

**CHARITY VALUE AND INCOME FUND**

**ANNUAL REPORT AND ACCOUNTS**

**For the year ended 31 December 2010**

## CHARITY VALUE AND INCOME FUND

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## CHARITY VALUE AND INCOME FUND

### BRIEF DETAILS OF THE SCHEME

Smith & Williamson Fund Administration Limited (“the Manager”) presents herewith the annual long report (“the Report”) for The Charity Value and Income Fund for the year ended 31 December 2010.

#### **Authorised Status**

Charity Value and Income Fund (“the Scheme” or “the Trust”) 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 (“the Manager”) as an unregulated collective investment scheme in accordance with the Financial Services Authority (“the FSA”) rules and 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 trust deed can be inspected at the Manager's office.

#### **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.

#### **Manager's 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 AIM. 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.

#### **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.

#### **Distribution 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, shareholders will receive a tax voucher.

Reporting Dates: Final	31 December
Interim	30 June

## CHARITY VALUE AND INCOME FUND

### BRIEF DETAILS OF THE SCHEME (continued)

#### Buying and Selling Units

The Scheme will be valued as though it was an authorised unit trust subject to the terms of the Financial Services Authority Collective Investment Schemes Sourcebook ("COLL sourcebook"). The property of the Scheme 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 initial purchase is such number of units as shall at any time have a value of £1,000 calculated to the nearest whole unit.

The minimum value of units in the Scheme which may be the subject of any one sale or purchase is £1,000. Prices of units and the estimated yield of the Scheme are published on the following website [www.investmentfunds.org.uk](http://www.investmentfunds.org.uk) or may be obtained by calling on 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. However, the Manager does not intend to make such a charge for the Scheme at this time. Should the Manager make an initial charge in the future, this will not exceed 5%.

A periodic charge of 0.5% per annum is payable based on the net asset value of the Scheme.

#### Changes to the Trust

During the year, the following changes have been made to the Smith & Williamson Fund Administration Limited Board of Directors:

Jeremy Boadle – appointed 20 August 2010  
Michael Fosberry – appointed 23 July 2010  
Michael Lea – appointed 23 July 2010  
Gareth Pearce – appointed 23 July 2010  
Kevin Stopps – appointed 23 July 2010  
Paul Wyse – appointed 23 July 2010  
Karen Barrow – resigned 27 July 2010  
Tim Lyford – resigned 27 July 2010  
Martin Rose – resigned 27 July 2010  
Geoff Windebank – resigned 27 July 2010

#### Tax On Unitholders

As long as it is applied for charitable purposes, any income received by a unitholder from the Scheme 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 Scheme.

The Scheme is a registered charity and is exempt from Stamp Duty/Stamp Duty Reserve Tax on purchases of securities, under legislation current at the date of these Scheme Particulars. The tax treatment of Common Investment Funds may change if UK legislation and regulations and the UK tax regime are amended.

#### Dilution Levy

The need to charge a dilution levy will depend on the volume of sales or redemptions. The Manager may charge a discretionary dilution levy on the sale and redemption of units if, in its opinion, the existing unitholders (for sales) or remaining unitholders (for redemptions) might otherwise be adversely affected, and if charging a dilution levy is, so far as practicable, fair to all unitholders and potential unitholders.

## **CHARITY VALUE AND INCOME FUND**

### **BRIEF DETAILS OF THE SCHEME (continued)**

#### **Further Information**

This document is issued by Smith & Williamson Fund Administration Limited which is authorised and regulated by the Financial Services Authority.

Tax reliefs may change in the future. Any references in this report to other investments held within a unit trust should not be read as a recommendation to the investor to buy or sell, but are included as illustrations only. This is not an offer nor a solicitation to buy or sell any investment referred to in this document. The issuer and its affiliates and/or their officers, directors and employees may own or have positions in any investment mentioned herein or any investment related thereto and from time to time may add to or dispose of any such investment. The contents of this document are based upon sources of information believed to be reliable but no guarantee, warranty or representation, express or implied, is given as to their accuracy or completeness.

#### **Prospectus and Simplified Prospectus**

Copies of the prospectus and simplified prospectus for all Smith & Williamson unit trusts are available free of charge from the Manager.

## **CHARITY VALUE AND INCOME FUND**

### **INVESTMENT ADVISER'S REPORT for the year ended 31 December 2010**

#### **The Market**

Strong share price gains in December completed another positive year for equity markets. The FTSE World Index rose by 10.0% measured in dollars; adjusted for the strength of the dollar, the rise was 14.3% in sterling terms. The FTSE All Share Index of UK equities rose by 10.9% and gave a total return, including income, of 14.2%. High yielding equities again significantly underperformed the overall market with a gain of just 1.6% in the FTSE 350 Higher Yield Index and a total return of 6.2%. Mid-cap and Small-cap companies performed best with rises of 24.2% and 16.3% in their respective indices. Gilt yields fell over the year by 60 basis points to 3.6% at ten years' maturity and by 40 basis points to 4.1% on 20 year dated stocks. Commodity prices rose strongly in 2010, with the copper price up by 31% and the oil price rose by 22%.

