



Annual Report & Audited Financial Statements

for the year ended 31 May 2010

Baring Europe
Select Trust



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*Collectively, these comprise the Managers' Report

Management and professional service details

Managers

Baring Fund Managers Limited
Authorised and regulated by the Financial Services Authority

Directors

J. Misselbrook (Chief Executive Officer)
C. Biggins
G.H. Harvey
J. Maitland
I.A. Pascal

Registered office

155 Bishopsgate
London EC2M 3XY
Telephone: 020 7628 6000

Trustee

The Royal Bank of Scotland plc
Trustee & Depositary Services
Ground Floor
15 Bishopsgate
London EC2P 2AP
The Royal Bank of Scotland plc is authorised and regulated by the Financial Services Authority

Registrars

Northern Trust Global Services Limited
P.O. Box 55736
50 Bank Street
Canary Wharf
London E14 1BT
Telephone: 0870 870 8450*
Fax: 020 7982 3924

**Telephone calls may be recorded and monitored. Maximum call charge to 087 numbers is 8p per min from a BT Line, other networks may vary.*

Independent auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

Introduction

The Managers, Baring Fund Managers Limited, have delegated their day to day investment management responsibilities in relation to the Trust to Baring Asset Management Limited (BAML) which is authorised and regulated by the Financial Services Authority ("FSA").

As an investor in Baring Europe Select Trust, your money is pooled with that of other investors and invested by Baring Fund Managers Limited in a diversified portfolio of stocks and shares in European countries. Income units are issued which means that any revenue generated is paid out to the investor. Revenue may be reinvested into the Trust, giving the investor the opportunity of participating fully in the growth prospects of European companies. As with all Trusts managed by Baring Fund Managers Limited, the risk assumed in this portfolio is carefully monitored.

The Report of the Managers reviews the performance of the Trust against the returns of the stockmarkets in which it is investing and analyses the investment environment that influenced the performance of the Trust over the year under review. The Managers then give their outlook for the markets and detail how the Trust will be invested in order to take full advantage of the opportunities we foresee. Finally the Report of the Managers gives details of any revenue generated by the Trust.

Constitution

Baring Europe Select Trust ("the Trust") is constituted by a supplemental Trust Deed dated 12 April 2002 between Baring Fund Managers Limited ("the Managers") and The Royal Bank of Scotland plc ("the Trustee").

Regulatory disclosure

This document has been issued by Baring Fund Managers Limited authorised and regulated by the Financial Services Authority ("FSA").

The Trust is an Authorised Unit Trust Scheme as defined in section 243 of the Financial Services and Markets Act 2000 and has been established as a "UCITS" Scheme (Undertaking for Collective Investment in Transferable Securities).

Past performance is not necessarily a guide to future performance. The value of units can go down as well as up and is not guaranteed. Changes in rates of exchange may also cause the value of units to fluctuate. Any references in this report to other investments held within a unit trust should not be read as a recommendation to the investor to buy and sell the same, but are included as illustration only.

The Trust at a glance on 31 May 2010

Total Trust size:	£386.4 million
Initial charge:	5%
Annual charge:	1.50%
Annualised net yield:	0.38%
Minimum investment: Initial	£1,000
Subsequent:	£500
Revenue available per unit: Income units	5.2842p
: Accumulation units*	€0.1616

*Euro quoted units

The Trust at a glance on 31 May 2010 (continued)

Price per unit	Mid price
Income units	1,403.00p
Accumulation units*	€16.49

*Euro quoted units

Revenue allocations and reports

Revenue allocations are made in August (final) and January (interim) in each year. Certificates for unitholders' tax credits are sent to unitholders together, where applicable with distributions. An Annual Report and Financial Statements and an Interim Report will be forwarded to unitholders each year on the applicable final and interim dates.

Prospectus and Managers' reports

Copies of the Prospectus, Simplified Prospectus and the most recent Annual or Half-Yearly Report and Financial Statements are available to all persons free of charge from Baring Fund Managers Limited upon request. Copies of the Prospectus, Simplified Prospectus and Report and Financial Statements are also available in French and German, where applicable. The independent auditors express their opinion on the English version of the Annual Report and Financial Statements and accept no responsibility for any translations of those financial statements.

Dealing commission

The Investment Adviser as part of providing investment management and advisory services to the Trust, may from time to time, enter into arrangements with brokers, under which the broker will provide or procure services that relate to execution or research which meet the criteria specified by the FSA and can be reasonably expected to assist in the provision of investment services. These costs are not directly charged to the client, but form part of the normal dealing costs incurred by the Trust.

Market timing

Repeatedly purchasing and selling units in the Trust in response to short-term market fluctuations - known as 'market timing' - can disrupt the Managers' investment strategy and increase the Trust's expenses to the prejudice of all unitholders. The Trust is not intended for market timing or excessive trading. To deter these activities, the Managers may refuse to accept an application for units from persons that they reasonably believe are engaged in market timing or are otherwise excessive or potentially disruptive to the Trust.

The Managers also reserve the right to redeem units which they reasonably believe have been purchased by unitholders engaged in market timing.

Publication of prices

The most recent issue and redemption prices are published daily in the Financial Times, the South China Morning Post, the Hong Kong Economic Journal, the Börsen-Zeitung, Der Standard, the AGEFI and on a weekly basis in La Tribune. The units in the Scheme are not listed or dealt in on any investment exchange

In addition, the prices are available on the Baring website at www.barings.com

Dealing basis

The Managers' basis for dealing in purchases and sales of the Trust's units is 'forward'. This means that the price used for any deal will be that calculated at the next valuation point following receipt of the investor's instruction.

European Union Taxation of Savings Income Directive

On 3 June 2003 the European Commission published a new directive regarding the taxation of savings income ('the Directive'). From 1 July 2005 Member States are required to provide to the tax authorities of another Member State details of payments of interest (which may include distributions and realisation payments by collective investment funds) or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system in relation to such payments.

Accordingly, the Custodian, Administrator, paying agent or such other entity considered a "paying agent" (for the purposes of the Directive a "paying agent" is the economic operator who pays interest to or secures the payment of interest for the immediate benefit of the beneficial owner) for the purposes of the Directive may be required to disclose details of or withhold tax on distributions and/or realisation payments by the Trust to unitholders who are individuals or residual entities (located in another EU Member State) to the taxation authority in the home jurisdiction of the paying agent who will pass such details or tax to the Member State where the investor resides.

