



Charity Value and Income Fund

Annual Long Report

for the year ended 31 December 2013

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Charity Value and Income Fund

Manager's report

Smith & Williamson Fund Administration Limited ("the Manager") presents herewith the Annual Long Report ("the Report") for Charity Value and Income Fund for the year ended 31 December 2013.

Charity Value and Income Fund ("the Scheme" or "the Fund") is a Common Investment Fund established by a Scheme of the Charity Commission for England and Wales ("the Commission") dated 11 April 2007, made pursuant to the powers given to it by the Charities Act 1993, section 24. The registered charity number is 1119289. The Scheme is not an authorised unit trust within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). The Scheme is operated by Smith & Williamson Fund Administration Limited as an unregulated collective investment scheme in accordance with the Financial Conduct Authority ("the FCA") rules and the Collective Investment Schemes sourcebook ("COLL"). Customers investing in the Scheme may not therefore receive the full levels of protection available under FSMA.

The Manager is of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Scheme consist predominantly of securities which are readily realisable and, accordingly, the Scheme has adequate financial resource to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

The Scheme Particulars can be inspected at the Manager's office.

Copies of the Scheme Particulars are available free of charge from the Manager.

Investment objective

The objective of the Scheme is to achieve long-term capital and income growth through investment primarily in UK equities and convertible securities, with an above-average yield. The Scheme may also from time to time invest in other securities, including UK government securities, other fixed interest securities and cash.

Investment policy

The investments for the Scheme will be made principally in UK companies listed on the London Stock Exchange, typically within the FTSE All Share Index or quoted on the Alternative Investment Market. As such, both income received from those investments and their capital valuation will be subject to fluctuation. However, the Investment Manager will endeavour to manage the portfolio in a way that leads to an increasing income year on year, and to invest in a portfolio whose volatility is not significantly different to that of the FTSE All Share Index. The Investment Manager's portfolios historically have tended to have volatility similar to that of the FTSE All Share Index.

Benchmark and performance target

The performance target will be to outperform the FTSE All Share Index on a total return basis. The Scheme will be benchmarked against the FTSE All Share Index.

Changes affecting the Scheme in the year

On 1 October 2013, the minimum fee paid to the Manager out of the annual management charge changed from £25,000 to £26,000 per annum.

Further information in relation to the Fund is illustrated on page 21.

In accordance with the requirements of the Charities (Accounts and Reports) Regulations 2008 and the Scheme Particulars, we hereby approve the Report on behalf of Smith & Williamson Fund Administration Limited.

K. Stopps

G. Murphy

Directors
Smith & Williamson Fund Administration Limited
30 April 2014

Statement of the Manager's responsibilities

The Manager is required to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the Fund as at the end of the financial period and of its net revenue and the net gains on the property of the Fund for the year. In preparing the financial statements, the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Charities Act 2011, the Charities (Accounts and Reports) Regulations 2008 ('the Regulations') and where relevant the Statement of Recommended Practice: "Financial Statements of Authorised Funds" issued by the Investment Management Association ("the IMA") in December 2005;
- follow generally accepted United Kingdom accounting principles (UK accounting standards and applicable law);
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent; and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The Manager is also responsible for the management of the Fund in accordance with the Scheme Particulars.

The Fund's policy on the use of financial instruments and the management of risk is set out in the Notes to the financial statements.

Report of the Trustee to the unitholders of Charity Value and Income Fund

Statement of the Trustee's responsibilities

The Trustee is responsible for the safekeeping of all the property of the Fund (other than tangible movable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Fund is managed in accordance with the Fund's Scheme Particulars, in relation to the pricing of, and dealings in, units in the Fund; the application of revenue of the Fund; and the investment and borrowing powers of the Fund.

Report of the Trustee to the unitholders of Charity Value and Income Fund

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Fund, it is our opinion, based on the information available to us and the explanations provided, that in all material respects, the Manager:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's revenue in accordance with the Scheme Particulars; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Fund.

BNY Mellon Trust & Depositary (UK) Limited
30 April 2014

Independent Auditor's report to the unitholders of Charity Value and Income Fund ("the Fund")

We have audited the financial statements of Charity Value and Income Fund for the year ended 31 December 2013 which comprise the Statement of total return, the Statement of change in net assets attributable to unitholders, the Balance sheet together with the related notes and the Distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the unitholders, as a body, in accordance with Section 144 of the Charities Act 2011 and regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to it 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 unitholders, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Manager Smith and Williamson Fund Administration Limited and the Auditor

As explained more fully in the Statement of the Manager's responsibilities set out on page 3, the Manager is responsible for the preparation of financial statements which give a true and fair view.

We have been appointed as auditor under Section 144 of the Charities Act 2011 and report in accordance with regulations made under Section 154 of that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Manager and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the Annual Long Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 December 2013 and of the incoming resources and application of the resources of the Fund for the year then ended;
- give a true and fair view of the movement in the net assets of the Fund for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the annual long report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Beavis Morgan Audit Limited
Registered Auditors
82 St John Street
London EC1M 4JN
30 April 2014

Beavis Morgan Audit Limited is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006.

