



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

SMALLER COMPANIES FUND

A pooled management service for private clients

INTERIM REPORT AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JULY 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 July 2014, total net assets of the fund amounted to £57,631,048 compared with £56,385,770 at 31st January 2014. There was a further net investment inflow into the fund over the six month period. At 31st July 2014 there were 285 investors (excluding ISA holders), each with an average holding worth £186,290.

Markets

Equity markets generally held up well over the six months to 31st July 2014. Market volatility dropped sharply as confidence in the sustainability of economic growth grew despite severe winter weather in the USA. There was little sign of a rise in inflationary pressures in America or Europe and monetary policies generally remained supportive for investment. Indeed markets seemed content to anticipate with equanimity both a degree of tightening in the USA, as the Federal Reserve tapered its bond purchases, and much looser policies in the eurozone.

The FTSE 100 index rose by 3% over the period, while the US index rose by 8% and Europe by 4% (measured by MSCI indices in local currency). Expressed in sterling, the gain in the overall All Country World (equity) index was 2%.

Sterling made further gains of 3% against the US dollar and 4% against the euro. This negatively impacted returns from overseas investments for UK investors.

Results

The price of Personal units in the fund at 31st July 2014 stood at £33.198, a rise of 2% from the level of the unit price at 31st January 2014. The price of Legacy units stood at £32.935. Limited gains in smaller companies, relative to the major equity indices, were further reduced by the strength of sterling.

Dividend Distribution

A dividend distribution of 19.000p per unit is now being paid to holders of both unit classes, the same as the equivalent payment a year ago.

On current estimates, the distribution for the next six months to 31st January 2015 is expected to be higher than the corresponding payment last year.

MANAGER'S INVESTMENT REPORT

Portfolio Strategy

There was no significant change to portfolio strategy in the period. Thus at 31st July 2014 the UK allocation, including cash deposits, was 37% (37% at 31st January 2014), USA 28% (28%), Europe 28% (30%), Japan 3% (2%) and Australia 4% (3%).

Investments

New holdings were purchased in Parkmead, a UK oil exploration and production company, and Medicrea International, a French manufacturer of medical devices for correcting spinal deformities. Otherwise, cash was used to increase existing holdings.

Profits were taken in Virbac, Kone and Majestic Wine while Yamada Denki and Bioquell were sold outright.

Systemex (+42%) and Kentz (+41%) were the best performing stocks over the period. The latter received a bid approach which is expected to proceed in the coming months. Keller (-27%) and RPS (-25%) fell appreciably.

Outlook

Global economic growth appears to be maintaining momentum, even if the World Bank has slightly reduced its forecast increase for the year to 2.8%. The US economy is recovering well from the severe weather that impacted the first quarter, and unemployment has fallen to 6.2%. Consumer confidence is at its highest level for six years.

The UK has also made encouraging progress. More jobs were created in the first three months of the year than at any time since 1971, and business confidence here too is at its highest level in a decade. House price trends in the south-east are a concern for policy makers. But there is little sign yet of any wage inflation.

In other European economies, growth is less assured. Minimal GDP growth of 1% or less is forecast for the eurozone this year. Inflation has fallen to 0.4% and the European Central Bank has responded to deflationary concerns by introducing a negative key interest rate. Elsewhere, achievement of a desired transformation of the Japanese economy under the government's programme of "Abenomics" still looks some way off.

Recent upheavals in Ukraine, Palestine and Iraq have aroused considerable political and humanitarian concerns, but the financial impact, so far, has been limited. The disturbance arising from any of these areas of conflict could dent investors' confidence were it to threaten trade and capital flows more widely.

Investors will be aware of the impact of currency movements on short-term returns, and certainly the recent strength of sterling has represented a significant headwind. Over recent weeks sterling's rise has been reversed, but an enduring or further fall, while beneficial for the fund, is far from certain.

MANAGER'S INVESTMENT REPORT

Outlook (continued)

At the time of writing, the vote on Scottish Independence is imminent. Should Scotland choose to separate from the UK, sterling could come under further pressure, at least until the implications of the change are made clear. Over longer periods, the diversification of the fund's currency exposure has proved a valuable ingredient in protecting the value of the portfolio and limiting its risk.

