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City Financial Strategic Gilt Fund

July 2010

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AIM OF THE FUND

The City Financial Strategic Gilt Fund aims to offer a superior risk adjusted return over that of passively holding a conventional gilt portfolio with similar characteristics

Lipper Leader
Total Return

Lipper Leader
Consistent Retun

Lipper Leader
Preservation

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A LEADING FUND IN THE UK

The Strategic Gilt Fund is managed by Ian Williams and a highly experienced team.

Active management produces performance which is distinguished amongst its peers.

1) Source: Lipper, IMA UK Gilts, 8 December 2006 – 30 June 2010
2) Source: Lipper, IMA UK Gilts, calendar 2007
3) Source: Lipper, 1 January 2009 – 31 December 2009

+25.1% return since launch 8 December 2006

cumulative since launch (1)

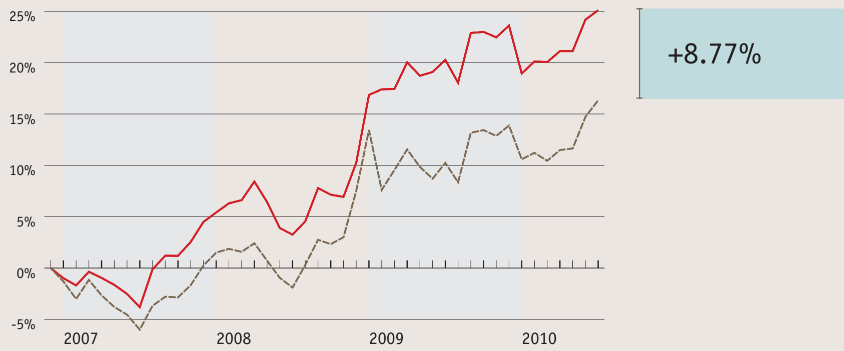
Top fund

in sector for 2007 (2)
in sector for 2009 (3)

Sector outperformance of 8.77%

IMA cumulative gilt sector leader (1)

PERFORMANCE VS IMA UK GILTS SECTOR



as at 30 June 2010	Year-to-date	Calendar year 2009	2008	2007	Since launch
Class A (%)	5.18	1.79	10.85	6.47	24.18
Class B (%)	5.38	2.26	11.90	6.63	26.34
Sector (%)	5.20	-2.51	11.76	2.85	14.71
Sector rank	14/27	1/24	19/25	1/24	1/23
Quartile	2	1	3	1	1

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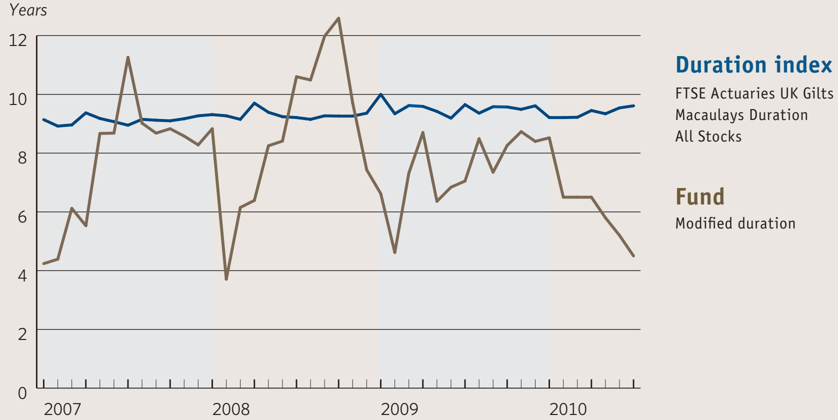
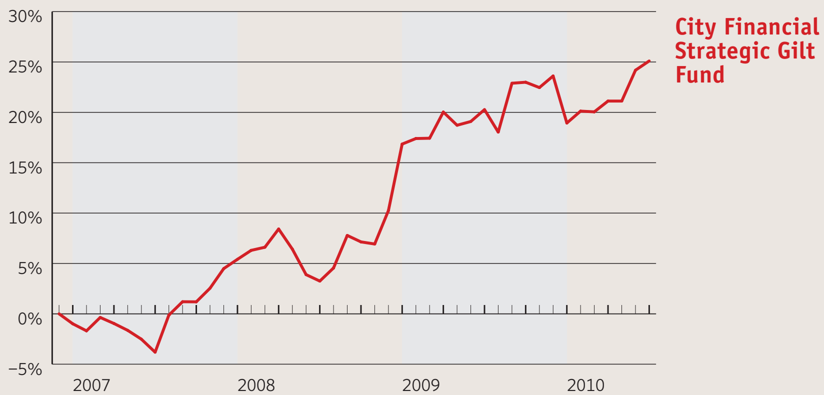
HOW THE FUND'S DURATION HAS CHANGED SINCE LAUNCH

