



# **Electric & General Investment Fund**

Interim Report

Authorised Corporate Director's Short Report  
for the six months ended 31 December 2015



## **Introduction**

The Electric & General Investment Fund (the 'Company'/the 'Fund') is a UK authorised open-ended investment company (OEIC). The Company is a UCITS Scheme which complies with the Financial Conduct Authority's (FCA) Collective Investment Schemes sourcebook (COLL), including the investment and borrowing powers in Chapter 5.

The Company benefits from a board of Independent Directors whose duties include the oversight of key elements of the Company's operation.

## **Investment objective and policy**

The investment objective of the Company is to seek to achieve long-term capital growth with some potential for income.

The investment policy for achieving the objective is to invest principally in a portfolio of global equities, and may also invest in other transferable securities, bonds, collective investment schemes, money market instruments, warrants, deposits, derivatives and forward transactions for purposes of efficient portfolio management (including hedging).

## **Investor profile**

The Company may be marketed to all types of investor being both retail and institutional investors. However, a typical investor in the Company will understand and appreciate the risks associated with investing in shares in the Company and/or will have received advice from an appropriately qualified financial adviser. The Company is appropriate for investors who might need to access their capital in the medium to long term (5 years plus). Investors should also bear in mind the relevant risk factors which are set out on page 9.

## **Investment manager**

The investment manager to the Fund is Troy Asset Management Limited.

## **Distribution**

All shareholders own income shares, which entitle them to a share in any distribution made by the Company. Normal distribution dates are 31 August and the last day of February for income accrued as at 30 June and 31 December respectively. The net distribution for the current period is shown overleaf.

Future distributions may fluctuate depending on the mix of assets over any specific reporting period.

## **Statement of Recommended Practice (SORP) May 2014**

This is the first year that the Financial statements have been prepared in accordance with the Investment Association SORP May 2014. Key changes include the requirement to show a reconciliation of the change in net assets per share and disclose the performance return after charges (page 2).

# ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

<b>Fund information</b>	<b>Six months ended 31 December 2015</b>	<b>Year ended 30 June 2015</b>	<b>Year ended 30 June 2014</b>
<b>Change in net asset value per income share*</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Opening net asset value per share</b>	<b>138.12</b>	<b>139.37</b>	<b>121.58</b>
Return before operating charges <sup>†</sup>	12.83	2.40	22.30
Operating charges <sup>1</sup>	(0.83)	(1.02)	(1.83)
<b>Return after operating charges<sup>†</sup></b>	<b>12.00</b>	<b>1.38</b>	<b>20.47</b>
Distributions on income shares			
Interim	(1.00)	(0.50)	(0.59)
Final		(2.13)	(2.09)
<b>Closing net asset value per share</b>	<b>149.12</b>	<b>138.12</b>	<b>139.37</b>
<sup>†</sup> After direct transaction charges of	0.14	0.15	0.14

\* based on bid price

## Performance

Return after operating charges	8.7%	1.0%	16.8%
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## Other information

Closing net asset value (NAV)	£89,589,583	£84,983,521	£100,918,944
Closing number of shares	60,077,549	61,528,931	72,409,750
Operating charges - comprising:			
ACD fee	0.04%	0.04%	0.04%
Other expenses <sup>2</sup>	1.09%	0.71%	0.66%
Operating charges total <sup>3</sup>	1.13%	0.75%	0.70%
Direct transaction costs <sup>4</sup>	0.10%	0.09%	0.10%

## Prices

Highest	151.50	149.50	145.30
Lowest	131.80	126.80	121.20

1. Operating charges include indirect costs incurred in the maintenance and running of the Fund, as disclosed (but not limited to) within the expenses in the Statement of Total Return. The figures used within this table have been calculated against the average NAV for the accounting period.
2. Other expenses include fees payable to the directors, depositary, investment manager, administrator and auditors, printing and publication costs, registration fees, regulatory fees, directors and officers liability insurance, directors employers NIC and safe custody, transaction and other related bank charges.
3. The other expenses have increased due to the new investment management charge of 0.75% payable to Troy Asset Management Limited from 1 July 2015, however a performance fee is no longer payable on the Fund.
4. Direct transaction costs include fees, commissions, transfer taxes and duties in the purchasing and selling of investments, which are offset (where applicable) against any dilution levies charged within the accounting period. The figures used within the table have been calculated against the average NAV for the accounting period.

Past performance is no guarantee of future returns. The value of investments may fall as well as rise and investors may not receive the amount originally invested.

