CAPITA

Barmac Asset Management

# The Castleton Growth Fund

## ACD's Interim Unaudited Short Report

### for the half year ended 31 December 2014

### Investment Objective and Policy

The Castleton Growth Fund ('the Fund') aims to achieve positive returns by combining capital growth with the generation of some income.

The Fund will invest in, but is not restricted to, UK and overseas transferable securities, investment trusts, exchange traded funds and units in collective investment schemes. At any one time the portfolio may be concentrated in any one or a combination of such assets as permitted by the COLL Sourcebook. The Fund may at any one time hold a substantial proportion of its assets in cash, near cash or money market instruments, and in exceptional circumstances, up to 100% of the scheme property of this Fund may be invested in this way. Accordingly, investors should be aware that the Fund might not under such circumstances participate fully in a rise in market values of the asset classes the Fund would otherwise invest in.

Subject to the investment objective and policy of the Fund as set out above, the asset classes in which the Fund is permitted to invest includes transferable securities, units in collective investment schemes, money market instruments, government and public securities, cash and near cash, warrants and deposits as permitted for UCITS schemes and in accordance with the Fund's investment powers as summarised in the Prospectus. The Fund may also invest in derivative instruments and forward transactions for the purpose of hedging.

LIBOR 12 Month + 1% per annum is the performance benchmark against which the Fund is measured.

### Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

### Accounting and Distribution Dates

| | Accounting | Distribution |
|---|---:|---:|
| Interim | 31 December | – |
| Final | 30 June | 31 August |

## Ongoing Charges Figure

| Expense Type | 31.12.14 % Retail | 31.12.14 % Retail 2 | 30.06.14 % Retail | 30.06.14 % Retail 2 |
|---|---|---|---|---|
| ACD's periodic charge | 1.75 | 1.10 | 1.75 | 1.10 |
| Other expenses | 1.75 | 1.75 | 1.43 | 1.43 |
| | 3.50 | 2.85 | 3.18 | 2.53 |
| Collective investment scheme costs | 0.62 | 0.62 | 0.62 | 0.62 |
| Ongoing charges figure | 4.12 | 3.47 | 3.80 | 3.15 |

In addition to the above, a performance fee is applied to all share classes. The performance fee is calculated at 20% of any outperformance of the benchmark of LIBOR GBP 12 Month + 1% over a 12 month period. The performance fee charged was nil. The performance fee in the prior year was £71,715. From July 2013 there was a change to the calculation of the performance fee to reflect the inclusion of a high watermark.

## Synthetic Risk and Reward Indicator

**Typically lower rewards** ← → **Typically higher rewards**

**Lower risk** ← → **Higher risk**

| 1 | 2 | 3 | **4** | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

## Distributions

Surplus income is allocated annually to shareholders in accordance with the Prospectus.



## Performance Record

*Retail Income shares*

| Calendar Year | Highest Price P | Lowest Price P | Distribution per share P |
|---|---|---|---|
| 2009 | 111.09 | 102.31 | 0.8999 |
| 2010 | 110.29 | 102.22 | – |
| 2011 | 104.60 | 88.00 | – |
| 2012 | 96.16 | 86.27 | – |
| 2013 | 111.28 | 96.41 | – |
| 2014 | 113.80 | 104.46 | – |

*Retail Accumulation shares*

| Calendar Year | Highest Price P | Lowest Price P | Distribution per share P |
|---|---|---|---|
| 2009# | 111.12 | 102.31 | 0.6279 |
| 2010 | 110.22 | 101.89 | – |
| 2011 | 104.25 | 87.68 | – |
| 2012 | 95.69 | 85.96 | – |
| 2013 | 110.57 | 95.94 | – |
| 2014 | 112.90 | 104.05 | – |

*Retail Income 2 shares*

| Calendar Year | Highest Price P | Lowest Price P | Distribution per share P |
|---|---|---|---|
| 2009# | 110.51 | 102.24 | 0.8291 |
| 2010 | 109.98 | 102.16 | – |
| 2011 | 104.60 | 88.55 | – |
| 2012 | 97.07 | 87.16 | – |
| 2013 | 113.37 | 97.33 | – |
| 2014 | 116.04 | 105.72 | – |

