



Electric & General Investment Fund

Annual Report

Authorised Corporate Director's Short Report
for the year ended 30 June 2018

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, units and/or shares in collective investment schemes, warrants, money market instruments, cash, near cash and deposits. There is no limit to which the Company can be invested in each sector or asset type, nor is there any particular geographic focus. The Company may borrow and may enter into underwriting arrangements. It is the ACD's intention that derivatives and forward currency transactions will only be used for the purposes of efficient portfolio management, including hedging, as defined by the Regulations.

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

Target market

Electric & General Investment Fund may be suitable for all eligible investors (be they retail clients, professional clients or eligible counterparties, each as defined in glossary to the UK Financial Conduct Authorities Handbook of Rules and Guidance) who are seeking long-term capital growth with some potential for income by investing principally in a portfolio of global equities, provided they can meet any minimum age and minimum investment amounts. Financial experience is not considered a necessity. However, investors must at least understand a product where capital is at risk and have the capacity to bear losses (possibly total) on their original investment, accepting risk to their capital. The Fund may be suitable as a component of a portfolio and for investors who are looking to set aside their capital for the long term (at least five years), though shares may be redeemed on a daily basis.

The risk and reward profile for the Fund is set out in the Key Investor Information Document(s) for the Fund. Any investor should be willing to accept price fluctuations.

Electric & General Investment Fund is unlikely to be compatible with the requirements of an investor:

- investors looking for guaranteed income or return;
- seeking full capital protection;
- who does not have sufficient resources to bear any loss resulting from the investment;
- who is not able to evaluate the risks and merits of the Fund; and/or
- with a short-term (less than five years) investment horizon.

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.

ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Fund Information

Change in net asset value per income share

All prices quoted are based on bid price

	Year ended 30 June 2018 p	Year ended 30 June 2017 p	Year ended 30 June 2016 p
Opening net asset value per share	191.58	169.15	138.12
Return before operating charges [†]	3.39	27.41	35.67
Operating charges	(2.13)	(2.03)	(1.63)
Return after operating charges[†]	1.26	25.38	34.04
Distributions on income shares			
Interim	(1.01)	(1.06)	(1.00)
Final	(1.44)	(1.89)	(2.01)
Total distributions on income shares	(2.45)	(2.95)	(3.01)
Closing net asset value per share	190.39	191.58	169.15
[†] after direct transaction charges of	0.03	0.05	0.15

Performance

Return after operating charges	0.6%	15.0%	24.6%
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Other information

Closing net asset value (NAV)	£92,729,789	£103,628,316	£98,756,749
Closing number of shares	48,704,745	54,091,074	58,385,413
Operating charges	1.12%	1.12%	1.12%
Direct transaction charges	0.01%	0.03%	0.10%

Prices (p)

Highest	198.10	201.40	171.20
Lowest	174.10	166.50	131.80

Investment manager's report

Portfolio Review

The Electric and General Investment Fund produced a total return in the 12 months to the end of June 2018 of +0.6% which compares to the MSCI World Index NR (£) return of +9.3%.¹

Global equity markets were generally characterised by optimism about the prospects for economic growth, expressed by leadership from economically sensitive stocks and sectors. Energy, Materials, Consumer Discretionary and IT all produced double-digit returns for their investors during the period. With the exception of the IT sector, the Fund does not tend to invest in these sectors because they are typically cyclical, capital intensive and lowly profitable. By contrast, the traditionally more economically resilient sectors such as Consumer Staples and Healthcare, where the Fund has a large proportion of its assets, underperformed the market. Rising U.S. interest rates and bond yields created a more negative backdrop for companies with high dividend pay-out ratios. Despite this, contributions to return for the Fund and the MSCI World Index were led by the U.S.

