



# Marlborough High Yield Fixed Interest Fund

Annual Report

For the year ended 31<sup>st</sup> December 2016

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### Authorised Fund Manager and Registrar

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

Investor Support: (0808) 145 2500 (FREEPHONE)

Authorised and regulated by the Financial Conduct Authority.

### Trustee

HSBC Bank plc  
8 Canada Square  
London  
E14 5HQ

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

### Investment Adviser

Aberdeen Asset Managers Limited  
10 Queens Terrace  
Aberdeen  
Aberdeenshire  
AB10 1YG

Authorised and regulated by the Financial Conduct Authority.

### Auditor

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

### Directors of Marlborough Fund Managers Ltd

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

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### CONTENTS

	PAGE
AUTHORISED INVESTMENT ADVISER'S REPORT	1
AUTHORISED STATUS AND GENERAL INFORMATION	3
DIRECTORS' STATEMENT	4
STATEMENT OF AUTHORISED FUND MANAGER'S RESPONSIBILITIES	4
TRUSTEE'S REPORT	5
INDEPENDENT AUDITOR'S REPORT	6
COMPARATIVE TABLE	7
SYNTHETIC RISK AND REWARD INDICATOR	8
PORTFOLIO STATEMENT	9
FINANCIAL STATEMENTS	
Statement of total return	12
Statement of change in net assets attributable to unitholders	12
Balance sheet	13
Notes to the financial statements	14

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 31 December 2016

#### Percentage change and sector position to 31 December 2016

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>Since launch*</u>
Marlborough High Yield Fixed Interest Fund	6.79%	7.63%	15.16%	54.66%	90.90%
Quartile Ranking**	2	4	1	1	3

\* Launched 8 November 2004

\*\* Based on ranking within The Investment Association £ High Yield sector

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

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

#### Market Review

2016 was a year of two halves with the latter half being dominated by politics and the rise of populism. The election of Trump is a great illustration of this, which as with the Brexit vote, caught most pollsters and forecasters by surprise.

Economic data was unexpectedly strong in Europe over the period. This coincided with the US economy growing at its fastest pace for over two years in Q3. It seems likely an inflection point has been reached with policy set to transition to fiscal expansion combined with monetary contraction, although this is likely to be more of a US phenomenon than a European one in the short term. Nevertheless, the US may forge a roadmap for other developed economies to follow in the future.

Net new issuance in 2016 was at its lowest since 2008, with refinancing deals dominating activity throughout the year. This theme is likely to continue into 2017.

High Yield finished the calendar year on a strong note. This was impressive given we had a negative outcome from the Italian referendum, a "soft tapering" from the European Central Bank, and the second post crisis interest rate hike from the Federal Reserve. Market resilience is encouraging, driven by improving economic data and supportive technicals.

#### Portfolio Review

We have continued to maintain our overweight position in B rated bonds and underweight position in BB rated bonds, where we believe we are better compensated for default and duration risk. Spreads have continued to tighten as investors search for yield further down the ratings spectrum. Our participation in primary deals has been highly selective.

We continue to opt to take credit risk over interest rate risk, allowing the Fund to generate a higher than market yield, whilst maintaining a low sensitivity to government bond yields which subdues the volatility profile of the fund.

#### Outlook

The outlook for 2017 is tough to judge at this stage. Inflation expectations are increasing and we hope some of this will be due to a stickier pick-up in underlying growth and wages, for example, rather than just commodity price rebounds. This should generally be positive for spreads / credit and negative for government bonds. The curve ball is the political landscape which could throw up a number of flash points in Europe. Volatility, as a result, could heighten in places. But as we've seen this year, the market is remarkably resilient to political events. In the context of all that, default risk remains subdued. Capital is accessible and the cost of debt is low by historic standards. Leverage levels are moderate as most companies in Europe have been managed very conservatively since the financial crisis. So, currently, there simply aren't many triggers for default.

Steven Logan / Ben Pakenham  
8 January 2017

This report contains FTSE data. Source: FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

#### Distributions (pence per unit)

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Class A Income</u>				
Net income paid last day of February	0.781862	0.851886	0.972115	1.131053
Net income paid 31 May		0.878642	0.816853	1.002910
Net income paid 31 August		0.863459	0.888672	1.027689
Net income paid 30 November		0.839006	0.849448	0.919332
<u>Class B Income</u>				
Net income paid last day of February	0.842579	0.907658	1.022340	1.212809
Net income paid 31 May		0.929795	0.912768	1.081334
Net income paid 31 August		0.892324	0.946177	1.090598
Net income paid 30 November		1.126662	0.920795	0.974688
<u>Class P Income</u>				
Net income paid last day of February	0.852007	0.931176	1.061046	1.236083
Net income paid 31 May		0.957948	0.894842	1.089054
Net income paid 31 August		0.904946	0.969933	1.122921
Net income paid 30 November		0.912367	0.931952	1.003103

#### Material Portfolio Changes

For the year ended 31 December 2016

Major Purchases	Cost (£)	Major Sales	Proceeds (£)
Societe Generale 8.875% FRN Perp	1,067,450	Cegedim 6.75% 01.04.20	889,916
Annington Finance No. 5 13% 15.01.23	865,051	Deutsche Raststatten 6.75% 30.12.20	837,361
Matalan Finance 6.875% 01.06.19	845,250	CE Energy 7% 01.02.21	822,050
Ladbroke's Group Finance 5.125% 08.09.23	844,440	ConvaTec Healthcare 10.875% 15.12.18	792,162
William Hill 4.875% 07.09.23	823,690	Corral Petroleum Holdings 15% 31.12.17	781,390
F&C Asset Management 6.75% 20.12.26	715,331	Matalan Finance 8.875% 01.06.20	760,133
Travis Perkins 4.5% 07.09.23	680,474	Crown Newco 3 8.875% 15.02.19	717,610
Medi-Partenaires 7% 15.05.20	612,138	F&C Asset Management 6.75% 20.12.26	710,000
Unitymedia Hessen 4.625% 15.02.26	571,637	Ardagh Packaging Finance 4.25% 15.01.22	683,065
Standard Chartered Bank 7.75% Perp	550,000	Trionista Holdco 5% 30.04.20	640,897
ARD Finance 6.625% 15.09.23	543,030	Gamenet 7.25% 01.08.18	629,929
Electricite de France 4.25% Perp	531,089	Kraussmaffe 8.75% 15.12.20	618,214
Lincoln Finance 6.875% 15.04.21	506,432	Unilabs Subholdings 8.5% 15.07.18	600,111
Ziggo Secured Finance 4.25% 15.01.27	486,537	AXA 3.941% Perp	576,093
Stonegate Pub Co Financing 5.75% 15.04.19	461,175	Cirsa Funding Luxembourg 8.75% 15.05.18	567,136
Boparan Finance 5.5% 15.07.21	457,265	Bite Finance International FRN 15.02.18	564,268
Senvion Holding 6.625% 15.11.20	455,830	InterXion Holding 6% 15.07.20	547,051
DEA Finance 7.5% 15.10.22	444,444	Co-op Group Holdings 5.625% 08.07.20	542,850
CYBG 8% Perp	421,500	Grainger 5% 16.12.20	517,500
ALBA Group 8% 15.05.18	420,631	Edu UK Bondco 8.875% 15.09.18	508,769
Other purchases	17,506,913	Other sales	17,300,451
Total purchases for the year	29,810,307	Total sales for the year	30,606,956