<b>Performance as at 31 December 2015</b>	<b>1 year</b>	<b>3 years</b>	<b>Since launch</b>
Total return basis (net income reinvested)+	14.0%	41.1%	63.9%
Benchmark Index++	3.7%	38.0%	56.8%

+ Source: Bloomberg

++ MSCI World Index / MSCI World Net GBP Index from 1 July 2015

## Financial market review

The Electric and General Investment Fund returned 8.6% on a total return basis in the first half of the year under review (July to December 2015) which compares to the benchmark MSCI World Index NR (£) return of 3.1%. *\* Please note that the benchmark comparator has changed to the MSCI World Net GBP Index which is a total return index taking account of dividends reinvested and adjusting for withholding taxes.*

Troy Asset Management was appointed to manage the Electric and General Investment Fund on 1 July 2015. Our approach to achieving capital growth over the long term without taking excessive risks is to invest in exceptional companies with high returns on their invested capital, sustained by durable competitive advantages and strong balance sheets and run by sensible managers. We aim to buy when their shares are quoted at a price that underestimates the value of future cash flows.

Following Troy's appointment there has been a significant number of changes to the Fund. It now holds investments in 36 companies down from 75 at the end of June. The ten largest holdings represent 40.8% of the Fund's assets. The Fund is 52% invested in the United States, 23% in the United Kingdom, 17% in Europe ex the UK and 5% in Asia including Japan. In terms of currency exposure, 53.9% of the Fund is in US dollar, 26.4% in Sterling, 12.8% in Swiss franc, 4% in Euros and 3% in Japanese yen. The portfolio is constructed on a bottom up basis, underpinned by Troy's strong investment framework committed to protecting capital. Our flexibility to invest across the globe ensures that the portfolio is diversified across different geographies, industries and currencies. Although careful attention is paid to diversification and the risk associated with over-concentration, the portfolio is not managed with reference to sector or stock weightings of an index. The portfolio's weightings by country, sector or industry are a natural by-product of an investment process that prioritises fundamental stock analysis.

Although our investments are listed in developed economies, they are companies that have operations around the world. The portfolio is orientated to a select number of industries where we tend to discover companies with the sustainable cash flow characteristics that we seek. However, these industries are broadly based and so the companies are spread across product categories that exhibit differing growth and competitive dynamics. For example, within consumer staples we have investments in companies that make alcoholic beverages, tobacco, food, shampoo and toothpaste. In healthcare, we have investments in prescription and generic drugs, eye care, syringes and electronic medical devices.

We estimate, with the help of Bloomberg, that the weighted average price to earnings ratio of the Fund is now 18.5x, the free cash flow yield is 6.6% and the average return on equity is 40.8%. This compares to a price to earnings ratio for the Fund at the end of May of 33.4x and a free cash flow yield of less than 1% and reflects the shift in the Fund towards more consistently profitable and cash generative companies. As a consequence of owning companies with much lower levels of debt the average financial leverage of the Fund, as measured by net debt to EBITDA, has come down to 1.3x, from our estimate of 4x in May.\*

We have tried to manage the restructuring of the Fund without negatively impacting the potential income generation and we expect the companies the Fund is invested in to grow their dividends consistently over time. The Fund has declared an interim net dividend of 1.0007p per share payable on the 29 February 2016.

Returns over the six months were broad-based with particular highlights including Microsoft, Altria, Heineken, Sage, Procter & Gamble and Fiserv, all of which returned more than +15% in the six months. Regionally, stock selection in the US was a positive feature and returns were helped by the relative strength of the US dollar. The Fund's holdings in the consumer staples and technology sectors performed particularly well. Detractors included the small legacy holdings in BP, HSBC and ING and the Fund's investments in the financial sector were uninspiring. In addition, the holding in the specialist software company Aveva was disappointing as the reverse takeover agreed with Schneider Electric fell through.

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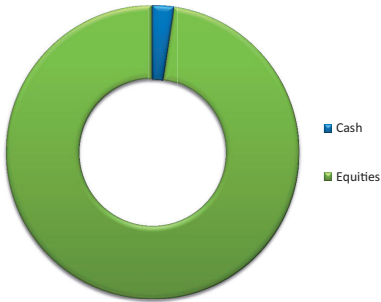
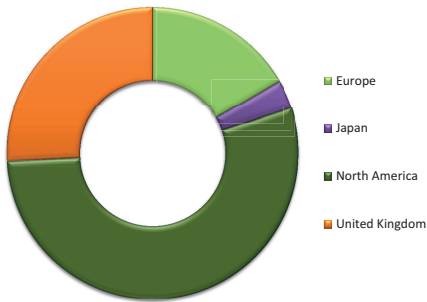
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## Outlook

