

THE INCOME TRUST FOR CHARITIES



Annual Report
31st October 2011

The Income Trust for Charities

(charity number 1065732)

Annual report

(audited)

Contents

Trust status*	1
Trust objective*	1
Trust policy*	1
Investment guidelines*	1
Investment Manager's report*	2
Statement of Manager's responsibilities	4
Directors' statement	4
Statement of Trustee's responsibilities	5
Trustee's report	5
Independent Auditor's report	6
Trust facts	7
Performance record	7
Price history	7
Total expense ratio	7
Net asset value record	7
Gross revenue distributions	8
Portfolio statement*	9
Statement of total return	11
Statement of change in net assets attributable to unitholders	11
Balance sheet	12
Notes to the financial statements	13
Distribution tables	21
Regulatory information and risk warnings	22
Other information*	23

* These collectively comprise the Manager's report.

Trust status

The Income Trust for Charities ("the Trust") is a regulated Common Investment Fund established by an Order dated 31 October 1997, made by the Scheme of the Charity Commission for England and Wales ("the Scheme") pursuant to section 24 of the Charities Act 1993. It is not an authorised unit trust within the meaning of the Financial Services and Markets Act 2000.

Trust objective

The Trust aims to provide a high and secure level of income through predominantly investing in United Kingdom Government and other fixed interest securities, or derivatives thereof. The Trust may invest up to 20% of its net asset value on a currency hedged basis in bonds denominated in currencies other than Sterling. The target for the Trust is a total return ahead of the FTSE Government All Stocks Index over rolling five-year periods.

Trust policy

Within the investment guidelines set out below, an active asset allocation policy is adopted between UK government, cash and other fixed interest securities, or derivatives thereof, to generate a high and secure level of income and protect the Trust's capital value.

Corporate bond selection is made from amongst those bonds that have a Standard & Poor's credit quality rating of at least 'B-' or Moody's equivalent rating. For securities where no credit quality rating is available, investment will only be permitted if, in the opinion of the Manager, they satisfy the minimum rating allowed. In the case of securities with a split rating, for the purposes of satisfying the minimum credit rating requirement, the lower rating will apply. Securities that are downgraded below the minimum credit rating will normally be sold within one month provided that normal market conditions prevail. Any credit exposure, including credit default swaps, is actively managed and investment is only made if the security is considered good value on a risk-adjusted basis rather than purely on income considerations.

The Trust will not invest in corporate bonds of companies in the FTSE All-Share Index that manufacture cigarettes and tobacco products as determined by the Manager using the Ethical Investment Research Service (EIRIS). The restriction does not extend to companies that sell tobacco products. The Trust should not be viewed as an ethical fund. The Trust can use UK gilt futures and options and credit default swaps for investment purposes. Exposure to futures is limited to 30% of the net asset value of the Trust. In addition, it may invest up to 20% of its assets on a currency hedged basis in bonds denominated in currencies other than Sterling.

If the Manager believes that a defensive investment strategy is appropriate at a particular time in the business cycle, cash and near cash may comprise up to 20% of the value of the property of the Trust. This range may be exceeded in exceptional circumstances.

Investment guidelines

Security types

	Minimum exposure %	Maximum exposure %
Government bonds	50	100
Corporate bonds	0	50

Credit quality (according to Standard & Poor's) limits

	Minimum exposure %	Maximum exposure %
'AAA' (Non-Government)	0	50
'AA'	0	40
'A'	0	30
'BBB'	0	20
'BB'	0	15
Below 'BB'	0	5 (min B-)

Investment guidelines (continued)

Single issuer/issue limits

	Single issuer %	Single issue %
Government bonds	100	25
Supranational	15	15
Any other issuer		
- 'AAA'	10	7.5
- 'AA'	7.5	5
- 'A'	5	3
- 'BBB'	3	2
- 'BB'	2	2
- Below 'BB'	1 (min B-)	1 (min B-)

The asset allocation as at 31 October 2011 was as follows:

	%		%
UK debt securities	92.05	Overseas debt securities	4.89
Net other assets	3.04	UK equities	0.14
Derivative investment instruments	(0.12)		

Investment Manager's report

Performance

As at 31 October 2011, the bid price of the Trust was 61.67 pence per unit. Over the twelve months ending 31 October 2011 the Trust delivered a total return of 7.6% compared to the FTSE Government All Stocks Index total return of 10.5%.

Distributions

Distributions for the 12 months totalled 3.16 pence per unit. The Trust's current yield is 5.1%, based on the last four distributions paid. We forecast that the quarterly distribution of 0.79 pence per unit will be maintained in 2011.

The current low level of yields has made maintenance of the current distribution yield increasingly difficult. With Gilt yields averaging 2 to 2.5%, the relatively high distribution rate has begun to impinge on investment policy and could be detrimental to performance going forward. It is unlikely that investment grade bond yields will be sufficiently high in the medium term to make a reduction unavoidable. With this in mind we intend to cut the distribution rate from 0.79p per unit to 0.7p per unit effective March 2012 onwards.