The good performance of equities over the year as a whole was not a smooth progression, with a major setback in the second quarter of 2010. Global economic growth threatened to stall in the late spring, with concerns about the US and China, and here in the UK the outcome of the General Election in May was a particular concern. The UK market was also severely affected by the fall in BP after the report of the disastrous leak in the well in the Gulf of Mexico. The loss of dividends on BP shares after the first quarter caused the overall income on the All Share Index to fall by nearly 3% over the year.

These worries about world recovery generally were compounded by the situation in Europe, where the weaker countries, mainly in the South, were struggling to fund the huge debts, which had accumulated during the recession. During 2010 both Greece and Ireland were forced to apply to the IMF and European Central Bank for emergency funding of their public debt. In the second half of 2010 fears of a second recession receded and forecasts for global growth in 2011 were underpinned by economic statistics published at the end of the year. UK inflation remained above target with pressures in rising costs of food, soft commodities such as cotton, energy and higher taxes.

#### **Performance**

The bid price of the accumulation units rose by 15.5% during the year, which was 1% above the performance of the All Share Index (+14.5%) and 9.3% above the FTSE 350 High Yield Index (+6.2%) referred to above. Mid-cap industrial companies with global businesses performed particularly well; the price of Croda almost doubled and Spectris rose by 80% over the year. Some UK focussed companies also rose substantially with BT Group and Restaurant Group both up by more than a third. Other Mid-cap companies which contributed strongly were N Brown, Informa, and Sthree, which all rose by more than a fifth. The price of BP fell by 22% over the year.

#### **Portfolio**

The strategy for the portfolio throughout the year was to concentrate the portfolio on mid sized companies operating in global markets and high yielding defensive companies with businesses in the UK economy. We were underweight in the resource sectors of oils and mining, compared to the All Share Index, but substantially overweight in the industrial sectors. We maintained a low weighting in the financial sectors, and in the banking sector we continued to hold only HSBC. We held very little in cash throughout the year.

We sold complete holdings in Land Securities and Informa early in the year, though later we partially bought back Informa. We switched Scottish and Southern Energy into Centrica, which has some of its own gas reserves and a valuable gas services business, as well as its main business of energy distribution. In the second half VT Group were taken over by Babcock for a

## **CHARITY VALUE AND INCOME FUND**

### **INVESTMENT ADVISER'S REPORT (continued) for the year ended 31 December 2010**

mixture of cash and shares. We sold De la Rue after it reported quality testing issues in its paper printing and late in the year we sold the illiquid holding in Consort Medical.

In the first half of our year, we bought new holdings in Amlin, the specialist insurance underwriter, and Halma, which makes a range of electronic sensors used for safety purposes in buildings around the world. In the second half of our year we bought new holdings in Dairy Crest, the manufacturer of milk and dairy products, Stobart, which provides multi-modal transport solutions for businesses and Rio Tinto. Lastly, we subscribed for the new issue in John Laing Infrastructure Fund, which has the characteristics of a bond, with a targeted yield of 6%, but which offers upside potential in an era of rising inflation.

#### **Distribution**

We maintained the quarterly distribution of 0.8p per share for the first three quarters of the year, but were pleased to be able to increase the distribution for the final quarter to 0.9p making 3.3p for the year. This was an increase of 3.1% for the year compared with 2009. We had a small surplus of income left to carry forward for 2011. We hope we will be able to increase the distribution again in 2011 when we expect BP to recommence dividend payments and for companies generally to report growth in earnings and dividends.

#### **Outlook**

Since the middle of last year economic developments have been generally positive and forecasts for 2010 and 2011 have strengthened. The UK appears to be on track for growth of 2%, and the US for growth of nearly 3%, in GDP in 2010. In 2011 we expect at least these rates of growth. The recovery has been particularly strong in the industrial sector where survey data indicate record levels of new orders. There have been tentative signs that the problematic US housing market may finally be close to bottoming and the recent decision by the federal government to extend the previous administration's tax cuts for a further two years is also seen as a positive development, at least in the short term. Elsewhere the mid-year slowdown in the Chinese economy looks to have passed with more recent data pointing to a re-acceleration in economic growth. The Chinese authorities have become more concerned with the outlook for inflation following the rise in the CPI index to 5.1% in November. As a result, The People's Bank of China (PBOC) raised interest rates, for a second time this year, on Christmas Day, and in January they have raised the reserve requirements of the banks by 50 basis points.

Looking forward the main risks for 2011 seem to lie in bond markets. First, there is the general risk that inflation picks up more significantly than hitherto, resulting in a rise in interest rates. Second, despite the measures taken by the ECB, there are signs that investors are still apprehensive about the ability of countries such as Portugal and Spain to finance their debts without assistance from the ECB and/or IMF. In this environment we are continuing with our existing strategy of focusing our investments on high yielding defensive stocks and global growth companies.

