6230p	4.9133p

For Corporate Shareholders the percentage split between Franked and Unfranked income relating to this distribution was:

Franked	100.00%	Unfranked	0.00%
---------	---------	-----------	-------

£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.

0.0000p is the depositary's net liability to corporation tax per share.

**THE MARLBOROUGH NO 2 OEIC
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AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

Percentage change and sector position to 31 July 2017

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>Since launch*</u>
Marlborough Multi Cap Income Fund	9.11%	16.10%	28.32%	105.63%	112.40%
Quartile Ranking**	1	1	2	1	1

* Launched ended 30 June 2011

** Based on ranking within The Investment Association UK Equity Income sector

External Source of Economic Data: Morningstar (Class P Acc - mid to mid)

Class P shares first priced on 2 January 2013. In the period to that date, past performance information for the Class A shares has been used.



Siddarth Chand Lall

The price of the Fund at the end of July 2016 was 174.38p (Class P accumulation shares). The Fund's benchmark, the FTSE All Share TR Index, was 5967.54 at that time. Since then, the benchmark has risen to 6849.37 (29 July 2017); an increase of 14.8%. In comparison, the Fund price increased to 202.46p (Class P accumulation shares), up 16.1% over the same period.

Since inception to end of July 2017, the Fund is up 112.4% (based on the Class P accumulation shares) compared with the FTSE All Share Index up 61.8% over the same period (from 4233.69 to 6849.37).

The dividend on Class P income shares for the six months to 31 July 2017 is 4.045p, due to be paid at the end of September. It makes a total dividend per unit (for the year to July 2017) of 7.31p, which is a yield of 4.4% (historic) and 1.1% growth y-o-y. It completes a record of 6 consecutive years of dividend growth. There are slight variations in income distribution across the range of share classes but we focus on the 'P' income share class, the most common held by investors. Please see the table below.

The Fund value at the end of July 2016 was £1.43bn. As of the end of July 2017, the Fund value was £1.51bn. The Fund experienced total net outflows of £105m. The UK Equity Income sector suffered their largest ever half-yearly net outflows in H1 2017 (*Investment Association and Numis, 7 August 2017*).

As predicted in our last report, the currency has started to recover with cable now above \$1.30/£. Small mid cap companies tend to be pigeon-holed as being domestic only and yet we have seen a string of companies in our portfolio with global earnings – XP Power, Ascential, FDM, Hill & Smith, Tarsus, UBM, Tate & Lyle, Inchcape, Global Ports Holdings amongst others. From recent reports, the bulk of our companies are either trading in-line with or ahead of expectations. UK biased companies should not automatically be considered 'bad'. We can see growth potential from those that can deliver self-help (e.g. Phoenix Group and PPHE Hotels), management stories (e.g. Mucklow and Henry Boot) or beneficiaries of consolidation (e.g. Booker and Conviviality Retail).

A weaker currency led to increased take-over activity with foreign businesses buying British companies. In our portfolio, we saw successful bids for Waterman and WS Atkins. The first of these was a small company, where we held circa 8% of the shares in issue but it made a small positive impact on the overall portfolio. WS Atkins was a more meaningful stake and helped performance a bit more.

We continue to believe that there are many well managed small and mid-cap companies capable of growing both earnings and dividends. Three examples of companies that have reported recently and raised dividends are RPC (+56%), FDM (+21%) and Conviviality Retail (+33%). Not all our companies will raise dividends by double digits but there have certainly been a few more surprises. We may well see a few more if business momentum continues in this way.

Hargreave Hale Ltd

7 August 2017

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AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

Distributions (pence per share)

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Class A Income</u>				
Net income paid 31 March	3.1746	3.3319	3.0929	2.7848
Net income paid 30 September	3.9179	3.7323	3.9444	3.6446
<u>Class A Accumulation</u>				
Net income paid 31 March	3.9975	3.9995	3.5489	3.0581
Net income paid 30 September	5.0401	4.5789	4.6200	4.0777
<u>Class B Income</u>				
Net income paid 31 March	3.2476	3.3919	3.1352	2.9879
Net income paid 30 September	4.0188	3.8100	4.0088	3.6880
<u>Class B Accumulation</u>				
Net income paid 31 March	3.9012	3.8847	3.4327	3.1273
Net income paid 30 September	4.9317	4.4594	4.4803	3.9375
<u>Class P Income</u>				
Net income paid 31 March	3.2645	3.4012	3.1351	2.7867
Net income paid 30 September	4.0450	3.8259	4.0148	3.6908
<u>Class P Accumulation</u>				
Net income paid 31 March	3.9173	3.8909	3.4288	2.9170
Net income paid 30 September	4.9587	4.4732	4.4818	3.9358

Material Portfolio Changes

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
WHSmith	19,727,128	Galliford Try	34,836,450
National Grid	16,983,262	Connect Group	25,887,596
GlaxoSmithKline	14,483,989	Atkins (WS)	24,608,486
Elementis	13,379,609	Laird	22,472,204
TalkTalk Telecom Group	13,010,344	KCOM Group	21,652,569
Booker Group	12,668,453	Carillion	21,431,562
TP ICAP	12,268,305	Close Brothers Group	19,804,319
Lloyds Banking Group	11,130,579	UK Mail Group	19,140,000
Marston's	11,092,808	Novae Group	18,419,711
Direct Line Insurance Group	10,891,733	TalkTalk Telecom Group	17,812,691
Compass Group	10,873,078	BT Group	15,672,862
Royal Dutch Shell 'B'	10,543,578	GlaxoSmithKline	14,485,662
Global Ports Holding	10,420,056	Tate & Lyle	13,302,833
Admiral Group	10,338,997	TP ICAP	12,834,820
DFS Furniture	10,204,806	RPC Group	12,179,360
Liontrust Asset Management	8,875,115	Go-Ahead Group	12,163,722
Tate & Lyle	8,223,931	Babcock International Group	12,154,464
HSBC Holdings	7,577,604	Restauraunt Group	11,655,310
Phoenix Group Holdings Full Paid Rights	7,112,000	Tarsus Group	11,207,022
Hastings Group Holdings	7,021,198	Card Factory	10,363,982
Other purchases	342,783,816	Other sales	310,297,619
Total purchases for the year	569,610,389	Total sales for the year	662,383,244

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COMPARATIVE TABLE

Class A shares (Income and Accumulation) were launched at 100p on 13 June 2011. Class B shares became available for purchase on 3 November 2011 and were first issued on 2 December 2011. Class P shares became available for purchase on 31 December 2012.

<u>Class A income shares</u>	Year to	Year to	Year to
Change in net assets per share	31.07.2017	31.07.2016	31.07.2015
	pence	pence	pence
Opening net asset value per share	140.83	158.21	141.99
Return before operating charges*	23.79	(7.96)	25.60
Operating charges	(2.33)	(2.36)	(2.34)
Return after operating charges*	21.46	(10.32)	23.26
Distribution on income shares	(7.09)	(7.06)	(7.04)
Closing net asset value per share	155.20	140.83	158.21

* after direct transaction costs of: 0.44 0.64 0.65

Performance

Return after charges 15.24% -6.52% 16.38%

Other information

Closing net asset value	£85,685,802	£83,849,723	£101,794,803
Closing number of shares	55,208,903	59,540,942	64,342,905
Operating charges	1.54%	1.55%	1.55%
Direct transaction costs	0.29%	0.39%	0.44%

Prices

Highest share price	163.55p	161.89p	165.08p
Lowest share price	141.16p	133.44p	133.02p

Class A accumulation shares

Change in net assets per share	Year to	Year to	Year to
	31.07.2017	31.07.2016	31.07.2015
	pence	pence	pence
Opening net asset value per share	177.36	189.92	162.94
Return before operating charges*	30.31	(9.70)	29.69
Operating charges	(2.97)	(2.86)	(2.71)
Return after operating charges*	27.34	(12.56)	26.98
Distributions	(9.04)	(8.58)	(8.17)
Retained distributions on accumulation shares	9.04	8.58	8.17
Closing net asset value per share	204.70	177.36	189.92

* after direct transaction costs of: 0.55 0.78 0.75

Performance

Return after charges 15.41% -6.61% 16.56%

Other information

Closing net asset value	£114,295,821	£121,959,342	£161,722,115
Closing number of shares	55,835,741	68,764,807	85,151,849
Operating charges	1.54%	1.55%	1.55%
Direct transaction costs	0.29%	0.39%	0.44%

Prices

Highest share price	210.40p	194.32p	193.35p
Lowest share price	177.76p	163.71p	152.63p

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COMPARATIVE TABLE

<u>Class B income shares</u>	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share	pence	pence	pence
Opening net asset value per share	143.88	160.95	143.77
Return before operating charges*	24.36	(8.24)	25.93
Operating charges	(1.61)	(1.63)	(1.61)
Return after operating charges*	22.75	(9.87)	24.32
Distribution on income shares	(7.27)	(7.20)	(7.14)
Closing net asset value per share	159.36	143.88	160.95

* after direct transaction costs of: 0.45 0.61 0.67

Performance

Return after charges 15.81% -6.13% 16.92%

Other information

Closing net asset value	£5,016,382	£6,156,230	£6,553,209
Closing number of shares	3,147,763	4,278,605	4,071,553
Operating charges	1.04%	1.05%	1.05%
Direct transaction costs	0.29%	0.39%	0.44%

Prices

Highest share price	167.79p	164.94p	167.91p
Lowest share price	144.23p	136.29p	134.81p

Class B accumulation shares

Change in net assets per share	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
	pence	pence	pence
Opening net asset value per share	172.87	184.36	157.43
Return before operating charges*	29.59	(9.60)	28.71
Operating charges	(1.96)	(1.89)	(1.78)
Return after operating charges*	27.63	(11.49)	26.93
Distributions	(8.83)	(8.34)	(7.91)
Retained distributions on accumulation shares	8.83	8.34	7.91
Closing net asset value per share	200.50	172.87	184.36

* after direct transaction costs of: 0.54 0.70 0.74

Performance

Return after charges 15.98% -6.23% 17.11%

Other information

Closing net asset value	£1,683,260	£1,688,922	£832,857
Closing number of shares	839,546	976,993	451,755
Operating charges	1.04%	1.05%	1.05%
Direct transaction costs	0.29%	0.39%	0.44%

Prices

Highest share price	205.90p	188.91p	187.66p
Lowest share price	173.27p	159.52p	147.60p

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

COMPARATIVE TABLE

<u>Class P income shares</u>	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share	pence	pence	pence
Opening net asset value per share	144.54	161.28	143.64
Return before operating charges*	24.48	(8.26)	26.02
Operating charges	(1.23)	(1.25)	(1.23)
Return after operating charges*	23.25	(9.51)	24.79
Distribution on income shares	(7.31)	(7.23)	(7.15)
Closing net asset value per share	160.48	144.54	161.28

* after direct transaction costs of: 0.45 0.63 0.68

Performance

Return after charges 16.09% -5.90% 17.26%

Other information

Closing net asset value	£844,341,182	£744,561,041	£618,593,214
Closing number of shares	526,128,859	515,115,324	383,554,656
Operating charges	0.79%	0.80%	0.80%
Direct transaction costs	0.29%	0.39%	0.44%

