



# McInroy & Wood

PERSONAL INVESTMENT MANAGERS

## EMERGING MARKETS FUND

*A pooled management service for private clients*

ANNUAL REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2016

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

## INTRODUCTION

McInroy & Wood Emerging Markets 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 principal investment objective of the fund is to maximise the total return to unitholders, primarily through investments in companies either operating or incorporated in developing countries, with an equal emphasis on the generation of income and on capital growth.

The fund may invest in any geographic areas and any economic sectors.

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

## MANAGER'S INVESTMENT REPORT

At 31<sup>st</sup> March 2016, the total net assets of the fund amounted to £47,290,737, compared with £56,948,185 at 31<sup>st</sup> March 2015. There was a net investment outflow of £4.8m from the fund over the year, due in large part to McInroy & Wood's decision to reduce the overall equity allocation in its balanced portfolios. At 31<sup>st</sup> March 2016, there were 242 investors (excluding ISA holders), each with an average holding worth £187,729.

### Markets

Over the year to 31<sup>st</sup> March 2016, emerging markets declined 11% in sterling terms as measured by the MSCI Emerging Markets Index.

There was considerable divergence in returns from individual markets. Those that had been particularly weak towards the end of the previous period were relatively strong in local currency terms. Brazil, which faced serious political and economic issues, recovered during the second half of the year and recorded only a slight decline overall. India fell more sharply as the previous year's euphoria generated by the election of the Modi government began to fade. Meanwhile the 28% decline in the oil price over the twelve months to March weighed heavily on oil-producing economies and their markets.

In foreign exchange markets, sterling gained 18% against the South African rand, 9% against the Brazilian real and 3% against the Indian rupee. It fell by 3% against the US dollar and dollar-related currencies, such as the Hong Kong dollar.

### Results

The price of Personal units in the fund at 31<sup>st</sup> March 2016 stood at £17.289, 9% below the figure twelve months before. The price of Legacy units stood at £17.007.

### Dividend Distribution

A final dividend distribution of 19.949p per personal unit is now being paid. When aggregated with the interim dividend of 14.000p, total distributions for the year amount to 33.949p, 13% less than the equivalent figure for 2015. On current estimates, the distribution in respect of the next six months is expected to be little changed from the equivalent payment last year.

### Portfolio Strategy

The portfolio remains broadly diversified by region and market. At 31<sup>st</sup> March, the regional distribution of the portfolio's investments was Asia 70% (71% in 2015), Africa 5% (6%), Central and Eastern Europe 3% (3%), Latin America 19% (17%) and cash 3% (3%).

## MANAGER'S INVESTMENT REPORT

### Investments

A new position was established in FEMSA, a Mexican holding company with two main businesses: a leading convenience store network in Latin America and a Coca Cola bottler. It also has a 20% stake in Heineken. The holdings in CEMIG, IAM and CK Hutchison were sold.

Of the individual holdings, there were notable gains in BIM (+32%) and Embotelladora Andina (+28%), measured in local currencies. By contrast, it was a disappointing period for Ezion Holdings (-47%) and Perusahaan Gas Negara (-46%), both of which were badly affected by the low oil price. At 31st March 2016, there were 48 holdings in the portfolio.

### Outlook

The outlook for many developing markets is linked, at least in the short term, to commodity prices and the strength of the US dollar. In the longer term, success in achieving necessary structural reforms is likely to be crucial for sustained growth. Progress so far has perhaps not been as vigorous as hoped, but those countries showing serious endeavour to make the required changes are likely to have much better long-term prospects.

Developments in India have been encouraging in this regard. As a net importer of oil, the country has been able to deregulate diesel prices. Efforts are being made to reduce the endemic bureaucracy that so hampers free enterprise. A 'Make in India' campaign is targeting foreign companies, promoting the country's workforce as a low-cost but highly-trained resource. Much remains to be done, particularly in addressing the tangled tax system. However, the IMF is already projecting 7.5% growth in India for the next two years, one of the strongest outlooks in the whole emerging markets universe.