Following a strong recovery in earnings, the FTSE All Share index is now trading on a PE multiple of 12.0x for 2010 versus the long run average of 14.0x. Growth of over 15% in earnings and dividends is generally expected in 2011. The current dividend yield of 2.9% on the All Share Index is below that of 3.5% on the 10-year gilt but with interest rates still exceptionally low and inflation likely to edge higher, equities continue to look undervalued against other asset classes. The Higher Yield Index, on a current yield of 4.1% and with the benefit of BP's re-instated dividend to come this year, looks particularly undervalued. Consensus expectations for the BP dividend would add 6% to total market income (FTSE All Share Index).

**CHARITY VALUE AND INCOME FUND**

**INVESTMENT ADVISER'S REPORT (continued)  
for the year ended 31 December 2010**

OLIM Limited

**Date:** 21 January 2011

**Note:** Investments carry risks. Past Performance is not a guide to future performance. Investors may not get back the amount invested.

## CHARITY VALUE AND INCOME FUND

### TOP 10 PURCHASES AND SALES for the year ended 31 December 2010

<b>PURCHASES</b>	<b>COST £</b>
Centrica	125,554
Rio Tinto	95,753
John Laing Infrastructure Fund	80,000
Halma	63,430
Amlin	62,376
Stobart Group	59,720
Informa	59,135
Dairy Crest Group	40,745
N Brown Group	36,254
United Utilities Group	30,558

**Total purchases for the year were £740,477**

<b>SALES</b>	<b>PROCEEDS £</b>
Scottish & Southern Energy	124,544
VT Group	110,667
Informa	101,454
Land Securities	94,661
Consort Medical	75,124
BP	74,943
De La Rue	69,931
Croda International	56,478
National Grid	34,161
Vodafone Group	33,944

**Total sales for the year were £814,320**

## CHARITY VALUE AND INCOME FUND

### PORTFOLIO STATEMENT as at 31 December 2010

Holding	Fair value £	% of total net assets
<b>UNITED KINGDOM 98.18% (98.51%)</b>		
<b>BANKS 3.78% (4.44%)</b>		
25,500 HSBC Holdings	167,305	3.78
	<u>167,305</u>	<u>3.78</u>
<b>BASIC RESOURCES 4.58% (1.70%)</b>		
3,500 BHP Billiton	89,775	2.03
2,500 Rio Tinto	112,850	2.55
	<u>202,625</u>	<u>4.58</u>
<b>CHEMICALS 1.96% (1.82%)</b>		
5,400 Croda International	86,670	1.96
	<u>86,670</u>	<u>1.96</u>
<b>FINANCIAL SERVICES 2.35% (3.65%)</b>		
12,000 Provident Financial	104,100	2.35
	<u>104,100</u>	<u>2.35</u>
<b>FOOD &amp; BEVERAGES 8.05% (7.18%)</b>		
11,000 Dairy Crest Group	45,881	1.04
33,500 Britvic	158,354	3.58
7,700 Unilever	151,767	3.43
	<u>356,002</u>	<u>8.05</u>
<b>HEALTHCARE 4.52% (6.65%)</b>		
16,000 GlaxoSmithKline	199,920	4.52
	<u>199,920</u>	<u>4.52</u>
<b>INDUSTRIAL GOODS &amp; SERVICES 21.93% (20.15%)</b>		
30,000 Interserve	68,025	1.54
14,000 Spectris	183,540	4.15
5,000 Forth Ports	67,350	1.52
24,000 Halma	85,296	1.93
40,000 Carillion	154,120	3.48
14,020 Babcock International Group	80,124	1.81
30,000 Wincanton	51,975	1.17
40,000 Stobart Group	57,040	1.29
35,000 Sthree	128,065	2.89
80,000 Smiths News	95,400	2.15
	<u>970,935</u>	<u>21.93</u>
<b>INSURANCE 6.06% (4.40%)</b>		
110,000 Legal & General Group	107,305	2.42
15,000 Amlin	60,750	1.37
60,000 Hansard Global	100,500	2.27
	<u>268,555</u>	<u>6.06</u>
<b>MEDIA 3.62% (4.71%)</b>		
18,417 Reed Elsevier	99,360	2.24
15,000 Informa	61,125	1.38
	<u>160,485</u>	<u>3.62</u>
<b>OIL &amp; GAS 8.63% (11.72%)</b>		
24,000 BP	112,524	2.54
12,671 Royal Dutch Shell 'B'	269,512	6.09
	<u>382,036</u>	<u>8.63</u>
<b>REAL ESTATE 0.00% (2.29%)</b>		
<b>RETAIL 5.73% (6.06%)</b>		
27,000 Tesco	116,033	2.62
85,000 HMV Group	27,413	0.62
37,000 N Brown Group	110,445	2.49
	<u>253,891</u>	<u>5.73</u>
<b>TELECOMMUNICATIONS 7.75% (7.74%)</b>		
65,000 BT Group	117,715	2.66
135,625 Vodafone Group	225,544	5.09
	<u>343,259</u>	<u>7.75</u>