Overall, despite a plethora of uncertain and potentially unsettling factors, the prospect of rising sales and earnings and an escalation in global corporate activity should help to continue to support equity valuations.

18th September 2014

CAPITAL RECORD

Highest and lowest unit prices.

Year	High		Low	
	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>
2009	£20.545	—	£13.272	—
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*	£33.954	£34.201	£31.959	£32.135

*Up to 31st July only.

INCOME RECORD

Year (to 31 st Jan)	Per unit (net)	
	<i>Legacy</i>	<i>Personal</i>
2010	31.408p	—
2011	42.133p	—
2012	42.134p	—
2013	59.012p	40.023p
2014	53.931p	54.051p
2015 (<i>interim only</i>)	19.000p	19.000p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
31.01.12 <i>Legacy</i>	£38,838,510	£24.995	1,553,843
31.01.13 <i>Legacy</i>	£43,583,452	£27.842	1,565,387
31.01.13 <i>Personal</i>	£338,949	£27.851	12,170
31.01.14 <i>Legacy</i>	£2,208,260	£32.080	68,835
31.01.14 <i>Personal</i>	£54,177,510	£32.255	1,679,663
31.07.14 <i>Legacy</i>	£1,806,364	£32.236	56,035
31.07.14 <i>Personal</i>	£55,824,684	£32.496	1,717,905

ONGOING CHARGES FIGURE

Date	Annualised	
	<i>Legacy</i>	<i>Personal</i>
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%
31.07.14**	1.706%	1.207%

PORTFOLIO TURNOVER

Date	Annualised
31.01.10	(5%)
31.01.11	12%
31.01.12	3%
31.01.13	(2%)
31.01.14	2%
31.07.14	(9%)

**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 July 2014 (unaudited)

INVESTMENTS	Holding or Nominal Value of positions at 31 st July 2014	Bid Market Value £	Percentage of Value of total net assets	
<i>Equities</i>			31 st July 2014	31 st Jan. 2014
UK				
Abcam	164,020	651,979	1.1	
Assura	2,874,400	1,257,550	2.2	
Barr (AG)	276,414	1,824,332	3.2	
Cape	234,353	665,563	1.2	
Craneware	118,820	611,923	1.1	
Evans (MP)	189,610	881,687	1.5	
Gooch & Housego	155,430	967,552	1.7	
Hill & Smith	115,395	586,207	1.0	
Immunodiagnostic Systems	170,000	875,500	1.5	
Intermediate Capital	238,960	962,053	1.7	
Keller	118,165	1,023,309	1.8	
Kentz	212,460	1,971,629	3.4	
Majestic Wine	188,900	744,738	1.3	
Parkmead	377,325	816,909	1.4	
Rotork	49,400	1,367,886	2.4	
RPS	528,465	1,346,000	2.3	
Spectris	70,140	1,338,271	2.3	
Spirax-Sarco	47,481	1,292,433	2.2	
Treant	329,650	527,440	0.9	
		<u>19,712,961</u>	<u>34.2</u>	<u>34.4</u>
USA				
Anika Therapeutics	62,975	1,568,500	2.7	
Anixter International	26,230	1,335,659	2.3	
Energen	29,380	1,420,361	2.5	
Landauer	25,060	640,490	1.1	
Lindsay	24,190	1,159,280	2.0	
O'Reilly Automotive	19,000	1,688,089	2.9	
Owens & Minor	40,464	793,078	1.4	
QEP Resources	28,370	555,368	1.0	
Questar	75,870	998,987	1.7	
Sun Hydraulics	63,392	1,368,994	2.4	
Tractor Supply	48,400	1,781,996	3.1	
US Physical Therapy	77,465	1,603,167	2.8	
Watsco	22,135	1,174,467	2.0	
		<u>16,088,436</u>	<u>27.9</u>	<u>27.8</u>

