

The Equity Income Trust for Charities

4th quarter report 2011

The Equity Income Trust for Charities is one of our five Charity Commission authorised Common Investment Funds. As such, this fund adopts a structure that is similar to a unit trust but only charities in England, Wales, Scotland and Northern Ireland may invest in it.

Purchase information

Minimum investment:	£10,000 and £1,000 thereafter
Annual management charge:	0.5%
Initial fee:	Nil
Exit fee:	Nil
Dealing:	12 noon every business day
Units:	Income class only
Currency:	Sterling
Sedol:	3231164
ISIN:	GB0032311648

Manager Information

Matthew Hudson joined Cazenove Capital Management in 2001. He is a member of the Pan-European equity team and Manager of the Cazenove UK Equity Income Fund and The Equity Income Trust for Charities. Matthew joined from AIB Govett Investment Management where he was a UK equity fund manager. Matthew graduated from Cambridge University with a degree in History. He has 12 years of investment experience.



Trust data

	At 31.12.11	At 30.09.11
Trust size (mid value) £	248,054,240	231,856,287
Bid price (pence)	67.74	63.77
Offer price (pence)	68.02	64.06

Source: CIFM

Investment objectives

The Equity Income Trust for Charities primarily aims to provide a high and steady level of income by investing mainly in UK equities, targeting a yield of 30% in excess of the FTSE All Share Index. The portfolio will be managed, where possible, to increase the income distribution over time. The secondary target is to provide capital growth in order that the Manager outperforms the FTSE All Share Index on a total return basis after costs over rolling five year periods.

Performance

% change to 31.12.11	3 months	6 months	1 year	3 years % pa	5 years % pa
Trust (bid to bid) *†	7.7	-4.2	-1.4	11.9	1.1
FTSE All Share Index	8.4	-6.2	-3.5	12.9	1.2
Relative	-0.7	+2.1	+2.0	-1.0	-0.1

	Dec 2010 to Dec 2011 %	Dec 2009 to Dec 2010 %	Dec 2008 to Dec 2009 %	Dec 2007 to Dec 2008 %	Dec 2006 to Dec 2007 %
Trust	-1.4	15.6	23.0	-25.6	1.4
FTSE All Share Index	-3.5	14.5	30.1	-29.9	5.3
Relative	+2.1	+1.0	-7.1	+4.3	-3.9

* Gross income reinvested

† The Equity Income Trust for Charities was launched on 2 December 2002

Source: Lipper

Past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and an investor may not get back the amount originally invested.

Income payments

The distribution yield is 4.6% p.a. based on the last four quarterly payments.

2011	Ex-distribution date	Payment date	Rate per unit
Final	31 October 2011	15 December 2011	0.85p (0.75p 2010)
Interim	31 July 2011	15 September 2011	0.87p (0.87p 2010)
Interim	30 April 2011	15 September 2011	0.87p (0.87p 2010)
Interim	31 January 2011	15 March 2011	0.50p (0.50p 2010)

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Ten largest overweight and underweight stock positions (vs FTSE All Share)

Overweight stock	Fund %	Index %	Underweight stock	Fund %	Index %
GlaxoSmithKline	7.5	4.4	British American Tobacco	0.0	3.6
Babcock International	1.9	0.2	BG Group	0.0	2.7
AstraZeneca	4.0	2.3	BHP Billiton	0.0	2.3
Vodafone	6.9	5.3	Royal Dutch Shell*	6.8	9.0
BP	6.6	5.1	Diageo	0.0	2.1
BT Group	2.3	0.9	Standard Chartered	0.0	2.0
Greene King	1.5	0.1	Anglo American	0.0	1.9
BAE Systems	2.0	0.6	SABMiller	0.0	1.6
IMI	1.5	0.1	Imperial Tobacco	0.0	1.5
Barclays	2.5	1.3	Reckitt Benckiser	0.0	1.4

* A&B Shares combined

Source: Factset

Five largest overweight and underweight sector positions (vs FTSE All Share)

Overweight sector	Fund %	Index %	Underweight sector	Fund %	Index %
Pharmaceuticals & Biotechnologies	11.5	7.6	Mining	3.8	10.4
Travel & Leisure	5.9	2.5	Tobacco	0.0	5.0
Financial Services	4.9	1.7	Oil & Gas Producers	14.7	18.2
Non-life Insurance	3.4	0.8	Beverages	1.0	3.8
Mobile Telecommunications	7.6	5.5	Household Goods & Home Construction	0.6	1.8

Source: Factset

Ten largest stock positions (vs FTSE All Share)

Stock	Fund %	Index %
GlaxoSmithKline	7.5	4.4
Vodafone Group	6.8	5.3
Royal Dutch Shell*	6.8	9.0
BP	6.6	5.1
HSBC Holdings	5.9	5.2
AstraZeneca	4.0	2.3
Rio Tinto	3.8	2.7
Barclays	2.5	1.3
BT Group	2.3	0.9
Tesco	2.0	1.9

* A&B Shares combined

Source: Factset

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Dividends

The Fund paid a distribution of 0.85 pence per unit on 15 December 2011. The Fund's current yield is 4.6%, based on the last four distributions paid.

