

Neptune Balanced Fund

Neptune Balanced Fund

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Neptune Balanced Fund

Notes

Please read the following important notes and definitions to aid your understanding of the technical terms used in this annual report and financial statements.

Accumulation shares/units

Shares/units that do not pay a dividend but reinvest any income earned from the Fund's underlying holdings into the value of the shares/units. All Neptune funds have accumulation shares/units.

Annual management charge

The annual fee charged by Neptune, which is calculated on a daily basis, for managing the Fund.

Bid price/offer price

The price at which units of unit trusts are sold, or redeemed, by an investor is the bid price. The price at which units of unit trusts are bought by an investor is the offer price. Bid and offer prices only apply to unit trusts which have a dual pricing system.

Distribution

This is the dividend that is paid to investors, based on the income earned from the Fund's underlying holdings. Where applicable, investors in an income share/unit class may receive a distribution, whereas in accumulation shares/units the distribution is reinvested into the value of the shares/units.

Equalisation

Equalisation applies to shares purchased during a distribution period, known as 'Group 2' units. It is the average amount of income included in the purchase price of all the Group 2 units and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax, but must be deducted from the cost of the shares for capital gains tax purposes. The equalisation amount for each share class and distribution is shown in the distribution table. Group 2 units revert to being Group 1 units following the first distribution after their purchase.

Equities

These are shares in companies. Shareholders are the owners of a company and can vote on important matters such as the appointment of directors. They also participate in the potential increase in value of the company through increases in the value of its shares, if the company is successful for example. Neptune funds predominantly invest in equities.

Fair value hierarchy

The fair value hierarchy gives information on how the fair value of the underlying investments has been measured in arriving at the valuation of the assets in the Fund:

Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that can be accessed at the measurement date (31 December 2018). This will generally include quoted equities, highly liquid bonds and exchange traded derivatives.

Level 2 – uses inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. This means the valuation has been derived using observable market inputs such as quoted prices for similar instruments, interest rates, yield curves and credit spreads.

Level 3 – valuation inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. Level 3 assets might include unquoted equities.

Fixed interest investments

These are bond or debt securities issued by governments and companies that carry rights to a fixed rate of interest paid by the issuer to investors. At the end of the payment term, the issuer repays the capital sum.

Growth fund

A fund seeking capital growth aims to maximise the value of the money invested, rather than specifically aiming to produce income. In contrast, a fund may seek to maximise income over capital growth. Neptune's fund range includes funds that seek capital growth, funds that seek to generate income and funds that aim to produce income and grow capital.

Income shares/units

Income share/unit holders receive all the income generated by the Fund's underlying holdings in the form of a distribution. This is in contrast to accumulation shares/units. These two choices are important: some investors want income so they opt for income shares/units. Other investors want growth so they opt for accumulation shares/units.

Notes (continued)

ISA (Individual Savings Account)

An ISA is a tax efficient means of investing. All UK tax payers are eligible to invest within an ISA. Due to their tax advantages, the Government limits how much investors can pay into an ISA in each tax year. The current ISA limit is £20,000 for tax year 2019/20, which can be invested in cash, shares or any combination of the two. All Neptune funds are eligible to be held in an ISA; Neptune, however, only offers stocks & shares ISAs. Investors can also transfer existing ISAs which are currently held with other fund providers into our funds.

Junior ISA (Junior Individual Savings Account)

Junior ISAs were launched by the Government to enable parents/guardians to invest in a tax friendly vehicle for their children.

Once a parent or guardian opens a Junior ISA for their child, anyone is able to make a contribution up to the annual limit. The current Junior ISA limit is £4,368 for the tax year 2019/20, which can be invested in cash, shares or any combination of the two. Neptune, however, only offers stocks & shares Junior ISAs. From the age of 16 a child can register to be their own contact. When the child reaches 18 their account is automatically converted into an 'adult' ISA and they are entitled to full access to their investments and savings. All Neptune funds are eligible to be held in a Junior ISA.

Macroeconomics

Analysis of a country or region's economy as a whole. Alongside global industry sector analysis and rigorous stockpicking, macroeconomics forms an important part of Neptune's investment process.

Operating Charge Figure (OCF)

A measure of the charges associated with managing and operating a fund and therefore reflective of the cost of investing in a particular fund. These costs consist primarily of management fees as well as legal, auditor and operational expenses. The figure excludes transaction costs and is provided for each share/unit class available within a fund.

The OCF shows the annual expenses of the fund expressed as a percentage of the average net asset value, which helps you compare the annual expenses to other classes, funds and different schemes.

The Manager caps the OCF as a percentage of the average net asset value. The OCF percentage cap for each unit class is given in the Performance Record for the class. The OCF capping is entirely at the discretion of the Manager and may cease at any time.

Research

The research provision is a revenue charge made to the Fund for research services provided by third parties who are independent of the fund manager. The fund manager uses the research to inform investment decisions for the Fund. The charge was previously included in the transaction charges. The Manager ensures that the research provides analysis and reaches conclusions based on new or existing information that could be used to inform an investment strategy or capable of adding value to the fund managers decisions on behalf of the Fund being charged for that research.

Sector

Globally, businesses can be classified into ten different sectors based on the nature of their industry. These are consumer discretionary, consumer staples, energy, financials, healthcare, industrials, information technology, materials, telecommunications and utilities. Neptune's investment process is based on sector industry analysis, investing our Funds based on how we believe each sector will perform.

UCITS (Undertakings for Collective Investment in Transferable Securities)

The UCITS legislation governs how a fund can be marketed in the European Union and is designed to allow cross border fund sales to investors of different nationalities.

To obtain UCITS status a fund must invest within defined but wide parameters. The fund may then be sold in any EU country, subject only to the marketing rules of that country and any necessary regulatory approval. All of Neptune's funds are UCITS compliant.

Unit trust

A type of fund where money from a number of investors is pooled together and invested collectively in investments such as shares and bonds. Each investor owns a unit (or a number of them), the value of which depends on the value of the underlying investments owned by the fund. A unit trust allows investment to be diversified away from holding a single or small number of companies. A unit trust forms a distinct legal company by itself and tends to have a bid and an offer price.

Yield

The amount of income generated by a fund's investments in relation to the price. Funds aiming to generate an income will seek to have a high yield whilst those funds focusing on capital growth typically have a smaller yield.

Neptune Balanced Fund

Investment objective

The investment objective of the Neptune Balanced Fund ('the Fund') is to generate a positive total return from investment predominantly in equities and bonds. There is no predetermined exposure to the two asset classes and there are no constraints on the regional, sectoral or geographical allocation policy adopted by the Fund.