Investment Adviser's report

The market

In 2013 equities continued to recover from the distressed valuations reached in the winter of 2008/2009. The FTSE World Index, measured in dollars, rose by 22%, with Japan leading the way with a rise of 57% measured in yen, though to the sterling investor the rise was much reduced by the devaluation of yen, which fell by 24% against sterling. In the UK the FTSE All Share Index rose by 17% and recorded a total return, including income, of 20.8%. High yielding companies generally underperformed with a rise of 15% and the FTSE 100 Index of the largest quoted companies rose by 14%. Mid and small-size companies strongly outperformed with rises of 29% and 30% in their respective indices. Bond yields rose and the ten year gilt closed 2013 with a yield of 3.0% compared with 1.8% a year earlier. The total return on the FTSE All Stocks gilt index was -3.9% and the return on the UK Gilts over 15 Year Index was -5.9%. Commodity markets continued to be dull. The price of oil barely changed at \$111 for Brent crude and copper prices fell by 7% over the year. Gold fell sharply over the year with a fall of 27%.

As our year began the economic pessimists were forecasting a 'triple dip' in UK gross domestic product (GDP), but as the year progressed the statistics revealed a brighter picture. Economic growth strengthened in successive quarters and at the close of 2013 forecasts had been upgraded to growth of 1.4% for the year as a whole, with accelerating growth in 2014. Equity markets took fright in June at the suggestion that the US might soon reduce its programme of quantitative easing but quickly recovered and moved to higher levels through the summer and autumn. US macro economics policy continued to worry investors in the autumn, until a political settlement was reached concerning the funding of its fiscal deficit. Sentiment towards Europe was considerably more settled in 2013, with just one more crisis, this time in Cyprus in the spring. Growth in China continued to moderate but remained above 7%. As the year closed many macroeconomic forecasts were being upgraded, reversing the trend of the last four years.

Performance

The bid price of the accumulation units rose by 26.7% during the year, which represented outperformance of 5.9 percentage points against the performance of the All Share Index return of 20.8%. This continued the trend of outperformance in recent years: the total return on the Fund over three years has been 48.5%, compared with the total return on the FTSE All Share Index of 31.0%.

The main drivers to the strong outperformance included sector positioning, especially the underweight position in the mining sector. Also helpful was the overweight position in the travel & leisure sector (Cineworld Group +45% and Restaurant Group +53%). Stock selection was positive in both food & beverage (Britvic +70%) and insurance (Beazley +54%). Other individual strong performers included the holdings in BT Group (+64%), Vodafone Group (+53%), Legal & General Group (+53%) and N Brown Group (+44%). A negative contribution to performance came from stock selection in utilities and industrial goods & services.

*Source: Smith & Williamson Fund Administration Limited Bid to Bid Basis, net income reinvested.

Portfolio

Our strategy for the portfolio did not change significantly this year compared with the previous year, despite the more encouraging macro economic background. We continued to be heavily overweight in the industrial sectors, focusing on companies which operate in global markets. In sectors more exposed to the UK economy we were overweight in travel and leisure in companies trading at the cheaper end of consumer spending. We held no high street retailers. We were underweight in the resource sectors of oils and mining and in the banking sector. Approximately half of the portfolio is invested in mid and small-sized companies.

The Fund has increased significantly over the year. The value at the end of the year was 65% higher than at the end of 2012 with significant additions by new and existing unitholders. Purchases during the year totalled £4.8m and sales totalled £0.7m. We sold the holding in Dairy Crest Group after it rose to a level which was above our estimate of fair value, and we sold the holding in Avon Rubber, where the yield was well below our normal target. In the utility sectors we switched National Grid into the more diversified Pennon Group and, in the oil sector, we reduced the holding in Royal Dutch Shell 'B' and reinvested in BP. With the new money we added to many of the existing holdings and late in the year we bought a new holding Conviviality Retail, which owns a chain of off-licence stores.

Distribution

For the year as a whole the distribution was 3.7p, unchanged on the previous year. We had a small surplus of income to carry forward into this year.

Outlook

After several years of downgrades, we are now seeing successive upgrades of forecasts of growth in UK GDP. Public sector debt continues to increase, and is currently more than 75% of UK GDP and still increasing, though at a slower rate. Inflation has moderated and is now within official targets. With a more supportive economic background, we believe that the UK equity market continues to offer reasonable value to long-term investors. The yield on UK equities of 3.3% is still just ahead of that available from ten-year gilts while the price-earnings (PE) ratio of around 13x remains below the long-term average of 14x.

OLIM Limited
17 January 2014

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Major purchases and sales
for the year ended 31 December 2013

Purchases	Cost £	Sales	Proceeds £
Vodafone Group	357,099	National Grid	196,377
BP	335,938	Avon Rubber	167,110
GlaxoSmithKline	290,728	Dairy Crest Group	135,747
Pennon Group	278,200	Royal Dutch Shell 'B'	66,716
Marston's	273,780	Babcock International Group	59,817
BHP Billiton	261,926	Reed Elsevier	38,913
Conviviality Retail	244,742	BG Group	14,193
Unilever	240,815		
HSBC Holdings	204,686		
United Utilities Group	188,221		
Total purchases in the year including transaction costs	<u>4,821,624</u>	Total sales in the year including transaction costs	<u>678,873</u>

The above represents the major purchases and total sales in the year to reflect a clearer picture of the major investment activities.