Prices

Highest share price	168.89p	165.46p	168.24p
Lowest share price	144.90p	136.89p	134.79p

Class P accumulation shares

Change in net assets per share	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
	pence	pence	pence
Opening net asset value per share	173.47	184.52	157.11
Return before operating charges*	29.71	(9.61)	28.77
Operating charges	(1.49)	(1.44)	(1.36)
Return after operating charges*	28.22	(11.05)	27.41
Distributions	(8.88)	(8.36)	(7.91)
Retained distributions on accumulation shares	8.88	8.36	7.91
Closing net asset value per share	201.69	173.47	184.52

* after direct transaction costs of: 0.54 0.72 0.75

Performance

Return after charges 16.27% -5.99% 17.45%

Other information

Closing net asset value	£455,896,899	£471,772,298	£395,409,625
Closing number of shares	226,036,922	271,956,366	214,289,244
Operating charges	0.79%	0.80%	0.80%
Direct transaction costs	0.29%	0.39%	0.44%

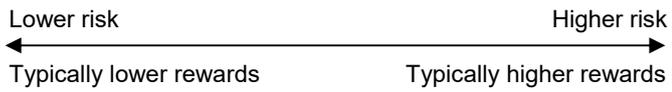
Prices

Highest share price	207.04p	189.28p	187.81p
Lowest share price	173.88p	160.06p	147.42p

Operating charges are the same as the ongoing charges and are the total expenses paid by each share class in the year. Direct transaction costs are the total charges for the year, included in the purchase and sale of investments in the portfolio of the Fund. These amounts are expressed as a percentage of the average net asset value over the year and the average shares in issue for the pence per share figures.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

SYNTHETIC RISK AND REWARD INDICATOR



1	2	3	4	5	6	7
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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 4 because it has experienced moderate volatility historically. During the year the synthetic risk and reward indicator changed from 5 to 4.

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
AEROSPACE & DEFENCE (0.44%, July 2016 - Nil)		
314,747 Ultra Electronics Holdings	6,660,047	0.44
Total Aerospace & Defence	<u>6,660,047</u>	<u>0.44</u>
BANKS (0.92%, July 2016 - Nil)		
400,000 HSBC Holdings	3,028,000	0.20
16,500,000 Lloyds Banking Group	10,833,900	0.72
Total Banks	<u>13,861,900</u>	<u>0.92</u>
CHEMICALS (1.84%, July 2016 - 0.65%)		
120,000 Croda International	4,431,600	0.29
4,500,000 Elementis	13,437,000	0.89
200,000 Synthomer	982,600	0.07
450,000 Victrex	8,851,500	0.59
Total Chemicals	<u>27,702,700</u>	<u>1.84</u>
CONSTRUCTION & MATERIALS (5.60%, July 2016 - 3.71%)		
505,000 Alumasc Group	843,350	0.06
7,682,675 Boot (Henry)	23,067,232	1.53
5,380,342 Epwin Group	5,084,423	0.34
3,700,000 Eurocell	8,325,000	0.55
6,000,000 Ibstock	15,264,000	1.01
250,000 Marshalls	954,500	0.06
953,846 Nexus Infrastructure	1,764,615	0.12
5,000,000 Norcros	8,762,500	0.58
1,734,202 Polypipe Group	6,969,758	0.46
3,775,000 Tyman	13,467,312	0.89
Total Construction & Materials	<u>84,502,690</u>	<u>5.60</u>
ELECTRICITY (2.06%, July 2016 - 2.12%)		
2,250,000 SSE	31,005,000	2.06
Total Electricity	<u>31,005,000</u>	<u>2.06</u>
ELECTRONIC & ELECTRICAL EQUIPMENT (2.36%, July 2016 - 1.54%)		
899,000 Solid State	4,225,300	0.28
25,000 Spectris	616,500	0.04
1,185,000 XP Power	30,810,000	2.04
Total Electronic & Electrical Equipment	<u>35,651,800</u>	<u>2.36</u>
EQUITY INVESTMENT INSTRUMENTS (0.40%, July 2016 - 0.17%)		
3,600,000 Funding Circle SME Income Fund	3,744,000	0.25
400,000 Funding Circle SME Income Fund 'C'	400,000	0.03
155,238 Honeycomb Investment Trust	1,824,047	0.12
Total Equity Investment Instruments	<u>5,968,047</u>	<u>0.40</u>
FINANCIAL SERVICES (12.59%, July 2016 - 10.21%)		
1,552,500 Ashmore Group	5,548,635	0.37
5,037,862 Cenkos Securities	4,836,348	0.32
400,000 Close Brothers Group	6,088,000	0.40
4,500,000 Intermediate Capital Group	41,085,000	2.73
2,150,000 John Laing Group	6,746,700	0.45
2,449,857 Liontrust Asset Management	11,146,849	0.74
2,300,000 Mortgage Advice Bureau Holdings	10,355,750	0.69
2,350,000 Numis Corporation	6,068,875	0.40
4,586,981 OneSavings Bank	18,173,619	1.21
5,271,232 Paragon Group of Companies	22,734,824	1.51

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
FINANCIAL SERVICES (continued)		
9,000,000 Polar Capital Holdings	38,092,500	2.53
1,150,000 Premier Asset Management Group	1,805,500	0.12
7,649,664 Redde	11,455,372	0.76
1,500,000 River and Mercantile Group	5,445,000	0.36
Total Financial Services	<u>189,582,972</u>	<u>12.59</u>
FIXED LINE TELECOMMUNICATIONS (2.93%, July 2016 - 6.71%)		
597,932 AdEPT Telecom	1,973,176	0.13
2,411,000 Manx Telecom	4,291,580	0.28
2,990,000 Telecom Plus	34,026,200	2.26
2,415,000 Zegona Communications	3,864,000	0.26
Total Fixed Line Telecommunication	<u>44,154,956</u>	<u>2.93</u>
FOOD & DRUG RETAILERS (2.54%, July 2016 - 1.64%)		
7,400,000 Booker Group	14,274,600	0.95
4,800,000 Conviviality	18,216,000	1.21
525,000 Greggs	5,764,500	0.38
Total Food & Drug Retailers	<u>38,255,100</u>	<u>2.54</u>
FOOD PRODUCERS (3.21%, July 2016 - 3.72%)		
4,675,000 Dairy Crest Group	27,863,000	1.85
761,000 Hilton Food Group	5,140,555	0.34
2,300,000 Tate & Lyle	15,410,000	1.02
Total Food Producers	<u>48,413,555</u>	<u>3.21</u>
GAS, WATER & MULTIUTILITIES (4.15%, July 2016 - 3.08%)		
3,701,000 Fulcrum Utility Services	1,924,520	0.13
2,750,000 National Grid	25,869,250	1.72
4,050,000 Pennon Group	32,481,000	2.15
100,000 Severn Trent	2,231,000	0.15
Total Gas, Water & Multiutilities	<u>62,505,770</u>	<u>4.15</u>
GENERAL INDUSTRIALS (5.10%, July 2016 - 4.65%)		
10,000,000 Macfarlane Group	5,800,000	0.38
4,200,000 RPC Group	37,695,000	2.50
6,946,093 Smith (DS)	33,528,791	2.22
Total General Industrials	<u>77,023,791</u>	<u>5.10</u>
GENERAL RETAILERS (5.56%, July 2016 - 5.65%)		
700,000 B&M European Value Retail	2,516,500	0.17
9,000,000 DFS Furniture	18,922,500	1.26
2,750,000 Inchcape	22,027,500	1.46
8,250,000 Moss Bros Group	7,837,500	0.52
1,850,000 WHSmith	32,393,500	2.15
Total General Retailers	<u>83,697,500</u>	<u>5.56</u>
HOUSEHOLD GOODS & HOME CONSTRUCTION (2.94%, July 2016 - 5.08%)		
2,963,366 Accrol Group Holdings	4,148,712	0.28
852,560 Churchill China	7,502,528	0.50
1,100,000 Countryside Properties	3,952,300	0.26
1,200,000 Crest Nicholson Holdings	6,342,000	0.42
1,577,500 Headlam Group	9,110,062	0.60
580,000 Portmeirion Group	5,365,000	0.36
90,000 Reckitt Benckiser Group	6,669,900	0.44
495,000 Walker Greenbank	1,163,250	0.08
Total Household Goods & Home Construction	<u>44,253,752</u>	<u>2.94</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
INDUSTRIAL ENGINEERING (2.22%, July 2016 - 1.69%)		
416,667 Flowtech Fluidpower	566,667	0.04
2,111,379 Hill & Smith Holdings	28,208,023	1.87
1,566,156 Somero Enterprises	4,698,468	0.31
Total Industrial Engineering	<u>33,473,158</u>	<u>2.22</u>
INDUSTRIAL TRANSPORTATION (1.76%, July 2016 - 1.90%)		
2,500,000 Eddie Stobart Logistics	4,000,000	0.27
1,415,000 Global Ports Holding	9,565,400	0.63
1,242,094 Royal Mail	4,979,555	0.33
1,400,000 Stobart Group	3,918,600	0.26
1,625,000 Wincanton	4,066,563	0.27
Total Industrial Transportation	<u>26,530,118</u>	<u>1.76</u>
LEISURE GOODS (0.78%, July 2016 - 0.66%)		
7,244,250 Photo-Me International	11,771,906	0.78
Total Leisure Goods	<u>11,771,906</u>	<u>0.78</u>
LIFE INSURANCE (3.17%, July 2016 - 2.55%)		
4,341,667 Chesnara	16,422,355	1.09
3,800,000 Phoenix Group Holdings	28,994,000	1.92
200,000 St. James's Place	2,428,000	0.16
Total Life Insurance	<u>47,844,355</u>	<u>3.17</u>
MEDIA (1.96%, July 2016 - 2.81%)		
1,300,000 Ascential	4,663,100	0.31
2,287,500 Informa	15,852,375	1.05
300,000 Moneysupermarket.com Group	1,005,000	0.07
1,750,000 Tarsus Group	5,140,625	0.34
400,000 UBM	2,852,000	0.19
Total Media	<u>29,513,100</u>	<u>1.96</u>
MINING (2.23%, July 2016 - 1.05%)		
4,657,426 Anglo Pacific Group	5,356,040	0.36
400,000 BHP Billiton	5,514,000	0.37
9,000,000 Central Asia Metals	19,867,500	1.32
20,412,620 Pan African Resources	2,704,672	0.18
Total Mining	<u>33,442,212</u>	<u>2.23</u>
NONLIFE INSURANCE (3.91%, July 2016 - 2.91%)		
375,000 Admiral Group	7,691,250	0.51
1,200,000 Beazley	6,120,000	0.41
3,500,000 Direct Line Insurance Group	13,055,000	0.87
10,500,000 Hastings Group Holdings	31,972,500	2.12
Total Nonlife Insurance	<u>58,838,750</u>	<u>3.91</u>
OIL & GAS PRODUCERS (1.85%, July 2016 - 0.71%)		
1,000,000 BP	4,465,500	0.30
2,800,000 Diversified Gas & Oil	1,848,000	0.12
1,000,000 Royal Dutch Shell 'B'	21,570,000	1.43
Total Oil & Gas Producers	<u>27,883,500</u>	<u>1.85</u>
OIL EQUIPMENT & SERVICES (Nil, July 2016 - 0.15%)		
Total Oil Equipment & Services	<u>0</u>	<u>0.00</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
PERSONAL GOODS (Nil, July 2016 - 0.33%)		
Total Personal Goods	0	0.00
REAL ESTATE INVESTMENT & SERVICES (0.34%, July 2016 - 0.46%)		
3,618,758 Belvoir Lettings	3,763,508	0.25
1,441,793 M Winkworth	1,412,957	0.09
Total Real Estate Investment & Services	5,176,465	0.34
REAL ESTATE INVESTMENT TRUSTS (8.11%, July 2016 - 6.62%)		
3,385,606 Big Yellow Group	26,560,079	1.76
29,800,000 Capital & Regional	16,315,500	1.08
4,376,146 Empiric Student Property	4,791,880	0.32
1,000,000 GCP Student Living	1,417,500	0.09
13,600,000 LondonMetric Property	22,916,000	1.52
3,032,581 Mucklow (A & J) Group	15,011,276	1.00
729,478 NewRiver REIT	2,559,738	0.17
5,950,000 Safestore Holdings	25,281,550	1.68
4,250,000 Supermarket Income REIT	4,207,500	0.28
338,814 Workspace Group	3,117,089	0.21
Total Real Estate Investment Trusts	122,178,112	8.11
SOFTWARE & COMPUTER SERVICES (1.77%, July 2016 - 1.45%)		
1,615,000 Computacenter	14,187,775	0.94
300,000 FDM Group Holdings	2,595,000	0.17
150,000 Fidessa Group	3,450,000	0.23
7,144,550 Netcall	4,679,680	0.31
2,765,000 Sanderson Group	1,824,900	0.12
50,000 StatPro Group	67,500	0.00
Total Software & Computer Services	26,804,855	1.77
SUPPORT SERVICES (7.46%, July 2016 - 13.55%)		
4,350,000 Acal	13,256,625	0.88
400,000 Babcock International Group	3,374,000	0.22
6,900,000 BCA Marketplace	13,368,750	0.89
790,000 Connect Group	892,700	0.06
325,000 Diploma	3,519,750	0.23
700,000 Electrocomponents	4,354,000	0.29
50,000 Ferguson	2,274,000	0.15
250,000 Filta Group Holdings	300,000	0.02
600,000 Gateley Holdings	990,000	0.07
1,990,000 Hays	3,331,260	0.22
8,820,000 Hogg Robinson Group	6,438,600	0.43
425,000 HomeServe	3,081,250	0.20
1,216,710 Maintel Holdings	10,646,213	0.71
3,011,020 Midwich Group	11,291,325	0.75
4,175,420 Renew Holdings	17,588,957	1.17
1,000,000 Ricardo	7,650,000	0.51
3,665,000 RPS Group	9,987,125	0.66
Total Support Services	112,344,555	7.46
TECHNOLOGY HARDWARE & EQUIPMENT (Nil, July 2016 - 1.68%)		
Total Technology Hardware & Equipment	0	0.00