## Performance Record *(continued)*

*Retail Accumulation 2 shares*

| Calendar Year | Highest Price P | Lowest Price P | Distribution per share P |
|---|---|---|---|
| 2009# | 111.34 | 102.20 | 0.8756 |
| 2010 | 110.64 | 102.70 | – |
| 2011 | 105.13 | 89.00 | – |
| 2012 | 98.07 | 87.61 | – |
| 2013 | 114.55 | 98.33 | – |
| 2014 | 117.28 | 107.05 | – |

# From 2 January 2009.

## Net Asset Value

| Date | Share Class | Net Asset Value £ | Shares in Issue | Net Asset Value pence per share |
|---|---|---|---|---|
| 30.06.12 | Retail Income | 9,066,275 | 10,428,709 | 86.94 |
| | Retail Accumulation | 1,426,108 | 1,646,430 | 86.62 |
| | Retail Income 2 | 24,447 | 27,834 | 87.83 |
| | Retail Accumulation 2 | 946,899 | 1,072,455 | 88.29 |
| 30.06.13 | Retail Income | 5,725,785 | 5,523,174 | 103.67 |
| | Retail Accumulation | 1,113,280 | 1,079,137 | 103.16 |
| | Retail Income 2 | 28,825 | 27,454 | 104.99 |
| | Retail Accumulation 2 | 437,408 | 412,407 | 106.06 |
| 30.06.14 | Retail Income | 3,396,348 | 3,100,936 | 109.53 |
| | Retail Accumulation | 642,459 | 588,880 | 109.10 |
| | Retail Income 2 | 1,209,561 | 1,093,268 | 110.64 |
| | Retail Accumulation 2 | 1,140,623 | 1,018,158 | 112.03 |
| 31.12.14 | Retail Income | 2,932,891 | 2,721,342 | 107.77 |
| | Retail Accumulation | 507,070 | 472,340 | 107.35 |
| | Retail Income 2 | 1,042,807 | 954,752 | 109.22 |
| | Retail Accumulation 2 | 811,680 | 733,909 | 110.60 |



## Fund Performance to 31 December 2014 (%)

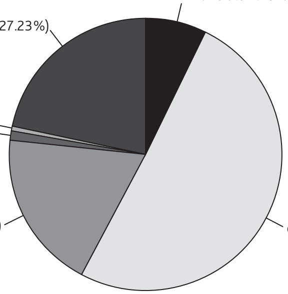
| | 6 months | 1 year | 3 years | 5 years |
|---|---|---|---|---|
| The Castleton Growth Fund | (1.55) | (3.04) | 21.65 | (0.21) |
| LIBOR 12 Month + 1% | 1.02 | 1.98 | 6.94 | 11.90 |

The performance of the Fund is based on the published price per Retail Income share with income reinvested.

## Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

## Sector Spread of Investments




The figures in brackets show allocations at 30 June 2014.

## Major Holdings

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

| Holding | % of Fund as at 31.12.14 | Holding | % of Fund as at 30.06.14 |
|---|---|---|---|
| PFS TwentyFour Dynamic Bond | 12.34 | PFS TwentyFour Dynamic Bond | 10.24 |
| Premier Defensive Growth | 11.71 | Premier Defensive Growth | 9.57 |
| iShares FTSE 250 UCITS ETF | 9.39 | Unicorn UK Growth | 6.10 |
| db x-trackers FTSE 250 UCITS ETF | 9.37 | S&W Revera UK Dynamic | 6.04 |
| PFS TwentyFour Monument Bond | 4.94 | Neptune UK Mid Cap | 4.72 |
| Royal London Sterling Extra Yield Bond | 4.06 | PFS TwentyFour Monument Bond | 4.07 |
| Henderson UK Absolute Return | 3.98 | iShares FTSE 250 UCITS ETF | 3.59 |
| S&W Revera UK Dynamic | 3.70 | Royal London Sterling Extra Yield Bond | 3.36 |
| TwentyFour Select Monthly Income | 3.65 | TwentyFour Select Monthly Income | 3.27 |
| Unicorn UK Growth | 3.51 | Henderson UK Absolute Return | 3.19 |



# ACD'S REPORT

for the half year ended 31 December 2014

## Important Information

With effect from 14 July 2014, the address of the Fund's head office; the ACD's principal place of business; and the office where the documents of the Fund may be inspected changed to 40 Dukes Place, London EC3A 7NH.

