

TU EUROPEAN TRUST



Manager's interim report

For the six months to 15 April 2011 (unaudited)

MANAGEMENT COMPANY

TU Fund Managers Limited,
Congress House, Great Russell Street,
London WC1B 3LQ

(Authorised and regulated by the Financial Services Authority)

DIRECTORS OF TU FUND MANAGERS LIMITED

The Lord Christopher, CBE (Chairman)

M R Cornwall-Jones, OBE

L A Bayliss (Resigned 18/01/11) J Hannett L J Harrison

M A Lawson J Nelson

P T Noon Baroness Prosser, OBE

D F Sachon

REGISTRAR

Northern Trust Global Services Limited

PO Box 55736, 50 Bank Street, Canary Wharf

London E14 1BT

Telephone: 0800 279 0887

TRUSTEE

HSBC Bank plc

8 Canada Square

London E14 5HQ

(Authorised and regulated by the Financial Services Authority)

AUDITORS

Shipleys LLP

Chartered Accountants

10 Orange Street

Haymarket

London WC2H 7DQ

INVESTMENT ADVISER

Scottish Widows Investment Partnership

33 Old Broad Street

London EC2N 1HZ

(Authorised and regulated by the Financial Services Authority)

TU

European Trust

The trust aims to provide investors with capital growth over the medium term through investment in large and medium sized companies quoted on European stockmarkets, including the UK. However, the Managers intend to provide investors with a minimum gross yield and this may be achieved, if necessary, by investing part of the Trust in fixed interest securities.

Chairman's Report

Half-yearly Report for the six months to 15 April 2011

Performance

During the six months to 15 April 2011 the bid price of units rose by 8.97%¹ compared with the FTSE World Europe Index which increased by 7.0%² over the same period.

¹Source: Lipper Hindsight, total return, bid to bid priced, net income reinvested, in sterling

²Lipper Hindsight, total return in sterling

This year TU Fund Managers celebrates its 50th Anniversary, making our founding fund the TU British Trust one of the oldest unit trusts in existence. The company was established in 1961, with the aim of providing access to responsible equity investment, with a Board membership comprised of Trades Union leaders, informed City professionals and well regarded equity fund managers. This remains the aim of the company and over the longer term it has delivered on this objective.

We retain many investments our most loyal unions placed with us in the early years. In part, this is because TU Fund Managers is wholly owned by a charity, the T.U.U.T. Charitable Trust. Profits surplus to the requirements of the business are paid to the Charity, the Trustees of which aim to ensure that donations are spent fully upon the work for which they are intended. Bulletins on the Charity are published regularly and are available on request or may be found on our Website www.tufm.co.uk.

14 June 2011

The Lord Christopher CBE
Director and Chairman

M R Cornwall-Jones, OBE
Director

Investment Manager's Report

Equity bulls and bears had plenty to chew on over the last six months. The former took strength from the ongoing recovery of the global economy and a couple of quarters of outperformance from the corporate world. The European Central Bank's extraordinary liquidity provisions and historically low interest rates have also boosted markets. Sector rotation at the start of the year was vicious, however, with switching between 2010's winners (luxury goods and industrials) and 2010's losers (utilities and financials).

Meanwhile the sovereign debt crisis continued to cast a pall over the market. Greece, Ireland and Portugal have been bailed out by their European Union peers; Spain is now under the spotlight. Politicians recently struck a "grand bargain" to try to fortify the euro. Despite some positives, though, it failed to address the key issues. Civil unrest in the Middle East and North Africa has driven up the oil price, adding to investor jitters. Inflation has once again reared its head, leading the ECB to raise rates by a quarter of a percentage point to 1.25% on 7 April. The devastating Japanese earthquake in March also wrought havoc on many fronts. Yet markets remained resilient in face of these challenges.

At stock level, Germany's Tognum, a diesel-engine maker, was a star performer. The company found its shares in demand after Daimler and Rolls-Royce tabled a bid for the group. The €3.2 billion offer was quickly rejected, with a major shareholder labelling it insufficient. At the time of writing, all parties were mulling over their options. We will continue to hold the stock until the situation is resolved. A position in Arkema, a French chemicals group, did well. Its results for last year were the strongest on record, thanks to demand from Asia and innovation in new products. Arkema is optimistic about 2011: its restructuring is mostly finished and the group is now in growth mode. Other positives included Wood Group, BG Group and HeidelbergCement.