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
TRAVEL & LEISURE (7.90%, July 2016 - 9.09%)		
1,000,000 888 Holdings	2,552,500	0.17
2,454,197 Arena Events Group	1,497,060	0.10
4,250,000 Cineworld Group	29,112,500	1.93
1,754,807 Compass Group	28,129,556	1.87
2,075,000 Greene King	13,995,875	0.93
400,000 GVC Holdings	3,066,000	0.20
20,550,000 Marston's	23,776,350	1.58
800,000 National Express Group	2,900,800	0.19
1,690,000 PPHE Hotel Group	14,027,000	0.93
Total Travel & Leisure	119,057,641	7.90
OVERSEAS SECURITIES (2.29%, July 2016 - 1.90%)		
1,950,000 Origin Enterprises	11,330,115	0.75
2,570,000 Princess Private Equity Holding	23,225,798	1.54
Total Overseas Securities	34,555,913	2.29
Portfolio of investments	1,482,654,220	98.39
Net current assets on capital account	24,265,126	1.61
Net assets	1,506,919,346	100.00

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

STATEMENT OF TOTAL RETURN

for the year ended 31 July 2017

	Notes	31 July 2017		31 July 2016	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		167,783,005		(147,709,407)
Revenue	6	71,872,148		67,962,792	
Expenses	7	<u>(13,479,723)</u>		<u>(13,142,166)</u>	
Net revenue/(expense) before taxation		58,392,425		54,820,626	
Taxation	8	<u>(75,440)</u>		<u>(2,434)</u>	
Net revenue/(expense) after taxation			<u>58,316,985</u>		<u>54,818,192</u>
Total return before distributions			226,099,990		(92,891,215)
Distributions	9		(70,682,237)		(66,617,687)
Change in net assets attributable to shareholders from investment activities			<u>155,417,753</u>		<u>(159,508,902)</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 July 2017

	31 July 2017		31 July 2016	
	£	£	£	£
Opening net assets attributable to shareholders		1,429,987,556		1,284,905,823
Amounts receivable on issue of shares	51,896,650		335,971,253	
Amounts payable on cancellation of shares	(156,868,696)		(60,535,858)	
Amounts payable on share class conversions	<u>129</u>		<u>408</u>	
		(104,971,917)		275,435,803
Change in net assets attributable to shareholders from investment activities		155,417,753		(159,508,902)
Retained distribution on accumulation shares		26,485,954		29,154,832
Closing net assets attributable to shareholders		<u>1,506,919,346</u>		<u>1,429,987,556</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

BALANCE SHEET
as at 31 July 2017

	Notes	31 July 2017	31 July 2016
		£	£
Assets:			
Fixed Assets:			
Investments	15	1,482,654,220	1,407,615,821
Current Assets:			
Debtors	10	11,484,201	12,035,438
Cash and bank balances		44,112,476	36,514,130
Total assets		<u>1,538,250,897</u>	<u>1,456,165,389</u>
Liabilities:			
Creditors:			
Bank overdrafts		0	432,698
Distribution payable on income shares		23,571,470	22,093,295
Other creditors	11	7,760,081	3,651,840
Total liabilities		<u>31,331,551</u>	<u>26,177,833</u>
Net assets attributable to shareholders		<u>1,506,919,346</u>	<u>1,429,987,556</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

1 ACCOUNTING POLICIES

a Basis of preparation

The financial statements have been prepared in compliance with FRS102 and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by The Investment Association in May 2014.

The financial statements are prepared in sterling, which is the functional currency of the Fund. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of investments and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

b Going concern

The Authorised Corporate Director (ACD) has at the time of approving the financial statements, a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the financial statements.

c Revenue

Dividends from shares are recognised when the security is quoted ex-dividend.

Stock dividends, received as shares to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue.

Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. The tax treatment follows the accounting treatment of the principal amount.

Bank interest is accounted for on an accruals basis.

d Expenses

All expenses are accounted for on an accruals basis and, other than those relating to purchase and sale of investments, are charged against income as shown in these accounts.

The ACD's periodic charge is treated as a capital expense. This treatment may constrain capital growth.

e Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on net revenue for the year. The taxable amount differs from net revenue as reported in the Statement of Total Return (SOTR) because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the SOTR. Deferred tax assets and liabilities are offset when the Fund has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

f Valuation of investments

The investments of the Fund have been valued at their fair value at 12 noon on 31 July 2017. Fair value is normally the bid value of each security by reference to quoted prices from reputable sources; that is the market price. If the ACD believes that the quoted price is unreliable, or if no price exists, a valuation technique is used whereby fair value is the ACD's best estimate of a fair and reasonable value for that investment. The fair value excludes any element of accrued interest.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

ACCOUNTING POLICIES

g Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange ruling at the date of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the net capital gains/(losses) for the period.

h Cash and bank balances

Cash and bank balances include deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within creditors in liabilities.

i Financial assets

The ACD has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of the Fund's financial instruments.

Financial assets are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include amounts receivable for the issue of shares, accrued income and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition, less any reduction for impairment or uncollectability.

Basic financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the SOTR.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

j Financial liabilities

Financial liabilities are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified into specified categories. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of recognition.

Basic financial liabilities, which include amounts payable for cancellation of shares and accrued expenses, are initially measured at transaction price. Other financial liabilities are measured at fair value.

Financial liabilities are derecognised when, and only when, the Fund's obligations are discharged, cancelled, or they expire.

2 DISTRIBUTION POLICIES

a Basis of distribution

The policy of the Fund is to distribute any net revenue shown as such in the statement of total return, after adding back the ACD's periodic charge, which is treated as a capital expense. Revenue attributable to accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of revenue.

b Apportionment to multiple share classes

The ACD's periodic charge is directly attributable to individual share classes. All other income and expenses are allocated to the share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

DISTRIBUTION POLICIES

c Equalisation

Equalisation applies only to shares purchased during the distribution period. 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 UK income tax but must be deducted from the cost of the shares for UK capital gains tax purposes.

3 RISK MANAGEMENT POLICIES

In pursuing its investment objective as stated on page 2, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities held in accordance with the investment objectives and policies together with cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the ACD's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations which are monitored by the ACD in pursuance of the investment objective and policy as set out in the Prospectus.

Investment limits set out in the Trust Deed, Prospectus and in the rules contained in the Collective Investment Schemes Sourcebook mitigate the risk of excessive exposure to any particular security or issuer.

Foreign currency risk

The income and capital value of the Fund's investments can be affected by foreign currency translation movements as some of the Fund's assets and income may be denominated in currencies other than sterling which is the Fund's functional currency.

The ACD has identified three principal areas where foreign currency risk could impact the Fund. These are, movements in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements in the period between when an investment purchase or sale is entered into and the date when settlement of the investment occurs, and finally movements in exchange rates affecting income received by the Fund. The Fund converts all receipts of income, received in currency, into sterling on the day of receipt.

Credit and counterparty risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty.