The biggest contributors to the Fund's performance over the last 12 months included holdings in the IT sector; Microsoft, PayPal and Intuit. Becton, Dickinson & Company and Experian also made solid gains. Detractors to performance came from the Fund's Tobacco holdings and Swiss Pharmaceutical stocks, all participating in the broader market trends described above. Despite this, both sectors continued to make large contributions to the Fund's income.²

Dividend

The Fund will pay a total dividend of 2.45p per share for the year ending 30 June 2018, which is below the level of 2017 (2.95p per share). Since taking over management of the Fund, Troy has sought to strike a balance between income and capital return. This has become increasingly difficult as yields decline and dividends fall out of fashion among the leading companies in the world. Companies such as Alphabet, eBay and PayPal pay no dividends whatsoever and yet they have been a major source of positive total return for the Fund in the last 12 to 18 months. Our focus on owning the best quality businesses in the world has therefore led to some sacrifice of income in the short term. The strength of sterling against the US dollar and Swiss franc, especially in the second half of the Fund's financial year, has also created a notable headwind for the Fund's income account. Sterling's recent reversal against these currencies has the potential to have the opposite effect in the coming year.

Portfolio Activity

Two companies were added to the portfolio in the last 12 months and three were sold.

A holding in Visa was added. The company is the largest payments network in the world operating, in effect, a global duopoly with rival Mastercard. Payments are complex and highly regulated and payments networks play an essential role in connecting billions of consumers with thousands of banks and millions of merchants. Visa's position is entrenched by a globally recognised and trusted brand, efficient economies of scale in processing and security, and close relationships with card issuing banks; a combination that helps produce operating margins of over 60%, the highest of any company in the Fund. Moreover, Visa is growing strongly, despite being founded back in the 1950s. Revenue growth of over 10% is driven by the accelerated conversion of cash and cheques to digital payments as retail shifts online. Global e-commerce is growing at approximately five times the rate of bricks and mortar retailing and Visa is twice as likely to be the funding method online

¹ Source: Lipper - total return net of fees 30 June 2018.

² Source: Factset, 30 June 2018.

ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018

as it is offline. With e-commerce accounting for just over 10% of global retail sales, this trend can support Visa's growth for a long time to come, even if digital payments becomes more competitive. Visa's shares were acquired at 26x earnings. The company has minimal amounts of debt.

The Fund has initiated a holding in L'Oréal, the world's largest beauty company. L'Oréal is one of the more exceptional companies in our investment universe and encapsulates many of the attributes we seek in our investments. Founded in 1909, with a long-term shareholder in the Bettencourt-Meyers family, L'Oréal is a global company devoted purely to beauty categories (cosmetics, skin care and hair care). The company combines the attributes of scale with a nimble and entrepreneurial organisation that has diversity across regions, brands and product areas. Revenues have grown by between 3% and 5% over the past 20 years and future growth is underpinned by strong product innovation and increased consumer spending in developing countries. Growth is also sustained by a consistent approach to investment. L'Oréal spends 3% of sales every year on R&D, ahead of its peers by some way, and the company is the biggest advertiser in the world. It also regularly acquires small and upcoming brands that it can take internationally. E-commerce represents 8% of revenues, increasing +34% in 2017, and sales are growing in emerging markets at double-digit rates. Operating margins are 17%, and expanding, and returns on equity and capital are in the high teens. L'Oréal's shares, like its premium products, do not come at a bargain price, but adjusting for net cash and the 9% stake in French pharmaceutical company Sanofi, the shares trade at a small premium to global peers.

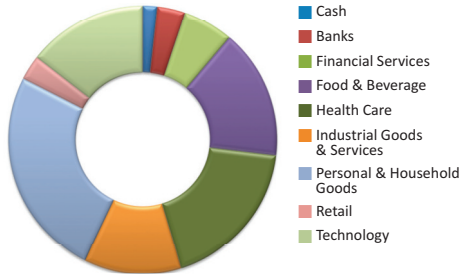
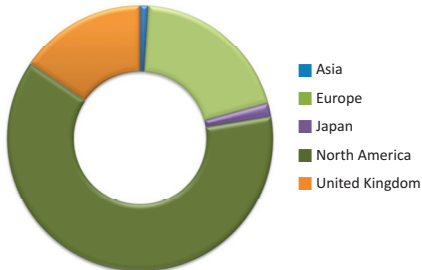
Mondelēz and ING Groep were sold from the Fund. Both companies were legacy holdings inherited when Troy took over managing the Fund in July 2015. They were sold as better uses for capital emerged. The holding in Sky was also removed whilst there remained doubts about whether or not Twenty-First Century Fox would be permitted to acquire the rest of the company and the regular dividend was suspended.

