



Electric & General Investment Fund

Interim Report

Authorised Corporate Director's Short Report
for the six months ended 31 December 2016

Introduction

The Electric & General Investment Fund (the 'Company'/the 'Fund') is an investment company with variable capital (ICVC). The Company is a UCITS Scheme which complies with the Financial Conduct Authority's (FCA) Collective Investment Schemes sourcebook (COLL), including the investment and borrowing powers in Chapter 5.

Investment objective and policy

The investment objective of the Company is to seek to achieve long-term capital growth with some potential for income.

The investment policy for achieving the objective is to invest principally in a portfolio of global equities, and may also invest in other transferable securities, bonds, collective investment schemes, money market instruments, warrants, deposits, derivatives and forward transactions for purposes of efficient portfolio management (including hedging).

The Company benefits from a board of Independent Directors whose duties include the oversight of key elements of the Company's operation.

Investor profile

The Company may be marketed to all types of investor being both retail and institutional investors. However, a typical investor in the Company will understand and appreciate the risks associated with investing in shares in the Company and/or will have received advice from an appropriately qualified financial adviser. The Company is appropriate for investors who might need to access their capital in the medium to long term (5 years plus). Investors should also bear in mind the relevant risk factors which are set out on page 9.

Investment manager

The investment manager to the Fund is Troy Asset Management Limited.

Distribution

All shareholders own income shares, which entitle them to a share in any distribution made by the Company. Normal distribution dates are the last day in February and 31 August for income accrued as at 31 December and 30 June respectively.

Future distributions may fluctuate depending on the mix of assets over any specific reporting period.

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FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Fund information

Change in net asset value per income share	Six months ended	Year ended	Year ended
<i>All prices quoted are based on bid price</i>	31 December	30 June	30 June
	2016	2016	2015
	p	p	p
Opening net asset value per share	169.15	138.12	139.37
Return before operating charges [†]	9.19	35.67	2.40
Operating charges	(1.01)	(1.63)	(1.02)
Return after operating charges[†]	8.18	34.04	1.38
Distributions on income shares			
Interim	(1.06)	(1.00)	(0.50)
Final	-	(2.01)	(2.13)
Total distributions on income shares	(1.06)	(3.01)	(2.63)
Closing net asset value per share	176.27	169.15	138.12
[†] after direct transaction charges of	0.02	0.15	0.15

Performance

Return after operating charges	4.8%	24.6%	1.0%
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Other information

Closing net asset value (NAV)	£101,106,022	£98,756,749	£84,983,521
Closing number of shares	57,358,141	58,385,413	61,528,931
Operating charges	1.14%	1.12%	0.75%
Direct transaction charges	0.01%	0.10%	0.09%

Prices (p)

Highest	182.60	171.20	149.50
Lowest	166.50	131.80	126.80

Portfolio review

The Electric and General Investment Fund lagged a very strong equity market in the first half of the year under review, returning +4.8% compared to the benchmark MSCI World Index NR (£) of +15.6%. Calendar year 2016 was an exceptional year for global equities (measured in sterling) and the Fund returned +20.3% compared to the MSCI World Index NR (£) return of +28.2%.¹

The post-Brexit, post-Trump world has thus far been characterised by great optimism for growth, particularly in the US, and the market has quickly moved to discount fiscal stimulus, tax cuts, deregulation and a more pro-business environment. Bonds have sold off, the US dollar is close to all-time highs, particularly against sterling, and the best performing shares have been in the materials, energy, industrials and financial sectors. Against this backdrop a number of our consumer staples and healthcare holdings sold off in the second half of 2016 (Colgate, Unilever, Heineken, Medtronic and Roche for example). In contrast, our financials Wells Fargo, American Express (Amex) and ING each had a very strong end to the calendar year. Elsewhere, Microsoft, the Fund's largest holding, made excellent progress over the six months as did eBay. In the UK, we received a bid by 21st Century Fox for Sky Plc in December at a 39% share-price premium to the recent lows.²

Portfolio activity

American Express

The holding in Amex was added to and the shares were the second best performing stock in the Fund over the period. The stock returned a total of +33.0% (GBP), sharing in the sharp rally in financial stocks that followed the election of Donald Trump. Amex is a unique financial services brand, in a growing payments industry, that generates high and sustainable margins and returns on its equity, returns that are largely sent back to shareholders via dividends and share-repurchases. Its low valuation during the summer partly reflected short-term headwinds to profitability that had resulted from the loss of a co-branded card contract with US wholesaler Costco. Amex's share price began its recovery well before the results of the election were known, following the publication of its Q3 results in October, which demonstrated the resilience of the business model and gave investors reassurance that the company will earn its way through any temporary dip in its profits. Even after their recent rally the shares remain attractively valued at a 2017 P/E of 13.2x. The balance sheet is over-capitalised, putting Amex in a strong position to make extraordinary returns to shareholders should US regulation become more permissive.

