



**CF Chelverton UK Equity  
Income Fund**

Annual Report and Financial Statements  
31 December 2009

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## CONTENTS

Investment Adviser's Report .....	2
Portfolio Statement .....	4
Summary of Material Portfolio Changes .....	8
Change in Prospectus .....	10
Authorised Status .....	10
Director's Statement .....	11
Statement of ACD's Responsibilities .....	11
Statement of Depositary's Responsibilities .....	12
Report of the Depositary .....	12
Independent Auditors' Report to the Members of CF Chelverton UK Equity Income Fund .....	13
Comparative Tables .....	15
FINANCIAL STATEMENTS	
Statement of Total Return .....	19
Statement of Change in Net Assets Attributable to Shareholders .....	19
Balance Sheet .....	20
Notes to the Financial Statements .....	21
Distribution Table .....	30
General Information .....	33

INVESTMENT ADVISER'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2009

INVESTMENT OBJECTIVE AND POLICY

The investment objective of the CF Chelverton UK Equity Income Fund ('the Fund') is to provide a progressive income stream and achieve long-term capital growth by investing primarily in a portfolio of fully listed and AIM traded UK equities.

The Fund will invest primarily in UK companies which aim to provide a high initial dividend; progressive dividend payments, and long-term capital appreciation.

INVESTMENT REVIEW

In the last year our Fund returned 41.77% compared to the FTSE Small Cap XIT Index return of 58.21% and the FTSE All-Share Index 30.12%.

The second half of our year saw a continuation of the improving trend in the UK equity market. Whilst, at the interim stage, we characterised the first half of the year as benefiting from a 'relief bounce' from overly depressed equity valuations, the second half of the year reflected the anticipation of an earnings recovery. At the same time, with interest rates falling to historically low levels, equities were buoyed by the lack of available returns on alternative assets classes.

At the Corporate level the real feature of the last six months has been the sheer scale of the improving cash generation from a combination of cost cutting and working capital improvements. This has underpinned increased investor confidence and has had the additional effect of increasing the gearing of Company earnings to relatively small changes in the top line. As expectations are for turnover growth moving forward, valuations have moved ahead in anticipation of upgrades.

One feature of the latter part of the year was the relative deterioration in the outlook of the domestic economy compared to other major and emerging economies around the world. This led to an inevitable run in the shares of overseas earners as investors sought exposure to 'growth'. Whilst the nature of our investments tends to make us more domestically orientated than the market as a whole, we do hold a range of Companies such as Senior, Melrose and Braemar Shipping Services that have substantial overseas exposure. We have had a relatively balanced portfolio with respect to both style bias and sector exposure over the past six months and continue to believe that this remains appropriate for the foreseeable future.

In the last six months we have added a number of new holdings to our portfolio. Wincanton is a European transport and distribution business, Beazley is an insurance business, Vp is an equipment rental business, Abbey Protection is a leading supplier of legal and professional fees insurance to UK SME's, Wilmington Group is a professional training and publishing company, Consort Medical provides medical device technology for drug delivery and Domino Printing Sciences provides printing solutions, including bar and traceability codes to the food, beverage and pharmaceutical industries. All Companies were purchased on yields in excess of 5%.

Funds were raised from the sale of our holdings in Brit Insurance Holdings, Spectris and Arbutnot Banking Group, and in Wogen after a bid from the management team. One feature of the last period, which has probably now run its course, was Companies announcing heavily discounted rights issues. Brammer, Holidaybreak, Marston's and Marshalls all raised funds in this way.

Investor confidence is improving and Company managements are more optimistic than for some time. However, the macro picture remains uncertain and the banks still need to continue to rebuild their balance sheets before liquidity within the economy can return to more normal levels. Although Company earnings are now on an upward trend, valuations have been anticipating this for some time and the risk in equity markets is that the magnitude of any upgrades are insufficient to provide continued momentum to share prices. Against this backdrop the premium income we can deliver should continue to be attractive to investors.