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### AUTHORISED STATUS AND GENERAL INFORMATION

#### Authorised Status

The Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is a UCITS scheme under the Collective Investment Schemes Sourcebook (COLL) as issued by the Financial Conduct Authority.

#### Nature and Objectives of the Fund

The investment objective of the Fund is to provide a high level of income with the opportunity for some long-term capital growth.

The Fund will be invested in a portfolio largely comprising fixed and variable rate and index related securities issued by corporates, government, supranational institutions and local and regional agencies, both in the UK and internationally, as well as other securities deemed to be appropriate by the manager. At times it may be appropriate for the Fund not to be fully invested but to hold cash and near cash. The Fund is permitted to invest in derivatives and forward transactions for the purposes of hedging only.

#### Rights and Terms attaching to each Unit Class

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

#### Change in Prospectus

The UK Government has changed the existing tax rules for interest paying funds so that interest distributions must be paid without deduction of 20% income tax, effective from 6 April 2017. Therefore, on Marlborough High Yield Fixed Interest Fund, the first interest distribution payment to be paid gross will be made on 31 May 2017 (for the distribution period from 1 January 2017 to 31 March 2017).

The prospectus has been updated to reflect these tax changes.

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

#### Remuneration Policy

In line with the requirement of UCITS V, Marlborough Fund Managers Ltd is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under UCITS V. The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its senior staff is in line with the risk policies and objectives of the UCITS funds it manages. Implementation of the policy remains ongoing and will apply in full for the 2017 performance year ended 31 December 2017.

The quantitative remuneration disclosures have not been included in the annual report as they are considered not to be relevant, reliable or comparable as described under COLL 4.5.7A. Quantitative remuneration disclosures will be included in next year's Annual Report and Audited Financial Statements as the information will be readily available for the year.

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### DIRECTORS' STATEMENT

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



**ALLAN HAMER**  
JOINT MANAGING DIRECTOR



**G R HITCHIN**  
INVESTMENT DIRECTOR

**MARLBOROUGH FUND MANAGERS LTD**  
21 February 2017

### STATEMENT OF AUTHORISED FUND MANAGER'S RESPONSIBILITIES

Marlborough Fund Managers Ltd is the manager of the Fund.

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

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

The authorised fund manager is required to keep proper accounting records and to manage the Trust in accordance with the regulations, the trust deed and the prospectus.

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### TRUSTEE'S REPORT

The Depositary in its capacity as Trustee of the Marlborough High Yield Fixed Interest Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors. The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The Depositary must ensure that:

- the Trust's cash flows are properly monitored (this requirement on the Depositary applied from 18 March 2016) and that cash of the Trust is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM"), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

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

#### Report of HSBC Bank plc ("the Trustee") to the Unitholders of the Marlborough High Yield Fixed Interest Fund

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

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the Scheme documents of the Trust; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

HSBC BANK PLC

LONDON

21 February 2017



## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF THE MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

We have audited the financial statements of the Marlborough High Yield Fixed Interest Fund for the year ended 31 December 2016 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, including FRS 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland.

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

#### **Respective responsibilities of the authorised fund manager and the auditor**

As explained more fully in the Statement of Authorised Fund Manager's Responsibilities set out on page 4, the authorised fund manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the authorised fund manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

In our opinion the financial statements:

- give a true and fair view of the state of the fund's affairs as at 31 December 2016 and of its net revenue and net gains or losses of the fund property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

#### **Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook**

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by The Investment Association, the rules contained in the Collective Investment Schemes Sourcebook and the trust deed;
- there is nothing to indicate that proper accounting records for the fund have not been kept or that the financial statements are not in agreement with those records;
- we have been given all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit; and
- the information given in the authorised fund manager's report is consistent with the financial statements.

21 February 2017

BARLOW ANDREWS LLP  
CHARTERED ACCOUNTANTS & STATUTORY AUDITOR  
78 CHORLEY NEW ROAD  
BOLTON

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### COMPARATIVE TABLE

Income units first offered at 100p on 8 November 2004. On 31 December 2012 the units were reclassified as Class A units and Class B and P units became available for purchase.

<b><u>Class A income units</u></b>	<b>Year to 31.12.2016</b>	<b>Year to 31.12.2015</b>	<b>Year to 31.12.2014</b>
<b>Change in net assets per unit</b>			
	<b>pence</b>	<b>pence</b>	<b>pence</b>
Opening net asset value per unit	71.90	72.64	75.37
Return before operating charges*	6.13	3.86	2.40
Operating charges	(1.17)	(1.19)	(1.21)
Return after operating charges*	4.96	2.67	1.19
Distribution on income units	(3.36)	(3.41)	(3.92)
Closing net asset value per unit	73.50	71.90	72.64
* after direct transaction costs of:	0.00	0.00	0.00
<b>Performance</b>			
Return after charges	6.90%	3.68%	1.58%
<b>Other information</b>			
Closing net asset value	£20,299,547	£17,896,103	£25,869,140
Closing number of units	27,619,170	24,891,501	35,610,472
Operating charges	1.60%	1.60%	1.59%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest unit price	79.20p	79.66p	82.46p
Lowest unit price	69.49p	71.87p	72.61p
<b><u>Class B income units</u></b>	<b>Year to</b>	<b>Year to</b>	<b>Year to</b>
<b>Change in net assets per unit</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
	<b>pence</b>	<b>pence</b>	<b>pence</b>
Opening net asset value per unit	72.45	73.02	75.57
Return before operating charges*	6.40	3.94	2.45
Operating charges	(0.81)	(0.82)	(0.83)
Return after operating charges*	5.59	3.12	1.62
Distribution on income units	(3.79)	(3.69)	(4.17)
Closing net asset value per unit	74.25	72.45	73.02
* after direct transaction costs of:	0.00	0.00	0.00
<b>Performance</b>			
Return after charges	7.72%	4.27%	2.14%
<b>Other information</b>			
Closing net asset value (£)	£203,986	£816,335	£393,297
Closing number of units	274,729	1,126,747	538,602
Operating charges	1.10%	1.10%	1.09%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest unit price	79.79p	80.03p	82.63p
Lowest unit price	70.08p	72.38p	73.16p

