CF Taylor Young Equity Income Fund – 31 December 2011

FUND FACTS

Lead Manager
Peter Thomson

Fund Size
£10.7m

Price of 'A' Acc
172.61p

Launch Date
17 June 2002

Benchmark
FTSE All-share 80%
FT UK Gilts 15%
Cash 5%

Yield of 'A' Acc
4.1%

Number of Holdings
27

Morningstar Rating
3*

IMA Sector
UK Equity Income

SEDOL Number
3172478 ('A' Acc shares)
3168518 ('A' Inc shares)

Structure
Open Ended Investment Company

Pricing Frequency
Daily at 12:00 (noon)

Listings
Financial Times ('A' shares), IMA, Capita Financial

Performance
Mid price, sterling basis, inclusive of net reinvested income, shown after deduction of charges

Dividend Payment Date
End February, end August

Accounting Period
1 July to 30 June

Initial Charge
5%

Annual Management Fee
1.5%

Minimum Investment
£7,000 minimum

Share Classes
Accumulation & Income classes of A shares

Authorised Corporate Director
Capita Financial Managers
Ibex House, 42-47 Minories
London, EC3N 1DX
0870 607 2555

Investment Objective

To generate an income yield before charges which is in excess of 110% of the yield of the FTSE-All Share Index, together with some capital growth by investing in a diversified portfolio of mainly FTSE 100 Companies using a thematic, research-led investment process.

Fund Commentary

Review
There remain many significant risks to economic returns and company profits, and in our view, most particularly to margins, and, as a result, we have remained quite cautious in this Fund. In the event, there was a strong rally in markets and this stance has lead to some growth this quarter, but some underperformance against the benchmark. However, the Fund has maintained its excellent outperformance over a three year period, which is our preferred timescale. These three year returns mean that the Fund is very competitive against its peers in the Equity Income category.

The biggest contribution to growth has been from some of the large, higher-yielding companies, which we prefer at the moment, as they have liquid shares and strong balance sheets. Thus, Royal Dutch Shell, Prudential, British American Tobacco and GlaxoSmithKline have all returned well. There has also been a strong recovery from Micro Focus, which has announced a large return of capital.

Most disappointing have been the falls from Admiral, the UK's largest car insurer, which has crossed swords with the regulator over the Confused.com comparison website, and from Huntsworth, the international public relations business. Admiral we have now sold, while Huntsworth has suffered to some extent for being a small business and a large liquidity discount seems to have been applied by the market in current conditions. We have used this opportunity to add to the holding and note that the company is busy buying back shares and we believe that they will maintain their dividend.

There have not been many changes to the portfolio in the past few months, though we have boosted exposure to large, higher-yielding companies by adding holdings in Imperial Tobacco and Unilever. We have also bought some Provident Financial, which provides small loans to those who cannot raise money from traditional routes. We have sold holdings in more cyclical companies, such as Johnson Matthey, as well as moving on from BP, Aviva and National Grid.

Outlook
We remain underweight the fixed interest element, feeling that there is not much value here, while acknowledging that we missed out from the returns made from longer dated bonds, as yields fell even further during 2011. We continue to prefer large, higher-yielding companies over cash and are maintaining a cautious stance. The investments support an above average yield of over 4%, which is very attractive.

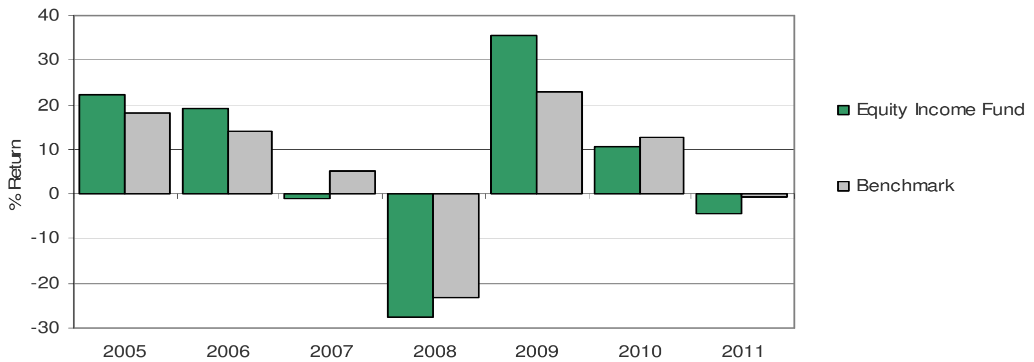
Cumulative Performance - 17 June 2002 to 31 December 2011

'A' Acc Shares	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
Equity Income Fund	3.3%	(6.0)%	(4.4)%	43.3%	2.6%	72.6%
Equity Income Benchmark	7.5%	(3.2)%	(0.7)%	37.7%	11.3%	71.3%

Over 1 year, the Equity Income Fund was 3rd quartile in the UK Equity Income sector, 2nd quartile over 3 years and 2nd quartile over 5 years*.