By contrast, the Mexican economy has been severely impacted by the weak oil price. Yet there have been significant structural reforms. Private participation in the energy and power generation sectors is now permitted. Monopolies, notably in the telecommunications sector, are being broken up, introducing much-needed competition in several critical areas.

## MANAGER'S INVESTMENT REPORT

### **Outlook (continued)**

Brazil faces, arguably, some of the greatest problems. Having been supported for years by favourable commodity prices, the country is now facing its worst recession in more than a century. At the same time the judiciary has uncovered and pursued corruption to the highest levels of society. At the time of writing, President Dilma Rousseff is set to face formal impeachment proceedings in the senate and this may herald the end of thirteen years of rule for her socialist Workers Party. Any prospect of a new, more transparent and responsible government would be a positive development in the long term, but whether such a government will emerge from the present crisis is debatable. In the short term, it seems likely that investors will continue to be nervous and that the market will be prone to extreme volatility.

Prospects for the Chinese economy remain critical for its Asian neighbours, and indeed many other regions. Without doubt, the country has considerable hurdles to overcome. Growth is slowing, and progress has been hampered by a lack of transparency in corporate and public sector accounts. Political tensions appear to be rising among the ruling elite as resentment builds up against the wide-ranging anti-corruption campaign that has consolidated power around President Xi Jinping. Even so, commentators seem to have become over-pessimistic in their projections over recent months. Retail sales in March rose by 10.5% against the previous year, and sentiment is improving in the service and manufacturing sectors. Even with recent downgrades, the IMF is still forecasting growth in China of over 6% this year.

The investment background for emerging markets remains testing. In the short-term, movements in the US dollar and commodity prices may well extend current uncertainties. Nonetheless, in the longer term, the centre of global economic gravity looks set to move relentlessly towards developing areas. We believe that there are attractive investment opportunities which will be rewarded over time as capital markets in developing countries increasingly reflect this trend.

*16<sup>th</sup> May 2016*

## COMPARATIVE TABLE — PERSONAL CLASS

	31 <sup>st</sup> March 2016 (pence per unit)	31 <sup>st</sup> March 2015 (pence per unit)	31 <sup>st</sup> March 2014 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	1,860.09	1,649.13	1,959.68
Return before operating charges*	(95.62)	274.35	(248.04)
Operating charges	(22.39)	(24.29)	(23.98)
Return after operating charges	(118.01)	250.06	(272.03)
Distributions on income units	(33.95)	(39.10)	(38.52)
<b>Closing net asset value per unit</b>			
	1,708.13	1,860.09	1,649.13
*After direct transaction costs of	(0.83)	(2.55)	(1.40)
<b>Performance**</b>			
Return after charges	(6.34)%	15.16%	(13.88)%
<b>Other information</b>			
Closing net asset value (£'000)	46,998	55,907	46,639
Closing number of units	2,751,441	3,005,616	2,828,110
Operating charges	1.35%	1.34%	1.36%
Direct transaction costs	0.05%	0.14%	0.08%
<b>Prices</b>			
Highest unit price	19.544	19.671	20.523
Lowest unit price	14.603	16.569	15.820
<b>Portfolio turnover</b>			
Annualised	8%	17%	(9)%

This table is a new disclosure requirement, as defined by the updated accounting standards. See Note 1(a).

\*\*Performance is capital gains (or losses) plus income earned. Please note that the capital return element, reflected in the performance figure noted above, may 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.

