

# WAY Fund Managers Limited

## Elite Balanced Trust



### Manager's Final Short Report

For the year ended 31st May 2009

#### Investment Objective and Policy

The objective of the Trust is to provide total return with an emphasis on providing capital appreciation.

The Trust will achieve its objective through investment in a portfolio of collective investment schemes, transferable securities (including investment trusts), warrants, deposits and money market instruments selected from the various world markets. The Trust may also invest in unregulated collective investment schemes such as hedge funds (where investment in such funds would be consistent with the investment objective and policy of the Trust).

The portfolio will be actively managed and normally remain fully invested save for such operational liquidity as is required from time to time. The assets of the Trust will be managed in such a way that the units in the Trust will be qualifying investments for Individual Savings Accounts.

The use of derivatives and/or hedging transactions are permitted in connection with the efficient portfolio management of the Trust, and borrowing will be permitted in accordance with the Regulations. On giving 60 days' notice to Unitholders, the Trust may, in addition to its other investment powers, use derivatives and forward transactions for investment purposes. It is not intended that the use of derivatives in this way will change the risk profile of the Trust.

Subject to the above, the Trust may invest in any asset class and adopt any investment technique or strategy permitted under the rules in COLL as such rules are applied to Non-UCITS retail schemes.

#### Performance Summary

##### Trust performance

	Net asset value (£)	Net asset value pence per unit	No. of shares in issue
31st May 2007*	27,497,758	112.22	24,504,468
31st May 2008	24,035,724	100.07	24,018,248
31st May 2009	11,723,405	83.77	13,995,254

\* Note: Since 12th February 2007 the Trust has been single-priced.

	12 months %	2 years %	3 years %	4 years %	5 years %
Elite Balanced Trust	-20.54	-25.28	-13.39	5.25	18.75
IMA Balanced Managed Sector	-17.87	-21.73	-9.88	5.57	19.45

Source: Lipper Hindsight, Total Return net income reinvested.

## Discrete Performance

	2004	2005	2006	2007	2008	YTD*
Elite Balanced Trust	13.09%	20.72%	12.26%	3.31%	-23.49%	0.53%

\*1st January to 31st May 2009.

Source: *Lipper Hindsight, Total Return net income reinvested.*

## Accumulation Summary

Trust accounting dates	Accumulation dates
Interim - 30th November	-
Final - 31st May	31st July

Trust expenses	As at 31st May 2009 %	As at 31st May 2008 %
Manager's periodic charge	1.50	1.50
Other expenses	1.18	1.22
Total expense ratio (see below)	2.68	2.72

## Total Expense Ratio (TER)

This is a measure of the total costs associated with managing the Trust. Apart from the initial charge and transaction costs, all other expenses are included in the TER. The TER is an internationally accepted standard for the comparison of costs for authorised Trust's.

## Portfolio Turnover Rate (PTR)

The PTR is a ratio that reflects the volume of trading within the Trust over the course of a twelve month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the Trust's shares and is expressed as a percentage of the Trust's average net asset value.

The PTR of the Trust as at 31st May 2009 was 75.57% (61.58% 31st May 2008).

## Income Accumulation

Calendar year	Accumulation Units	
	Pence per unit	Per £1,000 invested at 04/01/2005 £
2005	0.4979	6.38
2006	0.1932	2.47
2007	0.7446	9.54
2008	1.2641	16.19
2009*	1.4102	18.06

\* 1st January to 31st May 2009

## Investment Adviser's report for the year ending 31st May 2009

### Performance

For the period of 1 June 2008 – 31 May 2009, the Trust produced a return of -20.54%. In comparison, the Trust's benchmark index, the IMA Balanced Managed Index fell 17.87%.

### Investment Review

Before we begin the investment review, we should point out that Duncan Carmichael-Jack and his team resigned from UBS at the end of May 2008. As a result, the Trust was not under the management of Duncan during the period 1 June 2008 to 31 December 2008. Following the appointment of Vestra Wealth as investment adviser on 1 January 2009, Duncan has been managing the Trust since the beginning of the year.

At the time of our departure from UBS, global stock markets had just rebounded towards their highs, following a sharp sell-off in the first quarter of 2008. The FTSE was trading around the 6,200 level, whilst the Dow Jones was above 12,500. We can recall being very sceptical of the rally and had increased our cash weightings towards the 15% - 20% level, in preparation for a volatile summer. However, we cannot take any credit for knowing the extent of what was to happen next! As we now know, global equities suffered a vicious sell-off, as various economies plunged into the depths of recession.

