

Chairman's Statement

I am pleased to write to you for the first time as your Company's Chairman, a role I took over at the Company's financial year end.

In the year to 30 June 2012, net asset value declined by 8.6% to 229.8p per share. The share price fell by 9.2% to 230.75p per share. The FTSE World index dropped by 6.2% in sterling terms. This has been a challenging year for markets, reflecting the structural challenges faced by economies which companies cannot permanently insulate themselves against, and the Company's underperformance has been disappointing. Repeated central bank stimuli have managed to contain, for now, what would otherwise have been a combination of Western debt deflation and deep recession. These interventions buy time, but not an indefinite amount. Policy making in the afflicted parts of the Western world appears to be running up against the laws of diminishing returns. Underlying sovereign balance sheets are deteriorating further meantime. What has happened is akin to stripping insulation from the bare economic wire – governments and Central Banks are that insulation. As time goes on, and in the absence of a more potent recovery, the risk of short-circuit increases. Following a partial, tactical withdrawal from our sale of index futures following the European Central Bank intervention in the early part of this calendar year, we have reverted to the strategic position of having significant portfolio insurance. Should markets turn south unexpectedly, we would hope to find ourselves with cash flow from margin payments and to be in a position to exploit any major weakness in asset prices. This remains an unusual situation for the Company but one we believe remains merited by the circumstances.

Earnings and dividend

The revenue return for the year of 2.93p per share represents a 14.6% fall in earnings compared to the previous year. The surprising strength of portfolio dividends enjoyed last year has not been maintained, owing in part to the non-payment of a dividend by Marine Harvest in the current year, historically a generous contributor to our income stream.

The Company can draw upon accumulated revenue reserves to address such an earnings shortfall in order to maintain its dividend and, accordingly, a final dividend of 2.0p will be recommended, taking the full year total to 3.3p, equivalent to the 16.5p paid last year.

Discount and share buybacks/ issuance

The 1.0% premium at which the Company's shares were trading at the previous year end had fallen to 0.4% by 30 June 2012. During the year it rose to over 7%, however, and the Company was able to issue 500,000 new shares, raising £1.19m, to satisfy shareholder demand. To reiterate the intention expressed in the Half-Yearly Management Report, it is hoped that liquidity will be improved by the creation of a band within which issuance and buybacks take place as a matter of routine.

Board

At last year's Annual General Meeting ('AGM') I thanked Pat Barron for his years of service on this Company's Board, and I should like to do so again, following his retirement from the Board on 30 June 2012. After almost ten years as a Director, Pat took over as Chairman in 1989 after the sudden and untimely death of George Scott, and led the Company with calm and good humour through the long boom of the 1990s and the very difficult period since the spring of 2001. I also welcome two new Directors: Harry Morgan and Alan Scott, both appointed with effect from 21 May 2012, who therefore fall to be elected by shareholders at the AGM to be held on 8 October 2012. As can be seen from his description on page 5, Harry has wide and lengthy investment experience, particularly with private clients, while Alan, son of the late George, not only represents the next generation of the Scott family, but also has broad financial experience in banking and wealth management. Their experience will be of great value to the Board and I commend their election to you.



Outlook

Most of last year's outlook statement still applies. As is exhaustively rehearsed in the media, the Eurozone political and financial drama appears to be nearing a denouement. Periodic flurries of politicking demonstrate strong intent but also rising north/south strains and questionable effectiveness. There do not appear to be any clear winners in this game in either the short or even perhaps the medium term. Recovering from the prolonged overindulgence of the past, in the case of Europe, which for this purpose includes the UK, is likely to take a long period of adjustment (perhaps alongside fiscal, political and banking integrations). The alternative is a short, sharp shock – some manner of Eurozone break-up and a complex web of accompanying unintended and mostly undesirable consequences. Long term causes for optimism, however, are significant. They fall mainly into two categories – commercial innovation and renovation on the one hand, and a multi-decade long expansion of consumption across large swathes of the world's population on the other. Most of Asia, for instance, continues to grow at a worthwhile pace and has high savings ratios to back up higher spending. It would not be immune in the short term from some dislocation in Western economies, but seems well placed over the next ten or twenty years. This would appear to be a more significant development than the moderate but fragile recovery in the US economy that has preoccupied markets over the past year.

The pace of global growth has mostly been slowing markedly of late. Rising commodity prices, a feature of last year's report, have been reversing in the last few months, as has headline inflation. Industrial production indices and surveys have been slipping back into low growth or even flat to down territory. Inventory levels have not yet fallen, however, indicating a marked weakness in final demand and more weak output to come.

