



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 2017

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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 might well be impracticable for them to assemble themselves.

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

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

The investment objective of the Smaller Companies Fund is to grow the real value of investors' capital and income. Investments will primarily be in global smaller companies, which do not form part of the leading market indices. An equal emphasis will be placed 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 Portfolios 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 2017, total net assets of the fund amounted to £95,556,403 compared with £80,148,819 at 31st January 2017. There was a further net investment inflow into the fund over the six month period. At 31st July 2017, there were 317 investors (excluding ISA holders), each with an average holding worth £281,498.

Markets

Most equity markets gained ground over the six months to 31st July 2017, as investors appeared to shrug off political and economic uncertainties. The UK's leading share index rose by 4% over the period. Measured by MSCI indices in local currency, the USA (+8%) and Europe (+6%) were stronger still. The overall MSCI All Country World index gained 5%, expressed in sterling terms.

Exchange rates were affected by divergent expectations about interest rate movements. The pound strengthened against the US dollar (+5%) but weakened against the euro (-4%). For sterling-based investors, this tempered market gains in US assets but boosted returns from European investments.

Results

The price of units in the fund at 31st July 2017 stood at £48.745, a rise of 9% from the unit price at 31st January 2017. Widespread gains in equity prices and the strength of the euro greatly outweighed the impact of dollar weakness.

Dividend Distribution

A dividend distribution of 20.000p per unit is now being paid to unitholders, the same as the equivalent payment a year ago.

On current estimates, the distribution for the next six months to 31st January 2018 is expected to be broadly similar to the corresponding payment last year.

Portfolio Strategy

There were no significant changes to portfolio strategy in the period. At 31st July 2017, the UK equity allocation was 32% (28% at 31st January 2017), the USA 23% (28%), Europe 30% (29%), Japan 5% (3%) and Australia 6% (6%). Cash accounted for a further 4% (6%).

Growth opportunities in the USA looked particularly expensive over the period, so new inflows into the fund were used to purchase more reasonably valued securities in other markets. This does not represent any fundamental shift in strategy, and possible new investments in the US remain under review.

MANAGER'S INVESTMENT REPORT

continued

Investments

A new position was established in Nabtesco, a Japanese machinery company with particular expertise in precision gears for robots. Otherwise, cash was used to increase existing holdings. Following a period of share price strength, Anixter International was sold reflecting concerns about its long-term growth prospects. Galenica, after listing its pharmacy network and distribution business as a separate company, has changed its name to Vifor Pharma. This new entity has been retained in the portfolio and is focused on developing and selling drugs to treat iron deficiency and chronic kidney disease.

Treatt (+98%) and Advanced Medical Solutions (+49%) were the best performing stocks over the period. Tractor Supply (-24%) and Parkmead (-33%) fell appreciably.

Outlook

The UK has done little to clarify its future relationship with the EU; negotiations thus far have made little progress. Compounding these political worries, there are signs that the economic bounce that the UK has enjoyed since the referendum is running out of steam. Europe, by contrast, appears set on a recovery trend.

Meanwhile, the USA seems to face a troubled future under President Trump's increasingly muddled leadership. Initial optimism surrounding tax cuts and infrastructure spending has largely evaporated. As his administration becomes entangled in scandal and accusation, policy implementation becomes ever more difficult.

This unsettled global background will have, no doubt, a depressing impact on market confidence. However, stock selection is driven much more by long-term opportunities thrown up by structural changes, such as specific demographic trends or technological innovations.

One such theme is the ageing of populations in most developed markets. This is a reflection of striking medical advances and perhaps also the merits of better health education. But it gives rise to enduring economic challenges. As more people retire than enter the workforce, a shrinking working age population must fund a tax base sufficient to meet ballooning spending on healthcare and pensions.

MANAGER'S INVESTMENT REPORT

continued

Outlook continued

A possible solution is to invest more in preventative healthcare, and a crucial component of this is to encourage people to stay active. US Physical Therapy is benefiting from initiatives from insurers and US government health programmes. These are designed to favour lower-cost outpatient providers over long and expensive hospital treatment. At the same time, growing awareness of the importance of a healthy lifestyle is swelling the ranks of enthusiastic but injury-prone 'weekend warriors', further increasing pressures on medical resources. The rehabilitation clinics operated by US Physical Therapy are well positioned to meet these demands in a still highly fragmented market. The company aims to accelerate its progress by the selective purchase of competitors based in attractive locations.