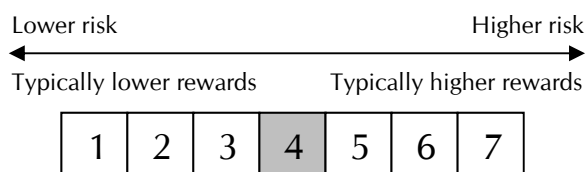
## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### COMPARATIVE TABLE (CONTINUED)

<u>Class P income units</u>	Year to 31.12.2016	Year to 31.12.2015	Year to 31.12.2014
<b>Change in net assets per unit</b>			
Opening net asset value per unit	72.72	73.20	75.66
Return before operating charges*	6.16	3.89	2.46
Operating charges	(0.63)	(0.64)	(0.64)
Return after operating charges*	5.53	3.25	1.82
Distribution on income units	(3.63)	(3.73)	(4.28)
Closing net asset value per unit	74.62	72.72	73.20
* after direct transaction costs of:	0.00	0.00	0.00
<b>Performance</b>			
Return after charges	7.60%	4.44%	2.41%
<b>Other information</b>			
Closing net asset value (£)	£33,780,737	£29,922,151	£25,048,502
Closing number of units	45,270,575	41,149,175	34,220,472
Operating charges	0.85%	0.85%	0.84%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest unit price	77.11p	77.18p	79.65p
Lowest unit price	70.36p	72.62p	73.52p

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

### SYNTHETIC RISK AND REWARD INDICATOR



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

This Fund has been measured as 4 because it has experienced moderate volatility historically.

# MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

## PORTFOLIO STATEMENT

as at 31 December 2016

Holding or nominal value as at 31 Dec 16	Investment	Bid Value £	Percentage of total net assets %
	<b>STERLING</b> (41.30%, Dec 2015 - 38.85%)		
223,000	AMC Entertainment Holdings 6.375% 15.11.24	236,097	0.43
730,000	Annington Finance No. 5 13% 15.01.23	862,313	1.59
155,000	Arrow Global Finance 5.125% 15.09.24	154,537	0.28
450,000	Assicurazioni Generali 6.416% Perp	455,666	0.84
299,417	Bakkavor Finance 2 8.25% 15.02.18	306,133	0.56
100,000	Bakkavor Finance 2 8.75% 15.06.20	106,879	0.20
200,000	Barclays 7.875% Perp	199,550	0.37
333,000	BHP Billiton Finance 6.5% 22.10.77	365,734	0.67
580,000	Boparan Finance 5.25% 15.07.19	583,509	1.07
497,000	Boparan Finance 5.5% 15.07.21	484,858	0.89
550,000	Brighthouse Group 7.875% 15.05.18	379,044	0.70
170,000	Cabot Financial Luxembourg 6.5% 01.04.21	173,750	0.32
300,000	Cabot Financial Luxembourg 8.375% 01.08.20	313,650	0.58
430,000	CYBG 5% 09.02.26	411,463	0.76
460,000	CYBG 8% Perp	420,854	0.78
750,000	Elli Finance UK 8.75% 15.06.19	716,288	1.32
173,000	Entertainment One 6.875% 15.12.22	186,883	0.34
150,000	Galaxy Bidco FRN 15.11.19	150,195	0.28
525,000	Galaxy Finco 7.875% 15.11.21	530,250	0.98
350,000	Garfunkelux Holdco 3 8.5% 01.11.22	363,930	0.67
420,000	Jaguar Land Rover Automotive 5% 15.02.22	455,246	0.84
290,000	Keystone Financing 9.5% 15.10.19	303,920	0.56
855,000	Ladbrokes Group Finance 5.125% 08.09.23	840,516	1.55
270,000	Ladbrokes Group Finance 7.625% 05.03.17	272,870	0.50
450,000	Lloyds Bank 13% Step-Up Perp	787,127	1.45
250,000	Lloyds Banking Group 7% Perp	252,500	0.47
120,000	Marlin Intermediate Holdings 10.5% 01.08.20	131,400	0.24
1,000,000	Matalan Finance 6.875% 01.06.19	830,200	1.53
539,790	Mizzen Bondco 7% 01.05.21	565,900	1.04
524,000	Moto Finance 6.375% 01.09.20	545,091	1.00
370,000	Moy Park BondCo 6.25% 29.05.21	387,697	0.71
200,000	Nationwide Building Society 6.875% Perp	200,364	0.37
100,000	New Look Secured Issuer 6.5% 01.07.22	95,191	0.18
185,000	Paragon Group of Companies 7.25% 09.09.26	185,611	0.34
600,000	PGH Capital 5.75% 07.07.21	665,436	1.23
1,006,000	PGH Capital 6.625% 18.12.25	1,042,186	1.92
150,000	PizzaExpress Financing 2 6.625% 01.08.21	152,102	0.28
391,000	REA Finance 9.5% 31.12.17	387,090	0.71
1,000,000	Societe Generale 8.875% FRN Perp	1,057,460	1.95
500,000	Standard Chartered Bank 7.75% Perp	556,250	1.02
650,000	Stonegate Pub Co Financing 5.75% 15.04.19	663,559	1.22
400,000	Telefónica Europe 6.75% Perp	415,644	0.77
325,000	TES Finance 6.75% 15.07.20	273,975	0.50
200,000	TES Finance FRN 15.07.20	157,214	0.29
650,000	Tesco 6.125% 24.02.22	735,033	1.35
680,000	Travis Perkins 4.5% 07.09.23	676,600	1.25
259,000	TVL Finance 8.5% 15.05.23	274,941	0.51
240,000	Virgin Media Finance 6.375% 15.10.24	253,879	0.47
100,000	Virgin Media Secured Finance 5.125% 15.01.25	102,198	0.19
441,000	Virgin Media Secured Finance 6% 15.04.21	458,583	0.84
473,000	Voyage Care Bondco 6.5% 01.08.18	479,920	0.88
825,000	William Hill 4.875% 07.09.23	821,288	1.51
		<b>22,428,574</b>	<b>41.30</b>

# MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

## PORTFOLIO STATEMENT

as at 31 December 2016

Holding or nominal value as at 31 Dec 16	Investment	Bid Value £	Percentage of total net assets %
	<b>EURO</b> (56.38%, Dec 2015 - 60.35%)		
330,000	3AB Optique Developpement 5.625% 15.04.19	285,834	0.53
292,000	Adient Global Holdings 3.5% 15.08.24	252,436	0.47
900,000	ALBA Group 8% 15.05.18	763,992	1.41
780,000	Albea Beauty Holdings 8.75% 01.11.19	696,161	1.28
170,000	Aldesa Financial Services 7.25% 01.04.21	97,903	0.18
270,000	Alliance Automotive Finance 6.25% 01.12.21	246,868	0.45
180,000	Alliance Automotive Finance FRN 01.12.21	154,380	0.28
830,000	Alliance Data Systems 5.25% 15.11.23	702,907	1.30
1,025,000	Altice Luxembourg 7.25% 15.05.22	934,964	1.72
655,000	ARD Finance 6.625% 15.09.23	560,263	1.03
211,000	Ardagh Packaging Finance 6.75% 15.05.24	192,534	0.35
100,000	Axalta Coating Systems 4.25% 15.08.24	88,657	0.16
500,000	Barclays 6.5% Perp	413,649	0.76
162,000	BiSoho 5.875% 01.05.23	148,823	0.27
660,000	Bormioli Rocco Holdings 10% 01.08.18	578,283	1.07
490,000	Cerba European Lab 7% 01.02.20	428,119	0.79
100,000	Cirsa Funding Luxembourg 5.75% 15.05.21	91,337	0.17
193,000	Cirsa Funding Luxembourg 5.875% 15.05.23	174,568	0.32
448,000	Codere Finance 2 Luxembourg 6.75% 01.11.21	387,881	0.71
505,000	Corral Petroleum Holdings 11.75% 15.05.21	419,349	0.77
465,000	Cott 5.5% 01.07.24	419,593	0.77
330,000	Crown European Holdings 3.375% 15.05.25	284,832	0.52
516,000	DEA Finance 7.5% 15.10.22	470,111	0.87
175,000	Dufry Finance 4.5% 15.07.22	156,887	0.29
360,000	Dufry Finance 4.5% 01.08.23	328,611	0.61
700,000	Electricite de France 4.25% Perp	608,787	1.12
297,000	Elis 3% 30.04.22	261,010	0.48
100,000	Empark Funding FRN 15.12.19	85,351	0.16
350,000	Fiat Chrysler Automobiles 3.75% 29.03.24	309,520	0.57
616,000	Galapagos 5.375% 15.06.21	498,948	0.92
112,000	Gamenet Group 6% 15.08.21	99,136	0.18
323,000	Hertz Holdings Netherlands 4.125% 15.10.21	276,795	0.51
638,000	HomeVi 6.875% 15.08.21	580,902	1.07
500,000	Iglo Foods BondCo FRN 15.06.20	431,107	0.79
465,000	INEOS Group Holdings 5.375% 01.08.24	399,688	0.74
280,000	International Game Technology 4.75% 15.02.23	260,161	0.48
230,000	International Personal Finance 4.25% 23.05.18	150,096	0.28
807,000	International Personal Finance 5.75% 07.04.21	547,597	1.01
390,000	InterXion Holding 6% 15.07.20	348,037	0.64
370,000	Intralot Capital Luxembourg 6% 15.05.21	313,076	0.58
293,000	Intralot Capital Luxembourg 6.75% 15.09.21	252,496	0.47
433,000	Kloekner Pentaplast of America 7.125% 01.11.20	388,217	0.72
610,000	LGE HoldCo VI 7.125% 15.05.24	590,804	1.09
577,000	Lincoln Finance 6.875% 15.04.21	534,187	0.98
330,000	Lion/Seneca France 2 7.875% 15.04.19	276,232	0.51
250,000	Marcolin 8.5% 15.11.19	222,350	0.41
490,000	Medi-Partenaires 7% 15.05.20	439,840	0.81
200,000	Nexans 3.25% 26.05.21	178,720	0.33
520,000	Novafives 4.5% 30.06.21	408,104	0.75
850,000	Numericable-SFR Group 5.625% 15.05.24	765,098	1.41
700,000	Oberthur Technologies Group 9.25% 30.04.20	623,470	1.15