Performance

Over the quarter the Fund delivered a return of +7.7% compared to the FTSE All-Share return of +8.4%. The average return from the Lipper UK Equity Income sector was +6.0%.

Fund performance benefited from overweight positions in the Mobile Telecom and Pharmaceutical sectors and from the underweight position in the Banking sector.

Negative contributions were delivered by the overweight positions in both the Life Assurance and Financial Services sectors, which along with most Financial areas were weak in the period. The nil weighting in the outperforming Tobacco sector was also detrimental to relative performance.

At the stock level key positive contributors among the larger capitalisation companies were holdings in BP, GlaxoSmithKline, Compass Group and G4S. Mid Cap positions in the Fund also added value despite the underperformance of the FTSE 250 in the period with Greene King, Beazley and Babcock providing the most positive contributions.

On the negative tack, poor performances from Financial holdings (e.g. Icap, RSA) and dull returns from Centrica, Carphone Warehouse and Cairn Energy held back relative returns.

Fund activity

Portfolio positioning did not change significantly from the last quarter. At the margin the Fund has continued to reduce selected defensives where relative valuations have become too rich or yield relatives too low, in favour of more lowly valued stocks including some more cyclical assets. Hence the partial reduction of Unilever and Centrica and the disposal of Capita during the quarter and purchases of Balfour Beatty, Rio Tinto and AstraZeneca; all of which are rated below 10x earnings.

New holdings were established in Aberdeen Asset Management and G4S following its failed bid to acquire competitor ISS in the period. The Fund also established new holdings in both Tesco and Britvic, which have been under pressure from weakening consumer trends and commodity price pressures but which are attractively valued relative to history and which offer high yields.

Dividend outlook

Despite the challenging economic outlook, UK dividends continue to grow as companies raise their distributions against a background of generally robust cashflows and strong balance sheets. While dividend risks remain, especially among financial and some consumer sectors such as retailers, we retain a positive view on dividend growth into 2012 supported, albeit temporarily, by an increasing number of special dividends from UK plc with Vodafone, MoneySupermarket and Easyjet among others all declaring special dividends in 2011. Therefore while not all companies will maintain/grow their distributions in 2012, the Fund will be managed to target a modest increase in the total dividend distribution in the current financial year, as well as maintaining its yield premium to the market.

Economic Outlook

Developed equity markets performed very respectably during the final quarter, as a result of improving optimism with regard to US growth, the liquidity boost provided to banks by the ECB and the fiscal consolidation package agreed by European leaders. One point to note is the divergence between developed and emerging equity markets' performance in the fourth quarter. While even Italy's FTSE MIB and France's CAC 40 (two markets close to the core of the Eurozone crisis) managed to record modest positive returns, the Shanghai Composite and Bombay Sensex lost -6.7% and -6.0%, respectively. Meanwhile, the Japanese Nikkei produced a negative return of 2.7%. Although economists estimate that the Japanese earthquake and tsunami may have reduced 2011 US GDP by up to 1%, the effect was far worse in Japan, where equities have suffered their worst year since 2008.

On the other hand, the US third quarter reporting season revealed that sales had beaten expectations by 2-3%, while US corporations currently have some US\$2 trillion of net assets, with leverage at 25-year lows. In sterling terms, over the three months to December, the S&P 500 returned +11.8%, slightly outperforming both the Euro1st 300 and FTSE All Share, which returned +10.9% and +9.0%, respectively.

With regard to UK equities, we remain neutral overall, with a bias towards defensiveness in the near term. In valuation terms, the market remains on the cheaper side of fair value, and there is the potential for upside growth surprises in the second half of the year to prove beneficial to some of the more domestically oriented areas of the equity market. In advance of this, the international orientation of the UK market remains one of its attractive characteristics.

The global economic outlook remains highly uncertain, and further market volatility may result from the challenges faced by Eurozone sovereigns to raise some €800bn to service maturing debt and fiscal deficits over the course of 2012.

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Common Investment Funds

We offer five Common Investment Funds. In combination, they provide a unique pooled offering for charities and reflect our commitment to the sector. Charities can achieve their investment objectives by investing in one or a number of the following Common Investment Funds:

The Growth Trust for Charities: a UK equity fund

The Equity Income Trust for Charities: a higher yielding UK equity fund

The Income Trust for Charities: a fixed interest fund

The Absolute Return Trust for Charities: a fund of hedge funds

The Multi-Strategy Property Trust for Charities: a property fund

For further information:

Telephone **020 3479 0109** and ask for **Edward Harley, John Gordon or Nurten Baykal.**

www.cazenovecapital.com

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