As the UK has opted for exchange of information rather than a withholding tax system, the principal consequence for unitholders is that details of relevant savings revenue will be disclosed to the EU member states in which unitholders are resident. The Directive has now been enacted into UK legislation and the reporting of any relevant payments of interest made by the Trust, together with various specified information relating to recipients who are individuals or residual entities resident in EU states other than the UK, applied 1 July 2005.

On the basis of UK regulations as at 31 May 2010, the Trust is deemed to be out of scope of the Directive and therefore no reporting of distributions or redemption proceeds will apply. This is because at 31 May 2010 less than 15% of the Trust's assets were invested in interest bearing securities (which includes bank deposits). Under UK regulations the Trust will remain out of scope of the Directive at least until the next set of audited accounts is published.

Fees and expenses

The Managers' periodic charge is calculated daily, on each business day, based on the value of the property of the Trust on the immediately preceding business day and is paid to the Managers monthly in arrears, on the first business day of the calendar month immediately following. The current periodic charge is 1.50% per annum.

General information for overseas investors (Austria, Germany and Switzerland)

Austrian Paying Agent

UniCredit Bank Austria AG
Schottengasse 6-8
1010 Wien
Austria

German Paying and Information Agent

Deutsche Bank AG
TSS / Global Equity Services
Post IPO Services
Junghofstraße 5-9
60311 Frankfurt/am Main
Germany

The full and the simplified prospectus, a list of portfolio changes, the trust deed as well as the annual and the semi-annual reports are available free of charge in hard copy at the office of the German Paying and Information Agent and the Further German Information Agent.

Further German Information Agent

Baring Asset Management
Oberlindau 54-56
60323 Frankfurt/am Main
Germany

Notice for German Investors

Special risks resulting from additional German tax publication requirements in Germany

A foreign investment company (such as the Managers) must provide documentation to the German fiscal authorities upon request e.g. in order to verify the accuracy of the additional German published tax information. German investors will use this for their tax returns. The basis upon which such figures are calculated is open to interpretation and it cannot be guaranteed that the German fiscal authorities will accept the Managers' calculation methodology in every material respect. In addition, you should be aware that if it transpires that these publications are incorrect, any subsequent correction will, as a general rule, not have retrospective effect and will, as a general rule, only take effect during the current financial year. Consequently, the correction may positively or negatively affect the investors who receive a distribution or an attribution of deemed revenue distributions in the current year.

Information for Investors in Switzerland

The Managers have appointed BNP Paribas Securities Services, Zurich Branch, Selnaustrasse 16, P. O Box 2119, CH-8022, Zurich, Switzerland, as representative and paying agent for Switzerland. For units distributed in Switzerland, the performance place is at BNP Paribas (Switzerland) Limited's address. Investors can obtain free of charge the Prospectus, the Simplified Prospectus, the last annual and interim reports, copies of the Trust Deed and of amendment to the Trust Deed if any as well as a list of the purchases and sales made on behalf on the Trust, in German, from the representative at the above address. Official publications for the Trust are made in the AGEFI and the Swiss Official Trade Gazette. Unit prices (Net Asset Value with the words "plus commissions") are published daily in the AGEFI.

Report of the Managers

Performance record

Summary of Trust performance

Accounting year	Net asset value as at 31 May 2010 (per unit)	Net asset value as at 31 May 2009 (per unit)	Net asset value % change
Income units	1,395.99p	1,122.05p	24.41
Accumulation units*	€16.52	N/A	N/A

*Euro quoted units

Performance record to 31 May 2010

	1 Jun 2009 - 31 May 2010 %	1 Jun 2008 - 31 May 2009 %	1 Jun 2007 - 31 May 2008 %	1 Jun 2006 - 31 May 2007 %	1 Jun 2005 - 31 May 2006 %
Baring Europe Select Trust	24.79	-20.51	0.26	31.63	40.20
HSBC Smaller Companies Europe Index	23.18	-24.68	-11.43	35.55	40.17

The Trust's and the benchmark's return for the year stated is sourced from Morningstar, based on a bid to bid basis with net revenue reinvested.

Note: there is no appropriate benchmark with which to compare this Trust. Since the Trust's launch the same index has been used.

The index used is the HSBC Smaller Europe (ex UK).

This official index is established independently by HSBC; it encompasses more than 1,400 companies in 16 different markets. Hence it reflects the investment policy and investment character of the Trust as closely as possible.

Note: All references to a specific index are for comparative purposes only

Past performance is not a guide to future performance.

Investment objective and policy

The investment objective of the Baring Europe Select Trust is to achieve long term capital growth by investing in securities of European companies.

The manager's policy is to seek growth predominantly through investment in securities of carefully selected companies quoted on the principal European stock markets whilst retaining the flexibility to invest in small growth or "niche" companies should the opportunity arise.

Please refer to the Prospectus for the full investment objective and policy.

How we manage the Trust

We adopt a "bottom up" approach to investing in the Baring Europe Select Trust. This means we focus more on the individual merits of a specific company, rather than taking a stance on the outcome of a sector of the market or macroeconomic trends such as interest-rate rises. We invest in European companies with sustainable, long-term business models and shareholder-friendly attitudes which we believe are undervalued by other investors. We do this by carefully researching a company's corporate strategy and revenue sources. An important part of the investment process involves regular meetings with the management teams of companies in which we are considering investment.

The manager of the Baring Europe Select Trust is Nick Williams. Nick has 19 years of investment experience and is Head of our Pan European Small and Mid Cap Equities Team. Nick has a B.A. (Hons) in English Language and Literature from Corpus Christi College, Oxford.

Risk profile

The Baring Europe Select Trust is invested in the shares of European smaller companies excluding those in the UK. As such, the Trust is exposed to the volatility that can characterise equity prices from time to time. As we can invest in very small companies or companies in developing sectors, which can be highly volatile, the Trust can be subject to more market volatility than a fund which is invested in more established, larger companies.

Returns from overseas equity markets can also be subject to fluctuations in exchange rates, which can have the effect of eroding or enhancing the value of investment returns for investors. Please refer to the Prospectus for the full risk profile.

Key changes since the last report

A Euro accumulation unit class has been established in addition to the existing income unit class for the Baring Europe Select Trust.

Strategy and performance

Over the last twelve months to the end of May the Trust's performance has been satisfactory, registering strong gains in absolute terms and relative to smaller company indices.

Geographic and sector allocation has generally been good, with under-weight positions in Southern European countries and over-weight positions in the rest of Europe.