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

PORTFOLIO STATEMENT

as at 31 December 2016

Holding or nominal value as at 31 Dec 16	Investment	Bid Value £	Percentage of total net assets %
<b>EURO (continued)</b>			
370,000	Obrascon Huarte Lain 4.75% 15.03.22	225,895	0.42
850,000	Obrascon Huarte Lain 5.5% 15.03.23	519,122	0.96
350,000	Onex Wizard Acquisition 7.75% 15.02.23	320,898	0.59
169,000	Paprec Holding 5.25% 01.04.22	152,638	0.28
111,000	Paprec Holding 7.375% 01.04.23	97,661	0.18
220,000	Picard Bondco 7.75% 01.02.20	196,047	0.36
140,000	Play Finance 1 6.5% 01.08.19	123,465	0.23
100,000	PortAventura Entertainment Barcelona F/R 01.12.19	85,664	0.16
610,000	PortAventura Entertainment Barcelona 7.25% 01.12.20	540,552	1.00
202,000	PrestigeBidCo 6.25% 15.12.23	177,615	0.33
800,000	Safari Holding Verwaltungs 8.25% 15.02.21	710,565	1.31
260,000	Sappi Papier Holding 3.375% 01.04.22	229,705	0.42
225,000	Selecta Group 6.5% 15.06.20	172,783	0.32
838,000	Senvion Holding 6.625% 15.11.20	750,887	1.38
174,000	SES 4.625% Perp	150,283	0.28
100,000	Snai 6.375% 07.11.21	89,152	0.16
300,000	Techem Energy Metering Service 7.875% 01.10.20	266,372	0.49
540,000	Telenet Finance VI Luxembourg 4.875% 15.07.27	479,986	0.88
215,000	THOM Europe 7.375% 15.07.19	193,433	0.36
259,000	Thomas Cook Group 6.25% 15.06.22	232,211	0.43
325,000	Trinseo Materials Operating 6.375% 01.05.22	296,261	0.55
650,000	United Group 7.875% 15.11.20	580,218	1.07
650,000	Unitymedia Hessen 4.625% 15.02.26	584,859	1.08
510,000	UPC Holding 6.75% 15.03.23	473,773	0.87
864,000	Valeant Pharmaceuticals International 4.5% 15.05.23	534,357	0.98
187,000	WEPA Hygieneprodukte 3.75% 15.05.24	165,977	0.31
1,343,000	Wind Acquisition Finance 7% 23.04.21	1,194,694	2.20
231,000	WMG Acquisition 4.125% 01.11.24	203,335	0.37
314,000	Worldpay Finance 3.75% 15.11.22	286,378	0.53
571,000	Ziggo Secured Finance 4.25% 15.01.27	485,880	0.90
1,080,000	Zinc Capital 8.875% 15.05.18	946,061	1.74
		<b>30,595,398</b>	<b>56.38</b>
<b>UNLISTED/UNQUOTED (0.03%, Dec 2015 - 0.14%)</b>			
132	Ceva Newco	16,147	0.03
353,137	Hellas Telecommunications Luxembourg III 8.5% 15.10.13	0	0.00
624,641	Sazka 9% 12.07.21	0	0.00
		<b>16,147</b>	<b>0.03</b>
<b>Portfolio of stock investments</b>		<b>53,040,119</b>	<b>97.71</b>
<b>Foreign Currency Hedges</b>			
EU 9,611,000	Sell Euro for Sterling - 11 January 2017	Citibank	(76,795) (0.14)
EU 9,611,000	Sell Euro for Sterling - 11 January 2017	Goldman Sachs	(77,468) (0.14)
EU 9,611,000	Sell Euro for Sterling - 11 January 2017	RBC	(84,148) (0.16)
EU 9,610,000	Sell Euro for Sterling - 11 January 2017	UBS	(83,851) (0.15)
EU 700,000	Buy Euro for Sterling - 11 January 2017	HSBC	5,757 0.01
<b>Net value of all derivative positions</b>		<b>(316,505)</b>	<b>(0.58)</b>
<b>Portfolio of investments and derivative positions</b>		<b>52,723,614</b>	<b>97.13</b>
<b>Net current assets (excluding derivative positions)</b>		<b>1,560,656</b>	<b>2.87</b>
<b>Net assets</b>		<b>54,284,270</b>	<b>100.00</b>

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

FINANCIAL STATEMENTS

For the year ended 31 December 2016

Statement of total return

	Notes	31 December 2016		31 December 2015	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		1,395,699		(136,370)
Revenue	6	3,322,787		3,325,175	
Expenses	7	<u>(552,366)</u>		<u>(590,793)</u>	
Net revenue/(expense) before taxation		2,770,421		2,734,382	
Taxation	8	<u>0</u>		<u>0</u>	
Net revenue/(expense) after taxation			<u>2,770,421</u>		<u>2,734,382</u>
Total return before distributions			4,166,120		2,598,012
Distributions	9		(3,026,752)		(3,009,860)
Change in net assets attributable to unitholders from investment activities			<u>1,139,368</u>		<u>(411,848)</u>

Statement of change in net assets attributable to unitholders

		31 December 2016		31 December 2015	
		£	£	£	£
Opening net assets attributable to unitholders			48,634,589		51,310,939
Amounts receivable on issue of units		9,596,910		4,752,690	
Amounts payable on cancellation of units		(5,085,458)		(7,014,575)	
Amounts payable on unit class conversions		<u>(1,139)</u>		<u>(2,617)</u>	
			4,510,313		(2,264,502)
Change in net assets attributable to unitholders from investment activities			1,139,368		(411,848)
Closing net assets attributable to unitholders			<u>54,284,270</u>		<u>48,634,589</u>

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

FINANCIAL STATEMENTS  
as at 31 December 2016

Balance Sheet

	Notes	31 December 2016	31 December 2015
		£	£
<b>Assets:</b>			
<b>Fixed Assets:</b>			
Investment assets	16	53,045,876	48,312,874
<b>Current Assets:</b>			
Debtors	10	990,512	927,501
Cash and bank balances	11	1,683,644	1,118,069
Total assets		<u>55,720,032</u>	<u>50,358,444</u>
<b>Liabilities:</b>			
Investment liabilities	16	322,262	807,429
<b>Creditors:</b>			
Bank overdrafts		23,906	10,874
Distribution payable		749,813	753,463
Other creditors	12	339,781	152,089
Total liabilities		<u>1,435,762</u>	<u>1,723,855</u>
<b>Net assets attributable to unitholders</b>		<u><u>54,284,270</u></u>	<u><u>48,634,589</u></u>



## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

##### 1 ACCOUNTING POLICIES

a Basis of preparation

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

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

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

b Going concern

The authorised fund manager has at the time of approving the financial statements, a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the financial statements.

c Revenue

Bank interest is accounted for on an accruals basis. Interest earned from debt securities is accounted for on an effective yield basis. Effective yield takes account of all expected cash flows from a bond over its lifetime.

d Expenses

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

Half of the manager's periodic charge is treated as a capital expense. This treatment may constrain capital growth.

e Taxation

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

Current tax

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

Deferred tax

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

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

f Valuation of investments

The investments of the Fund have been valued at their fair value at 12 noon on 29 December 2016. Fair value is normally the bid value of each security by reference to quoted prices from reputable sources; that is the market price. If the authorised fund manager believes that the quoted price is unreliable, or if no price exists, a valuation technique is used whereby fair value is the authorised fund manager's best estimate of a fair and reasonable value for that investment. The fair value excludes any element of accrued interest.

g Foreign exchange

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

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

##### ACCOUNTING POLICIES

###### h Cash and bank balances

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

###### i Financial assets

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

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

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

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

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

Derivatives, including forward foreign currency contracts, are not basic financial instruments. The accounting policy for derivatives is described in note k below.

