



# McInroy & Wood

PERSONAL INVESTMENT MANAGERS

## BALANCED FUND

*A pooled management service for private clients*

ANNUAL REPORT  
AND FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 28<sup>TH</sup> FEBRUARY 2018

## SUMMARY

The fund's financial year end has moved to 28<sup>th</sup> February (from 30<sup>th</sup> April), as previously notified to unitholders. Therefore, the following report covers a reduced period of ten months from 1<sup>st</sup> May 2017 to 28<sup>th</sup> February 2018.

The price of units in the fund at 28<sup>th</sup> February 2018 stood at £46.968, which represents a rise of a little under 1% over the ten months. Gains in US and Asian equities were largely offset by the strength of sterling and the weakness in bond prices. Equity market strength has been remarkably concentrated in large consumer technology stocks and financial companies to which the fund has little exposure. Valuations, particularly in the former sector, do not appear to reflect industry risks adequately.

A final dividend distribution of 23.508p per unit is now being paid. This brings the total distributions over ten months to 54.508p per unit, notably lower than those made over the twelve months to 30<sup>th</sup> April 2017. This reduction principally reflects the truncated reporting period of ten months over which income was earned.

After a sustained period of remarkably low volatility, equity markets have been much less settled since the end of January. In part, this reflects heightened anxiety over the prospect of rising interest rates. Furthermore, market movements are likely to have been amplified by mechanistic transactions from passive funds. The risks posed by (and to) such funds have been too little considered in the recent bull-market euphoria. In this environment, sensible diversification forms the basis of investment strategy, including some exposure to gold.

## CONTENTS

### AUTHORISED FUND MANAGER'S REPORT\*

	Page
Introduction	3
Manager's Investment Report	4-7
Comparative Table	8
Portfolio Statement	9-11
Summary of All Portfolio Changes	12-13
General Information	14-15
Statement of the Manager's Responsibilities and Directors' Statement	16
Statement of the Trustee's Responsibilities and Trustee's Report	17-18
Independent Auditors' Report	19-21

### FINANCIAL STATEMENTS

Statement of Total Return and Statement of Change in Net Assets Attributable to Unitholders	22
Balance Sheet	23
Notes to the Financial Statements	24-35
Distribution Tables	36

*\*The information provided on the back of this booklet also forms part of the Authorised Fund Manager's Report.*

## INTRODUCTION

McInroy & Wood Balanced Fund (the fund) is an authorised unit trust for investors who wish to have their assets personally managed by McInroy & Wood Limited (MW) and for whom a discretionary managed portfolio may not be appropriate. Investors will gain access, through the fund, to a portfolio which it might well be impracticable for them to assemble themselves.

The fund has been established with the aim of providing clients with professional investment management at an economic cost.

Through the fund, investors who have similar objectives are able to pool their resources in order to secure the benefits of scale.

The investment objective of the Balanced Fund is to maximise the total return to unitholders, by preserving and growing the real value of investors' capital and income, placing an equal emphasis on the generation of income and on capital growth.

The fund may invest in any geographical areas and any economic sectors. The Manager has power to invest more than 35% in value of the scheme property of the fund in government and other public securities. This power is restricted to bonds or other securities issued by the Governments of the United Kingdom or the United States of America.

Further information and application forms may be obtained from McInroy & Wood Portfolios Limited, Easter Alderston, Haddington, EH41 3SF. (Tel.+44 (0)1620 825867) or through the website: [www.mcinroy-wood.co.uk](http://www.mcinroy-wood.co.uk).

## MANAGER'S INVESTMENT REPORT

The fund's financial year end has moved to 28<sup>th</sup> February (from 30<sup>th</sup> April), as previously notified to unitholders. Therefore, the following report covers a reduced period of ten months from 1<sup>st</sup> May 2017 to 28<sup>th</sup> February 2018.

At 28<sup>th</sup> February 2018, total net assets of the fund amounted to £655,767,474 compared with £634,765,528 ten months before. There were 1,144 unitholders, excluding ISAs, with an average holding worth £549,565.

### Markets

Equity markets diverged over the ten months to 28<sup>th</sup> February 2018. Positive economic data from the US, Japan and much of the developing world provided a favourable background for investment. In the US, this was boosted by the confirmation of significant cuts in corporation tax. Although economic growth was notably strong in Europe as well, company profits there were held back by the strength of the euro, and the continuing uncertainty of the Brexit negotiations may also have had an impact. The latter would seem to have been the case in the UK, where economic growth has lagged that in other developed economies. Towards the end of the period, the prospect of rising interest rates appeared to shake confidence, resulting in general weakness in global markets.

Measured by MSCI indices in local currencies, the US market rose by 14% and Japan by 15%. Emerging Markets as a group were stronger still, recording a 19% gain. By contrast, it was a disappointing period for European equities (-1%) while the UK market remained virtually unchanged. Overall, the MSCI All Country World index rose by 7%, expressed in sterling terms, having given up some of its underlying gains to adverse currency movements.

Concerns over the future direction of interest rates also affected bond markets. US government issues lost around 3% of their value, while their UK counterparts fell by 4%. Index-linked issues in both currencies fared a little better, declining by 2%.

The price of gold fell by 2%, in sterling terms.

In the foreign exchange markets, sterling rose by 6% against the US dollar, but fell by 5% against the euro.

### Results

The price of units in the fund at 28<sup>th</sup> February 2018 stood at £46.968, which represents a rise of a little under 1% over the ten months. Gains in US and Asian equities were largely offset by the strength of sterling and the weakness in bond prices. Equity market strength has been remarkably concentrated in large consumer technology stocks and financial companies to which the fund has little exposure. Valuations, particularly in the former sector, do not appear to adequately reflect industry risks.

# MANAGER'S INVESTMENT REPORT

## Dividend Distribution

A final dividend distribution of 23.508p per unit is now being paid. This brings the total distributions over ten months to 54.508p per unit, notably lower than those paid over the twelve months to 30<sup>th</sup> April 2017. This reduction principally reflects the truncated reporting period of ten months over which income was earned.