Stock selection has been reasonable. The Trust has largely remained invested in stocks with lower than average volatility, in sectors such as Consumer Staples and Healthcare, reflecting our traditional focus on companies with sound track records and balance sheet strengths.

According to our analysis our holdings have generally in receipt of strong upgrades, indicating that positive earnings surprises continue to be identified by our research process.

Strategy and performance (continued)

As always our portfolio strategy remains focused on companies with lower than average indebtedness, and higher than average Return on Equity, compared to the average for these valuation metrics in representative smaller company indices. We continue to prioritise investments in companies with under-valued high return business areas where meetings with management confirm that the strategy is to increase focus on these high return areas, whether through product launches, acquisitions, disposals of non-core areas etc.

Geographic asset allocation has typically been good, with the bulk of the Trust's assets invested in Benelux, German and Northern European smaller companies. Economic growth rates in these countries have been accelerating, helped by the growing demand in the rest of the world for European exports, and, since the turn of the year, by signs of stabilising or falling unemployment and improving consumer confidence in these countries.

The Trust's holdings in Southern European companies, despite some positive corporate news flow and out-performance of their domestic peers, have generally not helped performance. Smaller companies in Greece, Spain, Eire and Portugal have suffered sharp share price falls as a result of widespread worries about the Budget deficits in these countries.

Overall, however, long-term performance relative to both smaller company benchmarks and in absolute terms remains good and long-term trends continue to highlight that our approach works well in the European smaller companies market.

The top ten purchases and sales during the year were as follows:

	Costs		Proceeds
Purchases	£'000	Sales	£'000
DCC	8,520	Grifols	8,589
Nokian Renkaat	7,826	SCOR	7,867
NKT Holding	7,653	Temenos	7,764
EFG International	7,451	GAM	6,793
SEB	7,380	Technip	6,791
Oriflame Cosmetics	7,093	KCI Konecranes	6,501
Grifols	7,037	Wincor Nixdorf	6,304
Logitech	6,654	Skanska	6,162
Andritz	6,452	Autogrill	6,113
GAM	6,450	Prysmian	6,073

Review of the market

Following a very strong start to the period since the end of May 2009 European equity markets have moderated their pace of gains, and have shown only minimal growth since the turn of the year. Smaller companies have, however, out-performed larger companies.

During the summer of 2009 through to mid-October last year, smaller companies performed well, registering strong gains, as investors recognised the burgeoning economic recovery underway in most of Europe. This economic recovery was facilitated by strong export growth as world trade growth accelerated, with the recovery in the US economy and continued strength in Asian economies driving this rebound.

In this context, smaller companies from within Europe's more cyclical sectors and industries performed well, reflecting the rapid improvement in their prospects for profitability. European smaller companies experienced significant upgrades to their profit forecasts, as analysts and commentators recognised that the profit forecasts made during the depths of the credit crunch period of 2008 had been rendered far too cautious by economic recovery and the positive impact of cost-cutting and rationalization measures.

As 2009 drew to a close, however, the pace of gains in European share prices moderated. While economic data continued to indicate improving conditions across Europe as a whole, concerns grew about the budget deficits of Southern European members of the Euro-zone, particularly Greece. The sizeable budget deficits of Greece, Eire, Portugal and Spain restrict their capacity to stimulate economic recovery through spending programmes, while, with the exception of Eire, a low contribution of Exports to total national GDP in these economies diminishes the benefits accruing from the ongoing recovery in world trade. These factors, combined with a rather general fear of credit risk hitting bond markets and the opportunity to lock in profits made in shares that had bounced sharply through 2009, combined to generate a significant sell-off in smaller companies in Greece, Spain and Portugal particularly since the end of 2009.

Across Europe the most significant performance trend over the last twelve months, therefore, has probably been the revival in importance of the 'Country Effect'. Within the HSBC Europe ex-UK Smaller Companies Index a wide differential has arisen between the returns generated by various smaller company markets in Europe this year. Roughly speaking Northern European markets remain in positive territory year to date, while Southern European markets are down sharply.

For example Swiss smaller companies, helped by the strength of the Swiss Franc, are up over 14% in Euro terms, while Greek smaller companies are down nearly 35% on average so far this year.

At the sector level the performance differentials have been slightly less marked. The best performing sectors over the 12 month period, up over 41% and 35% respectively, are Industrials, led by the Aerospace & Defence sub-sector, which has benefited from the economic upswing and the strength of the US dollar, and Technology, led by the Computer & Communications Equipment sub-sector. The worst performing sectors, up only 10% and 15% respectively, are Natural Resources and Financials. These sectors are suffering from double dip recession fears, profit-taking and general risk aversion.

Market outlook

Since the end of March widespread profit-taking has been impacting European equity markets. While smaller companies have still made small gains in the year to date, the partial recovery of the Pound Sterling against the Euro has further reduced returns for investors whose base currency is the Pound.

The motivation for this profit-taking, as stated above, has been primarily due to general and unspecific fears that the economic recovery might slow in the rest of the world, combined with the much publicised funding problems of the Greek, Spanish and Portuguese governments.

Despite the market's nervousness, however, economic data releases over recent months have shown very little indication of an impending double-dip recession in the world's key economies. While Europe's perennial problem of low long-term economic growth persists economic data continue to indicate that the US, Japanese and Asian economies are all growing strongly. Europe's export sectors should continue to benefit from the recovery in world trade, while the recent weakness of the Euro provides a further boost to Europe's competitiveness.

Given this backdrop, and the attractive valuations of European smaller companies – which continue to look under-valued relative to bonds and historical average valuation levels – it is our expectation that equity markets are likely to stabilise around current levels.

Market outlook (continued)

On average European smaller companies have seen strong improvements in profitability in 2010, have improving order books and reasonably strong balance sheets. While Europe's domestic economy continues to lag the recovery of other regions, the European Central Bank (ECB) will continue to face significant challenges in managing interest rate policy. Given the divergent economic growth rates experienced between Southern European countries (which are likely to face continued weak growth, government spending cuts and rising unemployment) and Northern European countries (where national deficits are better-controlled, employment is beginning to recover and companies are beginning to increase spending) the ECB is likely to keep interest rates low for some time and have to continue their policy of acquiring government debt from the banks and governments of Southern Europe.

In the short term, therefore, European smaller company shares are likely to remain volatile. However, if economic growth rates continue to improve the attractive valuations of smaller companies will be un-ignorable. In the medium term, therefore, the balance of risks appears skewed to the upside. Given the generally positive news from smaller companies so far, and the potential for Europe's domestic economy to be revived by recovery in Europe's trading partners, valuation levels have scope to rise.

