

**Interim Short Report**

for the period ending 31 December 2016

**CFIC CRUX Funds ICVC**

- CFIC CRUX UK Fund  
(formerly CFIC Oriel UK Fund)

## Corporate Information

### Authorised Corporate Director

City Financial Investment Company Limited  
(Authorised and regulated by the  
Financial Conduct Authority)

Head Office: 62 Queen Street  
London EC4R 1EB  
Telephone: +44 345 300 2107  
Fax: +44 113 224 6001  
E-mail: [administration@cityfinancial.co.uk](mailto:administration@cityfinancial.co.uk)  
Website: [cityfinancial.co.uk](http://cityfinancial.co.uk)

### Directors of the ACD

R.C. Hain, A.N. Williams, J.P. Hollihan  
M.L. Stein, D.R. Beatty, L.S. Aggarwal,  
M. Cartwright

### Investment Manager

(To 30 January 2017)  
Oriol Asset Management LLP  
(Authorised and regulated by the  
Financial Conduct Authority)

150 Cheapside  
London  
EC2V 6ET

(From 31 January 2017)  
CRUX Asset Management Limited  
(Authorised and regulated by the  
Financial Conduct Authority)

5 Stratton Street  
London W1J 8LA

*Buying and Selling of Shares:* The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm (London time). Instructions to buy or sell shares may be either in writing to: PO Box 391, Darlington DL1 9UH or by telephone on +44 345 300 2107.

*Report and Accounts:* This document contains a short report of the CFIC CRUX UK Fund, a sub-fund of the CFIC CRUX Funds ICVC, for the period ending 31 December 2016. The full Report and Accounts for the Fund is available free of charge upon written request to City Financial Investment Company Limited, 62 Queen Street, London EC4R 1EB.

*Other Information:* The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period.

### Depository

BNY Mellon Trust & Depository (UK) Limited  
(Authorised and regulated by the  
Financial Conduct Authority)

Registered Office:  
The Bank of New York Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

Principal place of business:  
One Canada Square  
London E14 5AL

### Administrator and Registrar

Capita Financial Administrators Limited  
(Authorised and regulated by the  
Financial Conduct Authority)

Customer Service Centre  
Arlington Business Centre  
Millshaw Park Lane  
Leeds LS11 0PA  
Telephone: +44 345 300 2107  
Fax: +44 113 224 6001

### Independent Auditor

KPMG LLP  
20 Castle Terrace  
Edinburgh EH1 2EG

## CFIC CRUX UK Fund

### The Fund's investment objective and policy

The investment objective of CFIC CRUX UK Fund ('the Fund') is to achieve long term total returns in excess of the Benchmark Index which is the FTSE All-Share Index. The reference to total return means the return from the combination of capital growth and income. The combination of these returns aims to be more than the total return from the Benchmark Index over the medium to long term, which should be seen as five years plus. There is no guarantee that the Fund will achieve a positive return over this, or any other, period and investors may not get back the original amount they invested.

In seeking to achieve the Fund's objective, the portfolio will consist predominantly of FTSE 350 constituents selected by applying strict cash flow based value criteria with the focus firmly on the medium to longer term horizon. The Fund may also invest in non-UK securities. Outperformance relative to the benchmark will be derived from stock selection and concentration. The structure of the portfolio may differ materially from the Benchmark Index due to its concentration, typically consisting of between 20 to 40 holdings.

The Fund may also invest in money market instruments, deposits, warrants, units in other collective investment schemes and derivatives.

Derivatives and forward transactions may be used by the Fund for investment purposes.

### Investment Manager's Report

#### Review

These days everyone knows that, whatever happens, Central Banks will try to do anything to protect asset prices. From what was once the preserve of practical (and largely unseen) men and women, modern monetary policy has mutated into a global laboratory for academic whimsy, where the pocket books of joe public are the apparatus. The preserve of central bankers should be to smooth the workings of an otherwise healthy economy, but we are homing in on a decade of ultra-loose monetary policy, zero interest rates, negative interest rates and unlimited money 'printing'; something is amiss. We have lurched from a world of sober, boring stuff to do with numbers, to monetary policy as performance art. Time was when a seismic event like the UK voting to unshackle itself from the European chain gang or the election of someone to the highest office of them all who thinks globalism is globaloney, markets fretted, they worried, they erred... and asset prices fell.