## CHARITY VALUE AND INCOME FUND

### PORTFOLIO STATEMENT as at 31 December 2010

Holding	Fair value £	% of total net assets
<b>TRAVEL &amp; LEISURE 8.62% (6.50%)</b>		
10,000 Go-Ahead Group	131,200	2.96
50,000 Restaurant Group	137,600	3.11
100,000 Marston's	112,800	2.55
	<u>381,600</u>	<u>8.62</u>
<b>UNQUOTED EQUITIES 1.92% (0.00%)</b>		
80,000 John Laing Infrastructure Fund	84,800	1.92
	<u>84,800</u>	<u>1.92</u>
<b>UTILITIES 8.68% (9.50%)</b>		
45,400 Centrica	150,910	3.41
25,000 National Grid	138,750	3.13
16,000 United Utilities Group	94,800	2.14
	<u>384,460</u>	<u>8.68</u>
<b>TOTAL EQUITIES</b>	<u>4,346,643</u>	<u>98.18</u>
<b>TOTAL UNITED KINGDOM</b>	<u>4,346,643</u>	<u>98.18</u>
<b>Portfolio of investments</b>	4,346,643	98.18
<b>Net current assets</b>	80,695	1.82
<b>Net assets</b>	<u>4,427,338</u>	<u>100.00</u>

*All investments are quoted securities or regulated collective investment schemes unless otherwise stated.*

*The comparative percentage figures in brackets are as at 31 December 2009*

## CHARITY VALUE AND INCOME FUND

### STATISTICAL INFORMATION

#### Capital Income and Accumulation Units (Unit Prices)

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

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

#### Income Units

Calendar year	Highest price p	Lowest price p
2007*	102.1	84.81
2008	88.44	52.81
2009	67.63	47.07
2010	75.67	62.52

#### Accumulation Units

Calendar year	Highest price p	Lowest price p
2007*	102.1	85.57
2008	90.24	56.10
2009	75.99	50.79
2010	89.11	72.58

#### Income Units (Net distribution declared per unit)

Calendar year	1st Quarter p	2nd Quarter p	3rd Quarter p	Final p	Total p
2007*	-	-	0.900	1.011	1.911
2008	1.000	1.000	1.000	1.000	4.000
2009	0.800	0.800	0.800	0.800	3.200
2010	0.800	0.800	0.800	0.900	3.300

#### Accumulation Units (Net distribution declared per unit)

Calendar year	1st Quarter p	2nd Quarter p	3rd Quarter p	Final p	Total p
2007*	-	-	0.900	1.020	1.920
2008	1.030	1.047	1.061	1.062	4.200
2009	0.863	0.877	0.888	0.899	3.527
2010	0.910	0.919	0.931	1.059	3.819

#### Net asset value, quoted prices, units in issue and total expense ratio

##### Income Units

Accounting date	Total net asset value £	Net asset value per unit p	Quoted		Income units in issue
			Bid price p	Offer price p	
31/12/08	3,003,139	49.30	60.03	60.95	6,087,826
31/12/09	4,069,954	66.90	67.54	68.38	6,087,826
31/12/10	4,268,634	73.74	74.45	75.31	5,788,686

##### Accumulation Units

Accounting date	Total net asset value £	Net asset value per unit p	Quoted		Accumulation units in issue
			Bid price p	Offer price p	
31/12/08	26,465	52.40	63.77	64.75	50,505
31/12/09	37,939	75.10	75.89	76.83	50,505
31/12/10	158,704	86.84	87.67	88.68	182,761

#### Total Expense Ratio

Accounting date	Total expense ratio %
31/12/09	0.96%
31/12/10	0.85%

\*from launch 6 June 2007 to 31 December 2007

**Note:** Investments carry risks. Past performance is not a guide to future performance. Investors may not get back the amount invested.

## CHARITY VALUE AND INCOME FUND

### DISTRIBUTION TABLE for the year ended 31 December 2010

#### 1st Interim:- Distribution number 11

##### INCOME UNITS

**Group 1:-** Units purchased prior to 1 January 2010

**Group 2:-** Units purchased between 1 January 2010 and 31 March 2010

	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	0.800	-	0.800	0.800
Group 2	0.800	-	0.800	0.800

##### ACCUMULATION UNITS

**Group 1:-** Units purchased prior to 1 January 2010

**Group 2:-** Units purchased between 1 January 2010 and 31 March 2010

	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	0.910	-	0.910	0.863
Group 2	0.341	0.569	0.910	0.863

#### 2nd Interim:- Distribution number 12

##### INCOME UNITS

**Group 1:-** Units purchased prior to 1 April 2010

**Group 2:-** Units purchased between 1 April 2010 and 30 June 2010

	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	0.800	-	0.800	0.800
Group 2	0.800	-	0.800	0.800

##### ACCUMULATION UNITS

**Group 1:-** Units purchased prior to 1 April 2010

**Group 2:-** Units purchased between 1 April 2010 and 30 June 2010

	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	0.920	-	0.919	0.877
Group 2	0.000	0.919	0.919	0.877

#### 3rd Interim:- Distribution number 13

##### INCOME UNITS

**Group 1:-** Units purchased prior to 1 July 2010

**Group 2:-** Units purchased between 1 July 2010 and 30 September 2010

	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	0.800	-	0.800	0.800
Group 2	0.800	-	0.800	0.800

