Interim Report (unaudited)

UK Equity Fund for Charities and the Bond Fund for Charities

6 months ending 31 December 2010

J.P.Morgan
Asset Management

Contents

The opinions expressed in this report are those held by the authors at the time of going to print.

Fund information

Investment objectives

UK Equity Fund for Charities

The investment objective of the Fund is to maximise total return for participating charities from a diversified portfolio of UK equity shares. The performance benchmark for the Fund is the total return of the FTSE All Share Index.

Bond Fund for Charities

The investment objective of the Fund is to provide participating charities with income from a diversified portfolio of bonds, with the aim of preserving the value of their capital over the longer term. The performance benchmark for the Fund is the total return of the FTSE British Government All Stocks Index.

Both Funds pay distributions of total revenue less revenue expenses in February, May, August and November.

Investment risks

Past performance is not a guide to the future. The price of investments and the revenue from them may fall as well as rise and investors might not get back the full amount invested. The level of tax benefits and liabilities will depend on individual circumstances and may change in the future. The investment objective of a fund may allow some flexibility in terms of portfolio composition. Investments in smaller companies may involve a higher degree of risk as markets are usually more sensitive to price movements.

Funds that invest predominantly in a single market, asset class or sector may be subject to greater volatility than those funds with a more diversified portfolio.

Please note that bond funds may not behave like direct investments in the underlying bonds themselves. By investing in bond funds the certainty of a fixed income for a fixed period with a fixed return of capital are lost.

The annual management charge of the UK Equity Fund for Charities is charged to capital. This allows more revenue to be distributed, but may accordingly constrain capital growth over the longer term.

The Funds are only open to investments by registered charities in England, Wales, Scotland and Northern Ireland provided they are not specifically restricted from participating in common investment funds. In the event that a charity loses its charitable status then it will no longer be able to continue to hold units in the Funds. It is the responsibility of investors to inform the Manager in the event of loss of charitable status, with immediate effect.

The Funds are common investment funds for charities and are constituted under Section 24 of the Charities Act 1993 by schemes of the Charity Commissioners of England and Wales made on 23 March 2006 replacing the original Schemes constituting the Funds. The Royal Bank of Scotland plc is the Trustee of the Funds. The Funds are themselves charities registered with the Charity Commission.

How to acquire units

For full details on how to purchase units, contact the dealing team on 0207 742 9175 at JPMorgan Asset Management Marketing Limited.

Unit prices

The latest issue and redemption prices together with net yields are available from the Manager and are also published in the Financial Times under the name of JPMorgan Charity Funds in the Managed Funds Service section and on our Web Site www.jpmam.co.uk/institutional/charities

Scheme documents

Both the UK Equity Fund for Charities and the Bond Fund for Charities are governed by the Scheme and Scheme Particulars. Copies of these documents are available upon request; please contact the Manager, JPMorgan Asset Management (UK) Limited, 20 Finsbury Street, London EC2Y 9AQ.

Issued by:
JPMorgan Asset Management (UK) Limited. Authorised and regulated by the Financial Services Authority.

Manager's Report for the UK Equity Fund for Charities and the Bond Fund for Charities

We are pleased to present the Interim Report for the UK Equity Fund for Charities and the Bond Fund for Charities for the six months ended 31 December 2010.

Authorised Status

The UK Equity Fund for Charities and the Bond Fund for Charities are Common Investment Funds. These are collective investment schemes set up by schemes made by the Charity Commission under section 22 of the Charities Act 1960, or section 24 of the Charities Act 1993.

Only Charities established in England and Wales and "appropriate bodies" established in Scotland and Northern Ireland may invest in the Funds.

Structure & Liabilities

The assets of the Funds are treated separately and are invested in accordance with the investment objective and policies applicable to each fund. Details of the portfolio structure and investment performance can be found later in this Report, prior to the financial information for each fund.

Both Funds are registered charities.

UK Equity Fund for Charities:
Registered Charity Number 1014758

Bond Fund for Charities:
Registered Charity Number 1014756

Management and Administration

Corporate Trustee

The Royal Bank of Scotland plc
The Broadstone
50 South Gyle Crescent
Edinburgh
EH12 9UZ
(Authorised and regulated by the Financial Services Authority)

Registrar

JPMorgan Asset Management Marketing Limited
125 London Wall
London, EC2Y 5AJ
(Authorised and regulated by the Financial Services Authority)

Independent Auditors

PricewaterhouseCoopers LLP
PO Box 90
Erskine House
68-73 Queen Street
Edinburgh, EH2 4NH

Manager & Investment Manager

JPMorgan Asset Management (UK) Limited
125 London Wall
London, EC2Y 5AJ
(Authorised and regulated by the Financial Services Authority)

Custodian and Bankers

JPMorgan Chase Bank, N.A.
125 London Wall
London, EC2Y 5AJ

By order of the Manager,

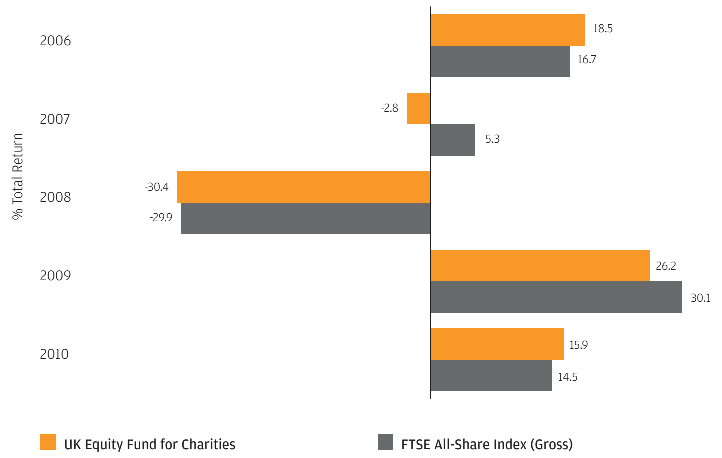
Mr M Porter
Director
JPMorgan Asset Management (UK) Limited
London
18 February 2011

Mr R M J Thompson
Director
JPMorgan Asset Management (UK) Limited
London
18 February 2011

Performance – UK Equity Fund for Charities

As at 31 December 2010

Calendar year returns



Source: J.P. Morgan Asset Management, The WM Company.