Our focus will remain on those companies our research identifies as being soundly-capitalised, shareholder-friendly and with the potential to improve their returns.

Revenue

The revenue account shows an amount of 5.2842p per income unit which is payable as a dividend distribution and €0.16163 which is payable as a dividend accumulation. The annualised net yield for the past twelve months is 0.38% based on an income unit offer price of 1,403.00p as at 28 May 2010.

Post balance sheet events

After the year end, public market fluctuations have resulted in the Net Asset Value (NAV) increasing 6.99% from 1,403.00p as at 28 May 2010 to 1,501.00p as at 17 September 2010.

Portfolio information

Major holdings - % of total net assets

Top ten holdings	31 May 2010 %	31 May 2009 %
Vopak	2.12	1.60
Getinge 'B'	1.90	0.00
Telenet	1.87	2.00
Imtech	1.87	1.77
Elekta	1.86	0.93
Swedish Match	1.78	1.83
Bekaert	1.71	1.64
Gemalto	1.69	1.36
Banca Generali	1.67	0.70
Umicore	1.66	1.03

Geographical breakdown - % of total net assets

Country	31 May 2010 %	31 May 2009 %
Austria	2.99	3.36
Belgium	7.19	6.57
Denmark	3.61	4.31
Finland	1.49	2.80
France	8.73	8.84
Germany	17.92	24.16
Greece	1.16	1.72
Ireland	4.63	1.55
Italy	11.28	7.74
Luxembourg	1.41	0.00
Netherlands	11.68	9.13
Norway	2.72	3.98
Spain	1.67	6.09
Sweden	10.28	9.16
Switzerland	9.10	8.59

Portfolio information (continued)

Sector breakdown - % of total net assets

Sector	31 May 2010 %	31 May 2009 %
Equities	95.86	98.00
Net other assets	4.14	2.00

Performance record

Trust size

Accounting year	Net Asset Value (£)	Net Asset Value per unit		No. of units in issue	
		Inc (pence)	Acc(€)*	Income	Accumulation*
2008	291,308,300	1,429.92	-	20,372,311	-
2009	227,695,700	1,122.05	-	20,292,800	-
2010	386,422,333	1,395.99	16.52	27,418,207	261,467

*Euro quoted units

Unit price range

Calendar year	Income units		Accumulation units*	
	Highest Mid (pence)	Lowest Mid (pence)	Highest Mid (€)	Lowest Mid (€)
2005	975.80	717.70	-	-
2006	1,253.00	991.90	-	-
2007	1,477.00	1,244.00	-	-
2008	1,493.00	835.20	-	-
2009	1,503.00	875.60	16.14**	14.75**
2010***	1,594.00	1,309.00	18.07	15.39

*Euro quoted units

**15 October to 31 December 2009

***1 January to 31 May 2010

Other relevant prices

Accounting year		Mid price		Offer price		Bid price	
		Inc (pence)	Acc (€)*	Inc (pence)	Acc (€)*	Inc (pence)	Acc (€)*
31 August 1984	Launch date	-	-	50.00	-	47.50	-
15 October 2009	Launch date	-	14.75	-	-	-	-
31 May 2010	Accounts date	1,403.00	16.49	-	-	-	-
17 September 2010	Latest date	1,501.00	17.95	-	-	-	-

*Euro quoted units

Performance record (continued)

Net revenue distribution/accumulation

Calendar year	Income units		Accumulation units**	
	Pence per unit	Per £1,000 invested at 4 January 2005 (£)	Euros per unit	Per €1,000 invested at launch (€)
2005	3.3666	12.7324	-	-
2006	3.0904	11.6884	-	-
2007	3.7277	14.0987	-	-
2008	8.4608	31.991	-	-
2009	13.8304	52.3086	-	-
2010*	5.2842	19.9856	0.1616	0.0980

*1 January to 31 May 2010

**Euro quoted units

Total Expense Ratio (TER)

The TER of the Baring Europe Select Trust was 1.58% as at 31 May 2010 (31 May 2009: 1.60%).

Portfolio Turnover Rate (PTR)

The Portfolio Turnover Rate (PTR) for the 12 months ending 31 May 2010 was 206.43% (31 May 2009: 308.74%).

Responsibilities of the Managers

The Collective Investment Schemes (“COLL”) Sourcebook (“the Regulations”) requires the Managers to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the Scheme and of its net revenue and net gains for the year. In preparing the financial statements the Managers are required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (“IMA”) in November 2008;
- follow generally accepted accounting principles and applicable accounting standards;
- make judgments and estimates that are reasonable and prudent;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that this Scheme will continue in operation.

The Managers confirm that they have complied with the above requirements in preparing the financial statements. The Managers are responsible for the management of the Scheme in accordance with the Trust Deed, Prospectus and the Regulations. The Managers are responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibilities of the Trustee

The Trustee is responsible for the safekeeping of all the property of the Scheme (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Financial Service Authority’s Collective Investment Schemes Sourcebook (COLL), as amended, the Scheme’s Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Scheme; the application of the revenue of the Scheme; and the investment and borrowing of the Scheme.

Report of the Trustee to the Unitholders

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion that, based on the information available to us and the explanations provided, that, in all material respects, the Manager:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme’s units and the application of the Scheme’s revenue in accordance with the COLL, the Trust Deed and Prospectus, and
- has observed the investment and borrowing powers and restrictions applicable to the Scheme.

London 20 September 2010

The Royal Bank of Scotland plc
Trustee & Depositary Services

Directors' statement

The financial statements on pages 25 to 37 were approved by the Managers and signed on their behalf by:

J. MISSELBROOK Director

I.A. PASCAL Director

London 20 September 2010

Independent Auditors' Report

To the Unitholders of the Baring Europe Select Trust (“the Trust”)

We have audited the financial statements of Baring Europe Select Trust for the year ended 31 May 2010 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet and the related notes and the distribution table. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Managers and Auditors

The Managers' responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of the Responsibilities of the Managers.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the requirements of the Collective Investment Schemes Sourcebook. This report, including the opinion has been prepared for and only for the unitholders of the Trust as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes Sourcebook and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes Sourcebook and the Trust Deed. We also report to you whether, in our opinion, proper accounting records for the Trust have not been kept or whether the financial statements are not in agreement with those records, and whether the information given in the Managers' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Managers' Report and other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Managers in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Trust at 31 May 2010 and of the net revenue and the net gains of the property of the Trust for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes Sourcebook and the Trust Deed.