For all the feted ructions in the real world, the parallel universe that is the stock market looks to be closing in on its high for the year. Beginning in the aftermath of the British referendum on membership of the EU, equities broadly made around 10% in about six weeks and never looked like giving up the gains thereon. Looking at a long run chart of the stock market, you would struggle to detect Hillary Clinton's hilarious electoral defeat to an

unusually coiffured former reality TV star. Last year's first half missive talked about the big story in markets being the collapse in commodity prices; no surprise, the big story this year is the exact opposite. If you had wanted to make a ton of money in 2016, the place to have been was lower quality, bombed-out mining stocks, the lower and bombed-out the better.

## Performance

We have never been ones for punting around stuff that will either go orbital or go bust, preferring to graze on the safer, sunny plains rather than beside the scary waterhole where one croc could ruin everything. So we have not benefitted from the dazzling rise of the likes of Glencore, Anglo American and KAZ Minerals. Fortune did, however, smile on our banking position. Many are aware of how we account for risk, in that we try to minimise the effects of those things we do not understand and cannot predict. Whilst we select stocks, we manage a portfolio for concentration and major factor risks. This risk management strategy has helped us enormously this year. One area where we felt markets weren't respecting risk sufficiently, and to which we felt the natural long duration bias of the portfolio was vulnerable, was interest rates. We felt rates would rise, without knowing either exactly when or why, and we certainly had not identified Donald Trump as the catalyst. But "fortune favours the prepared mind"<sup>1</sup> and over the last two years we have built up a large banking position, which both stands on its own investment merits and offsets the large portion of the portfolio for which higher interest rates are a dampener. This worked well.

Over the six months to 31 December 2016, the Fund returned 14.66%<sup>2</sup> ('B' Accumulation) as against the FTSE All-Share Index (Total Return in GBP) which increased by 11.97%<sup>2</sup> and 11.68%<sup>2</sup> for the FTSE 100 Index. We realise we are setting ourselves up for a fall here but we do not appear to have trodden on any landmines this year. We have talked about the lag from having no miners and the boost from being heavy in banking stocks, but December also enjoyed the bonus of M&A activity when perennial Westminster bogeyman Rupert Murdoch launched a bid for the 60% of Sky his organisation does not currently own. The Fund has held Sky for many years and, even though the share price still lies some way short of the offer from 21st Century Fox (reflecting delays and regulatory uncertainties), this usefully boosted performance.

We have been unusually active this half, for us rather than by the standards of others. Initially, in the aftermath of Brexit, we bought into a handful of stocks that we already owned that had been weak in the knee-jerk of the referendum result. These included Next, Associated British Foods and Sky, which are some of our more domestically focussed businesses and thus followed the pound down.

In November, we added Barclays – our only new position in the period under review. It is not a stock we would have expected to purchase at pretty much any stage over the last 20 odd years, despite being one we have followed closely. In fact, we have been pretty

<sup>1</sup> *Louis Pasteur.*

<sup>2</sup> *Source: Morningstar Direct.*

rude about it for much of that period (perhaps we are being a little coy here). But times and management change and prejudice is dangerous. The reason for its inclusion is not dissimilar to that of our other banks, though it should be stressed that the business very much stacks up as an investment case in its own right. Our general thesis is that banks' earnings have/had been crushed by extreme monetary policy and their cost of capital elevated by litigation and regulatory risk (uncertainty reflecting deep fear and loathing post the financial crisis). Depressed multiples of depressed earnings power spelt opportunity to us.

There were no outright removals from the Fund, though we continued to manage the position sizes of a number of our stocks, trimming back several where the investment case stacks up well at 4%, but risk management considerations start to impinge once we are over 5% and climbing towards 6%. Additionally, we trimmed Bunzl back to below 3%. We still think it is a fabulously well run business, but alas it is very expensive at present. So we have pared it back until it is no longer a stock market darling.

## Outlook

A reasonable working model of the EU debacle is to assume that the project has a finite life and try not to focus on the when. As for the Donald, we have no idea how things will pan out. The prevailing mood seems confidently expecting that we're going to get a great big slug of money into the economy via repatriation of offshore corporate liquidity, tax cuts and shovel-ready infrastructure investments. We could speculate both about the effects of this and whether it is prudent to price in these expectations so far ahead of time. Higher inflation seems a reasonable shout and apparently one that has come into sharp focus for markets post-election.