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Total return (bid to bid, gross income reinvested, net of expenses). The Fund's benchmark is the FTSE All-Share Index (gross).

- Total distribution per unit of the Fund for the 2010 calendar year was 6.40 pence (7.95 pence for 2009).
- The net assets of the Fund were £105.0m as at 31 December 2010 (£200.5m as at 31 December 2009).

Please remember that past performance is not a guide to future returns. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

Investment manager's report

Market background

2010 as a whole delivered a second consecutive year of solid equity market gains in the UK, with the total return for the FTSE All Share Index (combining the capital appreciation with the dividend income received) coming in at 14.5%, following the 2009 total return of 30.1%. This solid market gain was back end loaded. As we commented in the last annual investment manager's report, in the first six months of 2010 UK equity investors were plagued by heightened uncertainties – about the political outlook in the UK, about the rising government debt burden in the UK and whether the UK government would default on its debt obligations, and about whether the recovery in economic growth, which had just begun at the end of 2009, would quickly give way to renewed recession. From the end of December 2009 to the end of June 2010, the FTSE All Share Index declined from 2761 to 2543, a capital only decline of 7.9% over that period. In fact June marked around the low point of UK equity investor confidence for the year, and the market staged a substantial rally from July to December, with the FTSE All Share Index finishing the year at 3063, its highest level since June 2008. Many of the concerns that were troubling investors earlier in the year faded – the formation of a strong coalition government in May 2010, and the introduction of a credible first budget in June, allayed both political uncertainty and worries about sovereign default in the UK, whilst economic growth proved stronger than expected through much of the year, allaying (for a while) double dip concerns. Thus for the interim period under review for the UK Equity Fund for Charities, the UK equity market delivered a total return of 22.0%, easily erasing the modest decline of earlier in the calendar year.

Investment policy

As a broad principle, the investment approach of the UK Equity Fund for Charities is to invest in a broad range of UK companies that, on average, are more cheaply valued, are faster growing, and have better newsflow characteristics, than the wider UK market.

This investment approach leads us to concentrate the portfolio holdings on companies either displaying value characteristics, or companies with positive momentum attributes. After a difficult period of stock selection performance, from 2007 to 2009, it is pleasing to be able to report that investment performance is once again in positive territory. In the interim period under review the UK Equity Fund for Charities delivered a total return to investors of 22.9%, ahead of the FTSE All Share total return of 22.0%. This outperformance of the rising UK equity market in the second half of the calendar year built on the outperformance in the earlier part of the year, so that for 2010 as a whole the UK Equity Fund for Charities delivered a total return of 15.9% versus 14.5% for the market. Progressively over the last year, and particularly in the latest review period, general equity market conditions have normalised from the period of extreme stress and caution that prevailed during the height of the credit crisis in 2008 and early 2009. This normalisation of market conditions means that individual company share prices are once again moving primarily on the specific prospects and fundamentals of each company, rather than primarily moving en masse in reaction to macro-economic and political shocks. In these normal market conditions our stock selection philosophy has worked well in the past, and is again doing so.

At the stock level, the top five contributors to the return of the UK Equity Fund for Charities were Kazakhmys, BHP Billiton, Royal Dutch Shell, BP and Ferrexpo; whilst the five largest detractors from relative returns were Xstrata, AstraZeneca, Halfords, Anglo American, and Next. Amongst both the leading contributors and detractors, a major sector theme is miners. Over the latest six months the mining sector appreciated significantly, as metals prices rose in response to robust economic growth, especially in the large emerging markets. Almost all mining stocks performed strongly in this environment, as their profits surged with higher output prices. Overweight positions in Kazakhmys, BHP Billiton and Ferrexpo added to fund performance, whilst underweight positions in Xstrata and Anglo American detracted. Overall stock selection in the mining sector was positive, but we did not overweight the sector. The fund also benefited from overweight positions in BP and Royal Dutch Shell in the latest period. Both companies benefited from rising oil prices, whilst BP also began its recovery from oversold levels as the Macondo well in the Mexican Gulf was plugged. The others detractors from performance in the period were all overweight holdings in the portfolio. The retailers Next and Halfords have both been long term growth winners for the fund, which underperformed in the latest period as investors worried that UK consumers would not be particularly buoyant in the run up to the important Christmas selling period and into 2011. Halfords has also experienced some teething difficulties with a new national distribution centre, and a slowing of its underlying growth rate, so has now been sold out of the Fund. The other detractor in this period was AstraZeneca, the pharmaceuticals major. As the global economy has strengthened, investors have been less attracted to stable pharmaceuticals profits, and AstraZeneca has modestly underperformed, resulting in a very low valuation on the shares, and a very substantial dividend yield. We think these factors will ultimately benefit the UK Equity Fund for Charities.