PORTFOLIO STATEMENT

continued

	Holding or Nominal Value of positions at 31 st July 2014	Bid Market Value £	Percentage of Value of total net assets	
			31 st July 2014	31 st Jan. 2014
<i>Equities continued</i>				
FINLAND				
Kone B	23,648	<u>589,771</u>	<u>1.0</u>	<u>1.8</u>
FRANCE				
Boiron	34,420	1,546,902	2.7	
Medicrea International	62,508	435,924	0.8	
Rubis	27,475	976,001	1.7	
Somfy	3,931	774,923	1.3	
Teleperformance	44,910	1,845,017	3.2	
Virbac	10,520	<u>1,333,914</u>	<u>2.3</u>	
		<u>6,912,681</u>	<u>12.0</u>	<u>12.1</u>
GERMANY				
Krones	22,150	1,275,268	2.2	
Pfeiffer Vacuum	12,976	<u>765,798</u>	<u>1.3</u>	
		<u>2,041,066</u>	<u>3.5</u>	<u>3.6</u>
NETHERLANDS				
Boskalis Westminster	46,000	<u>1,455,807</u>	<u>2.5</u>	<u>2.4</u>
SWITZERLAND				
Belimo	930	1,457,517	2.5	
Galenica	2,574	1,374,857	2.4	
Kuehne + Nagel	13,920	1,100,761	1.9	
Sonova	14,160	<u>1,304,211</u>	<u>2.3</u>	
		<u>5,237,346</u>	<u>9.1</u>	<u>9.5</u>
AUSTRALIA				
ARB	162,300	1,092,129	1.9	
Technology One	842,500	<u>1,303,648</u>	<u>2.3</u>	
		<u>2,395,777</u>	<u>4.2</u>	<u>3.4</u>
JAPAN				
Sysmex	71,000	<u>1,650,104</u>	<u>2.9</u>	<u>2.4</u>
TOTAL INVESTMENTS				
Net other assets		<u>56,083,949</u>	<u>97.3</u>	<u>97.4</u>
		<u>1,547,099</u>	<u>2.7</u>	<u>2.6</u>
TOTAL NET ASSETS				
		<u><u>57,631,048</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 six months ended 31st July 2014 (unaudited)

		Cost
		£
Purchases		
93,317	Hill & Smith	511,596
62,058	Medicrea International	465,629
377,325	Parkmead	977,872
35,500	Sysmex (<i>stock split</i>)	—
329,650	Treatt (<i>stock split</i>)	—
16,085	US Physical Therapy	301,149
	TOTAL	<u>2,256,246</u>
		Proceeds
		£
186,190	Bioquell	197,895
18,500	Kone B	440,125
6,230	Majestic Wine	25,224
65,930	Treatt (stock split)	—
4,085	Virbac	586,093
80,000	Yamada Denki	158,099
	TOTAL	<u>1,407,436</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 5 because its volatility has been measured as slightly 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 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 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, 18th September 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.

STATEMENT OF TOTAL RETURN

for the six months ended 31st July 2014 (unaudited)

	Notes	Six months ended 31 st July 2014		Six months ended 31 st July 2013	
		£	£	£	£
Income:					
Net capital gains			324,598		5,219,808
Revenue	2	828,790		660,688	
Expenses	3	<u>(347,763)</u>		<u>(315,016)</u>	
Net revenue before taxation		481,027		345,672	
Taxation	4	<u>(68,236)</u>		<u>(56,885)</u>	
Net revenue after taxation			<u>412,791</u>		<u>288,787</u>
Total return before distributions			737,389		5,508,595
Finance costs: distributions			<u>(330,895)</u>		<u>(300,794)</u>
Change in net assets attributable to unitholders from investment activities			<u>406,494</u>		<u>5,207,801</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the six months ended 31st July 2014 (unaudited)

	Six months ended 31 st July 2014		Six months ended 31 st July 2013	
	£	£	£	£
Opening net assets attributable to unitholders		56,385,770		43,922,401
Amounts receivable on creation of units	3,205,311		3,555,874	
Amounts payable on cancellation of units	<u>(2,364,480)</u>		<u>(1,035,131)</u>	
		840,831		2,520,743
Stamp duty reserve tax		(2,047)		(1,371)
Change in net assets attributable to unitholders from investment activities		<u>406,494</u>		<u>5,207,801</u>
Closing net assets attributable to unitholders		<u>57,631,048</u>		<u>51,649,574</u>

The opening net assets for the current period do not equal the closing net assets for the comparative period as the above table relates to six month interim periods only.