Economic and market review

The markets were once again dominated by the developing crisis in the European sovereign debt markets. Of particular significance, the weakening global economic picture over the second half of the year meant that investors became increasingly despondent regarding its resolution. Simply put, given that the main problem is one of excessive government debt levels, falling growth rates makes the necessary fiscal retracements even harder to achieve than they first seemed. When the markets' attention focussed on Italy in the summer, the situation took a dramatic turn for the worse. The cost of insuring Italian government debt increased from about 2% per annum at the beginning of the period to 4.5% at the end. This was despite the fact that Italy has a primary budget surplus (ie ex-interest payments) and despite new bail out packages agreed for Greece and Portugal and an agreement to expand the scale of the European Financial Stability Facility. The key issue with Italy was perceived as the scale of total debt to GDP (c. 120%) and the enormous refinancing required over the next year or so. Worryingly, these fears were not limited to the "peripheral" members of the Eurozone but afflicted France where the cost of insuring its debt increased from about 0.7% per annum at the beginning of the period to 1.8% at the end.

Outside of the European situation, the UK economic backdrop was essentially stagflationary – high inflation/low growth. This has the unfortunate effect of challenging both real incomes and spending, and government finances. The weakening global economic outlook prompted the Bank of England to increase the amount of Quantitative Easing by £75bn at its October meeting. The troubles in Europe continued to attract investors to the relative "safety" of the gilt market and 10 year yields fell by 0.7% to 2.4%. Putting this in perspective, if one assumes that the rate of inflation heads back to the 2% target and stays at that level for the next 10 years, then the market is pricing in virtually no growth for the whole of that period. In other words, real yields close to zero for the next 10 years.

In the risk averse market environment, sterling investment grade credit spreads widened markedly from 1.75% above gilts to 2.67% on average. By far the worst performing sectors were banks and insurance companies which tend to have high bank and sovereign exposures.

Investment Manager's report (continued)

Portfolio activity

The Trust's duration was lengthened from 6.9 to 8.2 compared to 8.9 for the gilt benchmark. Much of this relative lengthening was achieved as 10 year yields rose back towards 4% in the first half of the year. This was achieved in three ways:- reducing cash holdings, buying bond futures and lengthening bond holdings.

Over the year the Trust reduced its holdings of corporate bonds to 32% from 34%. Of note, positions were initiated in several covered bonds (senior and over-collateralised with UK prime mortgages) yielding between 1.45% and 1.75% above gilts – Leeds Building Society, Lloyds TSB Bank, Yorkshire Building Society and Abbey National Treasury Services. Holdings in the subordinated bonds of Principality Building Society and Santander were sold. In non-financials, the holding in Annington Finance was reduced and the utility weightings raised through purchases of NIE Finance, National Grid Electricity Transmission, Western Power Distribution (East Midlands), Anglian Water and Wales and West Utilities.

Outlook

"Safe haven" markets such as gilts are truly pricing in a sharp recession or even a Japanese style, lost decade (or two!) of little growth and mild deflation. The credit markets, similarly, are pricing in a sharp pick up in defaults particularly for lower rated bonds. For example high yield bond spreads imply a 7.3% p.a. default rate over each of the next 5 years. In other words, over 40% of those companies are expected to have defaulted over the next 5 years. Even in the worst five year period since 1980, average annual defaults were much less than this. It should be noted that these spreads did, briefly, trade quite a lot higher in spring 2009. We think there is long term value in credit compared to gilts but absolute yields are historically low. This means we will be looking to lengthen the maturity profile in credit against shortening it in government bonds.

Perhaps the most worrying development has been the renewed fears regarding banks' ability to fund themselves. Their bonds are certainly the cheapest they have been through the whole crisis. Whilst it is true that central banks are providing huge amounts of short term liquidity, the banks have enormous amounts of senior term funding maturing over the next year or so which needs to be replaced. The alternative is a further large scale contraction in bank lending which softens the economy again which further reduces risk appetite and so on.

One question people ask is whether the situation is potentially worse now than it was at the time of the collapse of Lehmans. On the plus side, banks in general are much better capitalised than they were and they have access to virtually limitless, admittedly short term, liquidity at low rates. On the negative side, sovereign debt problems are clearly worse and there is the feeling that there are no silver bullets in the chamber and perhaps very few bullets left at all. Growth is the only way out of their problems. That, unfortunately, is likely to be in short supply in the foreseeable future. Also, uncertainty over any burden sharing for bank bond holders will keep those bonds relatively depressed but we still believe senior bonds of national champion banks will not default or restructure. There is value in these bonds.

Statement of Manager's responsibilities

The Manager is required by The Charities Act 1993, as amended by the Charities Act 2006, to prepare financial statements for each financial year. These financial statements must be prepared in accordance with The Charities Act 1993, as amended by the Charities Act 2006, the Charities (Accounts & Reports) Regulations 2008, the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the Investment Management Association ("IMA") in October 2010 and the Scheme Particulars.

In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow generally accepted accounting principles and applicable accounting standards, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Trust will continue in operation.

