



# McInroy & Wood

PERSONAL INVESTMENT MANAGERS

## BALANCED FUND

*A pooled management service for private clients*

ANNUAL REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 28<sup>TH</sup> FEBRUARY 2021

## SUMMARY

At 28<sup>th</sup> February 2021, total net assets of the fund amounted to £872,317,520 compared with £745,129,828 twelve months before. There were 1,330 unitholders, excluding ISAs, with an average holding worth £562,425.

The price of units in the fund at 28<sup>th</sup> February 2021 stood at £55.116, up 11% compared with the figure twelve months before. The increase in value is a reflection of strong returns from the equity investments in the portfolio, moderated to some extent by the weakness of the US dollar and Japanese yen against sterling towards the end of the financial year.

The objective of the fund is to preserve and grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation, as measured by the UK Retail Price Index (RPI), over the same period. Over the three years to 28<sup>th</sup> February 2021, the total return to unitholders in the fund was 22%, compared to RPI of 7% over the same period. Over five years the fund returned 46% against RPI of 14%. The fund has provided a total return to unitholders of 857% above inflation since its inception in February 1990.

A final dividend distribution of 41.635p per unit is now being paid. This brings the total distributions over the year to 66.635p per unit, 18% lower than those paid over the previous year. Interest rates were cut and bond yields fell during the period. Many companies saw revenues fall sharply and, given the level of uncertainty, were anxious to retain cash rather than sustain payments to shareholders at previous levels.

The declines in equity markets in the spring of last year offered opportunities to buy stocks at more attractive valuations, even if the short-term outlook for earnings remained less clear at that stage. Consequently, the target equity allocation was increased by five percentage points to 65% in March 2020 with a corresponding reduction in the bond holdings.

Many investors appear to be confident that there will be a smooth and sustained return to normal. This leaves little room for manoeuvre if the momentum of vaccination programmes stalls and outbreaks of the disease spike again. Prospects for sustained equity market strength underpinned by monetary stimulus and government spending have to be balanced against the potential risks to a full economic revival, as well as the possibility of inflation. A pragmatic and relatively cautious investment approach is appropriate in the circumstances. Accordingly, the selection of equities is broadly diversified and the portfolio includes substantial allocations to short-dated and inflation-protected government bonds and gold.

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

## INTRODUCTION

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

The fund has been established with the aim of providing investors 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 fund is to maximise the total return to unitholders, by preserving and growing the real value of investors' capital and income, placing an equal emphasis on the generation of income and on capital growth.

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

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

## MANAGER'S INVESTMENT REPORT

At 28<sup>th</sup> February 2021, total net assets of the fund amounted to £872,317,520 compared with £745,129,828 twelve months before. There were 1,330 unitholders, excluding ISAs, with an average holding worth £562,425.

### Markets

Many equity markets recorded notable gains over the year to 28<sup>th</sup> February 2021 despite the impact of Covid-19. At the beginning of the period, economic activity fell abruptly following the implementation of lockdown measures around the world, and there was also severe disruption to global supply chains. Share prices dropped sharply as a result. However, governments and central banks rapidly responded by loosening monetary policy and providing direct financial support to the worst affected businesses. Boosted by this, and the way in which commercial life swiftly adapted to the new environment, equity markets recovered strongly. Investor confidence grew with the emergence of a range of vaccines in the winter of 2020, notwithstanding the necessity of imposing further lockdowns in the northern hemisphere.

Measured by MSCI indices in local currencies, the US market (+32%), emerging markets as a group (+33%) and Japan (+24%) all made significant advances; the return from Europe (+10%) was also good, if more modest. By contrast, investors remained cautious about prospects for the UK (-3%) and the consequences of the country's departure from the European Union. Overall, the MSCI All Country World Index rose by 18%, expressed in sterling terms.

Movements in bond prices were much more subdued. Short- and medium-dated UK government bonds were largely unchanged. US dollar equivalents rose by up to 2% in US dollar terms.

The price of gold gained 9% in US dollar terms.

In foreign exchange markets, sterling weakened against the euro (-1%), but strengthened against the US dollar (+9%) and the Japanese yen (+7%).

Inflation, as measured by the UK Retail Price Index (RPI), was 1% over the year to 28<sup>th</sup> February 2021.

### Results

The price of units in the fund at 28<sup>th</sup> February 2021 stood at £55.116, up 11% compared with the figure twelve months before. The increase in value is a reflection of strong returns from the equity investments in the portfolio, moderated to some extent by the weakness of the US dollar and Japanese yen against sterling towards the end of the financial year.