In contrast, a position in Freenet detracted from the fund's showing. The group's share price fell after some negative operational developments and poorly received customer numbers. Nonetheless, we maintain our conviction in this stock: Freenet has performed strongly of late, and we think its targeted loss of unprofitable customers is going to be beneficial in the long term. It has also started to target smartphone users in order to capture the shift from plain vanilla phones to handsets with mobile broadband access.

Meanwhile, Colruyt, a Belgian retailer, fell back recently due to, among other things, concerns about heightened local competition. But we remain upbeat about its outlook and consider this a sound long-term play: Colruyt has a strong balance sheet and a history of solid, consistent performance. Other stocks that disappointed included Barclays, CS Group and Anheuser-Busch InBev.

In broad terms, we are overweight in industrials, oil services and financial services. These positions, however, are not outright plays on each sector but rather the result of our bottom-up investment process. In the industrials space, for example, we hold names such as Siemens, Prysmian, and Kone. We remain underweight in utilities, healthcare and consumer services. Among the new stocks added to the portfolio over the review period was Swatch, a Swiss watchmaker. The sector rotation at the start of the year hit the luxury good sector hard, causing the firm to underperform. The situation was compounded by the tragic events in Japan. But Swatch has only 5% sales there, so we took the drop in its share price as an opportunity to buy. We also increased our weighting in the oil & gas services sector this month with the addition of Wood Group. The company provides a range of engineering, production support, maintenance management and turbine overhaul and repair services to the oil & gas and power generation industries worldwide. Wood Group was trading at a discount to its peers, and is expected to deliver significant growth going forward as the internalisation of production facilities, a rebound in engineering, and gas turbine maintenance contracts boost the bottom line. Other names we added include ASML, AXA, CSM, and Freenet.

Outlook

We are quietly confident about the outlook for European equities. Valuations are relatively attractive, as earnings growth continues. The restructuring and deleveraging of recent years has left many firms in a robust position. The situation in the Arab world, however, could yet change the investment landscape. Investors believe the global economy can withstand oil at \$115-\$120 a barrel, but it is a macroeconomic risk.

Inflationary pressures are also weighing on central bankers. The ECB has acted, but should it tighten monetary policy too quickly the weaker eurozone nations could be plunged back into recession. “Core” Europe is expected to remain in good shape and supportive for the entire region. Germany and France, after all, account for almost half of eurozone GDP. The central bank, in addition, continues to deploy its massive liquidity operations, buoying the financial sector. But the timing of when these measures will be withdrawn – as they eventually must – will be crucial.

The recently announced EU measures have brought some stability in the short term – but we are far from a complete solution. Nevertheless, politicians will realise, eventually, that a lasting fiscal union, or at the very least an independent fiscal body, will be necessary to ensure the survival of the single-currency project.

During this time, a combination of vigilance on the macroeconomic level coupled with rigorous stock selection appears likely to be the best policy. That will remain our approach – in 2011 and beyond.

PORTFOLIO STATEMENT

(unaudited) as at 15 April 2011

<i>Stock</i>	<i>Holding or nominal value of position</i>	<i>Market Value £</i>	<i>Percentage of total net assets %</i>
Belgium 3.07% (3.36%)		1,033,361	3.07
Anheuser-Busch Inbev	18,722	689,418	2.05
Colruyt	10,165	343,943	1.02
Finland 2.24% (2.04%)		753,551	2.24
Kone	20,545	753,551	2.24
France 20.72% (16.48%)		6,966,243	20.72
Arkema	10,699	638,236	1.90
AXA	46,030	623,802	1.85
BNP Paribas	14,371	666,086	1.98
Cie de St-Gobain	13,024	512,581	1.52
Sanofi-Aventis	11,632	530,086	1.58
Societe Generale	20,849	835,016	2.48
Technip	11,050	715,246	2.13
Total	22,090	812,758	2.42
Unibail - Rodamco	2,865	385,227	1.15
Vallourec	9,539	693,252	2.06
Vinci SA	14,634	553,953	1.65
Germany 15.72% (15.20%)		5,284,562	15.72
Allianz	5,056	459,030	1.36
BASF	7,903	445,664	1.33
Daimler Chrysler	22,666	1,000,761	2.98
Freenet	43,840	322,252	0.96
Fresenius	17,542	778,943	2.32
Heidelbergcement	14,014	618,753	1.84
Siemens	14,771	1,232,013	3.66
Tognum	18,584	427,146	1.27
Guernsey, Channel Islands 1.26% (0.00%)		422,480	1.26
Resolution	137,526	422,480	1.26

