

Marks & Spencer High Income Fund

Manager's interim short report for the period 1 February 2017 to 31 July 2017

INVESTMENT OBJECTIVE AND POLICY

The Fund's objective is to provide a high level of income. The Manager may invest in fixed and variable rate securities and equities from anywhere in the world. At any time the portfolio may contain a combination of any or all of the aforementioned securities. The Manager's investment policy may mean that at times it is appropriate not to fully invest but to hold cash or near cash.

Generally the Fund invests in transferable securities listed or traded on an eligible securities market with power to invest in recently issued transferable securities which are to be so listed or traded. However, transferable securities that are not approved securities may be held within the Fund provided the total of such securities does not exceed 10% in value of the property of the Fund. This 10% limit is inclusive of recently issued securities.

The Manager's investment policy may mean that at times it is appropriate not to fully invest but to hold cash or near cash. This will only occur when the Manager reasonably regards it as necessary to enable Units to be redeemed or for the efficient management of the Fund in accordance of with its objectives or purpose that may reasonably be regarded as ancillary to the objectives of the Fund.

The Fund may use derivative instruments (options, futures and contracts for difference) and forward transactions in a currency for the purposes of efficient portfolio management. These instruments can therefore be used to reduce risk, reduce costs, or generate additional capital or income with no, or low levels of risk.

Payments in respect of the Manager's periodic charge and other permitted charges or expenses are treated as capital expenses. This may constrain capital growth.

Strategy

For the period 1 February 2017 to 24 February 2017

The Fund used a multi-manager approach to invest in a range of globally issued corporate and government bonds.

We used the skills of three investment management companies during this period of the report to select the investments. Insight Investment Management, Columbia Threadneedle Investments and HSBC Global Asset Management (USA) were chosen for their specific approach to investment and for the skills which were complementary when matched together.

For the period from 27 February 2017 to 31 July 2017

We have regularly reviewed the decision to use non-HSBC investment managers. Our most recent review concluded that the use of such investment managers no longer represents the best value for investors and therefore we have taken action to simplify the structure. We concluded that HSBC Global Asset Management (UK) Limited will be better placed to manage the whole of the Fund.

They will continue to sub-delegate a portion of the Fund to HSBC Global Asset Management (USA) Inc. On 27 February, the portions of the Fund managed by Columbia Threadneedle Investments and Insight Investment Management were transferred to HSBC Global Asset Management (UK) & HSBC Global Asset Management (USA).

The Fund is structured to deliver the objective through investment in a mix of corporate and government bonds that are issued globally, which may be both higher risk bonds rated by Standard and Poor's below BBB-(called 'sub investment grade'/'high yield') and lower risk bonds (called 'investment grade') of any duration.

The Investment Manager has sub-delegated the management of a portion of the Fund to HSBC Global Asset Management (USA) Inc as Investment Adviser. The Investment Adviser aims to provide income by investing in emerging markets and US high yield bonds, quasi-sovereign bonds and in bonds issued by companies which have their registered office in emerging markets and the USA, primarily denominated in US Dollar.

The allocations to these asset classes will vary through time and are reviewed and adjusted to meet the Fund objective at least annually. When adjusting the asset allocation, the Investment Manager intends to maintain existing risk profile of the Fund and will monitor this on an ongoing basis. Income is accounted for and paid on an effective yield basis rather than a coupon basis.

The Manager has determined that the Fund will not invest in securities issued by companies that are considered, after reasonable enquiries, to be involved in the use, development, manufacturing, stockpiling, transfer or trade cluster munitions and/or anti-personnel mines. The Investment manager defines a 'high level of income' as a quoted average yield of funds in its Investment Association peer group which is the Strategic bond peer group.

FUND FACTS

Ex-distribution (XD) dates: 1 February, 1 May, 1 August and 1 November

Income payment dates: 31 March, 30 June, 30 September and 31 December

Ongoing charges

For the 12 month period to 31 July 2017: **0.92%**

For the 12 month period to 31 January 2017: **1.00%**

The ongoing charges measure the annual charges and expenses of an investment fund. These will affect the returns to the investor. Most European investment funds highlight the ongoing charges to help you compare the annual charges and expenses of different funds.

FUND SIZE

As at	Share class	Net asset value £m	Net asset value per unit (pence)	No. of units in issue
31/07/17	Income	169.08	116.47	145,164,985
	Accumulation	114.49	259.70	44,087,163
31/01/17	Income	164.88	113.97	144,673,588
	Accumulation	112.75	249.04	45,274,947

NET INCOME DISTRIBUTION

Year	Income units pence per unit	Accumulation units pence per unit
2017	2.3719	5.2087
2017*	3.8887	8.3219

*For accounting year 01/02/16 - 31/01/17

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RISK AND REWARD PROFILE

Lower risk

Higher risk

Typically lower rewards

Typically higher rewards

1	2	3	4	5	6	7
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More about this rating

The rating is based on price volatility over the last five years. As it is based on historical data, it may not be a reliable indicator of the future risk profile of the Fund. The rating is not guaranteed and may change over time. The lowest rating does not mean a risk-free investment.