## COMPARATIVE TABLE — LEGACY CLASS

	31 <sup>st</sup> March 2016 (pence per unit)	31 <sup>st</sup> March 2015 (pence per unit)	31 <sup>st</sup> March 2014 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	1,839.41	1,639.12	1,957.76
Return before operating charges*	(95.37)	272.14	(248.40)
Operating charges	(30.10)	(33.06)	(31.85)
Return after operating charges	(125.47)	239.08	(280.25)
Distributions on income units	(33.50)	(38.79)	(38.40)
<b>Closing net asset value per unit</b>			
	1,680.44	1,839.41	1,639.12
*After direct transaction costs of	(0.82)	(2.53)	(1.39)
<b>Performance**</b>			
Return after charges	(6.82)%	14.59%	(14.31)%
<b>Other information</b>			
Closing net asset value (£'000)	293	1,041	1,175
Closing number of units	17,410	56,588	71,678
Operating charges	1.84%	1.84%	1.81%
Direct transaction costs	0.05%	0.14%	0.08%
<b>Prices</b>			
Highest unit price	19.323	19.508	20.484
Lowest unit price	14.409	16.468	15.737

This table is a new disclosure requirement, as defined by the updated accounting standards. See Note 1(a).

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



## PORTFOLIO STATEMENT

as at 31<sup>st</sup> March 2016

INVESTMENTS	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2016	Bid Market Value £'000	Percentage of Value of total net assets	
<i>Equities</i>			31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2015
<b>BRAZIL</b>				
Kroton Educacional	313,236	706	1.5	
Localiza Rent A Car	116,000	677	1.4	
Natura Cosmetics	110,000	573	1.2	
Weg	412,000	1,132	2.4	
		<u>3,088</u>	<u>6.5</u>	<u>6.6</u>
<b>CHILE</b>				
Andina - ADR	90,000	1,194	2.5	
Endesa Chile - ADR	21,000	608	1.3	
		<u>1,802</u>	<u>3.8</u>	<u>3.6</u>
<b>HONG KONG</b>				
CNOOC	820,000	674	1.4	
Hang Lung	650,000	863	1.8	
Hong Kong & China Gas	907,140	1,178	2.5	
MTR	400,000	1,372	2.9	
Shandong Weigao	2,250,000	995	2.1	
TVB	210,000	524	1.1	
Vitasoy International	1,200,000	1,554	3.3	
		<u>7,160</u>	<u>15.1</u>	<u>16.2</u>
<b>INDIA</b>				
ICICI Bank - ADR	90,000	448	0.9	
Infosys - ADR	100,000	1,323	2.8	
Larsen & Toubro - GDR	37,500	470	1.0	
Mahindra & Mahindra - GDR	95,000	1,186	2.5	
Jain Irrigation Systems	1,500,000	943	2.0	
Larsen & Toubro	33,000	425	0.9	
Marico	540,000	1,386	2.9	
		<u>6,181</u>	<u>13.0</u>	<u>14.5</u>
<b>INDONESIA</b>				
Arwana Citramulia	30,000,000	984	2.1	
Kalbe Farma	9,000,000	680	1.4	
Perusahaan Gas Negara	3,500,000	479	1.0	
Telekomunikasi Indonesia	7,000,000	1,221	2.6	
		<u>3,364</u>	<u>7.1</u>	<u>8.8</u>