CHELVERTON ASSET MANAGEMENT LIMITED  
*Investment Adviser*  
20 January 2010

PORTFOLIO STATEMENT  
AS AT 31 DECEMBER 2009

Holding	Portfolio of Investments	Value £	Total Net Assets	
			31.12.09 %	31.12.08 %
	BASIC MATERIALS			
	<i>CHEMICALS</i>			
76,000	Zotefoams	67,640	1.21	1.12
	<i>INDUSTRIAL METALS</i>			
	<i>MINING</i>			
155,000	ATH Resources	142,600	2.55	1.37
	TOTAL BASIC MATERIALS	210,240	3.76	2.70
	INDUSTRIALS			
	<i>CONSTRUCTION &amp; MATERIALS</i>			
97,500	Alumasc Group	95,550	1.71	
130,000	Marshalls	111,800	2.00	
80,000	Titon Holdings	29,600	0.52	
39,500	Tolent	11,850	0.21	
		248,800	4.44	8.94
	<i>AEROSPACE &amp; DEFENCE</i>			
250,000	Senior	185,000	3.30	–
	<i>ELECTRONIC &amp; ELECTRICAL EQUIPMENT</i>			
20,000	Domino Printing Sciences	65,860	1.18	
225,000	Stadium Group	90,000	1.61	
60,000	TT Electronics	43,950	0.78	
		199,810	3.57	3.84
	<i>INDUSTRIAL ENGINEERING</i>			
40,000	Hill & Smith Holdings	136,000	2.43	
100,000	Melrose	179,700	3.21	
230,000	Metalrax Group	9,775	0.17	
40,000	Severfield-Rowen	69,200	1.23	
180,000	Trifast	42,300	0.76	
		436,975	7.80	4.07

Holding	Portfolio of Investments	Value £	Total Net Assets	
			31.12.09 %	31.12.08 %
	<i>INDUSTRIAL TRANSPORTATION</i>			
50,000	Braemar Shipping Services	212,500	3.79	
40,000	Wincanton	81,000	1.45	
		293,500	5.24	2.87
	<i>SUPPORT SERVICES</i>			
32,000	Acal	42,240	0.76	
108,000	Brammer	129,600	2.31	
150,612	Diploma	265,077	4.73	
300,000	Fiberweb	189,000	3.37	
75,000	Filtrona	141,750	2.53	
60,000	Interserve	115,980	2.07	
160,000	Litho Supplies#	7,200	0.13	
700,000	Macfarlane Group	136,500	2.44	
140,000	Office2Office	200,200	3.57	
70,000	Premier Farnell	120,400	2.15	
200,000	Smiths News	216,000	3.86	
50,000	Vp	86,500	1.54	
70,000	Waterman Group	31,500	0.56	
		1,681,947	30.02	19.65
	TOTAL INDUSTRIALS	3,046,032	54.37	39.37
	CONSUMER GOODS			
	<i>FOOD PRODUCERS</i>			
79,500	Hilton Food Group	159,000	2.84	1.96
	<i>HOUSEHOLD GOODS</i>			
		–	–	2.81
	<i>PERSONAL GOODS</i>			
180,000	Alexandra	27,900	0.50	0.76
	TOTAL CONSUMER GOODS	186,900	3.34	5.53
	HEALTH CARE			
	<i>HEALTH CARE EQUIPMENT &amp; SERVICES</i>			
26,500	Consort Medical	103,350	1.85	–

Portfolio Statement (continued)

Holding	Portfolio of Investments	Value £	Total Net Assets	
			31.12.09 %	31.12.08 %
	<i>PHARMACEUTICALS &amp; BIOTECHNOLOGY</i>			
450,000	William Ransom & Son	20,250	0.36	0.89
	TOTAL HEALTH CARE	123,600	2.21	0.89
	<i>CONSUMER SERVICES</i>			
	<i>GENERAL RETAILERS</i>	–	–	0.09
	<i>MEDIA</i>			
60,000	4Imprint Group	72,000	1.29	
307,014	Avesco Group	61,403	1.10	
25,000	United Business Media	116,050	2.07	
50,000	Wilmington Group	58,000	1.03	
		307,453	5.49	3.75
	<i>TRAVEL &amp; LEISURE</i>			
150,000	Cineworld Group	225,000	4.02	
35,000	Holidaybreak	77,612	1.39	
50,000	Marston's	43,500	0.78	
75,000	Restaurant Group	140,250	2.50	
		486,362	8.69	9.26
	TOTAL CONSUMER SERVICES	793,815	14.18	13.10
	<i>TELECOMMUNICATIONS</i>			
	<i>FIXED LINE TELECOMMUNICATIONS</i>	–	–	2.67
	<i>UTILITIES</i>			
	<i>GAS, WATER &amp; MULTIUTILITIES</i>			
15,000	Dee Valley Group	118,500	2.11	2.57
	<i>FINANCIALS</i>			
	<i>NON-LIFE INSURANCE</i>			
200,000	Abbey Protection	142,000	2.54	
100,000	Beazley	99,900	1.78	
		241,900	4.32	3.54

Holding	Portfolio of Investments	Value £	Total Net Assets	
			31.12.09 %	31.12.08 %
	<i>LIFE INSURANCE</i>			
133,000	Chesnara	260,680	4.65	
92,000	Hansard Global	144,900	2.59	
		405,580	7.24	9.30
	<i>FINANCIAL SERVICES</i>			
40,000	Cattles#	–	–	
120,000	Davenham Group	7,200	0.12	
90,000	Jarvis Securities	153,000	2.73	
228,436	London Scottish Bank#	–	–	
19,000	S & U	82,650	1.48	
		242,850	4.33	7.79
	TOTAL FINANCIALS	890,330	15.89	20.63
	<i>TECHNOLOGY</i>			
	<i>SOFTWARE &amp; COMPUTER SERVICES</i>			
430,000	Sanderson Group	73,100	1.31	2.04
	Portfolio of investments	5,442,517	97.17	89.50
	Net other assets	158,638	2.83	10.50
	Net assets	5,601,155	100.00	100.00

The investments have been valued in accordance with note 1(h) and are ordinary shares unless stated otherwise.

