



# CAPITAL INTERNATIONAL STERLING ROLL-UP FUND P.L.C.

Abbreviated Annual Report  
for the year ended 31st August 2017

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# General Information

## Directors

W J Clarke\*

R C Floate

D R Q Long

D M Schuster\* (Chairman)

\* denotes Non-executive Director

## Secretary

R C Floate

## Manager and Registrar

Capital International Fund Managers Limited  
Capital House, Circular Road, Douglas  
Isle of Man, IM1 1AG, British Isles

## Investment Manager

Aberdeen Asset Managers Limited  
10 Queen's Terrace, Aberdeen,  
AB10 1YG, British Isles

## Fiduciary Custodian

Capita Trust Company (Jersey) Limited\*  
12 Castle Street, St Helier, Jersey  
JE2 3RT, British Isles

\* Following acquisition by Link Administration Holdings Limited, with effect from 6th November 2017, Capita Trust Company (Jersey) Limited has changed its name to Link Corporate Services (Jersey) Limited.

## Auditor

PricewaterhouseCoopers LLC  
Sixty Circular Road, Douglas, Isle of Man  
IM1 1SA, British Isles

# Manager's Report

## Introduction

As detailed in the previous section entitled 'General Information', the Capital International Sterling Roll-Up Fund P.L.C. (the "Fund") is managed by Capital International Fund Managers Limited ("the Manager") and the investment manager is Aberdeen Asset Managers Limited ("the Investment Manager"). This section also details the Directors, Secretary, Fiduciary Custodian and the Auditor; it should be noted that following acquisition by Link Administration Holdings Limited, with effect from 6th November 2017, the Fiduciary Custodian has changed its name from Capita Trust Company (Jersey) Limited to Link Corporate Services (Jersey) Limited.

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 ("Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with these Regulations, the Fund complies with the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the Investment Management Association ("IMA") in May 2014 (the "IMA SORP") and includes the portfolio statement as part of the Manager's report. The Fund was originally established and authorised on the 28th January 1993.

The term 'roll-up fund', from which the Fund's name is derived, describes a fund which retains its income and gains within the fund in order to enhance the capital value of the fund and hence is reflected in the Share price. Therefore no dividends are paid to Shareholders. Roll-up funds can have considerable administrative advantages to investors who do not require a regular income from their investments and prefer to accumulate income within their investment without the need to re-invest dividends.

## Important information

The Annual Report & Audited Financial Statements for the year ended 31st August 2017 (together with the Abbreviated Annual Report for the year ended 31st August 2017 that has been sent to all registered shareholders) can both be viewed on our website - [www.capital-iom.com](http://www.capital-iom.com) and are available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund.

If shareholders have any questions regarding the Fund please contact our Customer Services Team on 01624 654200 - or by email on [customerservices@capital-iom.com](mailto:customerservices@capital-iom.com).

## Investment objective, policy and strategy

The investment objective of the Fund is to provide investors with a high return before tax from a managed portfolio of fixed-interest securities, denominated in sterling, all income and interest earned being accumulated in the price of the Shares.

## Investment Manager overview for the year ended 31st August 2017 Market review

Geopolitical issues were a primary focus for the UK corporate bond market over the review period. Donald Trump won a surprise victory in the US presidential election. Meanwhile in Europe, populist politics looked to be in the ascendancy, most notably in France and the Netherlands. Theresa May decided to trigger Article 50 at the end of March, setting the clock running on the UK's exit from the European Union.

Following Trump's election success in November, the risks to inflation looked to have increased, with growing expectations of tax cuts and increased spending on infrastructure. Corporate bonds were strong in all the major markets, and credit risk premiums (spreads) fell as investors added risk. Central banks such as the European Central Bank and the Bank of England bought significant amounts of bonds.

The asset class continued to deliver positive returns in the first quarter of 2017. While central banks continued to buy bonds, the main support for the asset class came from “real money” investors, and demand was sufficiently robust to soak up new issuance. Between April and June, the benign global macroeconomic environment was supported by a strong earnings season. Markets also drew comfort from the result of the French presidential election. Towards the end of June, policymakers hinted that easy monetary policy regimes may be coming to a close, driving underlying government bond yields higher.

While credit spreads edged wider in August – interrupting a significant period of outperformance – the performance of the asset class remained very positive. Some of August’s volatility was caused by heightened geopolitical concerns and in anticipation of potential actions from policymakers. In September, the 10-year gilt yield rose by 33 basis points (the largest upward move in the last year) but credit spreads moved tighter, offsetting some of the price drops caused by the gilt move.