The distribution for the next six months is expected to be little changed from that for the comparable six-month interim period in 2017.

## Portfolio Strategy

The portfolio is broadly diversified by both asset class and geography. Investment strategy is relatively cautious, reflecting a judgment that equity valuations are vulnerable to changes in interest rate expectations as inflation shows signs of rising. No significant adjustments were made to the allocations between different asset classes over the period.

At 28<sup>th</sup> February 2018, 61% of the portfolio was allocated to equities (59% at 30<sup>th</sup> April 2017), 33% to bonds (34%), 5% to gold (5%) and 1% to cash deposits (2%).

The bond component comprised an allocation of 13% to sterling and 20% to US dollar denominated issues.

## Investments

Net new funds of over £11 million were subscribed during the period. This was primarily used to increase existing holdings; a new position was also bought in Nabtesco, a Japanese manufacturer of precision reduction gears for robots and transportation equipment. Investments in Unibail Rodamco and Church & Dwight were sold in full. The proceeds were used to purchase new holdings in Deutsche Wohnen, a Berlin-based property company, and Anta Sports Products, a manufacturer and retailer of sportswear to Chinese consumers.

Localiza Rent a Car (+73%) and Misumi (+47%) recorded the strongest gains during the period; it was a disappointing ten months for Reckitt Benckiser (-19%) and Giant Manufacturing (-16%).

Within the bond allocation, a short-dated sterling conventional bond matured, as did an index-linked UK government issue. Two equivalent issues redeemable in 2022 were purchased.

## Outlook

Global economic growth is maintaining its momentum, but there are signs that inflationary pressures are beginning to pick up. As a result central banks are now tapering bond purchases and starting to unwind the stimulatory measures in place since the financial crisis a decade ago. Interest rates are being raised from record low levels, leaving financial markets exposed to the speed and timing of these changes. Nevertheless, this economic environment should still provide attractive opportunities for discerning investors.

## MANAGER'S INVESTMENT REPORT

### **Outlook (continued)**

Although the US economy is growing solidly, a faster than expected increase in average earnings in January particularly alarmed investors. The figure for February was less worrying, but unemployment of 4.1% remains low and wage demands look set to increase. As a result, the Federal Reserve may raise interest rates faster than anticipated, particularly if the government deficit balloons after the recent tax cuts are implemented. A further worry for investors is that the imposition of US tariffs on selected imports may set off a chain of retaliatory measures from other countries. Any such disruption to worldwide trade would clearly have significant repercussions for corporate profits globally.

Growth in the eurozone economy outpaced even that in the US last year. Jobs growth and manufacturing orders across the currency union are at 17 year highs, and unemployment has fallen significantly even in Italy and Spain. The European Central Bank remains cautious but has indicated that it may accelerate the process of withdrawing from its stimulatory programme. Despite this bright economic outlook, political risks remain. Recent Italian elections saw considerable support for populist parties and the new grand coalition in Germany appears an uneasy partnership.

The difficulty of finding any satisfactory outcome after Brexit looms over the European Union and the UK. Although negotiations have now passed the first hurdle of agreeing the UK's future financial obligations, it will be very hard to achieve any enduring settlement on future trading arrangements. The European Commission's first draft of an exit treaty for the UK appears to offer little in the way of acceptable compromises for the UK government. Considerable differences remain over transitional arrangements (if any), the Irish border, and the degree of ongoing economic and regulatory cooperation.

The resulting political uncertainty in the UK may prove to be a stepping stone towards a change of government. Any prospect of a left-wing Labour administration led by Jeremy Corbyn would certainly be unwelcome for financial markets. Renationalisation of public services and wholesale tax changes could alter the investment landscape markedly. It is not inconceivable that capital controls may again be required to temper the movement of foreign exchange. In the meantime, the UK economy is now lagging behind its G7 peers. Rising inflation and falling real wages are squeezing consumption, while the Bank of England sees the 'shallowest investment recovery in more than half a century'.

## MANAGER'S INVESTMENT REPORT

### **Outlook (continued)**

The outlook for the Japanese economy is more encouraging. Though growth has slowed recently, Japan is now entering an eighth consecutive positive quarter – the longest run in nearly three decades. Business sentiment surveys have reached an 11 year high and unemployment is very low. But despite these positive factors, there remains little sign of any significant pick-up in consumption, despite unemployment touching a 24 year low. The Bank of Japan's programme of monetary support still appears to be an essential prop to sustaining economic progress and holding off deflation.

Developing economies also exhibit positive trends, so long as any trade disputes with America remain relatively low-key. Chinese growth picked up to 6.9% last year, despite the Bank of China taking steps to control household debt and asset bubbles. Growth in India is running at an even higher rate, and Latin American countries are beginning to recover from a variety of economic and political problems. Above all, strong demand from their developed counterparts should boost emerging economies.

After a sustained period of remarkably low volatility, equity markets have been much less settled since the end of January. In part, this reflects heightened anxiety over the prospect of rising interest rates. Furthermore, market movements are likely to have been amplified by mechanistic transactions from passive funds. The risks posed by (and to) such funds have been too little considered in the recent bull-market euphoria. In this environment, sensible diversification forms the basis of investment strategy, including some exposure to gold.

*18<sup>th</sup> April 2018*



## COMPARATIVE TABLE — PERSONAL CLASS

	10 months to 28 <sup>th</sup> February 2018 (pence per unit)	Year to 30 <sup>th</sup> April 2017 (pence per unit)	Year to 30 <sup>th</sup> April 2016 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	4,616.39	4,073.37	3,988.30
Return before operating charges*	165.47	667.55	202.17
Operating charges	(45.05)	(50.92)	(44.53)
Return after operating charges	120.42	616.63	157.64
Distributions	(54.51)	(73.61)	(72.57)
<b>Closing net asset value per unit</b>			
	4,682.30	4,616.39	4,073.37
*After direct transaction costs of	(0.60)	(2.20)	(1.57)
<b>Performance**</b>			
Return after charges	2.61%	15.14%	3.95%
<b>Other information</b>			
Closing net asset value (£'000)	655,767	634,766	483,075
Closing number of units	14,005,234	13,750,247	11,859,360
Operating charges	1.14%	1.12%	1.13%
Direct transaction costs	0.02%	0.05%	0.04%
<b>Prices</b>			
Highest unit price	£48.943	£47.978	£42.233
Lowest unit price	£46.120	£40.398	£37.281
<b>Portfolio turnover</b>			
Annualised	17%	56%	68%

\*\*Performance is capital gains (or losses) plus income earned.