Other eligible asset classes include collective investment schemes, other transferable securities, cash or near cash, deposits and money market instruments.

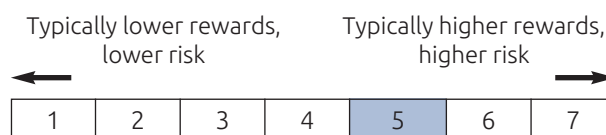
Derivative instruments and forward transactions may be used by the Manager for the purpose of efficient portfolio management (EPM).

It is the intention to be near-fully invested at all times, however, the Fund has the facility to take tactical positions in cash or near cash should the Manager feel it appropriate.

The portfolio will be managed to ensure that the Fund is at all times eligible to be included in an Individual Savings Account.

Risk and reward profile

The risk and reward indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the risk and reward indicator.



The Fund is in Category 5 because of the high range and frequency of price movements (volatility) of the underlying investments referenced by the Fund.

The following are additional risks not covered by the risk and reward category.

- Investing overseas can bring additional returns and spread risk to different markets. There are risks, however, that changes in currency rates will reduce the value of your investment.
- Bonds are affected by changes in interest rates, inflation and any decline in creditworthiness of the borrower (i.e. the bond issuer). Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in repaying their financial obligations.
- The Manager aims to remove the impact of changes in some exchange rates by hedging a currency transaction which can protect against such movements. However, if exchange rates move contrary to the Manager's expectations this can have a significantly negative impact on the value of your investment.
- This Fund holds a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This means your money may be at greater risk.
- For a full list of the Fund's risks, please see the Prospectus.

Neptune Balanced Fund

Manager's report

for the year ended 31 December 2018

The Neptune Balanced Fund returned -1.0% in 2018, versus the IA Mixed Investment 40-85% Shares sector average loss of -6.1%. Since launch, the Fund is the top performer in its peer group, having delivered a return of 637.4% versus the sector average gain of 147.3%.*

The first quarter of 2018 saw the return of market volatility following extremely favourable conditions over the previous several quarters. Despite a very strong start to the year, global markets experienced a sharp sell-off in the first weeks of February before stabilising somewhat for the remainder of the quarter. There were several reasons for the selling, but most prominent was the concern that sharply rising global interest rates would act to slow the synchronised economic growth recovery evident in the last two years. The second quarter of 2018 was a positive one for global equity markets, despite a pick-up in macroeconomic headwinds sparked by fears of a global trade war. The US equity market delivered strong returns thanks to continued underlying earnings and revenue growth, particularly within the information technology sector, and was a significant driver of Fund returns.

Global markets finished the third quarter up over 6%, with strong fundamental data driving market strength. Despite continuing fears around increased protectionism and trade wars, the US equity market was relative calm. This was in stark contrast to other global markets where equities suffered. Dollar strength and other idiosyncratic factors led to a number of emerging market currencies suffering volatility. On the trade front, there was some good news later on in the quarter where a new NAFTA deal was agreed with Canada and Mexico.

The US equity market, having for most of the year eluded the growing fears that had afflicted other global stockmarkets, succumbed during the final quarter of 2018 and suffered a sharp correction. In addition to fears over the damage from the ongoing US/China trade spat, markets became concerned that the US economy was headed for tougher times. Further fuel to the sell-off was added by concerns that the Federal Reserve was going to continue to tighten monetary policy with more regular rate hikes in addition to continued shrinking of its QE-bloated

balance sheet despite growing evidence that the economy was likely to head back towards trend growth in 2019.

Despite this, we continue to see an attractive backdrop for equities in the US and we have retained our significant weighting here. The Fund's weighting to the UK was a detractor to performance as concerns surrounding Brexit negotiations continued to weigh on sterling which, combined with further evidence of a deteriorating outlook for the UK consumer, meant the market struggled. The Fund retains its overweights to emerging markets, which significantly outperformed developed markets during the period of volatility in the fourth quarter. In order to shield the Fund from overall market volatility, we maintained our positions in exchange traded index put options. These options were a significant positive contributor to relative performance in a volatile final quarter. At an individual stock level, positive contributors included CME Group, the futures exchange which benefited from the more volatile market conditions during the fourth quarter.

We remain confident in our outlook for global equity markets, despite the recent flight to safety amongst investors, and continue to run a more cyclically-positioned portfolio. We believe the macroeconomic backdrop remains supportive, particularly within emerging markets.

**Source: Morningstar, C Accumulation share class performance, in sterling with no initial charges, net revenue reinvested to 31 December 2018. The performance of other share classes may differ. This Fund may have a high historic volatility rating and past performance is not a guide to future performance. The value of an investment and any revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the original amount invested. References to specific securities and sectors are for illustration purposes only and should not be taken as a recommendation to buy or sell these securities. Forecasts are not a reliable indicator of future performance. Any views expressed are those of Neptune as at the date of issue and we do not undertake to advise you as to any changes in our views. Please refer to the Prospectus for further details.*

Neptune Balanced Fund

Manager's report

for the year ended 31 December 2018 (continued)

The portfolio statement as at 31 December 2018 is as follows:

Holding	Portfolio of investments	Market value £000	Total net assets %
	Equities		
	United Kingdom		
	Basic Materials 2.52% (2017 - 2.40%)		
	Chemicals 1.60%		
140,000	Croda International	6,573	1.60
	Mining 0.92%		
100,000	Rio Tinto	3,764	0.92
	Consumer Goods 0.00% (2017 - 1.55%)		
	Financials 14.74% (2017 - 15.77%)		
	Banks 1.62%		
1,030,000	HSBC	6,645	1.62
	Collective Investment Schemes 9.60%		
1,400,000	Neptune China Fund 'C' Acc [†]	2,248	0.55
8,100,000	Neptune Emerging Markets Fund 'C' Acc [†]	12,053	2.93
625,000	Neptune Global Smaller Companies Fund 'C' Acc [†]	929	0.23
5,148,000	Neptune Global Technology Fund 'C' Acc [†]	9,823	2.39
7,230,000	Neptune Latin America Fund 'C' Acc [†]	7,917	1.93
713,000	Neptune Quarterly Income Fund 'C' Acc [†]	1,030	0.25
2,811,000	Neptune US Income Fund 'C' Acc [†]	5,448	1.32
	Financial Services 1.22%		
550,000	3i	4,269	1.04
680,000	IP	728	0.18
	Nonlife Insurance 2.30%		
80,000	Willis Towers Watson	9,456	2.30
	Health Care 1.73% (2017 - 0.33%)		
	Pharmaceuticals & Biotechnology 1.73%		
1,160,662	Cambridge Innovation Capital	1,027	0.25
28,986	Oxford Nanopore Technologies (Private Equity)	1,500	0.37
833,334	Oxford Science Innovations	1,000	0.24
9,257	Oxford VR (Private Equity)	300	0.07
1,176	Oxstem (Private Equity)	250	0.06
20,875	Ultromics (Private Equity)	1,400	0.34
1,517	Vaccitech 'A' (Private Equity)	1,650	0.40
	Technology 0.33% (2017 - 0.13%)		
	Software & Computer Services 0.21%		
9,123	Navenio (Private Equity)	675	0.16
810	Proxisense (Private Equity)	200	0.05
	Technology Hardware & Equipment 0.12%		
2,880	Oxford Nanoimaging (Private Equity)	499	0.12
	Chile 1.52% (2017 - 1.59%)		
800,000	Antofagasta	6,266	1.52