Interest rate risk

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The Fund's cash holdings are held in deposit accounts, whose rates are determined by the banks concerned on a daily basis.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any shares that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions. The liquidity of the Fund's assets is regularly reviewed by the ACD.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2017

4 NET CAPITAL GAINS/(LOSSES)

The net gains/(losses) on investments during the year comprise:

	31 July 2017	31 July 2016
	£	£
Non-derivative securities	167,811,254	(147,691,390)
Currency gains/(losses)	24	18,227
Transaction charges	(28,273)	(36,244)
Net capital gains/(losses)	<u>167,783,005</u>	<u>(147,709,407)</u>

5 PURCHASES, SALES AND TRANSACTION COSTS

(All purchases and sales are in the equity asset class)

	31 July 2017	31 July 2016
	£	£
Purchases excluding transaction costs	521,199,153	729,623,138
Corporate actions	45,274,233	18,491,598
	<u>566,473,386</u>	<u>748,114,736</u>
Commissions	967,884	1,403,472
Taxes and other charges	2,169,119	3,216,495
Total purchase transaction costs	<u>3,137,003</u>	<u>4,619,967</u>
Purchases including transaction costs	<u>569,610,389</u>	<u>752,734,703</u>

Purchase transaction costs expressed as a percentage of the principal amount:

Commissions	0.19%	0.19%
Taxes and other charges	0.42%	0.44%

Sales excluding transaction costs	643,050,660	459,191,058
Corporate actions	20,557,500	2,581,948
	<u>663,608,160</u>	<u>461,773,006</u>
Commissions	(1,221,039)	(838,746)
Taxes and other charges	(3,877)	(7,307)
Total sale transaction costs	<u>(1,224,916)</u>	<u>(846,053)</u>
Sales net of transaction costs	<u>662,383,244</u>	<u>460,926,953</u>

Sale transaction costs expressed as a percentage of the principal amount:

Commissions	0.19%	0.18%
Taxes and other charges	0.00%	0.00%

Total purchases and sales transaction costs expressed as a percentage of the average net asset value over the year:

	<u>0.29%</u>	<u>0.39%</u>
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Transaction handling charges

	<u>£28,273</u>	<u>£36,244</u>
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Average portfolio dealing spread

This spread represents the difference between the values determined respectively by reference to the bid and offer prices of investments expressed as a percentage of the value determined by reference to the offer price.

Average portfolio dealing spread at the balance sheet date	<u>0.79%</u>	<u>1.06%</u>
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6 REVENUE

	31 July 2017	31 July 2016
	£	£
UK dividends	62,704,182	63,079,541
UK dividends (unfranked)	2,965,146	2,982,008
Overseas dividends	5,908,666	1,754,075
Overseas dividends (unfranked)	183,625	0
Underwriting and other commission	107,666	102,947
Bank interest	2,863	44,221
Total revenue	<u>71,872,148</u>	<u>67,962,792</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

7 EXPENSES

	31 July 2017	31 July 2016
	£	£
Payable to the ACD or associate:		
ACD's periodic charge	12,901,927	12,500,138
Registration fees	11,104	10,841
	<u>12,913,031</u>	<u>12,510,979</u>
Payable to the Depositary or associate:		
Depositary's fees	461,002	511,957
Safe Custody fees	100,890	114,262
Interest	314	0
	<u>562,206</u>	<u>626,219</u>
Other expenses:		
Financial Conduct Authority Fee	164	155
Audit fee	4,322	4,813
	<u>4,486</u>	<u>4,968</u>
Total expenses	<u>13,479,723</u>	<u>13,142,166</u>

8 TAXATION

	31 July 2017	31 July 2016
	£	£
a Analysis of the tax charge for the year		
Overseas tax	75,440	2,434
Total tax charge	<u>75,440</u>	<u>2,434</u>

There is no corporation tax charge for the year (31.07.16 - Nil)

b Factors affecting the tax charge for the year

Net revenue before taxation	58,392,425	54,820,626
Corporation tax at 20%	11,678,485	10,964,125
Effects of:		
Revenue not subject to taxation	(13,722,194)	(12,763,510)
Unrelieved excess management expenses	2,043,709	1,799,385
Overseas tax	75,440	2,434
Current tax charge	<u>75,440</u>	<u>2,434</u>

At 31 July 2017 the Fund has deferred tax assets of £6,849,651 (31.07.16 - £4,765,275) arising from surplus management expenses, which have not been recognised due to uncertainty over the availability of future taxable profits.

9 DISTRIBUTIONS

	31 July 2017	31 July 2016
	£	£
The distributions take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:		
Interim	32,021,975	31,307,204
Final	37,635,616	37,450,800
Amounts deducted on cancellation of shares	1,708,481	1,178,434
Amounts added on issue of shares	(683,615)	(3,318,740)
Equalisation on conversions	129	408
Revenue brought forward	(349)	(419)
Distributions	<u>70,682,237</u>	<u>66,617,687</u>
Movement between net revenue and distributions:		
Net revenue after taxation	58,316,985	54,818,192
Add: ACD's periodic charge borne by capital	12,901,927	12,500,138
Deduct: Tax effect of ACD's periodic charge borne by capital	(536,675)	(700,643)
	<u>70,682,237</u>	<u>66,617,687</u>

Details of the distribution per share are set out in the distribution table in note 17.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

10 DEBTORS

	31 July 2017	31 July 2016
	£	£
Amounts receivable for issue of shares	496,845	3,287,368
Sales awaiting settlement	3,247,035	68,477
Accrued income	7,725,789	8,629,094
Taxation recoverable	14,532	50,499
Total debtors	<u>11,484,201</u>	<u>12,035,438</u>

11 OTHER CREDITORS

	31 July 2017	31 July 2016
	£	£
Amounts payable for cancellation of shares	982,646	0
Purchases awaiting settlement	5,518,100	2,481,383
Accrued expenses	1,259,335	1,170,457
Total other creditors	<u>7,760,081</u>	<u>3,651,840</u>

12 COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 July 2017 there were contingent liabilities in respect of a placing in Strix Group (£4,122,194).

13 RELATED PARTIES

The ACD is involved in all transactions in the shares of the Fund, the aggregate values of which are set out in the statement of change in net assets attributable to shareholders.

Amounts paid to the ACD in respect of the ACD's periodic charge and registration fees are disclosed in note 7. The total amounts due to/(from) the ACD at the year end were as follows:

	31 July 2017	31 July 2016
	£	£
Marlborough Fund Managers Ltd	1,586,247	(2,246,732)

In addition to the above, some shares in the Fund are owned by directors of Marlborough Fund Managers Ltd as set out below:

Proportion of shares owned by directors of Marlborough Fund Managers Ltd	0.04%	0.04%
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Distributions were payable on the above holdings at the rates applicable to other shareholders.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

14 SHAREHOLDERS' FUNDS

The Fund currently has three share classes: Class A (minimum investment £1,000); Class B (minimum investment £50,000); and Class P (minimum investment £1,000,000). The annual management charges are 1.5%, 1.0% and 0.75% respectively.

During the year the ACD has issued, cancelled and converted shares from one share class to another as set out below:

Income shares	Class A	Class B	Class P
Opening shares in issue at 1 August 2016	59,540,942	4,278,605	515,115,324
Share issues	2,944,786	187,052	26,109,790
Share cancellations	(5,492,365)	(498,944)	(31,337,679)
Share conversions	(1,784,460)	(818,950)	16,241,424
Closing shares in issue at 31 July 2017	55,208,903	3,147,763	526,128,859
Accumulation shares	Class A	Class B	Class P
Opening shares in issue at 1 August 2016	68,764,807	976,993	271,956,366
Share issues	565,498	185,479	3,462,991
Share cancellations	(6,678,257)	(168,935)	(45,143,821)
Share conversions	(6,816,307)	(153,991)	(4,238,614)
Closing shares in issue at 31 July 2017	55,835,741	839,546	226,036,922

15 RISK DISCLOSURES

Market price risk sensitivity

A five per cent increase in the market prices of the Fund's portfolio would have the effect of increasing the return and net assets by £74,132,711 (31.07.16 - £70,380,791). A five per cent decrease would have an equal and opposite effect.

Foreign currency risk

At the year end date a portion of the net assets of the Fund were denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by exchange rate movements.

Foreign currency exposure at 31 July 2017

	Investments £	Net current assets £	Total £
Euro	34,555,913	157,083	34,712,996
US Dollar	0	134,908	134,908
	34,555,913	291,991	34,847,904

Foreign currency exposure at 31 July 2016

	Investments £	Net current assets £	Total £
Euro	26,126,639	19,173	26,145,812
US Dollar	1,040,678	9,112	1,049,790
	27,167,317	28,285	27,195,602

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

RISK DISCLOSURES

Foreign currency risk sensitivity

A five per cent decrease in the value of sterling relative to the foreign currencies above would have the effect of increasing the return and net assets by £1,742,395 (31.07.16 - £1,359,780). A five per cent increase would have an equal and opposite effect.

Liquidity risk

The following table provides a maturity analysis of the Fund's financial liabilities:

	31 July 2017	31 July 2016
	£	£
Within one year:		
Bank overdrafts	0	432,698
Distribution payable on income shares	23,571,470	22,093,295
Other creditors	7,760,081	3,651,840
	<u>31,331,551</u>	<u>26,177,833</u>

16 FAIR VALUE HIERARCHY FOR INVESTMENTS

Fair value hierarchy as at 31 July 2017

Valuation technique	31 July 2017		31 July 2016	
	Assets (£)	Liabilities (£)	Assets (£)	Liabilities (£)
Level 1	1,482,654,220	0	1,407,615,821	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	<u>1,482,654,220</u>	<u>0</u>	<u>1,407,615,821</u>	<u>0</u>

The intention of a fair value measurement is to estimate the price at which an asset or liability could be exchanged in the market conditions prevailing at the measurement date. The measurement assumes the exchange is an orderly transaction (that is, it is not a forced transaction, involuntary liquidation or distress sale) between knowledgeable, willing participants on an independent basis.

The purpose of the fair value hierarchy is to prioritise the inputs that should be used to measure the fair value of assets and liabilities. The highest priority is given to quoted prices at which a transaction can be entered into and the lowest priority to unobservable inputs.

In accordance with FRS102 the Fund classifies fair value measurement under the following levels:-

Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

17 DISTRIBUTION TABLE

For the period from 1 August 2016 to 31 January 2017

INCOME SHARES

Group 1: shares purchased prior to 1 August 2016

Group 2: shares purchased on or after 1 August 2016

		Net revenue to 31-Jan-17 pence per share	Equalisation to 31-Jan-17 pence per share	Distribution paid 31-Mar-17 pence per share	Distribution paid 31-Mar-16 pence per share
Class 'A'	Group 1	3.1746p	0.0000p	3.1746p	3.3319p
	Group 2	1.4423p	1.7323p	3.1746p	3.3319p
Class 'B'	Group 1	3.2476p	0.0000p	3.2476p	3.3919p
	Group 2	1.5624p	1.6852p	3.2476p	3.3919p
Class 'P'	Group 1	3.2645p	0.0000p	3.2645p	3.4012p
	Group 2	1.4519p	1.8126p	3.2645p	3.4012p

ACCUMULATION SHARES

Group 1: shares purchased prior to 1 August 2016

Group 2: shares purchased on or after 1 August 2016

		Net revenue to 31-Jan-17 pence per share	Equalisation to 31-Jan-17 pence per share	Distribution paid 31-Mar-17 pence per share	Distribution paid 31-Mar-16 pence per share
Class 'A'	Group 1	3.9975p	0.0000p	3.9975p	3.9995p
	Group 2	1.9939p	2.0036p	3.9975p	3.9995p
Class 'B'	Group 1	3.9012p	0.0000p	3.9012p	3.8847p
	Group 2	0.9358p	2.9654p	3.9012p	3.8847p
Class 'P'	Group 1	3.9173p	0.0000p	3.9173p	3.8909p
	Group 2	2.1257p	1.7916p	3.9173p	3.8909p

For Corporate Shareholders the percentage split between Franked and Unfranked income relating to this distribution was:

Franked	95.68%	Unfranked	4.32%
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£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.