Overall, this is a subdued backdrop for equity investors despite or perhaps because of the recent success of companies and their profits. Outwith equities, where valuations seem from a long term perspective somewhere between moderately attractive to rather expensive, there appear to be few clear attractive asset classes. Some such, in the form of catastrophe bonds, litigation finance and assorted other forms of mispriced equity-like risk, are important and uncorrelated, if modest, elements of Mid Wynd's portfolio. Volatility in asset prices deriving from high profile events may continue to throw up investment opportunities of a short term nature. Taking advantage of such a situation will require tenacity, fortitude and intelligence in equal measure.

Richard RJ Burns
16 August 2012

Performance Attribution for the year to 30 June 2012 (in sterling terms)

Computed relative to the FTSE World Index (in sterling terms) with net income reinvested.

Portfolio breakdown	Index allocation 30.06.11	Index allocation 30.06.12	Mid Wynd asset allocation 30.06.11	Mid Wynd asset allocation 30.06.12	Performance * Mid Wynd %	Performance * Index %	Contribution to relative return %	Contribution attributable to stock selection %	Contribution attributable to asset allocation † %
UK	8.5	8.6	26.3	30.9	2.6	(2.6)	1.7	1.5	0.2
Europe ex UK	19.3	16.1	22.0	20.6	(9.2)	(20.1)	2.2	2.7	(0.5)
North America	48.6	52.8	15.9	22.4	(13.8)	5.9	(6.7)	(3.6)	(3.1)
Asia Pacific including Japan	16.4	16.1	8.3	5.9	(12.2)	(7.3)	(0.1)	(0.4)	0.3
Emerging Markets	7.2	6.4	27.0	20.1	(10.0)	(13.0)	(0.5)	0.9	(1.4)
Bonds	–	–	6.6	5.4	8.2	–	0.8	–	0.8
Futures	–	–	–	–	–	–	0.6	–	0.6
Cash	–	–	2.2	2.6	–	–	(1.0)	–	(1.0)
Loans	–	–	(8.3)	(7.9)	(1.0)	–	(0.2)	–	(0.2)
Total	100.0	100.0	100.0	100.0	(6.6)	(3.5)	(3.2)	1.1	(4.3)

Past performance is not a guide to future performance.

Source: Statpro/Baillie Gifford & Co

* The above returns are calculated on a total return basis with net income reinvested. Mid Wynd's figures represent the returns on the Company's portfolio and the index figures for each geographical area represent the return on the appropriate FTSE index.

† Asset allocation includes the contribution attributable to currency movements.

Contributions cannot be added together as they are geometric; for example, to calculate how a return of -6.6% against an index return of -3.5% translates into a relative performance of -3.2%, divide the portfolio performance of 93.4 by the index year end figure of 96.5 and subtract one.

Investment Changes (£'000)

	Valuation at 30 June 2011	Net acquisitions/ (disposals)	Appreciation/ (depreciation)	Valuation at 30 June 2012
Equities*:				
UK	17,415	1,517	183	19,115
Continental Europe	14,580	(310)	(1,523)	12,747
North America	10,555	5,032	(1,727)	13,860
Asia Pacific including Japan	5,525	(1,057)	(811)	3,657
Emerging Markets	17,923	(3,401)	(2,090)	12,432
Total equities	65,998	1,781	(5,968)	61,811
Bonds:				
Sterling bonds	1,119	(1,391)	272	–
Euro bonds	301	834	138	1,273
US dollar bonds	2,003	140	(60)	2,083
Brazilian real bonds	939	(953)	14	–
Total bonds	4,362	(1,370)	364	3,356
Total investments	70,360	411	(5,604)	65,167
Net liquid assets	1,435	618	(457)	1,596
Total assets	71,795	1,029	(6,061)	66,763

The figures above for total assets are made up of total net assets before deduction of the bank loans.

* Equities include limited partnerships, unit trusts, OEICs, SICAVs, index options and convertible loan notes expected to convert to equity.

Top Ten and Bottom Ten Contributors to Performance

For the year ended 30 June 2012

Top Ten

Name	Contribution (%)
IP Group	4.2
TJX Companies	0.6
The Biotech Growth Trust	0.6
Curis	0.5
BIM Birlesik Magazalar	0.5
Marine Harvest	0.4
Better Capital	0.3
Intuitive Surgical	0.3
Falkland Oil and Gas	0.3
Seattle Genetics	0.3

Bottom Ten

Name	Contribution (%)
Digital Garage	(0.7)
Ocean Wilsons	(0.7)
ASOS.com	(0.6)
Research In Motion	(0.6)
Aixtron	(0.5)
HaloSource	(0.5)
Sino-Forest	(0.5)
Yoox.com	(0.5)
Level E Maya Fund	(0.5)
Craneware	(0.5)