# Suspended.

SUMMARY OF MATERIAL PORTFOLIO CHANGES  
FOR THE YEAR ENDED 31 DECEMBER 2009

**Total purchases for the year (note 13) £2,862,721**

Major purchases	Cost £
HMV Group	203,950
Interserve	198,466
Aviva	152,946
Spectris	150,200
Hill & Smith Holdings	137,767
Abbey Protection	137,362
Fiberweb	132,653
United Business Media	109,349
Premier Farnell	106,619
Beazley	104,467
Consort Medical	99,823
Brammer	97,867
Brit Insurance Holdings	96,786
Senior	95,322
Smiths News	94,723
Marston's	86,782
Vp	85,853
Melrose	83,960
De La Rue	83,602
Hilton Food Group	82,319

**Total sales for the year (note 13) £2,208,551**

Major sales	Proceeds £
Spectris	186,511
HMV Group	183,984
Aviva	179,611
Hill & Smith Holdings	176,858
Brit Insurance Holdings	176,113
T Clarke	147,702
Wogen	102,500
Headlam Group	96,605
De La Rue	87,065
Interserve	78,961
Arbuthnot Banking Group	76,520
BT Group	76,488
Chesnara	73,060
TT Electronics	69,958
THB Group	69,947
Dawson Holdings	57,112
Pendragon	48,402
Arriva	44,780
Cineworld Group	35,678
Restaurant Group	33,869

The portfolio changes represent the 20 largest purchases and sales during the year.

## CHANGE IN PROSPECTUS

On 1 April 2009 the Company changed its name from CF Cheverton UK Equity Fund to CF Cheverton UK Equity Income Fund.

## AUTHORISED STATUS

The CF Chelverton UK Equity Income Fund is an investment company with variable capital incorporated under the OEIC Regulations. It is a 'UCITS Scheme' as defined in COLL. The Fund is incorporated in England and Wales with registered number IC000431.

Shareholders are not liable for the debts of the Fund.

The Fund was authorised by the Financial Services Authority with effect from 4 April 2006.

## 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 Services Authority.

K.J. MIDL

J. MILLAN

CAPITA FINANCIAL MANAGERS LIMITED  
*ACD of CF Chelverton UK Equity Income Fund*  
27 April 2010

## STATEMENT OF ACD'S RESPONSIBILITIES

The ACD is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Financial Services Authority's Collective Investment Schemes Sourcebook (the 'COLL Sourcebook') requires the ACD to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the net revenue/expense and of the net capital gains/losses on the property of the Fund for that year. In preparing those financial statements, the ACD is required to:

- select suitable accounting policies, as described in the attached financial statements, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The ACD is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable it to ensure that the financial statements comply with the COLL Sourcebook. The ACD is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the ACD is aware:

- there is no relevant audit information of which the Fund's Auditors are unaware; and
- the ACD has taken all steps that it ought to have taken to make itself aware of any relevant audit information and to establish that the Auditors are aware of that information.

## STATEMENT OF DEPOSITARY'S RESPONSIBILITIES

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

It is the duty of the Depositary to take reasonable care to ensure that the Fund is managed in accordance with the COLL Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the 'OEIC Regulations') and the Fund's Instrument of Incorporation and prospectus, in relation to the pricing of, and dealings in, shares in the Fund; the application of revenue of the Fund; and the investment and borrowing powers of the Fund.

### REPORT OF THE DEPOSITARY FOR THE YEAR ENDED 31 DECEMBER 2009

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

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Fund's shares and the application of the Fund's revenue in accordance with the Sourcebook and, where applicable, the OEIC Regulations, the instrument of incorporation and Prospectus of the Fund, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Fund.

HSBC BANK PLC  
*Depositary of CF Chelverton UK Equity Income Fund*  
27 April 2010

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CF CHELVERTON UK EQUITY INCOME FUND

We have audited the financial statements of CF Chelverton UK Equity Income Fund ('the Fund') for the year ended 31 December 2009 which comprise the Statement of Total Return, Statement of Change in Net Assets Attributable to Shareholders, Balance Sheet, the related notes 1 to 13 and the Distribution Table. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' 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 Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF THE AUTHORISED CORPORATE DIRECTOR ('ACD'), DEPOSITARY AND AUDITORS

The ACD is responsible for the preparation of the Annual Report and the financial statements in accordance with the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority, the Instrument of Incorporation, and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of ACD's Responsibilities in relation to the financial statements. The Depositary is required to take reasonable care to ensure compliance by the ACD with all relevant requirements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority, and the Instrument of Incorporation. We also report to you whether, in our opinion, the Report of the ACD is consistent with the financial statements, whether the ACD has not kept proper accounting records for the Fund or whether the financial statements are not in agreement with those records, and whether we have received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Investment Adviser's Report, Portfolio Statement, Summary of Material Portfolio Changes, Comparative Tables, Fund Performance, Authorised Status, Report of the Depositary, Certification of Accounts by Directors of the ACD and the General Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.



**BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the ACD in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**OPINION**

In our opinion;

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Fund as at 31 December 2009 and of the net revenue and the net capital gains on the scheme property of the Fund for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority and the Instrument of Incorporation;
- the report of the ACD is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with these records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

ERNST & YOUNG LLP  
Registered Auditor  
London  
27 April 2010

**COMPARATIVE TABLES**

**PRICE AND INCOME HISTORY**

*Retail Income shares*

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2006*	103.72	99.16	–
2007	108.76	82.65	3.0000
2008	80.50	41.82	5.8636
2009	56.88	37.02	3.9300
2010***	–	–	1.4932

*Institutional Income shares*

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2006*	103.77	99.17	–
2007	109.12	83.23	3.0000
2008	81.08	42.25	5.8747
2009	57.40	37.31	4.0933
2010***	–	–	1.5173

*Retail Accumulation shares*

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2007**	105.12	83.40	1.0000
2008	83.95	45.10	5.9607
2009	65.59	41.84	4.4397
2010***	–	–	1.7160

## PRICE AND INCOME HISTORY (continued)

## Institutional Accumulation shares

Calendar Year	Highest Price	Lowest Price	Distribution per share
	P	P	
2007**	105.54	83.92	1.0000
2008	84.52	46.28	5.9771
2009	68.21	42.94	4.5345
2010***	-	-	1.7920

\* From 1 December 2006.

\*\* From 2 July 2007.

\*\*\* Payable on 28 February 2010.

## NET ASSET VALUE

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
31.12.07	Retail Income	946,001	1,175,133	80.50
	Institutional Income	5,838,318	7,260,402	80.41
	Retail Accumulation	207	250	82.80
	Institutional Accumulation	208	250	83.20
31.12.08	Retail Income	85,781	213,473	40.18
	Institutional Income	3,709,167	9,188,772	40.37
	Retail Accumulation	114	250	45.60
	Institutional Accumulation	117	250	46.80
31.12.09	Retail Income	83,966	157,022	53.47
	Institutional Income	5,516,864	10,218,505	53.99
	Retail Accumulation	159	250	63.50
	Institutional Accumulation	166	250	66.32

## RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the revenue from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

## TOTAL EXPENSE RATIOS

Expense Type	31.12.09 %		31.12.08 %	
	Retail	Institutional	Retail	Institutional
ACD's periodic charge	1.50	0.75	1.50	0.75
Refund of expenses from Investment Adviser	-1.69	-1.19	-1.36	-0.90
Other expenses	1.44	1.44	1.11	1.15
Total expense ratios	1.25	1.00	1.25	1.00

The Total Expense Ratio represents the total expenses of the Fund, excluding transaction costs and interest payable, expressed as a percentage of the average net assets during the accounting period.

Other expenses include fees payable to the depositary and auditors, printing costs, registration fees and safe custody and other related bank charges.

The refund of expenses from the Investment Adviser includes those expenses payable out of the property of the Fund which exceeds 1.25% of the net assets attributable to Retail shares and 1.00% in relation to Institutional shares.

It has been confirmed by the Investment Adviser that the capping of the TER will be removed during the next accounting year following appropriate notification to shareholders.

## PORTFOLIO TURNOVER RATE

	31.12.09 %	31.12.08 %
Portfolio turnover rate	49.42	-14.72

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading over a twelve month period. The PTR is calculated by taking the total transactions in securities by the Fund, less the total transactions in shares in the Fund, expressed as a percentage of the average net assets during the preceding twelve month period.

FUND PERFORMANCE TO 31 DECEMBER 2009 (%)

	1 year	Since launch*
CF Chelverton UK Equity Income Fund		
– Retail Income	41.77	-32.24
– Institutional Income	42.45	-31.52

The performance of the Fund is based on the net asset value per 'Retail' Income share and 'Institutional' Income share with income reinvested.

\* Launch date 1 December 2006.

Details of the distributions per share for the year are shown in the Distribution Tables on pages 30 to 32.