## MANAGER'S INVESTMENT REPORT

### Results continued

The objective of the fund is to preserve and grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation, as measured by the RPI, over the same period. Over the three years to 28<sup>th</sup> February 2021, the total return to unitholders in the fund was 22%, compared to RPI of 7% on the above basis over the same period. Over five years the fund returned 46% against RPI of 14%. The fund has provided a total return to unitholders of 857% above inflation since its inception in February 1990.

### Dividend Distribution

A final dividend distribution of 41.635p per unit is now being paid. This brings the total distributions over the year to 66.635p per unit, 18% lower than those paid over the previous year. Interest rates were cut and bond yields fell during the period. Many companies saw revenues fall sharply and, given the level of uncertainty, were anxious to retain cash rather than sustain payments to shareholders at previous levels.

### Portfolio Strategy

The declines in equity markets in the spring of last year offered opportunities to buy stocks at more attractive valuations, even if the short-term outlook for earnings remained less clear at that stage. Consequently, the target equity allocation was increased by five percentage points to 65% in March 2020 with a corresponding reduction in the bond holdings.

At 28<sup>th</sup> February 2021, 64% of the portfolio was held in equities (59% at 29<sup>th</sup> February 2020), 30% bonds (35%), 5% to gold (5%), and 1% to cash deposits (1%).

### Investments

In addition to increasing existing holdings, new positions were established in Ansys, a US-based global leader in the provision of engineering simulation software; ASML, a Dutch manufacturer at the vanguard of semiconductor printing; Britannia Industries, a supplier of baked snacks in India, and Shandong Weigao Medical Polymer, a Chinese medical devices company. The investments in Henkel, IPG Photonics, Mahindra & Mahindra and Tractor Supply were sold in full. A summary of all portfolio changes is shown on pages 12 and 13 of this report.

XP Power (+82%), Rio Tinto (+79%) and Anta Sports Products (+78%) performed notably well over the year, as did ASML which gained a remarkable 79% after its addition to the portfolio in April 2020. Jeronimo Martins (-16%) and Fresenius Medical Care (-13%) both lost ground.

## MANAGER'S INVESTMENT REPORT

### **Investments continued**

Within the bond allocation, two UK and two US government conventional stocks matured during the period and the Norwegian krone bond positions were sold in full. These were replaced with two conventional government issues denominated in US dollars, as well as two US Treasury inflation-protected stocks and a sterling-denominated floating-rate note.

The gold holdings were switched into a security with a lower administrative charge. Like the previous holdings, the new stock is also backed by physical gold.

### **Outlook**

The outlook for financial markets has improved over recent months, as the rollout of a range of vaccines has raised the prospect of a return to normal life. In the meantime, central banks and governments around the world look set to maintain their support for still fragile economies. This should provide an encouraging background for investment, but the extent of equity market rises at the time of writing looked to have already discounted much of the improvement. In some sectors, stock valuations appear to incorporate very optimistic expectations for future profits, and seem to have become dislocated from any reasonable calculation of their worth. For example, Tesla is now worth the same as the next eight largest car manufacturers combined. In these circumstances, a cautious approach is warranted, accompanied by careful equity selection focused on businesses with sound balance sheets, secure competitive positions and reasonable valuations.

There are growing concerns that if the present policies for economic reinvigoration are left unchecked, they may lead to a sharp pick up in inflation. A sudden spending splurge caused by a combination of government stimulus and pent-up consumer demand could put pressure on supply chains and lead to price rises.

Bond markets are anticipating that central banks will be forced to raise interest rates sooner than they might wish. A significant increase in rates could undermine economic recovery at a time when levels of indebtedness are already stretched and major programs of public expenditure have been promised.

The US Federal Reserve is likely to be the first of the central banks to have to address this dilemma. The Biden administration is planning to deliver two massive stimulus packages that could total around \$4 trillion. The Federal Reserve has indicated that it would be willing to accommodate this by tolerating a degree of 'above-target' inflation without raising interest rates, but there will be a limit to its flexibility. As things stand, the International Monetary Fund (IMF) is projecting that public sector expenditure could help to underpin economic growth of 5% in the US over this year.

## MANAGER'S INVESTMENT REPORT

### **Outlook continued**

Forecasts for the eurozone have been clouded by an erratic start to the immunisation programme which may compel social restrictions to be extended beyond present expectations. This would disproportionately affect Mediterranean countries which are more dependent on travel and tourism, widening economic divergences across the block. However, although medical issues might delay progress, GDP growth is expected to rebound by nearly 4% this year after a 7% contraction in 2020. Here too, the EU has launched a major recovery fund to accelerate the revival.

The growing importance of environmental considerations in economic policy can be seen in the EU's requirement that member governments must spend over one third of their entitlement to this recovery fund on environmental related projects. President Biden's plans for the US also envisage a significant increase in new jobs in this area. There will inevitably be new investment opportunities flowing from such strategies. However, they need to be rigorously examined to confirm that they are indeed based on sustainable and profitable long-term businesses.