Thirty Largest Holdings

Name	Region	Business	2012 Value £'000	2012 % of total assets	2011 Value £'000
IP Group	United Kingdom	Commercialisation of intellectual property	3,791	5.7	1,254
Level E Maya Fund	United Kingdom	Artificial intelligence based algorithmic trading	2,129	3.2	2,454
Odontoprev	Emerging Markets	Dental health services – Brazil	2,127	3.2	2,286
Reinet Investments SCA	Continental Europe	Investment holding company	1,929	2.9	993
Kone	Continental Europe	Elevators	1,680	2.5	1,704
Ocean Wilsons	United Kingdom	Tugboats, platform supply vessels and container handling – Brazil	1,344	2.0	1,755
Marine Harvest	Continental Europe	Salmon farming	1,300	1.9	359
BIM Birlesik Magazalar	Emerging Markets	Discount food stores – Turkey	1,193	1.8	588
Better Capital	United Kingdom	Fund investing in distressed businesses	1,114	1.7	885
The Biotech Growth Trust	United Kingdom	Biotechnology investment trust	1,064	1.6	723
MMX Mineracao e Metalicos	Emerging Markets	Port – royalties based on iron ore shipments	1,037	1.6	601
Fuchs Petrolub	Continental Europe	Specialty lubricant manufacture	1,030	1.5	405
Schindler	Continental Europe	Elevators	999	1.5	1,061
Santos Brasil Participacoes	Emerging Markets	Container handling and logistics services – Brazil	921	1.4	1,064
Reynolds Group 9.5% 2017	Fixed Interest	Food and beverage packaging and storage company bond	903	1.4	–
TJX Companies	North America	Discount clothing and homeware stores	854	1.3	510
Naspers	Emerging Markets	Media company – South Africa and China	846	1.3	875
Yoox.com	Continental Europe	Online fashion retailer	823	1.2	1,399
Chariot Oil & Gas	Emerging Markets	Oil and gas exploration and production – Namibia	799	1.2	512
Doric Nimrod Air Two	United Kingdom	Fund to acquire, lease and sell A380 aircraft	792	1.2	–
ASOS.com	United Kingdom	Online fashion retailer	761	1.1	1,710
IG Group	United Kingdom	Spread betting	758	1.1	690
Athena Debt Opportunities Fund	Fixed Interest	Distressed debt fund	746	1.1	1,622
Curis	North America	Biopharmaceutical drug development	737	1.1	477
Dragon Oil	Emerging Markets	Oil and gas exploration and production – Turkmenistan	729	1.1	1,126
TOTVS	Emerging Markets	Application software for Latin American markets	719	1.1	481
Doric Nimrod Air One	United Kingdom	Fund to acquire, lease and sell A380 aircraft	716	1.1	637
Novozymes	Continental Europe	Enzyme producer	715	1.1	878
Seattle Genetics	North America	Biopharmaceuticals	712	1.1	467
CATCo Reinsurance Opportunities Fund	United Kingdom	Catastrophe reinsurance fund	701	1.1	685
			33,969	51.1	28,201