Please note that the capital return element, reflected in the performance figure noted above is based on the movement in the net asset value per the published accounts and includes the impact of post year end accounting adjustments. It may therefore vary from the unit price movement noted in the Manager's Report. The unit price is struck at the daily valuation point at noon, whereas the valuation of investments reported in financial statements are struck at the close of business on the last business day of the period (See note 1(g)), creating a timing difference.

## PORTFOLIO STATEMENT

as at 28<sup>th</sup> February 2018

INVESTMENTS	Holding or Nominal Value of positions at 28 <sup>th</sup> Feb. 2018	Bid Market Value £'000	Percentage of Value of total net assets	
			28 <sup>th</sup> Feb. 2018	30 <sup>th</sup> Apr. 2017
<i>Bonds</i>				
<b>UK</b>				
UK Treasury 0.5% 2022	£18,900,000	18,473	2.8	
UK Treasury 1.5% 2026	£19,396,000	19,521	3.0	
UK Treasury 1.875% I-L 2022	£8,849,000	14,168	2.2	
UK Treasury 2.25% 2023	£16,868,000	17,858	2.7	
UK Treasury 2.75% 2024	£15,622,000	17,096	2.6	
		<u>87,116</u>	<u>13.3</u>	<u>14.1</u>
<b>USA</b>				
US Treasury 0.125% I-L 2024	\$54,920,000	40,265	6.1	
US Treasury 0.125% I-L 2026	\$43,988,000	31,359	4.8	
US Treasury 0.25% I-L 2025	\$18,165,000	13,354	2.0	
US Treasury 1.5% 2026	\$26,060,000	16,981	2.6	
US Treasury 2% 2025	\$18,656,000	12,850	2.0	
US Treasury 2.25% 2024	\$23,042,000	16,169	2.5	
		<u>130,978</u>	<u>20.0</u>	<u>19.8</u>
<b>TOTAL BONDS</b>		<u><u>218,094</u></u>	<u><u>33.3</u></u>	<u><u>33.9</u></u>
<i>Equities</i>				
<b>UK</b>				
Keller	760,097	6,871	1.1	
Land Securities	1,113,750	10,323	1.6	
Reckitt Benckiser	99,700	5,759	0.9	
Rio Tinto	391,950	15,388	2.3	
Rotork	3,077,830	9,080	1.4	
Spirax-Sarco	346,621	19,775	3.0	
		<u>67,196</u>	<u>10.3</u>	<u>10.2</u>
<b>US</b>				
Abbott Laboratories	327,000	14,323	2.2	
Becton Dickinson	81,550	13,137	2.0	
Ecolab	103,600	9,808	1.5	
Mettler-Toledo	30,730	13,746	2.1	
O'Reilly Automotive	36,530	6,474	1.0	
Paychex	282,700	13,363	2.0	
Schlumberger	156,440	7,450	1.1	
Tractor Supply	154,360	7,272	1.1	
Watsco	79,320	9,521	1.5	
		<u>95,094</u>	<u>14.5</u>	<u>16.7</u>

## PORTFOLIO STATEMENT

continued

<i>Equities (continued)</i>	Holding or Nominal Value of positions at 28 <sup>th</sup> Feb. 2018	Bid Market Value £'000	Percentage of Value of total net assets 28 <sup>th</sup> Feb. 2018    30 <sup>th</sup> Apr. 2017	
<b>FRANCE</b>				
Essilor International	60,860	<u>5,810</u>	<u>0.9</u>	<u>2.3</u>
<b>GERMANY</b>				
Deutsche Wohnen	243,660	7,327	1.1	
Fresenius Medical Care	189,250	14,577	2.2	
Fuchs Petrolub	372,245	14,086	2.1	
Henkel pref.	71,500	6,911	1.1	
SAP	195,500	14,918	2.3	
		<u>57,819</u>	<u>8.8</u>	<u>8.0</u>
<b>IRELAND</b>				
Kerry 'A'	217,600	<u>15,871</u>	<u>2.4</u>	<u>2.2</u>
<b>NETHERLANDS</b>				
Boskalis Westminster	150,542	4,129	0.6	
Royal Dutch Shell 'B'	818,340	18,994	2.9	
		<u>23,123</u>	<u>3.5</u>	<u>3.3</u>
<b>SWITZERLAND</b>				
Sonova	69,000	<u>7,864</u>	<u>1.2</u>	<u>1.2</u>
<b>AUSTRALIA</b>				
ARB	589,011	<u>6,616</u>	<u>1.0</u>	<u>0.8</u>
<b>JAPAN</b>				
Misumi	297,800	6,279	1.0	
Nabtesco	314,400	9,922	1.5	
Nissan Chemical Industries	298,700	8,645	1.3	
Shimadzu	591,000	11,070	1.7	
Shimano	52,900	5,570	0.8	
Sysmex	169,000	10,230	1.6	
		<u>51,716</u>	<u>7.9</u>	<u>4.9</u>