Unfortunately for investors in the Trust, it seems that a large proportion of the afore-mentioned cash position was invested as markets declined. Whilst it is easy to point the finger for the timing of this investment, to be fair, the events of 2008 were unprecedented. Several Fund Manager's underperformed, due to the correlation between various asset classes, as hedge funds / absolute return strategies, commodities, private equity and property all declined along with equity markets. This offset many of the normal benefits of diversification across asset classes within a Fund. Geographically, the picture was much the same and the 'de-coupling theory' (suggesting that emerging economies were now far more insulated from the fortunes of the more developed economies) was pretty much abandoned as markets, whether developed or emerging, fell in tandem.

Upon being re-appointed investment adviser on 1 January 2009, we immediately realised that the Trust was heavily geared towards equities. Given our concerns for corporate profitability in the first quarter of 2008, the equity position was reduced by circa 15%. This was carried out through sales of Black Rock UK Dynamic, Jupiter UK Growth, Standard Life UK Equity High Income, Close Far East Equity, Threadneedle Equity Income, Waverton UK Equity and Schroder European Alpha Plus. Approximately 5% of the proceeds were reinvested in Gold through the Lyxor Gold Bullion ETF. This reflected our view that Gold would retain purchasing power at a time of uncertainty. Its principle attributes are that, in effect it is currency neutral, very liquid and a genuine store of value (inflation hedge). The last point here is obviously critical, should 'inflation fears' return, due to the vast amount of Government stimulus across the globe.

At the end of February, we were very satisfied with our defensive strategy. Whilst we appreciate that holding large amounts of cash and gold, reduced the yield on the Trust, we felt that capital preservation was of greater importance at the time. For reference, the Trust was down -5.3% in the two months to February, whilst the IMA Balanced Managed Index and FTSE 100 suffered drops of -8.1% and -12.9% respectively. Having generated this relative out-performance, we did increase our exposure to equities on 3rd March, through the purchase of some individual UK stocks. We initiated positions in BHP Billiton, Man Group and International Power, thereby utilising a proportion of the 10% that is permissible for investment in direct equities. We favoured these stocks because of their FTSE credentials; clearer earnings visibility, good cash flow generation and high liquidity. In addition, all three stocks offered higher beta to the market, which would enable us to capture more upside during an equity rally.

Following the ensuing rally, which started on March 6th, we gradually disposed of the aforementioned stocks throughout March, with International Power the final disposal on 24th March. At this point, the FTSE 100 had rallied almost 500 points and was closing in on the 4000 level, which we felt might provide a barrier for further gains. In each case, we had felt justified in locking-in a profit of between 15% - 20%. With the benefit of hindsight, we clearly sold too early as the rally continued into April and May!

Looking ahead, it seems equity markets have started to price-in a V shaped recovery, which we feel is unlikely. Whilst we have lost ground against the respective indices during April and May, having taken risk off the table at the end of March, we feel the Trust is well positioned to withstand a possible downturn. The earnings expectations of several cyclical companies have risen dramatically and therefore any disappointment on numbers could easily destabilise markets.

On a final note, we are optimistic on the growth prospects for the emerging world and, therefore, the divergence between the East and West has become a common theme for the Fund. We have added commodity orientated positions, in the City Natural Resources Trust and an Oil ETF, which should benefit from re-stocking in China and India. Furthermore, we are currently looking to add a direct holding in China, after recent upgrades in expectations for GDP growth in the region.

## Markets and Outlook

The twelve month period under review has undoubtedly been the most challenging for investors, since the Second World War. The bankruptcy of Lehman Brothers on 15th September almost culminated in the collapse of the financial system and sparked panic selling of equities worldwide. In fact, virtually all asset classes performed poorly with the only exceptions being government bonds and cash, as the global scale of the credit crisis prompted massive de-leveraging and extreme risk aversion to most "risk assets".

When the global credit bubble burst, policy-makers in several countries (including the US and the UK) argued that the problems associated with the financial markets were distinct from the real economy. However, they were soon forced to re-think this view, as economies across the globe officially plunged into recession towards the end of 2008. In the UK, GDP fell -1.5% in the final quarter, representing the largest quarter-on-quarter decline since 1980. Furthermore, the threat of a sustained period of deflation was becoming of increasing concern, the dangers of which have been illustrated by the 'lost decade' in Japan. As a result, governments have gone to considerable lengths in order to avoid such a scenario. Interest rates have been cut aggressively and unconventional policies such as quantitative easing (central banks buying bonds) have been introduced in the UK, US and Europe.

Turning to 2009, the first quarter was dominated by further weakness in corporate news-flow, with a number of profit warnings (as companies adjusted their future profit forecasts to reflect a slower growth environment) and dividend cuts when full year results were delivered in February, March and April. There was particular concern for companies with substantial corporate debt, which needed to be refinanced at a rising cost. Going into March, global stock market indices were at their lowest ebb for several years; the S&P had fallen below the 700 level, whilst the FTSE hovered just above 3,500. Further semi-nationalisation of the automotive and banking industries seemed inevitable, and the end of the world was nigh. Therefore, it was unsurprising that the subsequent three-month rally, starting on 9th March, caught the majority of investors by surprise!