Classification of Investments

Classification	UK %	Continental Europe %	North America %	Asia Pacific incl. Japan %	Emerging Markets %	2012 Total %	2011 Total %
Equities*:							
Oil and gas producers	1.7	0.4	0.9	–	2.9	5.9	4.6
Oil equipment, services and distribution	0.5	0.8	–	–	–	1.3	2.6
Oil and Gas	2.2	1.2	0.9	–	2.9	7.2	7.2
Chemicals	0.1	1.5	–	–	–	1.6	1.2
Forestry and paper	–	–	–	–	–	–	0.1
Industrial metals	–	–	–	–	0.6	0.6	0.2
Mining	0.2	–	2.8	–	–	3.0	3.2
Basic Materials	0.3	1.5	2.8	–	0.6	5.2	4.7
Construction and materials	–	0.6	–	–	–	0.6	1.0
General industrials	–	0.8	–	–	1.0	1.8	0.6
Electronic and electrical equipment	0.8	–	–	–	–	0.8	0.7
Industrial engineering	–	4.0	–	–	–	4.0	4.6
Industrial transportation	4.3	–	–	–	3.0	7.3	5.6
Support services	–	–	0.9	1.0	–	1.9	–
Industrials	5.1	5.4	0.9	1.0	4.0	16.4	12.5
Beverages	–	–	–	–	–	–	0.6
Automobiles and parts	–	–	1.3	–	–	1.3	–
Food producers	–	1.9	–	–	–	1.9	1.3
Household goods	–	0.6	–	–	–	0.6	–
Personal goods	–	0.4	0.5	–	–	0.9	1.8
Tobacco	–	–	0.9	–	–	0.9	0.6
Consumer Goods	–	2.9	2.7	–	–	5.6	4.3
Healthcare equipment and services	–	0.7	0.8	–	3.2	4.7	6.5
Pharmaceuticals and biotechnology	1.2	1.1	2.6	–	0.5	5.4	5.1
Health Care	1.2	1.8	3.4	–	3.7	10.1	11.6
Food and drug retailers	–	–	–	–	1.8	1.8	0.8
General retailers	1.1	1.2	1.9	0.5	1.6	6.3	8.3
Media	–	–	0.9	0.9	1.3	3.1	1.8
Travel and leisure	–	1.0	1.9	0.8	–	3.7	3.9
Consumer Services	1.1	2.2	4.7	2.2	4.7	14.9	14.8
Fixed line telecommunications	–	–	–	–	–	–	4.5
Telecommunications	–	–	–	–	–	–	4.5
Electricity	–	–	–	–	–	–	0.6
Gas, water and multiutilities	0.4	–	–	–	–	0.4	0.4
Utilities	0.4	–	–	–	–	0.4	1.0
Banks	–	–	0.8	–	–	0.8	2.4
Real estate	–	1.0	–	–	–	1.0	1.8
General financial	6.0	0.1	1.6	–	1.8	9.5	5.4
Investment companies	10.9	2.9	–	0.4	0.1	14.3	13.0
Financials	16.9	4.0	2.4	0.4	1.9	25.6	22.6
Software and computer services	0.4	–	2.8	1.9	1.1	6.2	5.4
Technology hardware and equipment	1.0	–	–	–	–	1.0	3.4
Technology	1.4	–	2.8	1.9	1.1	7.2	8.8
Total Equities*	28.6	19.0	20.6	5.5	18.9	92.6	
Total Equities* – 2011	24.3	20.3	14.6	7.8	25.0		92.0
Bonds	–	1.9	3.1	–	–	5.0	6.0
Net Liquid Assets	(0.2)	0.1	2.5	–	–	2.4	2.0
Total Assets (before deduction of bank loans)	28.4	21.0	26.2	5.5	18.9	100.0	
Total Assets – 2011	25.8	21.2	17.4	7.8	27.8		100.0
Bank Loans	(3.7)	(3.7)	–	–	–	(7.4)	(7.7)
Shareholders' Funds	24.7	17.3	26.2	5.5	18.9	92.6	
Shareholders' Funds – 2011	23.0	19.5	17.4	4.6	27.8		92.3
Number of equity investments*	27	17	28	7	17	96	113

*Equities include limited partnerships, unit trusts, OEICs, SICAVs, index options and convertible loan notes expected to convert to equity.

Managers' Portfolio Review

The portfolio

Five of last year's top ten holdings remain top ten holdings this year. All continue to feature in the portfolio but some (**Dragon Oil**, **Seadrill**, **Yoox**, **Athena Debt Opportunities Fund** and **ASOS**) were reduced in scale. Modest changes have occurred in the size and composition of non equity holdings over the year. The real yield on Brazilian index-linked bonds fell and they were replaced by Venezuelan dollar bonds yielding above 12%. New holdings have been taken in Everglades Re, a Florida related catastrophe bond, and in Reynolds Group, the unlisted but indebted owner of the global number two company in aseptic packaging after Tetrapak. This is an industry we admire, but to which we would otherwise have no access. Bonds accounted for 5% of the portfolio as at year end compared to 6% in June 2011.

Ten largest holdings

IP Group

IP Group is a UK listed company with unique access to participate in the intellectual property output of many of the UK's best universities. From a wide base of small commercialisations, a small number of enterprises have risen to comprise the bulk of the value in the group. Already one of our largest holdings last year, news on many of its portfolio companies has been encouraging. Nowhere was this more evident than at Oxford Nanopore, an unlisted company in which IP Group has a substantial stake, which has announced what may be ground-breaking new technology in the field of DNA sequencing and small molecule analysis. We added to the IP Group position over the course of the year. The primary impetus, however, to the expanding size of our holding has been a share price rising to reflect improving underlying prospects. The shares have the potential to deliver further strong results over coming years.

Level E Maya

This is an investment in two parts. First, the Maya fund itself, and second, an option to invest in the unlisted asset management and intellectual property companies (Level E) that lie behind the fund. The Maya fund has produced rather disappointing overall returns to date, even if volatility has been as low as intended. The overall fund mix has been altered to increase further the sub-segment that is most likely to deliver attractive returns that are also uncorrelated to equity markets. As regards the option component, we have nearly 3 years remaining on the option held by the Company to participate directly

in the equity of the management companies at Level E. Some third party inflows into these funds have started to take place and should prove helpful to the economics of the respective management companies. The bulk of potential upside for Mid Wynd shareholders lies in the possibility of meaningful ownership in a growing new asset management business. The option that confers this possibility is held at its book cost of zero. Should it be exercised, it would be in the context of improving economics for the management group.

