



Manager Information

Matthew Hudson joined Cazenove Capital Management in 2001. He is a member of the Pan-European equity team and Manager of the Cazenove UK Equity Income Fund and The Equity Income Trust for Charities. Matthew joined from AIB Govett Investment Management where he was a UK equity fund manager. Matthew graduated from Cambridge University with a degree in History. He has 10 years of investment experience.

The Equity Income Trust for Charities

2nd quarter report 2010

The Equity Income Trust for Charities is one of our five Charity Commission authorised Common Investment Funds. As such, this fund adopts a structure that is similar to a unit trust but only charities in England, Wales, Scotland and Northern Ireland may invest in it.

Investment objectives

The Equity Income Trust for Charities primarily aims to provide a high and steady level of income by investing mainly in UK equities, targeting a yield of 30% in excess of the FTSE All Share Index. The portfolio will be managed, where possible, to increase the income distribution over time. The secondary target is to provide capital growth in order that the Manager outperforms the FTSE All Share Index on a total return basis after costs over rolling five year periods.

Performance

% change to 30.06.10	3 months	6 months	1 year	3 years % pa	5 years % pa
Trust (bid to bid)*†	-9.8	-4.3	21.0	-4.7	3.3
FTSE All Share Index	-11.8	-6.2	21.1	-5.7	3.5
Relative	+2.0	+1.9	-0.1	+1.0	-0.2

	Jun 2009 - Jun 2010 %	Jun 2008 - Jun 2009 %	Jun 2007 - Jun 2008 %	Jun 2006 - Jun 2007 %	Jun 2005 - Jun 2006 %
Trust	21.0	-16.0	-14.8	15.0	18.2
FTSE All Share Index	21.1	-20.5	-13.0	18.4	19.7
Relative	-0.1	+4.5	-1.8	-3.4	-1.5

* Gross income reinvested

Source: Lipper

† The Equity Income Trust for Charities was launched on 2 December 2002

Income payments

The distribution yield is 5.3% p.a. based on the last four quarterly payments.

2009/2010	Ex-distribution date	Payment date	Rate per unit
Interim	30 April 2010	15 June 2010	0.87p (0.87p 2009)
Interim	31 January 2010	15 March 2010	0.50p (0.50p 2009)
Final	31 October 2009	15 December 2009	1.00p (1.00p 2008)
Interim	31 July 2009	15 September 2009	0.87p (0.87p 2008)

Trust data

	At 30.06.10	At 31.03.10
Trust size (mid value) £	213,618,014	236,465,709
Bid price (pence)	61.21	68.42
Offer price (pence)	61.50	68.74

Source: CIFM

Purchase information

Minimum investment	£10,000 and £1,000 thereafter
Annual management charge	0.5%
Initial fee	Nil
Exit fee	Nil
Dealing	12 noon every business day
Units	Income class only
Currency	Sterling
Sedol	3231164
ISIN	GB0032311648

Ten largest overweight and underweight stock positions (vs FTSE All Share Index)

Overweight Stock	Fund %	Index %
GlaxoSmithKline	6.8	4.0
Centrica	3.2	1.0
RSA Insurance Group	2.1	0.3
AstraZeneca	4.7	3.1
VT Group	1.6	0.0
Legal & General	1.9	0.3
BT Group	2.2	0.7
National Grid	2.6	1.1
Balfour Beatty	1.6	0.1
Intermediate Capital Group	1.4	0.1

Source: Factset

Underweight Stock	Fund %	Index %
British American Tobacco	0.0	2.8
BHP Billiton	0.0	2.6
BG Group	0.0	2.3
Standard Chartered	0.0	2.2
Anglo American	0.0	2.1
HSBC Holdings	5.3	7.1
Diageo	0.0	1.8
Royal Dutch Shell*	5.5	7.0
Reckitt Benckiser	0.0	1.5
SABMiller	0.0	1.5

*A & B Shares combined
Source: Factset

Ten largest stock positions (vs FTSE All Share Index)

Stock	Fund %	FTSE All Share%
GlaxoSmithKline	6.8	4.0
Royal Dutch Shell*	5.5	7.0
Vodafone	5.3	5.0
HSBC Holdings	5.3	7.1
AstraZeneca	4.7	3.1
BP	3.9	3.8
Rio Tinto	3.5	3.0
Centrica	3.2	1.0
Unilever	2.8	1.5
National Grid	2.6	1.1

*A & B Shares combined
Source: Factset

Five largest overweight and underweight sector positions (vs FTSE All Share Index)

Overweight	Fund %	Index %
Gas, Water & Multiutilities	8.0	2.8
Financial Services	5.8	1.9
Pharmaceuticals & Biotechnology	11.5	7.7
Food Producers	4.9	2.1
Construction & Materials	2.9	0.2

Underweight	Fund %	Index %
Mining	3.5	11.0
Banks	7.1	13.5
Oil & Gas Producers	10.0	14.8
Tobacco	0.0	4.1
Beverages	0.0	3.4

Source: Factset

Dividends

The Fund paid a distribution of 0.87 pence per unit on 15 June 2010, unchanged on the same period in the last financial year. The Fund's current yield is 5.3%, based on the last four distributions paid.