We have obtained all the information and explanations we consider necessary for the purposes of the audit.

In our opinion the information given in the Managers' Report is consistent with the financial statements.

20 September 2010

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

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Portfolio statement

As at 31 May 2010

Holding		Bid-Market Value (£)	Percentage of total net assets (%)
	Austria 2.99% (3.36%)		
167,752	Andritz	6,358,283	1.65
54,491	Mayr-Melnhof Karton	3,246,701	0.84
105,215	RHI	1,935,316	0.50
		11,540,300	2.99
	Belgium 7.19% (6.57%)		
56,343	Bekaert	6,608,588	1.71
16,984	D'leteren	5,081,272	1.31
182,696	KBC Ancora	2,464,778	0.64
404,109	Telenet	7,211,288	1.87
301,457	Umicore	6,423,806	1.66
		27,789,732	7.19
	Denmark 3.61% (4.31%)		
132,643	FLS Industries	5,788,598	1.50
170,559	NKT Holding	5,464,901	1.41
15,488	Simcorp	1,715,004	0.44
23,764	Solar A/S 'B'	985,422	0.26
		13,953,925	3.61
	Finland 1.49% (2.80%)		
276,648	Amer Sports 'A'	1,926,195	0.50
237,887	Nokian Renkaat	3,814,794	0.99
		5,740,989	1.49
	France 8.73% (8.84%)		
90,518	April Group	1,745,880	0.45
128,851	Boursorama	900,431	0.23
147,346	Eurazeo	6,240,770	1.62
97,845	Groupe Steria	1,917,182	0.50
432,538	Hi-Media	1,748,789	0.45
193,515	Ingenico	2,804,279	0.73
123,668	Ipsos	3,097,371	0.80
168,263	Publicis Groupe	4,784,313	1.24
55,758	Rubis	3,062,112	0.79
113,776	SEB	5,235,355	1.35
32,460	Virbac	2,196,520	0.57
		33,733,002	8.73

Portfolio statement (continued)

As at 31 May 2010

Holding		Bid-Market Value (£)	Percentage of total net assets (%)
Germany 17.92% (24.16%)			
380,457	Aareal Bank	4,640,569	1.20
295,003	ADVA Optical Networking	1,054,618	0.27
182,330	Alstria Office	1,109,334	0.29
48,330	Asian Bamboo	1,309,196	0.34
98,906	Bilfinger Berger	3,821,222	0.99
322,930	Comdirect	1,965,323	0.51
44,109	Drägerwerk	1,908,764	0.49
77,957	Fielmann	4,051,645	1.05
394,613	Freenet	2,754,930	0.71
141,225	Gerresheimer	3,053,868	0.79
200,643	Lanxess	5,700,721	1.48
200,227	Marschollek Lauten	1,146,643	0.30
164,781	MTU Aero Engines	6,237,960	1.61
142,825	Rheinmetall	5,679,107	1.47
27,102	SMA Solar Technologies	1,924,611	0.50
157,647	SMARTRAC	1,932,940	0.50
83,752	Software	5,665,947	1.47
396,992	Symrise	5,815,433	1.50
432,264	Tognum	5,482,199	1.42
100,276	VTG	1,092,513	0.28
409,081	Wirecard	2,882,748	0.75
		69,230,291	17.92
Greece 1.16% (1.72%)			
432,311	Hellenic Exchanges	1,828,825	0.47
386,787	Motor Oil	2,660,129	0.69
		4,488,954	1.16
Ireland 4.63% (1.55%)			
669,899	C&C Group	1,883,092	0.49
380,614	DCC	6,139,223	1.59
268,241	Kerry	5,141,774	1.33
1,694,489	Ryanair	4,733,657	1.22
		17,897,746	4.63

Portfolio statement (continued)

As at 31 May 2010

Holding	Bid-Market Value (£)	Percentage of total net assets (%)	
Italy 11.28% (7.74%)			
942,138	Amplifon	2,898,960	0.75
464,749	Ansaldo	4,869,630	1.26
950,433	Azimut	5,727,620	1.48
1,022,642	Banca Generali	6,445,671	1.67
1,814,922	Davide Campari-Milano	6,287,411	1.63
181,281	Diasorin	4,679,982	1.21
1,399,106	Gruppo Editoriale L'Espresso	2,144,785	0.56
303,425	Marr	1,731,688	0.45
634,200	Parmalat Finanz*	0	0.00
254,249	Safilo	1,659,870	0.43
1,618,324	Sorin	2,041,424	0.53
284,168	Trevi Finanziaria Industriale	2,931,550	0.76
421,814	YOOX	2,136,276	0.55
	43,554,867	11.28	
Luxembourg 1.41% (0.00%)			
160,051	Oriflame Cosmetics	5,455,075	1.41
Netherlands 11.68% (9.13%)			
233,090	Arcadis	2,827,209	0.73
268,085	ASM International	3,787,914	0.98
96,564	Beter Bed	1,455,227	0.38
95,077	Brunel International	1,973,412	0.51
125,949	Fugro	4,573,892	1.18
251,419	Gemalto	6,523,847	1.69
389,755	Imtech	7,225,519	1.87
128,182	Koninklijke TenCate	2,054,456	0.53
188,676	Unit 4 Agresso	2,931,689	0.76
367,761	USG	3,606,099	0.93
310,970	Vopak	8,202,751	2.12
	45,162,015	11.68	

Portfolio statement (continued)

As at 31 May 2010

Holding		Bid-Market Value (£)	Percentage of total net assets (%)
	Norway 2.72% (3.98%)		
498,100	Aker Solutions	4,920,398	1.27
7,130,000	Marine Harvest	4,038,894	1.05
1,051,000	Norwegian Energy Company	1,553,099	0.40
		10,512,391	2.72
	Spain 1.67% (6.09%)		
183,068	Gestevisión Telecinco	1,308,603	0.34
151,256	Tecnicas Reunidas	5,147,889	1.33
		6,456,492	1.67
	Sweden 10.28% (9.16%)		
232,147	BE	1,010,000	0.26
301,627	Betsson	2,862,324	0.74
430,218	Elekta	7,180,078	1.86
536,742	Getinge 'B'	7,350,677	1.90
426,761	Hexagon	3,749,117	0.97
166,259	Modern Times	5,982,943	1.55
229,208	Net Entertainment	1,503,895	0.39
128,935	Orc Software	1,612,466	0.42
702,022	Proffice	1,601,334	0.41
481,875	Swedish Match	6,883,616	1.78
		39,736,450	10.28
	Switzerland 9.10% (8.59%)		
14,040	Banque Cantonale Voudoise	3,770,480	0.98
8,545	Burckhardt Compression	934,742	0.24
42,617	Dufry	2,021,934	0.52
500,189	EFG International	4,791,001	1.24
2,956	Forbo	766,498	0.20
131,163	Gate Group	2,555,710	0.66
112,406	Kudelski	1,955,443	0.51
4,816	Kuoni Reisen	963,546	0.25
5,266	LEM	1,043,364	0.27