Odontoprev

This is Brazil's leading dental plan company. We have seen the company deliver anticipated margin improvements following the important acquisition of Bradesco Dental. Scale and efficiency opportunities deriving from this are clearly paying off. As a strong market leader with economies of scale, its costs are rising more slowly than prices. Prices should have scope to continue to increase from fairly low levels. The determinant of future revenue trends may well be the group's ability to sell dental plans directly to Brazil's burgeoning middle classes, rather than simply supplying dental care as an adjunct to other employment benefits.

Kone

The lift business, and this applies almost as much to our other lift holding, Schindler, has continued to produce gratifying results. In particular for Kone, new orders, primarily from Asia, hold out the promise of continued expansion in the maintenance portfolio. Several small acquisitions of maintenance businesses have occurred over the course of the year as is the historical norm. Cash generation has been impressive and Kone has once again paid a special dividend to all shareholders in addition to its healthy and rising traditional dividend stream.

Ocean Wilsons

Wilson Sons, the main Brazilian operating company underlying this London listed holding company, is in the midst of an exciting expansion of its activities. The recent combination of the tug business with that of UltraTug has led to a very powerful offering up and down the Brazilian coastline. Cheap financing has been obtained to allow the expansion of the platform supply vessel production business. This is at a time when offshore activity is growing rapidly as the multi-decade project to exploit the Brazilian pre-salt oil resource gains momentum. Last, but not least, container port volumes have held up at high levels, and agricultural related exports continue

to benefit from high prices. The remainder of Ocean Wilson's NAV lies in an investment portfolio, the results of which have been lacklustre over the past year or so. However, the discount at which the shares stand to the underlying combined net asset value has rarely been higher, and Mid Wynd continues periodically to add to its position here.

Marine Harvest

This is the world's leading salmon farming business. As Chilean supply continues to come back onstream following that country's uncontrolled over-expansion some years ago, salmon prices have remained rather weak over the course of the year. Marine Harvest, however, has managed to expand its own supply and constrain its cost base far better than in past cycles. The influence of the Fredriksen group ownership here, as in Seadrill, may be seen in the combination of persistent striving for operational excellence along with sensible capital allocation (and high levels of dividend payout) through the cycle. There is little argument that this is likely to remain a brutally cyclical industry even if ownership is now consolidated among fewer hands than in the past. We added to our holdings as new supply came on, and have lately enjoyed a boost in the share price as the market perhaps begins to anticipate the point at which demand again absorbs supply and salmon prices can begin to recover.

BIM

BIM is a Turkish hard discount food retail format with similarities to that of Aldi. Both the business and the local economy have thrived over most of the period of our ownership, now more than three years. This year has been no exception and the shares, to which we added, have started to feature among our larger holdings.

Better Capital

The clearest opportunities to make money domestically in the UK are likely to stem from company failures of the past several years. This specialist fund aims to buy bankrupt or distressed businesses and reinvigorate them. It is sadly the case that many firms were run in good times by management that has proved inadequate in the downturn. It is equally undeniable that many such assets are now in the hands of bankers who lent too much money to uncertain propositions in a period of boom. In many such instances, simple changes, in the form of investment or cost cutting, can produce a very material improvement in trading.

Biotech Growth Trust

After a long period of research and development, many biotech firms are finally demonstrating strong results. Often assisted by technological advances, these firms are developing innovations that can transform healthcare in a way that mass marketed blockbuster drugs have largely failed to do. Valuations had fallen to low levels as markets lost patience. We chose to invest in this area via a fund as well as by directly capitalising on the analytical output of our own resources. NAV progression at BGT has taken it up the scale rankings of the Company's largest holdings.

MMXM11 Mineracao

This is a new holding for Mid Wynd, spun out from an old holding and added to in the autumn of 2011. It came about from the sale of the Sudeste port in Brazil to a mining company, MMX. MMXM11 is a bond-like structure that has rights to the payment from the new owner of the port. Holders of this security receive, in effect, US\$5 per tonne of iron ore shipped through Sudeste with an inflation adjustment for US producer price indices. The related hinterland of mining undertakings and railroads is owned and run by a variety of companies, including MMX itself. Connection to Sudeste is made via transport systems that give the port a particularly favourable position. Port capacity stands at 50m tonnes but permission to double this is being actively sought. MMXM11 stands to benefit from any port and tonnage expansion but does not incur any of the related costs.

Transactions

Portfolio turnover was lower this year than last. It comprised the usual mixture of cutting back some successful holdings where a proportion of the upside opportunity had been captured, culling things that hadn't worked out and finding new ideas that appear to offer asymmetrically attractive potential returns.