Why is this Fund in category 4?

Bonds have greater risk than money market instruments (as they tend to have greater credit and interest rate risk), but less risk than shares.

Risk profile

- The price of units and the income from them can go down as well as up, and you may get back less than the amount originally invested.
- Past performance is no guarantee of future performance.
- Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment exchange rate fluctuations.
- The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or

institution facilitating the trade.

- Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligations. All credit instruments therefore have potential for default. Higher yielding securities are more likely to default.
- If yields on fixed income securities rise then the capital value of the Fund may decrease.
- As interest rates rise debt securities will fall in value. The value of debt securities is inversely proportional to interest rate movements.
- Emerging economies typically exhibit higher levels of investment risk. Markets are not always well regulated or efficient and investments can be affected by reduced liability.
- Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse market conditions.
- As charges are taken from the capital of the Fund, this may limit potential for capital growth and there could be periods of time when these charges are greater than the growth of the Fund.
- The main operational risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.

ASSET ALLOCATIONS

HSBC Global Asset Management (UK) Limited directly manage a proportion of the Fund and sub-delegate the remaining Fund management to specialist advisers. The exact proportions managed by each adviser at the period end are shown in the table.

Area of investment	% of the Fund as at 31/07/17	% of the Fund as at 31/01/17	Investment adviser	Investment policy
Corporate and government bonds	54.4% (24/2/17: n/a)	n/a	HSBC Global Asset Management (UK) Limited	Aims to provide a high level of income by investing in fixed and variable rate securities.
Global High Income yield bonds	25.4% (24/2/17: n/a)	n/a	HSBC Global Asset Management (USA) Inc	Aims to provide a high level of income by investing in high yielding bonds.
Emerging market bonds	19.6% (24/2/17: 19.0%)	18.9%	HSBC Global Asset Management (USA) Inc	Aims to provide a high level of income by investing in emerging market bonds.
Global high yield bonds	0% (24/2/17: 19.4%)	19.5%	Columbia Management Investment Advisers LLC	Aimed to provide a high level of income by investing in high yielding bonds.
Corporate and government bonds	0% (24/2/17: 61.3%)	61.3%	Insight Investment Ltd	Aimed to provide a high level of income by investing in fixed and variable rate securities.
Cash	0.6% (24/2/17: 0.3%)	0.3%	n/a	n/a

TOP TEN HOLDINGS

ASSET	% of Fund as at 31/07/17	ASSET	% of Fund as at 31/01/17
1. European Investment Bank 4.5% 7/3/2044	2.14	1. European Investment Bank 4.5% 7/3/2044	2.13
2. KFW 5.75% 7/6/2032	1.76	2. KFW 5.75% 7/6/2032	1.78
3. UK Treasury Gilt 1.5% 22/1/2021	1.65	3. UK Treasury 1.25% 22/7/2018	1.65
4. GE Capital UK Funding 5.875% 18/1/2033	1.08	4. European Investment Bank 4.75% 15/10/2018	1.39
5. Network Rail 4.75% 29/11/2035	1.03	5. KFW 4.875% 1/2/2018	1.24
6. Barclays Bank 4.25% 12/1/2022	0.92	6. GE Capital UK Funding 5.875% 18/1/2033	1.09
7. Argentina (Republic of) 7.5% 22/4/2026	0.91	7. Network Rail 4.75% 29/11/2035	1.02
8. HSBC Holdings 6% 29/3/2040*	0.88	8. Barclays Bank 4.25% 12/1/2022	0.94
9. Electricite de France 6.125% 2/6/2034	0.77	9. Towd Point floating rate note 20/2/2045	0.92
10. Enel Finance 5.75% 14/9/2040	0.76	10. HSBC Holdings 6% 29/3/2040*	0.78

*related parties

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SUMMARY PERFORMANCE

Percentage growth				
31/07/12 to 31/07/13	31/07/13 to 31/07/14	31/07/14 to 31/07/15	31/07/15 to 31/07/16	31/07/16 to 31/07/17
2.3%	5.6%	3.7%	8.4%	2.2%

*Past performance has been updated to reflect the accounting period

This information relates to the past, and past performance is no guarantee of future performance. All the above figures are on a bid to bid basis, net income reinvested. The performance figures exclude the initial charge of the fund. Source: Morningstar.