The Strategic Gilt Fund has outperformed its index[1] since launch by 219 bps[2] despite a modified duration that has been largely (83%[3] of the time) below that of the index over the same period

The fund's modified duration has been below that of the index during 153 of 184 weeks[3]



The fund has returned 25.10% since inception[2]



1) Note: Fund's unofficial benchmark index is the FTSE Actuaries Government Securities UK Gilts All Stocks TR
2) Source: Lipper, 8 December 2006 – 30 June 2010
3) Note: % of time measured as weeks short over total weeks elapsed since launch
4) Source: Bloomberg; Charteris Portfolio Managers research

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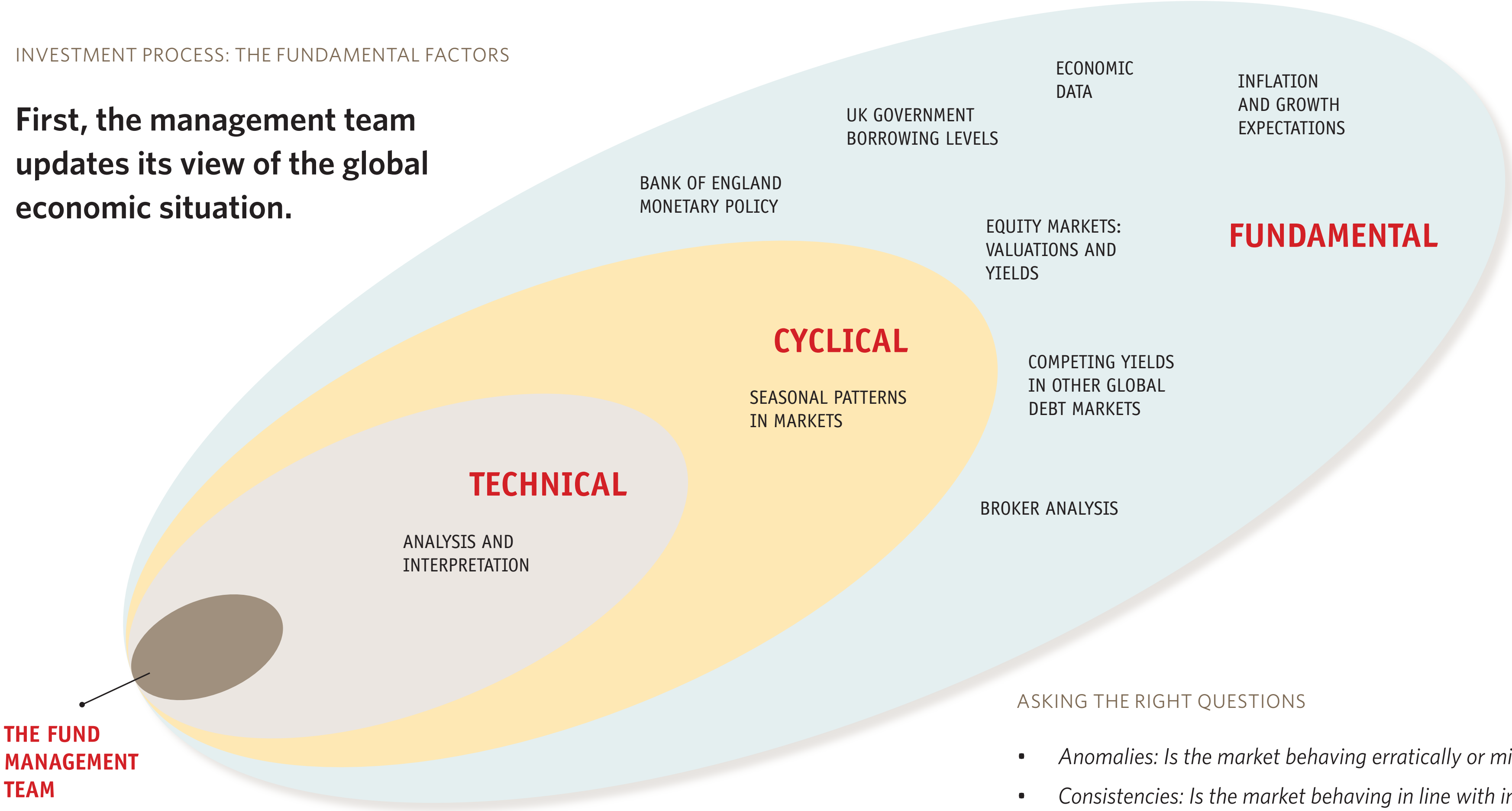
INVESTMENT PROCESS: THE FUNDAMENTAL FACTORS

First, the management team updates its view of the global economic situation.