Outlook

The recovery in the global economy, which began in late 2009, is now well established. Whilst the picture in the UK has been thrown into mild confusion by the first snapshot of GDP growth in the final quarter of 2010 (at -0.5%) released in January, elsewhere all the indicators are that economic activity is broadly expanding at home and abroad. This picture of improving economic health is particularly visible in the UK equity market, which is predominantly exposed to the global rather than the domestic economy. Whilst the UK equity market advanced by 14.5% in total return terms in 2010, UK companies have

Investment manager's report continued

delivered a much more substantial return to growth in profits and earnings, which have advanced some 36% over the last year. At the same time as delivering a very substantial recovery in profitability, UK quoted companies have also substantially improved their balance sheets, putting them in an extremely strong financial position as we move into 2011. Overall the UK equity market has entered 2011 on current valuations some 20-30% below the average of the last 30 years, and with earnings and dividend growth prospects for 2011 in the mid teens. With stock market conditions also normalised after the credit crisis and recession of 2008 and 2009, this mix of low average valuations, strong balance sheets, and good growth prospects, is a very attractive combination for the UK equity market, and our investment approach. We expect the good absolute and relative returns of 2010 to continue through 2011.

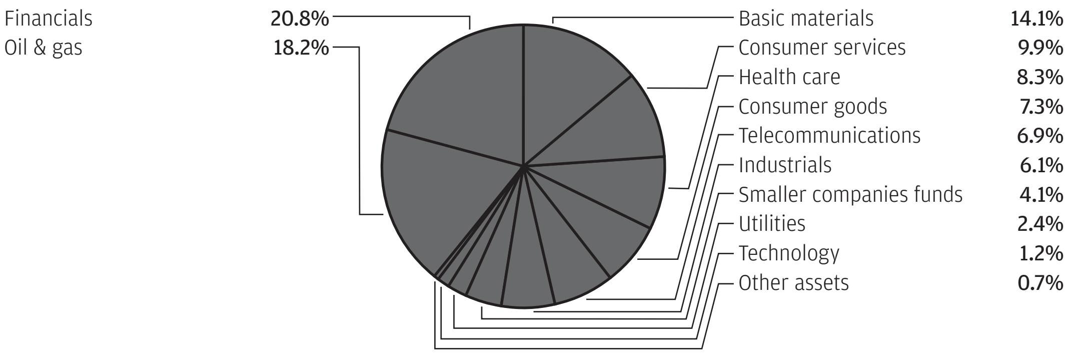
February 2011

Portfolio structure

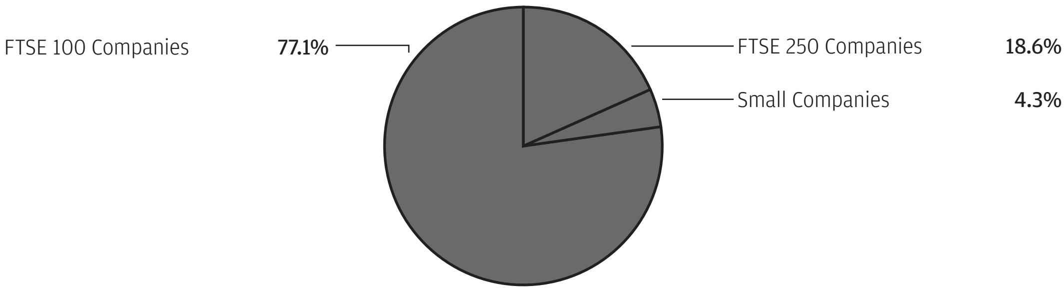
As at 31 December 2010

Portfolio breakdown

Sector profile



Size profile



Investment Strategy

Overweight

Health care: attractive valuations and high dividend yields supported by stable earnings mean Pharmaceuticals remains a key sector.

Oil & gas: firm demand and rising prices for oil support strong cash flows and profits growth for both Oil & gas producers and Oil services companies.

Underweight

Utilities: unattractive growth and momentum prospects, and only average valuations, make this area of limited interest.

N.B. Indications of weightings are expressed relative to the composition of the FTSE All-Share Index.

UK Equity Fund for Charities

Investment performance

Highest offer/lowest bid price and revenue record

	Price range for year		Revenue record
Calendar year	Highest offer	Lowest bid	Distribution per unit
2006	271.03p	228.34p	6.55p
2007	284.78p	240.17p	8.06p
2008	253.60p	144.01p	9.01p
2009	201.73p	133.33p	7.95p
2010	226.90p	179.72p	6.40p

Distributions are shown as total revenue with revenue expenses deducted.

Record of the fund

	Net asset value of Fund £'000	Number of units	Net asset value per unit	Historic yield %
30.06.08	241,820	106,755,582	226.50p	3.64
30.06.09	169,590	106,197,749	159.69p	5.86
30.06.10	128,208	69,843,848	183.56p	3.91
31.12.10	104,994	47,380,959	221.60p	2.89

The Net asset value and the Net asset value per unit share are shown ex-dividend.
The historic yield is based on the distributions declared in the last twelve months as a percentage of the Net asset value per unit. This should not be taken as a guide to future yields.

Total expense ratios

Financial period ending	
30.06.10	0.62%
31.12.10	0.60%

The total expense ratio (TER) takes into account the Management fee, inclusive of VAT, payable from capital and all other operating expenses over the financial period and is expressed as a percentage of average daily net asset values over the same period.