## PORTFOLIO STATEMENT

continued

		Holding or Nominal Value of positions at 28 <sup>th</sup> Feb. 2018	Bid Market Value £'000	Percentage of Value of total net assets 28 <sup>th</sup> Feb. 2018    30 <sup>th</sup> Apr. 2017	
<i>Equities (continued)</i>					
<b>DEVELOPING MARKETS</b>					
<i>Brazil</i>	Localiza Rent A Car	1,586,172	9,128	1.4	
<i>China</i>	Anta Sports Products	1,930,000	6,945	1.1	
<i>Hong Kong</i>	Vitasoy International	3,784,000	7,142	1.1	
<i>India</i>	Mahindra & Mahindra	376,040	3,002	0.5	
	Mahindra & Mahindra-GDR	455,400	3,684	0.6	
	Marico	2,016,000	6,924	1.1	
<i>Mexico</i>	Wal-Mart de Mexico	3,874,260	6,560	1.0	
<i>Portugal</i>	Jeronimo Martins	451,100	6,812	1.0	
<i>SAfrica</i>	MTN	701,575	5,543	0.8	
<i>Singapore</i>	Thai Beverage	12,054,000	5,522	0.8	
<i>Taiwan</i>	Giant Manufacturing	1,204,000	4,579	0.7	
			<u>65,841</u>	<u>10.1</u>	<u>9.2</u>
<b>TOTAL EQUITIES</b>			<u><u>396,950</u></u>	<u><u>60.6</u></u>	<u><u>58.8</u></u>
<i>Commodities</i>					
<b>UK</b>					
	ETFS Physical Gold	174,570	16,021	2.4	
	Gold Bullion Securities	177,100	16,022	2.4	
			<u>32,043</u>	<u>4.8</u>	<u>4.9</u>
<b>TOTAL COMMODITIES</b>			<u><u>32,043</u></u>	<u><u>4.8</u></u>	<u><u>4.9</u></u>
<b>TOTAL INVESTMENTS</b>			647,087	98.7	97.6
Net other assets			<u>8,680</u>	<u>1.3</u>	<u>2.4</u>
<b>TOTAL NET ASSETS</b>			<u><u>655,767</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>

*Note: Unless otherwise stated, the above securities are admitted to official stock exchange listings or traded on a regulated market.*

*All debt securities in the portfolio at 28<sup>th</sup> February 2018 are investment grade.*

## SUMMARY OF ALL PORTFOLIO CHANGES

for the period ended 28<sup>th</sup> February 2018

	Cost £'000
Purchases	
1,930,000 Anta Sports Products	6,784
742 Boskalis Westminster ( <i>scrip dividend</i> )	—
243,660 Deutsche Wohnen	8,004
19,700 Ecolab	2,026
8,130 ETFS Physical Gold	757
8,240 Gold Bullion Securities	756
1,113,750 Land Securities ( <i>reverse stock split</i> )	—
35,035 Localiza Rent A Car ( <i>bonus issue</i> )	—
1,057,448 Localiza Rent A Car ( <i>stock split</i> )	—
188,020 Mahindra & Mahindra ( <i>bonus issue</i> )	—
227,700 Mahindra & Mahindra-GDR ( <i>bonus issue</i> )	—
314,400 Nabtesco	7,658
54,000 Nissan Chemical Industries	1,616
15,190 O'Reilly Automotive	3,006
53,740 Schlumberger	3,025
110,000 Shimadzu	1,950
35,400 Sysmex	2,035
43,800 Tractor Supply	2,032
18,900,000 UK Treasury 0.5% 2022	18,919
8,849,000 UK Treasury 1.875% I-L 2022	14,440
2,940,000 UK Treasury 2.75% 2024	3,280
8,460,000 US Treasury 0.125% I-L 2024	6,411
1,800,000 US Treasury 0.125% I-L 2026	1,370
2,040,000 US Treasury 0.25% I-L 2025	1,587
2,645,000 US Treasury 1.5% 2026	1,881
1,238,000 US Treasury 2% 2025	931
5,895,000 US Treasury 2.25% 2024	4,221
TOTAL	<u>92,689</u>

## SUMMARY OF ALL PORTFOLIO CHANGES

continued

		Proceeds
Disposals		£'000
64,000	Abbott Laboratories	2,695
7,650	Becton Dickinson	1,298
198,680	Church & Dwight	6,825
28,755	Fuchs Petrolub	1,014
21,895	Keller	206
73,522	Land Securities	713
1,114,478	Land Securities ( <i>reverse stock split</i> )	—
207,001	Localiza Rent A Car	3,007
21,170	Mettler-Toledo	9,289
149,000	Misumi	3,170
20,560	O'Reilly Automotive	3,795
65,800	Paychex	3,175
12,600	SAP	1,006
17,382,000	UK Treasury 1% 2017	17,382
10,105,000	UK Treasury 1.25% 2017	14,343
4,323,000	UK Treasury 1.5% 2026	4,455
42,670	Unibail-Rodamco	7,845
	TOTAL	<u>80,218</u>

## GENERAL INFORMATION

### **Authorisation**

The Balanced Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is categorised as a UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority.

McInroy & Wood Limited and its subsidiary, McInroy & Wood Portfolios Limited, are authorised and regulated by the Financial Conduct Authority.

### **Capital Gains Tax**

Authorised unit trusts are exempt from capital gains tax on realised capital gains.

### **Applications**

The minimum initial and subsequent investment in the Fund is £1,000. Regular monthly contributions may be made for a minimum of £100.

### **Using your personal information**

The personal information which we obtain from you when you invest in the fund is used to help administer your investment. All processing of your personal information will be carried out in accordance with our Privacy Policy, which you can access at the foot of our homepage on our website ([www.mcinroy-wood.co.uk](http://www.mcinroy-wood.co.uk)). Please read our Privacy Policy, as it sets out your rights with respect to any personal information we collect from or about you, and explains in more detail how we use that information to administer your investment.

### **Remuneration Policy**

McInroy & Wood Portfolios Limited (“MWP”) delegates investment management of the fund to McInroy & Wood Ltd (“MW”), the Investment Advisor. Directors and staff working on the fund are not remunerated by MWP, but they are subject to remuneration requirements which are equally as effective as those in place under the UCITS Directive. The group remuneration policy is approved annually by the MW Board and is designed to ensure that the remuneration of directors and staff is consistent with and promotes sound and effective risk management. MW pays no variable remuneration to its directors. No other employees have authority to influence the risk profile of the funds. It is, therefore, not possible for variable remuneration incentives to encourage risk taking which is inconsistent with the risk profile of the funds managed. MWP's compliance with its duty to act in the best interests of the funds it manages is therefore not subject to any conflict of interest.