CREDIT RISK RATINGS

	As at 31/07/17	As at 31/01/17
AAA	6.44%	10.46%
AA+	0.01%	0.39%
AA	6.78%	5.41%
AA-	2.99%	1.77%
A+	2.84%	2.26%
A	3.74%	3.10%
A-	6.22%	7.23%
BBB+	12.23%	14.96%
BBB	12.32%	13.56%
BBB-	8.03%	6.53%

	As at 31/07/17	As at 31/01/17
BB+	6.67%	7.48%
BB	4.35%	4.68%
BB-	6.15%	4.20%
B+	4.29%	3.65%
B	5.25%	2.83%
B-	2.70%	2.30%
CCC+	1.52%	0.84%
CCC	0.34%	0.62%
CCC-	0.59%	0.09%
Unrated	1.98%	1.89%

GEOGRAPHICAL SPREAD OF INVESTMENTS

Country	% of Fund as at 31/07/17	% of Fund as at 31/01/17
United Kingdom	26.36%	28.57%
United States	24.19%	21.08%
France	4.75%	4.44%
Netherlands	4.59%	3.97%
Channel Islands	4.35%	5.32%
Mexico	2.61%	2.77%
Germany	2.38%	3.02%
Supranational	2.14%	3.52%
Ireland	2.05%	2.27%
Cayman Islands	1.95%	1.32%
Turkey	1.72%	1.87%
Indonesia	1.69%	1.46%
Canada	1.62%	0.66%
Argentina	1.36%	1.09%
Luxembourg	1.12%	0.53%
Spain	0.77%	0.79%
Chile	0.76%	0.47%
Australia	0.70%	0.61%
Kazakhstan	0.69%	0.47%
Russia	0.68%	0.81%
Colombia	0.59%	0.28%
Venezuela	0.53%	0.66%
South Africa	0.51%	0.23%
Hungary	0.50%	0.69%
British Virgin Islands	0.46%	0.47%
Romania	0.46%	0.45%
Belgium	0.45%	-
Dominican Republic	0.44%	0.40%
Brazil	0.42%	0.44%
Italy	0.39%	0.97%
Croatia	0.36%	0.39%
Peru	0.29%	0.40%
Switzerland	0.27%	-
Poland	0.26%	0.27%
Sri Lanka	0.26%	0.15%
India	0.23%	0.23%
Ecuador	0.22%	0.18%

Country	% of Fund as at 31/07/17	% of Fund as at 31/01/17
Other Africa	0.20%	0.09%
Austria	0.19%	-
Bahamas	0.18%	0.02%
Japan	0.18%	-
Lebanon	0.18%	-
Oman	0.17%	0.07%
Serbia	0.15%	0.16%
Lithuania	0.14%	0.15%
El Salvador	0.13%	0.10%
Nigeria	0.13%	0.13%
Costa Rica	0.12%	0.12%
Egypt	0.12%	0.06%
Ghana	0.12%	0.06%
Bermuda	0.11%	0.21%
Morocco	0.11%	0.11%
Middle East	0.10%	0.10%
Philippines	0.10%	0.24%
Jamaica	0.09%	0.07%
Côte d'Ivoire	0.08%	-
Panama	0.07%	0.26%
China	0.06%	0.06%
Zambia	0.06%	0.06%
Uruguay	0.01%	0.38%
Cyprus	-	0.49%
South America	-	0.06%
"Forward foreign exchange contracts"	0.86%	1.11%
Futures	0.02%	-
Net other assets	3.20%	4.64%

PORTFOLIO REVIEW

During the period 1 February 2017 to 24 February 2017, the parts of the Fund managed by Columbia Threadneedle Investments and Insight Investment Management were managed in accordance with the Fund objectives.

On 24 February 2017, the parts of the Fund managed by Columbia Threadneedle Investments and Insight Investment Management were

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transferred to HSBC Global Asset Management (UK) Limited and Global Asset Management (USA) Inc.

The Sterling Bond investments, managed by HSBC Global Asset Management (UK) had a positive return over the period, with strong contribution coming from issuer selection largely within the banks and utilities sectors. The positive impacts from positions in Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) was offset by the underweights in the insurance and utilities sectors. While the Fund has been largely neutral in duration, a small overweight in May contributed to performance. In sectors, the Fund remains neutral in financials, underweight in basic materials, utilities, oil & gas, supranational bonds and overweight in consumer goods.

The High Yield investments, managed by HSBC Global Asset Management (USA), underperformed its performance comparator over the review period. By sector, the strategy's main overweight is to energy where we continue to see good relative value within selective areas of the sector. The strategy is also overweight in pipelines and refining, healthcare and pharmaceuticals. The strategy is underweight to exploration and production; oilfield services; TMT and industrials. The average credit quality of the strategy has a neutral B+ exposure relative to its performance comparator, it is overweight in single B and CCC and is underweight BB. The CCC exposure is largely in more defensive industries and in companies with improving credit profiles.