Portfolio turnover rate

Financial period ending	
31.12.09	41.37%
31.12.10	32.02%

The portfolio turnover rate (PTR) reflects the total of security purchases and sales, less the total of share issues and cancellations, expressed as a percentage of the average daily net asset values over the period.

Portfolio statement

As at 31 December 2010

Investment - % of Fund	Holding	Market value £'000	Total net assets %
Financials - 20.8% (19.5%)			
Banks - 12.1%			
Barclays	981,139	2,567	2.4
HSBC	943,203	6,141	5.9
Lloyds Banking Group	3,453,907	2,269	2.2
Royal Bank of Scotland Group	1,937,732	757	0.7
Standard Chartered	54,055	933	0.9
General financial - 3.2%			
Ashmore	160,651	538	0.5
Hargreaves Lansdown	44,122	259	0.3
Investec	153,114	807	0.8
Jupiter Fund Management	43,513	131	0.1
Schroders Non-Voting	41,791	609	0.6
Tullett Prebon	234,575	898	0.9
Life insurance - 2.6%			
Aviva	193,132	759	0.7
Legal & General Group	1,416,004	1,370	1.3
Standard Life	293,884	635	0.6
Nonlife insurance - 2.7%			
Admiral Group	20,234	306	0.3
Amlin	229,539	939	0.9
Beazley	199,782	230	0.2
Catlin Group	143,925	532	0.5
Hiscox	83,061	317	0.3
Lancashire Holdings	99,153	548	0.5
Real estate - 0.2%			
Shaftesbury	50,585	227	0.2
Oil & gas - 18.2% (14.0%)			
Oil & gas producers - 15.9%			
BG Group	73,291	950	0.9
BP	1,406,384	6,547	6.2
Royal Dutch Shell 'B'	434,581	9,191	8.8
Oil equipment, services & distribution - 2.3%			
AMEC	55,291	636	0.6
Petrofac	113,195	1,796	1.7
Basic materials - 14.1% (14.5%)			
Chemicals - 0.8%			
Croda International	39,796	643	0.6
Elementis	143,757	206	0.2
Forestry & paper - 1.1%			
Mondi	228,250	1,172	1.1
Mining - 12.2%			
Anglo American	26,212	874	0.8
Antofagasta	46,982	757	0.7
BHP Billiton	188,822	4,817	4.6
Eurasian Natural Resources	64,996	681	0.7
Ferrexpo	217,631	905	0.9
Kazakhmys	44,729	722	0.7
Rio Tinto	84,158	3,776	3.6
Xstrata	15,398	232	0.2
Consumer services - 9.9% (9.8%)			
Food & drug retailers - 0.9%			
Sainsbury (J)	62,688	236	0.2
Tesco	179,466	763	0.7
General retailers - 2.6%			
Brown (N.) Group	87,478	261	0.3
CPP	144,162	435	0.4
Dunelm Group	59,288	303	0.3
Marks & Spencer	62,823	232	0.2
Next	72,025	1,422	1.4
Media - 2.8%			
Daily Mail & General Trust 'A' Non-Voting	60,090	345	0.3
Euromoney Institutional Investor	22,655	157	0.2
ITE Group	201,745	509	0.5
ITV	1,805,277	1,265	1.2
United Business Media	45,099	311	0.3
WPP	45,084	356	0.3
Travel & leisure - 3.6%			
British Airways	239,945	654	0.6
Domino's Pizza	26,174	144	0.1
Intercontinental Hotels Group	81,776	1,016	1.0
Rank Group	240,481	304	0.3
Stagecoach Group	619,593	1,315	1.3
Whitbread	16,643	298	0.3
Health care - 8.3% (9.7%)			
Pharmaceuticals & biotechnology - 8.3%			
AstraZeneca	129,778	3,792	3.6
GlaxoSmithKline	344,842	4,276	4.1
Shire	44,221	682	0.6

Investment - % of Fund	Holding	Market value £'000	Total net assets %
Consumer goods - 7.3% (7.0%)			
Automobiles & parts - 0.8%			
GKN	364,006	809	0.8
Beverages - 1.2%			
Britvic	154,575	732	0.7
Diageo	46,162	547	0.5
Food producers - 3.4%			
Associated British Foods	72,877	861	0.8
Cranswick	13,981	120	0.1
Dairy Crest Group	84,281	357	0.3
Devro	49,561	125	0.1
Unilever	111,444	2,188	2.1
Household goods - 1.3%			
Reckitt Benckiser Group	38,777	1,367	1.3
Personal goods - 0.6%			
Burberry Group	56,115	631	0.6
Telecommunications - 6.9% (7.3%)			
Fixed line telecommunications - 1.1%			
BT Group	660,046	1,193	1.1
Mobile telecommunications - 5.8%			
Vodafone Group	3,674,771	6,093	5.8
Industrials - 6.1% (10.8%)			
Aerospace & defence - 0.3%			
Rolls Royce Group	56,650	353	0.3
Rolls Royce Group 'C' (Jan 2011)	10,560,704	11	-
Construction & materials - 0.3%			
Kier Group	9,679	133	0.1
Morgan Sindall	24,867	175	0.2
Electronic and electrical equipment - 0.1%			
Renishaw	10,596	130	0.1
General industrials - 1.4%			
Smith (DS)	304,194	615	0.6
Smiths Group	65,353	814	0.8
Industrial engineering - 0.9%			
IMI	41,691	394	0.4
Weir Group	31,858	567	0.5
Support services - 3.1%			
Aggreko	41,598	616	0.6
Atkins (WS)	78,511	550	0.5
Bunzl	43,059	310	0.3
Electrocomponents	287,838	765	0.7
Filtrona	198,467	482	0.5
Homeserve	110,638	490	0.5
Smaller companies - 4.1% (3.8%)			
Aberforth UK Smaller Companies (Accumulation)	12,855	1,412	1.3
JPM UK Smaller Companies 'X' (Income)	786,111	2,965	2.8
Utilities - 2.4% (1.7%)			
Electricity - 0.5%			
Drax Group	127,317	469	0.5
Gas, water & multiutilities - 1.9%			
Centrica	295,155	979	0.9
Northumbrian Water Group	177,330	587	0.6
Severn Trent	26,679	394	0.4
Technology - 1.2% (0.5%)			
Software & computer services - 0.5%			
AVEVA Group	10,750	173	0.2
Computacenter	81,219	315	0.3
Technology hardware & equipment - 0.7%			
ARM Holdings	75,288	319	0.3
Pace	249,990	457	0.4
Investment assets		104,251	99.3
Net other assets		743	0.7
Net assets		104,994	100.0