Sales

We cut back in telecoms and within the energy and resources sectors, these being areas where the Company had enjoyed some success. **Telstra**, **Chunghwa** and **Verizon** had suffered, when we bought these holdings, from a perception of shrinking top lines, whereas we believed that mobile data finally offered them some leeway to combat that. The sector performed well as views shifted towards ours and we sold the shares. In oil, the quality of **DNO's**

reserves had gone a long way to move the share price despite ongoing challenges of exporting oil from Kurdistan. **EOG** enjoyed a run up on the back of hopes for shale gas and shale oil. We share a belief in the latter but are somewhat sceptical about the former. **Kenmare Resources** had finally brought its Mozambican mineral sands project to full scale production and was increasingly perceived and valued as a takeover target.

Inevitably, we had our share of mistakes too. **MIPS** (in semi-conductor design), **ITT Education** (a tertiary education provider) and **Aixtron** (a maker of machines to produce light emitting diodes), all failed to live up to expectations and involved bad timing on our part. The purchase and subsequent retreat from both **RIM** (maker of Blackberry phones) and **Peugeot** (autos) proved the old adage about catching a falling knife, in both cases to our material disadvantage. We suffered from out and out fraud at **Sino Forest** (Chinese timber producer) and within the **Vision Opportunities China** fund (an investor in Chinese unquoted mid cap growth enterprises). Every year experience increases our awareness of the worth of studying management and their incentives when analysing investments. The driving forces behind owners and managers vary materially as do business cultures across the globe. **OGX** proved the point about being better to travel than to arrive as capex budgets raced upwards and oil flow rate projections moved in the opposite direction.

New purchases

Tripadvisor, **Priceline.com**, **Facebook**, **Retroscreen Virology** (IPO'd out of IP Group), **Westport Innovations** and **Marketaxess** are all companies that, in very different contexts, are in the process of creating entirely new markets for themselves. The trend, noted last year, of increasing exposure to technological innovation and internet related businesses, continues.

Such propositions can involve a wide range of possible outcomes and pose quite a challenge to traditional valuation methods. Historically, observers and analysts tend to be over-confident about their predictive powers. But in this area it is hard to be over-confident. Even the revenue line in such businesses is open to many different and equally valid prognoses. In principle, we view this as a prospective area, as uncertainty is generally off-putting for many investors, and in practice we are living in an era that is producing

increasing numbers of such opportunities. Those of us who see what economists would call 'creative destruction' at work today need to be mindful to exploit as many opportunities to turn creativity into cash flow as we can find, at reasonable prices. The reward of a single large success here can outweigh the pain of several failures.

Unloved or hidden growth stocks is another area of investment interest and engagement. **Harley Davidson** (motorbikes) has gone through hard times, appeared to be rated by the market as damaged goods, but is starting to capture new kinds of customers and is expanding internationally from a modest start. **Bang & Olufsen** (sound systems) is finding new ways of using its audio expertise to enhance the enjoyment of luxury car owners. **Teradyne** is a semiconductor testing company potentially emerging from a multi-year bout of brutal industry-wide competition. Many peers have gone out of business. A positive outcome here would see the company with oligopolistic pricing power in a rapidly expanding market in years to come. **Ultra Petroleum** (a gas producer) has suffered materially as the spot price of US domestic natural gas has collapsed. However, at the present very low prices, all capital expenditure on shale gas has been suspended. It seems reasonable to expect some retracement of recent falls in spot prices and much improved profits for Ultra.

Other new buys, such as **IHS** (where our thesis sees enhanced monetisation over time of powerful industry databases), or **First Republic Bank**, which is about wealth management opportunities within the shell of what looks like and is priced like a regular bank, are more recognisable long term, cash generative businesses. The upside may be less spectacular and tends to rely on good old-fashioned persistent hard work and management execution, but the odds of achieving that upside are often appealing.

Summary

This has been a frustrating year both relatively and absolutely: US market returns were markedly superior whereas European and developing markets fell short. It is of some consolation that stock selection boosted returns, as shown on page 10 – we are essentially stock pickers whose geographic ambitions are limited to investing in a diverse range of companies and maintaining a long range perspective.