Portfolio statement

as at 31 December 2013

Investment	Nominal value or holding	Market value £	% of total net assets
Equities - United Kingdom 98.28% (96.39%)			
Equities - incorporated in the United Kingdom 90.46% (88.22%)			
Oil & Gas 11.83% (12.06%)			
AMEC	24,700	268,489	1.69
BG Group	24,300	314,928	1.98
BP	163,000	798,537	5.03
Royal Dutch Shell 'B'	21,800	496,713	3.13
		<u>1,878,667</u>	<u>11.83</u>
Chemicals 3.74% (4.05%)			
Croda International	10,800	264,924	1.67
Johnson Matthey	10,100	329,664	2.07
		<u>594,588</u>	<u>3.74</u>
Basic Resources 4.72% (3.89%)			
BHP Billiton	24,200	452,661	2.85
Rio Tinto	8,700	296,974	1.87
		<u>749,635</u>	<u>4.72</u>
Industrial Goods & Services 13.49% (16.48%)			
Babcock International Group	22,020	297,931	1.88
Carillion	117,500	388,102	2.44
Halma	82,000	492,820	3.10
Spectris	26,000	663,520	4.18
Sthree	84,000	299,460	1.89
		<u>2,141,833</u>	<u>13.49</u>
Food & Beverage 6.79% (7.45%)			
Britvic	63,000	432,810	2.73
Unilever	26,000	644,800	4.06
		<u>1,077,610</u>	<u>6.79</u>
Health Care 6.14% (5.17%)			
Dechra Pharmaceuticals	33,500	233,495	1.47
GlaxoSmithKline	46,000	741,290	4.67
		<u>974,785</u>	<u>6.14</u>
Retail 6.67% (5.84%)			
Conviviality Retail	150,000	249,000	1.57
N Brown Group	85,000	447,525	2.82
Tesco	108,500	362,715	2.28
		<u>1,059,240</u>	<u>6.67</u>
Media 2.15% (2.87%)			
Reed Elsevier	38,000	340,670	2.15
Travel & Leisure 10.71% (9.01%)			
Cineworld Group	102,500	385,913	2.43
Go-Ahead Group	28,700	502,824	3.17
Marston's	360,000	517,320	3.26
Restaurant Group	50,000	294,500	1.85
		<u>1,700,557</u>	<u>10.71</u>
Telecommunications 9.56% (5.95%)			
BT Group	144,000	545,040	3.43
Vodafone Group	408,625	972,323	6.13
		<u>1,517,363</u>	<u>9.56</u>
Utilities 6.74% (7.62%)			
Centrica	93,600	324,324	2.04
Pennon Group	40,500	267,098	1.68
United Utilities Group	71,000	479,960	3.02
		<u>1,071,382</u>	<u>6.74</u>
Banks 3.07% (3.00%)			
HSBC Holdings	73,500	487,526	3.07
Insurance 4.85% (4.83%)			
Amlin	71,200	325,740	2.05
Legal & General Group	199,000	443,770	2.80
		<u>769,510</u>	<u>4.85</u>
Total equities - incorporated in the United Kingdom		<u>14,363,366</u>	<u>90.46</u>

Portfolio statement (continued)

as at 31 December 2013

Investment	Nominal value or holding	Market value £	% of total net assets
Equities - incorporated outwith United Kingdom 7.82% (8.17%)			
Media 2.14% (2.37%)			
Informa	60,000	<u>339,900</u>	<u>2.14</u>
Insurance 2.93% (3.08%)			
Beazley	141,000	383,238	2.41
Hansard Global	85,000	<u>82,450</u>	<u>0.52</u>
		465,688	2.93
Financial Services 2.75% (2.72%)			
John Laing Infrastructure Fund	380,000	<u>435,860</u>	<u>2.75</u>
Total equities - incorporated outwith the United Kingdom		<u>1,241,448</u>	<u>7.82</u>
Total equities - United Kingdom		<u>15,604,814</u>	<u>98.28</u>
<hr/>			
Portfolio of investments		15,604,814	98.28
Other net assets		273,793	1.72
<hr/>			
Total net assets		<u>15,878,607</u>	<u>100.00</u>

All investments are quoted securities unless otherwise stated.

The comparative figures in brackets are as at 31 December 2012.