Unless otherwise stated the above securities are admitted to official stock exchange listings or trade on a regulated market.

The comparative percentage figures in brackets are at 30 June 2010.

Portfolio movements

For the six months ended 31 December 2010

	£'000
Total of all purchases for the period	**20,601**

Major purchases	**Cost**
Petrofac	2,153
HSBC	1,129
Aviva	770
Legal & General Group	729
GKN	696
Ashmore	663
AMEC	643
Pace	601
Burberry Group	586
Antofagasta	586
Northumbrian Water Group	579
Intercontinental Hotels Group	561
Stagecoach Group	547
Royal Dutch Shell 'B'	514
Associated British Foods	507
Smiths Group	454
Royal Bank of Scotland Group	404
Hiscox	390
ITE Group	378
Diageo	370

	£'000
Total of all sales for the period	**65,736**

Major sales	**Proceeds**
Vodafone Group	3,598
Royal Dutch Shell 'B'	3,527
Rio Tinto	3,305
HSBC	2,592
BP	2,585
BHP Billiton	2,077
AstraZeneca	2,018
Rolls Royce Group	2,016
GlaxoSmithKline	1,915
Kazakhmys	1,788
Compass Group	1,670
Reckitt Benckiser Group	1,666
Unilever	1,662
IMI	1,566
Anglo American	1,435
Barclays	1,382
Mondi	1,350
Halfords Group	1,246
Eurasian Natural Resources	1,165
Lloyds Banking Group	1,148

Financial statements

Statement of total return (unaudited)

For the six months ended 31 December

		2010		2009
	£'000	£'000	£'000	£'000
Income				
Net capital gains		23,018		40,918
Revenue	1,742		3,002	
Expenses	(369)		(595)	
Net revenue		1,373		2,407
Total return for the period		**24,391**		**43,325**
Finance costs: Distributions		(1,722)		(3,227)
Change in net assets attributable to unitholders from investment activities		**22,669**		**40,098**

Statement of change in net assets attributable to unitholders (unaudited)

For the six months ended 31 December

		2010		2009
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		**128,208**		**169,590**
Amounts receivable on issue of units	801		2,251	
Amounts payable on cancellation of units	(46,684)		(11,443)	
		(45,883)		(9,192)
Change in net assets attributable to unitholders from investment activities (see above)		22,669		40,098
Closing net assets attributable to unitholders		**104,994**		**200,496**

Section 3.30 of the Statement of Recommended Practice (2010) requires that comparatives are shown for the above statement. As the comparatives should be for the previous interim period, the net assets at the end of that period will not agree to the net assets at the start of the current period. The published net assets as at 30 June 2010 was £128,207,871.

Balance sheet (unaudited)

As at

	31 December 2010		30 June 2010	
	£'000	£'000	£'000	£'000
ASSETS				
Investment assets		104,251		126,367
Debtors	524		1,199	
Cash and bank balances	1,042		2,555	
Total other assets		**1,566**		**3,754**
Total assets		**105,817**		**130,121**
LIABILITIES				
Creditors	(93)		(679)	
Distribution payable on income units	(730)		(1,234)	
Total liabilities		**(823)**		**(1,913)**
Net assets attributable to unitholders		**104,994**		**128,208**

Registered Charity Number: 1014758

Accounting policies

The Accounts to 31 December 2010 have been prepared in accordance with the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the IMA in October 2010. The comparative figures were produced under the SORP issued in 2008 but have not been restated. Other accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010 and are described in those financial statements.

Certification of Accounts

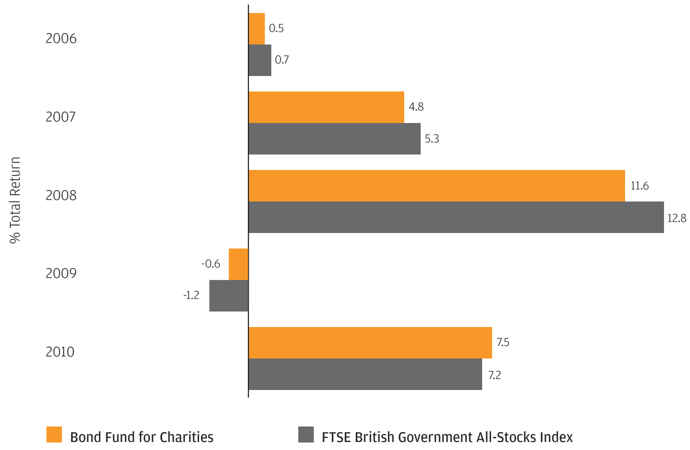
The Manager's Report has been prepared in accordance with the Charities (Accounts and Reports) Regulations 2010.