0.0000p is the depositary's net liability to corporation tax per share.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH MULTI CAP INCOME FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

DISTRIBUTION TABLE

For the period from 1 February 2017 to 31 July 2017

INCOME SHARES

Group 1: shares purchased prior to 1 February 2017

Group 2: shares purchased on or after 1 February 2017

		Net revenue to 31-Jul-17 pence per share	Equalisation to 31-Jul-17 pence per share	Distribution payable 30-Sep-17 pence per share	Distribution paid 30-Sep-16 pence per share
Class 'A'	Group 1	3.9179p	0.0000p	3.9179p	3.7323p
	Group 2	2.2949p	1.6230p	3.9179p	3.7323p
Class 'B'	Group 1	4.0188p	0.0000p	4.0188p	3.8100p
	Group 2	2.9986p	1.0202p	4.0188p	3.8100p
Class 'P'	Group 1	4.0450p	0.0000p	4.0450p	3.8259p
	Group 2	2.5287p	1.5163p	4.0450p	3.8259p

ACCUMULATION SHARES

Group 1: shares purchased prior to 1 February 2017

Group 2: shares purchased on or after 1 February 2017

		Net revenue to 31-Jul-17 pence per share	Equalisation to 31-Jul-17 pence per share	Distribution payable 30-Sep-17 pence per share	Distribution paid 30-Sep-16 pence per share
Class 'A'	Group 1	5.0401p	0.0000p	5.0401p	4.5789p
	Group 2	3.1914p	1.8487p	5.0401p	4.5789p
Class 'B'	Group 1	4.9317p	0.0000p	4.9317p	4.4594p
	Group 2	2.7376p	2.1941p	4.9317p	4.4594p
Class 'P'	Group 1	4.9587p	0.0000p	4.9587p	4.4732p
	Group 2	3.2605p	1.6982p	4.9587p	4.4732p

For Corporate Shareholders the percentage split between Franked and Unfranked income relating to this distribution was:

Franked	95.30%	Unfranked	4.70%
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£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.

0.0000p is the depositary's net liability to corporation tax per share.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

Percentage change and sector position to 31 July 2017

	<u>6 months</u>	<u>1 year</u>	<u>3 year</u>	<u>Since launch*</u>
Marlborough Nano-Cap Growth Fund	13.62%	37.00%	43.43%	52.84%
Quartile Ranking**	4	1	3	3

*Launched ended 31 October 2013

**Based on ranking within The Investment Association's UK Smaller Companies sector

External Source of Economic Data: Morningstar (Class P Acc - bid to bid)



Giles Hargreave

Guy Feld

David Walton

Our Nano-Cap fund had a strong year to July 2017 finishing up 37% compared to 31.3% for the average small cap fund and 20.2% for the FTSE Small Cap Ex IT index. This was primarily due to the performance of the Fund in the first half of the year, with the Fund lagging the sector average in the second half. Pleasingly, at the time of writing, the Fund has made a strong start to the financial year 2017/2018 and is in the top quartile for the first month of the year.

During the course of the year 98 of our stocks rose in value whilst 46 fell, with the balance being unchanged.

Our fund's performance was driven by large rises in

many of our niche, often tech-rich, companies. EVR Holdings, the virtual reality company seeking to profit from streaming concerts via VR headsets rose 400% following a placing at 1.2p and closing the period at 6p. Other large risers included: Blue Prism (up 481%), UK Oil and Gas (up 365%) and Frontier Developments (up 261%). Overall, 23 of our companies doubled in value or better in the year; this represents the nature of the investments made in the Nano-Cap Fund where successful small companies have scope to rise much more than larger caps.

During the year we enjoyed success in the IPO and placing market, taking part in 17 of which 16 have risen in value. The mean average gain on IPO and placing stock over the year was 59%. Successful additions to the Fund include EVR Holdings, Alpha FX Group and Trinity Exploration & Production, inter alia. The one loser was Autins Group which issued a profit warning following reduction in key customer orders.

Although smaller companies can appreciate in value rapidly when successful, so too can they fall quickly if they are not. Clearly, our performance is driven by an ability to find more winners than losers. During the year we had a few notable losers which detracted from performance. Examples include: Crawshaw, which fell 69%; Shanta Gold; which fell 57%; and Bagir group, which fell 55%.

Over the course of the year we continued to modify our portfolio and, as a result, the composition of our top 10 has changed somewhat. Our three largest holdings are now Frontier Developments, Amino Technologies and Spectra Systems. Both Frontier and Spectra have gained their places in the top 10 as a result of strong share price rises during the year on the back of promising trading updates and expectations for future earnings improving.

Overall, despite the risks associated with the geopolitical and economic state of affairs, equity markets remain firm given the easy monetary policy of most of the worlds' major central banks. We remain cautiously optimistic and continue to believe that our bottom-up, stock picking approach to the Nano-Cap Fund will continue to enable us to perform through the cycle.

Hargreave Hale Ltd

6 September 2017

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THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

AUTHORISED INVESTMENT ADVISER'S REPORT

for the year ended 31 July 2017

Distributions (pence per share)

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Class A Accumulation</u>				
Net income paid 31 March	0.0000	0.0000	0.0000	0.0000
Net income paid 30 September	0.0000	0.0000	0.0000	0.0000
<u>Class B Accumulation</u>				
Net income paid 31 March	0.0000	0.0410	0.0560	0.0000
Net income paid 30 September	0.3001	0.2759	0.0690	0.0000
<u>Class P Accumulation</u>				
Net income paid 31 March	0.0866	0.1714	0.1870	0.0000
Net income paid 30 September	0.4335	0.4022	0.2021	0.0697

Material Portfolio Changes

Major purchases	Cost (£)	Major sales	Proceeds (£)
Marlowe	5,068,030	Keywords Studios	3,983,870
RedstoneConnect	2,395,577	Ideagen	2,270,249
Oxford Metrics	2,059,733	Trinity Exploration & Production	2,191,946
Future	2,050,620	Blue Prism Group	2,094,016
Hargreaves Services	1,566,826	PROACTIS Holdings	2,051,361
Amino Technologies	1,411,429	Marlowe	1,832,765
Ten Entertainment Group	1,350,017	EVR Holdings	1,708,969
CAP-XX	1,328,278	Warpaint London	1,671,659
Condor Gold	1,274,233	K3 Business Technology Group	1,616,553
ULS Technology	1,075,556	UK Oil & Gas Investments	1,559,530
Ero Copper	1,000,400	Safestyle UK	1,451,860
Premier Veterinary Group	987,503	Tracsis	1,256,096
Trinity Exploration & Production	974,966	RedstoneConnect	1,197,789
Warpaint London	974,626	Cyprotex	1,120,000
Peninsula Energy	957,903	Sigma Capital Group	971,098
Totally	943,477	Hotel Chocolat Group	958,715
Carclo	940,784	Kennedy Ventures	947,413
Stride Gaming	908,681	IBEX Global Solutions	896,000
Nexus Infrastructure	882,308	Palace Capital	866,143
Velocity Composites	800,044	Minds + Machines Group	853,179
Other purchases	30,232,003	Other sales	22,596,554
Total purchases for the year	59,182,994	Total sales for the year	54,095,765

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

COMPARATIVE TABLE

Accumulation shares were launched at 100p on 14 October 2013.

<u>Class A accumulation shares</u>	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share	pence	pence	pence
Opening net asset value per share	103.96	102.04	100.86
Return before operating charges*	39.46	3.57	2.76
Operating charges	(1.96)	(1.65)	(1.58)
Return after operating charges*	37.50	1.92	1.18
Distributions	0.00	0.00	0.00
Retained distributions on accumulation shares	0.00	0.00	0.00
Closing net asset value per share	141.46	103.96	102.04
* after direct transaction costs of:	0.23	0.12	0.08
Performance			
Return after charges	36.07%	1.88%	1.17%
Other information			
Closing net asset value	£19,797,559	£15,288,706	£17,567,254
Closing number of shares	13,994,853	14,707,030	17,216,476
Operating charges	1.56%	1.56%	1.56%
Direct transaction costs	0.19%	0.12%	0.08%
Prices			
Highest share price	154.99p	118.19p	114.72p
Lowest share price	104.08p	96.84p	93.82p
<u>Class B accumulation shares</u>	Year to	Year to	Year to
Change in net assets per share	31.07.2017	31.07.2016	31.07.2015
	pence	pence	pence
Opening net asset value per share	105.40	102.96	101.25
Return before operating charges*	40.36	3.57	2.79
Operating charges	(1.34)	(1.13)	(1.08)
Return after operating charges*	39.02	2.44	1.71
Distributions	(0.30)	(0.32)	(0.13)
Retained distributions on accumulation shares	0.30	0.32	0.13
Closing net asset value per share	144.42	105.40	102.96
* after direct transaction costs of:	0.24	0.13	0.09
Performance			
Return after charges	37.02%	2.37%	1.69%
Other information			
Closing net asset value	£1,049	£1,054	£1,029
Closing number of shares	726	1,000	1,000
Operating charges	1.06%	1.06%	1.06%
Direct transaction costs	0.19%	0.12%	0.08%
Prices			
Highest share price	158.07p	119.73p	115.23p
Lowest share price	105.59p	98.19p	94.29p

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

COMPARATIVE TABLE

Class P accumulation shares	Year to 31.07.2017	Year to 31.07.2016	Year to 31.07.2015
Change in net assets per share	pence	pence	pence
Opening net asset value per share	106.18	103.41	101.44
Return before operating charges*	40.47	3.64	2.80
Operating charges	(1.05)	(0.87)	(0.83)
Return after operating charges*	39.42	2.77	1.97
Distributions	(0.52)	(0.57)	(0.39)
Retained distributions on accumulation shares	0.52	0.57	0.39
Closing net asset value per share	145.60	106.18	103.41

* after direct transaction costs of: 0.24 0.13 0.09

Performance

Return after charges 37.13% 2.68% 1.94%

Other information

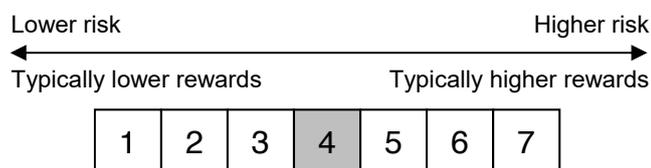
Closing net asset value	£123,001,973	£79,430,581	£76,828,525
Closing number of shares	84,479,984	74,807,556	74,296,082
Operating charges	0.81%	0.81%	0.81%
Direct transaction costs	0.19%	0.12%	0.08%

Prices

Highest share price	159.43p	120.49p	115.47p
Lowest share price	106.31p	98.84p	94.53p

Operating charges are the same as the ongoing charges and are the total expenses paid by each share class in the year. Direct transaction costs are the total charges for the year, included in the purchase and sale of investments in the portfolio of the Fund. These amounts are expressed as a percentage of the average net asset value over the year and the average shares in issue for the pence per share figures.