Neptune Balanced Fund

Manager's report

for the year ended 31 December 2018 (continued)

The portfolio statement as at 31 December 2018 (continued)

Holding	Portfolio of investments	Market value £000	Total net assets %
	China 7.81% (2017 - 8.09%)		
90,000	Alibaba ADR	9,806	2.39
45,000	Baidu ADR	5,716	1.39
900,000	Ping An Insurance	6,219	1.51
330,000	Tencent	10,355	2.52
	Hong Kong 2.75% (2017 - 2.13%)		
7,150,000	Mandarin Oriental International	11,312	2.75
	Japan 4.62% (2017 - 11.75%)		
250,000	CYBERDYNE	862	0.21
170,000	Jafco	4,226	1.03
200,000	Japan Exchange	2,528	0.61
11,000	Keyence	4,362	1.06
185,000	Sony	7,010	1.71
	Switzerland 1.14% (2017 - 1.23%)		
1,600,000	Glencore	4,690	1.14
	United States 41.43% (2017 - 39.89%)		
21,000	Alphabet 'A'	17,218	4.19
16,000	Amazon.com	18,523	4.51
95,000	Apple	11,624	2.83
237,500	Brown-Forman 'B'	8,815	2.14
130,000	CME	18,948	4.61
65,000	Electronic Arts	4,037	0.98
50,000	Honeywell International	5,119	1.24
120,000	Intercontinental Exchange	6,995	1.70
6,200	Intuitive Surgical	2,288	0.56
139,000	JPMorgan Chase	10,539	2.56
225,000	Microsoft	17,693	4.30
37,000	NVIDIA	3,873	0.94
80,000	Palo Alto Networks	11,536	2.81
100,000	SunTrust Banks	3,897	0.95
48,000	SVB Financial	7,140	1.74
40,000	UnitedHealth	7,711	1.88
140,000	Visa 'A'	14,354	3.49
	Fixed Income		
	United Kingdom 15.99% (2017 - 12.98%)		
GBP4,400,000	UK Treasury Gilt Inflation Linked 1.25% 22/11/2027	8,504	2.07
GBP6,000,000	UK Treasury Gilt Inflation Linked 0.125% 22/03/2029	8,839	2.15
GBP3,400,000	UK Treasury Gilt Inflation Linked 0.75% 22/03/2034	6,024	1.47
GBP3,200,000	UK Treasury Gilt Inflation Linked 2% 26/01/2035	8,780	2.14
GBP3,900,000	UK Treasury Gilt Inflation Linked 1.125% 22/11/2037	9,012	2.19
GBP4,400,000	UK Treasury Gilt Inflation Linked 0.625% 22/03/2040	9,125	2.22
GBP4,100,000	UK Treasury Gilt Inflation Linked 0.625% 22/11/2042	9,098	2.21
GBP3,700,000	UK Treasury Gilt Inflation Linked 0.125% 22/03/2046	6,349	1.54

Neptune Balanced Fund

Manager's report

for the year ended 31 December 2018 (continued)

The portfolio statement as at 31 December 2018 (continued)

Holding	Portfolio of investments	Market value £000	Total net assets %
	Derivatives 4.87% (2017 - 0.20%)		
	Options 4.87% (2017 - 0.20%)		
471	FTSE 100 Index 7300 Put 15/03/2019	3,057	0.75
1,148	NASDAQ 100 E-Mini Futures 6950 Put 15/03/2019	11,976	2.91
782	S&P 500 E-Mini Futures 2625 Put 15/03/2019	4,969	1.21
	Portfolio of investments	408,779	99.45
	Net other assets	2,276	0.55
	Net assets	411,055	100.00

All holdings are ordinary shares or stock units unless otherwise stated.

†Represents investment into a Neptune Collective Investment Scheme product.

Stocks shown as ADRs represent American Depositary Receipts.

The top five purchases and sales for the year are as follows:

Purchases	Cost £000
NVIDIA	7,210
Neptune Global Technology Fund 'C' Acc†	6,317
SunTrust Banks	6,209
Neptune Emerging Markets Fund 'C' Acc†	6,070
Neptune India Fund 'C' Acc†	5,196

Sales	Proceeds £000
Facebook 'A'	14,349
Neptune India Fund 'C' Acc†	13,848
Amazon.com	13,642
Neptune Russia & Greater Russia Fund 'C' Acc†	10,158
General Dynamics	8,182

†Represents investment into a Neptune Collective Investment Scheme product.

Neptune Balanced Fund

Fund information

Performance record

A Income

OCF cap from 1 January 2019: 1.77%	31 December 2018 (p)	31 December 2017 (p)	31 December 2016 (p)
Change in net asset per unit			
Opening net asset value per unit	636.45	565.51	504.32
Return before operating charges	(0.51)	80.56	69.33
Operating charges	(10.44)	(9.62)	(8.14)
Return after operating charges	(10.95)	70.94	61.19
Distributions	—	—	—
Closing net asset value per unit	625.50	636.45	565.51
After direct transaction costs of:	0.18	1.20	0.63
Performance			
Return after operating charges	(1.72)%	12.54%	12.13%
	£000	£000	£000
Other information			
Closing net asset value	4,637	5,157	5,191
Closing number of units	741,323	810,265	917,924
Operating Charge Figure	1.60%	1.60%	1.60%
Direct transaction costs	0.03%	0.20%	0.12%
OCF/TER cap	1.74%	1.70%	1.70%
Research fee	0.04%	—	—
Research fee rebate	(0.04)%	—	—
Prices			
Highest unit price	686.20p	674.10p	598.30p
Lowest unit price	615.20p	563.60p	432.00p