With effect from 1 November 2014, the manner in which the registration fee has been charged has been amended from a per shareholder basis to a charge equal to 0.03% of the net asset value of the Fund. The revised charge is subject to a minimum of £1,500 per annum and a maximum of £100,000 per annum. In addition £9.50 per shareholder transaction, subject to a minimum annual charge of £3,500, is also payable by the Fund.

**Capita Financial Managers Limited**
*ACD of The Castleton Growth Fund*
20 February 2015

# INVESTMENT MANAGER'S REPORT

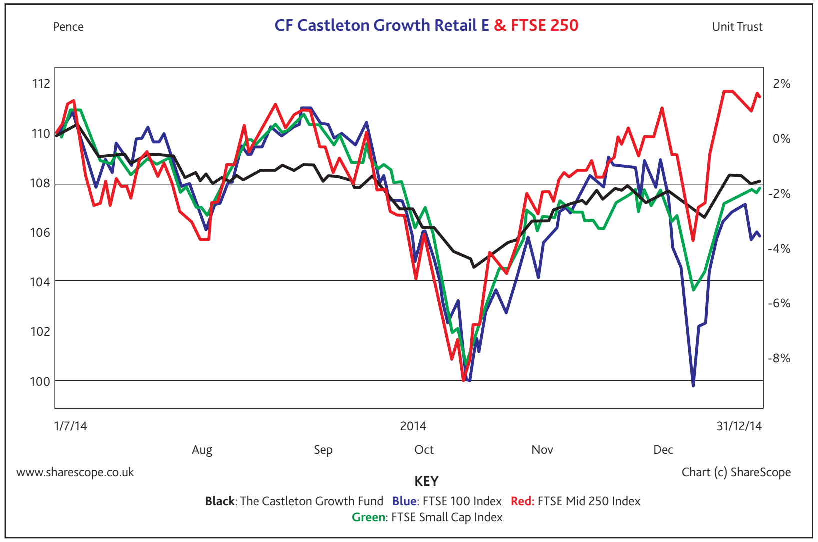
for the half year ended 31 December 2014

## Investment Review

During this period the Fund's share price (Retail Income share class) fell from 109.60 to 107.90, a decrease of 1.55%. Over the same period the FTSE 100 Index fell from 6,743.94 to 6,566.09, a decrease of 2.64%, the FTSE Mid 250 Index rose from 15,723.56 to 16,085.44, an increase of 2.3% and the FTSE Small Cap Index fell from 4,442.46 to 4,365.92, a decrease of 1.72%.

Indeed many equity markets were hit particularly hard particularly those that had been performing strongly in the first half of the year. The figures outlined above do not convey how difficult this period was from an investment point of view especially in light of heightened market volatility.

The performance of the Fund during the period 1 July 2014 to 31 December 2014 is illustrated by the chart below.




## Fund's Performance

The Fund in recent months had been more volatile than we would have liked but this is entirely due to the effects of global geo-political tensions. The FTSE Mid 250 and FTSE Small Cap Indices have under performed and it is in these sectors where the Fund has been positioned.

The fundamental problem we were faced with during this period is that the FTSE Mid 250 Index peaked in February 2014 and since then has declined over the rest of the year. Our equity exposure is largely based on the FTSE Mid 250 and FTSE Small Cap Indices and as these indices peaked, they were for the rest of the year out performed by their larger cap counterparts, which clearly put us at a disadvantage. Put simply we were managing the Fund in the second half of the year in the middle of a period of prolonged market weakness. The chart on the following page amply illustrates the point.




This chart is based on daily data for the FTSE Mid 250 Index. The green line indicates the 200-day moving average.

In July, we started to position the Fund more defensively as our Barmac Indicator weakened. We raised our cash levels and hedged some of our equity positions by selling futures in order to try to alleviate matters, and this course of action reduced our equity holding to around 40%. We had used options to hedge positions when markets displayed weakness with the result that they had made a positive contribution, in absolute terms, to the Fund's performance and at the same time reduced volatility.