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

###### j Financial liabilities

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

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

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

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

###### k Derivative financial instruments and hedging activities

The Fund uses derivatives only to hedge the exposure to foreign currency risk arising from the Fund's investment activities.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any resulting gain or loss is recognised as a capital gain or loss.

The fair values of financial assets and liabilities are the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

To estimate the fair values of forward foreign exchange contracts, the Fund uses exchange rates at the balance sheet date.

### FINANCIAL STATEMENTS

#### Notes to the financial statements

#### 2 DISTRIBUTION POLICIES

- a Basis of distribution  
The policy of the Fund is to distribute any net revenue shown as such in the statement of total return, after adding back half of the manager's periodic charge, which is treated as a capital expense.
- b Apportionment to multiple unit classes  
The authorised fund manager's periodic charge is directly attributable to individual unit classes. All other income and expenses are allocated to the unit classes pro-rata to the value of the net assets of the relevant unit class on the day that the income or expenses are recognised.
- c Stock dividends  
In the case of an ordinary stock dividend the whole amount is recognised as revenue. In the case of an enhanced stock dividend, the value of the enhancement, calculated as the amount by which the total market value of the shares on the date they are quoted ex-dividend exceeds the cash dividend is treated as capital. The balance is treated as revenue.
- d Equalisation  
Equalisation applies only to units purchased during the distribution period. It is the average amount of income included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to UK income tax but must be deducted from the cost of the units for UK capital gains tax purposes.

#### 3 RISK MANAGEMENT POLICIES

In pursuing its investment objective as stated on page 3, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities and derivatives in the form of forward foreign currency contracts held in accordance with the investment objectives and policies together with cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

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

##### **Market price risk**

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

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

##### **Foreign currency risk**

The income and capital value of the Fund's investments can be affected by foreign currency translation movements as some of the Fund's assets and income are denominated in currencies other than sterling which is the Fund's functional currency. It is however a part of the Fund's strategy to hedge a substantial part of its foreign currency exposure back to sterling.

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

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

##### Derivatives

A proportion of the Fund is invested in bonds denominated in currencies other than Sterling. The Fund has the option when it is considered appropriate to hedge this foreign currency exposure by entering into forward currency exchange contracts. This would reduce either the profits or losses which would otherwise arise on currency movements. In general the Fund does hedge a substantial part of its foreign currency exposure. The Fund may also use forward currency exchange contracts in pursuit of its investment objectives. This will have the effect of increasing or decreasing the profit or loss.

##### Credit and counterparty risk

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

The Fund invests in fixed interest bonds, which are generally viewed as lower-risk investments than equities. However the solvency of organisations with whom the fund invests cannot be guaranteed, and any difficulty may adversely affect the Fund's performance. Although bonds have a fixed coupon or interest payment, the Fund will be buying and selling bonds on a regular basis, and so the overall level of income will fluctuate.

Lower graded bonds may have a higher risk of the issuer failing to meet its income or capital repayments when due.

##### Interest rate risk

Interest rate risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in interest rates. The Fund invests in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of the manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

The Fund's cash holdings are held in deposit accounts, whose rates are determined by the banks concerned on a daily basis.

##### Liquidity risk

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

<b>4 NET CAPITAL GAINS/(LOSSES)</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
The net gains/(losses) on investments during the year comprise:		
Non-derivative securities	5,528,303	(1,854,300)
Gains/(losses) on forward foreign exchange contracts	(5,542,682)	3,661,058
Other currency gains/(losses)	1,418,781	(1,934,198)
Transaction charges	(8,703)	(8,930)
<b>Net capital gains/(losses)</b>	<u>1,395,699</u>	<u>(136,370)</u>
<b>5 PURCHASES, SALES AND TRANSACTION COSTS</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Purchases excluding transaction costs	29,810,307	24,744,469
Total purchase transaction costs	0	0
<b>Purchases including transaction costs</b>	<u>29,810,307</u>	<u>24,744,469</u>
	<b>£</b>	<b>£</b>
Sales excluding transaction costs	30,606,956	22,380,064
Total sale transaction costs	0	0
<b>Sales net of transaction costs</b>	<u>30,606,956</u>	<u>22,380,064</u>
<b>Transaction handling charges</b>	<u>8,703</u>	<u>8,930</u>
Average portfolio dealing spread at the balance sheet date	<u>0.99%</u>	<u>1.18%</u>

# MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

## FINANCIAL STATEMENTS

### Notes to the financial statements

<b>6 REVENUE</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Interest on debt securities	3,322,445	3,232,914
Interest capitalisation	0	91,757
Bank interest	342	504
<b>Total revenue</b>	<u><u>3,322,787</u></u>	<u><u>3,325,175</u></u>
<b>7 EXPENSES</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Payable to the authorised fund manager or associate:		
Manager's periodic charge	512,662	550,956
Registration fees	4,362	5,113
	<u>517,024</u>	<u>556,069</u>
Payable to the trustee or associate:		
Trustee's fees	18,278	18,140
Safe Custody fees	12,082	11,816
Interest	136	157
	<u>30,496</u>	<u>30,113</u>
Other expenses:		
Financial Conduct Authority fee	165	171
Audit fee	4,681	4,440
	<u>4,846</u>	<u>4,611</u>
<b>Total expenses</b>	<u><u>552,366</u></u>	<u><u>590,793</u></u>
<b>8 TAXATION</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
a Analysis of the tax charge for the year		
UK Corporation tax at 20%	0	0
<b>Total taxation</b>	<u><u>0</u></u>	<u><u>0</u></u>
b Factors affecting the tax charge for the year		
Net revenue before taxation	2,770,421	2,734,382
Corporation tax at 20%	554,084	546,876
Effects of:		
Interest distribution allowable for taxation	(605,350)	(601,972)
Managers periodic charge to capital	51,266	55,096
<b>Current tax charge</b>	<u><u>0</u></u>	<u><u>0</u></u>

At 31 December 2016 the Fund has deferred tax assets of £594,144 (31.12.15 - £542,878) arising from surplus management expenses, which have not been recognised due to uncertainty over the availability of future taxable profits.

