



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

SMALLER COMPANIES FUND

A pooled management service for private clients

ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JANUARY 2014

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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 Smaller Companies 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 smaller companies, 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

MANAGER'S INVESTMENT REPORT

At 31st January 2014 the total net assets of the fund amounted to £56,385,770 compared with £43,922,401 twelve months before. There was a further net investment inflow into the fund over the twelve months. At 31st January there were 270 investors (excluding ISA holders), with an average holding worth £193,277.

Markets

Equity markets performed strongly over the year to 31st January 2014. Central bank policies remained supportive for equities throughout the period. Confidence in the sustainability of global economic growth increased and corporate profits announcements provided further encouragement for equity investors.

The UK equity index (FTSE 100) rose by 4% over the year, and there were strong gains in the main overseas markets. Measured by MSCI indices in local currency, the USA and Europe advanced by 19% and 11% respectively while Japan rose by 29%. Expressed in sterling, the overall MSCI All Country World index gained 12%.

In the foreign exchange markets, sterling rose by 4% against the dollar and the euro and by 15% against the yen.

Results

At 31st January 2014 the price of Personal class units stood at £32.629, a rise of 14% over the twelve months. The price of Legacy class units stood at £32.455. This increase reflected the gains in equity markets which more than offset the negative impact of the strength of sterling on the overseas assets. The prices of shares in smaller companies in general rose by more than the constituents of the major global equity indices.

Dividend Distribution

In respect of the year past, a dividend distribution of 35.051p (net) per unit is now being paid in respect of Personal class units. This means that total distributions paid to unitholders in respect of the year past will amount to 54.051p per unit, down as anticipated (8%) from the corresponding figure for 2013.

Despite increases in the regular dividends paid by many holdings in the portfolio, fewer special dividends were paid during the year. Special dividends amounted to 6.0p per unit in the year to 31st January 2014, compared to 12.9p per unit in the previous year. The interim report in July of last year noted that a reduction in the final dividend payment would be likely in the absence of such 'specials', which by their nature are unpredictable and should not be regarded as recurring components of the portfolio's income.

The distribution for the next six months is expected to be similar to that for the corresponding period in 2013.

The net dividend distribution in respect of the 'Legacy' class units is 34.931p.

MANAGER'S INVESTMENT REPORT

Portfolio Strategy

There was no significant change to the investment strategy over the period. The bulk of purchases over the period were directed towards the USA. At 31st January 2014 the UK allocation accounted for 34% of the portfolio investments (32% at 31st January 2013), the USA for 28% (24%), Europe for 30% (31%), Japan for 2% (3%) and Australia for 3% (5%).

Investments

In the UK, new holdings were established in Hill & Smith, a manufacturing company, and Assura Group, a property company specialising in the lease of doctors' surgeries. In the USA, new holdings were purchased in US Physical Therapy, which operates outpatient physical therapy clinics, Anika Therapeutics which manufactures products for the treatment of osteoarthritis, and Lindsay, an irrigation equipment manufacturer. In Australia, Technology One, a specialist software developer was purchased. Otherwise, purchases were directed towards increasing existing holdings.

Valiant Petroleum was taken over; Medusa Mining was sold following disappointing reports. Some profits were realised from the holdings in Kentz and O'Reilly Automotive.

Treant (+86%), Immunodiagnostic Systems (+83%) and Boiron (+67%) were the best performing companies in the period. Landauer (-27%) and MP Evans (-14%) performed poorly.

Outlook

The global economy shows signs of picking up momentum, after a pause during the summer. US unemployment continues to fall and consumer spending and home sales also show positive trends. Corporate capital expenditure looks likely to rise significantly from a low base – the average age of US company fixed assets is estimated at over 21 years.

The US Federal Reserve has responded to accelerating recovery by beginning to taper its quantitative easing programme, but has emphasised that it will 'proceed cautiously'.