The Manager is also responsible for keeping such accounting records as are necessary to enable it to ensure that the financial statements comply with section 41 of the Charities Act 1993 as amended by the Charities Act 2006, the SORP and the Scheme Particulars.

The Manager is responsible for the management of the Trust in accordance with its Scheme Particulars and for taking reasonable steps for the prevention and detection of fraud and other irregularities arising in the course of its investment activities.

The Manager is exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

Directors' statement

This report was approved for publication on 2 December 2011.



Robin Minter-Kemp

Directors of Cazenove Investment Fund Management Limited



Carolyn Sims

Statement of Trustee's responsibilities

Under the Scheme Particulars, the Trustee is responsible for the custody and control of the property of the Trust, the collection of all revenue due to the Trust, and the claiming of any tax repayment which may be due. The Trustee may create and cancel units in accordance with the instructions of the Manager (except where not permitted to by the Scheme Particulars). The Trustee will make distributions and allocations of revenue to unitholders as applicable.

The Trustee also has the duty of supervision and oversight of the Manager's compliance with the Scheme and the Scheme Particulars. In particular, the Trustee must be satisfied that the Manager is not exceeding his powers and that the Manager is maintaining adequate and proper records.

The Trustee is required to take all steps and execute all documents which are necessary to ensure that purchases and sales of investments of the Trust are properly completed, and is required to exercise voting rights attaching to such investments as properly instructed by the Manager.

The Trustee is responsible for the appointment of the Registrar and for the supervision and oversight of the Registrar. The Trustee is responsible for supervision and oversight of any other delegate which it appoints. In addition, the Trustee is responsible for the appointment and dismissal of persons engaged in connection with the Trust, for the making of an annual report on the discharge of its responsibilities for the management of the Trust.

Finally, the Trustee is responsible for the winding up of the Trust.

Trustee's report

Report of the Trustee to unitholders of The Income Trust for Charities for the year ended 31 October 2011.

As Trustee of the above Fund we hereby report that, for the year ended 31 October 2011 and having made such enquiries as we think appropriate, we have discharged our responsibilities for those aspects of the administration and management of the Fund and its property which are specified in Clause 9 of the Scheme Particulars and, in respect of the supervision and oversight of the Manager's compliance with the Scheme of the Charity Commissioners and the Scheme Particulars, and that the Manager has not exceeded the powers conferred on it and is maintaining adequate and proper records, that we have maintained custody and control of the property of the Fund and that all revenue which is due to the Fund has been collected.

J.P. Morgan Trustee and Depositary Company Limited
Bournemouth
2 December 2011

Independent Auditors' report to the Trustees of The Income Trust for Charities ("the Fund")

We have audited the financial statements of The Income Trust for Charities ("the Fund") for the year ended 31 October 2011 which comprise of the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Manager and auditors

As explained more fully in the Manager's Responsibilities Statement set out on page 4, the Manager is responsible for the preparation of financial statements which give a true and fair view.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the charity's trustees as a body in accordance with Regulation 24 of The Charities (Accounts and Reports) Regulations 2008 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the Authorised Fund Managers Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 October 2011, and of the net revenue, the net capital gains, and the movement in net assets of the Fund for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 1993.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 1993 requires us to report to you if, in our opinion:

- the information given in the Manager's Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 December 2011

PricewaterhouseCoopers LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

- (a) The maintenance and integrity of the Cazenove website is the responsibility of the Authorised Fund Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trust facts

	Accounting date	Distribution payment date
Interim	n/a	15 March
Interim	30 April	15 June
Interim	n/a	15 September
Final	31 October	15 December

Performance record

	31.10.11	31.10.10	Capital return % change	Total return % change
FTSE Government All Stocks Index (£)*	168.35	158.89	5.95	10.49

	31.10.11 p	31.10.10 p	Capital return % change	Total return % change
The Income Trust for Charities - Bid price **	61.67	60.44	2.04	7.56

* Source: Lipper Investment Management. Total return includes gross income reinvested; capital return excludes income.

** Source: Lipper Investment Management (bid price).

Price history

Calendar year	Lowest price p	Highest price p
2011*	57.19	62.57
2010	57.43	61.81
2009	57.50	62.29
2008	55.61	62.29
2007	55.89	60.19
2006	59.78	64.88

* To 31 October 2011.

Total expense ratio

A total expense ratio ("TER") is shown which takes into account the management fee and all other operating expenses over the year and is expressed as a percentage of average daily assets over the same period.

	31.10.11 %	31.10.10 %
The Income Trust for Charities	0.57	0.55

Net asset value record

Date	Net asset value £	Number of units in issue	Net asset value per unit p
31 October 2011	88,269,033	144,212,403	61.21
31 October 2010	106,692,883	178,295,876	59.84
31 October 2009	132,557,579	222,282,221	59.63

All units issued by the Trust are income units.