FINANCIAL STATEMENTS  
STATEMENT OF TOTAL RETURN  
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	£	31.12.09 £	£	31.12.08 £
Income:					
Net capital gains/(losses)	2		1,389,513		(3,559,392)
Revenue	3	347,823		454,949	
Expenses	4	(47,247)		(65,495)	
Finance costs: Interest	6	–		–	
Net revenue before taxation		300,576		389,454	
Taxation	5	–		–	
Net revenue after taxation			300,576		389,454
<b>Total return before distributions</b>			1,690,089		(3,169,938)
Finance costs: Distributions	6		(346,902)		(449,920)
<b>Change in net assets attributable to shareholders from investment activities</b>			1,343,187		(3,619,858)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS  
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	£	31.12.09 £	£	31.12.08 £
<b>Opening net assets attributable to shareholders</b>			3,795,179		6,784,734
Amounts receivable on issue of shares		1,561,381		2,678,013	
Amounts payable on cancellation of shares		(1,096,212)		(2,045,570)	
Stamp duty reserve tax	1(f)		465,169 (2,400)		632,443 (2,168)
Change in net assets attributable to shareholders from investment activities			1,343,187		(3,619,858)
Retained distribution on Accumulation shares			20		28
<b>Closing net assets attributable to shareholders</b>			5,601,155		3,795,179

Comparative figures have been restated for the presentational changes following adoption of the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 (see Note 1)

FINANCIAL STATEMENTS  
BALANCE SHEET  
AS AT 31 DECEMBER 2009

	Notes	31.12.09		31.12.08	
		£	£	£	£
<b>ASSETS</b>					
<b>Investment assets</b>			5,442,517		3,396,727
<b>Other assets</b>					
Debtors	7	108,724		69,671	
Cash and bank balances		238,535		553,404	
<b>Total other assets</b>			347,259		623,075
<b>Total assets</b>			<u>5,789,776</u>		<u>4,019,802</u>
<b>LIABILITIES</b>					
<b>Other liabilities</b>					
Creditors	8	(31,231)		(28,154)	
Distribution payable on Income shares		(157,390)		(196,469)	
<b>Total other liabilities</b>			(188,621)		(224,623)
<b>Total liabilities</b>			<u>(188,621)</u>		<u>(224,623)</u>
<b>Net assets attributable to shareholders</b>			<u>5,601,155</u>		<u>3,795,179</u>

NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2009

1. ACCOUNTING POLICIES

The principal accounting policies, which have been applied in both the current and prior year, are set out below:

(a) *Basis of accounting*

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice ('SORP') issued by the Investment Management Association in November 2008.

During the year the Fund adopted the IMA SORP 2008. This has resulted in presentational changes to the Statement of Total Return whereby transaction charges are now classified as capital losses.

(b) *Recognition of revenue*

Dividends on quoted equities and preference shares are recognised when the securities are quoted ex-dividend.

Interest on bank and other cash deposits is recognised on an accruals basis.

All revenue is recognised as a gross amount that includes any withholding taxes but excludes any other taxes such as attributable tax credits.

(c) *Treatment of stock and special dividends*

The ordinary element of stock received in lieu of cash dividends is credited to capital in the first instance followed by a transfer to revenue of the cash equivalent being offered and this forms part of the distributable revenue.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. The tax accounting treatment follows the treatment of the principal amount.

(d) *Treatment of expenses*

All expenses, except for those relating to the purchase and sale of investments and stamp duty reserve tax, are charged initially against revenue.

Currently, expenses payable out of the property of the Fund, which exceeds 1.25% of the net assets attributable to Retail shares and 1.00% in relation to Institutional shares, will be met by the Investment Adviser.

(e) *Allocation of revenue and expenses to multiple share classes*

Any revenue or expense not directly attributable to a particular share class will normally be allocated pro-rata to the net assets of the relevant share classes.

(f) *Taxation*

Corporation tax is provided at 20% on taxable revenue, after deduction of allowable expenses.

Where overseas tax has been deducted from overseas revenue that tax can, in some instances, be set off against the corporation tax payable, by way of double tax relief.

1. ACCOUNTING POLICIES (continued)

(f) Taxation (continued)

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

Stamp duty reserve tax suffered on surrender of shares is deducted from capital.

(g) Distribution policy

Surplus revenue, as disclosed in the financial statements, after adjustment for items of a capital nature, is distributable to shareholders. Any deficit of revenue is deducted from capital.

All expenses are transferred to capital for the purpose of calculating the distribution in line with the Fund's investment objective.

Interim distributions may be made at the ACD's discretion. Final distributions are made in accordance with the Regulations.

(h) Basis of valuation of investments

Listed investments are valued at closing bid prices on the last business day of the accounting period.

Unlisted or suspended investments are valued by the Investment Manager taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other relevant factors.

(i) Exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing exchange rates ruling on that date.

(j) Dilution levy

The ACD may require a dilution levy on the sale and redemption of shares if, in its opinion, the existing shareholders (for redemptions) might otherwise be adversely affected. In particular, the dilution levy may be charged in the following circumstances: where the scheme property is in continual decline; where the Fund is experiencing large levels of net sales relative to its size; on 'large deals'; in any case where the ACD is of the opinion that the interests of remaining shareholders require the imposition of a dilution levy.