Mr M Porter
Mr R M J Thompson
Directors
JPMorgan Asset Management (UK) Limited
London
18 February 2011

Performance – Bond Fund for Charities

As at 31 December 2010

Calendar year returns



Source: J.P. Morgan Asset Management, The WM Company.

Total return (bid to bid, gross income reinvested, net of expenses). The Fund's benchmark is the FTSE British Government All-Stocks Index.

- Total distribution per unit of the Fund for the 2010 calendar year was 4.35 pence (4.63 pence for 2009).
- The net assets of the Fund were £53.5m as at 31 December 2010 (£110.2m as at 31 December 2009).

Please remember that past performance is not a guide to future returns. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

Investment manager's report

Market background

In the second half of 2010 the resurgence in Gilts that began after 10-year yields peaked above 4.2% in February of last year was maintained (the global sell-off in government bonds in November and December notwithstanding). This was indicative of market confidence in the ability of the coalition government to implement its proposed deficit-cutting measures, a confidence that endured despite the Bank of England's unwillingness to announce further bond purchases in 2010 under the quantitative easing programme. Speculation around the loss of the UK's AAA sovereign credit rating receded, 10-year yields fell by 80bps peak-to-trough during the period and the spread of 10-year Gilts over German Bunds tightened from ~80bps to ~45bps over the 6-month period.

More worryingly, however, inflation in the UK continued its significant divergence from the US and the eurozone. This can partly be attributed to GBP weakness against the currencies of its trading partners (USD excepted) over that period as the UK has traditionally been much more susceptible to the pass-though of currency depreciation to import prices than the US and the eurozone. Raw material price increases also played a role, as did tax increases. Thus, much of the increase in inflation was due to external factors and was not driven by domestic demand. However, there is evidence that domestic factors – rising price expectations among UK firms and households – have increasingly been responsible for a self-perpetuating upward trend in inflation. Moreover, the Monetary Policy Committee ("MPC") has been perceived by the market as increasingly disregarding its inflation targeting mandate in its desire to avoid damaging the growth outlook.

The minutes of the MPC meeting in January 2010 sounded a noticeably more hawkish note than had previously been in evidence. From the 7-1-1 split (no change – increase in rates – increase in quantitative easing) that had prevailed towards the end of the review period the Committee was instead divided 6-2-1, moreover with some of those who voted for no change considering the decision to be "finely balanced". The MPC conceded that inflation was likely to follow a steeper trajectory in 2011 than had been forecast in the November Inflation report and that public inflation expectations were rising, buoyed by rising fuel and food prices and the January VAT hike from 17.5% to 20%. Gilts sold off sharply in consequence as the market moved to price in two 25bp rate hikes in 2011 (the previous market expectation had been for no rate rise until 2012).

Juxtaposed against this hawkish indicator was the subsequently-published fourth quarter GDP growth figure of -0.5% quarter on quarter which was highly disappointing, the damaging effect on economic activity of the unseasonable weather in November/December notwithstanding (the consensus had been for an expansion of +0.7%). The MPC has implicitly made it clear that it considers derailing of the fragile economic recovery to be a greater risk than the build-up of inflationary pressures, a stance which is increasingly costing it credibility with many market participants. Hence it seems likely that this weak data will materially delay any rate rise the MPC may have contemplated prior to its release.

Investment policy

The portfolio carries an allocation of 10-15% in government-guaranteed paper and a further 6-8% in securitised credits and Bank paper. This provides yield pick-up over the benchmark even in those periods when the portfolio is short in headline duration.

The portfolio performed in line with the benchmark over the 6-month period. For most of the period the portfolio had a long bias of +0.05 to +0.1 years in headline duration, however, with the sell-off in G4 government bonds in November and December we saw ourselves compelled to move to a slight short duration position and finished the period at -0.05 years. Nevertheless the speed of the move surprised us and our outright duration positioning was a net negative contributor to performance overall for the period. We ran a 10s30s curve flattener up until October which was a slight detractor from performance. The 30-year part of the curve was weak on a combination of rising inflation expectations and some degree of pension fund switching into equities. However, our 5s10s flattener was a net contributor to performance and we retain the position going into 2011. Moreover, our long-standing short-dated inflation linker trade continued to provide gratification and was likewise retained. Our allocation to government guaranteed paper and financial paper produced further outperformance.

Investment manager's report continued

Market outlook

The outlook for the UK economy is contingent on the future path of inflation and on its ability to grow even as the impact of fiscal austerity measures intensifies in 2011. With inflation high and pressure on the Bank of England to raise rates, the traditional range of monetary policy tools may prove ineffectual in the event of external macroeconomic shocks. Inflation is expected to fall in the second half of 2011, thereby alleviating one source of pressure to tighten policy.

In support of the Gilt market is the coalition Government's implementation of fiscal austerity, which the Governor of the Bank of England, Mervyn King, believes is preferable to tighter monetary policy while the banking system remains fragile. Instability of the coalition government in the months to come, particularly if public discontent and industrial action should become more widespread, represents a risk to Gilts.

February 2011

Portfolio structure

As at 31 December 2010

Underweight

Shorts (0-5 years):	Underweight on a market value and duration basis; this positioning allows the funding of the long European bond position in the mediums, by being underweight the UK at the front-end.