Gross revenue distributions

Calendar year	First interim 31.01 p	Second interim 30.04 p	Third interim 31.07 p	Final 31.10 p	Total p
2011*	0.7900	0.7900	0.7900	0.7900	3.1600
2010	0.7900	0.7900	0.7900	0.7900	3.1600
2009	0.7900	0.7900	0.7900	0.7900	3.1600
2008	0.7900	0.7900	0.7900	0.7900	3.1600
2007	0.9000	0.8400	0.7900	0.7900	3.3200
2006	0.9000	0.9000	0.9000	0.9000	3.6000

* To 31 October 2011.

Portfolio statement

as at 31 October 2011

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
United Kingdom debt securities 92.05% (31 October 2010 83.79%)			
UK government bonds 64.90% (31 October 2010 59.94%)			
£8,500,000	Treasury 4.25% Stock 07/03/2036	9,820,050	11.12
£3,000,000	Treasury 4.25% Stock 07/12/2046	3,536,400	4.01
£2,500,000	Treasury 4.75% Stock 07/12/2038	3,124,500	3.54
£7,600,000	Treasury 6% Stock 07/12/2028	10,676,480	12.09
£1,500,000	Treasury 8% Stock 07/12/2015	1,919,550	2.17
£6,000,000	Treasury 8% Stock 07/06/2021	8,877,600	10.06
£9,630,000	Treasury 8.75% Stock 25/08/2017	13,485,852	15.28
£6,626,000	War Loan 3.5% Perpetual Notes	5,849,764	6.63
		57,290,196	64.90
UK corporate bonds 27.15% (31 October 2010 23.85%)			
£800,000	Abbey National Treasury Services 5.75% Medium Term Notes 02/03/2026	871,214	0.99
£1,000,000	Anglian Water 12.375% Bonds 07/01/2014	1,204,248	1.36
£2,250,000	Annington Finance No. 1 8% Secured Bonds 02/10/2021	2,787,154	3.16
£960,000	Bank of Scotland 11% Bonds 17/01/2014	1,018,953	1.16
£500,000	Bank of Scotland 6.059% Subordinated Perpetual Variable Bonds	349,915	0.40
£500,000	Coventry Building Society 4.625% Covered Bonds 19/04/2018	523,817	0.59
£1,375,000	Coventry Building Society 6% Senior Unsecured Notes 16/10/2019	1,413,830	1.60
£1,000,000	Eversholt Funding 5.831% Guaranteed Medium Term Notes 02/12/2020	1,061,558	1.20
£925,000	Fidelity International 6.75% Medium Term Notes 19/10/2020	978,215	1.11
£481,000	Friends Provident 12% Notes 21/05/2021	542,284	0.61
£750,000	Friends Provident Holdings (UK) Placing 8.25% Subordinated Notes 21/04/2022	674,538	0.76
£650,000	G4S 7.75% European Medium Term Notes 13/05/2019	758,657	0.86
£1,000,000	Leeds Building Society 4.25% Medium Term Notes 17/12/2018	1,032,003	1.17
£1,000,000	Lloyds TSB Bank 6.9625% Floating Rate Notes 29/05/2020	837,386	0.95
£545,000	National Grid Electricity Transmission 7.375% 2031	718,822	0.82
£1,500,000	NIE Finance 6.375% Notes 02/06/2026	1,552,931	1.76
£1,505,000	Royal Bank of Scotland 6.00% Notes 17/05/2017	1,537,180	1.74
€ 500,000	Royal Bank of Scotland 6.934% Subordinated Notes 09/04/2018	371,274	0.42
£1,000,000	Stockland Finance 5.625% 2013	1,040,925	1.18
£2,490,000	Telereal Securitisation 6.1645% Asset Backed Bonds 10/12/2033	2,527,300	2.86
£498,522	Tesco Property Finance 5.744% Bonds 13/04/2040	521,316	0.59
£300,000	Thames Water (Kemble) 7.75% Medium Term Notes 01/04/2019	285,300	0.32
£375,000	Wales & West Utilities 5% Medium Term Notes 07/03/2028	377,674	0.43
£500,000	Western Power Distribution (East Midlands) 5.75% 2032	537,314	0.61
£420,000	Yorkshire Building Society 4.75% Notes 12/04/2018	442,973	0.50
		23,966,781	27.15
United Kingdom equities 0.14% (31 October 2010 0.14%)			
Financials 0.14% (31 October 2010 0.14%)			
22	West Bromwich Building Society Profit Participating Deferred Shares*	120,559	0.14
Overseas debt securities 4.89% (31 October 2010 12.16%)			
Overseas government bonds 0.00% (31 October 2010 1.91%)			

Portfolio statement (continued)

as at 31 October 2011

Holding/ Nominal	Stock description	Market value £	Percentage of net assets %
Overseas debt securities (continued)			
Overseas corporate bonds 4.89% (31 October 2010 10.25%)			
£2,500,000	Hydro-Quebec 12.625% Debentures 08/03/2015	3,374,958	3.83
£900,000	QBE Insurance 6.125% Medium Term Notes 28/09/2015	937,259	1.06
		4,312,217	4.89
Derivatives (0.12%) (31 October 2010 0.12%)			
Forward currency hedges 0.00% (31 October 2010 (0.12)%)			
£501,412	Buy Sterling 23/03/2012, Sell Euro 574,000	(969)	-
Futures (0.12)% (31 October 2010 0.24%)			
15	Euro Bund Future 08/12/2011	4,591	-
(164)	Long Gilt Future 28/12/2011	(105,080)	(0.12)
		(100,489)	(0.12)
Net investment assets		85,588,295	96.96
Net other assets		2,680,738	3.04
Net assets attributable to unitholders		88,269,033	100.00

* Delisted security.