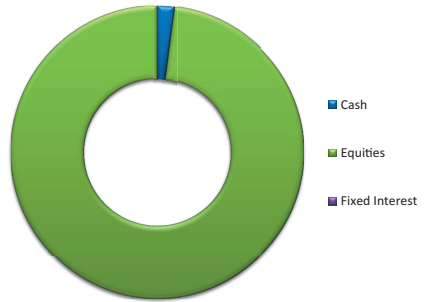
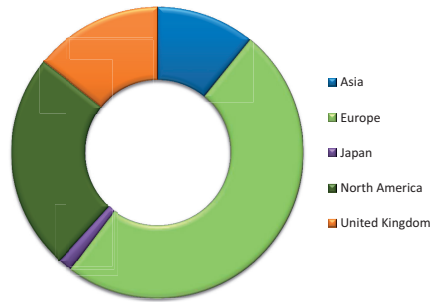
As we enter 2016 financial markets are in nervous mood. At the time of writing global equity markets have sold off more than 8%, the oil price has collapsed below \$30, high yield bond spreads have expanded to their highest levels in four years and numerous economic indicators are pointing towards a global economic slowdown. The Chinese economy appears to be slowing down at a precipitous rate, giving rise to material deflationary forces for the rest of the world. The potential for some serious dislocation in financial markets or a 'credit event' in 2016 has increased materially. Meanwhile, digitalisation is dramatically changing the economics and rules of engagement in numerous industries thereby creating substantial opportunities and a great number of disruptions and threats. We do not pretend to know how this will all unfold and instead focus our efforts on understanding the companies. In such an uncertain economic world the Electric and General Investment Fund is prepared for renewed adversity in the short term whilst maintaining its objective of providing long-term capital growth. It does this through the ownership of a collection of special companies that, by virtue of their cash generative business models, strong balance sheets and able management teams, have demonstrated over many decades their capacity to survive bad times and thrive when the going is good.

*Troy Asset Management Limited*  
22 January 2016

*\*Source: Bloomberg*

**31 December 2015**
**Asset Allocation**

**Geographical Allocation**

**Currency Exposure**

Currency	GBP
Australian dollar	-
Canadian dollar	-
Euro	3,831,026
Hong Kong dollar	-
Indian rupee	-
Japanese yen	2,812,906
Norwegian krone	-
Sterling	22,569,269
Swedish krona	-
Swiss franc	11,592,264
United States dollar	48,784,118
<b>Net asset value</b>	<b>89,589,583</b>

**30 June 2015**
**Asset Allocation**

**Geographical Allocation**

**Currency Exposure**

Currency	GBP
Australian dollar	1,962,796
Canadian dollar	1,048,617
Euro	37,673,457
Hong Kong dollar	2,319,876
Indian rupee	1,951,714
Japanese yen	5,151,365
Norwegian krone	3,047,837
Sterling	6,744,454
Swedish krona	654,905
Swiss franc	3,164,354
United States dollar	21,264,146
<b>Net asset value</b>	<b>84,983,521</b>

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## Major holdings

The top ten holdings at the end of each reporting period are shown below:

	<b>% of net assets as at 31 December 2015</b>		<b>% of net assets as at 30 June 2015</b>
Microsoft	5.67	TAG Immobilien	4.01
Altria Group	4.72	ING Groep	3.20
Roche Holding	4.40	Golar LNG	2.87
Philip Morris International	4.33	Royal Bank of Scotland Group	2.50
British American Tobacco	4.08	Mondelez International 'A'	2.44
Novartis	4.01	Sky	2.37
Wells Fargo & Co	3.81	Intuit	2.32
Nestlé	3.62	BNP Paribas	2.31
Becton Dickinson & Company	3.27	Bharti Airtel	2.30
Coca-Cola	3.25	Sumitomo Mitsui Financial Group	2.25



## Major purchases and sales

The top ten largest purchases and sales for the reporting period ended 31 December 2015:

<b>Purchases</b>	<b>Cost £'000</b>	<b>Sales</b>	<b>Proceeds £'000</b>
Novartis	3,891	TAG Immobilien	3,464
Microsoft	3,865	Golar LNG	2,367
Roche Holding	3,793	Royal Bank of Scotland Group	2,198
British American Tobacco	3,411	Bharti Airtel	2,037
Philip Morris International	3,392	BNP Paribas	2,012
Wells Fargo & Co	3,382	Sumitomo Mitsui Financial Group	1,940
Altria Group	3,376	Vivendi	1,816
eBay	3,011	Eurazeo	1,667
American Express Company	2,928	HeidelbergCement	1,597
Becton Dickinson & Company	2,563	UniCredit	1,582

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AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
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## General information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Company during the period it covers and the result of those activities at the end of the period.