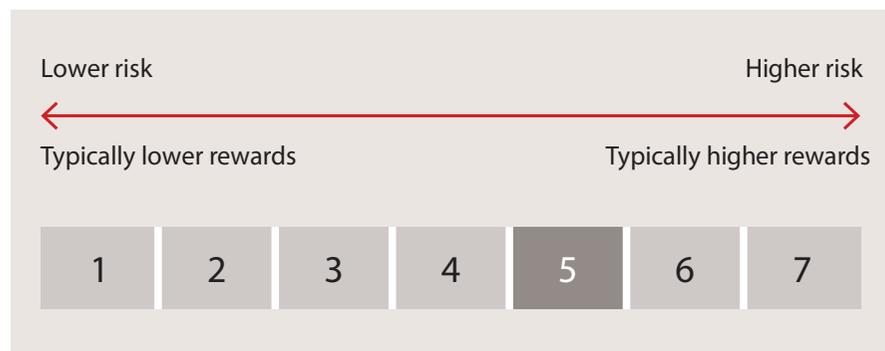
We are not even going to guess what will happen to markets near-term. You can make the argument that, given the earnings yield of the S&P 500 Index was 3% in 2000, at a time when you could lend the US government and earn 6%, then, when you can't even get 3% for the latter, the sky's the limit on the potential price of equities. You could, but we will not. Equally, if inflation begins to come back in any meaningful kind of way (and why would it not, given the amount of money in the system?), then that is the harbinger of difficult times, regardless of what you're invested in. Best thing to do is to focus on what we are good at – identifying quality stocks, managing the portfolio for real risk and remembering there are a lot of things we do not know, especially about the future. If ever a year demonstrated the wisdom of adhering to that observation, 2016 was it. We remain confident in the quality, durability and financial strength of the businesses held in the Fund and in the ability of their respective managements to navigate to the advantage of shareholders.

CRUX ASSET MANAGEMENT LIMITED

*Investment Manager*

21 February 2017

## Synthetic risk and reward indicator



The risk category is based on the rate at which the value of the Fund has moved up or down in the past.

Historical Fund data is used in calculating the risk category and may not be a reliable indication of the future risk profile of the Fund.

The risk category shown is not guaranteed and may change over time.

The lowest category does not mean risk-free.

Actual figures show that this share class is in risk category 5 as equity prices tend to fluctuate more than other asset classes and its price has experienced significant rises and falls.

Please also refer to *Additional Information on the CFIC CRUX UK Fund* on page 13 of this report.

## Comparative tables

Information for 31 December 2016 relates to the 6 month period ending 31 December 2016, with the exception of the operating charges in the 'Other Information' section. The operating charges relate to the expenses incurred on an *ex post* basis over the 12 month period ending 31 December 2016, expressed as a percentage of the average net asset value over the same period.

	31.12.16 (p/share)	30.06.16 (p/share)	30.06.15 (p/share)	30.06.14 (p/share)
<b>'A' Income shares</b>				
<b>Change in net assets per share</b>				
Opening net asset value per share	385.12	376.32	368.51	329.15
Return before operating charges*	58.88	20.37	19.06	49.92
Operating charges	(3.91)	(7.03)	(7.30)	(6.96)
Return after operating charges	54.97	13.34	11.76	42.96
Distributions on income shares	(1.58)	(4.54)	(3.95)	(3.60)
Closing net asset value per share	438.51	385.12	376.32	368.51
* after direct transaction costs of:	0.25	0.43	0.15	0.14
<b>Performance</b>				
Return after charges	14.27%	3.54%	3.19%	13.05%
<b>Other Information</b>				
Closing net asset value (£'000)	9,066	8,236	22,146	28,707
Closing number of shares	2,067,463	2,138,488	5,884,874	7,790,176
Operating charges	1.87%	1.90%	1.94%	1.94%
Direct transaction costs	0.06%	0.12%	0.04%	0.04%
<b>Prices</b>				
Highest share price	440.76	390.42	405.87	379.82
Lowest share price	392.09	342.67	331.78	327.79

Comparative tables (continued)