At 31 October 2011, 5.32% (31 October 2010: 0.74%) of the debt securities of £85,569,194 (31 October 2010: £102,369,886) were rated below investment grade and 0.00% were unrated (31 October 2010: 0.31%).

Statement of total return

for the year ended 31 October 2011

		Year ended 31.10.11		Year ended 31.10.10	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		3,017		1,468
Revenue	3	4,126		5,187	
Expenses	4	(551)		(630)	
Finance costs: Interest	5	-		(1)	
Net revenue before taxation		3,575		4,556	
Net revenue after taxation			3,575		4,556
Total return before distributions			6,592		6,024
Finance costs: Distributions	5		(5,226)		(6,248)
Change in net assets attributable to unitholders from investment activities			1,366		(224)

Statement of change in net assets attributable to unitholders

for the year ended 31 October 2011

	Year ended 31.10.11		Year ended 31.10.10	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		106,693		132,558
Amounts receivable on issue of units		6,917		3,525
Less: Amounts payable on cancellation of units		(26,707)		(29,166)
		(19,790)		(25,641)
Change in net assets attributable to unitholders from investment activities (see above)		1,366		(224)
Closing net assets attributable to unitholders		88,269		106,693

The notes on pages 13 to 20 form an integral part of these financial statements.

The Trust is exempt from UK income and capital gains tax due to its charitable status pursuant to Sections 505 and 506 of the Income and Corporation Taxes Act 1988. Distributions are paid gross to unitholders.

Balance sheet

as at 31 October 2011

		31.10.11	31.10.10
		£'000	£'000
ASSETS			
Investment assets		85,690	102,776
Debtors	6	2,055	1,890
Cash and bank balances	7	2,239	4,854
Total other assets		4,294	6,744
Total assets		89,984	109,520
LIABILITIES			
Derivative liabilities		101	132
Creditors	8	475	1,286
Distribution payable on income units		1,139	1,409
Total other liabilities		1,614	2,695
Total liabilities		1,715	2,827
Net assets attributable to unitholders	10	88,269	106,693

The notes on pages 13 to 20 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

a) Basis of accounting

The financial statements of the Trust have been prepared on the historical cost basis, as modified by the revaluation of investments, and in accordance with applicable UK accounting standards, the Charities Act 1993, as amended by the Charities Act 2006, the Charities (Accounts and Reports) Regulations 2008 and the disclosure requirements of the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in October 2010 ("SORP"). They are exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

b) Investments

The investments of the Trust are valued at bid market values, defined by the SORP as fair value, at close of business on 31 October 2011 being the last business day of the accounting year, net of any accrued interest. Investments for which published market values are not available are valued in accordance with the fair value policy operated by the Manager.

c) Foreign exchange

Assets and liabilities in foreign currencies are translated at the exchange rates ruling at the end of the accounting year. Revenue items denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the date of the transaction. Exchange differences arising from investments are included in 'Net capital gains' in the Statement of total return. Exchange differences arising from capital items other than investments are also included in 'Net capital gains' in the Statement of total return. Exchange differences arising from the receipt of overseas revenue are included in 'Revenue' in the Statement of total return.

d) Revenue recognition

Dividends on quoted ordinary shares and preference shares are recognised when the securities are quoted ex-dividend. Where such securities are not quoted, dividends on them are recognised when they are declared.

Special dividends are treated as revenue or capital according to the nature of the event giving rise to the payment.

Interest and overseas dividends that are received after the deduction of withholding tax are shown gross of taxation.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium of an investment over its remaining life. In the event of impairment or distress to a debt security, any accrued coupon revenue previously recognised may be provided against and no further accruals recognised and any amortisation revenue previously recognised from the last coupon payment date may be provided against and no further amortisation recognised.

Interest on bank deposits is recognised on an earned basis.

e) Stock dividends

The Trust may elect to receive stock dividends. Where an ordinary stock dividend is received the whole amount is recognised as revenue, on the basis of the market value of the shares on the date they are quoted ex-dividend. Where an enhancement is offered, the amount by which the market value of the shares (on the date they are quoted ex-dividend) exceeds the cash dividend is treated as capital.

f) Expenses

The Manager's service fees and the Trustee's fees are recognised on an accruals basis and are charged to revenue but are ultimately borne by capital for distribution purposes. Transaction charges relating to the purchase and sale of investments are also borne by the capital of the Trust. All other expenses are borne by revenue. These expenses, and all other expenses other than transaction charges, are included in 'Expenses' in the Statement of total return. Finance costs are disclosed separately in the Statement of total return. Transaction charges are included in note 2: Net capital gains as 'Expenses relating to the purchase and sale of investments'.

g) Distribution policy

Distributions of revenue to unitholders are determined by the Manager acting as delegate for, and in consultation with, the Trustee. The Trust's distributable revenue is determined on the basis of coupon revenue receivable from debt securities. A coupon based distribution is allowable to the extent that coupon based revenue is not less than revenue recognised on an effective yield basis, however reportable revenue on debt securities must be recognised in the financial statements on an effective yield basis, in line with the IMA SORP 2010. Therefore, reportable revenue from debt securities will not equate to distributable revenue from debt securities. The impact of the coupon distribution election on distributable income can be seen in note 5.