In August, we reduced our hedge, as the Barmac Indicator was moving back to buy because there were signs that markets were making solid progress, with the main indices moving back into positive territory. Given the nature of the previous market declines, the Fund remained defensively positioned and we took the tentative steps to unwind a small proportion of our positions in our FTSE Mid 250 based holdings and our Investment Trusts. We were unsure if the previous sell off was merely a summer sell-off or something more significant. This resulted in a small loss to the Fund compared to our benchmark. This is entirely because our equity positioning is generally more aggressive than that of our peer group and thus, when markets sell off we will be hit harder until the Barmac Indicator initiates a sell signal, when we revert to predominately cash. Thus although we have underperformed our peers, in this type of market action this is only to be expected and is in line with our investment methodology.

The market woes in the last week of August continued into September and volatility in the markets was noticeable yet again. For a while now we have, like many investors, felt a sense of unease over the length and duration of the upward moves in most developed equity markets without there being a significant correction. The Barmac Indicator generated a further daily sell on the FTSE Small Cap and therefore we remained cautious in our approach to our equity exposures. We took the view that this pointed to further market weakness, but we held off making any changes to our positions in the Fund until we got a full-blown weekly sell.

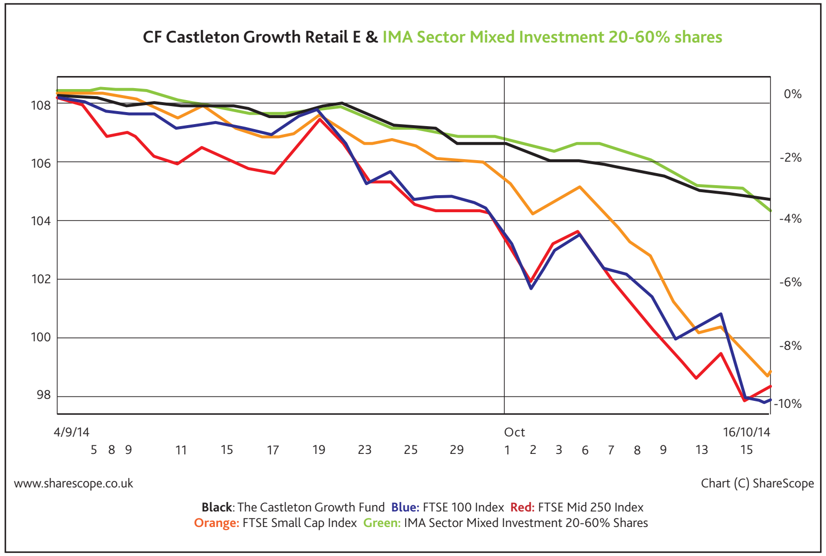
## Fund's Performance *(continued)*

The Fund performed creditably against a broad based onslaught of the UK based markets but like all other funds, we were shaken by market volatility. Clearly, in the light of the above points we believed it sensible to cull our more exposed investments until the market conditions appeared to be more favourable. As mentioned previously as a safeguard, we had reduced our equity holdings to around 40% of the Fund with the remainder of the Fund in cash (High Street bank deposits) with other minor holdings, which we hedged to cash through call options.

Between 4 September and 16 October, the decline of the three FTSE Indices (FTSE 100 Index, FTSE Mid 250 Index, and FTSE Small Cap Index) was the most dramatic market declines of the year. For example, the range on the FTSE 100 Index fell over 682 points, down by 9.92%, and this coupled with the declines on the FTSE Mid 250 Index, down by 9.81%, and FTSE Small Cap Index, down by 9.06%. This type of market performance was not merely confined to the UK, as overseas markets also struggled. These were difficult markets and it just shows just how markets can rise and fall in the blink of an eye.

Once again, the Fund largely sidestepped these further falls and given the Fund (Retail Income), only declined by 3.44% during this very difficult period is testament to our risk management process and from this our investors can take heart.

The performance of the Fund during the period 4 September to 16 October 2014 when there was significant market weakness' and is illustrated by the chart below.




The Fund performed in line over this period with our sector: IMA Sector Mixed Investment 20-60% Shares.