A Accumulation

OCF cap from 1 January 2019: 1.77%	31 December 2018 (p)	31 December 2017 (p)	31 December 2016 (p)
Change in net asset per unit			
Opening net asset value per unit	713.87	633.88	565.28
Return before operating charges	(1.04)	90.76	77.74
Operating charges	(11.72)	(10.77)	(9.14)
Return after operating charges	(12.76)	79.99	68.60
Distributions	—	—	—
Retained distributions on accumulation units	—	—	—
Closing net asset value per unit	701.11	713.87	633.88
After direct transaction costs of:	0.20	1.34	0.71
Performance			
Return after operating charges	(1.79)%	12.62%	12.14%
	£000	£000	£000
Other information			
Closing net asset value	229,699	299,502	416,052
Closing number of units	32,762,057	41,954,788	65,635,601
Operating Charge Figure	1.60%	1.60%	1.60%
Direct transaction costs	0.03%	0.20%	0.12%
OCF/TER cap	1.74%	1.70%	1.70%
Research fee	0.04%	—	—
Research fee rebate	(0.04)%	—	—
Prices			
Highest unit price	769.10p	755.70p	670.70p
Lowest unit price	689.60p	631.80p	484.20p

Neptune Balanced Fund

Fund information (continued)

Performance record (continued)

C Income

OCF cap from 1 January 2019: 1.00%	31 December 2018 (p)	31 December 2017 (p)	31 December 2016 (p)
Change in net asset per unit			
Opening net asset value per unit	151.04	133.66	118.73
Return before operating charges	(0.25)	19.19	16.40
Operating charges	(1.29)	(1.19)	(0.98)
Return after operating charges	(1.54)	18.00	15.42
Distributions	(0.25)	(0.62)	(0.49)
Closing net asset value per unit	149.25	151.04	133.66
After direct transaction costs of:	0.04	0.28	0.15
Performance			
Return after operating charges	(1.02)%	13.46%	12.99%
	£000	£000	£000
Other information			
Closing net asset value	7,541	8,005	7,900
Closing number of units	5,052,570	5,299,985	5,910,624
Operating Charge Figure	0.83%	0.84%	0.82%
Direct transaction costs	0.03%	0.20%	0.12%
OCF/TER cap	0.97%	0.90%	1.00%
Research fee	0.04%	—	—
Research fee rebate	(0.04)%	—	—
Prices			
Highest unit price	163.20p	152.30p	134.80p
Lowest unit price	146.30p	133.30p	101.80p

C Accumulation

OCF cap from 1 January 2019: 1.00%	31 December 2018 (p)	31 December 2017 (p)	31 December 2016 (p)
Change in net asset per unit			
Opening net asset value per unit	158.05	139.27	123.24
Return before operating charges	(0.27)	20.02	17.05
Operating charges	(1.35)	(1.24)	(1.02)
Return after operating charges	(1.62)	18.78	16.03
Distributions	(0.17)	(0.64)	(0.51)
Retained distributions on accumulation units	0.17	0.64	0.51
Closing net asset value per unit	156.43	158.05	139.27
After direct transaction costs of:	0.04	0.30	0.16
Performance			
Return after operating charges	(1.02)%	13.48%	13.01%
	£000	£000	£000
Other information			
Closing net asset value	162,684	183,213	218,211
Closing number of units	103,996,454	115,919,825	156,678,856
Operating Charge Figure	0.83%	0.84%	0.82%
Direct transaction costs	0.03%	0.20%	0.12%
OCF/TER cap	0.97%	0.90%	1.00%
Research fee	0.04%	—	—
Research fee rebate	(0.04)%	—	—
Prices			
Highest unit price	171.10p	159.10p	140.30p
Lowest unit price	153.00p	138.80p	105.70p

Neptune Balanced Fund

Fund information (continued)

Performance record (continued)

D Accumulation

	31 December 2018 (p)	31 December 2017 (p)	31 December 2016 (p)
OCF cap from 1 January 2019: 0.91%			
Change in net asset per unit			
Opening net asset value per unit	139.18	122.53	108.32
Return before operating charges	(0.24)	17.63	15.01
Operating charges	(1.06)	(0.98)	(0.80)
Return after operating charges	(1.30)	16.65	14.21
Distributions	(0.28)	(0.68)	(0.55)
Retained distributions on accumulation units	0.28	0.68	0.55
Closing net asset value per unit	137.88	139.18	122.53
After direct transaction costs of:	0.04	0.26	0.14
Performance			
Return after operating charges	(0.93)%	13.59%	13.12%
	£000	£000	£000
Other information			
Closing net asset value	6,494	6,850	6,986
Closing number of units	4,710,023	4,921,978	5,701,166
Operating Charge Figure	0.74%	0.75%	0.73%
Direct transaction costs	0.03%	0.20%	0.12%
OCF/TER cap	0.88%	0.80%	0.90%
Research fee	0.04%	—	—
Research fee rebate	(0.04)%	—	—
Prices			
Highest unit price	150.70p	159.10p	140.30p
Lowest unit price	134.70p	122.10p	92.90p

Research costs are defined in the Notes on page 20 and for the period 1 January 2018 to 31 December 2018 the research cost was £183,944. Additionally in the period, a rebate of research costs of £186,293 was credited to the Fund. This represented unused research costs accrued for in 2017.

Risk warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment in a unit trust and the income from it can fall as well as rise and may be affected by exchange rate variations.

Neptune Balanced Fund

Authorised status

The Fund is an authorised unit trust scheme, established in December 1998 and is classified as a securities fund under the FCA Collective Investment Schemes Sourcebook (COLL).

Individual Savings Account (ISA) eligibility

The Fund has been managed throughout the period to ensure that it is eligible to be included in an ISA.

Certification of the Financial Statements by the Directors of the Manager

This report is signed in accordance with the requirements of COLL of the FCA Handbook.

The Directors of Neptune Investment Management Limited approved these financial statements on 23 April 2019.

For
Neptune Investment Management Limited
Manager of
Neptune Balanced Fund
23 April 2019

Statement of Manager's and Trustee's responsibilities

The Manager

The FCA's COLL requires the Manager to prepare annual accounts which give a true and fair view of the financial position of the Scheme at the end of each accounting period and of its revenue and expenditure and gains and losses for the period.

