

INVESTORS' REPORT

as at 31 December 2009

This Report covers Capital and Income Fund, Dominion Fund, Prize Plan Fund, Beehive Fund, Kinsman Managed Fund, Kinsman Narrow Fund and Cheshire Fund.

1. Benchmark and Objective

Your fund invests in the UBS UK Select Fund which is managed by UBS Global Asset Management. The aim of the fund is to achieve long-term growth through an actively managed, varied portfolio mainly consisting of UK shares. Its objective is to beat the FTSE All-Share Index by 2% each year over rolling three year periods.

2. Economic and Market Update

After a difficult 2008, the UK share market began 2009 with its seventh straight quarter of negative returns with investors avoiding risk resulting in heavy selling pressure. The global economy struggled early in the year, dealing with rising levels of unemployment and reduced consumer spending. In the UK, interest rates were cut to all time lows and Government support ('quantitative easing') was introduced on a massive scale in an effort to combat the continued reduction in economic output.

Such globally unprecedented support from governments and central banks resulted in a much increased investor appetite for risk assets at the end of the first quarter. From the lows of March 2009 to year end, the UK share market enjoyed a strong run, growing in value by over 50%. Despite this strong growth, UBS feel the UK share market remains good value on a medium to long term basis. The challenge will be to ensure that the fund is well positioned to take advantage of any further growth in UK stocks.

3. Fund Update

The UBS UK Select Fund rose by 22.7% during the year compared to a market rise of 30.1%. Initially, while markets were falling in the early part of the year, the fund showed a promising trend in terms of performance. However, while the market was then quick to recover from the lows, the fund didn't as it held too few of the types of stocks (those 'riskier' shares with a low Price/Earnings ratio) that posted the biggest gains after the market bottomed in March.

In terms of sectors, the underweight positions in banks and insurance were detractors. This means that, despite correctly avoiding the likes of RBS, UBS were surprised by the speed with which Standard Chartered and particularly HSBC recovered their premium valuations. Other stock selections such as Aquarius Platinum, British Airways and Wolseley all added value but they were unable to compensate for the rapid rise in stocks such as Barclays and Xstrata in which the fund had not invested.

The fund is currently neutrally positioned with regards to market sectors and UBS are looking to add companies to the portfolio which have above average characteristics in terms of quality. This is likely to include market leaders and those which have the potential to grow their turnover. The key uncertainty for 2010 is likely to be the response of the markets when the authorities remove Government support by bringing quantitative easing measures to an end. UBS remains wary of the banking sector's ability to produce growth given the ongoing uncertainties in their loans books. Companies which can demonstrate genuine growth are likely to be a focus.

4. Fund Holdings

The UBS UK Select Fund concentrates on individual stock selection rather than choosing particular sectors in the market. It aims therefore to identify the best stocks regardless of the size of the company and the nature of the industry in which it operates.

This table sets out the top holdings in the fund.

Company	% of fund
BP	7.5
HSBC	6.5
Vodafone	6.3
Tesco	4.1
Astrazeneca	3.4
Rio Tinto	3.3
BG Group	3.2
British American Tobacco	2.4
Anglo American	2.3
Standard Chartered	2.3

This table shows the active stock positions compared to its benchmark – the FTSE All Share Index (i.e. the difference between the proportion held by the fund and that held by the index).

More than FTSE	%	Less than FTSE	%
Tesco	2.1	SAB Miller	-1.3
Trading Emissions	1.7	Reckitt Benckiser	-1.5
Vodafone	1.6	Xstrata	-1.5
Leaf Clean Energy	1.5	Unilever	-1.6
Admiral Group	1.4	GlaxoSmithKline	-2.2

This table shows our positions against the benchmark by company size. Historically, smaller companies tend to be more volatile in performance terms but can offer opportunities for greater growth whilst larger companies tend to be more stable and offer more steady returns.

Company Size	% overweight	% of Fund	% of FTSE Index
Large	-6.2	79.9	86.1
Mid	+1.1	12.8	11.7
Small	+5.1	7.3	2.2

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