### **Changes in accounting and income allocation dates**

The Manager has changed the fund's annual and interim accounting dates in order to consolidate the publication of annual and interim reports. The fund's income allocation dates have changed accordingly.

## GENERAL INFORMATION

continued

### A Word of Caution

You should remember that the price of units and the income from them may go down as well as up. Gains are not necessarily achieved in the short term. Exchange rate fluctuations may also cause the value of an investment to rise and fall. Investment in emerging markets can be subject to risk not normally associated with developed markets.

### Synthetic Risk and Reward Indicator (Volatility measure)

1	2	3	4	5	6	7
---	---	---	---	---	---	---

#### Lower risk

Typically lower rewards

#### Higher risk

Typically higher rewards

This indicator shows how much a fund's price has risen and fallen in the past and therefore how much its returns have varied: it is a measure of the fund's volatility. The higher the past volatility, the higher the number on the scale. The lowest number on the scale does not mean that a fund is risk free.

This indicator is prescribed by EU reporting guidelines and is based on historical data. It should not be used as an indicator of the fund's future risk profile. The risk and reward profile shown is not guaranteed to remain the same and may shift over time.



## **STATEMENT OF THE MANAGER'S RESPONSIBILITIES**

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (“the Rules”) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the fund and of its net revenue and the net capital gains on the property of the fund for the period. In preparing the financial statements the Manager is required to:

- Select suitable accounting policies and then apply them consistently.
- Comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the IMA in May 2014.
- Follow generally accepted accounting principles and applicable accounting standards.
- Prepare the accounts on the basis that the fund will continue in operation unless it is inappropriate to do so.
- Keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and the Rules, and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The maintenance and integrity of the McInroy & Wood website is the responsibility of the Authorised Fund Manager.

## **DIRECTORS' STATEMENT**

In accordance with the requirements of the rules in the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority, we hereby certify the Report and Financial Statements of the fund on behalf of the Directors of McInroy & Wood Portfolios Limited.

T A U Wood  
*Director*

J C McAulay  
*Director*

*Haddington, 18<sup>th</sup> April 2018*

## STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

The Trustee in its capacity as Trustee of McInroy & Wood Balanced Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed and Prospectus (together "the Scheme documents") as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The Trustee must ensure that:

- the Trust's cash flows are properly monitored<sup>1</sup> and that cash of the Trust is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM"), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Trust is managed in accordance with the Regulations and the Scheme documents of the Trust in relation to the investment and borrowing powers applicable to the Trust.

<sup>1</sup>This requirement on the Trustee applied from 18<sup>th</sup> March 2016.

## REPORT OF THE TRUSTEE

### **to the unit holders of McInroy & Wood Balanced Fund for the period ended 28<sup>th</sup> February 2018**

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Trust, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects the Trust, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the Scheme documents of the Trust; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

*18<sup>th</sup> April 2018*

For and on behalf of  
The Bank of New York Mellon  
(International) Limited

# INDEPENDENT AUDITORS' REPORT

## Report on the audit of the financial statements

### Opinion

In our opinion, McInroy & Wood Balanced Fund's financial statements:

- give a true and fair view of the financial position of the Trust as at 28<sup>th</sup> February 2018 and of the net revenue and the net capital gains of the scheme property of the Trust for the period then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 28<sup>th</sup> February 2018; the statement of total return and the statement of change in net assets attributable to unitholders for the period then ended; the distribution tables; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

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

- the Authorised Fund Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Authorised Fund Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust'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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Trust's ability to continue as a going concern.

# INDEPENDENT AUDITORS' REPORT

continued

## **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Authorised Fund Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### *Authorised Fund Manager's Report*

In our opinion, the information given in the Authorised Fund Manager's Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the Authorised Fund Manager for the financial statements*

As explained more fully in the Statement of the Manager's Responsibilities set out on page 16, the Authorised Fund Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Authorised Fund Manager is also responsible for such internal control as they determine 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 Authorised Fund Manager is responsible for assessing the Trust'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 Authorised Fund Manager either intends to wind up or terminate the Trust, or has no realistic alternative but to do so.

# INDEPENDENT AUDITORS' REPORT

continued

## *Auditors' 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 auditors' 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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## *Use of this report*

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Other required reporting**

### **Opinion on matter required by the Collective Investment Schemes sourcebook**

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

### **Collective Investment Schemes sourcebook exception reporting**

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Edinburgh

18<sup>th</sup> April 2018

## STATEMENT OF TOTAL RETURN

for the period ended 28<sup>th</sup> February 2018

	Notes	Period ended 28 <sup>th</sup> Feb. 2018		Year ended 30 <sup>th</sup> Apr. 2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		14,159		73,776
Revenue	3	9,322		11,219	
Expenses	4	<u>(6,254)</u>		<u>(6,688)</u>	
Net revenue before taxation		3,068		4,531	
Taxation	5	<u>(555)</u>		<u>(489)</u>	
Net revenue after taxation			<u>2,513</u>		<u>4,042</u>
Total return before distributions			16,672		77,818
Distributions	6		<u>(7,560)</u>		<u>(9,501)</u>
Change in net assets attributable to unitholders from investment activities			<u>9,112</u>		<u>68,317</u>

## STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the period ended 28<sup>th</sup> February 2018

	Period ended 28 <sup>th</sup> Feb. 2018		Year ended 30 <sup>th</sup> Apr. 2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		634,766		509,788
Amounts receivable on creation of units	35,898		68,406	
Amounts payable on cancellation of units	<u>(24,009)</u>		<u>(11,745)</u>	
		11,889		56,661
Change in net assets attributable to unitholders from investment activities		<u>9,112</u>		<u>68,317</u>
Closing net assets attributable to unitholders		<u>655,767</u>		<u>634,766</u>