PORTFOLIO STATEMENT

(unaudited) as at 15 April 2011 - continued

<i>Stock</i>	<i>Holding or nominal value of position</i>	<i>Market Value £</i>	<i>Percentage of total net assets %</i>
Ireland 2.12% (2.12%)		713,798	2.12
Grafton	236,787	713,798	2.12
Italy 3.15% (4.81%)		1,057,161	3.15
Prysmian	45,468	641,508	1.91
Snam Rete Gas	115,241	415,653	1.24
Luxembourg 0.00% (1.95%)		-	-
Netherlands 7.07% (9.16%)		2,379,605	7.07
ASML	19,808	491,526	1.46
CSM	24,477	533,382	1.59
Fugro	12,879	694,049	2.06
KPN	63,683	660,648	1.96
Spain 0.65% (1.43%)		218,299	0.65
Banca Bilbao Vizcaya Argentaria	29,380	214,663	0.64
Banca Bilbao Vizcaya Argentaria - Rights	29,380	3,636	0.01
Switzerland 11.25% (14.04%)		3,783,776	11.25
Adecco	10,157	406,737	1.21
Credit Suisse	19,017	507,300	1.51
Nestle	23,193	856,526	2.55
Partners Group	3,493	427,283	1.27
Swatch	1,146	309,631	0.92
Syngenta	3,626	767,467	2.28
Zurich Financial	3,118	508,832	1.51
United Kingdom 31.11% (29.19%)		10,467,026	31.11
Barclays	200,293	599,076	1.78
BG	63,920	953,686	2.84
BP	212,651	968,732	2.88
Centrica	116,713	386,787	1.14
Diageo	40,267	483,204	1.44
GKN	347,239	697,256	2.07
Glaxosmithkline	35,667	449,048	1.34

PORTFOLIO STATEMENT

(unaudited) as at 15 April 2011 - continued

<i>Stock</i>	<i>Holding or nominal value of position</i>	<i>Market Value £</i>	<i>Percentage of total net assets %</i>
HSBC	144,670	947,010	2.82
John Wood	106,475	708,591	2.11
Lloyds TSB	1,176,128	699,443	2.08
Scottish & Southern Energy	634	8,362	0.02
Thomas Cook	230,758	382,366	1.13
Tullett Prebon	87,276	364,290	1.08
Unilever	30,217	591,649	1.76
Vodafone	489,994	872,679	2.59
Xstrata	92,925	1,354,847	4.03
PORTFOLIO OF INVESTMENTS		33,079,862	98.36
98.36% (15/10/10 99.78%)			
Net other assets		552,058	1.64
TOTAL NET ASSETS		33,631,920	100.00

All holdings are ordinary or preference shares listed on recognised stock exchanges unless otherwise stated.

Comparative figures shown in brackets relate to 15 October 2010.

PERFORMANCE HISTORY

Unit Prices

<i>Calendar year</i>	<i>Highest Offer</i>	<i>Lowest Bid</i>
	<i>p</i>	<i>p</i>
2006	229.10	188.00
2007	249.50	208.60
2008	246.40	131.90
2009	218.90	123.50
2010	222.50	173.50
2011 (to 15 April)	238.60	207.80

Net Asset Values

	<i>Units in issue</i>	<i>Market NAV of Fund</i>	<i>Market NAV per unit</i>
		<i>£</i>	<i>p</i>
15/10/2008	17,169,596	26,101,234	152.02
15/10/2009	16,880,688	34,451,200	204.09
15/10/2010	15,757,517	32,297,405	204.97
15/04/2011	14,860,814	33,631,920	226.31

Income Distributions

<i>Calendar year</i>	<i>Net income Distributed per unit</i>	<i>Net income Distributed per £1,000 invested 4 January 2005</i>
	<i>p</i>	<i>£</i>
2006	2.760	2.76
2007	3.549	3.55
2008	4.697	4.70
2009	3.921	3.92
2010	2.693	2.69
2011 (15 April)	-	-

Past performance is not a guide to the future. Investors are reminded that the price of units and the income derived from them is not guaranteed and may go down as well as up.