## PORTFOLIO STATEMENT

continued

<i>Equities continued</i>	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2016	Bid Market Value £'000	Percentage of Value of total net assets 31 <sup>st</sup> March 2016 31 <sup>st</sup> March 2015	
<b>MALAYSIA</b>				
Telekom Malaysia	900,000	<u>1,058</u>	<u>2.2</u>	<u>2.1</u>
<b>MEXICO</b>				
America Movil - ADR	64,000	692	1.5	
FEMSA	125,000	845	1.8	
Grupo Financiero Banorte	280,000	1,112	2.4	
Telesites	64,000	25	0.1	
Wal-Mart de Mexico	720,000	<u>1,195</u>	<u>2.5</u>	
		<u>3,869</u>	<u>8.3</u>	<u>6.5</u>
<b>PHILIPPINES</b>				
Jollibee Foods	360,000	1,229	2.6	
Manila Water	2,700,000	1,095	2.3	
Universal Robina	550,000	<u>1,798</u>	<u>3.8</u>	
		<u>4,122</u>	<u>8.7</u>	<u>7.3</u>
<b>PORTUGAL</b>				
Jeronimo Martins	140,000	<u>1,593</u>	<u>3.4</u>	<u>2.1</u>
<b>SINGAPORE</b>				
Ezion	2,100,000	619	1.3	
Keppel	177,000	533	1.1	
Singapore Exchange	200,000	819	1.7	
Thai Beverage	3,900,000	<u>1,441</u>	<u>3.0</u>	
		<u>3,412</u>	<u>7.1</u>	<u>7.3</u>
<b>SOUTH AFRICA</b>				
MTN	110,000	703	1.5	
Standard Bank	95,000	<u>594</u>	<u>1.3</u>	
		<u>1,297</u>	<u>2.8</u>	<u>3.7</u>
<b>SOUTH KOREA</b>				
LG Household & Health Care	3,000	1,723	3.6	
Lotte Shopping	3,600	549	1.2	
POSCO	8,000	<u>1,066</u>	<u>2.3</u>	
		<u>3,338</u>	<u>7.1</u>	<u>6.6</u>

## PORTFOLIO STATEMENT

continued

	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2016	Bid Market Value £'000	Percentage of Value of total net assets	
			31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2015
<i>Equities continued</i>				
<b>TAIWAN</b>				
Chroma ATE	1,000,000	1,494	3.2	
Giant Manufacturing	306,680	1,233	2.6	
		<u>2,727</u>	<u>5.8</u>	<u>6.4</u>
<b>TURKEY</b>				
BIM	30,000	452	1.0	0.6
<b>UK</b>				
MP Evans	310,000	1,209	2.6	
SABMiller	20,000	851	1.8	
		<u>2,060</u>	<u>4.4</u>	<u>4.5</u>
TOTAL INVESTMENTS		45,523	96.3	96.8
Net Other Assets		<u>1,768</u>	<u>3.7</u>	<u>3.2</u>
<b>TOTAL NET ASSETS</b>		<u><u>47,291</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.*

## SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 31<sup>st</sup> March 2016

Purchases	Cost £'000
2,000,000 Arwana Citramulia	63
70,000 Cheung Kong Property ( <i>spin off</i> )	–
125,000 FEMSA	729
200,000 Hang Lung	325
82,467 Hong Kong & China Gas ( <i>bonus issue</i> )	–
72,000 Infosys ADR ( <i>stock split</i> )	–
351,000 Marico ( <i>stock dividend</i> )	–
156,000 Weg ( <i>stock split</i> )	–
100,000 Weg	240
TOTAL	<u>1,357</u>

Sales	Proceeds £'000
199,768 CEMIG ADR	158
70,000 Cheung Kong Property	337
70,000 CK Hutchison	619
140,000 Grupo Financiero Banorte	501
70,000 ICICI Bank ADR	335
44,000 Infosys ADR	495
450,000 IAM	463
8,000,000 Kalbe Farma	675
1,000 LG Household & Health Care	482
260,940 Marico	836
10,000 MTR	332
17,000 SABMiller	628
2,000,000 Telekomunikasi	349
300,000 Vitasoy International	404
TOTAL	<u>6,614</u>

## GENERAL INFORMATION

### **Authorisation**

The Emerging Markets 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 corporation 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.

### **Data Protection**

Unitholders' names will be added to a mailing list which may be used by the Manager, or its associate, to provide investors with information related to their investment, including occasional topical articles. Unitholders who would not like to receive such information can write to the Manager requesting their removal from any such mailing list.

### **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 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.

## GENERAL INFORMATION

continued

### Remuneration Policy (continued)

UCITS V rules, adopted on 18<sup>th</sup> March 2016, require certain disclosures concerning remuneration. Disclosure of the relative proportion of fixed and variable remuneration, the latter not being applicable to directors, is published annually with the group's published statutory accounts, which are also available on request. Further information on the remuneration policy is available on our website.