In the UK, economic prospects have also brightened considerably. Industrial orders are at their strongest since 1995 and unemployment is at its lowest since February 2009. It is particularly encouraging that there has been no sign of any accompanying rise in retail prices; indeed consumer price inflation has fallen to 2%.

The eurozone still faces deep structural problems, notably an unemployment rate stuck above 12%. But manufacturing production and retail sales have picked up in recent months, with clear improvement in Spain and Ireland. An upturn based on much more competitive labour costs across the currency union begins to look feasible.

MANAGER'S INVESTMENT REPORT

Outlook (continued)

Developing economies are now moving beyond 'first generation reforms'. Perhaps the most significant developments have been in China where recent economic data have been robust and the government has pledged to allow market forces 'a decisive role'. Elsewhere the picture is more mixed. For example, desirable reforms to labour markets and land tenure are proving slow to be realised in Brazil and India. Nevertheless, in emerging markets where growth remains much higher than in the developed world, there surely remains a wealth of investment opportunity.

In Japan export industries have been given a, possibly temporary, shot in the arm by the yen's weakness, but many underlying structural problems have yet to be addressed. Much needed reforms may take some considerable time.

Since global equity market strength has owed much to very accommodative monetary policies, there could be some short-term jolts to confidence as these are unwound. However, economic recovery itself should provide further market support, particularly if it results in a pick-up in capital expenditure and company revenues over the next few months.

In spite of some grounds for near-term caution, the global investment environment still offers many opportunities for long-term investors in smaller companies that can sustain profitable growth.

14th March 2014

CAPITAL RECORD

Highest and lowest unit prices.

Year (to 31 st Jan)	High		Low	
	Legacy	Personal*	Legacy	Personal*
2010	£27.095	—	£19.581	—
2011	£28.734	—	£23.442	—
2012	£26.597	—	£23.657	—
2013	£33.505	£33.675	£27.224	£28.017
2014**	£33.660	£33.838	£32.455	£32.629

INCOME RECORD

Year (to 31 st Jan)	Per unit (net)	
	Legacy	Personal*
2010	31.408p	—
2011	42.133p	—
2012	42.134p	—
2013	59.012p	40.023p
2014	53.931p	54.051p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
31.01.12 Legacy	£38,838,510	£24.995	1,553,843
31.01.13 Legacy	£43,583,452	£27.842	1,565,387
31.01.13 Personal*	£338,949	£27.851	12,170
31.01.14 Legacy	£2,208,260	£32.080	68,835
31.01.14 Personal*	£54,177,510	£32.255	1,679,663

ONGOING CHARGES FIGURE

Date	Annualised	
	Legacy	Personal*
31.01.10	1.613%	—
31.01.11	1.596%	—
31.01.12	1.605%	—
31.01.13	1.599%	1.099%
31.01.14***	1.630%	1.214%

PORTFOLIO TURNOVER

Date	Annualised
31.01.10	(5%)
31.01.11	12%
31.01.12	3%
31.01.13	(2%)
31.01.14	2%

*The 'Personal' Class of units was created on 1st January 2013.

**Up to 31st January only.

***An Ongoing Charges Figure ("OCF") has replaced the Total Expense Ratio ("TER"). The main difference to the historic TER calculation is the inclusion of custodian handling charges in the OCF. The comparative figures have not been restated, and the historic TER is disclosed.