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

<b>9 DISTRIBUTIONS</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:		
1st Interim	773,323	728,349
2nd Interim	751,773	771,755
3rd Interim	777,666	738,820
Final	749,814	753,463
Add: Revenue deducted on cancellation of units	34,017	41,868
Deduct: Revenue received on creation of units	(58,702)	(21,778)
Equalisation on conversions	(1,139)	(2,617)
<b>Distributions</b>	<u>3,026,752</u>	<u>3,009,860</u>
Net revenue after taxation	2,770,421	2,734,382
Add: Manager's periodic charge to capital	256,331	275,478
	<u>3,026,752</u>	<u>3,009,860</u>
Details of the distribution per unit are set out in the distribution table in note 17.		
<b>10 DEBTORS</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Amounts receivable for issue of units	27,096	65,134
Accrued income	963,416	862,367
<b>Total debtors</b>	<u>990,512</u>	<u>927,501</u>
<b>11 CASH AND BANK BALANCES</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Capital bank account	1,683,644	1,118,069
<b>Total cash and bank balances</b>	<u>1,683,644</u>	<u>1,118,069</u>
<b>12 OTHER CREDITORS</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Accrued expenses	54,932	51,975
Income tax payable	98,248	100,114
Other	186,601	0
<b>Total other creditors</b>	<u>339,781</u>	<u>152,089</u>
<b>13 RELATED PARTIES</b>		
The manager is involved in all transactions in the units of the Fund, the aggregate values of which are set out in the statement of change in net assets attributable to unitholders.		
Amounts paid to the manager in respect of the manager's periodic charge and registration fees are disclosed in note 7.		
The total amounts due to/(from) the manager at the year end were as follows:		
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>£</b>	<b>£</b>
Marlborough Fund Managers Ltd	21,638	(20,173)
In addition to the above, some units in the Fund are owned by directors of Marlborough Fund Managers Ltd as set out below:		
Proportion of units owned by directors of Marlborough Fund Managers Ltd:	0.30%	0.23%
Distributions were payable on the above holdings at the rates applicable to other unitholders.		

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

#### 14 UNITHOLDERS' FUNDS

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

During the year the authorised fund manager has issued, cancelled and converted units from one unit class to another as set out below:

	Class A	Class B	Class P
Opening units in issue at 1 January 2016	24,891,501	1,126,747	41,149,175
Unit issues	7,591,017	112,254	5,341,979
Unit cancellations	(1,222,589)	(916,224)	(4,865,010)
Unit conversions	(3,640,759)	(48,048)	3,644,431
Closing units in issue at 31 December 2016	<u>27,619,170</u>	<u>274,729</u>	<u>45,270,575</u>

#### 15 RISK DISCLOSURES

##### Market price risk sensitivity

A five per cent increase in the market prices of the Fund's portfolio would have the effect of increasing the return and net assets by £2,652,006 (31.12.15 - £2,415,608). A five per cent decrease would have an equal and opposite effect.

##### Foreign currency risk

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

Foreign currency exposure at 31 December 2016:

	Investments £	Net current assets £	Total £
Euro	(1,585,512)	1,857,911	272,399
	<u>(1,585,512)</u>	<u>1,857,911</u>	<u>272,399</u>

Foreign currency exposure at 31 December 2015:

	Investments £	Net current assets £	Total £
Euro	(26,587)	471,935	445,348
	<u>(26,587)</u>	<u>471,935</u>	<u>445,348</u>

##### Foreign currency risk sensitivity

A five per cent decrease in the value of sterling relative to the foreign currencies above would have the effect of increasing the return and net assets by £13,620 (31.12.15 - £22,267). A five per cent increase would have an equal and opposite effect.

##### Derivatives risk

The underlying exposure to forward currency exchange contracts at 31 December 2016 was a net unrealised loss of £316,505 (31.12.15 - £806,689).

## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

##### Interest rate risk

The interest rate risk profile of financial assets and liabilities consists of the following:

	31 December 2016	31 December 2015
	£	£
Financial assets with fixed interest rates:		
Sterling	22,121,165	17,878,301
Euro	29,838,895	27,241,760
	<u>51,960,060</u>	<u>45,120,061</u>
Financial assets with floating interest rates:		
Sterling	307,409	1,018,006
Euro	756,503	2,107,251
	<u>1,063,912</u>	<u>3,125,257</u>
Other financial assets:		
Euro	16,147	66,816
	<u>16,147</u>	<u>66,816</u>
	<u><u>53,040,119</u></u>	<u><u>48,312,134</u></u>

Weighted fixed interest rates (including zero coupon bonds):

	31 December 2016	31 December 2015
	%	%
Sterling	6.92	7.34
Euro	5.93	6.91

Weighted average period for financial assets with fixed interest rates:

	31 December 2016	31 December 2015
	years	years
Sterling	3.51	4.08
Euro	2.13	3.00

The portfolio may include bonds which have no fixed redemption date. In order to calculate the weighted average period for which the rate has been fixed, it has been assumed that these bonds will be held for at least as long as the longest dated bond held in the portfolio.

Where such bonds have a call date and the bond is pricing at above par value at the balance sheet date, the call date is used to calculate the weighted average period for bonds with fixed interest rates.

##### Debt security credit analysis

Portfolio split by investment grade (source: Bloomberg)

	31 December 2016	31 December 2015
	Bid value (£)	
Investments of investment grade	2,629,606	3,719,428
Investments below investment grade:		
BB+	7,432,363	3,687,501
BB	4,419,175	4,410,058
BB-	3,459,286	2,538,694
B+	8,327,948	10,513,568
B	14,052,243	13,425,140
B-	4,745,534	3,395,155
CCC+	4,764,070	2,649,129
CCC	1,387,462	477,221
CCC-	716,288	1,339,025
Unrated	1,106,144	2,157,215
<b>Portfolio of stock investments</b>	<u><u>53,040,119</u></u>	<u><u>48,312,134</u></u>



## MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

### FINANCIAL STATEMENTS

#### Notes to the financial statements

##### Liquidity risk

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

		31 December 2016	31 December 2015
		£	£
Within one year:			
Derivatives	Investment liabilities	322,262	807,429
Non-derivatives	Bank overdrafts	23,906	10,874
	Distribution payable	749,813	753,463
	Other creditors	339,781	152,089
		<u>1,435,762</u>	<u>1,723,855</u>

#### 16 FAIR VALUE HIERARCHY FOR INVESTMENTS

Fair value hierarchy as at 31 December 2016

Valuation technique	31 December 2016		31 December 2015	
	Assets (£)	Liabilities (£)	Assets (£)	Liabilities (£)
Level 1	0	0	0	0
Level 2	53,029,729	322,262	48,246,058	807,429
Level 3	16,147	0	66,816	0
	<u>53,045,876</u>	<u>322,262</u>	<u>48,312,874</u>	<u>807,429</u>

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

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

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

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

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

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

Hellas Telecom and Sazka 9% are considered to be valueless by the fund manager. Ceva Newco is being valued by the fund manager based on best available company information received.