The following are available online at [www.yealand.com](http://www.yealand.com) or at the registered office of the ACD:

- Historical
  - Price
  - Yield
  - Distribution
- Annual Key Investor Information Document (KIID)
- Full Report and Accounts

The daily price is published in the Financial Times under the Funds page and online at <http://electricandgeneral.com>. The Company Prospectus is available free of charge on request from the ACD.

For more information about the activities and performance of the Company during the period, please contact the ACD at the address as noted on page 10, or online at <http://electricandgeneral.com>.

## Investment manager's fee

The investment manager, Troy Asset Management Limited, receives for its own account a periodic fee of 0.75% per annum.

## Distribution Dates

The Company makes its interim and final distribution on the last business day of February and 31 August respectively.

## Buying and selling shares

The minimum initial investment in Net Income 'A' Shares which any one person can purchase, and the minimum holding in Net Income 'A' Shares, is £1,000. The ACD at its discretion can waive these requirements.

Shares may be purchased or sold by telephoning 0845 850 0255 (calls cost 5 pence a minute plus your phone company's access charge) or writing to: Carvetian Capital Management Limited, Stuart House, St John's Street, Peterborough, PE1 5DD. For your protection calls are recorded. The time for telephone deals is 09:00 – 17:00 every business day. Settlement is due within three business days or, in the case of sales, receipt by the ACD of a signed and completed form of renunciation if later.

The Company is priced daily at 10:00am on Monday to Friday.

The ACD may waive the minimum purchase threshold at its discretion.

### Risk and reward rating

The risk and reward indicator as published in the 2016 KIID is illustrated below:



### More about this rating

This indicator is based on historical data and may not be a reliable indication of the future risk profile of the Fund. The risk category shown is not a target or a guarantee and may change over time.

### Why this Fund is in category 5

The share class is ranked in risk category 5 as its price has experienced above average rises and falls historically (2015: category 6).

### Risk profile

The following are important warnings:

- Investors should appreciate that there are risks normally associated with investment in stocks and shares.
- Stock market prices may be volatile and be unpredictably affected by many diverse factors, including political and economic events but also rumours and sentiment. An investment in the Fund should be regarded as a long-term investment. There can be no assurance that the objectives of the Fund will be achieved.
- The capital value and the income from shares in the Fund can fluctuate and the price of shares and the income from them can go down as well as up and are not guaranteed. On encashment, particularly in the short term, investors may receive less than the original amount invested. Any initial charge made by the ACD is deducted from an investment at the outset and consequently an equivalent rise in the value of the shares is required before the original investment can be recovered.
- Defensive investment in cash and money market instruments, at times when relevant stock market indices are rising, may constrain the growth of capital invested in the Fund.
- Investments may be made in assets denominated in currencies other than Sterling and the movement in exchange rates may have a separate effect, unfavourable as well as favourable, on the gains and losses otherwise experienced on such investments.
- Investments may be made in securities with floating or fixed rate interest rates, where changes in the prevailing rates or changes in expectation of future rates may result in a change in the value of the securities and the income received therefrom.
- Past performance is not necessarily a guide to future growth or rates of return.
- Exemptions, thresholds and rates of tax may change in future tax years.
- Currently, two thirds of the Investment Manager's periodic fee is charged to capital. This treatment of charges may increase the amount of income available for distribution, but may constrain capital growth.

## Key parties

### Authorised Corporate Director (the ACD)

Carvetian Capital Management Limited

Registered Office:

Stuart House

St. John's Street

Peterborough

PE1 5DD

Tel: 0845 850 0255\*

Fax: 01733 286833

e-mail: [carvetian@yealand.com](mailto:carvetian@yealand.com)

*(Authorised and regulated by the  
Financial Conduct Authority)*

### Independent Directors of

#### Electric & General Investment Fund

G P Aherne (Chairman)

J D W Pocock

C M Vaughan

### Depository

National Westminster Bank Plc

Registered and Head Office:

135 Bishopsgate

London

EC2M 3UR

*(Authorised by the Prudential  
Regulation Authority and regulated  
by the Financial Conduct Authority  
and Prudential Regulation Authority)*

### Auditor

Shipleys LLP

10 Orange Street

Haymarket

London

WC2H 7DQ

### Fund administration, dealing and registration

Yealand Administration Limited

Stuart House

St. John's Street

Peterborough

PE1 5DD

Tel: 0845 850 0255\*

Fax: 01733 286833

email: [carvetian@yealand.com](mailto:carvetian@yealand.com)

Website: [www.yealand.com](http://www.yealand.com)

### Investment Manager

Troy Asset Management Limited

33 Davies Street

London

W1K 4BP

*(Authorised and regulated by the  
Financial Conduct Authority)*

*\*Calls cost 5 pence per minute plus your phone  
company's access charge.*









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