SYNTHETIC RISK AND REWARD INDICATOR



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 4 because it has experienced moderate volatility historically.

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
AEROSPACE & DEFENCE (0.55%, July 2016 - Nil)		
941,228 Velocity Composites	781,219	0.55
Total Aerospace & Defence	<u>781,219</u>	<u>0.55</u>
ALTERNATIVE ENERGY (0.20%, July 2016 - 0.87%)		
847,000 Ilika	287,980	0.20
Total Alternative Energy	<u>287,980</u>	<u>0.20</u>
AUTOMOBILES & PARTS (0.54%, July 2016 - 1.28%)		
26,000 Autins Group	36,400	0.03
4,577,831 Surface Transforms	732,453	0.51
Total Automobiles & Parts	<u>768,853</u>	<u>0.54</u>
CHEMICALS (2.17%, July 2016 - 1.73%)		
775,000 Carclo	1,278,750	0.90
2,290,000 HaloSource	28,625	0.02
1,174,572 HaloSource 'Reg S'	11,746	0.01
48,750,000 Hardide	804,375	0.56
375,000 Haydale Graphene Industries	637,500	0.45
1,100,000 Plant Impact	330,000	0.23
Total Chemicals	<u>3,090,996</u>	<u>2.17</u>
CONSTRUCTION & MATERIALS (1.22%, July 2016 - Nil)		
465,975 Clarke (T)	401,903	0.28
476,923 Nexus Infrastructure	882,308	0.62
1,125,000 SigmaRoc	450,000	0.32
Total Construction & Materials	<u>1,734,211</u>	<u>1.22</u>
ELECTRONIC & ELECTRICAL EQUIPMENT (3.47%, July 2016 - 2.74%)		
3,200,291 APC Technology Group	200,018	0.14
18,400,000 CAP-XX	1,656,000	1.16
26,137,500 Flowgroup	219,555	0.15
240,000 Solid State	1,128,000	0.79
1,400,280 Stadium Group	1,750,350	1.23
Total Electronic & Electrical Equipment	<u>4,953,923</u>	<u>3.47</u>
FINANCIAL SERVICES (3.19%, July 2016 - 4.59%)		
350,000 Alpha FX Group	1,610,000	1.13
320,975 Curtis Banks Group	834,535	0.58
2,172,500 Impax Asset Management Group	2,107,325	1.48
Total Financial Services	<u>4,551,860</u>	<u>3.19</u>
FIXED LINE TELECOMMUNICATIONS (1.39%, July 2016 - 1.93%)		
600,000 AdEPT Telecom	1,980,000	1.39
Total Fixed Line Telecommunications	<u>1,980,000</u>	<u>1.39</u>
FOOD & DRUG RETAILERS (0.46%, July 2016 - 2.45%)		
2,700,000 Crawshaw Group	661,500	0.46
Total Food & Drug Retailers	<u>661,500</u>	<u>0.46</u>
FOOD PRODUCERS (2.05%, July 2016 - 3.19%)		
1,100,000 Finsbury Food Group	1,265,000	0.89
150,000 Hotel Chocolat Group	465,375	0.33
1,310,000 Science in Sport	1,192,100	0.83
Total Food Producers	<u>2,922,475</u>	<u>2.05</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
FORESTRY & PAPER (0.71%, July 2016 - Nil)		
60,000 Cropper (James)	1,014,000	0.71
Total Forestry & Paper	<u>1,014,000</u>	<u>0.71</u>
GENERAL INDUSTRIALS (Nil, July 2016 - 0.26%)		
Total General Industrials	<u>0</u>	<u>0.00</u>
GENERAL RETAILERS (1.85%, July 2016 - 4.78%)		
900,000 Angling Direct	765,000	0.54
1,097,070 Cambria Automobiles	680,183	0.48
1,250,000 Moss Bros Group	1,187,500	0.83
Total General Retailers	<u>2,632,683</u>	<u>1.85</u>
HEALTH CARE EQUIPMENT & SERVICES (1.68%, July 2016 - 0.78%)		
330,000 Cambridge Cognition Holdings	379,500	0.27
700,000 Creo Medical Group	581,000	0.41
500,000 Kromek Group	148,750	0.10
300,000 Medica Group	632,250	0.44
18,000,000 Surgical Innovations Group	657,000	0.46
Total Health Care Equipment & Services	<u>2,398,500</u>	<u>1.68</u>
HOUSEHOLD GOODS & HOME CONSTRUCTION (2.49%, July 2016 - 2.61%)		
100,000 Churchill China	880,000	0.62
2,500,000 Havelock Europa	231,250	0.16
450,000 Victoria	2,439,000	1.71
Total Household Goods & Home Construction	<u>3,550,250</u>	<u>2.49</u>
INDUSTRIAL ENGINEERING (2.79%, July 2016 - 2.91%)		
110,670 AB Dynamics	664,020	0.46
1,365,000 Severfield	996,450	0.70
700,000 Somero Enterprises	2,100,000	1.47
3,475,000 TP Group	234,563	0.16
Total Industrial Engineering	<u>3,995,033</u>	<u>2.79</u>
INDUSTRIAL TRANSPORTATION (0.83%, July 2016 - 0.88%)		
500,000 Gama Aviation	1,185,000	0.83
Total Industrial Transportation	<u>1,185,000</u>	<u>0.83</u>
LEISURE GOODS (2.31%, July 2016 - 1.57%)		
1,142,857 Fishing Republic	457,143	0.32
455,000 Frontier Developments	2,843,750	1.99
Total Leisure Goods	<u>3,300,893</u>	<u>2.31</u>
MEDIA (7.37%, July 2016 - 8.20%)		
5,750,000 Be Heard Group	166,750	0.12
895,000 Ebiquity	1,029,250	0.72
1,025,000 Future	3,259,500	2.28
1,729,500 Gfinity	389,138	0.27
149,000,000 MediaZest	134,100	0.09
800,000 Next Fifteen Communications Group	3,504,000	2.45
7,000,000 One Media iP Group	210,000	0.15
1,533,000 ULS Technology	1,839,600	1.29
Total Media	<u>10,532,338</u>	<u>7.37</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
MINING (3.03%, July 2016 - 3.28%)		
20,500,000 Avesoro Resources	502,250	0.35
2,061,290 Condor Gold	1,030,645	0.72
8,400,000 Goldplat	483,000	0.34
25,500,000 Horizonte Minerals	599,250	0.42
1,750,000 Serabi Gold	74,375	0.05
26,997,360 Shanta Gold	1,012,401	0.71
6,250,000 Sylvania Platinum	562,500	0.39
100,000 Tharisa	70,000	0.05
Total Mining	<u>4,334,421</u>	<u>3.03</u>
MOBILE TELECOMMUNICATIONS (1.11%, July 2016 - 0.09%)		
19,746,815 EVR Holdings	1,234,176	0.86
9,450,000 Mobile Streams	354,375	0.25
Total Mobile Telecommunications	<u>1,588,551</u>	<u>1.11</u>
NONEQUITY INVESTMENT INSTRUMENTS (0.47%, July 2016 - 0.45%)		
833,333 Derriston Capital	95,833	0.07
515,000 Premier Veterinary Group	576,800	0.40
Total Nonequity Investment Instruments	<u>672,633</u>	<u>0.47</u>
NONLIFE INSURANCE (Nil, July 2016 - 0.05%)		
Total Nonlife Insurance	<u>0</u>	<u>0.00</u>
OIL & GAS PRODUCERS (1.38%, July 2016 - 0.78%)		
1,000,000 Angus Energy	280,000	0.20
850,000 Chariot Oil & Gas	104,125	0.07
250,000 Eco (Atlantic) Oil & Gas	46,875	0.03
3,200,000 Egdon Resources	288,000	0.20
13,191,034 Europa Oil & Gas Holdings	956,350	0.67
2,700,000 Trinity Exploration & Production	297,000	0.21
Total Oil & Gas Producers	<u>1,972,350</u>	<u>1.38</u>
PERSONAL GOODS (0.69%, July 2016 - 0.17%)		
12,602,589 Bagir Group	346,571	0.24
334,500 Warpaint London	635,550	0.45
Total Personal Goods	<u>982,121</u>	<u>0.69</u>
PHARMACEUTICALS & BIOTECHNOLOGY (2.87%, July 2016 - 4.01%)		
1,800,000 Abzena	882,000	0.62
925,000 Beximco Pharmaceuticals 'Reg S'	601,250	0.42
382,325 C4X Discovery Holdings	328,800	0.23
325,000 Ergomed	617,500	0.43
450,000 Horizon Discovery Group	1,147,500	0.80
2,000,000 Premaitha Health	185,000	0.13
125,000 Summit Therapeutics	243,750	0.17
1,325,212 Synairgen	102,704	0.07
Total Pharmaceuticals & Biotechnology	<u>4,108,504</u>	<u>2.87</u>
REAL ESTATE INVESTMENT & SERVICES (2.06%, July 2016 - 2.89%)		
1,318,608 HML Holdings	527,443	0.37
250,000 Palace Capital	912,500	0.64
967,000 The Property Franchise Group	1,498,850	1.05
Total Real Estate Investment & Services	<u>2,938,793</u>	<u>2.06</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value		Bid value £	Percentage of total net assets %
SOFTWARE & COMPUTER SERVICES (17.64%, July 2016 - 20.52%)			
2,477,538	ATTRAQT Group	991,015	0.69
50,000	Blue Prism Group	418,000	0.29
1,600,000	Castleton Technology	1,096,000	0.77
519,167	Cerillion	648,959	0.45
100,000	ClearStar	48,000	0.03
3,300,759	ClearStar 'Reg S'	1,155,266	0.81
925,458	CORETX Holdings	305,401	0.21
1,585,000	D4t4 Solutions	2,694,500	1.89
520,000	Defenx	941,200	0.66
325,926	Eagle Eye Solutions Group	880,000	0.62
650,000	Eckoh	331,500	0.23
860,000	eg solutions	868,600	0.61
377,000	Escher Group Holdings	848,250	0.59
10,312,174	eServGlobal	696,072	0.49
4,106,060	EU-Supply	656,970	0.46
10,250,180	GoTech Group	179,378	0.13
1,100,000	Gresham Technologies	1,980,000	1.39
19,432,292	Imaginatik	388,646	0.27
400,114	Instem	752,214	0.53
20,000,000	Nasstar	1,850,000	1.30
4,025,000	Oxford Metrics	2,334,500	1.63
1,242,305	Pennant International Group	993,844	0.70
800,000	PROACTIS Holdings	1,504,000	1.05
785,915	RedstoneConnect	943,098	0.66
757,471	SysGroup	302,988	0.21
1,000,000	Tekcapital	300,000	0.21
1,200,000	Tern	84,000	0.06
6,666,667	Zoo Digital Group	1,000,000	0.70
	Total Software & Computer Services	<u>25,192,401</u>	<u>17.64</u>
SUPPORT SERVICES (16.18%, July 2016 - 16.29%)			
15,400,000	1Spatial	500,500	0.35
3,000,000	Augean	1,500,000	1.05
1,200,000	Croma Security Solutions Group	624,000	0.44
1,150,000	Empresaria Group	1,702,000	1.19
350,000	Filta Group Holdings	420,000	0.29
3,800,000	Frontier IP Group	1,672,000	1.17
478,500	Hargreaves Services	1,614,937	1.13
10,300,000	Inspired Energy	1,931,250	1.35
858,890	Johnson Service Group	1,148,765	0.80
721,755	K3 Capital Group	880,541	0.62
1,450,000	Kennedy Ventures	87,000	0.06
70,000	Keywords Studios	769,300	0.54
155,980	Latham (James)	1,318,031	0.92
87,142	Maintel Holdings	762,493	0.53
1,036,989	Marlowe	3,992,408	2.80
6,000,000	Redhall Group	555,000	0.39
3,275,000	Spectra Systems Corporation	2,423,500	1.70
350,000	Synectics	822,500	0.58
2,500,000	Westminster Group	387,500	0.27
	Total Support Services	<u>23,111,725</u>	<u>16.18</u>
TECHNOLOGY HARDWARE & EQUIPMENT (4.72%, July 2016 - 3.45%)			
2,000,000	Amino Technologies	3,780,000	2.65
7,000,000	BATM Advanced Communications	1,260,000	0.88