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Comparative table

Number of units in issue	30.12.13	31.12.12	31.12.11
Gross income	13,509,469	10,123,236	9,587,017
Gross accumulation	2,353,055	1,546,678	1,029,059
Net Asset Value (NAV)	£	£	£
Total NAV of Fund	15,878,607	9,489,789	7,568,356
NAV attributable to gross income unitholders	12,835,745	7,914,564	6,682,157
NAV attributable to gross accumulation unitholders	3,042,862	1,575,225	886,199
Net asset value per unit (based on bid value)	p	p	p
Gross income	95.01	78.18	69.70
Gross accumulation	129.3	101.8	86.12
Quoted prices (based on bid value)	p	p	p
Gross income	95.63	78.86	70.53
Gross accumulation	130.2	102.7	87.15

Gross income units were first issued at 100.0p on 6 June 2007.

Gross accumulation units were first issued at 100.0p on 6 June 2007.

Performance record

Calendar year		Distribution per unit	Highest offer price	Lowest bid price
		p	p	p
2009	Gross income	3.200	67.63	47.07
2009	Gross accumulation	3.527	75.99	50.79
2010	Gross income	3.300	75.67	62.52
2010	Gross accumulation	3.819	89.11	72.58
2011	Gross income	3.600	78.44	64.48
2011	Gross accumulation	4.373	95.60	79.37
2012	Gross income	3.700	80.38	68.67
2012	Gross accumulation	4.732	104.7	87.27
2013*	Gross income	3.700	96.21	77.99
2013*	Gross accumulation	4.959	130.9	102.9

* to 31 December 2013

Distributions in the current and prior year:

Gross income			
Payment date	p	Payment date	p
31.05.13	0.800	31.05.12	0.900
31.08.13	1.000	31.08.12	0.900
30.11.13	0.900	30.11.12	0.900
28.02.14	1.000	28.02.13	1.000
Gross accumulation			
Allocation date	p	Allocation date	p
31.05.13	1.055	31.05.12	1.129
31.08.13	1.331	31.08.12	1.143
30.11.13	1.212	30.11.12	1.158
28.02.14	1.361	28.02.13	1.302

Total expense ratio (TER)

The total expense ratio provides investors with a clearer picture of the total annual costs in running a collective investment scheme. The TER consists principally of the ACD's periodic charge and the Investment Adviser's fee which are included in the annual management charge, but also includes the costs for other services paid.

	31.12.13	31.12.12
Annual management charge [^]	0.60%	0.60%
Other expenses	0.11%	0.15%
Total expense ratio	<u>0.71%</u>	<u>0.75%</u>

[^] inclusive of VAT

Please note the TER is indicative of the charges which the Fund may incur in a year as it is calculated on historical data.

Investments carry risk. Past performance is not a guide to future performance. Investors may not get back the amount invested.

Financial statements - Charity Value and Income Fund

Statement of total return

for the year ended 31 December 2013

	Notes	2013		2012	
		£	£	£	£
Income:					
Net capital gains	2		2,313,757		1,018,703
Revenue	3	480,018		369,087	
Expenses	4	(81,008)		(61,489)	
Finance costs: Interest	6	<u>(15)</u>		<u>-</u>	
Net revenue			<u>398,995</u>		<u>307,598</u>
Total return before distributions			2,712,752		1,326,301
Finance costs: Distributions	6		(477,917)		(403,387)
Change in net assets attributable to unitholders from investment activities			<u>2,234,835</u>		<u>922,914</u>

Statement of change in net assets attributable to unitholders

for the year ended 31 December 2013

		2013		2012	
		£	£	£	£
Opening net assets attributable to unitholders			9,489,789		7,568,356
Amounts receivable on issue of units		4,088,965		1,090,739	
Amounts payable on cancellation of units		<u>(41,079)</u>		<u>(149,840)</u>	
			4,047,886		940,899
Change in net assets attributable to unitholders from investment activities			2,234,835		922,914
Retained accumulation distributions			106,097		57,620
Closing net assets attributable to unitholders			<u>15,878,607</u>		<u>9,489,789</u>

Balance sheet
as at 31 December 2013

	Notes	2013		2012	
		£	£	£	£
ASSETS:					
Investment assets			15,604,814		9,147,551
Debtors	7	276,976		43,566	
Cash and bank balances	8	<u>137,166</u>		<u>405,048</u>	
Total other assets			<u>414,142</u>		<u>448,614</u>
Total assets			<u>16,018,956</u>		<u>9,596,165</u>
LIABILITIES:					
Creditors	9	(5,254)		(5,144)	
Distribution payable on income units		<u>(135,095)</u>		<u>(101,232)</u>	
Total liabilities			<u>(140,349)</u>		<u>(106,376)</u>
Net assets attributable to unitholders			<u>15,878,607</u>		<u>9,489,789</u>

K. Stopps

G. Murphy

Directors
 Smith & Williamson Fund Administration Limited
 30 April 2014

Registered Charity number 1119289

Notes to the financial statements

as at 31 December 2013

1. Accounting policies

a *Basis of accounting*

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments. They have been prepared in accordance with the applicable UK Accounting Standards and in accordance with the Statement of Recommended Practice for Authorised Funds ("the SORP") issued by the Investment Management Association ("the IMA") in December 2005 as applicable to Charity Common Investment Funds and the Charities (Accounts and Reports) Regulations 2008.