	31.12.16 (p/share)	30.06.16 (p/share)	30.06.15 (p/share)	30.06.14 (p/share)
<b>'A' Accumulation shares</b>				
<b>Change in net assets per share</b>				
Opening net asset value per share	415.90	401.59	389.17	344.14
Return before operating charges*	63.46	21.86	20.09	52.35
Operating charges	(4.22)	(7.55)	(7.67)	(7.32)
Return after operating charges	59.24	14.31	12.42	45.03
Distributions	(1.71)	(4.82)	(4.18)	(3.95)
Retained distributions on accumulation shares	1.71	4.82	4.18	3.95
Closing net asset value per share	475.14	415.90	401.59	389.17
* after direct transaction costs of:	0.27	0.46	0.16	0.14
<b>Performance</b>				
Return after charges	14.24%	3.56%	3.19%	13.08%
<b>Other Information</b>				
Closing net asset value (£'000)	35	31	47	102
Closing number of shares	7,402	7,329	11,587	26,248
Operating charges	1.87%	1.90%	1.94%	1.94%
Direct transaction costs	0.06%	0.12%	0.04%	0.04%
<b>Prices</b>				
Highest share price	475.85	417.43	429.25	397.79
Lowest share price	423.31	366.39	350.38	343.44

	31.12.16 (p/share)	30.06.16 (p/share)	30.06.15 (p/share)	30.06.14 (p/share)
<b>'B' Income shares</b>				
<b>Change in net assets per share</b>				
Opening net asset value per share	153.02	149.50	146.40	130.77
Return before operating charges*	23.45	8.15	7.61	19.91
Operating charges	(0.93)	(1.71)	(1.80)	(1.70)
Return after operating charges	22.52	6.44	5.81	18.21
Distributions on income shares	(1.26)	(2.92)	(2.71)	(2.58)
Closing net asset value per share	174.28	153.02	149.50	146.40
* after direct transaction costs of:	0.10	0.17	0.06	0.05
<b>Performance</b>				
Return after charges	14.72%	4.31%	3.97%	13.93%
<b>Other Information</b>				
Closing net asset value (£'000)	30,901	25,486	19,391	15,916
Closing number of shares	17,730,961	16,655,776	12,970,964	10,871,692
Operating charges	1.12%	1.15%	1.20%	1.19%
Direct transaction costs	0.06%	0.12%	0.04%	0.04%
<b>Prices</b>				
Highest share price	175.79	155.37	161.76	151.44
Lowest share price	155.82	136.18	132.11	130.24

## Comparative tables (continued)

	31.12.16 (p/share)	30.06.16 (p/share)	30.06.15 (p/share)	30.06.14 (p/share)
<b>'B' Accumulation shares</b>				
<b>Change in net assets per share</b>				
Opening net asset value per share	183.25	175.64	168.92	148.28
Return before operating charges*	28.01	9.62	8.81	22.59
Operating charges	(1.11)	(2.01)	(2.09)	(1.95)
Return after operating charges	26.90	7.61	6.72	20.64
Distributions	(1.51)	(3.44)	(3.14)	(2.82)
Retained distributions on accumulation shares	1.51	3.44	3.14	2.82
Closing net asset value per share	210.15	183.25	175.64	168.92
* after direct transaction costs of:	0.12	0.20	0.07	0.06

## Performance

Return after charges	14.68%	4.33%	3.98%	13.92%
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## Other Information

Closing net asset value (£'000)	15,065	12,779	11,118	7,713
Closing number of shares	7,168,729	6,973,499	6,330,194	4,565,936
Operating charges	1.12%	1.15%	1.20%	1.20%
Direct transaction costs	0.06%	0.12%	0.04%	0.04%

## Prices

Highest share price	210.45	183.66	187.61	172.59
Lowest share price	186.55	160.98	152.43	147.99

## Fund performance to 31 December 2016 (%)

	6 months	1 year	3 years	5 years
CFIC CRUX UK Fund	14.66	18.73	25.35	80.01
FTSE All-Share Index	11.97	16.75	19.29	61.84

Source: Morningstar Direct to 31 December 2016, mid-to-bid on 'B' Accumulation which includes reinvested income. Index represented on total return basis.

Should performance information on other share classes be needed, please contact Customer Service.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the period end, rather than the period end return after operating charges.

## Top holdings % of fund

Holding	31 December 2016	Holding	30 June 2016
HSBC Holdings	5.34	GlaxoSmithKline	5.54
JPMorgan Chase & Co.	5.25	Smith & Nephew	5.34
WPP	4.92	Diageo	5.20
Sky	4.75	Experian	5.19
Schroders	4.75	WPP	5.16
Experian	4.74	Compass Group	5.16
Smith & Nephew	4.74	J.P. Morgan	5.07
Compass Group	4.58	Intertek Group	4.99
BP	4.52	British American Tobacco	4.90
GlaxoSmithKline	4.43	BP	4.71

The top ten holdings may differ from the Factsheet as for reporting purposes bid value is used.