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

PORTFOLIO STATEMENT

as at 31 July 2017

Holding or nominal value	Bid value £	Percentage of total net assets %
TECHNOLOGY HARDWARE & EQUIPMENT (continued)		
250,000 Ethernity Networks	467,500	0.33
965,000 Frontier Smart Technologies Group	868,500	0.61
2,400,000 Pebble Beach Systems Group	62,400	0.04
5,000,000 UK Oil & Gas Investments	295,000	0.21
Total Technology Hardware & Equipment	<u>6,733,400</u>	<u>4.72</u>
TRAVEL & LEISURE (5.50%, July 2016 - 5.40%)		
4,400,000 DP Poland	1,892,000	1.33
500,000 easyHotel	500,000	0.35
200,000 Escape Hunt	288,000	0.20
835,435 Everyman Media Group	1,420,239	0.99
725,807 Rotala	420,968	0.30
450,000 Snoozebox Holdings	1,350	0.00
400,000 Stride Gaming	848,000	0.59
818,192 Ten Entertainment Group	1,229,333	0.86
1,000,000 The Brighton Pier Group	950,000	0.67
1,678,500 The Fulham Shore	293,738	0.21
Total Travel & Leisure	<u>7,843,628</u>	<u>5.50</u>
OVERSEAS SECURITIES (0.39%, July 2016 - Nil)		
3,367,000 Greenfields Petroleum	349,599	0.24
1,060,547 Peninsula Energy	215,764	0.15
Total Overseas Securities	<u>565,363</u>	<u>0.39</u>
UNQUOTED SECURITIES (1.90%, July 2016 - 0.36%)		
222,387 365 Agile Group	8,895	0.01
613,450 APC Technology Group Warrants	0	0.00
833,333 Ero Copper	952,417	0.67
2,500,000 EVR Holdings Warrants (£0.011)	128,750	0.09
4,376,470 EVR Holdings Warrants (£0.0185)	192,565	0.13
1,500,000 Gable Holdings	0	0.00
630,119 Guscio Warrants	0	0.00
800,000 Mar City	0	0.00
5,942 My 1st Years	249,980	0.18
6,925,000 Phorm	0	0.00
560,000 Pure Wafer	44,800	0.03
400,000 Tern Warrants	16,000	0.01
1,645,000 TLA Worldwide	271,425	0.19
1,715,413 Totally	806,244	0.56
1,250,000 Westminster Group Warrants	43,750	0.03
Total Unquoted Securities	<u>2,714,826</u>	<u>1.90</u>
Portfolio of investments	133,100,430	93.21
Net current assets on capital account	9,700,151	6.79
Net assets	<u>142,800,581</u>	<u>100.00</u>

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

STATEMENT OF TOTAL RETURN
for the year ended 31 July 2017

	Notes	31 July 2017		31 July 2016	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		34,692,017		1,778,796
Revenue	6	1,465,796		1,309,898	
Expenses	7	<u>(1,071,614)</u>		<u>(912,975)</u>	
Net revenue/(expense) before taxation		394,182		396,923	
Taxation	8	<u>(38,992)</u>		<u>(5,637)</u>	
Net revenue/(expense) after taxation			<u>355,190</u>		<u>391,286</u>
Total return before distributions			35,047,207		2,170,082
Distributions	9		(415,295)		(430,878)
Change in net assets attributable to shareholders from investment activities			<u>34,631,912</u>		<u>1,739,204</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS
for the year ended 31 July 2017

	31 July 2017		31 July 2016	
	£	£	£	£
Opening net assets attributable to shareholders		94,720,341		94,396,808
Amounts receivable on issue of shares	15,335,902		2,670,702	
Amounts payable on cancellation of shares	(2,316,424)		(4,514,020)	
Amounts payable on share class conversions	<u>(2,873)</u>		<u>(2,994)</u>	
		13,016,605		(1,846,312)
Change in net assets attributable to shareholders from investment activities		34,631,912		1,739,204
Retained distribution on accumulation shares		431,723		430,641
Closing net assets attributable to shareholders		<u>142,800,581</u>		<u>94,720,341</u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

BALANCE SHEET
as at 31 July 2017

	Notes	31 July 2017	31 July 2016
		£	£
Assets:			
Fixed Assets:			
Investments	16	133,100,430	93,310,996
Current Assets:			
Debtors	10	665,935	169,949
Cash and bank balances		9,216,874	1,355,332
Total assets		<u>142,983,239</u>	<u>94,836,277</u>
Liabilities:			
Creditors:			
Other creditors	11	182,658	115,936
Total liabilities		<u>182,658</u>	<u>115,936</u>
Net assets attributable to shareholders		<u><u>142,800,581</u></u>	<u><u>94,720,341</u></u>

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

1 ACCOUNTING POLICIES

a Basis of preparation

The financial statements have been prepared in compliance with FRS102 and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by The Investment Association in May 2014.

The financial statements are prepared in sterling, which is the functional currency of the Fund. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of investments and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

b Going concern

The Authorised Corporate Director (ACD) has at the time of approving the financial statements, a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the financial statements.

c Revenue

Dividends from shares are recognised when the security is quoted ex-dividend.

Stock dividends, received as shares to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue.

Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. The tax treatment follows the accounting treatment of the principal amount.

Bank interest is accounted for on an accruals basis.

d Expenses

All expenses are accounted for on an accruals basis and, other than those relating to purchase and sale of investments, are charged against income as shown in these accounts.

e Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on net revenue for the year. The taxable amount differs from net revenue as reported in the Statement of Total Return (SOTR) because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the SOTR. Deferred tax assets and liabilities are offset when the Fund has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

f Valuation of investments

The investments of the Fund have been valued at their fair value at 12 noon on 31 July 2017. Fair value is normally the bid value of each security by reference to quoted prices from reputable sources; that is the market price. If the ACD believes that the quoted price is unreliable, or if no price exists, a valuation technique is used whereby fair value is the ACD's best estimate of a fair and reasonable value for that investment. The fair value excludes any element of accrued interest.

**THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

ACCOUNTING POLICIES

g Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange ruling at the date of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the net capital gains/(losses) for the period.

h Cash and bank balances

Cash and bank balances include deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within creditors in liabilities.

i Financial assets

The ACD has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of the Fund's financial instruments.

Financial assets are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include amounts receivable for the issue of shares, accrued income and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition, less any reduction for impairment or uncollectability.

Basic financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the SOTR.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

j Financial liabilities

Financial liabilities are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified into specified categories. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of recognition.

Basic financial liabilities, which include amounts payable for cancellation of shares and accrued expenses, are initially measured at transaction price. Other financial liabilities are measured at fair value.

Financial liabilities are derecognised when, and only when, the Fund's obligations are discharged, cancelled, or they expire.

2 DISTRIBUTION POLICIES

a Basis of distribution

The policy of the Fund is to distribute any net revenue shown as such in the statement of total return. Revenue attributable to accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of revenue.

b Apportionment to multiple share classes

The ACD's periodic charge is directly attributable to individual share classes. All other income and expenses are allocated to the share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

2 DISTRIBUTION POLICIES

c Equalisation

Equalisation applies only to shares purchased during the distribution period. 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 UK income tax but must be deducted from the cost of the shares for UK capital gains tax purposes.

3 RISK MANAGEMENT POLICIES

In pursuing its investment objective as stated on page 2, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities held in accordance with the investment objective and policies together with cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the ACD's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market fluctuations which are monitored by the ACD in pursuance of the investment objective and policy as set out in the Prospectus.

Investment limits set out in the Instrument of Incorporation, the Prospectus and in the Collective Investment Schemes Sourcebook mitigate the risk of excessive exposure to any particular security or issuer.

Foreign currency risk

The income and capital value of the Fund's investments can be affected by foreign currency translation movements as some of the Fund's assets and income may be denominated in currencies other than sterling which is the Fund's functional currency.

The ACD has identified three principal areas where foreign currency risk could impact the Fund. These are, movements in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements in the period between when an investment purchase or sale is entered into and the date when settlement of the investment occurs, and finally movements in exchange rates affecting income received by the Fund. The Fund converts all receipts of income, received in currency, into sterling on the day of receipt.

Credit and counterparty risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty.

Interest rate risk

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The Fund's cash holdings are held in deposit accounts, whose rates are determined by the banks concerned on a daily basis.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any shares that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions. The liquidity of the Fund's assets is regularly reviewed by the ACD.

THE MARLBOROUGH NO 2 OEIC
MARLBOROUGH NANO-CAP GROWTH FUND

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

4 NET CAPITAL GAINS/(LOSSES)

The net gains/(losses) on investments during the year comprise:

	31 July 2017	31 July 2016
	£	£
Non-derivative securities	34,702,207	1,797,463
Currency gains/(losses)	2,211	(8,903)
Transaction charges	(12,401)	(9,764)
Net capital gains/(losses)	<u>34,692,017</u>	<u>1,778,796</u>

5 PURCHASES, SALES AND TRANSACTION COSTS

(All purchases and sales are in the equity asset class)

	31 July 2017	31 July 2016
	£	£
Purchases excluding transaction costs	29,322,696	16,402,295
Corporate actions	29,764,826	16,124,595
	<u>59,087,522</u>	<u>32,526,890</u>
Commissions	70,906	41,306
Taxes and other charges	24,566	6,535
Total purchase transaction costs	<u>95,472</u>	<u>47,841</u>
Purchases including transaction costs	<u>59,182,994</u>	<u>32,574,731</u>

Purchase transaction costs expressed as a percentage of the principal amount:

Commissions	0.24%	0.25%
Taxes and other charges	0.08%	0.04%

Sales excluding transaction costs	48,604,735	27,218,998
Corporate actions	5,616,235	3,875,906
	<u>54,220,970</u>	<u>31,094,904</u>
Commissions	(120,915)	(64,871)
Taxes and other charges	(4,290)	(2,729)
Total sale transaction costs	<u>(125,205)</u>	<u>(67,600)</u>
Sales net of transaction costs	<u>54,095,765</u>	<u>31,027,304</u>

Sale transaction costs expressed as a percentage of the principal amount:

Commissions	0.25%	0.24%
Taxes and other charges	0.01%	0.01%

Total purchases and sales transaction costs expressed as a percentage of the average net asset value over the year:

	<u>0.19%</u>	<u>0.12%</u>
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Transaction handling charges

	<u>£12,401</u>	<u>£9,764</u>
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Average portfolio dealing spread

This spread represents the difference between the values determined respectively by reference to the bid and offer prices of investments expressed as a percentage of the value determined by reference to the offer price.