As described in the Manager's report, the Manager continues to adopt the going concern basis in the preparation of the accounts.

b *Valuation of investments*

The purchase and sale of investments are included up to close of business on 31 December 2013.

Purchases and sales of investments are recognised when a legally binding and unconditional right to obtain, or an obligation to deliver an asset arises.

Investments are stated at their fair value at balance sheet date. In determining fair value, the valuation point is 12 noon on 31 December 2013 with reference to quoted bid prices from reliable external sources.

Where an observable market price is unreliable or does not exist, investments are valued at the Manager's best estimate of the amount that would be received from an immediate transfer at arm's length.

c *Foreign exchange*

The base currency of the Fund is sterling which is taken to be the Fund's functional currency.

All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the dates of such transactions. The resulting exchange differences are disclosed in note 2 of the Notes to the financial statements.

Any foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate prevailing at the balance sheet date.

d *Revenue*

Revenue is recognised in the Statement of total return on the following basis:

Dividends from quoted equity instruments and non equity units are recognised as revenue, net of attributable tax credits on the date when the securities are quoted ex-dividend.

Special dividends are treated as either revenue or a repayment of capital depending on the facts of each particular case.

Overseas dividends are recognised as revenue gross of any withholding tax and the tax consequences are recognised within the tax expense.

Interest on bank deposits and short term deposits is recognised on an accruals basis.

Ordinary scrip dividends are recognised wholly as revenue on the basis of the market values of the shares on the date that they are quoted ex-dividend. Where an enhancement is offered the amount by which the market value of the shares on the date they are quoted ex-dividend exceeds the cash dividend is taken to capital. The ordinary element of scrip dividends is treated as revenue and forms part of the Fund's distributions.

e *Expenses*

All expenses, other than those relating to the purchase and sale of investments are charged against revenue and are then reallocated to capital, net of any tax effect.

f *Taxation*

The Fund is exempt from UK income and capital gains tax due to its charitable status pursuant to sections 505 and 506 of the income and Corporation Taxes Act 1988.

g *Use of derivatives*

The Fund may (subject to the provisions of the Scheme) enter into derivatives and forward transactions (i.e. futures, options and contracts for differences) provided that:

- the transaction is entered into for the purpose of protection or the reduction of risk and/or the reduction of costs to the Fund;
- the Manager is satisfied that the transaction is expedient in the interests of the Fund;
- any securities to be acquired under the transaction are eligible to be held by the Fund, having regard to clause 38 of the Schemes and the investment objective and policy of the Fund; and
- the Manager is satisfied that the transaction is not speculative.

h *Distribution policies*

i *Basis of distribution*

Where income is available, distributions are made quarterly from the Fund and take the form of dividend distributions. Distributions attributable to income units are paid to unitholders. Distributions attributable to accumulation units are re-invested in the Fund on behalf of the unitholders.

ii *Unclaimed distributions*

Distributions to unitholders outstanding after 6 years are taken to the capital property of the Fund.

iii *Revenue*

All revenue is included in the final distribution with reference to the accounting policies for revenue disclosed in note 1d.

Notes to the financial statements (continued)

as at 31 December 2013

1. Accounting policies (continued)

h Distribution policies (continued)

iv Expenses

Expenses incurred against the revenue of the Fund are included in the final distribution, subject to any expense which may be transferred to capital for the purpose of calculating the distribution, with reference to note 6.

v Equalisation

Group 2 units are units which are purchased on or after the previous XD date and before the current XD date. Equalisation applies only to group 2 units. It is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital.

Notes to the financial statements (continued)

as at 31 December 2013

2. Net capital gains	2013	2012
	£	£
Non-derivative securities	2,314,512	1,019,272
Transaction charges	(755)	(569)
Total net capital gains	<u>2,313,757</u>	<u>1,018,703</u>
3. Revenue	2013	2012
	£	£
Franked revenue	436,688	327,812
Overseas revenue	43,330	41,275
Total revenue	<u>480,018</u>	<u>369,087</u>
4. Expenses	2013	2012
	£	£
Payable to the Manager, associates of the Manager and agents of either of them:		
Annual management charge	<u>68,839</u>	<u>50,038</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Trustee fees	6,150	6,001
Safe custody fees	<u>1,219</u>	<u>650</u>
	<u>7,369</u>	<u>6,651</u>
Other expenses:		
Audit fee	<u>4,800</u>	<u>4,800</u>
	<u>4,800</u>	<u>4,800</u>
Total expenses	<u>81,008</u>	<u>61,489</u>
5. Taxation		
The Fund is exempt from UK income and capital gains tax due to its charitable status pursuant to sections 505 and 506 of the Income and Corporation Taxes Act 1988. Distributions are paid and credited gross to unitholders on the basis that all UK taxation has been both reclaimed and received. No overseas taxation has been suffered on income arising or paid during the year.		
6. Finance costs		
Distributions and interest		
The distributions take account of revenue added on the issue of units and revenue deducted on the cancellation of units, and comprise:		
	2013	2012
	£	£
Interim income distribution	283,400	257,241
Interim accumulation distribution	74,072	37,483
Final income distribution	135,095	101,232
Final accumulation distribution	<u>32,025</u>	<u>20,138</u>
	524,592	416,094
Equalisation:		
Amounts deducted on cancellation of units	196	1,951
Amounts added on issue of units	<u>(46,871)</u>	<u>(14,658)</u>
Finance costs: Distributions	477,917	403,387
Finance costs: Interest	15	-
Total finance costs	<u>477,932</u>	<u>403,387</u>
Reconciliation between net revenue and distributions:	2013	2012
	£	£
Net revenue per Statement of total return	398,995	307,598
Undistributed revenue brought forward	28,772	63,072
Expenses paid from capital	81,008	61,489
Undistributed revenue carried forward	<u>(30,858)</u>	<u>(28,772)</u>
Finance costs: Distributions	<u>477,917</u>	<u>403,387</u>