Performance

Over the quarter, the Fund achieved a return of -9.8% compared with the FTSE All-Share return of -11.8% and the IMA Equity Income peer group of -8.4%.

Relative Fund performance benefited from overweight positions in more defensive sectors such as Utilities, Fixed Line Telecoms and Food Producers, as well as being underweight in the Mining sector. On the negative side, not holding enough of the Beverages sector hurt, as did holding too much of the Oil & Gas sector.

At the stock level, significant contributors to performance came from a range of companies that included AstraZeneca, Elementis and Cineworld. Key income generating holdings were also positive, in particular RSA and Provident Financial. The significant negative came from BP, which fell 42%, as the problems in the Gulf of Mexico escalated; the Fund has subsequently reduced its exposure. Other negative impacts were delivered by Go Ahead Group and HMV (poor trading) and from not holding BSkyB and SABMiller in relative terms.

Fund activity

With economic and market conditions deteriorating, the Fund has continued to move more defensive, with the reduction of Commodity and Industrial Cyclical - disposing of holdings in Anglo American, BBA and GKN. Within Financials, the Fund exited its holding in specialist lender Paragon and reduced both the Prudential and Barclays positions. Therefore the Fund remains defensively positioned and is underweight in key cyclical sectors such as Miners and Banks.

The holding in BP was reduced following the suspension of dividend payments and we have been adding to alternative income generators, including further purchases of existing holdings such as Cineworld, GlaxoSmithKline, National Grid and Tate & Lyle. A new holding was established in Sainsbury the food retailer, and Icap was returned to the portfolio. Despite the negative background, we are still able to find high quality companies with attractive and growing yields and the Fund's focus will remain on stocks where we believe dividends can grow above market levels and where this growth can be sustained over the medium term.

During the quarter, the Fund also took part in a number of underwriting opportunities (National Grid and Resolution) and wrote its first covered call option, for efficient portfolio management, as well as investing in the IPO of Jupiter Asset Management.

Dividend outlook

Two years ago, against the background of widespread dividend cuts in the market, the Fund took the decision to maintain its absolute dividend payment per unit, although this was and has remained above the Fund's stated income target of a yield premium of 130% of the market yield. With the recent suspension of the BP dividend, which was the single largest contributor to the portfolio's income, the Fund will no longer be able to maintain its final distribution for this year ended 31st October 2010 and therefore will target a level of 0.75 pence per unit. This will reduce the full year dividend distribution by around 8% to approximately 3.0 pence per unit, broadly equivalent to the loss of income from the suspension of the BP dividend payments.

For the Fund's financial year ending 31 October 2011 the new target will be to deliver a distribution of at least 2.7 pence per unit, equivalent to a yield premium of 130%, in line with our target. As soon as market conditions allow, the Fund will return to growing the dividend distribution, as over time the growth of income and capital returns is a prime focus for the Fund.

Economic outlook

Equity markets do not look expensive and good quality equity stocks are currently yielding more than government bonds. Therefore we expect equity markets to improve from current levels, although with frequent periods of high volatility as investors come to terms with a subnormal recovery. During the downturn, the corporate sector undertook significant deleveraging and cost cutting. This has meant that although economy-wide debt levels remain high, many companies are now in a financially stable position and it is likely to be the corporate sector that sees the best performance over coming quarters. Earnings growth forecasts for 2011 and 2012 may have to come down, but we still anticipate a rebound in profitability over the period.

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Common Investment Funds

We offer five Common Investment Funds. In combination, they provide a unique pooled offering for charities and reflect our commitment to the sector. Charities can achieve their investment objectives by investing in one or a number of the following Common Investment Funds:

The Growth Trust for Charities	- a UK equity fund
The Equity Income Trust for Charities	- a higher yielding UK equity fund
The Income Trust for Charities	- a fixed interest fund
The Absolute Return Trust for Charities	- a fund of hedge funds
The Multi-Strategy Property Trust for Charities	- a property fund

For further information on our investment services for charities please telephone 020 3479 0109 and ask for Edward Harley, John Gordon or Nurten Baykal

Regulatory Information and Risk Warnings

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