ASKING THE RIGHT QUESTIONS

- *Anomalies: Is the market behaving erratically or mispricing assets?*
- *Consistencies: Is the market behaving in line with indicators?*
- *Historical precedent: How did the market respond last time?*
- *Patterns: Does the current scenario indicate a future trajectory?*
- *Cyclical factors: Where are we in the macro-economic cycle?*

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INVESTMENT PROCESS: THE TOOL KIT

After the management team has identified where it believes the most value lies in the market, it has at its disposal a set of investment management tools that in the proper combination can help to enhance fund performance.

MODIFIED DURATION

Short, medium, or long-dated gilts: after analysing the yield curve with 'Giltsoft', (see appendix) the manager adjusts the constitution of the underlying portfolio to reflect where along the gilt yield curve he believes maximum value lies.

INDEX-LINKED GILTS

Understanding inflation is a key determinant in gilt investing. Inflation can decrease the purchasing power of each pound and therefore the value of gilts with their fixed coupons. By allocating a portion of the fund to index-linked gilts the manager may limit the fund's exposure to future inflation.

CASH

Though gilts are actively traded in the market and thus highly liquid, during periods of irrational market movement cash reserves may be used to further safeguard the portfolio.

STRATEGIC OPTION WRITING

Risk-adjusted total return can potentially be enhanced by writing options against the underlying gilt portfolio when the manager strongly believes that market conditions favour this process. Options may also reduce the volatility of the NAV.

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THE PORTFOLIO

Stock	Year
UK Treasury 4.00%	2022
UK Treasury 4.00%	2016
UK Treasury 2.75%	2015
UK Treasury 3.25%	2011
UK Treasury 4.25%	2011
UK Treasury 4.50%	2013
UK Treasury 2.75%	2015

portfolio as at 30 June 2010

IN SUMMARY

- **Highly experienced management team**
- **Active management, proprietary and highly-sophisticated research**
- **Broad investment mandate allows a versatile toolkit within the UK gilt market**
- **An innovative — but tried and tested — investment process that aims to enhance returns whilst reducing volatility**
- **Fine tuning the fund by utilising the set of return-enhancing investment tools has generated significant outperformance**

  > modified duration
  > index-linked gilts
  > cash
  > strategic option writing

APPENDIX: MANAGER BIOGRAPHIES

Ian Williams, FCSI

Fund manager Ian Williams has spent more than 25 years as a specialist in G7 government bond markets, covering sales, research, market making and proprietary trading.

He was a stockbroker for many years before joining Chase Manhattan Bank to cover government bonds and proprietary foreign exchange trading. He subsequently worked for Dresdner Kleinwort Benson ultimately becoming head of bond options before joining Guinness Mahon as the director in charge of all government bond trading.

Ian is Chief Executive of Charteris Treasury Portfolio Managers Limited which is the sub-investment adviser to the fund. He is a Fellow of the Securities Institute.

Patrick Phillips

Fund analyst and strategist Patrick Phillips has a mathematics degree from The Queen's College, Oxford. He has worked for Phillips & Drew (now UBS Warburg), James Capel (now HSBC), de Zoete & Bevan, BZW and Merrill Lynch.

In 1986 he was elected Deputy Chairman of the Gilt-Edged Market Makers Association (GEMMA) and subsequently served as a member of the Council of the London Stock Exchange and chairman of its Gilt-Edged Rules Committee. He is the author of several books on government bond markets and has developed one of the most technically-advanced yield curve analytics models in the world.