The UK economy has been hit hard by a combination of uncertainty over Brexit and one of the worst Covid-19 mortality rates in the world. Nevertheless, the country has risen remarkably well to the immediate challenge of vaccinating its population as efficiently and quickly as possible. After a 10% decline in GDP in 2020, a 5% recovery is now anticipated this year with some acceleration in the second half, and more progress thereafter.

Many investors appear to be confident that there will be a smooth and sustained return to normal. This leaves little room for manoeuvre if the momentum of vaccination programmes stalls and outbreaks of the disease spike again. Prospects for sustained equity market strength underpinned by monetary stimulus and government spending have to be balanced against the potential risks to a full economic revival, as well as the possibility of inflation. A pragmatic and relatively cautious investment approach is appropriate in the circumstances. Accordingly, the selection of equities is broadly diversified and the portfolio includes substantial allocations to short-dated and inflation-protected government bonds and gold.

*20<sup>th</sup> April 2021*

## COMPARATIVE TABLE - PERSONAL CLASS

	28 <sup>th</sup> February 2021 (pence per unit)	29 <sup>th</sup> February 2020 (pence per unit)	28 <sup>th</sup> February 2019 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	4,932.89	4,734.81	4,682.30
Return before operating charges*	621.05	338.24	183.39
Operating charges	(59.92)	(58.59)	(54.01)
Return after operating charges	561.13	279.65	129.38
Distributions	(66.63)	(81.57)	(76.87)
<b>Closing net asset value per unit</b>			
	5,427.39	4,932.89	4,734.81
*After direct transaction costs of	(2.79)	(1.44)	(2.50)
<b>Performance**</b>			
Return after charges	11.38%	5.91%	2.76%
<b>Other information</b>			
Closing net asset value (£'000)	872,318	745,130	686,506
Closing number of units	16,072,493	15,105,333	14,499,111
Operating charges	1.12%	1.14%	1.12%
Direct transaction costs	0.05%	0.03%	0.05%
<b>Prices</b>			
Highest unit price	£58.390	£53.681	£50.243
Lowest unit price	£45.020	£47.722	£46.498
<b>Portfolio turnover</b>			
Annualised	60%	23%	58%

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

Please note that the capital return element, reflected in the performance figure noted above is based on the movement in the net asset value per the published financial statements and includes the impact of post year end accounting adjustments. It may therefore vary from the unit price movement noted in the Manager's Report. The unit price is struck at the daily valuation point at 12 noon, whereas the valuation of investments reported in the financial statements is struck at the close of business on the last business day of the period (See note 1(g)), creating a timing difference.

## PORTFOLIO STATEMENT

as at 28<sup>th</sup> February 2021

INVESTMENTS	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			28 <sup>th</sup> Feb. 2021	29 <sup>th</sup> Feb. 2020
<i>Bonds</i>				
<b>UK</b>				
European Investment Bank FRN 2022	£29,200,000	29,256	3.3	
UK Treasury 0.5% 2022	£24,918,000	25,061	2.9	
UK Treasury 1.875% I-L 2022	£11,201,000	17,561	2.0	
UK Treasury 2.25% 2023	£20,405,000	21,476	2.5	
		<u>93,354</u>	<u>10.7</u>	<u>12.7</u>
<b>USA</b>				
US Treasury 0.125% I-L 2022	\$40,618,200	31,982	3.7	
US Treasury 0.125% 2022	\$29,718,000	21,260	2.4	
US Treasury 0.125% 2022	\$12,132,000	8,679	1.0	
US Treasury 0.125% I-L 2024	\$42,006,000	35,585	4.1	
US Treasury 0.25% I-L 2025	\$25,186,000	21,489	2.5	
US Treasury 0.5% 2028	\$28,156,000	23,836	2.7	
US Treasury 0.875% 2029	\$27,635,000	23,573	2.7	
		<u>166,404</u>	<u>19.1</u>	<u>17.5</u>
<b>NORWAY</b>		<u>—</u>	<u>0.0</u>	<u>4.7</u>
<b>TOTAL BONDS</b>		<u><u>259,758</u></u>	<u><u>29.8</u></u>	<u><u>34.9</u></u>
<i>Equities</i>				
<b>UK</b>				
Croda International	306,023	18,876	2.2	
Rio Tinto	461,951	28,581	3.3	
Rotork	5,153,521	18,377	2.1	
Spirax-Sarco Engineering	234,543	25,108	2.9	
Victrex	449,896	9,511	1.1	
XP Power	279,562	15,320	1.7	
		<u>115,773</u>	<u>13.3</u>	<u>10.4</u>
<b>USA</b>				
Abbott Laboratories	168,202	14,409	1.7	
Ansys	36,680	8,946	1.0	
Becton Dickinson	62,605	10,796	1.2	
Ecolab	93,872	14,040	1.6	
Edwards Lifesciences	265,383	15,768	1.8	
Mettler-Toledo	24,120	19,249	2.2	