Average portfolio dealing spread at the balance sheet date	<u>3.94%</u>	<u>4.58%</u>
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6 REVENUE

	31 July 2017	31 July 2016
	£	£
UK dividends	1,101,872	1,149,041
Overseas dividends	278,645	156,110
Underwriting commission	84,910	4,000
Bank interest	369	747
Total revenue	<u>1,465,796</u>	<u>1,309,898</u>

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

7 EXPENSES

	31 July 2017	31 July 2016
	£	£
Payable to the ACD or associate:		
ACD's periodic charge	1,015,775	863,263
Registration fees	1,527	1,617
	<u>1,017,302</u>	<u>864,880</u>
Payable to the Depositary or associate:		
Depositary's fees	42,459	35,317
Safe Custody fees	7,654	7,699
Interest	16	5
	<u>50,129</u>	<u>43,021</u>
Other expenses:		
Financial Conduct Authority fee	164	155
Audit fee	4,019	4,919
	<u>4,183</u>	<u>5,074</u>
Total expenses	<u><u>1,071,614</u></u>	<u><u>912,975</u></u>

8 TAXATION

	31 July 2017	31 July 2016
	£	£
a Analysis of the tax charge for the year		
Overseas tax	38,992	5,637
Total tax charge	<u><u>38,992</u></u>	<u><u>5,637</u></u>
b Factors affecting the tax charge for the year		
Net revenue before taxation	394,182	396,923
Corporation tax at 20%	78,836	79,385
Effects of:		
Revenue not subject to taxation	(276,103)	(261,031)
Unrelieved excess management expenses	197,267	181,646
Overseas tax	38,992	5,637
Current tax charge	<u><u>38,992</u></u>	<u><u>5,637</u></u>

At 31 July 2017 the Fund has deferred tax assets of £722,336 (31.07.16 - £525,069) arising from surplus management expenses, which have not been recognised due to uncertainty over the availability of future taxable profits.

9 DISTRIBUTIONS

	31 July 2017	31 July 2016
	£	£
The distributions take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:		
Interim	65,467	129,758
Final	366,266	300,888
Amounts deducted on cancellation of shares	591	5,573
Amounts added on issue of shares	(14,146)	(2,341)
Equalisation on conversions	(2,873)	(2,994)
Revenue brought forward	(10)	(6)
Distributions	<u><u>415,295</u></u>	<u><u>430,878</u></u>
Net deficit of revenue for the year	<u>(60,105)</u>	<u>(39,592)</u>
Net revenue after taxation for the year	<u><u>355,190</u></u>	<u><u>391,286</u></u>

Details of the distribution per share are set out in the distribution table in note 17.

**THE MARLBOROUGH NO 2 OEIC
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

10 DEBTORS

	31 July 2017	31 July 2016
	£	£
Amounts receivable for issue of shares	317,665	40,485
Sales awaiting settlement	203,184	51,263
Accrued income	145,086	78,201
Total debtors	<u>665,935</u>	<u>169,949</u>

11 OTHER CREDITORS

	31 July 2017	31 July 2016
	£	£
Amounts payable for cancellation of shares	0	33,705
Purchases awaiting settlement	58,649	0
Accrued expenses	124,009	82,231
Total other creditors	<u>182,658</u>	<u>115,936</u>

12 COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 July 2017 there were contingent liabilities in respect of placings in Kennedy Ventures (£16,474), Proactis Holdings (£250,000) and Surgical Innovations Group (£456,676).

13 RELATED PARTIES

The ACD is involved in all transactions in the shares of the Fund, the aggregate values of which are set out in the statement of change in net assets attributable to shareholders.

Amounts paid to the ACD in respect of the ACD's periodic charge and registration fees are disclosed in note 7. The total amounts due to/(from) the ACD at the year end were as follows:

	31 July 2017	31 July 2016
	£	£
Marlborough Fund Managers Ltd	(214,941)	63,011

In addition to the above, some shares in the Fund are owned by directors of Marlborough Fund Managers Ltd as set out below:

Proportion of shares owned by directors of Marlborough Fund Managers Ltd	0.25%	0.27%
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Distributions were payable on the above holdings at the rates applicable to other shareholders.

14 SHAREHOLDERS' FUNDS

The Fund currently has three share classes: Class A (minimum investment £1,000); Class B (minimum investment £50,000); and Class P (minimum investment £1,000,000). The annual management charges are 1.5%, 1.0% and 0.75% respectively.

During the year the ACD has issued, cancelled and converted shares from one share class to another as set out below:

	Class A	Class B	Class P
Opening shares in issue at 1 August 2016	14,707,030	1,000	74,807,556
Share issues	1,066,312	0	9,908,606
Share cancellations	(625,586)	0	(1,361,149)
Share conversions	(1,152,903)	(274)	1,124,971
Closing shares in issue at 31 July 2017	<u>13,994,853</u>	<u>726</u>	<u>84,479,984</u>

**THE MARLBOROUGH NO 2 OEIC
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

15 RISK DISCLOSURES

Market price risk sensitivity

A five per cent increase in the market prices of the Fund's portfolio would have the effect of increasing the return and net assets by £6,655,022 (31.07.16 - £4,665,550). A five per cent decrease would have an equal and opposite effect.

Foreign currency risk

At the year end date a portion of the net assets of the Fund were denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by exchange rate movements.

Foreign currency exposure at 31 July 2017:

	Investments £	Net current assets £	Total £
Australian Dollar	215,764	0	215,764
Canadian Dollar	349,599	0	349,599
US Dollar	952,417	60,296	1,012,713
	<u>1,517,780</u>	<u>60,296</u>	<u>1,578,076</u>

There was no foreign currency exposure at 31 July 2016.

Foreign currency risk sensitivity

A five per cent decrease in the value of sterling relative to the foreign currencies above would have the effect of increasing the return and net assets by £78,904 (31.07.16 - £0). A five per cent increase would have an equal and opposite effect.

Liquidity risk

The following table provides a maturity analysis of the Fund's financial liabilities:

	31 July 2017 £	31 July 2016 £
Within one year:		
Other creditors	182,658	115,936
	<u>182,658</u>	<u>115,936</u>

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

16 FAIR VALUE HIERARCHY FOR INVESTMENTS

Fair value hierarchy as at 31 July 2017

Valuation technique	31 July 2017		31 July 2016	
	Assets (£)	Liabilities (£)	Assets (£)	Liabilities (£)
Level 1	130,385,604	0	92,964,796	0
Level 2	0	0	0	0
Level 3	2,714,826	0	346,200	0
	<u>133,100,430</u>	<u>0</u>	<u>93,310,996</u>	<u>0</u>

The intention of a fair value measurement is to estimate the price at which an asset or liability could be exchanged in the market conditions prevailing at the measurement date. The measurement assumes the exchange is an orderly transaction (that is, it is not a forced transaction, involuntary liquidation or distress sale) between knowledgeable, willing participants on an independent basis.

The purpose of the fair value hierarchy is to prioritise the inputs that should be used to measure the fair value of assets and liabilities. The highest priority is given to quoted prices at which a transaction can be entered into and the lowest priority to unobservable inputs.

In accordance with FRS102 the Fund classifies fair value measurement under the following levels:-

Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

365 Agile Group is valued at the suspension price until further information is received.

Ero Copper is valued at cost until it is listed.

Gable Holdings is delisted and valued at zero until further information is received.

Mar City is delisted and valued at zero until further information is received.

My 1st Years is valued at cost until it is listed.

Phorm is delisted and deemed to be valueless.

Pure Wafer is in liquidation and is being valued by the fund manager according to expected liquidation proceeds.

TLA Worldwide is valued at the suspension price until further information is received.

Totally is currently suspended due to a potential reverse takeover.

All holdings of warrants have been valued at the exercise price less the price of the underlying ordinary shares.

**THE MARLBOROUGH NO 2 OEIC
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2017

17 DISTRIBUTION TABLE

ACCUMULATION SHARES

For the period from 1 August 2016 to 31 January 2017

Group 1: shares purchased prior to 1 August 2016

Group 2: shares purchased on or after 1 August 2016

		Net revenue to 31-Jan-17 pence per share	Equalisation to 31-Jan-17 pence per share	Distribution paid 31-Mar-17 pence per share	Distribution paid 31-Mar-16 pence per share
Class 'A'	Group 1	0.0000p	0.0000p	0.0000p	0.0000p
	Group 2	0.0000p	0.0000p	0.0000p	0.0000p
Class 'B'	Group 1	0.0000p	0.0000p	0.0000p	0.0410p
	Group 2	0.0000p	0.0000p	0.0000p	0.0410p
Class 'P'	Group 1	0.0866p	0.0000p	0.0866p	0.1714p
	Group 2	0.0078p	0.0788p	0.0866p	0.1714p

For corporate shareholders the percentage split between franked and unfranked income relating to this distribution was:

Franked	98.53%	Unfranked	1.47%
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£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.

0.0000p is the depositary's net liability to corporation tax per share.

For the period from 1 February 2017 to 31 July 2017

Group 1: shares purchased prior to 1 February 2017

Group 2: shares purchased on or after 1 February 2017

		Net revenue to 31-Jul-17 pence per share	Equalisation to 31-Jul-17 pence per share	Distribution payable 30-Sep-17 pence per share	Distribution paid 30-Sep-16 pence per share
Class 'A'	Group 1	0.0000p	0.0000p	0.0000p	0.0000p
	Group 2	0.0000p	0.0000p	0.0000p	0.0000p
Class 'B'	Group 1	0.3001p	0.0000p	0.3001p	0.2759p
	Group 2	0.3001p	0.0000p	0.3001p	0.2759p
Class 'P'	Group 1	0.4335p	0.0000p	0.4335p	0.4022p
	Group 2	0.2755p	0.1580p	0.4335p	0.4022p

For corporate shareholders the percentage split between franked and unfranked income relating to this distribution was:

Franked	100.00%	Unfranked	0.00%
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£0.00 is the depositary's net liability to corporation tax in respect of the gross revenue.

0.0000p is the depositary's net liability to corporation tax per share.

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