	31.12.09 £	31.12.08 £
2. NET CAPITAL GAINS/(LOSSES)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities	1,390,983	(3,557,931)
Transaction charges	(1,470)	(1,461)
Net capital gains/(losses)	<u>1,389,513</u>	<u>(3,559,392)</u>
3. REVENUE		
UK dividends	334,171	429,798
Overseas dividends	13,000	5,250
Bank interest	652	19,901
Total revenue	<u>347,823</u>	<u>454,949</u>
4. EXPENSES		
Payable to the ACD, associates of the ACD and agents of either of them:		
ACD's periodic charge	37,079	44,163
Accounting fee	32,500	32,500
Printing costs	2,345	6,676
Registration fees	6,563	6,815
Refund of expenses from Investment Adviser	(60,305)	(49,768)
	18,182	40,386
Payable to the Depository, associates of the Depository and agents of either of them:		
Depository's fees	11,533	11,707
Safe custody and other bank charges	600	245
	12,133	11,952
Other expenses:		
FSA fee	41	111
Fees paid to auditors – audit	9,350	4,628
– tax services	2,937	4,812
Legal and professional fees	4,604	3,606
	16,932	13,157
Total expenses	<u>47,247</u>	<u>65,495</u>

	31.12.09 £	31.12.08 £
5. TAXATION		
a) Analysis of charge for the year		
Corporation tax at 20%	—	—
Current tax charge (note 5b)	—	—
Deferred tax – origination and reversal of timing differences (note 5c)	—	—
Total taxation	—	—

b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.12.08 : 20%) for the reasons explained below.

	31.12.09 £	31.12.08 £
Net revenue before taxation	300,576	389,454
Corporation tax at 20%	60,115	77,891
Effects of:		
UK dividends	(66,834)	(85,960)
Non taxable overseas dividends	(1,812)	—
Expenses not deductible for tax purposes	859	—
Unrelieved excess management expenses	7,672	8,069
Corporation tax charge	—	—
Current tax charge (note 5a)	—	—

c) Deferred tax

At the year end there are potential deferred tax assets of £24,288 (31.12.08 : £16,616) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise this amount and, therefore, no deferred tax asset has been recognised in the current or prior year.

6. FINANCE COSTS

Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on cancellations of shares, and comprise:

	31.12.09 £	31.12.08 £
First Interim	44,589	82,215
Second Interim	76,622	87,351
Third Interim	79,972	104,205
Final	157,399	196,480
	358,582	470,251
Add: Revenue deducted on cancellation of shares	21,811	38,984
Deduct: Revenue received on issue of shares	(33,491)	(59,315)
Net distributions for the year	346,902	449,920
Interest	—	—
Total finance costs	346,902	449,920

Details of the distributions per share are set out in the tables on pages 30 to 32.

	31.12.09 £	31.12.08 £
Distributions represented by:		
Net revenue after taxation	300,576	389,454
Allocations to Capital:		
Expenses charged to capital	47,247	65,495
Tax relief on capitalised expenses	(918)	(5,030)
	46,329	60,465
Balance brought forward	5	6
Balance carried forward	(8)	(5)
Net distributions for the year	346,902	449,920

7. DEBTORS

Amounts receivable on issue of shares	32,587	11,287
Accrued revenue:		
UK dividends	21,515	23,568
Bank interest	6	544
	21,521	24,112

	31.12.09 £	31.12.08 £
7. DEBTORS (continued)		
Refund of expenses from Investment Adviser	54,616	34,272
Total debtors	<u>108,724</u>	<u>69,671</u>
8. CREDITORS		
Accrued expenses: Amounts payable to the ACD, associates of the ACD and agents of either of them:		
ACD's periodic charge	3,722	2,695
Accounting fee	10,833	5,417
Printing costs	2,528	8,986
Registration fees	2,300	1,326
	19,383	18,424
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	977	974
Transaction charges	195	-
Safe custody and other bank charges	24	23
	1,196	997
Other accrued expenses	10,018	8,687
Taxation payable: Stamp duty reserve tax	634	46
Total creditors	<u>31,231</u>	<u>28,154</u>

9. RELATED PARTY TRANSACTIONS

Management fees payable to Capita Financial Managers Limited (the ACD), registration fees payable to Capita Financial Administrators Limited and printing costs payable to Capita Business Services Limited (both companies are associates of the ACD) are disclosed in note 4 and amounts due at the year end are disclosed in note 8.

The aggregate monies received and paid by the ACD through the issue and cancellation of shares are disclosed in the Statement of Change in Shareholders Net Assets on page 19 and amounts due at the year end are disclosed in note 7.