## BALANCE SHEET

as at 28<sup>th</sup> February 2018

	Notes	28 <sup>th</sup> Feb. 2018		30 <sup>th</sup> Apr. 2017	
		£'000	£'000	£'000	£'000
<b>ASSETS:</b>					
Investments			647,087		619,612
Current assets					
Debtors	7	2,092		3,287	
Cash & bank balances		17,093		18,361	
Total other assets			<u>19,185</u>		<u>21,648</u>
Total assets			<u>666,272</u>		<u>641,260</u>
<b>LIABILITIES:</b>					
Creditors					
Distribution payable		(3,293)		(5,859)	
Other creditors	8	<u>(7,212)</u>		<u>(635)</u>	
Total liabilities			<u>(10,505)</u>		<u>(6,494)</u>
Net assets attributable to unitholders			<u>655,767</u>		<u>634,766</u>



# NOTES TO THE FINANCIAL STATEMENTS

for the period ended 28<sup>th</sup> February 2018

## 1. Accounting policies

- (a) The financial statements have been prepared on a going concern basis in accordance with FRS 102 and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the IMA (now known as the Investment Association) in May 2014 (the "SORP").
- (b) Dividends receivable from equity investments are recognised net of attributable tax credits and are credited to revenue when they are first quoted ex dividend. Interest receivable from debt securities is accounted for on an effective yield basis. All other income is recognised on an accruals basis.
- (c) Special dividends are treated as revenue or capital depending on the facts of each particular case.
- (d) Expenses of the fund are charged against revenue except for costs associated with the purchase and sale of investments which are allocated to the capital of the fund. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.
- (e) Corporation tax is provided for on the revenue liable to corporation tax less deductible expenses.

Deferred taxation is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences regarded as permanent. Any liability to deferred taxation is provided for at the average rate of taxation expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

- (f) The revenue available for distribution is the total revenue earned by the fund, less deductible expenses and taxation charged to revenue. This revenue is distributed annually on the last business day of April. An interim distribution based on available revenue is distributed on the last day of October. The ordinary element of scrip dividends is treated as revenue but does not form part of the distribution.
- (g) All investments have been valued at their fair value, at close of business on the last business day of the period, which is generally the bid market value net of any accrued revenue.
- (h) Foreign currency transactions are translated at the rates ruling on the date of the transaction. Assets and liabilities valued in foreign currencies have been translated into sterling at exchange rates prevailing at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 2. Net capital gains on investments:

	Period ended 28 <sup>th</sup> Feb. 2018 £'000	Year ended 30 <sup>th</sup> Apr. 2017 £'000
Non-derivative securities	14,306	74,791
Currency losses	(136)	(998)
Custodial transaction fees	(11)	(17)
Net capital gains*	<u>14,159</u>	<u>73,776</u>
<i>*includes realised gains on investments sold</i>	<u>22,141</u>	<u>25,551</u>

### 3. Revenue

Dividends on overseas equities	4,190	5,333
Dividends on UK equities	2,044	2,579
Interest on overseas interest-bearing securities	890	1,018
Interest on UK interest-bearing securities	1,732	1,845
Property income distributions on UK REITs	447	444
Stock dividends	19	—
Total revenue	<u>9,322</u>	<u>11,219</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 4. Expenses

	Period ended 28 <sup>th</sup> Feb. 2018 £'000	Year ended 30 <sup>th</sup> Apr. 2017 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
- Manager's periodic charge	5,485	5,993
- Transfer agency fee	453	350
Payable to the Trustee, associates of the Trustee and agents of either of them:		
- Trustee's fee	86	93
- Safe custody fee	161	142
Other expenses:		
- Audit fee	6	11
- French withholding tax recovery fee	—	16
- Fund accounting fee	37	42
- Legal and professional fees	—	16
- Sundry fees*	26	25
Total expenses	<u>6,254</u>	<u>6,688</u>

\*Includes FT listing fees, accounts printing and postage, tax computation fees and other fees.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 5. Taxation

	Period ended 28 <sup>th</sup> Feb. 2018 £'000	Year ended 30 <sup>th</sup> Apr. 2017 £'000
<b>(a) Analysis of tax charge</b>		
French withholding tax recoverable	—	(170)
Overseas withholding tax	555	659
	<u>555</u>	<u>489</u>

### **(b) Factors affecting the tax charge for the period/year**

The tax assessed for the period is lower (2017 - lower) than the standard rate of corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:

Net revenue before taxation	<u>3,068</u>	<u>4,531</u>
Corporation tax at 20%	614	906
<i>Effects of:</i>		
French withholding tax recoverable	—	(170)
Indexation allowance	(230)	—
Irrecoverable overseas withholding tax	555	659
Movement in excess management expenses	852	662
Overseas tax expensed	(10)	(18)
Revenue not subject to corporation tax	<u>(1,226)</u>	<u>(1,550)</u>
Current tax charge for the period/year	<u>555</u>	<u>489</u>

### **(c) Deferred tax**

At the balance sheet date, there is a potential deferred tax asset of £4,514,676 (2017 - £3,662,892) in respect of excess management expenses. The fund may not generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised in the period or prior year.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 6. Distributions

The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:

	Period ended 28 <sup>th</sup> Feb. 2018 £'000	Year ended 30 <sup>th</sup> April 2017 £'000
Interim	4,324	4,001
Final	3,293	5,859
	<u>7,617</u>	<u>9,860</u>
Add: Revenue deducted on cancellation of units	87	51
Deduct: Revenue received on creation of units	(144)	(410)
Net distribution for the period/year	<u>7,560</u>	<u>9,501</u>
Net revenue after taxation	2,513	4,042
Expenses taken to capital	5,485	5,993
Tax attributable to capital	(438)	(537)
Less: Equalisation on conversions	—	3
Net distribution for the period/year	<u>7,560</u>	<u>9,501</u>

*Details of the distributions per unit are shown in the Distribution Tables on page 36.*

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 7. Debtors

	28 <sup>th</sup> Feb. 2018 £'000	30 <sup>th</sup> Apr. 2017 £'000
Amounts receivable for creation of units	246	1,396
Overseas withholding tax recoverable	717	591
Prepaid expenses	4	2
Revenue receivable:		
Overseas bond interest	122	282
Overseas equities	237	333
UK bond interest	489	306
UK equities	277	377
	<u>2,092</u>	<u>3,287</u>