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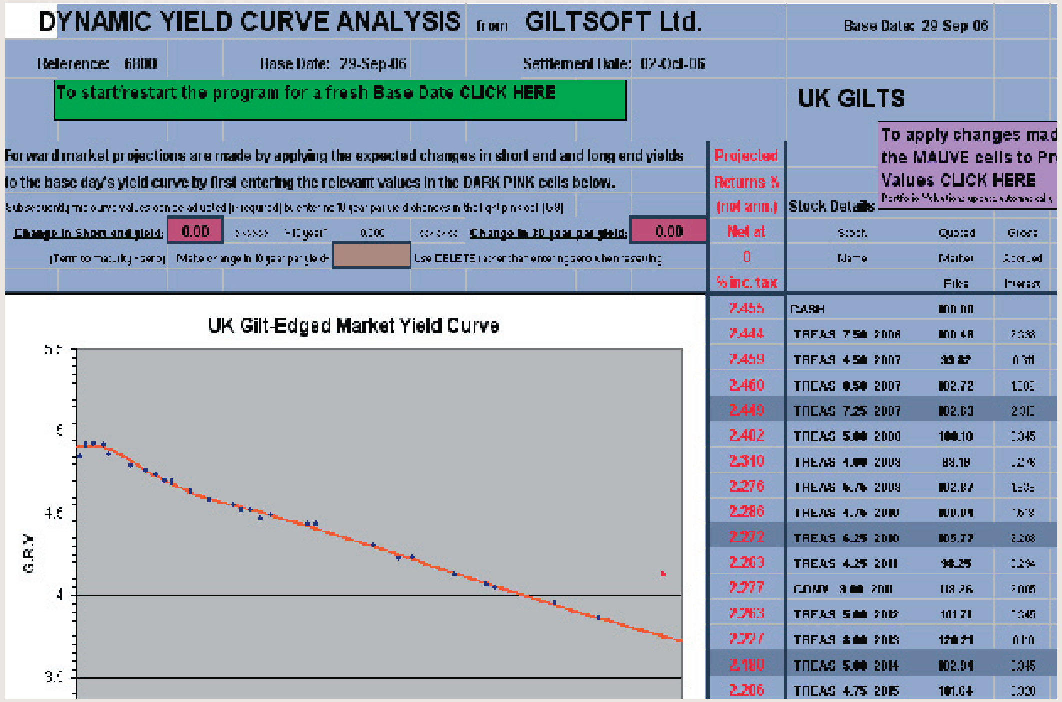
APPENDIX: GILTSOFT