PORTFOLIO STATEMENT

as at 31st January 2014

INVESTMENTS	Holding or Nominal Value of positions at 31 st Jan. 2014	Bid Market Value £	Percentage of Value of total net assets	
<i>Equities</i>			31 st Jan. 2014	31 st Jan. 2013
UK				
Abcam	164,020	851,263	1.5	
Assura	2,874,400	1,121,016	2.0	
Barr (AG)	276,414	1,686,125	3.0	
Bioquell	186,190	251,356	0.4	
Cape	234,353	626,308	1.1	
Craneware	118,820	683,215	1.2	
Gooch & Housego	155,430	1,103,553	2.0	
Hill & Smith	22,078	119,773	0.2	
Immunodiagnostic Systems	170,000	952,850	1.7	
Intermediate Capital	238,960	988,100	1.7	
Keller	118,165	1,395,529	2.5	
Kentz	212,460	1,397,987	2.5	
Majestic Wine	195,130	959,064	1.7	
MP Evans	189,610	815,323	1.4	
Rotork	49,400	1,215,240	2.2	
RPS	528,465	1,800,480	3.2	
Spectris	70,140	1,558,511	2.8	
Spirax Sarco	47,481	1,384,546	2.5	
Treant	65,930	471,399	0.8	
		<u>19,381,638</u>	<u>34.4</u>	<u>32.2</u>
USA				
Anika Therapeutics	62,975	1,274,866	2.3	
Anixter International	26,230	1,400,040	2.5	
Energen	29,380	1,264,085	2.2	
Landauer	25,060	704,324	1.2	
Lindsay	24,190	1,248,469	2.2	
O'Reilly Automotive	19,000	1,514,150	2.7	
Owens & Minor	40,464	852,884	1.5	
QEP Resources	28,370	533,065	0.9	
Questar	75,870	1,076,108	1.9	
Sun Hydraulics	63,392	1,409,825	2.5	
Tractor Supply	48,400	1,958,147	3.5	
US Physical Therapy	61,380	1,175,723	2.1	
Watsco	22,135	1,273,997	2.3	
		<u>15,685,683</u>	<u>27.8</u>	<u>24.2</u>

PORTFOLIO STATEMENT

as at 31st January 2014

continued

	Holding or Nominal Value of positions at 31 st Jan. 2014	Bid Market Value £	Percentage of Value of total net assets	
			31 st Jan. 2014	31 st Jan. 2013
<i>Equities continued</i>				
FINLAND				
Kone B	42,148	1,044,449	1.8	2.5
FRANCE				
Boiron	34,420	1,479,097	2.7	
Rubis	27,475	1,084,842	1.9	
Somfy	3,931	649,952	1.2	
Teleperformance	44,910	1,597,848	2.8	
Virbac	14,605	1,985,762	3.5	
		<u>6,797,501</u>	<u>12.1</u>	<u>12.9</u>
GERMANY				
Krones	22,150	1,076,511	1.9	
Pfeiffer Vacuum	12,976	937,505	1.7	
		<u>2,014,016</u>	<u>3.6</u>	<u>4.3</u>
NETHERLANDS				
Boskalis Westminster	46,000	1,342,217	2.4	2.6
SWITZERLAND				
Belimo	930	1,565,882	2.8	
Galenica	2,574	1,495,094	2.6	
Kuehne + Nagel	13,920	1,126,058	2.0	
Sonova	14,160	1,184,479	2.1	
		<u>5,371,513</u>	<u>9.5</u>	<u>9.1</u>
AUSTRALIA				
ARB	162,300	947,813	1.7	
Technology One	842,500	961,656	1.7	
		<u>1,909,469</u>	<u>3.4</u>	<u>4.6</u>
JAPAN				
Systemex	35,500	1,203,051	2.1	
Yamada Denki	80,000	168,489	0.3	
		<u>1,371,540</u>	<u>2.4</u>	<u>2.9</u>
TOTAL INVESTMENTS		54,918,026	97.4	95.3
Net other assets		<u>1,467,744</u>	<u>2.6</u>	<u>4.7</u>
TOTAL NET ASSETS		<u><u>56,385,770</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 31st January 2014