At the beginning of the October, the Fund sold several of our OEICs and unit trusts as the Barmac Indicator had issued a further weekly sell signal. We concluded that for the time being we should reduce our equity holdings as we took the view that this pointed to further market weakness. We raised our cash levels and we hedged some of our equity positions by selling FTSE 100 calls in order to try to alleviate matters. This course of action reduced our equity holding to around 35%. The reason for our course of action was twofold:

Firstly, the Barmac Indicator was still firmly in sell. We cannot move to a predominately-invested position whilst the Indicator is in sell and the minimum equity content we must hold is 20%, as prescribed by the Fund's investment management sector. Secondly, we have been here before as October has a reputation as a time of turbulence for the global markets. Some of the dramatic declines in financial history, from the Great Crash of 1927, to Black Monday in 1987 and the start of the US bear market in 2007.

Our stance has always been to hold onto our positions wherever possible and look for opportunities going forward. Our methodology is quite simple; we will stand aside until we think we know exactly where the market is heading. We will remain mainly in cash or near cash until there are positive signs that the market falls are over and the Indicator moves to 'buy'.

Given the ongoing market volatility and uncertainty, we continued to maintain our cash positions in November, and we bought a small number FTSE 100 December Futures, providing us a centre to manage price risks within the portfolio. There were many positives to the Fund's performance over the month, especially after the pull back during the last couple of months.

Indeed, after falls throughout the second half of the year the traditional Santa Rally was eagerly anticipated. Instead, the second week of December was the start of turmoil in the equity markets as the plunge in the price of oil, the persistent geopolitical headlines and poor economic data prompted global stock markets equities to go on a free fall.

Indeed the FTSE 100 Index fell to its lowest level in nearly 18 months as investors took fright and the Index fell 560 points (nigh over 8%) from 6,742 to its low of 6,182. This precarious uncertainty was mirrored around the world's stock markets. We were very satisfied with the performance of the Fund as it sheltered investors from the worst of the downturn that we saw. We remained cautious given the recent volatility experienced in the markets since September.

The collapse of oil prices has been one of the more dramatic turns of events of the year and into 2015 Global monetary policies will continue to be watched very closely over the next few months. We realise the year ahead will throw up fresh challenges. We have invested cautiously when markets have been weaker but we remain ready to act aggressively as and when the markets turn.

The Barmac Indicator did generally keep us on the right side of the market but it has to be said that we were overly cautious for the reasons outlined earlier. Our aim in times like this is, as usual, to keep our investors 'in the game' when the going gets tough in order to take advantage of the rallies as and when they come. During this period, we believe we met this objective.

In summary, the Fund struggled during the reporting period because the FTSE Mid 250 Index in particular was in decline, having topped in February of the year. The Fund did struggle as a result in comparison to its peer group but once the market fell heavily in the last 3 months of the year, then the performance of the Fund improved against its sector.

## The Next Six Months

There are reasons to be both pessimistic and optimistic. On the optimistic side, the US market remains strong, the falling oil price should eventually be a bonus for industry by helping to reduce production costs, and there may be a change in the European Central Bank's stance on Quantitative Easing as deflationary pressures increase in Europe.

Turning to the pessimistic side there are a number of geo-political events that could de-stabilise markets. In Europe, we have a number of elections where anti-EU parties are expected to do well which could cause unforeseen damage to the European Project. In the US, interest rates may be raised too soon and Quantitative Easing may be curtailed to some extent thereby reducing liquidity on the markets. There are also problems with the viability of shale oil in the light of the declining oil price and worse still the strengthening US dollar may hit US exports. We still have the ongoing difficulties in the Ukraine and Syria the consequences of which are nigh on impossible to predict. In China, there are fears about excess liquidity in the system. Emerging Market debt is also a worry because of the amount of borrowing in US dollars when US dollars were comparatively cheap. This story has now well and truly turned and the consequences have yet to be played out.