Capita Financial Managers Limited and its associates (including other authorised investment funds managed by Capita Financial Managers) had the following shareholdings in the Fund:

	Held at 31.12.09	Change in year	Held at 31.12.08
Retail Income	29,983	12,115	17,868
Institutional Income	2,083,026	2,210	2,080,816

10. SHAREHOLDER FUNDS

The Fund has four share classes: The annual management charge on those shares are as follows:

Retail Income	1.50%
Retail Accumulation	1.50%
Institutional Income	0.75%
Institutional Accumulation	0.75%

The net asset value, the net asset value per share and the number of shares in issue are given in the Comparative Tables.

11. CONTINGENT LIABILITIES AND COMMITMENTS

There are no contingent liabilities or outstanding commitments (31.12.08 : none).

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for hedging purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

i. Credit risk

The Fund may find that companies in which it invests fail to settle their debts on a timely basis. The value of securities issued by such companies may fall as a result of the perceived increase in credit risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit credit risk.

ii. Interest rate risk

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in the interest rate environment, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates.

The table below shows the interest rate risk profile:

	31.12.09 £	31.12.08 £
Floating rate assets: Pounds sterling	238,535	553,404
Assets on which interest is not paid: Pounds sterling	5,551,241	3,466,398

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)		31.12.09	31.12.08
		£	£
<i>ii. Interest rate risk (continued)</i>			
Liabilities on which interest is not paid:			
Pounds sterling		(188,621)	(224,623)
Net assets		<u>5,601,155</u>	<u>3,795,179</u>
There are no material amounts of non-interest bearing financial assets and liabilities other than equities, which do not have maturity dates.			
<i>iii. Foreign currency risk</i>			
The revenue and capital value of the Fund's investments are denominated in Sterling and, therefore, the financial statements are not subject to the risk of currency movements.			
<i>iv. Liquidity risk</i>			
The main liability of the Fund is the cancellation of any shares that investors want to sell. Investments may have to be sold to fund such cancellations should insufficient cash be held at the bank to meet this obligation.			
To reduce liquidity risk the Investment Adviser will ensure that a substantial portion of the Fund's assets consist of readily realisable securities.			
<i>v. Market price risk</i>			
Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.			
Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. For an equity portfolio the risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.			
<i>vi. Counterparty risk</i>			
Transactions in securities entered into by the Fund give rise to exposure to the risk that counterparties may not be able to fulfil their responsibility by completing their side of the transaction. The Investment Adviser minimises this risk by conducting trades through only the most reputable counterparties.			
<i>vii. Fair value of financial assets and financial liabilities</i>			
There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.			
<i>viii. Sensitivity analysis</i>			
The Fund held no derivatives during the current or prior year.			

13. PORTFOLIO TRANSACTION COSTS		31.12.09	31.12.08
		£	£
Analysis of total purchase costs			
Purchases in year before transaction costs		2,839,624	2,309,163
Transaction costs:			
Commissions		10,252	6,998
Stamp duty and other charges		12,845	10,995
		<u>23,097</u>	<u>17,993</u>
Gross purchases total		<u>2,862,721</u>	<u>2,327,156</u>
Analysis of total sale costs			
Gross sales before transaction costs		2,213,865	1,593,214
Transaction costs:			
Commissions		(5,274)	(4,985)
Other charges		(40)	(26)
		<u>(5,314)</u>	<u>(5,011)</u>
Total sales net of transaction costs		<u>2,208,551</u>	<u>1,588,203</u>



Financial Statements (continued)

DISTRIBUTION TABLE

FOR THE YEAR ENDED 31 DECEMBER 2009 – IN PENCE PER SHARE

First Interim

Group 1 – Shares purchased prior to 1 January 2009

Group 2 – Shares purchased on or after 1 January 2009 and on or before 31 March 2009.

Retail Income Shares	Net Revenue	Equalisation	Paid 31.05.09	Paid 31.05.08
Group 1	0.5000	–	0.5000	1.0500
Group 2	0.3441	0.1559	0.5000	1.0500

Institutional Income Shares	Net Revenue	Equalisation	Paid 31.05.09	Paid 31.05.08
Group 1	0.5000	–	0.5000	1.0500
Group 2	0.3218	0.1782	0.5000	1.0500

Retail Accumulation Shares	Net Revenue	Equalisation	Allocated 31.05.09	Allocated 31.05.08
Group 1	0.5562	–	0.5562	1.0647
Group 2	0.5562	0.0000	0.5562	1.0647

Institutional Accumulation Shares	Net Revenue	Equalisation	Allocated 31.05.09	Allocated 31.05.08
Group 1	0.5666	–	0.5666	1.0729
Group 2	0.5666	0.0000	0.5666	1.0729

Second Interim

Group 1 – Shares purchased prior to 1 April 2009

Group 2 – Shares purchased on or after 1 April 2009 and on or before 30 June 2009.