		Cost
		£
Purchases		
75,620	Abcam	350,086
62,975	Anika Therapeutics	877,070
2,874,400	Assura	1,094,458
4,150	Boiron	149,592
6,150	Boskalis Westminster	149,189
22,078	Hill & Smith	119,063
64,265	Kentz	322,948
21,074	Kone B (<i>bonus issue</i>)	—
2,460	Kuehne + Nagel	199,445
24,190	Lindsay	1,202,267
93,100	MP Evans	495,624
66,825	RPS	155,636
27,475	Rubis	52,356
47,481	Spirax Sarco (<i>reverse stock split</i>)	—
842,500	Technology One	1,016,323
24,200	Tractor Supply (<i>stock split</i>)	—
61,380	US Physical Therapy	1,136,134
3,405	Watsco	198,454
72,000	Yamada Denki (<i>stock split</i>)	—
	TOTAL	<u>7,518,645</u>
		Proceeds
		£
Sales		
60,000	Kentz	353,290
236,100	Medusa Mining	223,308
9,000	O'Reilly Automotive	745,256
25,758	Rubis (<i>rights issue</i>)	2
49,308	Spirax Sarco (<i>reverse stock split</i>)	—
167,740	Valiant Petroleum	778,624
	TOTAL	<u>2,100,480</u>

GENERAL INFORMATION

Authorisation

The Smaller Companies 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.

Income Tax

All income distributions carry a notional tax credit of 10%. A basic rate taxpayer has no further liability in respect of this income but is unable to reclaim the tax.

Capital Gains Tax

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

Applications

The minimum initial investment in the fund is £10,000. Further investments may be made for a minimum of £1,000.

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.

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.

GENERAL INFORMATION

continued

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.

The Fund has been classed as 6 because its volatility has been measured as above average.

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 year. 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 October 2010.
- 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, 14th March 2014

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

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

TRUSTEE'S REPORT

In our opinion, the Manager has managed the Scheme, in all material respects, during the period covered by this Report in accordance with the investment and borrowing powers and the restrictions applicable to the Scheme and otherwise in accordance with the provisions of the Trust Deed and the rules in the Financial Conduct Authority's Collective Investment Schemes Sourcebook.

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

14th March 2014

INDEPENDENT AUDITORS' REPORT

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the financial position of the Trust as at 31st January 2014 and of the net revenue and the net capital gains 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 Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by McInroy & Wood Smaller Companies Fund (the "Trust"), comprise:

- the balance sheet of the Trust as at 31st January 2014;
- the statement of total return of the Trust for the year then ended;
- the statement of change in net assets attributable to unitholders of the Trust for the year then ended;
- the notes to the Trust's 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 Authorised Funds"), the Collective Investment Schemes Sourcebook and the Trust Deed.

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

INDEPENDENT AUDITORS' REPORT

continued

Report on the financial statements 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.

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.

Opinion 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

Adequacy 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.

INDEPENDENT AUDITORS' REPORT

continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Authorised Fund Manager

As explained more fully in the Statement of the Manager's Responsibilities, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
Edinburgh

14th March 2014

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 31st January 2014

	Notes	Year ended 31 st Jan. 2014		Year ended 31 st Jan. 2013	
		£	£	£	£
Income					
Net capital gains	2		7,645,488		5,076,853
Revenue	3	1,026,358		1,061,914	
Expenses	4	<u>(649,806)</u>		<u>(647,209)</u>	
Net revenue before taxation		376,552		414,705	
Taxation	5	<u>(41,984)</u>		<u>(91,133)</u>	
Net revenue after taxation			<u>334,568</u>		<u>323,572</u>
Total return before distributions			7,980,056		5,400,425
Finance costs: distributions	6		<u>(891,213)</u>		<u>(930,719)</u>
Change in net assets attributable to unitholders from investment activities			<u>7,088,843</u>		<u>4,469,706</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 31st January 2014

	Year ended 31 st Jan. 2014		Year ended 31 st Jan. 2013	
	£	£	£	£
Opening net assets attributable to unitholders		43,922,401		38,838,510
Amounts receivable on creation of units	7,648,572		3,162,830	
Amounts payable on cancellation of units	<u>(2,271,670)</u>		<u>(2,546,013)</u>	
		5,376,902		616,817
Stamp duty reserve tax		(2,376)		(2,632)
Change in net assets attributable to unitholders from investment activities		<u>7,088,843</u>		<u>4,469,706</u>
Closing net assets attributable to unitholders		<u>56,385,770</u>		<u>43,922,401</u>