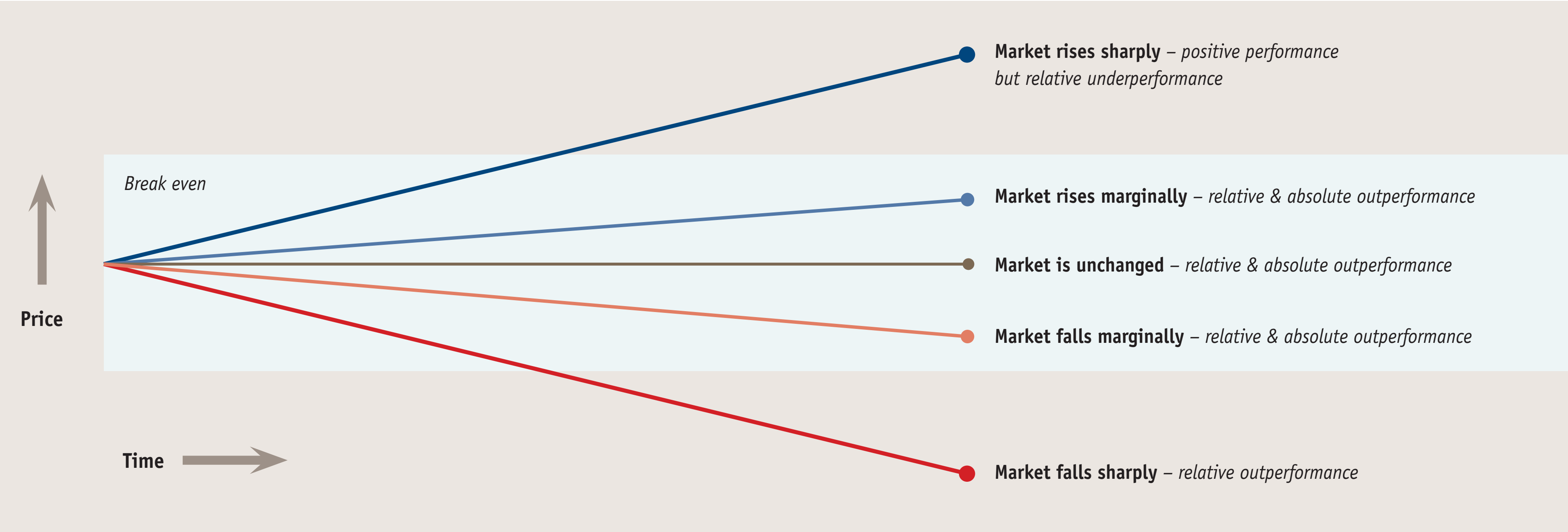
A dynamic real-time model



- Giltsoft has been developed by Patrick Phillips of Charteris Treasury Portfolio Managers over the past decade. It is a sophisticated yield curve analytics model that has a unique method for forecasting new yield curve shapes.
- Giltsoft constructs a dynamic real-time model of each of the major government bond markets and then, based on the manager's predictions, it inserts the expected changes to one-month money rates and long-dated bond yields.
- The model then re-draws the yield curve to take account of the new variables and calculates the expected total return for every bond in the market — therefore identifying and monitoring the optimum components of the portfolio.

APPENDIX: OUTPERFORMANCE THROUGH OPTION WRITING

As traditional sources of income from assets such as property, equities, corporate bonds and high-yield bonds become increasingly uncertain, City Financial's Strategic Gilt Fund offers a dependable alternative that will outperform the gilt market in almost all scenarios, as the table below illustrates.



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APPENDIX: COMPARISON TO OTHER OPTIONS FOR OBTAINING GILT EXPOSURE

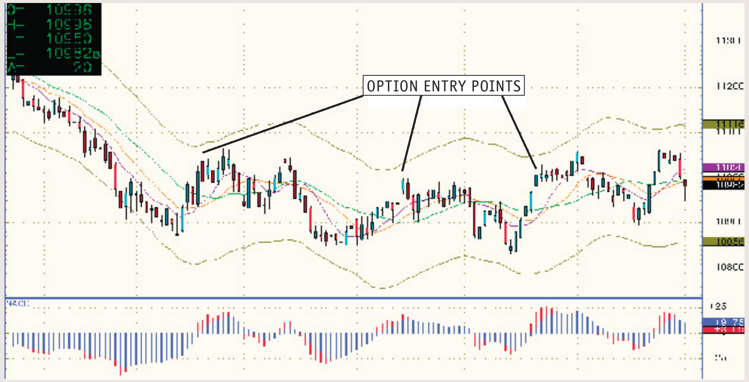
Here's how the fund compares to alternatives

INVESTMENT	CHARGES	CGT FREE	KEY RISK	ADVANTAGES	DISADVANTAGES
THE CITY FINANCIAL STRATEGIC GILT FUND	**1.25% or 0.75%**	**No**	**Sovereign**	▪ **Arbitrage opportunities between conventional and index-linked gilts** ▪ **Diversifies risk** ▪ **Adds flexibility in positioning** ▪ **Potential CGT offset** ▪ **Managed duration fund free of CGT until investor's final disposition** ▪ **Potential of extra income from option premiums**	▪ **Small effect of charges possible** ▪ **Potential CGT liability to the investor at time of disposition.**
Gilts – direct	minimal – typically 0.50% - 0.70%	Yes	Sovereign	▪ No annual charge ▪ Liquid ▪ Market traded	▪ Exposed to one duration or time frame ▪ Gilts over par (most issues at present) may not be tax efficient for private investors
Corporate bonds – direct	0.50% up typically	Yes	Corporate	▪ No annual charge ▪ Market traded ▪ Potentially higher yield than gilts	▪ Exposed to fortunes of one company (credit risk) ▪ Vulnerable to market sentiment ▪ Duration risk ▪ Liquidity risk

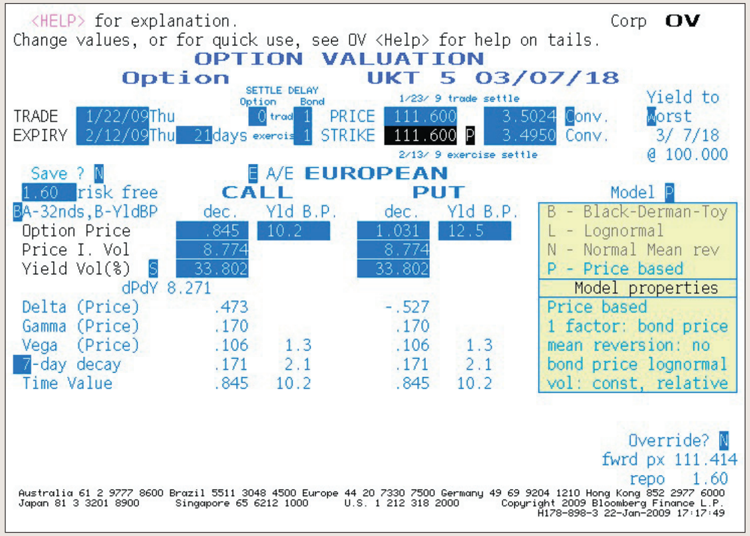
APPENDIX: OPTION VALUATION EXAMPLE

"Risk-adjusted total return is enhanced by writing covered call options against the underlying gilt portfolio"

Technical indication of option entry points



Option valuation example



Source: Bloomberg to 22 January 2009

Fund manager, Ian Williams, on option writing

How does writing gilt options work?