The hearing aid sector is another area likely to enjoy a sustained increase in demand as the numbers of the elderly rise. Sonova, a leading global manufacturer of hearing aids, has been held in the portfolio for many years and has grown substantially, but the use of hearing devices remains comparatively low. The company estimates that only about 20% of the potential patient population are using appropriate equipment, with significant variation in different regions. As technology improves, more sufferers may overcome their reluctance to address their hearing loss, especially given evidence that use of hearing aids can help to prevent dementia. The recent generation of retirees often have generous private pension income. Such people are often willing and able to pay more for better features, such as longer battery life, or for smaller and more subtle devices, all of which boosts demand for Sonova's higher margin products.

In the near term, share prices and company profits are naturally subject to the vagaries of economic cycles and investor sentiment. However, shifts in the pattern of economic activity have often provided opportunities for smaller companies capable of exploiting them. These are the companies that the fund manager is constantly seeking to identify as potentially rewarding long-term investments in the portfolio.

11th September 2017

CAPITAL RECORD

Highest and lowest unit prices.

Accounting year (to 31 st Jan)	High <i>Personal</i>	Low
2015	£35.308	£30.566
2016	£38.174	£33.909
2017	£45.978	£33.456
2018*	£49.354	£44.006

*Up to 31st July 2017 only.

INCOME RECORD

Accounting year (to 31 st Jan)	Per unit (net) <i>Personal</i>
2015	61.932p
2016	59.160p
2017	62.719p
2018 (<i>interim only</i>)	20.000p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
31.01.15 <i>Personal</i>	£57,522,291	£34.425	1,670,942
31.01.16 <i>Personal</i>	£57,757,959	£35.467	1,628,498
31.01.17 <i>Personal</i>	£80,148,819	£44.002	1,821,500
31.07.17 <i>Personal</i>	£95,556,403	£48.385	1,974,913

OPERATING CHARGES

Date Annualised
Personal

31.01.15	1.22%	31.01.15	(3%)
31.01.16	1.23%	31.01.16	11%
31.01.17	1.22%	31.01.17	12%
31.07.17	1.18%	31.07.17	7%

PORTFOLIO TURNOVER

Date Annualised

31.01.15	1.22%	31.01.15	(3%)
31.01.16	1.23%	31.01.16	11%
31.01.17	1.22%	31.01.17	12%
31.07.17	1.18%	31.07.17	7%

DISCRETE PERFORMANCE

Year to	Year to	Year to	Year to	Year to
31.07.17	31.07.16	31.07.15	31.07.14	31.07.13
18.4%	16.5%	11.8%	9.3%	28.6%

Mid to mid, income reinvested, Source: McInroy & Wood.

PORTFOLIO STATEMENT

as at 31st July 2017 (unaudited)

INVESTMENTS	Holding or Nominal Value of positions at 31 st July 2017	Bid Market Value £'000	Percentage of Value of total net assets 31 st July 2017	31 st Jan. 2017
<i>Equities</i>				
UK				
Abcam	223,770	2,294	2.4	
Advanced Medical Solutions	699,700	2,083	2.2	
Assura	3,600,100	2,306	2.4	
Barr (A.G.)	276,414	1,656	1.7	
Craneware	142,360	1,794	1.9	
Hill & Smith	139,395	1,868	1.9	
Intermediate Capital	182,064	1,651	1.7	
James Fisher & Sons	109,200	1,711	1.8	
Keller	118,165	1,039	1.1	
Mattioli Woods	155,875	1,263	1.3	
NCC	660,800	1,279	1.3	
Parkmead	2,061,662	794	0.8	
Rotork	738,000	1,708	1.8	
Spectris	70,140	1,725	1.8	
Spirax-Sarco Engineering	45,785	2,543	2.7	
Treatt	606,000	3,025	3.2	
XP Power	90,750	2,359	2.5	
		<u>31,098</u>	<u>32.5</u>	<u>28.2</u>
USA				
Anika Therapeutics	62,975	2,443	2.6	
Dorman	36,300	2,148	2.2	
Energen	39,810	1,609	1.7	
Landauer	25,060	1,035	1.1	
Lindsay	24,190	1,682	1.8	
Owens & Minors	40,464	989	1.0	
Proto Labs	46,600	2,612	2.7	
Sun Hydraulics	71,732	2,250	2.4	
Tractor Supply	44,760	1,905	2.0	
US Physical Therapy	49,020	2,343	2.5	
Watsco	22,135	2,531	2.6	
		<u>21,547</u>	<u>22.6</u>	<u>28.0</u>