BALANCE SHEET

as at 31st January 2014

	Notes	31 st Jan. 2014		31 st Jan. 2013	
		£	£	£	£
ASSETS:					
Investment assets			54,918,026		41,851,647
Debtors	7	131,225		42,330	
Cash & bank balances		<u>2,053,823</u>		<u>2,721,315</u>	
Total other assets			<u>2,185,048</u>		<u>2,763,645</u>
Total assets			<u>57,103,074</u>		<u>44,615,292</u>
LIABILITIES:					
Creditors	8	(104,524)		(61,671)	
Distribution payable		<u>(612,780)</u>		<u>(631,220)</u>	
Total liabilities			<u>(717,304)</u>		<u>(692,891)</u>
Net assets attributable to unitholders			<u>56,385,770</u>		<u>43,922,401</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st January 2014

1. Accounting policies

- (a) The Financial Statements have been prepared under the historical cost basis, as modified by the re-valuation of investments, and in accordance with the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the Investment Management Association in October 2010.
- (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 March. An interim distribution based on available revenue is distributed on the last day of September. The ordinary element of scrip dividends is treated as revenue but does not form part of the distribution.
- (g) Listed investments of the fund have been valued at market value on the balance sheet date. Market value is defined by the SORP as fair value which generally is the bid value of each security.
- (h) Foreign currency transactions are translated at the rates ruling on the date of the transaction.
- (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 gains on investments:

	Year ended 31 st Jan. 2014	Year ended 31 st Jan. 2013
	£	£
Non-derivative securities	7,676,522	5,076,853
Currency losses	(17,034)	—
Transaction costs	(14,000)	—
Net capital gains*	<u>7,645,488</u>	<u>5,076,853</u>
<i>*includes realised gains on investments sold</i>	<u>2,880</u>	<u>304,495</u>

3. Revenue

Dividends on UK equities	287,838	346,942
Dividends on overseas equities	725,566	714,967
Interest on bank deposits	19	5
UK REITs	12,935	—
Total revenue	<u>1,026,358</u>	<u>1,061,914</u>

4. Expenses

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

- Manager's periodic charge	557,439	599,513
- Registrar's fee	13,611	7,522

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

- Trustee's fee	15,830	14,215
- Safe custody fee and activity charges	10,344	16,057

Other expenses:

- Administration fee	24,609	—
- Audit fee	7,561	9,612
- FCA fee	334	290
- French withholding tax recovery fee	3,029	—
- Transfer agency fee	9,878	—
- Sundry expenses	7,171	—
Total expenses	<u>649,806</u>	<u>647,209</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

5. Taxation

	Year ended 31 st Jan. 2014	Year ended 31 st Jan. 2013
	£	£
(a) Analysis of tax charge		
Overseas withholding tax	82,244	91,133
French withholding tax recoverable	<u>(40,260)</u>	<u>—</u>
	<u>41,984</u>	<u>91,133</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 st Jan. 2014	Year ended 31 st Jan. 2013
	£	£
Net revenue before taxation	<u>376,552</u>	<u>414,705</u>
Corporation tax at 20%	75,310	82,941
<i>Effects of:</i>		
Revenue not subject to corporation tax	(202,681)	(212,382)
Movement in excess management charges	127,371	129,441
French withholding tax recoverable	(40,260)	—
Irrecoverable overseas withholding tax	<u>82,244</u>	<u>91,133</u>
Current tax charge for the year	<u>41,984</u>	<u>91,133</u>

(c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £1,906,916 (2013 - £1,779,545) 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. Finance costs: 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 st Jan. 2014	Year ended 31 st Jan. 2013
	£	£
Interim	315,532	302,879
Final	612,780	631,220
	<u>928,312</u>	<u>934,099</u>
Add: Revenue deducted on cancellation of units	14,162	12,183
Less: Revenue received on creation of units	(51,261)	(15,563)
Net distribution for the year	<u>891,213</u>	<u>930,719</u>
Reconciliation of distributions:		
Net revenue after taxation	334,568	323,572
Expenses taken to capital	556,645	607,147
Net distribution for the year	<u>891,213</u>	<u>930,719</u>

Details of the distributions per unit are shown in the Distribution Tables on page 28.