### 8. Creditors

	28 <sup>th</sup> Feb. 2018 £'000	30 <sup>th</sup> Apr. 2017 £'000
Accrued expenses:		
Audit fee	7	9
Fund accounting fee	7	6
Manager's periodic charge	500	532
Registrar's fee	2	2
Safe custody fee	46	35
Trustee's fee	8	8
Transfer agency fee	19	25
Custodial transaction fees	3	6
Other	16	12
Amounts payable for cancellation of units	145	—
Securities purchase payable	6,459	—
	<u>7,212</u>	<u>635</u>

### 9. Unit movement

For the period 1 <sup>st</sup> May 2017 to 28 <sup>th</sup> February 2018	
Opening units	13,750,247
Units created	761,059
Units cancelled	<u>(506,072)</u>
Closing units	<u>14,005,234</u>

continued

### 10. Related Party Transactions

The Manager actively exercises control over the fund and is therefore a related party by virtue of their controlling influence.

Amounts paid during the period or due to the Manager at the balance sheet date are disclosed under Expenses and Creditors in the Notes to the Financial Statements.

The Manager acts as principal on all transactions of units in the fund. The aggregate monies received through the creation and cancellation of units are disclosed in the Statement of Change in Net Assets Attributable to Unitholders and Distributions in the Notes to the Financial Statements. Amounts due to or from the Manager in respect of unit transactions at the balance sheet date are disclosed under Debtors and Creditors in the Notes to the Financial Statements.

Units held or managed by the Manager or associates of the Manager as a percentage of the fund's value at the balance sheet date were 1.6% (2017 - 1.5%).

### 11. Portfolio Risk Analysis

In pursuing its investment objectives, the fund invests in a variety of financial assets. These comprise securities and other investments. There are also cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and debtors for accrued revenue.

#### **Credit and Liquidity Risk**

Credit risk is the risk that the counterparty in a financial transaction will fail to fulfil their obligation or commitment, and includes the risk that the issuer of a security will be unable to pay interest and principal in a timely manner. The fund is exposed to credit risk through its investment in debt securities. In order to limit credit risk during the period, bonds held by the fund were backed by either the US or UK government and the gold ETF's, which are structured as debt securities, were backed by physical gold.

The fund's assets comprise mainly readily realisable securities. There are no borrowings or unlisted securities of a material nature. The main potential liability of the fund is the redemption of any units that investors wish to sell. Assets of the fund may need to be sold if insufficient cash is available to finance such redemptions. The Manager has reviewed the portfolio's investments and considers them to be sufficiently liquid for these purposes.

#### **Credit quality**

All debt securities in the portfolio at the balance sheet date are investment grade (2017 - same).

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. Portfolio Risk Analysis continued

### Market Price Risk

Market price risk arises from the effect which falls in the price or value of the assets held could have on the property of the fund. The Manager seeks to mitigate such risk by maintaining a prudent diversification of its investments.

The Manager adheres to investment guidelines and to investment borrowing powers set out in the Trust Deed, Prospectus and in the rules of the Collective Investment Schemes sourcebook. This mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the Manager's Investment Report and Portfolio Statement.

### Interest Rate Risk

The fund commonly invests part of the portfolio in quoted debt instruments, generally bonds, issued by third parties. It also holds cash on deposit. Changes in interest rates may have an adverse effect on the future cash flows from such deposits and on the amount of income derived from them.

The Manager reviews policies for managing these risks in pursuance of Investment Objective and Policy.

The interest rate profile of portfolio investments at 28<sup>th</sup> February was:

### Interest rate profile

	Floating rate Investments £'000	Fixed rate Investments £'000	Non interest bearing Investments £'000	Total £'000
<b>28<sup>th</sup> February 2018</b>				
Investment assets	—	218,094	428,993	647,087
<b>30<sup>th</sup> April 2017</b>				
Investment assets	—	215,078	404,534	619,612

### Foreign Currency Risk

The fund invests in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. The fund has not hedged the sterling value of investments that are priced in other currencies. Revenue received in other currencies is translated to sterling on or near the date of receipt. The fund does not hedge or otherwise seek to avoid currency movement risk on accrued revenue.



# NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. Portfolio Risk Analysis continued

### Currency profile

The currency profile of the fund's net assets at 28<sup>th</sup> February was:

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
<b>28<sup>th</sup> February 2018</b>				
UK Sterling	14,053	173,306	187,359	28.6
US Dollar	(6,255)	261,116	254,861	38.9
Australian Dollar	—	6,616	6,616	1.0
Brazilian Real	—	9,128	9,128	1.4
Euro	726	90,441	91,167	13.9
Hong Kong Dollar	—	14,087	14,087	2.2
Indian Rupee	56	10,608	10,664	1.6
Japanese Yen	98	51,717	51,815	7.9
Mexican Peso	—	6,560	6,560	1.0
Singapore Dollar	—	5,522	5,522	0.8
South African Rand	—	5,543	5,543	0.8
Swiss Franc	—	7,864	7,864	1.2
Taiwan Dollar	—	4,579	4,579	0.7
Thai Baht	2	—	2	0.0
	8,680	647,087	655,767	100.0

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
<b>30<sup>th</sup> April 2017</b>				
UK Sterling	13,793	171,450	185,243	29.2
US Dollar	505	266,037	266,542	42.0
Australian Dollar	—	5,267	5,267	0.8
Brazilian Real	33	8,007	8,040	1.3
Euro	650	89,206	89,856	14.2
Hong Kong Dollar	—	5,724	5,724	0.9
Indian Rupee	—	11,269	11,269	1.7
Japanese Yen	117	31,203	31,320	4.9
Mexican Peso	—	6,687	6,687	1.1
Singapore Dollar	—	6,133	6,133	1.0
South African Rand	—	5,124	5,124	0.8
Swiss Franc	56	7,876	7,932	1.2
Taiwan Dollar	—	5,629	5,629	0.9
	15,154	619,612	634,766	100.0

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. Portfolio Risk Analysis continued

### Valuation of financial investments

The categorisation of financial investments in the tables below reflects the methodology used to measure their fair value.