## CHARITY VALUE AND INCOME FUND

### DISTRIBUTION TABLE for the year ended 31 December 2010

#### 3rd Interim:- Distribution number 13

#### ACCUMULATION UNITS

**Group 1:-** Units purchased prior to 1 July 2010

**Group 2:-** Units purchased between 1 July 2010 and 30 September 2010

	<b>Net income 2010 pence per share</b>	<b>Equalisation 2010 pence per share</b>	<b>Distribution payable 2010 pence per share</b>	<b>Distribution paid 2009 pence per share</b>
Group 1	0.920	-	0.931	0.888
Group 2	0.362	0.569	0.931	0.888

#### Final:- Distribution number 14

#### INCOME UNITS

**Group 1:-** Units purchased prior to 1 October 2010

**Group 2:-** Units purchased between 1 October 2010 and 31 December 2010

	<b>Net income 2010 pence per share</b>	<b>Equalisation 2010 pence per share</b>	<b>Distribution payable 2010 pence per share</b>	<b>Distribution paid 2009 pence per share</b>
Group 1	0.900	-	0.900	0.800
Group 2	0.260	0.640	0.900	0.800

#### ACCUMULATION UNITS

**Group 1:-** Units purchased prior to 1 October 2010

**Group 2:-** Units purchased between 1 October 2010 and 31 December 2010

	<b>Net income 2010 pence per share</b>	<b>Equalisation 2010 pence per share</b>	<b>Distribution payable 2010 pence per share</b>	<b>Distribution paid 2009 pence per share</b>
Group 1	1.059	-	1.059	0.899
Group 2	0.568	0.491	1.059	0.899

## **CHARITY VALUE AND INCOME FUND**

### **STATEMENT OF 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 Trust as at the end of the financial period and of its net revenue and the net gains or losses on the property of the Trust for the period. In preparing the financial statements, the Manager is required to:

- a) select suitable accounting policies and then apply them consistently;
- b) comply with the disclosure requirements of the Charities Act 2006, the Charities (Accounts and Reports) Regulations 2008 ('the Regulations') and where relevant the current Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association;
- c) follow generally accepted United Kingdom accounting principles (UK accounting standards and applicable law);
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in operation;
- e) keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- f) make judgements and estimates that are reasonable and prudent; and
- g) take reasonable steps for the prevention and detection of fraud and other irregularities.

The Manager is also responsible for the management of the Trust in accordance with its trust deed and scheme particulars.

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

## **CHARITY VALUE AND INCOME FUND**

### **STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME**

The Trustee is responsible for the safekeeping of all the property of the Scheme (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 Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Scheme's trust deed and Scheme particulars, in relation to the pricing of, and dealings in, units in the Scheme; the application of income of the Scheme; and the investment and borrowing powers of the Scheme.

### **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 Scheme, 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 Scheme's units and the application of the Scheme's income in accordance with the trust deed and Scheme particulars; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme.

BNY Mellon Trust & Depositary (UK) Limited  
Trustee and Depositary Services  
London

28 April 2011

## **CHARITY VALUE AND INCOME FUND**

### **INDEPENDENT AUDITOR REPORT TO THE TRUSTEE OF THE CHARITY VALUE AND INCOME FUND**

We have audited the financial statements of the Charity Value and Income Fund for the year ended 31 December 2010 which comprise the Statement of Total Return, the Statement of Change in Unitholders' Net Assets, the Balance Sheet together with the related notes and the Distribution Table. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with Section 43 of the Charities Act 1993 and regulations made under Section 44 of that Act. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it 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 Trustee, 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**

The Manager's responsibility for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) is set out in the Statement of Manager's Responsibilities.

We have been appointed as auditor under Section 43 of the Charities Act 1993 and report in accordance with regulations made under Section 44 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 Trust'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.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Trust as at 31 December 2010 and of the incoming resources and application of the resources of the Trust for the year then ended;
- give a true and fair view of the movement in the net assets of the Trust 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 1993.

## **CHARITY VALUE AND INCOME FUND**

### **INDEPENDENT AUDITOR REPORT TO THE TRUSTEE OF THE CHARITY VALUE AND INCOME FUND (continued)**

#### **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 1993 requires us to report to you if, in our opinion:

- the information given in the annual 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  
Chartered Accountants and Statutory Auditors  
82 St John Street  
London EC1M 4JN

28 April 2011

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

## CHARITY VALUE AND INCOME FUND

### STATEMENT OF TOTAL RETURN for the year ended 31 December 2010

	Notes	2010		2009	
		£	£	£	£
Income					
Net capital gains	3		445,861		514,802
Revenue	4	189,256		192,820	
Expenses	5	<u>(35,018)</u>		<u>(34,521)</u>	
Net revenue before taxation		154,238		158,299	
Taxation	6	-		-	
Net revenue after taxation			<u>154,238</u>		<u>158,299</u>
<b>Total return before distributions</b>			600,099		673,101
Finance costs: Distributions	7		(200,343)		(195,266)
<b>Change in net assets attributable to unitholders from investment activities</b>			<u>399,756</u>		<u>477,835</u>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS for the year ended 31 December 2010