## Sector spread of investments % of fund

	31 December 2016	30 June 2016
Financials	24.04	19.69
Consumer Goods	20.24	21.32
Consumer Services	19.20	17.63
Industrials	13.52	16.46
Health Care	9.17	10.88
Oil & Gas	4.52	4.71
Technology	4.16	4.68
Net other assets	5.15	4.63

## Accounting and distribution dates

	Accounting	Distribution
Interim	31 December	28 February
Final	30 June	31 August

## Distributions

Share class	Interim 31 December 2015 pence per share	Special Distribution 29 January 2016 pence per share	Final 30 June 2016 pence per share	Interim 31 December 2016 pence per share
'A' Income	0.3067	0.3494	3.8808	1.5821
'A' Accumulation	0.7672	—	4.0533	1.7099
'B' Income	0.4010	0.5069	2.0075	1.2573
'B' Accumulation	0.4709	0.5954	2.3740	1.5052

## Additional information on the CFIC CRUX UK Fund

**Risk Profile:** The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objectives.

**Risk Warning:** Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

**Important Information:** With effect from 21 July 2016, the address of the administrator and registrar has changed to Arlington

Business Centre, Millshaw Park Lane, Leeds LS11 0PA, and the address for all correspondences to PO Box 391, Darlington DL1 9UH.

With effect from 3 January 2017, Capita Financial Administrators Limited appointed fund accounting responsibilities of the Fund to The Bank of New York Mellon (International) Limited.

With effect from 31 January 2017, the Investment Manager for the Fund changed from Oriel Asset Management LLP to CRUX Asset Management Limited.

With effect from 31 January 2017, the name of the Company changed from CFIC Funds ICVC to CFIC CRUX Funds ICVC. The name of the Fund also changed from CFIC Oriel UK Fund to CFIC CRUX UK Fund.

## City Financial fund range

### City Financial Multi Asset funds

We believe that multi asset enables maximisation of returns across a wide range of assets and helps to remove the specific risk of a particular country, sector or fund manager going through a poor year of investment return.

#### City Financial Multi Asset Balanced Fund

The Fund aims to achieve consistent long-term total returns from both capital and income. *Sector: IA Mixed Investment 20-60% Shares.*

#### City Financial Multi Asset Diversified Fund

The Fund aims to achieve consistent long-term total returns from both capital and income. *Sector: IA Mixed Investment 0-35% Shares.*

#### City Financial Multi Asset Growth Fund

The objective of the Fund is to achieve consistent long-term capital growth. *Sector: IA Mixed Investment 40-85% Shares.*

#### City Financial Multi Asset Dynamic Fund

The Fund aims to provide long-term returns from capital growth over the longer term. *Sector: IA Flexible Investment.*

### City Financial Equity funds

Our equity funds provide exposure to listed companies through income, total-return and long/short investment strategies.

#### City Financial Absolute Equity Fund

The Fund aims to achieve a positive absolute return for investors over rolling thirty six month periods primarily through investment in UK and global equities. *Sector: IA Targeted Absolute Return.*

#### CFIC Loudwater Fund

The aims are to generate a rising level of income and achieve long-term capital growth by investing in a concentrated portfolio of equities. At least 50% will be invested in the UK equities, with the balance in global equities which may include UK equities. *Sector: Unclassified.*

### City Financial Fixed Income funds

We offer a range of fixed income funds that provide exposure to UK, European and Global fixed income securities, currencies and related derivatives.

#### City Financial Diversified Fixed Interest Fund

The investment objective is to generate a high level of income, primarily through investment in a concentrated portfolio of fixed interest securities. *Sector: IA £ Strategic Bond.*

The logo for City Financial, featuring the text "City Financial" in a white serif font centered within a dark grey square background.

City Financial

The logo for Agility + Acumen, featuring the text "Agility + Acumen" in a white sans-serif font centered within a medium grey square background.

Agility + Acumen

For more information on our Funds please contact us using the following details:

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DL1 9UH

+44 345 300 2107

administration@cityfinancial.co.uk

**cityfinancial.co.uk**

City Financial Investment Company Limited

*Registered Office:* 62 Queen Street, London EC4R 1EB

*Authorised and regulated by the Financial Conduct Authority, No. 189302*