Portfolio statement (continued)

As at 31 May 2010

Holding	Bid-Market Value (£)	Percentage of total net assets (%)
Switzerland (continued)		
590,546 Logitech	5,843,262	1.51
124,530 Meyer Burger Technology	1,909,960	0.49
72,127 Partners Group	5,720,578	1.48
47,451 Tecan Group	1,900,137	0.49
1,041 Zehnder Group	1,008,292	0.26
	35,184,947	9.10
Portfolio of Investments 95.86% (98.00%)	370,437,176	95.86
Net other assets	15,985,927	4.14
Net assets	386,423,103	100.00

*Unquoted and Illiquid securities.

Note: Securities shown on the portfolio statement are ordinary shares unless otherwise stated.
Comparative figures shown in brackets relate to 31 May 2009.

Statement of total return

for the year ended 31 May 2010

	Notes	2010		2009*	
		£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	2		51,905		(63,576)
Revenue	3	7,666		6,981	
Expenses	4	(5,405)		(3,423)	
Finance costs: Interest	6	(2)		(12)	
Net revenue before taxation		2,259		3,546	
Taxation	5	(772)		(783)	
Net revenue after taxation			1,487		2,763
Total return before distributions			53,392		(60,813)
Finance costs: Distributions	6		(1,487)		(2,763)
Change in the net assets attributable to unitholders from investment activities			51,905		(63,576)

* Comparative figures have been restated for the presentation changes following adoption of the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 (see Note 1 on page 27).

Statement of change in net assets attributable to unitholders

for the year ended 31 May 2010

	2010		2009	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		227,696		291,308
Amounts receivable on issue of units	155,226		46,029	
Amounts payable on cancellation of units	(48,442)		(46,065)	
		106,784		(36)
Change in net assets attributable to unitholders from investment activities (see above)		51,905		(63,576)
Retained distribution on accumulation units		35		-
Unclaimed distributions		3		-
Closing net assets attributable to unitholders		386,423		227,696

Balance sheet

As at 31 May 2010

		31/05/10	31/05/09
	Notes	£'000	£'000
ASSETS			
Investment assets		<u>370,437</u>	223,132
Debtors	8	6,660	12,184
Cash and bank balances	15	<u>17,392</u>	9,959
Total other assets		<u>24,052</u>	22,143
Total assets		<u>394,489</u>	245,275
LIABILITIES			
Creditors	9	(5,576)	(11,856)
Distribution payable on income units	6	(1,449)	(2,807)
Bank overdrafts	15	<u>(1,041)</u>	(2,916)
Total other liabilities		<u>(8,066)</u>	(17,579)
Net assets attributable to unitholders		<u><u>386,423</u></u>	227,696

Notes to the financial statements

for the year ended 31 May 2010

1. Accounting policies

Changes to accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Trusts issued by the IMA in November 2008 ('the IMA SORP 2008').

Previously the financial statements were prepared in accordance with the Statement of Recommended Practice for Authorised Trusts issued by the IMA in December 2005. The effect of the IMA SORP 2008 has been to adopt presentational changes to The Statement of Total Return and comparative figures have been restated accordingly.

There is no impact on the return for the year or the net assets attributable to unitholders. The effects of these changes on the current and prior year are as follows:

Transaction charges were previously recognised in 'expenses' but are now included in 'net capital gains/(losses)'. The effect of this change has been to reduce 'expenses' by £47,633 (31 May 2009: £48,117) and to reduce 'net capital gains' (31 May 2009: increase 'net capital losses') by the same amount.

'Currency gains' were previously recognised in 'other gains' but are now included in 'net capital gains/(losses)'. The effect of this change has been to reduce 'other gains' by £45,784 (31 May 2009: reduce by £748,754) and to increase 'net capital gains' (2009: reduce 'net capital losses') by the same amount.

Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 May 2010, being the last working day of the accounting year. The fair value for non-derivative securities is the bid-market price, excluding any accrued interest.

Foreign exchange

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at 12 noon on 28 May 2010, being the last working day of the accounting year.

Recognition of revenue

Revenue from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Bank interest and other revenue are recognised on an accrual basis.

Treatment of expenses

For accounting purposes, all expenses (other than those relating to the purchases and sale of investments and stamp duty reserve tax) are charged against revenue for the year on an accruals basis.

Notes to the financial statements (continued)

for the year ended 31 May 2010

1. Accounting policies (continued)

Taxation

Corporation tax is provided for on an accounting basis, hence deferred tax on short-term timing difference does not arise. Deferred tax assets arising from unutilised expenses or excess unrelieved foreign tax are only recognised as they are expected to crystallize. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Distribution policy

When appropriate in respect of income units the Trust will pay any surplus revenue as a distribution, while that in respect of accumulation units is retained for investment in the Trust.

Unclaimed distributions

Distributions which have remained unclaimed by unitholders for over six years are credited to the capital property of the Trust.

Dilution adjustment

Trusts which are single priced may suffer a reduction in value as a result of the costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments. With effect from 1 March 2007 the Manager moved from imposing a dilution levy to instead making a dilution adjustment to counter the effects of dilution. This will result in an adjustment to the price of a unit on issue and redemption of units.

Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the Trust. Any enhancement above the cash dividend is treated as capital.

Stocklending revenue

Revenue from stocklending is accounted for net of agent's fees and commissions and is recognised on an accruals basis.