All of a sudden, markets were buying into the so-called “green shoots” theory, believing that key economic indicators were about to show signs of improving activity and sentiment. As a result, the second quarter of 2009 saw a strong rise in equities around the world. The type of companies that led the rally can be broadly categorised as; ‘cyclicals’, which are mainly industrial/manufacturing companies; ‘financials’, such as banks which many investors feel are now unlikely to go bankrupt; ‘commodities’, which are beneficiaries of improving global economic growth prospects; and ‘heavily indebted/leveraged’ companies, who were close to, or who had actually breached banking covenants in the depths of the ‘credit crunch’. All this left investors with one big question on their lips; was the beginning of a new bull market or simply a bear market rally? At the time of writing, this still remains unanswered.

Elsewhere, EU household debt has become excessive in certain countries, including Spain and Ireland, as a result of the boom in house prices created by excessively low interest rates. Furthermore, as a result of the decline of world trade, Germany’s exports have collapsed. Germany might have tried to offset the fall in exports through a more aggressive stimulation of domestic demand, but Angela Merkel insists that the nation should try to maintain its exports (increasing Germany’s share of shrinking world trade) by becoming more competitive.

Like Germany, other export-oriented countries have been hit hard. Since last May Japan’s exports have fallen by close to 40% (Germany’s are down some 20-25%) with a negative output gap around 9%. The government has introduced a fresh fiscal stimulus- including 2 trillion Yen worth of benefit payments, but Japan weakness is its excessive reliance on external demand for growth and the subsequent knock-on to capital spending and household spending. Japan’s predicament is best summed up in the minutes of a recent meeting of the Bank of Japan: “Japan’s economic conditions, after deteriorating significantly, have begun to stop worsening.”

China’s economy – another export oriented country - is now growing again after a couple of quarters of flat GDP growth – the government says growth was around 6% per annum, but this data is very unreliable and if China is to continue to grow and help the wider world economy what is needed is a large increase in China’s final domestic demand (household and government consumption plus fixed investment by companies selling into the domestic market). In the past few months, the state-owned banking system, has lent out 5.4 trillion Yuan, equivalent to nearly 20% of national income. At the same time, official industrial production and fixed investment data suggest a surge in output for the first five months of the year, which has seen China’s trade surplus fall to a monthly rate of \$18bn from \$40bn at the beginning of the year.

Looking ahead, clearly one of the biggest debates amongst investors is whether or not all the monetary easing will ultimately pull us out of recession and enable our economies to grow again. When all is said and done, Governments have done a huge amount of work to help stabilise the situation by injecting literally trillions of Dollars into the black hole created by the credit crunch! However, and putting aside the fact that nothing has ever been known to emerge from a black hole, the thing that worries us the most is that they've decided to fix this crisis with the very cocktail that put us into this mess in the first place...leverage on leverage on leverage! Can that really be the responsible solution? After all, even if it works, aren't we just storing up larger problems for later years and for generations to come?

On the positive side, there are signs that the worst of the 'credit crunch' may be behind us. Unfortunately, we now face a long period of corporate restructuring that will fuel further significant rises in unemployment, de-leveraging, saving and economic prudence. With that in mind and given everything we discuss in this review, we do not believe that now is the time to be 'taking a big swing of the bat' (we will leave that to our cricketers). For now, we are maintaining a relatively cautious approach focusing on capital preservation, which should leave us in as strong a position as possible to invest more aggressively should the opportunity arise in the future.

Vestra Wealth LLP  
Investment Adviser to the Trust

29th July 2009

With effect from 1st January 2009, the Investment Adviser to the Trust was changed to Vestra Wealth LLP.