PORTFOLIO STATEMENT

continued

	Holding or Nominal Value of positions at 31 st July 2017	Bid Market Value £'000	Percentage of Value of total net assets	
			31 st July 2017	31 st Jan 2017
<i>Equities continued</i>				
FRANCE				
Boiron	24,938	1,766	1.8	
Medicrea International	181,100	774	0.8	
Rubis	58,874	2,830	2.9	
Somfy	27,405	1,959	2.1	
Teleperformance	25,910	2,726	2.9	
Virbac	10,520	1,415	1.5	
		<u>11,470</u>	<u>12.0</u>	<u>12.9</u>
GERMANY				
Dr Hoelne	59,062	1,880	2.0	
Hella Hueck	49,380	1,972	2.1	
ISRA Vision	13,825	1,893	2.0	
Krones	22,150	2,087	2.2	
Pfeiffer Vacuum	7,176	918	0.9	
		<u>8,750</u>	<u>9.2</u>	<u>6.9</u>
NETHERLANDS				
Boskalis Westminster	46,200	1,249	1.3	1.7
SWITZERLAND				
Belimo	930	2,929	3.1	
Sonova	20,860	2,573	2.6	
Vifor Pharma	16,240	1,317	1.4	
		<u>6,819</u>	<u>7.1</u>	<u>7.4</u>
AUSTRALIA				
ARB	182,480	1,694	1.8	
Bapcor	663,645	2,271	2.4	
Technology One	542,500	1,764	1.8	
		<u>5,729</u>	<u>6.0</u>	<u>5.8</u>
JAPAN				
Asahi Intecc	51,800	1,764	1.9	
Nabtesco	59,000	1,450	1.5	
Systemex	35,500	1,538	1.6	
		<u>4,752</u>	<u>5.0</u>	<u>2.6</u>
TOTAL INVESTMENTS		91,414	95.7	93.5
Net other assets		<u>4,142</u>	<u>4.3</u>	<u>6.5</u>
TOTAL NET ASSETS		<u><u>95,556</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 2017 (unaudited)

	Cost £'000
Purchases	
18,750 Abcam	184
194,000 Advanced Medical Solutions	390
20,180 ARB	185
39,600 Asahi Intecc	1,261
725,700 Assura	463
244,145 Bapcor	789
200 Boskalis Westminster (rights issue)	—
10,430 Energen	472
25,230 Hella Hueck	859
4,000 ISRA Vision	385
36,200 James Fisher & Sons	575
105,875 Mattioli Woods	818
59,000 Nabtesco	1,378
210,000 NCC	415
934,971 Parkmead	428
58,874 Rubis (reverse stock split)	—
27,405 Somfy (reverse stock split)	—
8,340 Sun Hydraulics	280
11,700 Tractor Supply	465
16,240 Vifor Pharma (reverse stock split)	-
21,500 XP Power	410
TOTAL	<u>9,757</u>

	Proceeds £'000
Disposals	
26,230 Anixter International	1,740
1,624 Galenica (reverse stock split)	—
29,437 Rubis (reverse stock split)	—
5,481 Somfy (reverse stock split)	—
TOTAL	<u>1,740</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.

Capital Gains Tax

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

Applications

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

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 risktaking 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.