## PORTFOLIO STATEMENT

continued

	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			28 <sup>th</sup> Feb. 2021	29 <sup>th</sup> Feb. 2020
<i>Equities continued</i>				
<b>USA continued</b>				
Paychex	316,909	20,632	2.4	
Watsco	99,612	17,320	2.0	
		<u>121,160</u>	<u>13.9</u>	<u>13.8</u>
<b>FRANCE</b>				
Air Liquide	145,291	15,729	1.8	
EssilorLuxottica	105,182	12,328	1.4	
		<u>28,057</u>	<u>3.2</u>	<u>2.9</u>
<b>GERMANY</b>				
Fresenius Medical Care	221,253	11,006	1.2	
Fuchs Petrolub	493,839	15,435	1.8	
HELLA	309,510	13,108	1.5	
SAP	165,350	14,596	1.7	
		<u>54,145</u>	<u>6.2</u>	<u>7.6</u>
<b>IRELAND</b>				
Kerry 'A'	171,833	14,910	1.7	2.2
<b>NETHERLANDS</b>				
ASML	40,325	16,292	1.9	
Royal Dutch Shell 'B'	1,700,508	23,596	2.7	
		<u>39,888</u>	<u>4.6</u>	<u>2.0</u>
<b>SWITZERLAND</b>				
Sonova	71,019	13,057	1.5	1.4
<b>JAPAN</b>				
Misumi	600,900	13,091	1.5	
Nabtesco	447,900	13,576	1.5	
Nissan Chemical	420,300	16,309	1.9	
Shimadzu	580,300	14,902	1.7	
Shimano	51,600	8,215	0.9	
Trend Micro	294,200	10,093	1.2	
		<u>76,186</u>	<u>8.7</u>	<u>8.2</u>
<b>DEVELOPING MARKETS</b>				
<i>Brazil</i>	Localiza Rent a Car	1,025,120	7,631	0.9
<i>China</i>	Anta Sports Products	1,274,000	13,979	1.6

## PORTFOLIO STATEMENT

continued

		Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
				28 <sup>th</sup> Feb. 2021	29 <sup>th</sup> Feb. 2020
<i>Equities continued</i>					
<b>DEVELOPING MARKETS continued</b>					
<i>Hong Kong</i>	Shandong Weigao Medical Polymer	4,968,000	6,101	0.7	
	Vitasoy International	3,895,000	12,282	1.4	
<i>India</i>	Britannia Industries	247,710	8,101	0.9	
	Crompton Greaves	3,213,168	11,931	1.4	
	Marico	2,533,000	9,739	1.1	
<i>Mexico</i>	Wal-Mart de Mexico	4,632,610	9,438	1.1	
<i>Portugal</i>	Jeronimo Martins	772,136	8,614	1.0	
<i>Singapore</i>	Thai Beverage	27,443,800	10,776	1.2	
<i>South Africa</i>	MTN	823,168	2,825	0.3	
			<u>101,417</u>	<u>11.6</u>	<u>10.7</u>
<b>TOTAL EQUITIES</b>			<u><b>564,593</b></u>	<u><b>64.7</b></u>	<u><b>59.2</b></u>
<i>Commodities</i>					
<b>IRELAND</b>					
	iShares Physical Gold ETC	1,696,395	40,848	4.7	0.0
<b>UK</b>			<u>–</u>	<u>0.0</u>	<u>5.0</u>
<b>TOTAL INVESTMENTS</b>			<u>865,199</u>	<u>99.2</u>	<u>99.1</u>
Net other assets			<u>7,119</u>	<u>0.8</u>	<u>0.9</u>
<b>TOTAL NET ASSETS</b>			<u><b>872,318</b></u>	<u><b>100.0</b></u>	<u><b>100.0</b></u>

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

*All debt securities in the portfolio at 28<sup>th</sup> February 2021 are investment grade.*

## SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 28<sup>th</sup> February 2021

Purchases		Cost £'000
29,508	Abbott Laboratories	1,882
33,591	Air Liquide	3,741
36,680	Ansys	8,094
40,325	ASML	9,802
15,472	Becton Dickinson	2,886
247,710	Britannia Industries	9,471
78,656	Croda International	3,753
22,723	Ecolab	3,383
176,922	Edward Lifesciences ( <i>Stock split</i> )	—
9,750	Edwards Lifesciences	1,489
13,915	EssilorLuxottica	1,412
29,200,000	European Investment Bank	29,282
18,022	Fresenius Medical Care	1,124
96,056	Fuchs Petrolub	2,614
6,010	Gold Bullion Securities	755
34,100	HELLA	1,119
6,500	IPG Photonics	843
1,696,395	iShares Physical Gold ETC	48,833
80,580	Jeronimo Martins	996
20,200	Kerry 'A'	1,762
369,131	Mahindra & Mahindra ( <i>Conversion receipt</i> )	—
517,000	Marico	1,484
150,200	Misumi	2,328
134,200	Nabtesco	2,176
55,900	Nissan Chemical	1,873
56,300	Paychex	3,022
99,533	Rio Tinto	3,655
1,096,513	Rotork	3,352
811,848	Royal Dutch Shell 'B'	9,440
22,200	SAP	1,826
6,240,000	Shandong Weigao Medical Polymer	6,602
13,628	Sonova	2,551
470	Sonova ( <i>Stock dividend</i> )	—
8,872,300	Thai Beverage	3,474
62,200	Trend Micro	2,127
8,591,000	UK Treasury 0.5% 2022	8,694

## SUMMARY OF ALL PORTFOLIO CHANGES

continued

		Cost £'000
Purchases		
1,889,000	UK Treasury 1.875% I-L 2022	2,975
3,442,000	UK Treasury 2.25% 2023	3,697
29,718,000	US Treasury 0.125% 2022	23,240
12,132,000	US Treasury 0.125% 2022	8,880
10,461,000	US Treasury 0.125% I-L 2022	8,900
4,236,000	US Treasury 0.125% I-L 2024	3,816
28,156,000	US Treasury 0.25% I-L 2025	25,379
6,200,000	US Treasury 0.5% 2028	5,427
27,635,000	US Treasury 0.875% 2029	25,301
12,142,000	US Treasury 1.375% 2021	9,828
1,225,000	US Treasury 1.5% 2020	994
113,600	Victrex	2,303
872,000	Vitasoy International	2,454
1,033,000	Wal-Mart de Mexico	1,989
14,657	Watsco	1,890
5,920	WisdomTree Physical Gold	755
	<b>TOTAL</b>	<b><u>313,673</u></b>

## SUMMARY OF ALL PORTFOLIO CHANGES

continued

Disposals	Proceeds £'000	
20,330	Abbott Laboratories	1,458
192,000	Anta Sports Products	1,489
18,622	Becton Dickinson	3,891
78,150	Croda International	3,962
987,000	Crompton Greaves	3,585
9,659	Ecolab	1,459
14,765	Fresenius Medical Care	998
164,766	Gold Bullion Securities	22,768
105,899	Henkel	7,199
60,490	IPG Photonics	9,541
16,025	Kerry 'A'	1,503
187,735	Localiza Rent a Car	1,535
824,531	Mahindra & Mahindra	5,617
369,131	Mahindra & Mahindra ( <i>Conversion delivery</i> )	—
6,047	Mettler-Toledo	3,496
154,300	Misumi	2,939
123,900	Nabtesco	2,971
204,911,000	Norway 2% 2023	17,797
209,200,000	Norway 3.75% 2021	18,484
27,900	SAP	2,984
1,272,000	Shandong Weigao Medical Polymer	2,441
37,800	Shimano	5,930
49,835	Spirax-Sarco Engineering	4,557
88,259	Tractor Supply	8,635
21,668,000	UK Treasury 1.5% 2021	21,868
23,422,200	UK Treasury 2% 2020	23,422
14,302,000	US Treasury 0.125 I-L 2022	11,784
13,822,000	US Treasury 0.125% I-L 2024	11,550
19,532,000	US Treasury 1.125% 2021	15,328
12,142,000	US Treasury 1.375% 2021	8,851
21,964,000	US Treasury 1.5% 2020	17,555
23,944	Watsco	4,292
162,421	WisdomTree Physical Gold	22,785
	TOTAL	272,674

## **GENERAL INFORMATION**

### **Authorisation**

The Balanced Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is categorised as a UK 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 UK capital gains tax on realised capital gains. Overseas capital gains tax is accounted for on an accruals basis.

### **Applications**

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

### **Costs of Investment Research**

McInroy & Wood Limited, the Investment Adviser to the Balanced Fund, pays for all research costs relating to the management of the investments within the fund from its own resources. No additional charges are placed upon the fund relating to the provision of investment research.

### **Using your Personal Information**

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

## GENERAL INFORMATION

continued

### Remuneration Policy

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

### 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

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.

### Value Assessment

The Manager produces a composite annual Assessment of Value for the funds managed by it. The document is published on McInroy & Wood’s website by 30<sup>th</sup> June each year.

