



# **Electric & General Investment Fund**

Annual Report

Authorised Corporate Director's Short Report  
for the year ended 30 June 2017

## **Introduction**

The Electric & General Investment Fund (the 'Company'/the 'Fund') is an investment company with variable capital (ICVC). 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.

## **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).

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

## **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 the last day in February and 31 August for income accrued as at 31 December and 30 June respectively.

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

## **Change of Independent Director**

From 1 August 2017, Nicholas Rundle has been appointed as an Independent Director for the Electric & General Investment Fund. He replaces Clemmie Vaughan who ceased to be an Independent Director on 30 June 2017.

# ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
FOR THE YEAR ENDED 30 JUNE 2017

## Fund information

<b>Change in net asset value per income share</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
<i>All prices quoted are based on bid price</i>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Opening net asset value per share</b>	<b>169.15</b>	<b>138.12</b>	<b>139.37</b>
Return before operating charges <sup>†</sup>	27.41	35.67	2.40
Operating charges	(2.03)	(1.63)	(1.02)
<b>Return after operating charges<sup>†</sup></b>	<b>25.38</b>	<b>34.04</b>	<b>1.38</b>
Distributions on income shares			
Interim	(1.06)	(1.00)	(0.50)
Final	(1.89)	(2.01)	(2.13)
<b>Total distributions on income shares</b>	<b>(2.95)</b>	<b>(3.01)</b>	<b>(2.63)</b>
<b>Closing net asset value per share</b>	<b>191.58</b>	<b>169.15</b>	<b>138.12</b>
<sup>†</sup> after direct transaction charges of	0.05	0.15	0.15

## Performance

Return after operating charges	15.0%	24.6%	1.0%
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## Other information

Closing net asset value (NAV)	£103,628,316	£98,756,749	£84,983,521
Closing number of shares	54,091,074	58,385,413	61,528,931
Operating charges	1.12%	1.12%	0.75%
Direct transaction charges	0.03%	0.10%	0.09%

## Prices (p)

Highest	201.40	171.20	149.50
Lowest	166.50	131.80	126.80

## Portfolio review

The Electric and General Investment Fund produced a total return in the 12 months to the end of June 2017 of +15.0% which compares to the MSCI World Index NR (£) return of +21.6%\*.

The Fund lagged a very strong equity market over the twelve months driven particularly by weaker relative returns in the final calendar quarter of 2016, as cyclical sectors rallied sharply following Donald Trump's election as US President. In the subsequent six months to the end of June 2017 the Fund returned +9.7% which compares favourably to the MSCI World Index NR (£) return of +5.3%\*.

The biggest contributors to performance over the 12 months included holdings in the Technology sector; Microsoft, PayPal and eBay. Stock selection in Financials was also good with American Express, ING Groep and Wells Fargo all delivering positive returns. Detractors to performance included the Fund's holdings in Japan Tobacco and Mondelēz as both share prices fell modestly over the period. Holdings in Consumer Staples and Healthcare generally lagged the broader market in the latter months of 2016. In contrast, thus far in 2017, companies such as Unilever, Heineken and Philip Morris International have been amongst the best performing investments in the Fund.

As discussed in the 2017 Interim Report, Alphabet was bought in the Fund in the second half of 2016 and the holdings in American Express, eBay and Medtronic were increased. Smaller, non-core holdings in Rathbones, Syngenta, AVEVA, BP and Sky Plc have all been sold.

## Dividend

The investment objective of the Fund is to seek to achieve long-term capital growth with some potential for income. The Fund will pay a dividend of 2.945pps for the year ending 30 June 2017, which is slightly below the level of 2016 (3.007pps). Three factors have contributed to the lack of growth in the value of the dividend for this period. Firstly, the weaker performance of the US dollar against sterling in the first six months of 2017 negatively impacted the conversion of some of the Fund's largest dividend payments (from US companies such as Altria, Philip Morris and Microsoft) into sterling. Secondly, the bid by Twenty-First Century Fox for Sky Plc in the UK has resulted in the decision by Sky to omit its dividend which was due for payment in March 2017. Finally, the Fund owns some companies that don't yet pay a dividend (Alphabet, eBay, PayPal and Fiserv) and we are keen to retain the flexibility to invest in growing businesses that are earlier in their development than some of our more mature companies (such as tobacco manufacturers, for example). With this in mind, we will not be 'reaching for yield' by investing in more capital intensive or cyclical companies that offer higher dividends. Instead we aim to invest in what we consider to be fundamentally robust businesses with healthy cash flows and sound balance sheets that are growing over the long term and where the management teams are responsible allocators of capital. We are confident that these companies are best placed to grow their capital and income for shareholders over time.

## Outlook

Technological disruption is one of the defining trends of the day. As equity investors who aim to invest in strong and sustainable companies, we are constantly having to reappraise how our established businesses are handling the digitalisation of commerce. Amazon's decision to move aggressively into food distribution by buying the upmarket US supermarket chain Whole Foods potentially threatens branded consumer goods companies as well as their distributors.