Say you own one million UK Treasury 5% 2025 bonds at 101.2. If you write a 21-day option at that price, in return you get 0.62p per lot for it. The 0.62p premium is paid immediately to the fund. We only use European-style options, which can only be exercised at the end, not the middle of the term. If the market goes down slightly, then at the end of the 21 days the option expires valueless and the fund keeps the gilt plus the 0.62p per lot paid for the option. The situation is the same if the market moves sideways over the three week period. This extra income causes the NAV of the fund to rise.

Does this make it an absolute return fund?

In a slight down market, in a sideways environment, and in a slight market increase, the fund should outperform. However with sharp falls, while we may outperform relatively, it's not guaranteed that the fund will achieve absolute returns as we only have the cushion from the option premium received.

So the option strategy tends to work better in a sideways market?

Yes — once options have been written the fund does not like big moves up or down but it flourishes in an environment where not a lot is going on or the market is making tiny moves in either direction.

Despite the enhancements is there still a risk?

It is not a 'free lunch' fund — you do take some risk. It is, however, one dimensional price risk, not the multi-dimensional risks that can be incurred with corporate bonds.

What is the downside?

If the market rises, then the option will be exercised and the gilts have to be sold at the option's strike price and then re-bought at the higher price, which could cause the fund to miss out on the rise. However, if the market does not rise by the cost of the option, i.e: 0.62p, then you still might make money. However, if the rise was a sharp one then we start to lose out on potential profit. The downside therefore is missing out on any rise rather than actually losing money.

Do you always use options in the fund?

No. Although we could conceivably write options on 100% of the portfolio, we only write them on a strategic basis. It's a bit like renting a flat — if you're not writing the options, you don't get the rent. But to use constant option writing also means you could potentially lose as much on the swings in the market as you gain on the roundabouts.

How do you decide when to write them?

We aim to write more options when the market is more likely to move sideways or down and we base these decisions on very detailed technical and fundamental analysis of the market which can show us when the market is looking overbought. Gilts are relatively cyclical but at the same time you know they can't go bust — they only go up and down. So when they get overbought, the more likely it is there will be a reaction and they will move down.

Why do you use 21-day options? Why not longer?

We get to write more options. If you were to use three-month options, then you would only have the opportunity to write these four times in a year where as there are 17 three-week periods within a year.

How does writing Gilt options work?

You get less money for the option the shorter the duration. So while a 20-year gilt may make you 62p from the option, a 10-year would tend to pay 43p. Williams also likes to write options where he sets the strike price. He says: "When you write an option that is 'out of the money,' you get less money but you don't have to be quite as clever to pick the top of the market — it gives us some wriggle room."

APPENDIX: HOW TO INVEST

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Aviva
Cofunds
AXA
AXA winterthur
fundsdirect
FundsNetwork
Hargreaves Lansdown
Lombard
Moventum
Macquarie
Novia
nucleus
Standard Life
transact

CITY FINANCIAL STRATEGIC GILT FUND

Daily dealing		10 am
AMC on institutional Class B		0.75%
AMC on retail Class A		1.25%
Trail commission on Class A		0.50%
Initial commission on Class A		5.00%
	Adviser	up to 3.00%
	CFIC	up to 2.00%
ISIN	Class A Acc	GB00B1GVSD23
	Class A Inc	GB00B1GVQ612
	Class B Acc	GB00B1GVZG47
	Class B Inc	GB00B1GVWL84
Bloomberg tickers		
	Class A Acc	CFILQAA LN
	Class A Inc	CFILQAI LN
	Class B Acc	CFILQBA LN
	Class B Inc	CFILQBI LN

FSA authorised UK domiciled UCITS III fund structure

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For valuable tools for your clients that are both specific and timely, please contact our experienced sales team. They will be happy to discuss your requirements.

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Past performance is not a guide to future performance and investors may not get back the full amount invested.

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