BALANCE SHEET

as at 31st July 2014 (unaudited)

	31 st July 2014		31 st Jan. 2014	
	£	£	£	£
ASSETS:				
Investment assets		56,083,949		54,918,026
Debtors	100,856		131,225	
Cash & bank balances	<u>1,860,833</u>		<u>2,053,823</u>	
Total other assets		<u>1,961,689</u>		<u>2,185,048</u>
Total assets		<u>58,045,638</u>		<u>57,103,074</u>
LIABILITIES:				
Creditors	(77,542)		(104,524)	
Distribution payable	<u>(337,048)</u>		<u>(612,780)</u>	
Total liabilities		<u>(414,590)</u>		<u>(717,304)</u>
Net assets attributable to unitholders		<u>57,631,048</u>		<u>56,385,770</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st July 2014 (unaudited)

1. Accounting policies

The Interim Financial Statements have been prepared in accordance with accounting policies set out in the most recent Annual Financial Statements.

2. Revenue

	Six months ended 31 st July 2014 £	Six months ended 31 st July 2013 £
Dividends on overseas equities	562,353	482,375
Dividends on UK equities	235,653	178,287
Interest on bank deposits	4,915	26
Property income distributions on UK REITs	25,869	—
Total revenue	<u>828,790</u>	<u>660,668</u>

3. Expenses

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

- Manager's periodic charge	294,901	275,312
- Registrar's fee	6,072	6,733

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

- Trustee's fee	8,659	7,436
- Safe custody fee	5,670	4,737

Other expenses:

- Administration fee	14,918	10,062
- Audit fee	3,510	5,911
- FCA fee	168	434
- Sundry expenses	5,299	—
- Transfer agency fee	8,566	4,391

Total expenses	<u>347,763</u>	<u>315,016</u>
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4. Taxation

Analysis of tax charge

Overseas withholding tax	<u>68,236</u>	<u>56,885</u>
	<u>68,236</u>	<u>56,885</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

5. Currency and interest rate profile

Currency	31 st July 2014 %	31 st Jan 2014 %
UK Sterling	36.9	36.8
US Dollar	27.9	27.8
Euro	19.0	20.0
Swiss Franc	9.1	9.6
Australian Dollar	4.2	3.4
Japanese Yen	2.9	2.4
	<u>100.0</u>	<u>100.0</u>

DISTRIBUTION TABLES

in pence per unit

for the six months ended 31st July 2014 (unaudited)

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st February 2014

Group 2 - Units purchased 1st February 2014 to 31st July 2014

	Unit Class	Gross income	Tax credit @ 10%	Net income	Equalisation	Amount payable
Group 1	<i>Legacy</i>	21.111	2.111	19.000	—	19.000
Group 2	<i>Legacy</i>	15.990	1.599	14.391	4.609	19.000
Group 1	<i>Personal</i>	21.111	2.111	19.000	—	19.000
Group 2	<i>Personal</i>	6.320	0.632	5.688	13.312	19.000

DISTRIBUTION SUMMARY

in pence per unit

for the six months ended 31st July 2014 (unaudited)

	Six months to 31 st July 2014 net rate		Year to 31 st Jan. 2014 net rate	
	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>
Interim payable/paid	19.000	19.000	19.000	19.000
Final paid	—	—	35.051	34.931
	<u>19.000</u>	<u>19.000</u>	<u>54.051</u>	<u>53.931</u>

Manager

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J C McAulay
Lord Francis Seymour
D H Shaw Stewart
C T F White
V N U Wood

Secretary

J C McAulay

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AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

McInroy & Wood Portfolios Limited is a subsidiary of
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