	2010		2009	
	£	£	£	£
<b>Net assets at the start of the year</b>		4,107,893		3,629,604
Amounts receivable on issue of units	128,637		-	
Less: amounts payable on cancellation of units	<u>(214,164)</u>	(85,527)	<u>-</u>	-
Income retained on Accumulation units		5,216		454
Change in net assets attributable to unitholders from investment activities		399,756		477,835
<b>Net assets at the end of the year</b>		<u>4,427,338</u>		<u>4,107,893</u>

## CHARITY VALUE AND INCOME FUND

### BALANCE SHEET as at 31 December 2010

		2010		2009	
	Notes	£	£	£	£
<b>ASSETS</b>					
<b>Portfolio of investments</b>			4,346,643		4,046,490
Debtors	8	26,249		30,028	
Cash and bank balances	9	<u>111,294</u>		<u>85,091</u>	
Total other assets			<u>137,543</u>		<u>115,119</u>
Total assets			4,484,186		4,161,609
<b>LIABILITIES</b>					
Creditors	10	(4,750)		(5,013)	
Distribution payable on income units		<u>(52,098)</u>		<u>(48,703)</u>	
Total other liabilities			<u>(56,848)</u>		<u>(53,716)</u>
Total liabilities			(56,848)		(53,716)
<b>Net assets attributable to unitholders</b>			<u><b>4,427,338</b></u>		<u><b>4,107,893</b></u>

G. Murphy

K. Stopps

Directors  
Smith & Williamson Fund Administration Limited  
28 April 2011

See Article 6(7)(a) C(A&R) 2008

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

#### 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, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Management Association (IMA) in October 2010 as applicable to charity common investment funds and Charities (Accounts and Reports) Regulations 2008.

By adopting the new SORP, the portfolio turnover rate will no longer be disclosed.

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

**(b) Recognition of revenue**

Dividends on equities are included when the investments concerned are quoted ex-dividend.

Interest on fixed interest stocks are recognised on an effective interest basis and interest on deposits on an accruals basis.

Revenue on collective investment schemes is included when the investments concerned are quoted ex-dividend.

Equalisation received as part of collective investment scheme distributions is treated as capital and is deducted from the cost of investments purchased.

**(c) Treatment of stock dividends**

Stock dividends are treated as revenue and form part of the distribution. Where the market value of the stock exceeds the equivalent cash distribution, the excess is deducted from the cost of investments purchased.

**(d) Treatment of special dividends**

Where a special dividend is linked directly to a capital event and results in a reduction in the capital share value of the company the special dividend is treated as capital in nature and is deducted from the cost of investments purchased.

Where the special dividend is paid out of profits of the company the dividend is treated as revenue.

**(e) Treatment of expenses**

All expenses except those relating directly to the purchase and sale of investments, which includes stamp duty reserve tax are charged against the revenue of the Scheme.

**(f) Taxation**

The Scheme 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) Distribution policy**

Where net revenue is available, distributions are made quarterly from the Scheme and take the form of dividend distributions.

**(h) Basis of valuation of investments**

The quoted investments of the Scheme have been valued at bid prices at 12 noon on 31 December 2010. Unlisted or suspended securities are valued by the Manager taking

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other factors.

**(i) Exchange rates**

Assets and liabilities in currencies other than Sterling are translated into Sterling at the rates of exchange ruling at 12 noon on 31 December 2010. Foreign currency transactions are translated at the rates of exchange ruling on the date of receipt. Exchange differences arising from investments are taken to the capital account. Exchange differences arising from overseas dividends are taken to the revenue account.

**(j) Equalisation**

Equalisation is the average amount of income included in the purchase price of all Group 2 shares (shares purchased during the distribution period) and is refunded to holders of these shares as a return of capital. Being capital it is not liable to income tax.

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

#### 2 RISK FACTORS – FINANCIAL INSTRUMENTS AND MANAGEMENT OF RISK

The Scheme, in pursuing its investment policy and objective, holds a number of financial instruments, which may comprise the following:

- Equity shares, equity-related shares, warrants and debt securities;
- Cash, short term borrowings and other short term debtors and creditors arising from operations;
- Collective Investment Schemes;
- Derivatives in the form of forward foreign exchange contracts, exchange traded futures and options contracts for the purpose of efficient portfolio management in accordance with the COLL Sourcebook.

The Manager is responsible for monitoring the portfolio of the Scheme in accordance with its investment objective and seeks to ensure that individual assets also meet a risk reward profile that is acceptable.

Adherence to the investment guidelines and the investment and borrowing powers as set out in the prospectus and in the rules of the COLL regulations also mitigates the risk of excessive exposure to any particular type of security or issuer.

There is no assurance that the investment objective of the Scheme will actually be achieved. Past performance is not a guide to future performance.

The main risks arising from financial instruments are market risk, credit risk, and liquidity risk which are summarised below.