### 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
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#### Lower risk

Typically lower rewards

#### Higher risk

Typically higher rewards

Please note, the category stated above is the same for each class of unit within the fund.

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/(losses) 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 Investment Association 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, 16<sup>th</sup> May 2016*

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

The Trustee is responsible for the safekeeping of all the property of the Trust (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook ("COLL"), the Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Trust; the application of income of the Trust; and the investment and borrowing powers and restrictions applicable to the Trust.

## **REPORT OF THE TRUSTEE**

### **to the unit holders of McInroy & Wood Emerging Markets Fund for the year ended 31<sup>st</sup> March 2016**

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 Manager:

- (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 Sourcebook, the Trust Deed and Prospectus, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Trust.

For and on behalf of  
BNY Mellon Trust & Depositary  
(UK) Limited  
London

*16<sup>th</sup> May 2016*



# INDEPENDENT AUDITORS' REPORT

## Report on the financial statements

### *Our opinion*

In our opinion, McInroy & Wood Emerging Markets Fund's financial statements, (the "financial statements"):

- give a true and fair view of the financial position of the Trust as at 31<sup>st</sup> March 2016 and of the net revenue and the net capital losses of the scheme property of the Trust for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

### *What we have audited*

The financial statements, which are prepared by McInroy & Wood Portfolios Limited (the "Authorised Fund Manager"), comprise:

- the balance sheet as at 31<sup>st</sup> March 2016;
- the statement of total return for the year then ended;
- the statement of change in net assets attributable to unitholders for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information; and
- the distribution tables.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for UK Authorised Funds"), the Collective Investment Schemes Sourcebook and the Trust Deed.

In applying the financial reporting framework, the Authorised Fund Manager has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, the Authorised Fund Manager has made assumptions and considered future events.

# INDEPENDENT AUDITORS' REPORT

continued

## **Opinions on matters prescribed 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; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Other matters on which we are required to report by exception**

*Propriety of accounting records and information and explanations received*

Under the Collective Investment Schemes Sourcebook we are 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.

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

*Our responsibilities and those of the Authorised Fund Manager*

As explained more fully in the Authorised Fund Manager's Responsibilities Statement set out on page 14, the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

## INDEPENDENT AUDITORS' REPORT

continued

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

*What an audit of financial statements involves*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and
- the overall presentation of the financial statements.
- We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
- We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Edinburgh

16<sup>th</sup> May 2016

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

## STATEMENT OF TOTAL RETURN

for the year ended 31<sup>st</sup> March 2016

	Notes	Year ended 31 <sup>st</sup> March 2016		Year ended 31 <sup>st</sup> March 2015	
		£'000	£'000	£'000	£'000
Income					
Net capital (losses)/gains	2		(4,355)		6,896
Revenue	3	1,276		1,470	
Expenses	4	<u>(634)</u>		<u>(726)</u>	
Net revenue before taxation		642		744	
Taxation	5	<u>(125)</u>		<u>(120)</u>	
Net revenue after taxation			<u>517</u>		<u>624</u>
Total return before distributions			(3,838)		7,520
Distributions	6		<u>(1,001)</u>		<u>(1,188)</u>
Change in net assets attributable to unitholders from investment activities			<u>(4,839)</u>		<u>6,332</u>

## STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 31<sup>st</sup> March 2016

	Year ended 31 <sup>st</sup> March 2016		Year ended 31 <sup>st</sup> March 2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		56,948		47,814
Amounts receivable on creation of units	3,683		6,629	
Amounts payable on cancellation of units	<u>(8,501)</u>		<u>(3,827)</u>	
		(4,818)		2,802
Change in net assets attributable to unitholders from investment activities		<u>(4,839)</u>		<u>6,332</u>
Closing net assets attributable to unitholders		<u>47,291</u>		<u>56,948</u>