We are committed to investing in exceptional companies, those with high levels of capital efficiency, robust balance sheets and sensible management teams. We will only own them at valuations that we believe offer investors the prospect of reasonable future returns. Yet the circular thread that connects the quality of earnings and their valuation is clearest as traditional business models are uprooted. Valuations can only be supported by enduring competitive advantages that protect earnings through all the turmoil that lies ahead.

# ELECTRIC & GENERAL INVESTMENT FUND

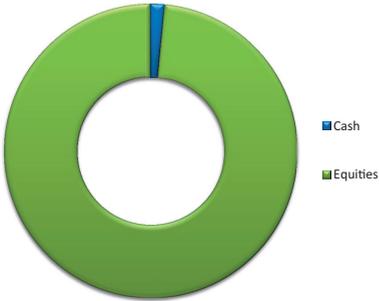
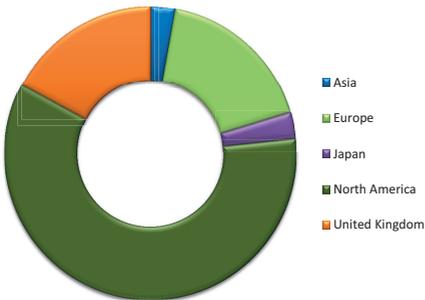
AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
FOR THE YEAR ENDED 30 JUNE 2017

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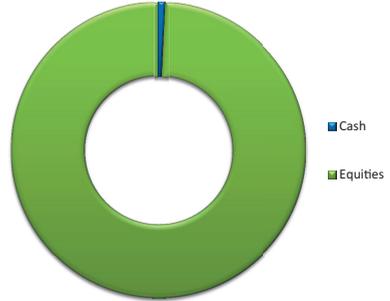
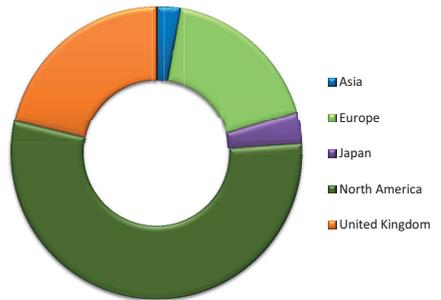
The Electric & General Investment Fund aims to navigate these ongoing challenges by owning some of those at the vanguard of change (Alphabet, PayPal, eBay and Microsoft, for example) as well as those older businesses with the assets to adapt and survive (e.g. Colgate, Philip Morris, Medtronic and Novartis). Just as important, we aim to avoid companies and industries, such as traditional media, retailers and distributors, whose businesses we believe stand to be profoundly dis-intermediated and disrupted.

*Troy Asset Management Limited*  
21 July 2017

*\*Source: Lipper, 30 June 2017*

**30 June 2017**
**Asset Allocation**

**Geographical Allocation**

**Currency Exposure**

Currency	GBP
Euro	3,759,345
Japanese yen	3,013,102
Sterling	19,284,113
Swiss franc	12,747,104
United States dollar	64,824,652
<b>Net asset value</b>	<b>103,628,316</b>

**30 June 2016**
**Asset Allocation**

**Geographical Allocation**

**Currency Exposure**

Currency	GBP
Euro	3,194,468
Japanese yen	3,342,775
Sterling	22,542,080
Swiss franc	13,072,191
United States dollar	56,605,235
<b>Net asset value</b>	<b>98,756,749</b>

# ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
FOR THE YEAR ENDED 30 JUNE 2017

## Major holdings

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

	<b>% of net assets as at 30 June 2017</b>		<b>% of net assets as at 30 June 2016</b>
Microsoft	5.47	Altria Group	5.63
Philip Morris International	5.36	Microsoft	5.27
British American Tobacco	4.51	Philip Morris International	5.05
Nestlé	4.13	British American Tobacco	4.76
Altria Group	4.06	Novartis	4.30
Novartis	4.06	Roche Holding	4.20
American Express Company	3.99	Nestlé	3.76
Roche Holding	3.96	Johnson & Johnson	3.70
Unilever	3.93	Unilever	3.55
Johnson & Johnson	3.92	Coca-Cola	3.46

### Major purchases and sales

The total purchases and top ten sales for the reporting period:

<b>Purchases</b>	<b>Cost £'000</b>	<b>Sales</b>	<b>Proceeds £'000</b>
Alphabet 'A'	2,491	Altria Group	1,790
eBay	665	Sky	1,344
Medtronic	349	Microsoft	1,337
American Express Company	345	Mondelez International 'A'	1,205
		The Sage Group	1,165
		BP	1,162
		Syngenta	1,031
		Rathbone Brothers	925
		Aveva Group	859
		Intuit	474

# ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT  
FOR THE YEAR ENDED 30 JUNE 2017

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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 rates
- 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.

## Authorised Corporate Director's fee

The annual fee due to the Authorised Corporate Director is 0.04% per annum.

## 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.

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 latest KIID is illustrated below:



Lower potential  
risk/reward  
(not risk-free)

Higher potential  
risk/reward

### 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 (2016: category 5).

### 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)

*Registered in England Number 6923395*

*(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 (up to 30 June 2017)

### 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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