Classification	Name	Business	Value £'000	%
United Kingdom				
Oil and gas producers	Borders and Southern Petroleum	Oil and gas exploration – Falkland Islands	174	
	Falkland Oil and Gas	Oil and gas exploration and production – Falkland Islands	517	
	President Petroleum	Oil and gas exploration and production – USA and Australia	391	
			1,082	1.7
Oil equipment, services and distribution	Petrofac	Engineering services – Middle East	347	0.5
Chemicals	HaloSource	Clean water technology	79	0.1
Mining	Hambledon Mining	Gold mining and exploration – Kazakhstan	124	0.2
Electronic and electrical equipment	Renishaw	Robotic probes	566	0.8
Industrial transportation	Doric Nimrod Air One	Fund to acquire, lease and sell A380 aircraft	716	
	Doric Nimrod Air Two	Fund to acquire, lease and sell A380 aircraft	792	
	Ocean Wilsons	Tugboats, platform supply vessels and container handling – Brazil	1,344	
			2,852	4.3
Pharmaceuticals and biotechnology	Genus	Livestock farming products	602	
	Retroscreen Virology	Clinical and pre-clinical services	223	
			825	1.2
General retailers	ASOS.com	Online fashion retailer	761	1.1
Gas, water and multiutilities	Igas Energy	Coal bed methane gas production – UK	241	0.4
Banks	NBNK Investments	UK High Street banking	31	0.0
General financial	FTSE100 5500 Call Option Dec 12	Equity index call option	233	
	IP Group	Commercialisation of intellectual property	3,791	
			4,024	6.0
Investment companies	Altus Resource Capital	Metal and mineral mining investment company	587	
	Better Capital	Fund investing in distressed businesses	1,114	
	Burford Capital	Fund of lawsuits	572	
	CATCo Reinsurance Opportunities Fund (C shares)	Catastrophe reinsurance fund	701	
	Damille Investments II	Investment fund	280	
	IG Group	Spread betting	758	
	Level E Maya Fund	Artificial intelligence based algorithmic trading	2,129	
	The Biotech Growth Trust	Biotechnology investment trust	1,064	
			7,205	10.9
Software and computer services	Craneware	Business management software to healthcare industry	287	0.4
Technology hardware and equipment	Nanoco	Quantum dot manufacture, second generation LEDs	691	1.0
Total United Kingdom Equities			19,115	28.6
Continental Europe				
Oil and gas producers	Petroceltic	Oil and gas exploration and production – Algeria, Italy and Kurdistan	283	0.4
Oil equipment, services and distribution	Seadrill	Deep water oil rigs	541	0.8
Chemicals	Fuchs Petrolub	Specialty lubricant manufacture	1,030	1.5
Construction and materials	Geberit	Plumbing systems	375	0.6
General industrials	CFAO	Specialised consumer distribution in Africa	522	0.8
Industrial engineering	Kone	Elevators	1,680	
	Schindler	Elevators	999	
			2,679	4.0

Classification	Name	Business	Value £'000	%
Continental Europe (continued)				
Food producers	Marine Harvest	Salmon farming	1,300	1.9
Household goods	Bang & Olufsen	Audiovisual equipment	418	0.6
Personal goods	Richemont	Luxury goods	297	0.4
Healthcare equipment and services	Essilor	Ophthalmology	452	0.7
Pharmaceuticals and biotechnology	Novozymes	Enzyme producer	715	1.1
General retailers	Yoox.com	Online fashion retailer	823	1.2
Travel and leisure	Edenred	Prepaid service vouchers	674	1.0
Real estate	Deutsche Wohnen	Residential property – Germany	635	1.0
General financial	EuroStoxx 50 2500 Call Option Dec 12	Equity index call option	74	0.1
Investment companies	Reinet Investments SCA	Investment holding company	1,929	2.9
Total Continental Europe Equities			12,747	19.0
North America				
Oil and gas producers	Niko Resources	Oil and gas exploration and production - Indonesia	111	0.9
	Ultra Petroleum	Gas exploration and production	489	
			600	
Mining	AuRico Gold	Gold mining – Canada, Australia, Mexico	349	2.8
	Detour Gold	Gold mining – Canada	287	
	Eldorado Gold	Gold mining – Brazil, China, Greece & Turkey	487	
	Semafo	Gold mining – West Africa	265	
	Silver Wheaton	Silver streaming	517	
			1,905	
Support services	IHS	Technical databases	583	0.9
Automobiles and parts	Harley-Davidson	Motorcycle manufacturer	364	1.3
	Westport Innovations	Combustion technology	552	
			916	
Personal goods	iRobot	Practical robots for domestic and military use	361	0.5
Tobacco	Philip Morris International	Tobacco	597	0.9
Healthcare equipment and services	Intuitive Surgical	Robotic minimally invasive surgical tools	565	0.8
Pharmaceuticals and biotechnology	Alnylam Pharmaceuticals	Biopharmaceuticals	265	2.6
	Curis	Biopharmaceutical drug development	737	
	Seattle Genetics	Biopharmaceuticals	712	
			1,714	
General retailers	O'Reilly Automotive	Automotive parts stores	433	1.9
	TJX Companies	Discount clothing and homeware stores	854	
			1,287	
Media	Facebook	Social networking website	615	0.9
Travel and leisure	Priceline.com	Online travel/hotel reservation service	623	1.9
	Tripadvisor	Travel website	655	
			1,278	
Banks	First Republic Bank San Francisco	Banking and wealth management	525	0.8
General financial	Marketaxess	Electronic bond trading platform	526	1.6
	S&P 1225 Call Option Dec 12	Equity index call option	505	
			1,031	