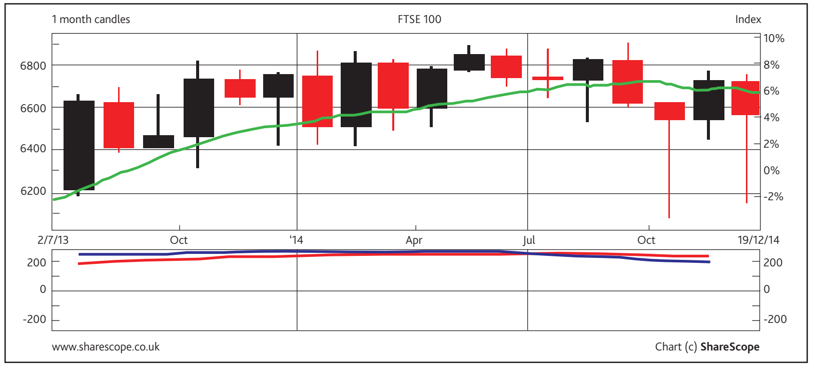
Apart from this financial analysis there is a technical reason as to why we should treat the next six months with some caution. The chart below illustrates the point we are about to make.


This chart is based on monthly data for the FTSE 100 Index. The green line indicates the 200-day moving average.

The lower window shows the MACD technical indicator. To explain how this indicator works, where the blue line is over the red line then the market is bullish and where the red line is over the blue line then it is bearish. The point about the indicator based on monthly data is that it is not a great timing tool. However, generally after a period it is proved right even though after initially pointing the market in a certain direction it can confound the analysis by promptly heading off in the other direction. The point is this indicator has called every major market correction and where the correction called for is to the downside, then this is usually a major correction, often well in excess of 10%. At the moment the monthly indicator is bearish.

This of course does beg the question how we propose to navigate the markets in the period ahead. As outlined before we use our weekly Barmac Indicator to decide whether to invest or not. Our research has led us to the conclusion that although the monthly indicator is not accurate as a timing tool, it does outline whether the overall pressure on the market is to the upside or the downside. When this is coupled with our Barmac Indicator, it has shown that when we have a weekly sell in place and the monthly is in sell, the declines are far more dramatic.

The chart below shows the dilemma we are faced with.




This chart is based on monthly data for the FTSE 100 Index. The green line indicates the 200-day moving average. The lower window shows a technical indicator. As we explained in the previous FTSE 100 Index chart, where the blue line is over the red line then the market is bullish and where the red line is over the blue line then it is bearish.

The first thing to note is that it was not until August that the monthly indicator started to issue a 'sell' signal. If the previous chart is then examined it is clear that the monthly indicator normally takes a significant period before any move it is signalling takes place. However, it is clear that because it is bearish, volatility will be very much in evidence as demonstrated by the sell-offs in October and December. Accordingly what we will try to do based on this technical evidence is to be far more cautious when the weekly Barmac Indicator is in sell but when it is in buy we will try to be as aggressive as possible because it is often when the market is experiencing prolonged periods of weakness that the strongest bull rallies take place, albeit they may be of a shorter nature.

### The Next Six Months *(continued)*

The outlook ahead is more uncertain than usual and we believe markets will be driven largely by political and news driven events. It is highly likely that the Fund will outperform in its sector if there is a move to the upside and if there is a prolonged period of equity market weakness, then the Fund should insulate our investors to a degree to this. It is early stages and this has been a difficult year but there are signs of the Fund returning to outperforming in its sector.

*Note: FTSE 100 Index, FTSE 250 Index and FTSE Small Cap Index data supplied by the London Stock Exchange. All other charts are labelled with source of data. The benchmarks above are used by the Investment Manager for comparison purposes, the actual benchmark of the Fund is the LIBOR 12 Month +1% per the Prospectus.*

**Andrew Bartles**
**Chief Executive Officer**
**Barmac Asset Management Ltd**
*Investment Manager*
9 February 2015



### Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm London time and transactions will be affected at prices determined by the following valuation. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 608 1451.

### Reports and Accounts

This document is a short report of The Castleton Growth Fund for the half year ended 31 December 2014. The full Report and Accounts for the Fund is available free of charge upon written request to Capita Financial Managers Limited, 40 Dukes Place, London EC3A 7NH and can be found on our website, www.capitafinancial.com, by following the link 'Fund Information'.

### Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the half year it covers and the results of those activities at the end of the half year.

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