##### **Market risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

##### ***Currency risk***

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Manager monitors currency exposure and the effects of fluctuations in exchange rates. The Manager considers the effect on the Scheme's net asset value and income of a movement in the rates of exchange to which the Scheme's assets, liabilities, income and expenses are exposed.

Forward Foreign Exchange contracts can be used to hedge out unwanted currency exposures and to limit the Scheme's exposure to anticipated changes in exchange rates. Where appropriate, they are also used to achieve the portfolio characteristics that assist the Scheme in meeting its investment objective.

##### ***Interest rate risk***

Interest rate risk is the risk that an investment's value will change as a result of fluctuations in interest rates. Any changes in interest rate may cause the value of debt securities to increase or decrease.

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

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

#### ***Other price risk***

Other price risk is that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk), whether those changes are caused by factors specific to individual financial instruments or its issuer, or other factors affecting similar financial instruments traded in the market.

The risk can be reduced by diversifying (investing in debt securities with different durations) or hedging (e.g. through an interest rate swap).

#### **Credit risk**

Credit risk is the risk of suffering a loss due to another party not meeting its financial obligations. This includes issuer risk and counterparty risk.

#### ***Issuer risk***

Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Scheme of default.

Investments in quoted bonds are made across a variety of industry sectors, and geographical markets, so as to mitigate concentration of credit risk.

#### ***Counterparty risk***

The Scheme will only buy and sell investments through brokers which have been approved by the Manager as an acceptable counterparty. This is overseen by the Scheme to ensure that the exposure to any counterparty remains appropriate for investors.

The Scheme holds cash and cash deposits which potentially expose it to counterparty risk; the Manager regularly reviews the banks at which cash is deposited.

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

#### **Liquidity risk**

The Scheme's assets comprise mainly readily realisable securities which can be sold promptly to meet liquidity requirements. The main source of risk comes from the obligation to meet the proceeds of units which unitholders decide to sell.

The Manager regularly monitors the Scheme's liquidity levels (cash and securities) to ensure redemptions can be readily met. Some investments may be less liquid than other securities and can be more sensitive to economic factors. The rules of the COLL regulations mitigate the risk of holding excessive assets which are not readily realisable.

## CHARITY VALUE AND INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2010

### 3 NET CAPITAL GAINS

	2010	2009
	£	£
Non-derivative securities	446,315	515,415
Expenses charged to capital	(454)	(613)
<b>Net capital gains</b>	<b>445,861</b>	<b>514,802</b>

### 4 REVENUE

	2010	2009
	£	£
UK dividends	188,271	189,599
Unfranked UK dividends	985	2,951
Bank interest	-	270
<b>Total revenue</b>	<b>189,256</b>	<b>192,820</b>

### 5 EXPENSES

	2010	2009
	£	£
<b>Payable to the Manager, associates of the Manager and agents of either of them:</b>		
Manager's periodic charge	24,181	20,859
	<u>24,181</u>	<u>20,859</u>
<b>Payable to the trustee, associates of the trustee and agents of either of them:</b>		
Trustee's fees	5,875	5,750
Safe custody fees	162	1,072
	<u>6,037</u>	<u>6,822</u>
<b>Other expenses:</b>		
Audit fees	4,800	4,030
Legal and professional fees	-	2,810
	<u>4,800</u>	<u>6,840</u>
<b>Total expenses</b>	<b>35,018</b>	<b>34,521</b>

### 6 TAXATION

The trust 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 unit holders 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.

### 7 FINANCE COSTS

#### Distributions and interest

The distributions take account of income received on the creation of shares and income deducted on the cancellation of shares, and comprise:

	2010	2009
	£	£
1st quarter	49,469	48,703
2nd quarter	48,898	48,703
3rd quarter	47,304	48,703
4th quarter	54,034	49,157
	199,705	195,266
Add: Income deducted on cancellation of units	2,001	-
Deduct: Income received on creation of units	(1,363)	-
<b>Net distribution for the period</b>	<b>200,343</b>	<b>195,266</b>
<b>Total finance costs</b>	<b>200,343</b>	<b>195,266</b>

#### Movement between net income and distributions:

Income brought forward	21,744	25,595
Net income after taxation	154,238	158,299
Expenses charged to capital	35,019	33,116
Income carried forward	(10,658)	(21,744)
<b>Net distributions for the period</b>	<b>200,343</b>	<b>195,266</b>

Details of the distribution per unit are set out in the distribution table.