Classification	Name	Business	Value £'000	%
North America (continued)				
Software and computer services	Oracle	Database management systems	392	
	Salesforce.com	Applications software (convertible)		
	0.75% 2015 CV		629	
	Solera	Software services for automobile claims processing	458	
	Teradyne	Supplier of semi-conductor test equipment	404	
			<u>1,883</u>	<u>2.8</u>
Total North American Equities			<u>13,860</u>	<u>20.6</u>
Asia Pacific including Japan				
Support services	Seek	Online employment agency – Asia	<u>684</u>	1.0
General retailers	Start Today	Online fashion retailer – Japan	<u>331</u>	0.5
Media	M3	Medical-related internet services	<u>572</u>	0.9
Travel and leisure	Namco Bandai	Toys, arcade games and gaming software	<u>539</u>	0.8
Investment companies	Kenedix Realty Investment	Real estate investment fund – Japan	<u>236</u>	0.4
Software and computer services	Digital Garage	Internet business incubator – Japan	617	
	So-Net Entertainment	Internet services – Asia	678	
			<u>1,295</u>	<u>1.9</u>
Total Asia Pacific including Japan Equities			<u>3,657</u>	<u>5.5</u>
Emerging Markets				
Oil and gas producers	Chariot Oil & Gas	Oil and gas exploration and production – Namibia	799	
	Dragon Oil	Oil and gas exploration and production – Turkmenistan	729	
	Gulf Keystone Petroleum	Oil and gas exploration and production – Kurdistan	<u>381</u>	
			<u>1,909</u>	<u>2.9</u>
Industrial metals	Ferro Alloy Resources*	Vanadium and rare earths production – Kazakhstan	<u>398</u>	0.6
General industrials	Yingde Gases	Production and sale of industrial gases – China	<u>656</u>	1.0
Industrial transportation	MMX Mineracao e Metalicos	Port – royalties based on iron ore shipments	1,037	
	Santos Brasil Participacoes	Container handling and logistics services – Brazil	921	
			<u>1,958</u>	<u>3.0</u>
Healthcare equipment and services	Odontoprev	Dental health services – Brazil	<u>2,127</u>	3.2
Pharmaceuticals and biotechnology	Genomma Lab Internacional	Over-the-counter medicines – Mexico	<u>316</u>	0.5
Food and drug retailers	BIM Birlesik Magazalar	Discount food stores – Turkey	<u>1,193</u>	1.8
General retailers	MercadoLibre	eBay's Latin American partner	638	
	Sun Art Retail	Retail hypermarkets – China	401	
			<u>1,039</u>	<u>1.6</u>
Media	Naspers	Media company – South Africa and China	<u>846</u>	1.3
General financial	Cetip	Investment services – Brazil	683	
	Letshego	Micro-loans – Botswana	523	
			<u>1,206</u>	<u>1.8</u>
Investment companies	Vision Opportunity China Fund	Investment fund – China	<u>65</u>	0.1
Software and computer services	TOTVS	Application software for Latin American markets	<u>719</u>	1.1
Total Emerging Markets Equities			<u>12,432</u>	<u>18.9</u>
Total Equities			<u>61,811</u>	<u>92.6</u>

*denotes unlisted security.

Classification	Name	Business	Value £'000	%
Fixed Interest				
Euro denominated	Marfin 5% 19/03/2015 CV	Investment holding company – Greece	83	
	Reynolds Group 9.5% 2017	Food and beverage packaging and storage company bond	903	
	Semper Finance FRN SLP 2015	East German housing association funding	287	
			<u>1,273</u>	1.9
US dollar denominated	Athena Debt Opportunities Fund	Distressed debt fund	746	
	Everglades Re Ltd	Catastrophe reinsurance bond	684	
	K1 Life Settlements 0% 2016	Life settlements bond	215	
	Venezuela 9.25% 15/09/2027	Venezuelan bond	167	
	Venezuela 11.75% 21/10/2026	Venezuelan bond	271	
			<u>2,083</u>	3.1
Total Fixed Interest			<u>3,356</u>	<u>5.0</u>
Total Investments			65,167	97.6
Net Liquid Assets			<u>1,596</u>	<u>2.4</u>
Total Assets at Fair Value (before deduction of bank loans)			<u>66,763</u>	<u>100.0</u>