7. Debtors

	31 st Jan. 2014	31 st Jan. 2013
	£	£
Amounts receivable for creation of units	54,906	—
Overseas withholding tax recoverable	72,460	27,990
Prepaid expenses	3,859	—
Revenue receivable:		
UK equities	—	11,830
Overseas equities	—	2,510
	<u>131,225</u>	<u>42,330</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Creditors	31 st Jan. 2014	31 st Jan. 2013
	£	£
Accrued expenses:		
Audit fees	7,081	7,032
Administration fees	22,109	—
Manager's periodic charge	52,121	49,285
Registrar's fee	1,179	800
Trustee's fee	1,549	1,154
Transaction charges	2,421	2,000
Safe custody fee	1,936	1,400
Other	3,780	—
Purchase awaiting settlement	12,348	—
	<u>104,524</u>	<u>61,671</u>

9. Related Party Transactions

Trustee fees, safe custody fees and transaction costs paid to BNY Mellon Trust & Depository (UK) Limited are shown in note 4 and details of units created and cancelled by BNY Mellon Trust & Depository (UK) Limited are shown in the Statement of Change in Net Assets Attributable to Unitholders.

The Manager and the Trustee actively co-operate to exercise control over the fund and are therefore related parties by virtue of their controlling influence.

Amounts paid during the year or due to the Manager or the Trustee at the balance sheet date are disclosed under Expenses and Creditors in the Notes to the Financial Statements. Bank interest payable by the fund which is paid or payable to the Trustee is disclosed separately within Finance costs in the Notes to the Financial Statements.

Cash and bank balances with the Trustee are disclosed in the Balance Sheet. Bank interest paid or payable to the fund by the Trustee is disclosed in Revenue and Debtors 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 Finance costs 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 2.6% (2013 - 2.0%).

continued

10. 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

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 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.

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

10. 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 currency and interest rate profile of portfolio investments at 31st January was:

Interest rate profile

	Floating rate (Cash) £	Non interest bearing (Equities/Other) £	Total £	Total %
31st Jan. 2014				
UK Sterling	2,053,923	18,723,099	20,777,022	36.8
US Dollar		15,685,683	15,685,683	27.8
Euro		11,253,950	11,253,950	20.0
Swiss Franc	(100)	5,388,206	5,388,106	9.6
Australian Dollar		1,909,469	1,909,469	3.4
Japanese Yen		1,371,540	1,371,540	2.4
	<u>2,053,823</u>	<u>54,331,947</u>	<u>56,385,770</u>	<u>100.0</u>

	Floating rate (Cash) £	Non interest bearing (Equities/Other) £	Total £	Total %
31st Jan. 2013				
UK Sterling	2,344,609	13,485,463	15,830,072	36.0
US Dollar	376,706	10,626,976	11,003,682	25.1
Euro		9,816,614	9,816,614	22.3
Swiss Franc		4,009,048	4,009,048	9.1
Japanese Yen		2,005,422	2,005,422	4.6
Australian Dollar		1,257,563	1,257,563	2.9
	<u>2,721,315</u>	<u>41,201,086</u>	<u>43,922,401</u>	<u>100.0</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