## Portfolio of Investments as at 31st May 2009

Holding	Market Value £	Percentage of total net assets %
<b>Europe 2.77% (14.09%)</b>		
110,698 Ruffer European (Acc)	<b>324,644</b>	<b>2.77</b>
<b>Far East 5.22% (9.34%)</b>		
155,283 First State Asia Pacific 'A' (Acc)	367,228	3.13
346,801 Societe Generale Japan Core Alpha (Acc)	245,189	2.09
	<b>612,417</b>	<b>5.22</b>
<b>Global 12.79% (15.48%)</b>		
5,150 Gold Bullion Securities	304,654	2.60
876,430 JPMorgan Cautious Total Return 'I' (Inc)	451,975	3.85
236,438 Lazard Emerging Markets (Inc)	378,064	3.22
669 MPC Strategic Reserve 'B'	366,056	3.12
	<b>1,500,749</b>	<b>12.79</b>
<b>United Kingdom 54.40% (49.37%)</b>		
621,230 Artemis High Income (Inc)	331,302	2.82
286,260 Artemis Income (Inc)	371,005	3.18
80,645 AXA Framlington Equity Income (Inc)	293,548	2.51
274,001 BlackRock UK Dynamic (Inc)	289,071	2.46
200,000 City Natural Resources High Yield Trust	252,000	2.15
450,000 Golden Prospect Precious	193,500	1.65
30,354 Henderson Preference & Bond 'A' (Inc)	12,372	0.10
373,030 Henderson Strategic Bond 'A' (Inc)	383,044	3.27
46,000 Invesco Perpetual Income (Inc)	458,238	3.91
863,889 Legal & General Dynamic Bond 'A' (Inc)	441,188	3.76
2,032,712 M&G Corporate Bond 'A' (Inc)	602,089	5.14
355,440 M&G Recovery Sterling 'A' (Inc)	292,776	2.50
248,166 Neptune Income 'B' (Inc)	300,529	2.57
253,100 Old Mutual UK Select Smaller Companies 'A' (Acc)	291,166	2.48
911,933 Schroder Income Max 'A' (Inc)	333,314	2.84
1,394,892 Schroder Strategic Bond (Inc)	593,666	5.07
526,000 Standard Life UK Equity High Income (Inc)	306,079	2.61
609,000 Threadneedle UK Equity Income 'I'	329,286	2.81
2,008 Threadneedle UK Select 'I'	300,968	2.57
	<b>6,375,141</b>	<b>54.40</b>

## Portfolio of Investments as at 31st May 2009

<b>Holding</b>	<b>Market Value</b>	<b>Percentage of total net assets</b>
	<b>£</b>	<b>%</b>
<b>United States of America 16.50% (9.14%)</b>		
10,220 ETFS Two Month Oil Securities	314,640	2.69
37,621 Findlay Park US Smaller Companies	711,989	6.07
83,839 M&G American 'A' (Inc)	480,504	4.10
339,958 Martin Currie North America 'B'	427,327	3.64
	<b>1,934,460</b>	<b>16.50</b>
<b>Portfolio of investments</b>		
<b>91.68% (97.42%)</b>	<b>10,747,411</b>	<b>91.68</b>
Net other assets	975,994	8.32
<b>Total net assets</b>	<b>11,723,405</b>	<b>100.00</b>

Note: Comparative figures shown in brackets relate to 31st May 2008

## Other information about the Trust during the year

### Reports & Accounts

The information in this report is designed to enable unitholders to make an informed judgment on the activities of the Trust during the period it covers and the result of those activities at the end of the year. The full Report and Accounts are available free of charge on request from the Manager (the "Manager"). For more information about the activities and performance of the Trust during the year and previous years, please contact the Manager at the address as noted on the back page.

### Publication of prices

The price of units in the Trust is currently quoted daily on the web pages of Financial Express, which can be accessed at [www.fundlistings.com](http://www.fundlistings.com).

Alternatively, you can contact us on 01202 855 856 (9am to 5pm Monday-Friday excluding Bank Holidays) and we will be happy to provide you with the most recent price of your shares.

## Risk profile

The following are important warnings:

- Investors should appreciate that there are inherent risks in all types of investments. Stock market prices can move erratically and be unpredictably affected by many diverse factors, including political and economic events but also rumours and sentiment. Investment in the Trust should be regarded as a long-term investment. There can be no guarantee that the objectives of the Trust will be achieved.
- The capital value and the income from units in the Trust can fluctuate and the price of units and the income from them can go down as well as up and are not guaranteed. On encashment, particularly in the short term, investors may receive less than the original amount invested. The Manager's initial charge is deducted from an investment at the outset and an equivalent rise in the value of the units is required before the original investment can be recovered.
- Defensive investment in cash and money market instruments, at times when relevant stockmarket indices are rising, may constrain the growth of capital invested in the Trust.
- Investments may be made in assets denominated in various currencies and the movement of exchange rates may have a separate effect, unfavourable as well as favourable, on the gains and losses otherwise experienced on such investments.
- It must be emphasised that past performance is not necessarily a guide to future growth or rates of return.
- Exemptions, thresholds and rates of tax may change in future tax years.
- Some or all of any other charges and expenses may be treated as a capital expense in accordance with the Regulations, which may have the effect of eroding capital or constraining capital growth.
- As a Non-UCITS Retail Scheme, the Trust can invest up to 20% of its assets, in aggregate, into unapproved securities and unregulated funds, which may from time to time, prove to be less liquid than their approved and regulated equivalents.

### Trustee

State Street Trustees Limited  
20 Churchill Place  
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E14 5HJ

Authorised and regulated by the Financial Services Authority.

### Independent Auditor

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### Manager Contact Details

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Cedar House, 3 Cedar Park,  
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Authorised and regulated by the Financial Services Authority  
and a member of IMA.

### Investment Adviser

Vestra Wealth LLP  
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Calls may be recorded for security purposes  
and to improve customer service.