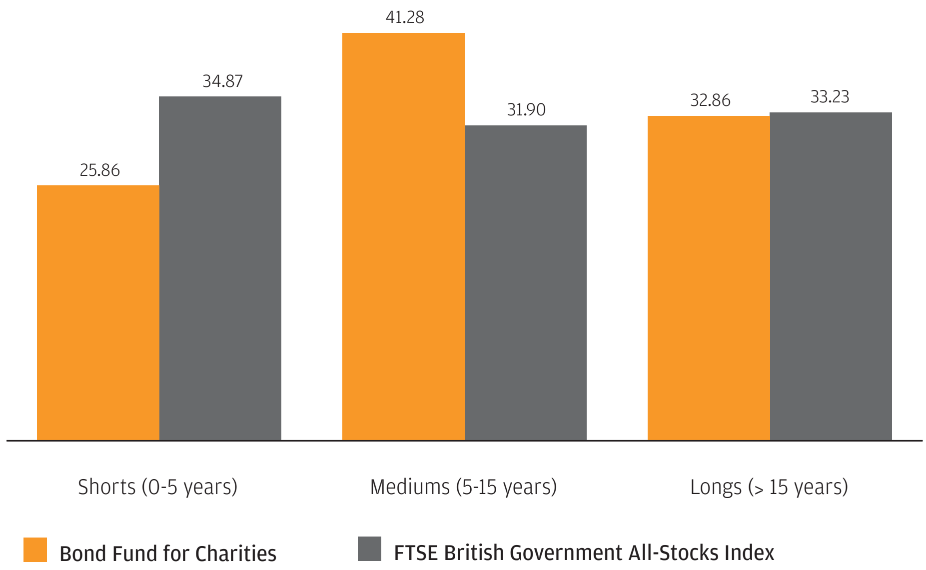
Overweight

Mediums (5-15 years):	Overall we are overweight this sector for both market value and duration, underweight UK versus long Europe trade; reflecting the thinking that European bonds will outperform those of the UK.

Overweight

Longs (>15 years):	Overweight on a market value and duration basis reflecting the movement and opportunities within the Quantative Easing basket.

Portfolio breakdown %



Bond Fund for Charities

Investment performance

Highest offer/lowest bid price and revenue record

	Price range for year		Revenue record
	Highest	Lowest	Distribution
Calendar year	offer	bid	per unit
2006	123.34p	115.19p	5.48p
2007	116.30p	108.02p	5.50p
2008	123.03p	108.30p	5.38p
2009	123.32p	114.32p	4.63p
2010	125.78p	114.91p	4.35p

Distributions are shown as total revenue with revenue expenses deducted.

Record of the fund

	Net asset value of Fund £'000	Number of units	Net asset value per unit	Historic yield %
30.06.08	186,893	172,081,038	108.60p	5.10
30.06.09	121,114	103,899,514	116.57p	4.46
30.06.10	96,176	79,765,183	120.57p	3.67
31.12.10	53,532	44,655,972	119.88p	3.63

The Net asset value and the Net asset value per unit share are shown ex-dividend.
The historic yield is based on the distributions declared in the last twelve months as a percentage of the Net asset value per unit. This should not be taken as a guide to future yields.

Total expense ratios

Financial period ending	
30.06.10	0.33%
31.12.10	0.33%

The total expense ratio (TER) takes into account the Management fee, inclusive of VAT, and all other operating expenses over the financial period and is expressed as a percentage of average daily net asset values over the same period.

Portfolio turnover rate

Financial period ending	
31.12.09	53.17%
31.12.10	27.32%

The portfolio turnover rate (PTR) reflects the total of security purchases and sales, less the total of share issues and cancellations, expressed as a percentage of the average daily net asset values over the period.

Portfolio statement

As at 31 December 2010

Investment - % of Fund	Holding	Market value £'000	Total net assets %
Government stock - 78.4% (74.2%)			
Sterling denominated - 78.4%			
Kommunalbanken 4.875% 2012	890,000	946	1.8
Treasury 2.5% Index-Linked 2013	874,000	2,438	4.6
Treasury 2% 2016	850,000	834	1.6
Treasury 4% 2016	4,585,000	4,945	9.2
Treasury 5% 2018	2,284,648	2,596	4.8
Treasury 3.75% 2019	1,298,000	1,339	2.5
Treasury 4.5% 2019	1,607,000	1,756	3.3
Treasury 4.75% 2020	2,163,000	2,393	4.5
Treasury 8% 2021	2,254,000	3,140	5.9
Treasury 4% 2022	1,672,000	1,721	3.2
Treasury 5% 2025	2,330,000	2,616	4.9
Treasury 4.25% 2027	1,165,000	1,197	2.2
Treasury 6% 2028	1,816,151	2,275	4.3
Treasury 4.75% 2030	1,105,000	1,198	2.2
Treasury 4.25% 2032	859,000	871	1.6
Treasury 4.5% 2034	1,119,000	1,168	2.2
Treasury 4.25% 2036	2,460,000	2,481	4.6
Treasury 4.75% 2038	436,000	477	0.9
Treasury 4.25% 2040	2,300,000	2,314	4.3
Treasury 4.25% 2046	1,550,000	1,577	2.9
Treasury 4.25% 2049	1,465,000	1,497	2.8
Treasury 4.25% 2055	722,000	744	1.4
Treasury 4% 2060	1,295,000	1,268	2.4
War Loan 3.5% Perpetual	172,000	134	0.3
Corporate bonds - 18.7% (23.5%)			
Sterling denominated - 18.7%			
Annington Finance No.1 8% 2021	420,000	514	1.0
BNP Paribas 6.125% 2011	906,000	922	1.7
Commonwealth Bank of Australia 6% 2011	915,000	924	1.7
GE Capital UK Funding 5.5% 2011	700,000	706	1.3
Granite Mortgages FRN 2043	661,758	620	1.2
Lloyds Banking Group 2.75% 2012	1,341,000	1,364	2.5
National Air Traffic Service 5.25% 2026[A]	270,000	282	0.5
Skipton 2% 2012	1,600,000	1,615	3.0
SLM Student Loan Trust 5.15% 2039	266,000	257	0.5
UniCredit Bank 5.625% 2011	400,000	404	0.8
West Bromwich B.S. 2% 2012	1,192,000	1,203	2.2
Yorkshire Building Society 2% 2012	1,213,000	1,224	2.3
Supra-national - 0.9% (0.5%)			
Sterling denominated - 0.9%			
Eurofima 4.375% 2013	460,000	484	0.9
Investment assets		52,444	98.0
Net other assets		1,088	2.0
Net assets		53,532	100.0