In preparing these accounts, the Manager is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts in accordance with generally accepted accounting principles, the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014, COLL and the Trust Deed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is not appropriate to presume that the Scheme will continue in operation.

The Manager is responsible for keeping such accounting and other records as are necessary to enable it to comply with the regulations and to demonstrate at any time that such compliance has been achieved.

The Manager is responsible for the management of the Scheme in accordance with its Trust Deed, Scheme Particulars and COLL and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustee

The Trustee is under a duty to take into its custody or under its control all of the property of the Scheme and to hold it in trust for the holders of units. Under the rules in COLL relating to Reports it is also the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each accounting period and to report thereon to unitholders in a report which shall contain the matters prescribed by the rules. A copy of the Trustee's report is included in this report.

Report of the Trustee

for the year ended 31 December 2018

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that the Manager has, in all material respects, managed the Scheme during the period in accordance with the investment and borrowing powers and restrictions applicable to the Scheme, and otherwise in accordance

with the provision of the Trust Deed and the rules in COLL.

State Street Trustees Limited,
Trustee of Neptune Balanced Fund
23 April 2019

Independent Auditor's report to the unitholders of Neptune Balanced Fund

Opinion

We have audited the financial statements of Neptune Balanced Fund ('The Fund') for the year ended 31 December 2018 which comprise the Statement of total return, the Statement of change in net assets attributable to unitholders, the Balance sheet, the related notes 1 to 16 and the Distribution table, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS102 'The Financial Reporting Standard' applicable to the UK and Republic of Ireland.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2018 and of the net expenses and the net capital losses on the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS102 'The Financial Reporting Standard' applicable to the UK and Republic of Ireland.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information other than the financial statements and our Auditor's report thereon. The Manager is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of recommended practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Trust Deed;
- the information given in the Manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Independent Auditor's report to the unitholders of Neptune Balanced Fund (continued)

Responsibilities of the Manager

As explained more fully in the Statement of Manager's responsibilities set out on page 14, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

Use of our report

This report is made solely to the Fund's members, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
London
23 April 2019

Notes:

The maintenance and integrity of the Neptune website is the responsibility of the Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Neptune Balanced Fund

Financial Statements

Statement of total return

for the year ended 31 December 2018

	Note	31 December 2018		31 December 2017	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(2,435)		70,593
Revenue	3	4,402		7,628	
Expenses	4	(5,517)		(7,050)	
Interest payable and similar charges		—		(12)	
Net (expenses)/revenue before taxation		(1,115)		566	
Taxation	5	(471)		(669)	
Net expenses after taxation			(1,586)		(103)
Total return before distributions			(4,021)		70,490
Distributions	6		(65)		(874)
Change in net assets attributable to unitholders from investment activities			(4,086)		69,616

Statement of change in net assets attributable to unitholders

for the year ended 31 December 2018

	31 December 2018		31 December 2017	
	£000	£000	£000	£000
Opening net assets attributable to unitholders		502,727		654,340
Amounts received on issue of units	97,527		222,182	
Amounts paid on cancellation of units	(185,298)		(444,286)	
		(87,771)		(222,104)
Change in net assets attributable to unitholders from investment activities		(4,086)		69,616
Retained distribution on accumulation units		185		874
Unclaimed distributions		—		1
Closing net assets attributable to unitholders		411,055		502,727

Neptune Balanced Fund

Financial Statements (continued)

Balance sheet

as at 31 December 2018

	Note	31 December 2018		31 December 2017	
		£000	£000	£000	£000
Assets					
Fixed assets					
Investments			408,779		492,895
Current assets					
Debtors	7	695		2,182	
Cash and bank balances	8	2,895		11,318	
Total current assets			3,590		13,500
Total assets			412,369		506,395
Liabilities					
Creditors					
Distribution payable		—		(13)	
Other creditors	9	(1,314)		(3,655)	
Total liabilities			(1,314)		(3,668)
Net assets attributable to unitholders			411,055		502,727

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2018

1 Accounting policies

(a) Basis of accounting

The financial statements of the Fund have been prepared under the historical cost convention, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association (IA) in May 2014.

In applying UK GAAP, the financial statements have been prepared in compliance with FRS 102.

(b) Recognition of revenue

All dividends on investments marked ex-dividend up to the accounting date are included in revenue, net of attributable tax credits and withholding tax. Bank interest, interest on debt securities and other interest receivable is accrued up to the accounting date.

Revenue from collective investment schemes is recognised when the investment is quoted ex-distribution. Accumulation of revenue relating to accumulated shares or units held in collective investment schemes is recognised as revenue and included in the amounts available for distribution. Equalisation received from distributions or accumulations is treated as capital by deducting from the cost of investments.

Interest earned on interest-bearing securities is determined on an effective yield basis. Effective yield is a revenue calculation that reflects the amount of amortisation of any discount or premium on the purchase price over the remaining life of the security.

(c) Treatment of stock and special dividends

The ordinary element of stock dividends is treated as revenue and forms part of any distribution. In the case of an enhanced stock dividend, the value of the enhancement is treated as capital and does not form part of the distribution.

In accordance with the SORP, special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. Amounts recognised as income will form part of the distribution. The tax accounting treatment follows the treatment of the principal amount.

(d) Treatment of expenses

The Manager's periodic charge is deducted from revenue. The fair value of other Neptune Funds held within the portfolio is deducted from the NAV prior to calculating the Manager's periodic charge. All of the other expenses are charged against revenue except for costs associated with the purchase and sale of investments, which are charged against capital.

Please see page 4 for treatment of research provision.

(e) Taxation

i. Corporation tax is provided at 20% on revenue, other than UK dividends, after deduction of expenses.

ii. Where overseas tax has been deducted from overseas income, that tax can, in some instances, be set off against the corporation tax payable, by way of double tax relief.

iii. The charge for deferred tax is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

(f) Distribution policy

Revenue arising from investments accumulates during each accounting period. Surplus income is allocated to unitholders in accordance with the regulations. In order to conduct a controlled dividend flow to unitholders interim distributions may be made at the Manager's discretion, up to a maximum of the distributable revenue available for the period. All remaining revenue is distributed in accordance with COLL 6.8.3R. Any revenue deficit will be borne by the capital account.

Neptune Balanced Fund

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

(g) Basis of valuation of investments

All investments have been valued at their fair value at 12 noon market rates ruling on the last business day of the financial year. The fair value of equity and non-equity investments is the bid price, excluding any accrued interest. The fair value of collective investment schemes managed by the Manager is the quoted price for single priced funds and the bid price for dual priced funds. Where applicable, unquoted and suspended securities have been valued at the Manager's best estimate of their fair value.