Details of the distribution per unit are disclosed in the Distribution table.

Notes to the financial statements (continued)

as at 31 December 2013

7. Debtors	2013	2012
	£	£
Amounts receivable on issue of units	200,000	-
Accrued revenue	71,878	42,524
Recoverable overseas withholding tax	4,704	648
Recoverable income tax	394	394
Total debtors	<u>276,976</u>	<u>43,566</u>
8. Cash and bank balances	2013	2012
	£	£
Cash and bank balances	<u>137,166</u>	<u>405,048</u>
Total cash and bank balances	<u>137,166</u>	<u>405,048</u>
9. Creditors	2013	2012
	£	£
Accrued expenses:		
Payable to the Trustee and associates of the Trustee		
Safe custody fees	199	131
Transaction charges	255	213
	<u>454</u>	<u>344</u>
Audit fee	4,800	4,800
Total creditors	<u>5,254</u>	<u>5,144</u>
10. Purchases, sales and transaction costs	2013	2012
	£	£
Purchases excluding transaction costs	<u>4,812,139</u>	<u>1,467,980</u>
Commissions	9,392	2,909
Taxes	93	27
Total purchase transaction costs *	<u>9,485</u>	<u>2,936</u>
Purchases including transaction costs	<u>4,821,624</u>	<u>1,470,916</u>
Sales excluding transaction costs	<u>680,140</u>	<u>754,311</u>
Commissions	(1,259)	(1,506)
Taxes	(8)	(7)
Total sales transaction costs *	<u>(1,267)</u>	<u>(1,513)</u>
Sales including transaction costs	<u>678,873</u>	<u>752,798</u>

* These amounts have been deducted in determining net capital gains.

11. Unit classes

The Fund currently has two types of unit; gross income and gross accumulation. The current annual management charge in the Fund is 0.50% plus VAT at 20%. The Investment Adviser's fee and the Manager's periodic charge are included in the annual management charge.

The net asset value of each unit type, the net asset value per unit, and the number of units in the Fund are disclosed in the Comparative table.

12. Related party transactions

Smith & Williamson Fund Administration Limited, as Manager, BNY Mellon Trust & Depositary (UK) Limited, as Trustee, OLIM Limited, as Investment Adviser, and Bank of New York Mellon, as custodian are related parties due to their ability to act in respect of the operations of the Fund.

The Manager acts as principal in respect of all transactions of units in the Fund. The aggregate monies received through creations and cancellations of units are disclosed in the Statement of change in net assets attributable to unitholders.

Amounts payable to the Manager and its associates and amounts payable to the Trustee and its associates are disclosed in note 4. The amount due to the Manager and its associates and the Trustee and its associates at the balance sheet date is disclosed in notes 7 and 9.

A unitholder with a holding in excess of 20% of the value of the Fund may be able to exercise significant influence over the financial and operating policies of the Fund with reference to unitholders' voting rights at general meetings and as such is deemed to be a related party.

Parties with an interest in excess of 20% of the Fund are as follows:	2013	2012
Brewin Nominees Ltd	17.93%	24.68%
The Bank Of New York (Nominees) Ltd	20.77%	28.40%

Notes to the financial statements (continued)

as at 31 December 2013

13. Post balance sheet events

Subsequent to the year end, the net asset value per income unit has increased from 95.01p to 96.15p and the accumulation unit has increased from 130.2p to 132.2p as at 17 January 2014. This movement takes into account routine transactions but also reflects the market movements of recent months.

14. Financial instruments

In accordance with the investment objective, the Fund holds certain financial instruments. These comprise:

- Securities held in accordance with the investment objective and policies;
- Cash and short term debtors and creditors arising directly from operations;
- There were no derivative transactions in the year.

a *Currency exposure*

The Fund had no significant exposure to foreign currency during the current and previous year.

b *Interest rate risk*

The Fund has no exposure to interest bearing securities at the balance sheet date.

The interest rate on bank balances is determined by the following:

UK sterling Bank of England base rate

c *Fair value of financial assets and liabilities*

Securities held by the Fund are valued in accordance with the accounting policies in note 1. There is no material difference between the fair value and the market value. Other financial assets and liabilities of the Fund are included in the Balance sheet at fair value.