1. Accounting policies (continued)

h) Derivatives and forward currency transactions

Where appropriate, certain permitted financial instruments such as derivatives or forward currency contracts are used for efficient portfolio management. Where such financial instruments are used to protect or enhance revenue, the revenue and expenses derived therefrom are included in 'Revenue' or 'Expenses' in the Statement of total return. Where such financial instruments are used to protect or enhance capital, the gains and losses derived therefrom are included in 'Net capital gains'. Any positions on such financial instruments open at the year end are reflected in the Balance sheet at their 'marked to market value'.

i) Distribution equalisation reserve

Transfers to the distribution equalisation reserve are made in accordance with the Scheme Particulars for the purpose of avoiding fluctuations in the distribution of revenue. The distribution equalisation reserve is shown separately in note 10.

j) Underwriting commission

Underwriting commission is wholly recognised as revenue when the issue takes place, except where the Trust is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission received is deducted from the cost of these shares.

2. Net capital gains

	Year ended 31.10.11 £'000	Year ended 31.10.10 £'000
Non-derivative securities	4,206	2,931
Forward currency contracts	7	103
Currency losses from other capital items	-	(12)
Expenses relating to the purchase and sale of investments	(19)	(20)
Derivative securities	(1,177)	(1,534)
Total	3,017	1,468

3. Revenue

	Year ended 31.10.11 £'000	Year ended 31.10.10 £'000
Interest on debt securities	4,111	5,177
Bank interest	15	10
Total	4,126	5,187

4. Expenses

	Year ended 31.10.11 £'000	Year ended 31.10.10 £'000
Payable to the Manager or associate of the Manager		
Manager's service fee	465	544
Payable to the Trustee or associate of the Trustee		
Trustee fees	23	24
Safe custody fees	4	6
Total payable to the Trustee or associate of the Trustee	27	30
Payable to other related parties and third parties		
Administration fees	41	42
Audit fee	8	8
Printing fees	5	2
Publication fees	3	2
Registrar fees	-	2
Transfer agency fees	2	-
Total payable to other related parties and third parties	59	56
Total	551	630
Expenses include VAT, where applicable.		

5. Finance costs

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

	Year ended 31.10.11 £'000	Year ended 31.10.10 £'000
First interim	1,439	1,626
Second interim	1,303	1,472
Third interim	1,157	1,458
Final	1,139	1,409
	5,038	5,965
Add: Revenue deducted on cancellation of units	256	326
Deduct: Revenue received on creation of units	(68)	(43)
Distributions	5,226	6,248
Interest	-	1
Total finance costs	5,226	6,249
Movement between distributions and net revenue after taxation		
Distributions	5,226	6,248
Less: Manager's fee charged to capital	(465)	(544)
Less: Trustee fee charged to capital	(23)	(24)
Less: Undistributed revenue brought forward	(415)	(515)
Add: Undistributed revenue carried forward	416	415
Less: Amortised interest on debt securities	(1,164)	(1,024)
Net revenue after taxation	3,575	4,556

Details of the distributions are set out on page 21.

6. Debtors

	31.10.11 £'000	31.10.10 £'000
Accrued revenue	1,620	1,890
Sales awaiting settlement	366	-
Amounts receivable on creation of units	69	-
Total	2,055	1,890

7. Cash and bank balances

	31.10.11 £'000	31.10.10 £'000
Cash and bank balances	1,470	4,593
Amounts held at futures clearing houses	769	261
Total	2,239	4,854

8. Creditors

	31.10.11 £'000	31.10.10 £'000
Purchases awaiting settlement	371	-
Accrued expenses	104	64
Amounts payable on cancellation of units	-	1,222
Total	475	1,286

9. Portfolio transaction cost

Given the nature of the investments held, no transaction costs were incurred on the Trust's gross purchases of £29,400,483 or gross sales of £49,272,842 during the year to 31 October 2011, or during the comparative year ended 31 October 2010.

10. Distribution equalisation reserve

Included within unitholders' net assets is an amount of £415,847 (31 October 2010: £414,878) which has been carried forward as a distribution equalisation reserve representing undistributed earnings available for future distributions.

11. Derivatives and other financial instruments

The Trust's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations. For example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for cancellations of units, and debtors for accrued revenue.