As markets move higher and many parts of the global economy feel the force of technological disruption it is increasingly important to commit capital to companies where we have the greatest confidence about their future. We have reduced holdings in Sage, Jardine Matheson, Japan Tobacco, Johnson & Johnson, Procter & Gamble, Nestlé and PepsiCo. Profits were taken in Microsoft, which remains the Fund's largest holding. Core holdings in Alphabet, Experian, Novartis, Roche and Medtronic were increased.

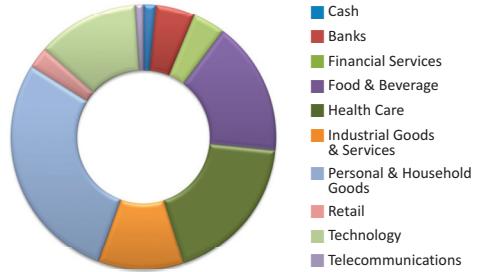
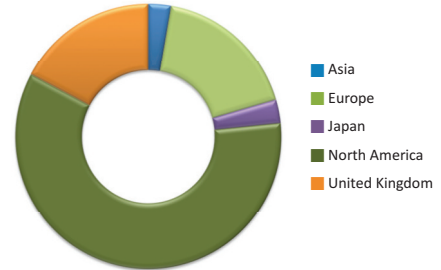
Outlook

Generally strong equity markets show that investors are largely undeterred by a trio of risks - historically high asset prices, tightening U.S. monetary policy and the rising threat of trade wars. Corporate earnings are strong, boosted this year by the impact of U.S. tax cuts. We don't take a strong view on all of this one way or the other. Instead we aim to overcome any uncertainties by owning a tight-knit collection of world-class businesses. The valuation of their shares will fluctuate over time but ultimately it is corporate cash flows that will drive returns for shareholders. We are encouraged by the operating performance of the Fund's companies and take comfort from the fact that they do essential things for their customers whilst generating very high cash flow returns on their internal investments.

Troy Asset Management Limited
17 July 2018

30 June 2018
Sector Allocation

Geographical Allocation

Currency Exposure

Currency	GBP
Euro	3,893,333
Japanese yen	1,512,348
Sterling	17,269,044
Swiss franc	11,298,524
United States dollar	58,756,540
Net asset value	92,729,789

30 June 2017
Sector 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
Net asset value	103,628,316

ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Major holdings

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

	% of net assets as at 30 June 2018		% of net assets as at 30 June 2017
Microsoft	6.07	Microsoft	5.47
American Express Company	4.90	Philip Morris International	5.36
Unilever	4.43	British American Tobacco	4.51
PayPal Holdings	4.28	Nestlé	4.13
Roche Holding	4.27	Altria Group	4.06
Alphabet 'A'	4.12	Novartis	4.06
Philip Morris International	4.06	American Express Company	3.99
Novartis	4.05	Roche Holding	3.96
Becton Dickinson & Company	3.99	Unilever	3.93
Medtronic	3.95	Johnson & Johnson	3.92

Major purchases and sales

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

Purchases	Cost £'000	Sales	Proceeds £'000
Visa 'A'	986	Microsoft	2,054
L'Oréal	962	Johnson & Johnson	1,789
Roche Holding	481	Jardine Matheson Holdings	1,681
Experian	421	Mondelez International 'A'	1,371
Medtronic	338	The Sage Group	1,265
Alphabet 'A'	303	Sky	1,041
Novartis	296	ING Groep	969
		Japan Tobacco	792
		PayPal Holdings	767
		Wells Fargo & Co	706

ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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 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:



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 (2017: 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.

ELECTRIC & GENERAL INVESTMENT FUND

AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018

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

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
N Rundle (from 1 August 2017)

Fund administration, dealing and registration

Yealand Administration Limited
Stuart House
St. John's Street
Peterborough
PE1 5DD
Tel: 0845 850 0255*
Fax: 01733 286833
e-mail: carvetian@yealand.com
Website: www.yealand.com

Investment manager

Troy Asset Management Limited
33 Davies Street
London
W1K 4BP
*(Authorised and regulated by the
Financial Conduct Authority)*

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

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

ELECTRIC & GENERAL INVESTMENT FUND



AUTHORISED CORPORATE DIRECTOR'S SHORT REPORT
FOR THE YEAR ENDED 30 JUNE 2018



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