Special dividends

These are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable

2. Net capital gains/(losses)

Net capital gains/(losses) during the year comprise:

	2010 £'000	2009 £'000
Non-derivative securities	51,907	(64,277)
Currency gains	46	749
Transaction charges	(48)	(48)
Net capital gains/(losses) on investments	51,905	(63,576)

Notes to the financial statements (continued)

for the year ended 31 May 2010

3. Revenue

	2010 £'000	2009 £'000
Bank interest	30	263
Overseas dividends	7,636	6,658
Securities lending revenue	-	60
	7,666	6,981

4. Expenses

	2010 £'000	2009 £'000
Payable to the Managers or associates of the Managers:		
Managers' service charge	5,121	3,218
VAT refund on management fees	-	(14)
Registration fees	58	51
	5,179	3,255
Payable to the Trustee or associates of the Trustees:		
Trustee's fee	72	53
Safe custody charges	120	74
Other expenses		
Audit fees	10	10
Legal fees	3	-
Professional fees*	21	31
	34	41
Total expenses	5,405	3,423

* Professional fees were paid to PricewaterhouseCoopers (PwC) or an affiliate of PwC.

Notes to the financial statements (continued)

for the year ended 31 May 2010

5. Taxation

	2010 £'000	2009 £'000
a) Analysis of charge in year:		
Corporation tax	-	709
Double taxation relief	-	(709)
Overseas withholding tax	772	783
	<u>772</u>	<u>783</u>
b) Factors affecting taxation charge of the year:		
The tax assessed for the year is lower than the standard rate of Corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:		
Net revenue before taxation	<u>2,259</u>	<u>3,498</u>
Corporate tax at 20%	452	699
Effects of:		
Non taxable overseas dividends	(1,197)	-
Transaction charges	-	10
Current period expenses not utilised	745	-
Overseas withholding tax	772	783
Double taxation relief	-	(709)
Current tax charge for the year (note 5a)	<u>772</u>	<u>783</u>
c) Deferred tax		
Provision at the start of the year	-	-
Deferred tax charge in the year	-	-
Provision at the end of the year	<u>-</u>	<u>-</u>

The Trust has not recognised a total deferred tax asset of £744,672 (2009: £1,106,048). The Trust has not recognised a deferred tax asset of £744,672 (2009: £nil) arising as a result of having unutilised management expenses and £nil (2009: £1,106,048) in respect of Eligible Unrelieved Foreign Tax. These are not expected to be fully utilised in the foreseeable future unless the nature of the Trust's revenue or capital gains changes.

Notes to the financial statements (continued)

for the year ended 31 May 2010

6. Finance costs

Distributions

The distributions take account of revenue received on the issue of units and revenue deducted on cancellation of units, and comprise:

	2010 £'000	2009 £'000
Final distribution	1,449	2,807
Final accumulation	35	-
	1,484	2,807
Add: Revenue deducted on units cancelled	23	47
Deduct: Revenue received on units created	(20)	(91)
	1,487	2,763
Interest	2	12
Total Finance costs	1,489	2,775

7. Movement between net revenue and distributions

	2010 £'000	2009 £'000
Net revenue after taxation	1,487	2,763
	1,487	2,763

8. Debtors

	31/05/10 £'000	31/05/09 £'000
Accrued revenue	687	102
Amounts receivable on issue of units	1,299	619
Overseas tax recoverable	559	535
Sales awaiting settlement	3,821	9,304
Currency deals receivable	294	1,624
	6,660	12,184

Notes to the financial statements (continued)

for the year ended 31 May 2010

9. Creditors

	31/05/10 £'000	31/05/09 £'000
Accrued expenses	556	310
Amounts payable for cancellation of units	1,809	825
Currency deals awaiting settlement	294	1,631
Purchases awaiting settlement	2,917	9,090
	5,576	11,856

10. Related parties

Baring Fund Managers Limited, together with The Royal Bank of Scotland plc are regarded as controlling parties by virtue of having the ability to act in concert in respect of the operations of the Trust.

Baring Fund Managers Limited, a related party, acts as principal on all the transactions of units in the Trust. The aggregate monies received through creations and liquidations are disclosed in the statement of change in net assets attributable to unitholders', amounts due to/from Baring Fund Managers Limited in respect of unit transactions at the year end are disclosed in notes 8 and 9 where applicable.

Amounts paid to Baring Fund Managers Limited in respect of Managers' periodic charges are disclosed in note 4. The balance due at the year end was £507,954 (31 May 2009: £213,466).

Amounts paid to The Royal Bank of Scotland plc in respect of trustee services, safe custody and transaction charges are disclosed in note 4. The balance due at the year end was £7,283 (31 May 2009: £19,145).

Amounts paid to Northern Trust in respect of securities lending was £nil (31 May 2009: £19,916). This has been disclosed in note 11. There is no balance due at year end.

Cash balances on deposit are held with The Royal Bank of Scotland plc and are disclosed in the balance sheet together with interest due. Interest receivable of £1,455 (31 May 2009: £1,168) is disclosed within accrued revenue in note 8.

Neither Baring Fund Managers Limited nor The Royal Bank of Scotland plc entered into any other transactions with the Trust during the year.

Dealings with Associates:

There were no brokerage deals for the year effected through connected persons.

Any transactions through related parties are entered into in the ordinary course of business and on normal commercial terms.

11. Stocklending activities

The Trust commenced stocklending activities on 1 June 2006. The gross revenue earned from these activities for the current year was £nil (31 May 2009: £79,666). Fees of £nil (31 May 2009: £19,916) were paid to Northern Trust. The net revenue earned was £nil (31 May 2009: £59,750).

The value of stock on loan at the balance sheet date was £nil (31 May 2009: £nil). The total value of collateral held at the balance sheet date was £nil (31 May 2009: £nil). The collateral consisted of bonds/equities to the value of £nil (31 May 2009: £nil) and cash to the value of £nil (31 May 2009: £nil).

Notes to the financial statements (continued)

for the year ended 31 May 2010

12. Equalisation

Equalisation is accrued revenue included in the price of units purchased during the accounting year, which, after using monthly groupings to average, is refunded as part of a unitholder's first distribution/accumulation, resulting in the same rate of distribution/accumulation on all units. As a capital repayment, it is not liable to income tax but must be deducted from the cost of units for Capital Gains Tax purposes.

13. Contingent liabilities

There were no contingent liabilities at the year end date (31 May 2009: £nil).

14. Financial instruments

In pursuing its investment objective set out on page 8 the Trust may hold a number of financial instruments. These comprise:

- equity and non-equity shares, fixed income securities, and floating rate securities. These are held in accordance with the Trust's investment objective and policies;
- cash, liquid resources and short-term debtors and creditors that arise directly from its operations;
- unitholders' funds which represent investors' monies which are invested on their behalf;
- borrowings used to finance investment activity;
- forward foreign currency contracts, the purpose of which is to manage the currency risk arising from the Trust's investment activities (and related financing). Open positions at the balance sheet date, which are all covered, are included in the portfolio statement. Unrealised gains/(losses) on forward foreign exchange transactions are taken to capital.