The Emerging Market Debt (EMD) investments, managed by HSBC Global Asset Management (USA), outperformed its performance comparator over the review period. The outperformance was predominantly driven by country allocation, particularly in investment grade countries. Within investment grade, the largest contributors to relative performance came from the portfolio underweight positioning in China, the Philippines, Malaysia and South Africa. However, some of these gains were tempered by relative underperformance from the security selection of shorter-dated bonds in Indonesia and Uruguay. As yields compressed across EMD assets, longer-dated bonds outperformed shorter-dated bonds in these countries. Within high yield, the underweight to Venezuela, more specifically an underweight to the shorted end of the yield curve, was the largest positive contributor to performance. Security selection focus on commodity related companies in Brazil as well as an overweight to Turkey were also a positive. Some of the gains were partially offset by the underperformance from an underweight to Ukraine, which outperformed following the disbursement of IMF funds in April. Finally, an exposure to Mexican local rates contributed to performance over the review period as Mexican assets continued to retrace losses incurred after the US elections.

Stock lending activities

The Fund does not currently undertake stock lending.

IMPORTANT CHANGES

The following changes were made to the Fund's Prospectus during the reporting period ending 31 July 2017.

Prospectus Update 24 February 2017:

Following a review of the use of third party investment managers the Manager appointed HSBC Global Asset Management as the sole investment manager, removing all non HSBC investment managers and reducing the annual management charge received by the Manager from 1.0% to 0.92%, this resulted in the following changes to the Prospectus:

Update to section 2, "Investment Objectives and Policy" to provide the following further detail as to the strategy of the Fund:

- the appointment of HSBC Global Asset Management (UK) Limited as the Investment Manager and
- the removal of Insight Investment Management (Global) Limited and Columbia Management Investment Advisers LLC as investment manager's for the Fund. HSBC Global Asset Management (USA) Inc remain as Investment Adviser;

- the investment strategy of the Investment Manager;
- Update to the Definitions;
- Update to the Investment restrictions to reflect changes in the FCA Rules;
- Update to section 14 "Investment Manager" to reflect the appointment of HSBC Global Asset Management (UK) Limited as the sole investment manager;
- Update to section 18, "Payments to the Authorised Fund Manager" to reflect the reduction in the annual management charge from 1.0% to 0.92%.

Prospectus Update 27 June 2017:

- Update to section 2 "Investment Objectives, Policy and Strategy" to reflect the additional information the Manager's policy in relation to investment in cluster munitions.
- Update to section 6 "Historical Performance" to include 2017 year end performance information.
- Update to section 9 "Type of units" to reflect that income will be paid gross as a result of HMRC tax changes.
- Update to Section 11 "Manager" to reflect changes to the Directors of the Manager.
- New section inserted section 18 "Ongoing Charges Figure" to contain details of the AMC and Fund expenses as reflect this as the ongoing charge figure in one section.
- Update to section 27 "Taxation" to reflect regulatory changes to the tax treatment of the Fund and income distributions will be paid gross of tax going forward.

The following changes were made to the Fund's Key Investor Information Document during the reporting period ending 31 July 2017.

KIID update 17 February 2017

- Update to the Performance details for the Fund to include 2016 year end information.

KIID update 24 February 2017

- Update the Investment Objectives and Policy to provide the following further detail as to the strategy of the Fund:
 - the appointment of HSBC Global Asset Management (UK) Limited as the Investment Manager and disclose the ongoing appointment of HSBC Global Asset Management (USA) Inc as Investment Adviser;
 - the investment strategy of the Investment Manager;
 - Update to the ongoing charges figure to reflect that the OCF is now an estimate.

OTHER INFORMATION

Fund Manager: Marks and Spencer Unit Trust Management Limited
Kings Meadow, Chester CH99 9FB

Trustee: State Street Trustees Limited
525 Ferry Road, Edinburgh EH5 2AW

The above companies are authorised and regulated by the Financial Conduct Authority

Auditors: KPMG LLP
15 Canada Square, London E14 5GL

The full Fund Manager review is in the long form report which is available on request by calling 0808 005 5555 in the UK or +44 1244 688632 if calling from abroad. Lines are open from 8am-8pm Monday to Friday, 9am-5pm Saturday and 10am-4pm bank holidays (closed on Sunday, Christmas Day, Boxing Day and New Year's Day). Please be aware that opening hours may be restricted over the Christmas period. Please contact us for details or visit <http://marksandspencer.com/unittrusts>.

Please call 0808 005 5555 if you would like to receive this information in an alternative format such as large print, Braille or audio.

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