## **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 in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 102), 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 Investment Management Association in May 2014, updated in June 2017;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the fund will continue as a going concern unless it is inappropriate to do so; and
- 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, 20<sup>th</sup> April 2021*

## **STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE**

### **to the Unitholders of the McInroy & Wood Balanced Fund ("the Trust") for the year ended 28<sup>th</sup> February 2021**

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

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

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

The Trustee must ensure that:

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

## STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE

continued

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

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

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

*20<sup>th</sup> April 2021*

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

# INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the financial position of the Trust as at 28<sup>th</sup> February 2021 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law, the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 28<sup>th</sup> February 2021; the Statement of Total Return and the Statement of Change in Net Assets Attributable to Unitholders for the year then ended; the Distribution Tables; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

### Basis for opinion

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

### *Independence*

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

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Authorised Fund Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

# INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

## **Conclusions relating to going concern continued**

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

Our responsibilities and the responsibilities of the Authorised Fund Manager with respect to going concern are described in the relevant sections of this report.

## **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Authorised Fund Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### *Authorised Fund Manager's Report*

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

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

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

As explained more fully in the Statement of the Manager's Responsibilities set out on page 17, the Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Manager is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Trust's ability to continue as a going concern,

# INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to wind up or terminate the Trust, or has no realistic alternative but to do so.

## *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the fund/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Collective Investment Schemes sourcebook, and we considered the extent to which non-compliance might have a material effect on the financial statements, in particular those parts of the sourcebook which may directly impact on the determination of amounts and disclosures in the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the fund. Audit procedures performed included:

- discussions with the Authorised Fund Manager, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing relevant meeting minutes, including those of the Authorised Fund Manager's board of directors;
- identifying and testing journal entries, specifically any journals posted as part of the financial year end close process; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

# INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## *Use of this report*

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

## **Other required reporting**

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Edinburgh

20<sup>th</sup> April 2021

## STATEMENT OF TOTAL RETURN

for the year ended 28<sup>th</sup> February 2021

	Notes	Year ended 28 <sup>th</sup> Feb. 2021		Year ended 29 <sup>th</sup> Feb. 2020	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		83,383		33,296
Revenue	3	12,303		14,147	
Expenses	4	<u>(9,213)</u>		<u>(8,476)</u>	
Net revenue before taxation		3,090		5,671	
Taxation	5	<u>(1,364)</u>		<u>(664)</u>	
Net revenue after taxation			<u>1,726</u>		<u>5,007</u>
Total return before distributions			85,109		38,303
Distributions	6		<u>(10,316)</u>		<u>(11,945)</u>
Change in net assets attributable to unitholders from investment activities			<u>74,793</u>		<u>26,358</u>

## STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 28<sup>th</sup> February 2021

	Year ended 28 <sup>th</sup> Feb. 2021		Year ended 29 <sup>th</sup> Feb. 2020	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		745,130		686,506
Amounts receivable on creation of units	70,424		76,435	
Amounts payable on cancellation of units	(18,029)		(30,074)	
In-specie transfer	<u>–</u>		<u>(14,095)</u>	
		52,395		32,266
Change in net assets attributable to unitholders from investment activities		<u>74,793</u>		<u>26,358</u>
Closing net assets attributable to unitholders		<u>872,318</u>		<u>745,130</u>

## BALANCE SHEET

as at 28<sup>th</sup> February 2021

	Notes	28 <sup>th</sup> Feb. 2021		29 <sup>th</sup> Feb. 2020	
		£'000	£'000	£'000	£'000
<b>ASSETS:</b>					
Fixed assets:					
Investments			865,199		738,221
Current assets					
Debtors	7	3,367		18,169	
Cash & bank balances		<u>16,209</u>		<u>20,780</u>	
Total other assets			<u>19,576</u>		<u>38,949</u>
Total assets			<u>884,775</u>		<u>777,170</u>
<b>LIABILITIES:</b>					
Creditors					
Distribution payable		(6,692)		(7,639)	
Other creditors	8	<u>(5,765)</u>		<u>(24,401)</u>	
Total liabilities			<u>(12,457)</u>		<u>(32,040)</u>
Net assets attributable to unitholders			<u>872,318</u>		<u>745,130</u>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28<sup>th</sup> February 2021

## 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, updated in June 2017, (the "SORP").
- (b) Dividends receivable from equity investments are recognised gross of withholding tax and are credited to revenue when they are first quoted ex dividend. Interest receivable from debt securities is accounted for on an effective yield basis. All other income is recognised on an accruals basis.
- (c) Special dividends are treated as revenue or capital depending on the facts of each particular case.
- (d) Expenses of the fund are charged against revenue except for costs associated with the purchase and sale of investments which are allocated to the capital of the fund.
- (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.

Overseas capital gains tax is accounted for on an accruals basis.