Unquoted investments are valued at fair value, which represents the Manager's view of the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction. This does not assume that the underlying business is saleable at the reporting date or that its current shareholders have an intention to sell their holding in their near future.

The unquoted investments are valued by the Manager in-line with International and Venture Capital Valuation Guidelines (IPEVCV) for the valuation of unquoted investments, taking into account, where appropriate, latest dealing prices, achievement or not of key milestones, valuations from reliable sources, financial performance, and other relevant factors.

(h) Exchange rates

Transactions in foreign currencies are recorded in sterling at the exchange rates ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at 12 noon exchange rates ruling on that date.

(i) Functional currency

The functional currency of the Fund is sterling as it is the dominant capital raising currency for the Company and the currency of the location from which the Fund is managed.

2 Net capital (losses)/gains

	31 December 2018	31 December 2017
	£000	£000
Non-derivative securities	(10,655)	84,408
Derivative contracts	7,862	(8,420)
Forward currency contracts	14	(5,189)
Currency gains/(losses)	351	(184)
Transaction charges	(7)	(15)
Issuance fee	—	(7)
Net capital (losses)/gains	<u>(2,435)</u>	<u>70,593</u>

3 Revenue

	31 December 2018	31 December 2017
	£000	£000
Bank interest	28	19
UK dividends	1,390	2,871
Overseas dividends	3,642	5,673
Interest on debt securities	(1,043)	(1,872)
Franked income from collective investment schemes	385	937
Total revenue	<u>4,402</u>	<u>7,628</u>

Neptune Balanced Fund

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

4 Expenses	31 December 2018 £000	31 December 2017 £000
<i>Payable to the Manager, associates of the Manager and agents of either of them:</i>		
Manager's periodic charge	5,302	6,747
Distribution fees	15	24
Printing costs	9	8
Registration fees	13	11
	<u>5,339</u>	<u>6,790</u>
<i>Payable to the Trustee, associates of the Trustee and agents of either of them:</i>		
Trustee's fees	109	139
Safe custody fees	49	64
	<u>158</u>	<u>203</u>
<i>Other expenses:</i>		
Audit fee	9	21
Legal and professional fees	5	22
Publication costs	9	14
Research fee	(3)	—
	<u>20</u>	<u>57</u>
Total expenses	<u>5,517</u>	<u>7,050</u>

5 Taxation	31 December 2018 £000	31 December 2017 £000
(a) Analysis of charge in the year:		
Overseas withholding tax	471	669
Total taxation for the year	<u>471</u>	<u>669</u>

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is higher than the standard rate of corporation tax in the UK for an authorised unit trust (20%).

The differences are explained below:

	£000	£000
Net (expense)/revenue before taxation	(1,115)	566
Corporation tax at 20% (2017: 20%)	(223)	113
Effects of:		
Movement in excess management expenses	1,611	2,251
Non-taxable overseas dividends	(728)	(1,113)
Non-taxable UK dividends	(355)	(761)
Overseas tax expensed	—	(2)
Overseas withholding tax	471	669
Relief for indexation on UK gilts	(305)	(488)
Current tax charge for the year	<u>471</u>	<u>669</u>

(c) Deferred tax

At the year end, there is a potential deferred tax asset of £20,769,853 (2017: £19,158,625) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise this amount and therefore, no deferred tax assets have been recognised in the current or prior year.

Neptune Balanced Fund

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

6 Distributions

The distributions take account of amounts received on the issue of units and amounts deducted on the cancellation of units, and comprise:

	31 December 2018	31 December 2017
	£000	£000
Interim	13	580
Final	185	328
Deduct: Amounts deducted on cancellation of units	(242)	(70)
Add: Amounts received on issue of units	109	36
Net distribution for the year	<u>65</u>	<u>874</u>

Reconciliation of net expense after taxation to distributions

	31 December 2018	31 December 2017
	£000	£000
Net expense after taxation	(1,586)	(103)
Equalisation on conversion of units	5	23
Revenue deficit	1,646	954
Net distribution for the year	<u>65</u>	<u>874</u>

Details of the distribution per unit are set out in the distribution tables on page 28.

7 Debtors

	31 December 2018	31 December 2017
	£000	£000
Accrued revenue	384	138
Amounts receivable for issue of units	191	1,548
Overseas tax recoverable	58	58
Sales awaiting settlement	62	438
Total debtors	<u>695</u>	<u>2,182</u>

8 Cash and bank balances

	31 December 2018	31 December 2017
	£000	£000
Cash and bank balances	2,895	11,318
	<u>2,895</u>	<u>11,318</u>

9 Creditors

	31 December 2018	31 December 2017
	£000	£000
Manager's periodic charge	399	458
Accrued expenses	107	121
Amounts payable on cancellation of units	808	3,076
Total creditors	<u>1,314</u>	<u>3,655</u>

10 Related party transactions

Neptune is regarded as a related party by virtue of having the ability to act in concert in respect of the operations of the Fund.

Amounts paid to Neptune in respect of fund management are disclosed in note 4 and amounts outstanding at the year end in note 9.

Neptune, as Manager, is a related party and acts as principal in respect of all the transactions of units in the Fund. The aggregate monies received and paid by the Manager through the issue and cancellation of units are disclosed in the Statement of change in net assets attributable to unitholders on page 17 and amounts outstanding at the year end in notes 7 and 9.

In its capacity as Trustee, State Street Trustees Limited is considered to have an influence over the activities of the Fund. Trustee fees and safe custody fees charged to State Street Trustees Limited are shown in note 4 and amounts due at the year end in note 9.

The Fund has investments in other Neptune products and these are highlighted in the portfolio statement.

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

11 Contingent liabilities, contingent assets and commitments

There were no contingent liabilities, contingent assets or outstanding commitments at the balance sheet date (2017: nil).

12 Derivatives and other financial instruments

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward foreign exchange contracts, may be utilised for Efficient Portfolio Management (EPM) purposes.

The main risks from the Fund's holding of financial instruments with the Manager's policy for managing these risks are set out below:

(i) Market price risk

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the Manager in pursuance of the investment objective and policy. For an equity portfolio the risk is generally regarded as consisting of two elements, stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

As at 31 December 2018, if the price of investments held by the Fund increased or decreased by 1%, the resulting change in net assets attributable to unitholders would have been an increase or decrease of approximately 1%; which for this Fund would equate to £4,087,792 (2017: £4,918,967).