## CHARITY VALUE AND INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2010

### 8 DEBTORS

	2010	2009
UK dividends	25,855	29,042
Unfranked UK dividends	-	986
	<u>25,855</u>	<u>30,028</u>
Overseas tax recoverable	394	
<b>Total debtors</b>	<u><u>26,249</u></u>	<u><u>30,028</u></u>

### 9 CASH AND BANK BALANCES

	2010	2009
	£	£
Cash and bank balances	111,294	85,091
<b>Total cash and bank balances</b>	<u><u>111,294</u></u>	<u><u>85,091</u></u>

### 10 CREDITORS

	2010	2009
	£	£
<b>Accrued expenses:</b>		
<b>Payable to the trustee, associates of the trustee and agents of either of them:</b>		
Safe custody fees	14	13
	<u>14</u>	<u>13</u>
<b>Other expenses:</b>		
Audit fees	4,700	4,600
Transaction fees	36	400
	<u>4,736</u>	<u>5,000</u>
<b>Total creditors</b>	<u><u>4,750</u></u>	<u><u>5,013</u></u>

### 11 RELATED PARTY TRANSACTIONS

Smith & Williamson Fund Administration Limited, as Manager ("the Manager"), and BNY Mellon Trust & Depository (UK) Limited, as Trustee ("the Trustee"), are related parties due to their ability to act in respect of the operations of the Trust. Bank of New York Mellon, as custodian ("the Custodian") provides custody services in respect of the assets of the Trust.

The Manager acts as principal in respect of all transactions of units in the Trust. 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 in respect of fund administration and registration services, amounts payable to the Trustee in respect of trustee services and amounts payable to the Custodian in respect of custody services are disclosed in note 4 to the Financial Statements. Amounts due to the Manager, Trustee and Custodian at the year end are disclosed in note 9 to the financial statements.

### 12 UNIT CLASSES

There are currently two unit classes in issue in the Trust: income units and accumulation units. The annual management charge for these is 0.50% of average net assets calculated on a monthly basis.

### 13 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

#### a) Currency exposures

The currency risk of the Trust's financial assets and liabilities at the balance sheet date was:

	2010	2009
	£	£
<b>Monetary exposures</b>		
UK sterling	79,413	61,403
US dollar	1,282	-
<b>Non-monetary exposures</b>		
UK sterling	4,346,643	4,046,490
<b>Total net assets</b>	<u><u>4,427,338</u></u>	<u><u>4,107,893</u></u>

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2010

#### b) Interest rate risk profile of financial assets and financial liabilities

The interest rate risk of the Trust's financial assets and liabilities at the balance sheet date was:

	2010 £	2009 £
<b>Floating rate financial assets</b>		
UK sterling	111,294	85,091
<b>Financial assets not carrying interest</b>		
UK sterling	4,371,610	4,076,518
US dollar	1,282	-
<b>Total assets</b>	<u>4,484,186</u>	<u>4,161,609</u>
<b>Financial liabilities not carrying interest</b>		
UK sterling	(56,848)	(53,716)
<b>Total liabilities</b>	<u>(56,848)</u>	<u>(53,716)</u>
<b>Total net assets</b>	<u><u>4,427,338</u></u>	<u><u>4,107,893</u></u>

The floating rate financial assets and liabilities comprise:  
Sterling denominated bank balances and overdrafts that bear interest linked to LIBOR.

#### c) Fair value of financial assets and financial liabilities

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

#### d) Sensitivity analysis

The Trust does not make significant use of any derivative products and as such a sensitivity analysis is not presented.

### 14 PORTFOLIO TRANSACTION COSTS

	2010 £
<b>Analysis of total purchase costs:</b>	
Purchases in period before transaction costs	739,147
Commissions	1,318
Stamp duty	1
PTM levy	<u>11</u>
Total purchase costs	<u>1,330</u>
Total purchases including transaction costs	<u><u>740,477</u></u>
<b>Analysis of total sale proceeds:</b>	
Sales in year before transaction costs	815,858
Commissions	(1,528)
Stamp duty	(1)
PTM levy	<u>(10)</u>
Total sale costs	<u>(1,538)</u>
Total sales net of transaction costs	<u><u>814,320</u></u>
	<b>2009</b>
	<b>£</b>
<b>Analysis of total purchase costs:</b>	
Purchases in period before transaction costs	991,603
Commissions	1,904
Stamp duty	24
PTM levy	<u>-</u>
Total purchase costs	<u>1,928</u>
Total purchases including transaction costs	<u><u>993,531</u></u>
<b>Analysis of total sale proceeds:</b>	
Sales in year before transaction costs	908,718
Commissions	(1,817)
Stamp duty	(1)
PTM levy	<u>(13)</u>
Total sale costs	<u>(1,831)</u>
Total sales net of transaction costs	<u><u>906,887</u></u>

## CHARITY VALUE AND INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2010

**15 SOFT COMMISSION ARRANGEMENTS**

There were no soft commission arrangements during the year with the Investment Adviser or its associates.

**16 COMMITMENTS AND CONTINGENT LIABILITIES**

There were no commitments or contingent liabilities at the balance sheet date.

**17 DILUTION LEVY**

In accordance with the prospectus, the Manager may charge a discretionary dilution levy on the sale and redemption of units. In the accounting period covered by this report, no dilution levy has been charged.

**Manager**

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

**Registrar (from 15 November 2010)**

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 Services Authority

**Directors**

Jeremy Boadle  
Michael Fosberry  
Michael Lea  
Giles Murphy  
Gareth Pearce  
Kevin Stopps  
Paul Wyse

**Investment Adviser**

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

**Auditors**

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