Total Expense Ratio (TER)

	<i>TER</i>
	<i>%</i>
15/10/2009	1.10%
15/10/2010	1.64%
15/04/2011	1.49%

CONSTITUTION AND AUTHORISATION

The Trust is constituted by a Trust Deed dated 12 November 1993, as amended from time to time by supplementary deeds. The Unit Trust is authorised under section 243 of the Financial Services and Markets Act 2000, and is a UCITS Scheme under the terms of the Financial Services Authority's Collective Investment Schemes Sourcebook.

DIRECTOR'S STATEMENT

In accordance with the requirements of the Financial Services Authority's Collective Investment Schemes Sourcebook, we hereby certify this report on behalf of the Directors of TU Fund Managers Limited.

14 June 2011

The Lord Christopher, CBE
Director and Chairman

M R Cornwall-Jones, OBE
Director

STATEMENT OF TOTAL RETURN

(unaudited) for the half year ended 15 April 2011

	15/04/11		15/04/10	
	£'000	£'000	£'000	£'000
Income				
Net capital gains		3,200		857
Revenue	286		356	
Expenses	(238)		(206)	
Finance costs: Interest	-		-	
	<u>48</u>		<u>150</u>	
Taxation	(19)		(31)	
	<u>29</u>		<u>119</u>	
Net revenue after taxation		29		119
Total return before distributions		3,229		976
Finance costs: Distributions		-		-
		<u>-</u>		<u>-</u>
Change in net assets attributable to unitholders from investment activities		<u>3,229</u>		<u>976</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(unaudited) for the half year ended 15 April 2011

	15/04/11		15/04/10	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		32,297		34,451
Amounts received from the Manager on creation of units	55		505	
Amounts received from the Manager on cancellation of units	(1,949)		(1,202)	
		<u>(1,894)</u>		<u>(697)</u>
Change in net assets attributable to unitholders from investment activities (see above)		3,229		976
Stamp Duty Reserve Tax		(1)		-
Unclaimed distributions		1		2
		<u>1</u>		<u>2</u>
Closing net assets attributable to unitholders		<u>33,632</u>		<u>34,732</u>

BALANCE SHEET

(unaudited) as at 15 April 2011

	15/04/11	15/10/10
	£'000	£'000
ASSETS		
Investment assets	<u>33,080</u>	<u>32,230</u>
Debtors	541	734
Cash and bank balances	<u>114</u>	<u>349</u>
Total other assets	655	1,083
Total assets	<u>33,735</u>	<u>33,313</u>
LIABILITIES		
Creditors	72	(360)
Bank overdrafts	31	(232)
Distribution payable on income units	<u>-</u>	<u>(424)</u>
Total liabilities	103	(1,016)
Net assets attributable to unitholders	<u>33,632</u>	<u>32,297</u>

Accounting policies

The interim financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Trusts issued by the IMA in October 2010 ("the IMA SORP 2010").

Previously the financial statements were prepared in accordance with the Statement of Recommended Practice for Authorised Trusts issued by the IMA in November 2008. The effect of the IMA SORP 2010 does not impact the accounting or presentation of the financial statements.

THE FOLLOWING TRADE UNION ORGANISATIONS AND OTHER ASSOCIATIONS HELD UNITS ON

15 April 2011

Bakers, Food and Allied Workers' Union
Durham Colliery Mechanics Trust
Musicians' Union
Professional Footballers' Association
Prospect
Union of Shop, Distributive & Allied Workers
Unite (Amicus Section)
Unite (CYWU Section)
Unity (CATU Section)

UNITS HELD BY THE MANAGER

As at 15 April 2011 TU Fund Managers Limited held 161,299.9479 units
(15 October 2010: 161,299.9479) in the Trust.

TU Fund Managers

TU Fund Managers Limited
Congress House, Great Russell Street, London WC1 3LQ
Authorised and Regulated by the Financial Services Authority