15. Risk management policies

In pursuing the Fund's investment objective, as set out in the Prospectus, the following are accepted by the Manager as being the main risks from the Fund's holding of financial instruments, either directly or indirectly through its underlying holdings. These are presented with the Manager's policy for managing these risks. To ensure these risks are consistently and effectively managed these are continually reviewed by the risk committee, a body appointed by the Manager, which sets the risk appetite and ensures continued compliance with the management of all known risks.

a Market risk

Market risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices which are governed by three elements; price risk, currency risk, and interest rate risk.

(i) Price risk

The Fund's exposure to price risk comprises mainly of movements in the holding of investment positions in the face of price movements.

This risk is generally regarded as consisting of two elements; stock specific risk and market risk. Through these two factors, the Fund is exposed to price fluctuations, which are monitored by the Manager in pursuance of the investment objective and policy.

Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective of the Fund, spreading exposure in the portfolio of investments both globally and across sectors can mitigate market risk.

(ii) Currency risk

Currency risk is the risk that the value of investments or future cash flows will fluctuate as a result of exchange rate movements. Investment in overseas securities will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates. Fluctuations in currency exchange rates against sterling can also affect the profitability of some UK companies, and thus their market prices, as sterling's relative strength or weakness can affect export prospects, the value of overseas earnings in sterling terms, and the prices of imports sold in the UK.

The Manager may seek to manage the portfolio exposure to currency movements by using forward currency contracts. There was no exposure to forward currency contracts in the year.

(iii) Interest rate risk profile of financial assets and liabilities

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes.

During the year the Fund's direct exposure to interest rates consisted of cash and bank balances.

The amount of revenue receivable from bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates.

Possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account by the Investment Adviser when making investment decisions. The Fund would not in normal market conditions hold significant cash balances and would have limited borrowing capabilities as stipulated in the COLL rules.

The interest rate risk can be reduced by diversifying (investing in debt securities with different durations) or hedging the debt securities.

Notes to the financial statements (continued)

as at 31 December 2013

15. Risk management policies (continued)

b Liquidity risk

The main liability of the Fund is the cancellation of any units which investors may wish to sell. Securities may have to be sold in order to fund such cancellations should insufficient cash be held at the bank to meet this obligation. If there were significant requests for the redemption of units in the Fund at a time when a large proportion of the Fund's portfolio of investments were not easily tradable due to market volumes or market conditions the Fund's ability to fund those redemptions would be impaired and it might be necessary to suspend dealings in units in the Fund.

Investments in smaller companies at times may prove illiquid, as by their nature they tend to have relatively modest traded unit capital. Shifts in investor sentiment, or the announcement of new price sensitive information, can provoke significant movement in unit prices, and make dealing in any quantity difficult.

The Fund may also invest in securities that are not listed or traded on any stock exchange. In such situations the Fund may not be able to immediately sell such securities.

To reduce liquidity risk the Manager will ensure, in line with the limits stipulated within the COLL rules, a substantial portion of the Fund's assets consist of readily realisable securities.

c Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This includes counterparty risk and issuer risk.

Transactions in securities entered into by the Fund give rise to exposure to the risk that the counterparties may not be able to fulfil their responsibility by completing their side of the transaction. This risk is mitigated by the Fund only transacting with brokers who are subject to frequent reviews/limits set, which may be transacted with any one broker.

The Trustee has appointed the custodian to provide custody services for the assets of the Fund. There is a counterparty risk that the custodian could cease to be in a position to provide custody services to the Fund. The Fund's investments (excluding cash) are ring fenced hence the risk is considered to be negligible.

The Fund holds cash and cash deposits with financial institutions which potentially exposes the Fund to counterparty risk. The credit rating of the financial institution is taken into account so as to minimise the risk to the Fund of default.

The Fund may hold short-term debtors in the form of unsettled subscription amounts, reclaimable tax, outstanding coupon and dividend amounts. The risk from these is deemed to be low.

d Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

To ensure this, the fair value pricing committee is a body appointed by the Manager which analyses, reviews and votes on price adjustments/maintenance where no current secondary market exists and/or where there are potential liquidity issues that would affect the disposal of an asset. In addition, the committee may also consider adjustments to the Fund's price should the constituent investments be exposed to closed markets during general market volatility or instability.

Distribution table

for the year ended 31 December 2013

Distributions on gross income units in pence per unit

Distribution number 23

Group 1 : Units purchased prior to 1 January 2013

Group 2 : Units purchased between 1 January 2013 and 31 March 2013

Payment date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 31.05.13	quarter 1	0.800	-	0.800	0.900
Group 2 31.05.13	quarter 1	0.800	-	0.800	0.900

Distribution number 24

Group 1 : Units purchased prior to 1 April 2013

Group 2 : Units purchased between 1 April 2013 and 30 June 2013

Payment date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 31.08.13	interim	1.000	-	1.000	0.900
Group 2 31.08.13	interim	0.347	0.653	1.000	0.900

Distribution number 25

Group 1 : Units purchased prior to 1 July 2013

Group 2 : Units purchased between 1 July 2013 and 30 September 2013

Payment date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 30.11.13	quarter 3	0.900	-	0.900	0.900
Group 2 30.11.13	quarter 3	-	0.900	0.900	0.900

Distribution number 26

Group 1 : Units purchased prior to 1 October 2013

Group 2 : Units purchased between 1 October 2013 and 31 December 2013

Payment date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 28.02.14	final	1.000	-	1.000	1.000
Group 2 28.02.14	final	0.134	0.866	1.000	1.000

Equalisation

Equalisation applies only to group 2 units. It is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax in the hands of the unitholders but must be deducted from the cost of units for capital gains tax purposes.