## BALANCE SHEET

as at 31<sup>st</sup> March 2016

	Notes	31 <sup>st</sup> March 2016		31 <sup>st</sup> March 2015	
		£'000	£'000	£'000	£'000
<b>ASSETS:</b>					
Investments			45,523		55,151
Current assets					
Debtors	7	110		732	
Cash & bank balances		<u>2,387</u>		<u>2,654</u>	
Total other assets			<u>2,497</u>		<u>3,386</u>
Total assets			<u>48,020</u>		<u>58,537</u>
<b>LIABILITIES:</b>					
Creditors					
Distribution payable		(552)		(768)	
Other creditors	8	<u>(177)</u>		<u>(821)</u>	
Total liabilities			<u>(729)</u>		<u>(1,589)</u>
Net assets attributable to unitholders			<u>47,291</u>		<u>56,948</u>

# NOTES TO THE FINANCIAL STATEMENTS

as at 31<sup>st</sup> March 2016

## 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").

In applying UK GAAP, the financial statements have been prepared in compliance with FRS 102 as adopted for the first time. While there have not been any changes in underlying accounting treatments or accounting policies and there is no impact on net assets attributable to unitholders or distributions, certain additional disclosures must now be included in the financial statements, with related prior year comparatives.

- (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 Stamp Duty Reserve Tax and 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 May. An interim distribution based on available revenue is distributed on the last day of November. The ordinary element of scrip dividends is treated as revenue but does not form part of the distribution.

## NOTES TO THE FINANCIAL STATEMENTS

as at 31<sup>st</sup> March 2016

### 1. Accounting policies continued

- (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.
- (i) Stamp Duty Reserve Tax (SDRT) suffered on the surrender of units has been charged against the capital assets of the fund.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 2. Net capital losses on investments:

	Year ended 31 <sup>st</sup> March 2016 £'000	Year ended 31 <sup>st</sup> March 2015 £'000
Non-derivative securities	(4,312)	6,931
Currency losses	(23)	(8)
Custodial transaction fees	(20)	(27)
	<hr/>	<hr/>
Net capital losses*	(4,355)	6,896
	<hr/>	<hr/>
<i>*includes realised gains on investments sold</i>	1,902	253
	<hr/>	<hr/>

### 3. Revenue

Dividends on overseas equities	1,225	1,423
Dividends on UK equities	51	47
	<hr/>	<hr/>
Total revenue	1,276	1,470
	<hr/>	<hr/>

### 4. Expenses

Payable to the Manager, associates of the Manager and agents of either of them:

- Manager's periodic charge	484	562
- Transfer agency fee	33	30
- Registrar's fee	—	4

Payable to the Trustee, associates of the Trustee and agents of either of them:

- Trustee's fee	15	17
- Safe custody fee	44	54

Other expenses:

- Accounts printing and postage	1	1
- Audit fee	8	7
- Fund accounting fee	32	31
- Legal and professional fees	5	2
- Overseas tax compliance	4	6
- Tax computation	3	3
- Sundry fees	5	9
	<hr/>	<hr/>

Total expenses	634	726
	<hr/>	<hr/>



## NOTES TO THE FINANCIAL STATEMENTS

continued

### 5. Taxation

	Year ended 31 <sup>st</sup> March 2016 £'000	Year ended 31 <sup>st</sup> March 2015 £'000
<b>(a) Analysis of tax charge</b>		
Overseas withholding tax	125	120
	<u>125</u>	<u>120</u>

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

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

	Year ended 31 <sup>st</sup> March 2016 £'000	Year ended 31 <sup>st</sup> March 2015 £'000
Net revenue before taxation	642	744
Corporation tax at 20%	<u>128</u>	<u>149</u>
<i>Effects of:</i>		
Irrecoverable overseas withholding tax	125	120
Movement in excess management charges	112	136
Overseas tax expensed	(3)	(2)
Revenue not subject to corporation tax	<u>(237)</u>	<u>(283)</u>
Current tax charge for the year	<u>125</u>	<u>120</u>