Alphabet

Alphabet was purchased in the Fund in August and added to in October and December as the shares underperformed the broader market, particularly in Q4 when concerns emerged that the regulatory and tax environment for internet companies might be tougher under the Trump administration. The operating fundamentals of Alphabet improved in 2016 (from a very high base) and it ranks as one of the most financially productive companies held in the Fund. Underpinned by strong growth in ad sales, especially for mobile devices and YouTube, revenue growth surpassed 20% in 2016. Operating margins are above 25%, and under CFO Ruth Porat's stewardship, operating costs have come down as a percentage of revenue despite ongoing investments in people and R&D. Free cash flow has exceeded \$6bn for each of the past few quarters and gross cash and short-term investments held on the balance sheet stand at a phenomenal \$86bn, c.40% of which is held on-shore in the US. You-Tube has over a billion users (almost one third of all the people using the internet), generating billions of views. This is a powerful and under-monetised asset, in our view. Google Maps has similar scale and commercial potential. Alphabet's shares trade on 19.2x forward earnings, 10.7x (2017) EV/EBITDA and the market assigns little or no value to the 'Other Bets' component of the business, spread across areas ranging from autonomous vehicles to artificial intelligence. Greater regulatory pressure remains a risk, but, absent a radical change in the terms of doing business on the internet, it is difficult to see how Google's dominance in core search advertising is derailed.

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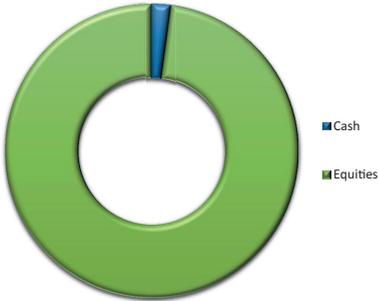
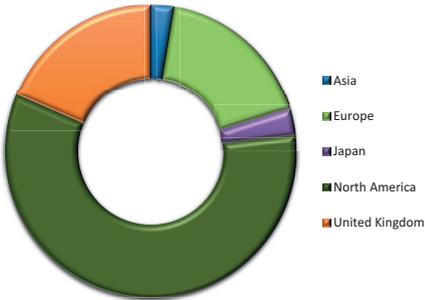
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Outlook

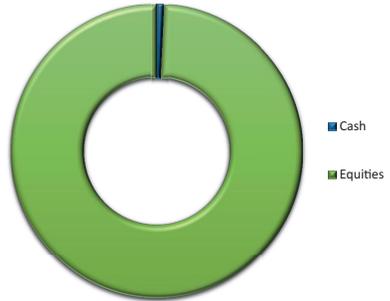
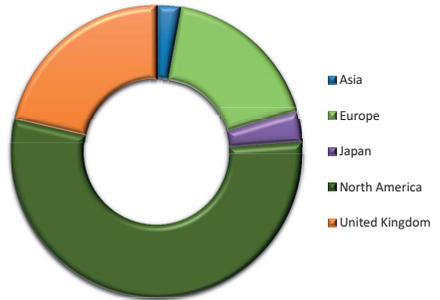
The rules of engagement have shifted in recent months as politics has risen to the forefront of investors' concerns for the first time in many years, making mugs of the macro forecasters once again. Uncertainties abound and equity valuations are elevated. The next few years are going to challenge even the most seasoned investors, not least because technology is disrupting so many aspects of commerce. We remain firmly committed to investing in exceptional companies. We look for businesses with high levels of capital efficiency, strong balance sheets and sensible management teams, which can be owned at valuations that offer investors the prospect of reasonable future returns. We aim to own them only when they are sustained by durable competitive advantages. Given the amount of change and turmoil that undoubtedly lies ahead, an ability to adapt will play an essential part in ensuring the durability of those advantages.

Troy Asset Management Limited
2 February 2017

Sources: ¹ Lipper, ² All data here and hereafter comes from Bloomberg as at 31 December 2016.

31 December 2016
Asset Allocation

Geographical Allocation

Currency Exposure

Currency	GBP
Euro	3,450,752
Japanese yen	2,970,014
Sterling	20,081,517
Swiss franc	12,505,170
United States dollar	62,098,569
Net asset value	101,106,022

30 June 2016
Asset Allocation

Geographical Allocation

Currency Exposure

Currency	GBP
Euro	3,194,468
Japanese yen	3,342,775
Sterling	22,542,080
Swiss franc	13,072,191
United States dollar	56,605,235
Net asset value	98,756,749

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Major holdings

The top ten holdings at the end of each reporting period are shown below:

	% of net assets as at 31 December 2016		% of net assets as at 30 June 2016
Microsoft	5.83	Altria Group	5.63
Philip Morris International	4.77	Microsoft	5.27
Altria Group	4.74	Philip Morris International	5.05
Wells Fargo & Co	4.09	British American Tobacco	4.76
British American Tobacco	4.08	Novartis	4.30
Roche Holding	3.84	Roche Holding	4.20
Novartis	3.83	Nestlé	3.76
American Express Company	3.80	Johnson & Johnson	3.70
Johnson & Johnson	3.69	Unilever	3.55
Nestlé	3.68	Coca-Cola	3.46

Major purchases and sales

The total purchases and sales for the reporting period:

Purchases	Cost £'000	Sales	Proceeds £'000
Alphabet 'A'	2,491	BP	1,162
Medtronic	349	Altria Group	1,014
American Express Company	345	Rathbone Brothers	925
		Microsoft	840
		The Sage Group	831
		British American Tobacco	374
		Mondelez International 'A'	353
		Becton Dickinson & Company	227
		Novartis	190

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General information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Company during the period it covers and the result of those activities at the end of the period.