15. Risks of financial instruments

The risks arising from the Trust's financial instruments are market price, foreign currency, interest rate, liquidity and credit risks. The Managers review (and agree with the Trustee) policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate (31 May 2009: same).

- *Market risk* - arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Trust might suffer through holding market positions in the face of price movements.

The Managers meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the investment objective. An individual fund manager has responsibility for monitoring the existing portfolio selected in accordance with the overall asset allocation parameter described above and seeks to ensure that individual stocks also meet the risk reward profile that is acceptable.

The Managers do not use derivative instruments to hedge the investment portfolio against market risk, as in their opinion the cost of such a process would result in an unacceptable reduction in the potential for capital growth;

- *Foreign currency risk* - the revenue and capital value of the Trust's investments can be significantly affected by foreign currency translation movements as the majority of the Trust's assets and revenue are denominated in currencies other than the Sterling which is the Trust's functional currency.

The Managers have identified three principal areas where foreign currency risk could impact the Trust. These are, movement in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements during the period between when an investment purchase or sale is entered into and the date when settlement of the investment occurs, and finally movements in exchange rates affecting revenue received by the Trust. The Trust converts all receipts of revenue, received in currency, into Sterling on the day of receipt.

Notes to the financial statements (continued)

for the year ended 31 May 2010

15. Risks of financial instruments (continued)

At the year end date a portion of the net assets of the Trust were denominated in currencies other than Sterling with the effect that the balance sheet and total return can be affected by exchange rate movements. These net assets consist of the following:

Foreign currency exposure for the year ended 31 May 2010:

	Portfolio of investments £'000	Current net assets £'000	Total £'000
Danish kroner	13,954	30	13,984
Euro	265,595	10,906	276,501
Norwegian kroner	10,512	4,816	15,328
Swedish krona	45,191	6	45,197
Swiss franc	35,185	79	35,264
	370,437	15,837	386,274

Foreign currency exposure for the year ended 31 May 2009:

	Portfolio of investments £'000	Current net assets/(liabilities) £'000	Total £'000
Danish kroner	9,813	(17)	9,796
Euro	166,208	1,507	167,715
Norwegian kroner	9,046	1,838	10,884
Swedish krona	20,843	(1,092)	19,751
Swiss franc	17,222	2,205	19,427
	223,132	4,441	227,573

- Interest rate risk** - The Trust may invest in both fixed rate and floating rate securities, any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the Managers being unable to secure similar returns on the expiry of contracts or the sale of securities. In addition changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held.

In general, if interest rates rise the revenue potential of the Trust also rises but the value of fixed rate securities will decline (along with certain expenses calculated by reference to the assets of the Trust). A decline in interest rates will in general have the opposite effect.

Notes to the financial statements (continued)

for the year ended 31 May 2010

15. Risks of financial instruments (continued)

The interest rate risk profile of financial assets and liabilities consists of the following:

	Floating rate financial assets 31/05/10 £'000	Floating rate financial assets 31/05/09 £'000
Currency		
Danish kroner	519	223
Euro	9,630	774
Norwegian kroner	2,300	-
Sterling	3,521	5,368
Swedish krona	147	682
Swiss franc	1,275	2,912
	17,392	9,959
	Floating rate financial liabilities 31/05/10 £'000	Floating rate financial liabilities 31/05/09 £'000
Currency		
Euro	195	258
Sterling	846	2,658
	1,041	2,916

The floating rate assets and liabilities comprise bank balances and overdrafts, whose rates are determined by reference to LIBOR or international equivalent borrowing rate.

- *Liquidity risk* - the Trust's assets comprise mainly readily realisable securities, which can be readily sold. The main liability of the Trust is the redemption of any units that investors wish to sell.
- *Credit risk* - certain transactions in securities that the Trust enters into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Trust has fulfilled its responsibilities.

The Trust only buys and sells investments through brokers which have been approved as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any individual broker that may exist at any time, these limits are reviewed regularly.

Notes to the financial statements (continued)

for the year ended 31 May 2010

15. Risks of financial instruments (continued)

- *Fair value* - there is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.
- *Derivatives and other financial instruments* – the Trust does not hold any derivatives that could impact the value of the Trust significantly.

16. Portfolio transaction costs

Analysis of total purchase costs:

	2010 £'000	2009 £'000
Purchases in year before transaction costs	498,306	381,147
Commissions	517	413
Taxes	207	89
Total purchase costs	<u>724</u>	<u>502</u>
Gross purchases total	<u>499,030</u>	<u>381,649</u>
Gross sales before transaction costs	402,543	372,894
Commissions	(405)	(439)
Taxes	(28)	(37)
Total sale costs	<u>(433)</u>	<u>(476)</u>
Total sales net of transaction costs	<u>402,110</u>	<u>372,418</u>

Distribution tables

Group 1: units purchased prior to 1 June 2009

Group 2: units purchased on or after 1 June 2009

Final distribution (in pence per unit)

Group	Net Income	Equalisation (note 12)	2010 Net Distribution Payable	2009 Net Distribution Paid
1	5.2842	0.0000	5.2842	13.8304
2	5.0961	0.1881	5.2842	13.8304

Final accumulation (in Euros per unit)

Group	Net Income	Equalisation (note 12)	2010 Net Accumulation Payable	2009 Net Accumulation Paid
1	0.1616	0.0000	0.1616	0.0000
2	0.1596	0.0020	0.1616	0.0000

Other funds and services

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Trusts with initial minimum investment of £1,000

- * Baring Absolute Return Global Bond Trust[†]
- Baring Eastern Trust
- Baring Europe Select Trust
- Baring European Growth Trust
- Baring German Growth Trust
- * Baring Global Bond Trust
- * Baring Global Growth Trust
- * Baring Japan Growth Trust
- Baring Korea Trust
- * Baring Portfolio Fund
- * Baring UK Growth Trust
- * Baring UK Smaller Companies Trust

†£1,000 minimum investment for accumulation units, £10,000 minimum for income units

**The above Trusts have not been authorised by the Securities and Futures Commission in Hong Kong, and are therefore not available for investment by residents of Hong Kong.*

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Forename(s) in full

Title & Surname

Address

Postcode





Baring Fund Managers Limited

155 Bishopsgate

London

EC2M 3XY

Tel: +44 (0)20 7628 6000

Fax: +44 (0)20 7638 7928

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www.barings.com

Registered in England and Wales no: 00941405

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