(ii) Currency risk

Currency risk is the risk that the sterling value of investments will fluctuate as a result of exchange rate movements. Changes in the sterling exchange rate can affect the profitability of some UK companies, and thus their market prices, as sterling's relative strength or weakness can affect export prospects, the value of overseas earnings in sterling terms and the prices of imports sold in the UK. Investment in overseas securities will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates.

As at 31 December 2018, if the value of sterling increased or decreased by 1% against all currencies, the resulting change in the net assets attributable to unitholders of the Fund would have been an increase or decrease of approximately £2,622,554 (2017: £3,329,879).

The table below shows the currency risk profile at the balance sheet date:

Currency	Net foreign currency assets	
	31 December 2018	31 December 2017
	Total £000	Total £000
Euro	39	39
Hong Kong dollar	16,574	20,774
Japanese yen	18,988	59,172
US dollar	226,654	253,003
Total	<u>262,255</u>	<u>332,988</u>

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

12 Derivatives and other financial instruments (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in the interest rate environment, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of income receivable from floating rate securities and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates.

By a careful assessment of economic and other relevant factors, the Manager will seek to invest in those companies most likely to benefit, or be shielded from anticipated changes in interest rates.

The table below shows the interest rate risk profile at the balance sheet date:

Currency	31 December 2018		
	Floating rate financial assets	Financial assets not carrying interest	Total
	£000	£000	£000
Euro	—	39	39
Hong Kong dollar	—	16,574	16,574
Japanese yen	—	18,988	18,988
US dollar	2,894	223,760	226,654
Sterling	1	150,113	150,114
Total	<u>2,895</u>	<u>409,474</u>	<u>412,369</u>

Currency	31 December 2017		
	Floating rate financial assets	Financial assets not carrying interest	Total
	£000	£000	£000
Euro	—	39	39
Hong Kong dollar	—	20,774	20,774
Japanese yen	—	59,172	59,172
US dollar	11,318	241,685	253,003
Sterling	—	173,407	173,407
Total	<u>11,318</u>	<u>495,077</u>	<u>506,395</u>

	Floating rate financial liabilities	Financial liabilities not carrying interest	Total
	£000	£000	£000
31 December 2018			
Sterling	—	1,314	1,314
Total	<u>—</u>	<u>1,314</u>	<u>1,314</u>
31 December 2017			
Sterling	—	3,668	3,668
Total	<u>—</u>	<u>3,668</u>	<u>3,668</u>

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

12 Derivatives and other financial instruments (continued)

(iv) Credit risk

The Fund may find that companies in which it invests fail to settle their debts on a timely basis. The value of securities issued by such companies may fall as a result of the perceived increase in credit risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit credit risk.

(v) Liquidity risk

The main liability of the Fund is the cancellation of any units that investors want to sell. Securities may have to be sold to fund such cancellations should insufficient cash be held at the bank to meet this obligation.

Smaller companies by their nature, tend to have relatively modest traded share capital and the market in such shares can, at times, prove illiquid. Shifts in investor sentiment, or the announcement of new price sensitive information, can provoke significant movement in share prices, and make dealing in any quantity difficult.

The equity markets of emerging countries tend to be more volatile than the more developed markets of the world. Standards of disclosure and accounting regimes may not always fully comply with international criteria, and can make it difficult to establish accurate estimates of fundamental value. The lack of accurate and meaningful information, and inefficiencies in its distribution, can leave emerging markets prone to sudden and unpredictable changes in sentiment. The resultant investment flows can trigger significant volatility in these relatively small and illiquid markets. At the same time, this lack of liquidity, together with low dealing volumes, can restrict the Manager's ability to execute substantial deals.

To reduce liquidity risk the Manager will ensure that a substantial portion of the Fund's assets consists of readily realisable securities.

(vi) Counterparty risk

Transactions in securities entered into by the Fund give rise to exposure to the risk that the counterparties may not be able to fulfil their responsibility by completing their side of the transaction. The Manager minimises this risk by conducting trades only through brokers which have been approved by Neptune.

Due diligence is carried out on an ongoing basis by Neptune on the brokers with which the Fund trades and the banks which hold the Fund's cash which is overseen by the Neptune Investment, Performance and Risk Committee. Such due diligence would include, inter alia, the financial and operating performance of the counterparty, its regulatory record and creditworthiness.

The table below shows the counterparty risk as at the balance sheet date:

	Counterparty	Derivative exposure £000	Collateral posted £000	Collateral received £000	Collateral asset class
2018	RBC Europe	20,002	—	—	Cash
2017	RBC Europe	998	—	—	Cash

(vii) Derivatives

During the period the Manager entered into derivative contracts on behalf of the Fund for EPM.

The purposes of EPM must be to achieve reduction of risk, the reduction of cost, or the generation of additional revenue or capital with a an acceptably low level of risk and the use of these instruments must not cause the Fund to stray from its investment objectives.

Any EPM transaction must be economically appropriate and the exposure fully covered. The Manager monitors the use of derivatives to ensure EPM rules are satisfied.

(viii) Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

Neptune Balanced Fund

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

13 Portfolio transaction costs

Analysis of total trade costs

	Purchases		Sales	
	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000
Equities	52,651	258,677	144,186	462,393
Bonds	—	—	—	15,110
Options	—	—	—	—
Trades in the year before transaction costs	52,651	258,677	144,186	477,503
Commissions				
Equities	10	199	(48)	(411)
Options	18	26	(20)	(17)
Total commissions	28	225	(68)	(428)
Taxes				
Equities	29	510	(3)	(13)
Total taxes	29	510	(3)	(13)
Total costs	57	735	(71)	(441)
Total net trades in the year after transaction costs	52,708	259,412	144,115	477,062

In the case of units, commissions and taxes are paid by the Fund on each transaction. In addition, there is a dealing spread between the buying and selling prices of the underlying investments. Unlike units, other types of investments (such as bonds, money market instruments and derivatives) have no separately identifiable transaction costs: these costs form part of the dealing spread. Dealing spreads vary considerably depending on the transaction value and market sentiment. At the balance sheet date the dealing spread was 0.23% (2017: 0.07%).