The following are available online at www.yealand.com or at the registered office of the ACD:

- Historical
 - Price
 - Yield
 - Distribution rates
- Key Investor Information Document (KIID)
- Full Report and Accounts

The daily price is published in the Financial Times under the Funds page and online at <http://electricandgeneral.com>. The Company Prospectus is available free of charge on request from the ACD.

For more information about the activities and performance of the Company during the period, please contact the ACD at the address as noted on page 10, or online at <http://electricandgeneral.com>.

Investment manager's fee

The investment manager, Troy Asset Management Limited, receives for its own account a periodic fee of 0.75% per annum.

Distribution Dates

The Company makes its interim and final distribution on the last business day of February and 31 August respectively.

Buying and selling shares

The minimum initial investment in Net Income 'A' Shares which any one person can purchase, and the minimum holding in Net Income 'A' Shares, is £1,000. The ACD at its discretion can waive these requirements.

Shares may be purchased or sold by telephoning 0845 850 0255 (calls cost 5 pence a minute plus your phone company's access charge) or writing to: Carvetian Capital Management Limited, Stuart House, St John's Street, Peterborough, PE1 5DD. For your protection calls are recorded. The time for telephone deals is 09:00 – 17:00 every business day. Settlement is due within three business days or, in the case of sales, receipt by the ACD of a signed and completed form of renunciation if later.

The Company is priced daily at 10:00am on Monday to Friday.

The ACD may waive the minimum purchase threshold at its discretion.

Risk and reward rating

The risk and reward indicator as published in the latest KIID is illustrated below:



Lower potential
risk/reward
(not risk-free)

Higher potential
risk/reward

More about this rating

This indicator is based on historical data and may not be a reliable indication of the future risk profile of the Fund. The risk category shown is not a target or a guarantee and may change over time.

Why this Fund is in category 5

The share class is ranked in risk category 5 as its price has experienced above average rises and falls historically (2015: category 6).

Risk profile

The following are important warnings:

- Investors should appreciate that there are risks normally associated with investment in stocks and shares.
- Stock market prices may be volatile and be unpredictably affected by many diverse factors, including political and economic events but also rumours and sentiment. An investment in the Fund should be regarded as a long-term investment. There can be no assurance that the objectives of the Fund will be achieved.
- The capital value and the income from shares in the Fund can fluctuate and the price of shares 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. Any initial charge made by the ACD is deducted from an investment at the outset and consequently an equivalent rise in the value of the shares is required before the original investment can be recovered.
- Defensive investment in cash and money market instruments, at times when relevant stock market indices are rising, may constrain the growth of capital invested in the Fund.
- Investments may be made in assets denominated in currencies other than Sterling and the movement in exchange rates may have a separate effect, unfavourable as well as favourable, on the gains and losses otherwise experienced on such investments.
- Investments may be made in securities with floating or fixed rate interest rates, where changes in the prevailing rates or changes in expectation of future rates may result in a change in the value of the securities and the income received therefrom.
- 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.
- Currently, two thirds of the Investment Manager's periodic fee is charged to capital. This treatment of charges may increase the amount of income available for distribution, but may constrain capital growth.

Key parties

Authorised Corporate Director (the ACD)

Carvetian Capital Management Limited

Registered Office:

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Peterborough

PE1 5DD

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Fax: 01733 286833

e-mail: carvetian@yealand.com

Registered in England Number 6923395

*(Authorised and regulated by the
Financial Conduct Authority)*

Independent Directors of Electric & General Investment Fund

G P Aherne (Chairman)

J D W Pocock

C M Vaughan

Fund administration, dealing and registration

Yealand Administration Limited

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Tel: 0845 850 0255*

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email: carvetian@yealand.com

Website: www.yealand.com

Investment manager

Troy Asset Management Limited

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W1K 4BP

*(Authorised and regulated by the
Financial Conduct Authority)*

Depository

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Registered and Head Office:

135 Bishopsgate

London

EC2M 3UR

*(Authorised by the Prudential
Regulation Authority and regulated
by the Financial Conduct Authority
and Prudential Regulation Authority)*

Auditor

Shipleys LLP

10 Orange Street

Haymarket

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WC2H 7DQ

**Calls cost 5 pence per minute plus your phone
company's access charge.*



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