Discrete Annual Performance

'A' Acc shares	2011	2010	2009	2008	2007	2006	2005
Equity Income Fund	(4.4)%	10.5%	35.6%	(27.6)%	(1.1)%	19.3%	22.2%
Equity Income Benchmark	(0.7)%	12.8%	22.8%	(23.2)%	5.3%	14.0%	19.0%



Source: TYIM/Bloomberg. *Trustnet 31/12/11

RISK WARNING: The value of the investments and the income from them may go down as well as up and past performance is no guarantee of future performance. Rates of exchange may affect the value of the investment.

www.tayloryoung.com

Top 10 Holdings (31/12/2011)

	Stock	Weight	Industry Sector
1	Royal Dutch Shell	7.3%	Oil & Gas
2	Vodafone	6.7%	Telecommunications
3	Astra Zeneca	5.5%	Health Care
4	Micro Focus	5.2%	Technology
5	Pennon	5.0%	Utilities
6	British American Tobacco	4.5%	Consumer Goods
7	GlaxoSmithKline	4.4%	Health Care
8	BG	3.8%	Oil & Gas
9	SSE	3.6%	Utilities
10	Reckitt Benckiser	3.6%	Consumer Goods
		49.6%	

Portfolio Composition (31/12/2011)

Sector	Fund	Benchmark
Financials	17.0%	15.2%
Consumer Goods	14.1%	10.6%
Oil & Gas	11.2%	15.3%
Health Care	9.8%	6.4%
Utilities	8.6%	3.1%
Telecommunications	6.7%	5.2%
Technology	5.2%	1.2%
Basic Materials	5.1%	9.2%
Industrials	4.6%	6.4%
Consumer Services	4.4%	7.4%
Gilts	6.0%	15.0%
Cash	7.3%	5.0%

Key Themes

Dividend Sustainability
As the fruits of last year's labours come to the fore, dividend growth rates in 2011 are improving. Companies, previously marred with financial uncertainty and exercising caution, should focus more on returning value to shareholders. An optimistic outlook for M&A may be partly tempered by the continuing strains on bank financing. Many companies seem likely to find themselves with restricted strategic alternatives. Equity market risk remains a very important consideration and numerous companies offering sustainable dividend growth rates provide attractive alternatives to more vigorous growth stocks.

Equities v Fixed Income
Whilst we are positioning the portfolio more defensively, we continue to believe that the risk-reward trade off is better in equities than fixed income and both are considerably better than cash. We also believe that the dollar should strengthen once the initial impact of the ending of the second phase of quantitative easing has passed. With this in mind, we maintain an underweight position in Treasury stock.

Predictability and Transparency
In these difficult economic times, when investor horizons are shortened, we believe that it is important to focus on the quality of earnings, cashflow and dividends, as well as looking at the liquidity of the shares. The quality of earnings reflects the extent to which a company has a clearly defined policy, is open about current risks and opportunities and which report their accounts in a true and fair manner.

Quality of International Earnings
As a central theme, we very much continue to favour high quality, multinational companies, which derive a significant proportion of revenues from the western recovery, coupled with exposure to the growth rates of emerging economies. We are looking for and supporting businesses with good cash flow and a strong competitive market position. We have reduced exposure to companies that are reliant on the domestic consumer.

Behaviour
With interest rates languishing at the lowest level on record and with the threat of inflation rearing its head, investors have fewer options when making asset allocation decisions, and so equity markets, conceivably by default, appear to offer the most compelling investment case. A lack of top-line growth, coupled with increasing input costs, threatens many companies with margin issues and this danger may gain traction during the year.

Fund Manager

Peter Thomson - CEO and CIO of Taylor Young Investment Management Limited

Peter Thomson, born 1965, graduated with a BSc (Honours) in Mathematics and Statistics from University of London in 1986. He joined Taylor Young in 2004 from Gerrard Limited where he spent eighteen years managing Private Client, Trust and Charity mandates. At Gerrard he chaired the Investment Process Committee and, latterly, was Head of the Global Strategies Division. At Taylor Young he leads the Investment Team and Research functions and in May 2006 was appointed as Chief Executive Officer and Head of the Executive Committee. He qualified as a Member of the Stock Exchange specialising in Investment Analysis, Private Client Investment Management and Regulation and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

In addition to his responsibilities at Taylor Young, Peter is an experienced Trustee acting for a number of family and charitable trusts and is a Non-Executive Director of a number of businesses. Peter is married with two daughters.

This document is issued by **Taylor Young Investment Management Limited**
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