	Assets £'000	Liabilities £'000
<b>28<sup>th</sup> February 2018</b>		
Quoted prices for identical instruments in active markets	647,087	—
	<b>647,087</b>	<b>—</b>

### 30<sup>th</sup> April 2017

Quoted prices for identical instruments in active markets	619,612	—
	<b>619,612</b>	<b>—</b>

### Risk Exposure

The Manager uses Value at Risk (VaR) to measure the risks relating to the financial assets in which the fund is invested.

Value at Risk is a statistical measurement. It intends to measure the maximum potential loss in the fund's Net Asset Value under normal market conditions and is calculated for a given confidence level (probability) over a specific time period. The Manager calculates an absolute VaR daily, based on a one year historical observation period and uses a confidence level of 97.5% with a holding period of 1 month.

The absolute VaR of the fund is not permitted to be greater than 20% of its Net Asset Value under normal market conditions.

The table below details the lowest, highest and average VaR in the period/year.

	Period ended 28 <sup>th</sup> Feb. 2018	Year ended 30 <sup>th</sup> Apr. 2017
	%	%
Period/year end VaR	4.70	5.08
Minimum VaR	4.26	4.57
Maximum VaR	5.16	5.58
Average VaR	4.82	5.06

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 12. Portfolio Transaction Costs

For the period 1<sup>st</sup> May 2017 to 28<sup>th</sup> February 2018

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	38,093	35	0.09	7	0.02
Debt instruments (direct)	53,039	3	0.00	—	—
Commodities	1,511	1	0.07	—	—
<b>Total purchases</b>	<b>92,643</b>	<b>39</b>		<b>7</b>	

**Total purchases including  
transaction costs**

**92,689**

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	44,075	36	0.08	1	0.00
Debt instruments (direct)	36,180	—	—	—	—
<b>Total sales</b>	<b>80,255</b>	<b>36</b>		<b>1</b>	

**Total sales net of  
transaction costs**

**80,218**

Total transaction costs 75 8

Total transaction costs  
as a % of average net assets 0.01% 0.00%

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 12. Portfolio Transaction Costs continued

For the year 1<sup>st</sup> May 2016 to 30<sup>th</sup> April 2017

	Value £'000	Commissions £'000	%	Taxes £'000	%
Purchases					
Equity instruments (direct)	42,477	90	0.21	33	0.08
Debt instruments (direct)	154,261	—	—	—	—
Commodities	32,603	26	0.08	—	—
<b>Total purchases</b>	<b>229,341</b>	<b>116</b>		<b>33</b>	

**Total purchases including  
transaction costs** 229,490

	Value £'000	Commissions £'000	%	Taxes £'000	%
Sales					
Equity instruments (direct)	48,168	126	0.26	11	0.02
Debt instruments (direct)	135,867	—	—	—	—
<b>Total sales</b>	<b>184,035</b>	<b>126</b>		<b>11</b>	

**Total sales net of  
transaction costs** 183,898

Total transaction costs 242 44

Total transaction costs  
as a % of average net assets 0.04% 0.01%

The above analysis covers any direct transaction costs carried by the fund during the period. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the fund's purchase and sale of equity shares. Additionally for equity shares there are dealing spread costs (the difference between the buying and selling prices) which are payable on purchase and sale transactions.

For the fund's investment transactions in debt instruments any applicable transaction charges form part of the dealing spread for these instruments.

Dealing spread costs incurred by the fund vary depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.13% (2017 - 0.11%).

### 13. Post Balance Sheet Events

There are no post balance sheet events that require disclosure or adjustments to the financial statements.

## DISTRIBUTION TABLES

**in pence per unit  
for period ended 28<sup>th</sup> February 2018**

### INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> May 2017

Group 2 - Units purchased 1<sup>st</sup> May 2017 to 31<sup>st</sup> October 2017

	Dividend income	Equalisation*	Amount paid
Group 1	31.000	—	31.000
Group 2	10.090	20.910	31.000

### FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> November 2017

Group 2 - Units purchased 1<sup>st</sup> November 2017 to 28<sup>th</sup> February 2018

	Dividend income	Equalisation*	Amount payable
Group 1	23.508	—	23.508
Group 2	8.156	15.352	23.508

\*Income arises throughout each reporting period. Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax. Instead, it must be deducted from the cost of units for capital gains purposes.

### DISTRIBUTION SUMMARY

**in pence per unit  
for the period ended 28<sup>th</sup> February 2018**

	Period to 28 <sup>th</sup> Feb. 2018	Year to 30 <sup>th</sup> Apr. 2017
Interim paid	31.000	31.000
Final payable/paid	23.508	42.609
	<u>54.508</u>	<u>73.609</u>

### DISTRIBUTION XD AND PAYMENT DATES

	<i>XD Date</i>	<i>Payment Date</i>
Final	28.02.18	30.04.18
Interim	31.08.18	31.10.18

*Manager*

McInroy & Wood Portfolios Limited  
Easter Alderston  
Haddington  
EH41 3SF  
Telephone +44 (0)1620 825867  
[www.mcinroy-wood.co.uk](http://www.mcinroy-wood.co.uk)

*Directors*

T A U Wood  
G A Bicocchi  
J D S Cumming  
S J Cunningham  
W A Ferguson  
A H Fraser  
S J Fraser  
J E Marshall  
J C McAulay  
Lord Francis Seymour  
D H Shaw Stewart  
C T F White  
V N U Wood

*Secretary*

J C McAulay

*Investment Adviser*

McInroy & Wood Limited  
Easter Alderston  
Haddington  
EH41 3SF

*Trustee*

The Bank of New York Mellon (International) Limited  
One Canada Square  
London  
E14 5AL

*Registrar*

McInroy & Wood Portfolios Limited  
PO Box 12177  
Chelmsford  
CM99 2EA

*Independent Auditor*

PricewaterhouseCoopers LLP  
Chartered Accountants  
Level 4  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

McInroy & Wood Portfolios Limited is a subsidiary of  
McInroy & Wood Limited  
MWBF0218