Retail Income Shares	Net Revenue	Equalisation	Paid 31.08.09	Paid 31.08.08
Group 1	0.7500	–	0.7500	1.0500
Group 2	0.0000	0.7500	0.7500	1.0500

Institutional Income Shares	Net Revenue	Equalisation	Paid 31.08.09	Paid 31.08.08
Group 1	0.7500	–	0.7500	1.0500
Group 2	0.0000	0.7500	0.7500	1.0500

Retail Accumulation Shares	Net Revenue	Equalisation	Allocated 31.08.09	Allocated 31.08.08
Group 1	0.8530	–	0.8530	1.1579
Group 2	0.8530	0.0000	0.8530	1.1579

Institutional Accumulation Shares	Net Revenue	Equalisation	Allocated 31.08.09	Allocated 31.08.08
Group 1	0.8706	–	0.8706	1.1620
Group 2	0.8706	0.0000	0.8706	1.1620

Third Interim

Group 1 – Shares purchased prior to 1 July 2009

Group 2 – Shares purchased on or after 1 July 2009 and on or before 30 September 2009.

Retail Income Shares	Net Revenue	Equalisation	Paid 30.11.09	Paid 30.11.08
Group 1	0.7500	–	0.7500	1.0500
Group 2	0.0000	0.7500	0.7500	1.0500

Institutional Income Shares	Net Revenue	Equalisation	Paid 30.11.09	Paid 30.11.08
Group 1	0.7500	–	0.7500	1.0500
Group 2	0.0000	0.7500	0.7500	1.0500

Retail Accumulation Shares	Net Revenue	Equalisation	Allocated 30.11.09	Allocated 30.11.08
Group 1	0.8625	–	0.8625	1.1261
Group 2	0.8625	0.0000	0.8625	1.1261

Institutional Accumulation Shares	Net Revenue	Equalisation	Allocated 30.11.09	Allocated 30.11.08
Group 1	0.8773	–	0.8773	1.1302
Group 2	0.8773	0.0000	0.8773	1.1302

Final

Group 1 – Shares purchased prior to 1 October 2009

Group 2 – Shares purchased on or after 1 October 2009 and on or before 31 December 2009.

Retail Income Shares	Net Revenue	Equalisation	Payable 28.02.10	Paid 28.02.09
Group 1	1.4932	–	1.4932	1.9300
Group 2	0.0000	1.4932	1.4932	1.9300

Institutional Income Shares	Net Revenue	Equalisation	Payable 28.02.10	Paid 28.02.09
Group 1	1.5173	–	1.5173	2.0933
Group 2	0.1694	1.3479	1.5173	2.0933

Retail Accumulation Shares	Net Revenue	Equalisation	Allocation 28.02.10	Allocated 28.02.09
Group 1	1.7160	–	1.7160	2.1680
Group 2	1.7160	0.0000	1.7160	2.1680

Institutional Accumulation Shares	Net Revenue	Equalisation	Allocation 28.02.10	Allocated 28.02.09
Group 1	1.7920	–	1.7920	2.2200
Group 2	1.7920	0.0000	1.7920	2.2200

#### EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

## GENERAL INFORMATION

**Head Office:** Ibex House, 42 – 47 Minorities, London EC3N 1DX.

**Address for Service:** The Head Office is the address in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it.

**Base Currency:** The base currency of the Fund is pounds sterling.

**Share Capital:** The minimum share capital of the Fund is £1 and the maximum is £100,000,000,000. Shares in the Fund have no par value.

#### CLASSES OF SHARES

Different classes of shares can be issued in respect of the Fund. Holders of Income shares are entitled to be paid the income attributable to such shares, in respect of each annual or interim accounting period. Holders of Accumulation shares are not entitled to be paid the revenue attributable to such shares, but that revenue is retained and accumulated for the benefit of shareholders and is reflected in the price of shares.

#### VALUATION POINT

The valuation point of the Fund is midday on each business day. Valuations may be made at other times under the terms contained within the Prospectus.

#### BUYING AND SELLING OF SHARES

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 922 0044. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

#### PRICES

The most recent prices of shares are available on the website of the Investment Management Association at [www.investmentuk.org](http://www.investmentuk.org) under the heading Capita Financial Managers or by calling 0845 922 0044 during the ACD's normal business hours.

#### OTHER INFORMATION

The Instrument of Incorporation, Prospectus, Simplified Prospectus and the most recent interim and annual reports may be inspected at the office of the ACD which is also the Head Office of the Company and copies may be obtained upon application. Shareholders who have any complaints about the operation of the Company should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

#### DATA PROTECTION

Shareholders' names will be added to a mailing list which may be used by the ACD, its associates or third parties to inform investors of other products by sending details of such products. Shareholders who do not want to receive such details should write to the ACD requesting their removal from any such mailing list.