- (f) The revenue available for distribution is the total revenue earned by the fund, less deductible expenses and taxation charged to revenue. This revenue is distributed annually on the last business day of April. An interim distribution based on available revenue is distributed on the last day of October. The ordinary element of stock dividends is treated as revenue and forms part of the distribution and indexation on index linked bonds is included as part of the distribution. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.
- (g) All investments have been valued at their fair value, at close of business on the last business day of the period, which is generally the bid market value net of any accrued revenue.
- (h) Foreign currency transactions are translated at the rates ruling on the date of the transaction. Assets and liabilities valued in foreign currencies have been translated into sterling at exchange rates prevailing at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 2. Net capital gains

	Year ended 28 <sup>th</sup> Feb. 2021	Year ended 29 <sup>th</sup> Feb. 2020
	£'000	£'000
Non-derivative securities	84,657	33,634
Currency losses	(1,247)	(325)
Custodian transaction costs	<u>(27)</u>	<u>(13)</u>
Net capital gains*	<u>83,383</u>	<u>33,296</u>
<i>*includes realised gains on investments sold</i>	<u>42,947</u>	<u>18,971</u>

### 3. Revenue

	Year ended 28 <sup>th</sup> Feb. 2021	Year ended 29 <sup>th</sup> Feb. 2020
	£'000	£'000
Bank interest	6	22
Interest on overseas debt securities	571	1,281
Interest on UK debt securities	2,503	2,998
Overseas dividends	6,096	5,985
Stock dividends	80	510
UK dividends	<u>3,047</u>	<u>3,351</u>
Total revenue	<u>12,303</u>	<u>14,147</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 4. Expenses

	Year ended 28 <sup>th</sup> Feb. 2021 £'000	Year ended 29 <sup>th</sup> Feb. 2020 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
– Manager's periodic charge	8,303	7,586
– Transfer agency fee	451	456
Payable to the Trustee, associates of the Trustee and agents of either of them:		
– Trustee's fee	126	117
– Safe custody fee	223	230
Other expenses:		
– Audit fee	15	9
– Fund accounting fee	53	49
– Interest payable and similar charges	1	–
– Legal and other professional fees	–	5
– Sundry fees*	41	24
Total expenses	<u>9,213</u>	<u>8,476</u>

\*Includes FT listing fees, financial statement printing and postage, tax computation fees for £6,180 performed by the fund's auditors, PricewaterhouseCoopers LLP (2020: £2,800), and other fees.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 5. Taxation

	Year ended 28 <sup>th</sup> Feb. 2021 £'000	Year ended 29 <sup>th</sup> Feb. 2020 £'000
<b>(a) Analysis of charge for the year</b>		
Indian capital gains tax	735	49
Overseas tax	<u>629</u>	<u>615</u>
	<u>1,364</u>	<u>664</u>

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

The tax assessed for the year is higher (2020 - lower) than the standard rate of corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:

	Year ended 28 <sup>th</sup> Feb. 2021 £'000	Year ended 29 <sup>th</sup> Feb. 2020 £'000
Net revenue before taxation	<u>3,090</u>	<u>5,671</u>
Corporation tax at 20%	618	1,134
<i>Effects of:</i>		
Indexation allowance	(24)	(80)
Indian capital gains tax	735	49
Movement in unrecognised tax losses	1,202	867
Overseas tax	629	615
Overseas tax expensed	(8)	(9)
Revenue not subject to tax	<u>(1,788)</u>	<u>(1,912)</u>
Current tax charge for the year	<u>1,364</u>	<u>664</u>

### (c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £6,971,332 (2020 - £5,769,360) in respect of unrecognised tax losses. 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 current 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 28 <sup>th</sup> Feb. 2021 £'000	Year ended 29 <sup>th</sup> Feb. 2020 £'000
Interim	3,893	4,589
Final	<u>6,692</u>	<u>7,639</u>
	<u>10,585</u>	<u>12,228</u>
Add: Revenue deducted on cancellation of units	80	70
Add: Revenue deducted on in-specie transfer	–	91
Deduct: Revenue received on creation of units	<u>(349)</u>	<u>(444)</u>
Net distribution for the year	<u>10,316</u>	<u>11,945</u>
Net revenue after taxation	1,726	5,007
Expenses taken to capital	8,303	7,586
Indian capital gains tax	735	49
Tax attributable to capital	<u>(448)</u>	<u>(697)</u>
Net distribution for the year	<u>10,316</u>	<u>11,945</u>

*Details of the distributions per unit are shown in the Distribution Tables on page 37.*