#### Performance and activity of the Fund\*

In the 12 months to the end of August 2017 the Fund returned 91bps gross of fees and tax versus a benchmark return of 27bps, therefore outperforming the benchmark by 64bps. Throughout the period, subordinated banks and insurers – where the fund is overweight – made a positive contribution to performance with stronger macroeconomic conditions supporting the financials sector. Bonds from Lloyds Banking Group and Axa were among the strongest performers; we trimmed our holdings in both in August following outperformance.

Volkswagen had suffered from a barrage of bad publicity when it was found to have cheated carbon dioxide emissions tests. In April we participated in a new issue from the carmaker to reduce underweight to the name as negative news flow on the company began to wane. The fund also reduced its ultra-long Mexico position.

## Performance and activity of the Fund\* (CONT.)

Stock selection in the consumer sector was boosted in particular by the overweight in Tesco Property Finance bonds. This was sold in June as the spread reached a level where the bond appeared fully valued. We also sold bonds issued by Centrica, Deutsche Telekom, taking profits after a late spring rally. The focus on reducing credit risk continued into July; bond sales included those issued by Enel, Thames Water and Apple as spreads reached levels where it was difficult to envisage further outperformance.

In the second half of the review period we reduced our structural underweight in housing association bonds, adding bonds from Peabody after yield spreads widened in the sector. We also purchased Notting Hill and THFC Funding. For much of the review period we have favoured lower beta, more defensive trades such as the regulated balance sheets of Severn Trent Water and National Grid. Broadly speaking, these have been positive for performance.

\*The performance figures reported by the Investment Manager differ from the Comparative Table due to other Fund operating expenses.

## Outlook\*\*

Credit markets are fairly valued as a whole, especially in the context of other asset classes, though with yield curves steepening bonds at the longer end are starting to feel pressure with offers noticeably outweighing bids in the market. Bond values have largely withstood the completion of the Bank of England's Corporate Bonds Purchase Scheme which helped drive spreads tighter around the turn of the year however the focus is now on tightening monetary policy, albeit gradually. Coupled with other macroeconomic and political news flow – not least ongoing Brexit negotiations – some volatility is likely over the course of 2018 and a more cautious approach appears prudent. As a result the fund continues to trim risk from the fund and add shorter bonds with a higher carry element in order to protect capital in a rising rate environment.

\*\*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

# Comparative Table

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

## Performance record for the year ended

	Highest offer share price P	Lowest bid share price P	Net allocation per share* P
31 August 2013	352.43	306.89	9.99
31 August 2014	364.11	313.36	25.58
31 August 2015	392.67	339.35	10.47
31 August 2016	431.57	349.41	51.35
31 August 2017	429.66	379.16	(0.03)

\*Net allocation is based on average shares during the year

## Net asset value record for the year ended

	Net asset value of participating shares £	Shares in issue	Cancellation price per share P
31 August 2015	25,453,952	7,214,160	352.83
31 August 2016	25,714,562	6,332,480	406.07
31 August 2017	22,539,948	5,569,540	404.71

## Ongoing charges figure ("OCF") for the year ended

	OCF/TER* %
31 August 2015	1.17%
31 August 2016	1.15%
31 August 2017	0.96%

\*The Ongoing charges figure ("OCF") has replaced the Total expense ratio ("TER"). OCF is the total expenses paid by a share class in the year against its average daily net asset value.

## Details of investments

	% of Fund's property 31.08.2017	% of Fund's property 31.08.2016
Government bonds	4.65	7.84
Corporate bonds	90.61	91.68
Bank balances	4.74	0.48
	<b>100.00</b>	<b>100.00</b>

*Due to licence restrictions, individual credit ratings have not been disclosed. However a credit quality is disclosed below in accordance with the requirements of the IMA SORP.*

## Credit rating analysis

	Market Value as at 31.08.2017 £	Market Value as at 31.08.2016 £
Investment Grade	20,599,665	23,769,214
Non-investment grade	653,135	1,370,175
<b>Total debt securities</b>	<b>21,252,800</b>	<b>25,139,389</b>

## Top five holdings

Asset description	% of Fund's property 31.08.2017	Asset description	% of Fund's property 31.08.2016
1. TRANSPORT FOR LONDON 2.125% 24/04/20252	2.69	1. TRANSPORT FOR LONDON 2.125% 24/04/2025	3.01
2. ELECTRICITE DE FRANCE SA 6.25% 30/05/2028	1.52	2. UNITED KINGDOM GILT 4.75% 07/12/2030	2.21
3. UNITED KINGDOM GILT 4% 07/03/2022	1.46	3. ELECTRICITE DE FRANCE 5.5% 17/10/2041	1.78
4. PMF 2017 – 1 B A 1.147% 12/03/2054	1.34	4. GE CAPITAL UK FUNDING 5.875% 18/01/2033	1.54
5. ELECTRICITE DE FRANCE SA 5.5% 17/10/2041	1.20	5. UNITED KINGDOM GILT 1.0% 07/09/2017	1.52



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