Distribution table (continued)

for the year ended 31 December 2013

Distributions on gross accumulation units in pence per unit

Distribution number 23

Group 1 : Units purchased prior to 1 January 2013

Group 2 : Units purchased between 1 January 2013 and 31 March 2013

Allocation date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 31.05.13	quarter 1	1.055	-	1.055	1.129
Group 2 31.05.13	quarter 1	0.695	0.360	1.055	1.129

Distribution number 24

Group 1 : Units purchased prior to 1 April 2013

Group 2 : Units purchased between 1 April 2013 and 30 June 2013

Allocation date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 31.08.13	interim	1.331	-	1.331	1.143
Group 2 31.08.13	interim	-	1.331	1.331	1.143

Distribution number 25

Group 1 : Units purchased prior to 1 July 2013

Group 2 : Units purchased between 1 July 2013 and 30 September 2013

Allocation date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 30.11.13	quarter 3	1.212	-	1.212	1.158
Group 2 30.11.13	quarter 3	-	1.212	1.212	1.158

Distribution number 26

Group 1 : Units purchased prior to 1 October 2013

Group 2 : Units purchased between 1 October 2013 and 31 December 2013

Allocation date	Distribution type	Net revenue	Equalisation	Distribution 2013	Distribution 2012
Group 1 28.02.14	final	1.361	-	1.361	1.302
Group 2 28.02.14	final	1.361	-	1.361	1.302

Equalisation

Equalisation applies only to group 2 units. It is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax in the hands of the unitholders but must be deducted from the cost of units for capital gains tax purposes.

Accumulation distributions

Holders of accumulation units should add the distributions received thereon to the cost of the units for capital gains tax purposes.

Further information

Distributions and reporting dates

Where net revenue is available it will be distributed quarterly on 31 May (interim), 31 August (interim), 30 November (interim) and the last day of February (final). In the event of a distribution, unitholders will receive a tax voucher.

XD dates:	1 January	final
	1 April	interim
	1 July	interim
	1 October	interim
Reporting dates:	31 December	annual
	30 June	interim

Buying and selling units

The Fund will be valued as though it was an authorised unit trust subject to the terms of the Financial Conduct Authority Collective Investment Schemes sourcebook ("COLL"). The property of the Fund is valued every business day at 12 noon and prices of units are calculated as at that time. Units can be bought at the offer price and sold at the bid price. Unit dealing is on a forward basis i.e. investors can buy and sell units at the next valuation point following receipt of the order.

The minimum holding of units in the Fund at any time in terms of value is currently £1,000. The minimum value of units in the Fund which may be the subject of any one sale or purchase is £1,000.

Prices of units and the estimated yield of the Fund are published on the following website: www.fundlistings.com or may be obtained by calling 0141 222 1150.

Management charges

The Manager is entitled to receive and retain for its own use and benefit an initial charge to be included in the issue price of units. Should the Manager make an initial charge in the future, this will not exceed 5%.

The annual management charge of 0.5% per annum plus VAT at 20% is payable based on the net asset value of the Fund.

Capital Gains Tax

As long as it is applied for charitable purposes, any income received by a unitholder from the Fund will not be subject to UK tax and a unitholder will be exempt from UK tax on chargeable gains on the disposal of its units. No tax will be deducted from income distributed by the Fund.

Appointments

Manager and Registered office

Smith & Williamson Fund Administration Limited
25 Moorgate
London EC2R 6AY
Telephone: 020 7131 4000
Authorised and regulated by the Financial Conduct Authority

Administrator and Registrar

Smith & Williamson Fund Administration Limited
206 St. Vincent Street
Glasgow G2 5SG
Telephone: 0141 222 1151 (Registration)
0141 222 1150 (Dealing)
Authorised and regulated by the Financial Conduct Authority

Directors of the Manager

Giles Murphy
Jeremy Boadle
Tim Lyford
Michael Lea
Kevin Stopps
Paul Wyse
Philip Moody
Jocelyn Dalrymple
David Cobb - appointed 26 September 2013
Gareth Pearce - resigned 26 September 2013

Investment Adviser

OLIM Limited
Pollen House
10/12 Cork Street
London W1S 3NP
Authorised and regulated by the Financial Conduct Authority

Trustee

BNY Mellon Trust & Depositary (UK) Limited
The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Authorised and regulated by the Financial Conduct Authority

Auditor

Beavis Morgan Audit Limited
Chartered Accountants and Statutory Auditors
82 St John Street
London EC1M 4JN