The Trust may enter into derivatives transactions in the form of forward foreign currency contracts. Forward foreign currency contracts are used to manage currency risk arising from holding of overseas securities. The Trust may enter into derivative contracts in the form of futures or options for the purpose of efficient portfolio management which may involve hedging risk against movements in the value of the portfolio or certain specific assets. Alternatively, the Trust may use such instruments to manage cashflow, for instance to gain temporary market exposure at the reduced cost compared to that involved in acquiring physical assets. The Trust may also write (or sell) financial options in order to generate additional capital or revenue to the benefit of unitholders.

The main risks arising from the Trust's financial instruments are credit, foreign currency, interest rate, liquidity and market price risks. The Manager's policies for dealing with these risks are summarised below and have been applied throughout the year.

Credit risk

The Trust is exposed to credit risk, which is the risk of loss due to another party not being able to meet its financial obligations. The primary sources of this risk to the Trust are trade counterparties which may fail to meet their transaction commitments. This risk is managed by appraising the credit profile of trade counterparties and financial instruments.

Foreign exchange risk

The Trust can be exposed to foreign currency risk as a result of investing in assets denominated in currencies other than Sterling. Where the Manager deems it necessary, this exposure to foreign currency fluctuations is mitigated by the use of forward foreign currency contracts. The Trust can be exposed to indirect foreign currency risk, where it is investing in assets which have underlying exposure to foreign currency, for example international companies or funds which in turn invest in foreign currency denominated assets.

Foreign exchange risk is an ongoing consideration during the asset allocation and investment selection process.

Interest rate risk

The Trust invests in debt securities. The revenue of the Trust may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of debt securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Interest rate risk is an ongoing consideration during the asset allocation and investment selection process.

Liquidity risk

The Trust is also exposed to liquidity risk in that it may be unable to meet its own commitments, in the event that there is insufficient cash available within its bank accounts. This risk is managed by forecasting cash balances and the Trust is permitted to overdraw, if necessary, to meet their obligations.

Market price risk

Market price risk arises from the Trust's financial instruments, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate movement.

These risks are monitored by the Manager in pursuance of the investment objectives and policy as set out on in this Investment Manager's report. Adherence to investment guidelines and to investment and borrowing powers set out in the Scheme Particulars mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the Investment Manager's report and Portfolio statement.

11. Derivatives and other financial instruments (continued)

(a) Currency exposure

At the balance sheet date, 0.63% (31 October 2010: 0.03%) of the net assets of the Trust were denominated in currencies other than Sterling with the effect that the balance sheet and total return will not be significantly affected by currency movements. Numerical disclosures are therefore not required.

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Trust's financial assets as 31 October 2011 was:				
Euro	145	371	(481)	35
Sterling	3,262	84,011	2,555	89,828
US dollar	20	-	-	20
Total	3,427	84,382	2,074	89,883

The interest rate risk profile of the Trust's financial assets as at 31 October 2010 was:

Euro	-	2,655	(2,639)	16
Sterling	7,559	97,395	4,398	109,352
US dollar	20	-	-	20
Total	7,579	100,050	1,759	109,388

*The floating rate financial assets include bank deposits that earned interest at variable rates.

Currency	Floating rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Trust's financial liabilities as at 31 October 2011 was:			
Sterling	-	1,614	1,614
Total	-	1,614	1,614

The interest rate risk profile of the Trust's financial liabilities as at 31 October 2010 was:

Sterling	-	2,695	2,695
Total	-	2,695	2,695

The following table represents the weighted average interest rate on the market value of the Trust and the weighted average period for which the rate is fixed for fixed rate investments and will not necessarily reflect the yield of the Trust.

	Weighted average interest rate %	Weighted average period for which rate is fixed
As at 31 October 2011:		
Euro		
Bonds	10.00	6.40 years
Sterling		
Bonds	2.08	12.63 years
Perpetual bonds	6.06	Undated
As at 31 October 2010:		
Euro		
Bonds	4.85	5.22 years
Sterling		
Bonds	3.81	14.18 years
Perpetual bonds	5.10	Undated

11. Derivatives and other financial instruments (continued)

(c) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

The market value of investments is taken to equal 'fair value' for the purposes of FRS 13 'Derivatives and Other Financial Instruments Disclosures'. Given the activities of the Trust, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Trust is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Trust.

The Manager may borrow temporarily for the purpose of meeting payments to be made out of the Trust on terms that the borrowing is to be repaid out of the property of the Trust if the Manager considers this to be in the Trust's best interests. This temporary borrowing must not exceed 10% of the net asset value of the property of the Trust as at the date of the borrowing, without the prior written consent of the Charity Commission.

The Trust has an agreed overdraft facility with J.P. Morgan at 1% above the Investor Services overdraft rate. There was no borrowing at the balance sheet date.