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

At the balance sheet date, there is a potential deferred tax asset of £737,234 (2015 - £646,721) in respect of unutilised 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 year 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:

	Year ended 31 <sup>st</sup> March 2016 £'000	Year ended 31 <sup>st</sup> March 2015 £'000
Interim	411	432
Final	552	768
	<u>963</u>	<u>1,200</u>
Add: Revenue deducted on cancellation of units	67	48
Deduct: Revenue received on creation of units	(29)	(60)
Net distribution for the year	<u>1,001</u>	<u>1,188</u>
Net revenue after taxation	517	624
Expenses taken to capital	484	564
Net distribution for the year	<u>1,001</u>	<u>1,188</u>

*Details of the distributions per unit are shown in the Distribution Tables on page 32.*

## NOTES TO THE FINANCIAL STATEMENTS

continued

<b>7. Debtors</b>	31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2015
	£'000	£'000
Amounts receivable for creation of units	3	25
Sales awaiting settlement	—	610
Overseas withholding tax recoverable	15	5
Prepaid expenses	3	2
Revenue receivable:		
Overseas equities	89	90
	<u>110</u>	<u>732</u>

<b>8. Other creditors</b>	31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2015
	£'000	£'000
Accrued expenses:		
Audit fee	7	7
Custodial transaction fees	2	4
Fund accounting fees	15	7
Manager's periodic charge	39	50
Overseas tax compliance	6	4
Safe custody fee	7	9
Transfer agency fee	4	3
Tax computation fee	3	3
Trustee's fee	1	1
Amounts payable for cancellation of units	93	733
	<u>177</u>	<u>821</u>

## 9. Unit movement

For the year 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016

	Legacy	Personal
Opening units	56,588	3,005,616
Units created	570	217,875
Units cancelled	(32,620)	(479,088)
Units converted	(7,128)	7,038
	<u>17,410</u>	<u>2,751,441</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 10. Related Party Transactions

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

Amounts paid during the year 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 2.7% (2015 - 2.4%).

### 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 Cashflow Risk**

The fund has little exposure to credit risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk.

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.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 11. Portfolio Risk Analysis continued

#### Interest Rate Risk

The fund holds cash on deposit. Changes in interest rates may have an adverse effect on the value of 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 31<sup>st</sup> March was:

#### Interest rate profile

	Floating rate Investments £'000	Fixed rate Investments £'000	Non interest bearing Investments £'000	Total £'000
<b>31<sup>st</sup> March 2016</b>				
Investment assets	—	—	45,523	45,523
<b>31<sup>st</sup> March 2015</b>				
Investment assets	—	—	55,151	55,151

#### 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 31<sup>st</sup> March was:

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
<b>31<sup>st</sup> March 2016</b>				
Brazilian Real	11	3,088	3,099	6.6
Euro	16	1,593	1,609	3.4
Hong Kong Dollar		7,160	7,160	15.2
Indian Rupee	5	2,754	2,759	5.8
Indonesian Rupiah		3,364	3,364	7.1
Korean Won	35	3,337	3,372	7.1
Malaysian Ringgit		1,058	1,058	2.2
Mexican Peso		3,177	3,177	6.7
New Turkish Lira		452	452	1.0
Phillipine Peso		4,123	4,123	8.7
Singapore Dollar		3,412	3,412	7.2
South African Rand	39	1,297	1,336	2.8
Taiwan Dollar		2,727	2,727	5.8
UK Sterling	1,657	2,060	3,717	7.9
US Dollar	5	5,921	5,926	12.5
	1,768	45,523	47,291	100.0