Unless otherwise stated the above securities are admitted to official stock exchange listings or trade on a regulated market.

The comparative percentage figures in brackets are at 30 June 2010.

Portfolio credit ratings[B]	Market value £'000
AAA	49,206
AA+	1,110
AA	1,846
AA-	282
Total bonds	52,444
Investment assets	52,444

[A] Whilst the Fund is unlikely to hold securities with a rating of less than AA, it is permissable. There is currently one asset that is AA- rated and given the current credit analysis we remain happy to hold this security within the Fund.

[B] Source: Standard & Poors.

Portfolio movements

For the six months ended 31 December 2010

	£'000
Total of all purchases for the period	**15,604**

Major purchases	Cost
Treasury 4.75% 2020	4,463
Treasury 4% 2022	2,925
Treasury 4.75% 2015	1,539
Treasury 2% 2016	1,388
Treasury 4.5% 2019	1,325
Treasury 4% 2016	1,308
Treasury 4.25% 2046	849
Treasury 4.25% 2011	457
Kommunalbanken 4.875% 2012	431
UniCredit Bank 5.625% 2011	409
Treasury 4.25% 2040	301
Treasury 4.5% 2034	209

	£'000
Total of all sales for the period	**56,791**

Major sales	Proceeds
Treasury 4.75% 2020	7,941
Treasury 4.25% 2040	5,329
Treasury 4.5% 2019	4,032
Treasury 6% 2028	3,649
Treasury 4% 2022	2,983
Treasury 4.75% 2015	2,839
Treasury 4.25% 2032	2,698
West Bromwich B.S. 2% 2012	2,673
Lloyds Banking Group 2.75% 2012	2,517
Treasury 4.75% 2038	2,417
Treasury 2.25% 2014	2,115
Treasury 5% 2018	1,919
Treasury 3.75% 2019	1,672
Treasury 4.25% 2055	1,365
Skipton 2% 2012	1,311
Treasury 4% 2016	1,281
Treasury 2.5% Index-Linked 2013	1,112
GE Capital Funding 2.75% 2011	1,070
Permanent Financing No.3 5A 5.521% 2042	959
Broadgate Financing 'A2' 4.949% 2031	934

Financial statements

Statement of total return (unaudited)

For the six months ended 31 December

		2010		2009
	£'000	£'000	£'000	£'000
Income				
Net capital losses		(629)		(328)
Revenue	1,507		2,163	
Expenses	(144)		(199)	
Net revenue		1,363		1,964
Total return for the period		**734**		**1,636**
Finance costs: Distributions		(1,567)		(2,174)
Change in net assets attributable to unitholders from investment activities		**(833)**		**(538)**

Statement of change in net assets attributable to unitholders (unaudited)

For the six months ended 31 December

		2010		2009
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		**96,176**		**121,114**
Amounts receivable on issue of units	3,551		859	
Amounts payable on cancellation of units	(45,362)		(11,253)	
		(41,811)		(10,394)
Change in net assets attributable to unitholders from investment activities (see above)		(833)		(538)
Closing net assets attributable to unitholders		**53,532**		**110,182**

Section 3.30 of the Statement of Recommended Practice (2010) requires that comparatives are shown for the above statement. As the comparatives should be for the previous interim period, the Net assets at the end of that period will not agree to the Net assets at the start of the current period. The published Net assets as at 30 June 2010 was £96,175,607.

Balance sheet (unaudited)

As at

	31 December 2010		30 June 2010	
	£'000	£'000	£'000	£'000
ASSETS				
Investment assets		52,444		94,464
Debtors	629		11,534	
Cash and bank balances	960		107	
Total other assets		**1,589**		**11,641**
Total assets		**54,033**		**106,105**
LIABILITIES				
Investment liabilities		-		(1)
Creditors	(21)		(9,052)	
Distribution payable on income units	(480)		(876)	
Total other liabilities		**(501)**		**(9,928)**
Total liabilities		**(501)**		**(9,929)**
Net assets attributable to unitholders		**53,532**		**96,176**

Registered Charity Number: 1014756

Accounting policies

The Accounts to 31 December 2010 have been prepared in accordance with the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the IMA in October 2010. The comparative figures were produced under the SORP issued in 2008 but have not been restated. Other accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010 and are described in those financial statements.

Certification of Accounts

The Manager's Report has been prepared in accordance with the Charities (Accounts and Reports) Regulations 2010.

Mr M Porter
Mr R M J Thompson
Directors
JPMorgan Asset Management (UK) Limited
London
18 February 2011

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