12. Related parties

The Manager and Trustee are related to the Trust as defined by FRS 8 'Related Party Disclosures' and are named on page 23. Fees received by the Manager and Trustee are disclosed in note 4 of the financial statements. By virtue of the regulations governing Charitable Trusts, the Manager is party to every transaction in respect of units of the Trust, which are summarised in the Statement of change in net assets attributable to unitholders. Balances outstanding at the year end are as follows:

	31.10.11 £'000	31.10.10 £'000
Manager's service fee	71	41
Amounts receivable on creation of units	(69)	-
Amounts payable on cancellation of units	-	1,222
Total payable to the Manager or associate of the Manager	2	1,263
Expenses relating to the purchase and sale of investments	7	3
Safe custody fee	1	1
Trustee fee	2	2
Total payable to the Trustee or associate of the Trustee	10	6

13. Unitholders' funds

The Manager is entitled to an annual management charge of 0.40%. This charge accrues daily and will be determined by reference to the mid-market value of the Trust and is deducted and paid at the end of each month out of the property of the Trust.

Distribution tables

for the year ended 31 October 2011

Final distribution

Group 1 – Units purchased on or before 31 July 2011

Group 2 – Units purchased after 31 July 2011 up to and including 31 October 2011

	Revenue distributable	Equalisation*	Payable 15.12.11 total	Paid 15.12.10 total
	p	p	p	p
Group 1	0.7900000	-	0.7900000	0.7900000
Group 2	0.0909834	0.6990166	0.7900000	0.7900000

Third interim distribution

Group 1 – Units purchased on or before 30 April 2011

Group 2 – Units purchased after 30 April 2011 up to and including 31 July 2011

	Revenue distributable	Equalisation*	Paid 15.09.11 total	Paid 15.09.10 total
	p	p	p	p
Group 1	0.7900000	-	0.7900000	0.7900000
Group 2	0.2098778	0.5801222	0.7900000	0.7900000

Second interim distribution

Group 1 – Units purchased on or before 31 January 2011

Group 2 – Units purchased after 31 January 2011 up to and including 30 April 2011

	Revenue distributable	Equalisation*	Paid 15.06.11 total	Paid 15.06.10 total
	p	p	p	p
Group 1	0.7900000	-	0.7900000	0.7900000
Group 2	0.0758994	0.7141006	0.7900000	0.7900000

First interim distribution

Group 1 – Units purchased on or before 31 October 2010

Group 2 – Units purchased after 31 October 2010 up to and including 31 January 2011

	Revenue distributable	Equalisation*	Paid 15.03.11 total	Paid 15.03.10 total
	p	p	p	p
Group 1	0.7900000	-	0.7900000	0.7900000
Group 2	0.2335635	0.5564365	0.7900000	0.7900000

* Equalisation

Equalisation applies only to units purchased during the current distribution period (Group 2 units). It is the average amount of revenue included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being a capital repayment, it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Regulatory information and risk warnings

The contents of the Investment Manager's report are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and, Cazenove Investment Fund Management Limited, its directors, officers and employees do not accept any liability or responsibility in respect of the information or any recommendations expressed herein which, moreover, are subject to change without notice.

Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice in any way. Past performance is not a guide to future performance. Values may fall as well as rise and you may not get back the amount you invested. Revenue from investments may fluctuate. Changes in rates of exchange may have an adverse effect on the value, price or revenue of investments. The levels and bases of, and reliefs from, taxation may change. You should obtain professional advice on taxation where appropriate before proceeding with any investment. You should be aware that investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a greater risk of default and have a negative impact on revenue and capital value. Revenue may be achieved by foregoing future capital growth. You should be aware of the additional risks associated with investment in emerging and developing markets.

The Manager and any other company in the Cazenove Capital Holdings Group Plc may have acted upon or used research recommendations before they have been published. This document may include forward-looking statements which are based upon our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

Cazenove Investment Fund Management Limited can only promote its own products and services.

Other information

Scheme Particulars

The Scheme Particulars for The Income Trust for Charities is available from the Manager on request.

Manager

Cazenove Investment Fund Management Limited

Registered office: 12 Moorgate, London EC2R 6DA

The Manager is authorised and regulated by the Financial Services Authority.

Directors of Cazenove Investment Fund Management Limited

A J S Ross (*Chairman*)

R Jeffrey

R Minter-Kemp

C Sims

J W J Turnbull

Trustee

J.P. Morgan Trustee and Depositary Company Limited

Chaseside, Bournemouth BH7 7DA

The Trustee is authorised and regulated by the Financial Services Authority.

Administrator

J.P. Morgan Europe Limited

3 Lochside View, Edinburgh Park, Edinburgh EH12 9DH

The Administrator is authorised and regulated by the Financial Services Authority.

Independent Auditors

PricewaterhouseCoopers LLP

7 More London Riverside, London SE1 2RT

Registrar

J.P. Morgan Europe Limited

Finsbury Dials, 20 Finsbury Street

London EC2Y 9AQ.

The Registrar is authorised and regulated by the Financial Services Authority.

Prior to 29 November 2010, the registrar was

The Bank of New York Mellon (International) Limited

12 Blenheim Place, Edinburgh EH7 5JH.

For more information

Telephone Edward Harley or John Gordon at Cazenove Investment Fund Management Limited (CIFM) on 020 3479 0109, or access the website at

www.cazenovecapital.com.

