

INVESTORS' REPORT

as at 31 December 2010

This Report covers Capital and Income Fund, Dominion Fund, Prize Plan Fund, Beehive Fund, Kinsman Managed Fund, Kinsman Narrow Fund and that part of the Cheshire Fund not invested in cash.

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

The UK equity market (measured by the FTSE All-Share Total Return Index) produced a very solid +14.5% return during 2010, building on the +30% return of 2009, extending the rally from the lows of early 2009 to nearly 80%.

Just as in 2009 though, the headline return masks two very distinct periods. The first, between mid-April and July saw the market fall by 15%, whilst the second period, between July and the year end, saw the market increase by 25%.

The ongoing high level of market volatility seen over the past 2 years is due to the ongoing battle to stabilise the global economy and investors' changing day to day perception of the likelihood that this will be achieved.

The latest rally in July was triggered by a second round of Quantitative Easing (QE2) – a \$600bn cash injection from the US Federal Reserve. This provided investors with more evidence of western governments' determination to avoid a slump.

One of the most notable features of market returns in 2010 was their uniformity, even across investment types that have historically displayed low or even negative correlation. For example, both gold (often used as a defence against inflation and dollar weakness) and Government bonds (used as an investment in times of low inflation/deflation) performed well.

The US dollar itself also performed respectably despite a high US fiscal deficit (government debt) and the large increase in money supply generated by Quantitative Easing; 'QE1' and 'QE2'. One

possible explanation is that by setting interest rates close to zero and flooding the system with cheap money, western governments have forced investors into risk assets (stocks and shares and property).

UBS expect markets to continue to be volatile in 2011 as investors' appetite for risk waxes and wanes. They also believe UK equities should make progress in the year ahead, albeit less dramatic than the recovery in 2009/2010.

3. Fund Update

In the first half of the year, as the UK market experienced uncertainties over global and national economic recovery, the fund kept pace with the Index – both being down roughly 10% at the half year.

However, in the second half of the year, as central banks and other monetary authorities (particularly in the US) launched a second round of Quantitative Easing, the developed equity markets took this as an indication that the authorities would do 'whatever it takes' to secure economic revival and this proved supportive for equities.

As a result the Index rose 22% in the second half of the year and 7% in December alone. The fund, with its more defensive positioning, underperformed the Index in the third quarter. However, with the appointment of a new portfolio manager to the fund in October, the positioning was immediately moved to being more pro-cyclical with the result that the fund was 2.2% ahead of the Index in the fourth quarter. The UBS UK Select Fund beat its benchmark in 2010 rising 15.4% (before fees) during the year, compared to a rise in the FTSE All-Share Total Return Index of 14.5%.

In terms of stock and sector attribution, in 2010 most of the contribution to performance has been at a stock level, with individual disappointments such as Promethean World, Evolution, Leaf Clean Energy & William Hill detracting by 1.5% from the fund's performance alone. This was counterweighted by three names added in the fourth quarter; Carphone Warehouse, Ashtead and Travis Perkins which added 1.45%.

As the market had such a strong run into the year end, UBS have taken profits on a number of holdings; however, this does not detract from their core investment objective of being invested in high quality businesses that will benefit from economic recovery.

The key risks relate predominantly to the process of removing the Quantitative Easing stimulus and dealing with its most dangerous potential consequence, namely inflation. In the western world this is unlikely to be a particular issue in 2011, certainly not until the second half of the year.

However, inflation is showing signs of being a more corrosive issue in Asia, and the talk is of it being a political priority for it to be brought under control in 2011. This may lead to economic and monetary policies that will result in economic contraction. For this reason UBS are marginally de-emphasising their focus on Asian exposure in the short-term and have looked to widen the fund's exposure to UK companies with North American earnings for 2011.

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
HSBC Holdings	5.42
Royal Dutch Shell	4.29
BP	4.03
Rio Tinto	3.80
Shire	3.14
Prudential Plc	3.01
Billiton Plc	2.92
Vodafone Group	2.89
Barclays Plc	2.82
Sabmiller	2.81

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

Greater than FTSE	%	Less than FTSE	%
Shire	2.66	Vodafone Group	-1.97
Homeserve	2.16	Astrazeneca	-2.28
Prudential Plc	2.08	Anglo American Plc	-2.44
ETF Metal Securities	2.06	British American Tobacco	-2.72
Travis Perkins	2.03	Royal Dutch Shell ¹	-3.14

¹ Royal Dutch Shell 'A' -4.19, Royal Dutch Shell 'B' 1.05

This table below shows 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	% Relative	% of Fund	% of FTSE Index
Large	-17.3	67.4	84.7
Mid	+14.7	27.6	12.9
Small	+2.6	5.0	2.4

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The Children's Mutual, PO Box 1139, Cheltenham GL50 9QU

Tel: 0845 609 0085 Fax: 0845 609 0073 Email: mail@thechildrensmutual.co.uk Website: thechildrensmutual.co.uk

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