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
<b>31<sup>st</sup> March 2015</b>				
Brazilian Real		3,262	3,262	5.7
Chilean Peso	92	486	578	1.0
Euro	1	1,186	1,187	2.1
Hong Kong Dollar		9,272	9,272	16.3
Indian Rupee	64	3,501	3,565	6.3
Indonesian Rupiah		5,280	5,280	9.3
Malaysian Ringgit		1,188	1,188	2.1
Mexican Peso		2,853	2,853	5.0
New Turkish Lira		359	359	0.6
Phillipine Peso		4,483	4,483	7.9
Singapore Dollar		4,142	4,142	7.3
South African Rand	45	2,143	2,188	3.8
South Korean Won		3,774	3,774	6.6
Taiwanese Dollar		3,650	3,650	6.4
UK Sterling	2,453	986	3,439	6.0
US Dollar		7,728	7,728	13.6
	2,655	54,293	56,948	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>31<sup>st</sup> March 2016</b>		
Quoted prices for identical instruments in active markets	45,523	—
	<b>45,523</b>	<b>—</b>
<b>31<sup>st</sup> March 2015</b>		
Quoted prices for identical instruments in active markets	55,151	—
	<b>55,151</b>	<b>—</b>

## 12. Portfolio Transaction Costs

For the year 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	1,355	2	0.18	—	—
<b>Total purchases</b>	<b>1,355</b>	<b>2</b>		<b>—</b>	

### Total purchases including transaction costs

**1,357**

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	6,635	15	0.23	6	0.09
<b>Total sales</b>	<b>6,635</b>	<b>15</b>		<b>6</b>	

### Total sales net of transaction costs

**6,614**

Total transaction costs	17	6
Total transaction costs as a % of average net assets	0.04%	0.01%

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 12. Portfolio Transaction Costs continued

For the year 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	10,563	33	0.31	5	0.05
<b>Total purchases</b>	<b>10,563</b>	<b>33</b>		<b>5</b>	

**Total purchases including  
transaction costs**

**10,601**

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	9,371	29	0.31	11	0.12
<b>Total sales</b>	<b>9,371</b>	<b>29</b>		<b>11</b>	

**Total sales net of  
transaction costs**

**9,331**

Total transaction costs	62	16
Total transaction costs as a % of average net assets	0.11%	0.03%

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 and 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.

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 0.48% (2015 - 0.33%).

### 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 the year ended 31<sup>st</sup> March 2016

### INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> April 2015

Group 2 - Units purchased 1<sup>st</sup> April 2015 to 30<sup>th</sup> September 2015

	Unit Class	Dividend income	Equalisation*	Amount paid 30.11.15
Group 1	Legacy	14.000	—	14.000
Group 2	Legacy	5.666	8.334	14.000
Group 1	Personal	14.000	—	14.000
Group 2	Personal	0.829	13.171	14.000

### FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> October 2015

Group 2 - Units purchased 1<sup>st</sup> October 2015 to 31<sup>st</sup> March 2016

	Unit Class	Dividend income	Equalisation*	Amount payable 31.05.16
Group 1	Legacy	19.503	—	19.503
Group 2	Legacy	6.794	12.709	19.503
Group 1	Personal	19.949	—	19.949
Group 2	Personal	5.946	14.003	19.949

\*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 year ended 31<sup>st</sup> March 2016

	Year to 31 <sup>st</sup> March 2016		Year to 31 <sup>st</sup> March 2015	
	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>
Interim paid	14.000	14.000	14.000	14.000
Final payable/paid	19.949	19.503	25.098	24.788
	<u>33.949</u>	<u>33.503</u>	<u>39.098</u>	<u>38.788</u>

*Manager*

McInroy & Wood Portfolios Limited  
Easter Alderston  
Haddington  
EH41 3SF  
Telephone +44 (0)1620 825867  
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  
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*

BNY Mellon Trust & Depositary (UK) Limited  
160 Queen Victoria Street  
London  
EC4V 4LA

*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

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McInroy & Wood Limited  
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