Total transaction cost expressed as a percentage of asset class:

	Purchases		Sales	
	31 December 2018 %	31 December 2017 %	31 December 2018 %	31 December 2017 %
Commissions				
Equities	0.02	0.08	(0.03)	(0.09)
Options	—	—	—	—
Taxes				
Equities	0.06	0.20	(0.00)	(0.00)

Total transaction cost expressed as a percentage of average NAV:

For the year ended	31 December 2018 %	31 December 2017 %
Commissions	0.02	0.11
Taxes	0.01	0.09
Total	0.03	0.20

Neptune Balanced Fund

Notes to the Financial Statements

for the year ended 31 December 2018 (continued)

14 Post balance sheet events

There were no post balance sheet events.

15 Unit reconciliation

Reconciliation of the unit movements in the year

	31 December 2018				
	A Income	A Accumulation	C Income	C Accumulation	D Accumulation
Opening units in issue	810,265	41,954,788	5,299,985	115,919,825	4,921,978
Creations during the year	10,009,479	57,001	18,089,708	1,807,638	558,067
Cancellations during the year	(10,073,900)	(8,872,994)	(18,356,129)	(15,429,293)	(770,022)
Unit converted during the year	(4,521)	(376,738)	19,006	1,698,284	—
Closing units in issue	<u>741,323</u>	<u>32,762,057</u>	<u>5,052,570</u>	<u>103,996,454</u>	<u>4,710,023</u>

16 Fair value hierarchy

Valuation technique

	Assets	Liabilities	Assets	Liabilities
	31 December	31 December	31 December	31 December
	2018	2018	2017	2017
	£000	£000	£000	£000
Level 1	362,857	—	442,988	—
Level 2	39,448	—	47,582	—
Level 3	6,474	—	2,325	—
	<u>408,779</u>	<u>—</u>	<u>492,895</u>	<u>—</u>

Neptune Balanced Fund

Distribution table

for the year ended 31 December 2018 – in pence per unit

Interim

Group 1-Units purchased prior to 1 January 2018

Group 2-Units purchased on or after 1 January 2018 to 30 June 2018

	Net revenue	Equalisation	Paid 31 August 2018	Paid 31 August 2017
A Income units				
Group 1	—	—	—	—
Group 2	—	—	—	—
A Accumulation units				
Group 1	—	—	—	—
Group 2	—	—	—	—
C Income units				
Group 1	0.2482	—	0.2482	0.3684
Group 2	0.0238	0.2244	0.2482	0.3684
C Accumulation units				
Group 1	—	—	—	0.3835
Group 2	—	—	—	0.3835
D Accumulation units				
Group 1	—	—	—	0.3945
Group 2	—	—	—	0.3945

Final

Group 1-Units purchased prior to 1 July 2018

Group 2-Units purchased on or after 1 July 2018 to 31 December 2018

	Net revenue	Equalisation	Payable 28 February 2019	Paid 28 February 2018
A Income units				
Group 1	—	—	—	—
Group 2	—	—	—	—
C Income units				
Group 1	—	—	—	0.2486
Group 2	—	—	—	0.2486

Final

Group 1-Units purchased prior to 1 January 2018

Group 2-Units purchased on or after 1 January 2018 to 31 December 2018

	Net revenue	Equalisation	Payable 28 February 2019	Paid 28 February 2018
A Accumulation units				
Group 1	—	—	—	—
Group 2	—	—	—	—
C Accumulation units				
Group 1	0.1652	—	0.1652	0.2594
Group 2	—	0.1652	0.1652	0.2594
D Accumulation units				
Group 1	0.2772	—	0.2772	0.2890
Group 2	0.0387	0.2385	0.2772	0.2890

The Accumulation unit classes have changed distribution frequency and from 30 June 2018 will be distributing only at every year end.

Remuneration report

The Manager is required to establish, implement and maintain a remuneration policy (the 'remuneration policy') which is in accordance with the requirements of SYSC 19E of the FCA Handbook Regulations. It is required to be consistent with, and promote sound and effective risk management and not encourage risk-taking which is inconsistent with, the risk profiles, rules or instruments of incorporation of the relevant sub-fund. The remuneration policy is in line with the business strategy, objectives, values and interests of the Manager and the Fund and the investors in the Fund and includes measures to avoid conflicts of interest. The remuneration policy primarily applies to specific categories of staff ('code staff'), including senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the risk profile of the Manager or a sub-fund managed by the Manager.

The aggregate amount of remuneration paid by the Manager to its staff in the period was:

	£000
Fixed remuneration	7,946
Variable remuneration	481
Total	8,427
Average number of staff remunerated	65

The aggregate amount of remuneration paid by the ACD to code staff in the period was:

	£000
Senior management	1,400
Risk takers	1,745
Control functions	322
Total	3,468
Number of UCITS V code staff remunerated	12

Remuneration is made up of fixed pay (i.e. salary and benefits such as pension contributions) and variable pay (annual performance-based bonus), a significant portion of which is deferred over a period of three years. Annual incentives are designed to reward performance in line with the business strategy, objectives, values and long-term interests of the Company and the Fund. The annual incentive earned by an individual is dependent on the achievement of financial and non-financial objectives, including adherence to effective risk management practices and compliance policies and procedures.

The Remuneration Committee ('RemCo'), which reports to the Board, reviews and adopts the principles of the remuneration policy annually. The RemCo consists entirely of non-executive directors with significant experience of risk management and remuneration. Compliance with the remuneration policy, and its implementation, is also subject to internal monitoring and review by the compliance team; who make recommendations to RemCo for enhancement, as appropriate.

Neptune Balanced Fund

General information and contacts

Buying and selling of units

The Manager will accept orders to buy or sell units on normal business days between 9.00am and 5.00pm (UK time) and transactions will be effected at prices determined by the next following valuation. Instructions to buy or sell units may be either in writing to:

Neptune Investment Management Limited,
PO Box 9004,
Chelmsford,
Essex
CM99 2WR

or by telephone on 0800 587 5051.

A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Distributions

Where a distribution is to be paid, it has been calculated as at 31 December 2018 and distributed to unitholders, where applicable, on 28 February 2019.

Report and Financial Statements

This document is a full report of Neptune Balanced Fund for the year ended 31 December 2018.

Other information

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

Individual Savings Account (ISA) status

During the period under review, all of the unit classes of the Fund met the requirements for ISA qualification as determined by the HM Revenue & Customs ISA regulations.

Contacts

The Manager and Investment Manager:
Neptune Investment Management Limited (Neptune)
3 Shortlands, London W6 8DA
(Authorised and regulated by the FCA)

Directors

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Robin Geffen
Alexander Catto
Stuart Southall
Richard Green
James Dowey
Robert Smith

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Fund accountant and valuing agent

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20 Churchill Place, London E14 5HJ

Administrator and registrar

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Independent Auditor

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