10. Portfolio Risk Analysis continued

Currency profile

	Monetary (Cash/Other assets) £	Non-monetary (Securities) £	Total £	Total %
31st Jan. 2014				
UK Sterling	1,395,384	19,381,638	20,777,022	36.8
US Dollar		15,685,683	15,685,683	27.8
Euro	55,767	11,198,183	11,253,950	20.0
Swiss Franc	16,593	5,371,513	5,388,106	9.6
Australian Dollar		1,909,469	1,909,469	3.4
Japanese Yen		1,371,540	1,371,540	2.4
	<u>1,467,744</u>	<u>54,918,026</u>	<u>56,385,770</u>	<u>100.0</u>
31st Jan. 2013				
UK Sterling	1,694,048	14,136,024	15,830,072	36.0
US Dollar	376,706	10,626,976	11,003,682	25.1
Euro		9,816,614	9,816,614	22.3
Swiss Franc		4,009,048	4,009,048	9.1
Japanese Yen		2,005,422	2,005,422	4.6
Australian Dollar		1,257,563	1,257,563	2.9
	<u>2,070,754</u>	<u>41,851,647</u>	<u>43,922,401</u>	<u>100.0</u>

The variable-rate financial assets comprise sterling bank balances that bear interest calculated at the current bank of England base rate less 0.75%. Under normal circumstances, interest rates will not fall below 0%.

There were no fixed rate financial assets held during the year.

The non-interest bearing financial assets largely consist of equities, which do not have maturity dates.

Fair value of financial assets and financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

continued

11. Portfolio Transaction Costs

	Year ended 31 st Jan. 2014 £	Year ended 31 st Jan. 2013 £
Analysis of total purchase costs		
Purchases in period before transaction costs	7,497,354	2,305,708
Add:		
Broker		
Commissions	15,771	4,865
Stamp Duty	<u>5,520</u>	<u>9,087</u>
Total purchase costs	<u>21,291</u>	<u>13,952</u>
Gross purchases total	<u>7,518,645</u>	<u>2,319,660</u>
Analysis of total sales costs		
Gross sales in period before transaction costs	2,104,004	2,599,067
Less:		
Broker		
Commissions	<u>(3,524)</u>	<u>(5,510)</u>
Total sales costs	<u>(3,524)</u>	<u>(5,510)</u>
Total sales net of transaction costs	<u>2,100,480</u>	<u>2,593,557</u>

DISTRIBUTION TABLES

in pence per unit

for the year ended 31st January 2014

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st February 2013

Group 2 - Units purchased 1st February 2013 to 31st July 2013

	Unit Class	Gross income	Tax credit @ 10%	Net income	Equalisation	Amount paid
Group 1	<i>Legacy</i>	21.111	2.111	19.000	—	19.000
Group 2	<i>Legacy</i>	18.341	1.834	16.507	2.493	19.000
Group 1	<i>Personal</i> *	21.111	2.111	19.000	—	19.000
Group 2	<i>Personal</i> *	2.477	0.248	2.229	16.771	19.000

FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1st August 2013

Group 2 - Units purchased 1st August 2013 to 31st January 2014

	Unit Class	Gross income	Tax credit @ 10%	Net income	Equalisation	Amount payable
Group 1	<i>Legacy</i>	38.812	3.881	34.931	—	34.931
Group 2	<i>Legacy</i>	18.411	1.841	16.570	18.361	34.931
Group 1	<i>Personal</i> *	38.946	3.895	35.051	—	35.051
Group 2	<i>Personal</i> *	10.379	1.038	9.341	25.710	35.051

DISTRIBUTION SUMMARY

in pence per unit

for the year ended 31st January 2014

	Year to 31 st Jan. 2014 net rate		Year to 31 st Jan. 2013 net rate	
	<i>Personal</i> *	<i>Legacy</i>	<i>Personal</i> *	<i>Legacy</i>
Interim paid	19.000	19.000	—	19.000
Final payable/paid	<u>35.051</u>	<u>34.931</u>	<u>40.023</u>	<u>40.012</u>
	<u>54.051</u>	<u>53.931</u>	<u>40.023</u>	<u>59.012</u>

*The 'Personal' Class of units was created on 1st January 2013.

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