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

FINANCIAL STATEMENTS

Notes to the financial statements

17 DISTRIBUTION TABLE

For the period from 1 January 2016 to 31 March 2016

Group 1: units purchased prior to 1 January 2016

Group 2: units purchased on or after 1 January 2016

	Gross revenue 31 March 2016 pence per unit	Income tax 31 March 2016 pence per unit	Net revenue 31 March 2016 pence per unit	Equalisation 31 March 2016 pence per unit	Distribution paid 31 May 2016 pence per unit	Distribution paid 31 May 2015 pence per unit
<b>Class A</b>						
Group 1	1.098302p	0.219660p	0.878642p	0.000000p	0.878642p	0.816853p
Group 2	0.365726p	0.073145p	0.292581p	0.586061p	0.878642p	0.816853p
<b>Class B</b>						
Group 1	1.162244p	0.232449p	0.929795p	0.000000p	0.929795p	0.912768p
Group 2	0.688001p	0.137600p	0.550401p	0.379394p	0.929795p	0.912768p
<b>Class P</b>						
Group 1	1.197435p	0.239487p	0.957948p	0.000000p	0.957948p	0.894842p
Group 2	0.405185p	0.081037p	0.324148p	0.633800p	0.957948p	0.894842p

For the period from 1 April 2016 to 30 June 2016

Group 1: units purchased prior to 1 April 2016

Group 2: units purchased on or after 1 April 2016

	Gross revenue 30 June 2016 pence per unit	Income tax 30 June 2016 pence per unit	Net revenue 30 June 2016 pence per unit	Equalisation 30 June 2016 pence per unit	Distribution payable 31 Aug 2016 pence per unit	Distribution paid 31 Aug 2015 pence per unit
<b>Class A</b>						
Group 1	1.079324p	0.215865p	0.863459p	0.000000p	0.863459p	0.888672p
Group 2	0.533348p	0.106670p	0.426678p	0.436781p	0.863459p	0.888672p
<b>Class B</b>						
Group 1	1.115405p	0.223081p	0.892324p	0.000000p	0.892324p	0.946177p
Group 2	0.681198p	0.136240p	0.544958p	0.347366p	0.892324p	0.946177p
<b>Class P</b>						
Group 1	1.131182p	0.226236p	0.904946p	0.000000p	0.904946p	0.969933p
Group 2	0.566880p	0.113376p	0.453504p	0.451442p	0.904946p	0.969933p

For the period from 1 July 2016 to 30 September 2016

Group 1: units purchased prior to 1 July 2016

Group 2: units purchased on or after 1 July 2016

	Gross revenue 30 Sep 2016 pence per unit	Income tax 30 Sep 2016 pence per unit	Net revenue 30 Sep 2016 pence per unit	Equalisation 30 Sep 2016 pence per unit	Distribution paid 30 Nov 2016 pence per unit	Distribution paid 30 Nov 2015 pence per unit
<b>Class A</b>						
Group 1	1.048757p	0.209751p	0.839006p	0.000000p	0.839006p	0.849448p
Group 2	0.618306p	0.123661p	0.494645p	0.344361p	0.839006p	0.849448p
<b>Class B</b>						
Group 1	1.408328p	0.281666p	1.126662p	0.000000p	1.126662p	0.920795p
Group 2	1.010940p	0.202188p	0.808752p	0.317910p	1.126662p	0.920795p
<b>Class P</b>						
Group 1	1.140459p	0.228092p	0.912367p	0.000000p	0.912367p	0.931952p
Group 2	0.509404p	0.101881p	0.407523p	0.504844p	0.912367p	0.931952p

MARLBOROUGH HIGH YIELD FIXED INTEREST FUND

FINANCIAL STATEMENTS

Notes to the financial statements

DISTRIBUTION TABLE

For the period from 1 October 2016 to 31 December 2016

Group 1: units purchased prior to 1 October 2016

Group 2: units purchased on or after 1 October 2016

	Gross revenue 31 Dec 2016 pence per unit	Income tax 31 Dec 2016 pence per unit	Net revenue 31 Dec 2016 pence per unit	Equalisation 31 Dec 2016 pence per unit	Distribution payable 28 Feb 2017 pence per unit	Distribution paid 29 Feb 2016 pence per unit
<b>Class A</b>						
Group 1	0.977328p	0.195466p	0.781862p	0.000000p	0.781862p	0.851886p
Group 2	0.496645p	0.099329p	0.397316p	0.384546p	0.781862p	0.851886p
<b>Class B</b>						
Group 1	1.053224p	0.210645p	0.842579p	0.000000p	0.842579p	0.907658p
Group 2	0.866478p	0.173296p	0.693182p	0.149397p	0.842579p	0.907658p
<b>Class P</b>						
Group 1	1.065009p	0.213002p	0.852007p	0.000000p	0.852007p	0.931176p
Group 2	0.498895p	0.099779p	0.399116p	0.452891p	0.852007p	0.931176p

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

Investor Support: (0808) 145 2500 (FREEPHONE)  
Dealing: (0808) 145 2501 (FREEPHONE)  
Fax: (01204) 533 045  
Email: [investorsupport@marlboroughfunds.com](mailto:investorsupport@marlboroughfunds.com)  
Website: [www.marlboroughfunds.com](http://www.marlboroughfunds.com)

Marlborough Fund Managers Ltd  
Registered in England No. 2061177  
Authorised and regulated by the Financial Conduct Authority and a  
member of The Investment Association.