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

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

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

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (“the Rules”) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the fund and of its net revenue and the net capital gains on the property of the fund for the 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 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, 11th September 2017

STATEMENT OF TOTAL RETURN

for the six months ended 31st July 2017 (unaudited)

	Notes	Six months ended 31 st July 2017		Six months ended 31 st July 2016	
		£'000	£'000	£'000	£'000
Income					
Net capital gains			8,342		10,509
Revenue	2	931		834	
Expenses	3	<u>(517)</u>		<u>(400)</u>	
Net revenue before taxation		414		434	
Taxation	4	<u>(52)</u>		<u>14</u>	
Net revenue after taxation			<u>362</u>		<u>448</u>
Total return before distributions			8,704		10,957
Distributions			<u>(371)</u>		<u>(346)</u>
Change in net assets attributable to unitholders from investment activities			<u>8,333</u>		<u>10,611</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the six months ended 31st July 2017 (unaudited)

	Six months ended 31 st July 2017		Six months ended 31 st July 2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		80,149		59,370
Amounts receivable on creation of units	7,747		3,375	
Amounts payable on cancellation of units	<u>(673)</u>		<u>(1,174)</u>	
		7,074		2,201
Change in net assets attributable to unitholders from investment activities		<u>8,333</u>		<u>10,611</u>
Closing net assets attributable to unitholders		<u>95,556</u>		<u>72,182</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 2017 (unaudited)

	31 st July 2017		31 st Jan. 2017	
	£'000	£'000	£'000	£'000
ASSETS:				
Investments		91,414		74,962
Current assets				
Debtors	372		1,422	
Cash & bank balances	4,273		5,453	
Total other assets		<u>4,645</u>		<u>6,875</u>
Total assets		<u>96,059</u>		<u>81,837</u>
LIABILITIES:				
Creditors				
Distribution payable	(395)		(778)	
Other creditors	(108)		(910)	
Total liabilities		<u>(503)</u>		<u>(1,688)</u>
Net assets attributable to unitholders		<u>95,556</u>		<u>80,149</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st July 2017 (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 2017 £'000	Six months ended 31 st July 2016 £'000
Dividends on overseas equities	629	582
Dividends on UK equities	295	252
Interest on bank deposits	2	—
Stock dividends	5	—
Total revenue	<u>931</u>	<u>834</u>

3. Expenses

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

- Manager's periodic charge	443	330
- Transfer agency fee	25	22

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

- Trustee's fee	12	10
- Safe custody fee	9	6

Other expenses:

- Audit fee	4	7
- French withholding tax recovery fee	—	2
- Fund accounting fee	19	19
- Sundry fees*	5	4

Total expenses	<u>517</u>	<u>400</u>
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*Includes FT listing fees, accounts printing and postage, tax computation fees and other fees.

NOTES TO THE FINANCIAL STATEMENTS

continued

4. Taxation

	Six months ended 31 st July 2017 £'000	Six months ended 31 st July 2016 £'000
Analysis of tax charge/(credit)		
French withholding tax recoverable	—	(65)
Overseas tax	52	51
	<u>52</u>	<u>(14)</u>

5. Currency and interest rate profile

<i>Currency</i>	31 st July 2017 %	31 st Jan. 2017 %
UK Sterling	36.5	31.8
US Dollar	22.6	30.6
Euro	22.6	21.6
Swiss Franc	7.3	7.6
Australian Dollar	6.0	5.8
Japanese Yen	5.0	2.6
	<u>100.0</u>	<u>100.0</u>

DISTRIBUTION TABLES

**in pence per unit
for the six months ended 31st July 2017 (unaudited)**

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st February 2017

Group 2 - Units purchased 1st February 2017 to 31st July 2017

	Unit Class	Dividend income	Equalisation*	Amount payable 30.09.17
Group 1	Personal	20.000	—	20.000
Group 2	Personal	4.004	15.996	20.000

*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 six months ended 31st July 2017 (unaudited)**

	Six months to 31 st July 2017	Year to 31 st Jan. 2017
	<i>Personal</i>	<i>Personal</i>
Interim payable/paid	20.000	20.000
Final paid	—	42.719
	<u>20.000</u>	<u>62.719</u>

Manager

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J C McAulay
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D H Shaw Stewart
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Secretary

J C McAulay

Investment Adviser

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Trustee

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Registrar

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Independent Auditor

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AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

McInroy & Wood Portfolios Limited is a subsidiary of
McInroy & Wood Limited
MWSCF0717