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 7. Debtors

	28 <sup>th</sup> Feb. 2021	29 <sup>th</sup> Feb. 2020
	£'000	£'000
Amounts receivable for creation of units	1,664	1,526
Foreign currency contracts awaiting settlement	–	7,138
Overseas withholding tax recoverable	651	594
Prepaid expenses	3	3
Revenue receivable:		
Overseas equities	451	405
Overseas bond interest	80	833
UK bond interest	315	342
UK equities	203	251
Sales awaiting settlement	–	7,077
	<u>3,367</u>	<u>18,169</u>

### 8. Other Creditors

	28 <sup>th</sup> Feb. 2021	29 <sup>th</sup> Feb. 2020
	£'000	£'000
Accrued expenses:		
Audit fee	12	9
Custodial transaction fees	1	3
Fund accounting fee	9	8
Manager's periodic charge	700	623
Registrar's fee	2	2
Safe custody fees	14	35
Transfer agency fee	71	42
Trustee's fee	11	9
Other	13	7
Amounts payable for cancellation of units	4,204	–
Foreign currency contracts awaiting settlement	–	7,142
Indian capital gains tax	728	66
Purchases awaiting settlement	–	16,455
	<u>5,765</u>	<u>24,401</u>

### 9. Unit movement

For the year 1<sup>st</sup> March 2020 to 28<sup>th</sup> February 2021

Opening units	15,105,333
Units created	1,319,027
Units cancelled	<u>(351,867)</u>
Closing units	<u>16,072,493</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 10. Related Party Transactions

The Manager actively exercises control over the fund and is therefore a related party by virtue of its 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 0.8% (2020 - 0.8%).

### 11. Portfolio Risk Analysis

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

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

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

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

It is estimated that 92% of the fund could be realised within 5 days, based upon normal trading activities and achieving 30% of the 30-day average traded volume.

continued

### 11. Portfolio Risk Analysis continued

#### **Credit Quality**

All debt securities in the portfolio at the balance sheet date are investment grade (2020 - same).

#### **Market Price Risk**

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

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

#### **Interest Rate Risk**

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

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

#### **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.

#### **Dividend Risk**

Part of the fund's portfolio is invested in equities, from which it receives dividend income. In light of the Covid-19 crisis, the ability of companies to continue to pay historic levels of dividends is uncertain. As a result, dividend payments, and therefore the income derived by the fund may be adversely affected.

The Manager seeks to mitigate such risk by maintaining a prudent diversification of investments.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 11. Portfolio Risk Analysis continued

#### Valuation of financial investments

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

	Assets £'000	Liabilities £'000
<b>28<sup>th</sup> February 2021</b>		
Level 1: Quoted prices	865,199	–
Level 2: Observable market data	–	–
Level 3: Unobservable data	–	–
	<u><b>865,199</b></u>	<u><b>–</b></u>
	Assets £'000	Liabilities £'000
<b>29<sup>th</sup> February 2020</b>		
Level 1: Quoted prices	738,221	–
Level 2: Observable market data	–	–
Level 3: Unobservable data	–	–
	<u><b>738,221</b></u>	<u><b>–</b></u>

### 12. Risk Exposure

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

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

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

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

	Year ended 28 <sup>th</sup> Feb. 2021 %	Year ended 29 <sup>th</sup> Feb. 2020 %
Year end VaR	9.19	5.54
Minimum VaR	5.59	4.81
Maximum VaR	10.18	5.56
Average VaR	9.57	5.19

#### Leverage

The fund had no exposure to leverage, either in the form of debt or derivatives during the current or prior year.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 13. Portfolio Transaction Costs

For the year 1<sup>st</sup> March 2020 to 28<sup>th</sup> February 2021

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	106,670	76	0.07	170	0.16
Debt instruments	206,687	70	0.03	-	-
<b>Total purchases</b>	<b>313,357</b>	<b>146</b>		<b>170</b>	
<b>Total purchases including transaction costs</b>	<b>313,673</b>				
Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	80,557	58	0.07	17	0.02
Debt instruments	192,236	44	0.02	-	-
<b>Total sales</b>	<b>272,793</b>	<b>102</b>		<b>17</b>	
<b>Total sales net of transaction costs</b>	<b>272,674</b>				
Total transaction costs		248		187	
Total transaction costs as a % of average net assets		0.03%		0.02%	

For the year 1<sup>st</sup> March 2019 to 29<sup>th</sup> February 2020

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	64,189	42	0.07	91	0.14
Debt instruments	102,139	33	0.03	-	-
<b>Total purchases</b>	<b>166,328</b>	<b>75</b>		<b>91</b>	
<b>Total purchases including transaction costs</b>	<b>166,494</b>				
Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	45,812	30	0.07	8	0.02
Debt instruments	80,598	8	0.01	-	-
<b>Total sales</b>	<b>126,410</b>	<b>38</b>		<b>8</b>	
<b>Total sales net of transaction costs</b>	<b>126,364</b>				
Total transaction costs		113		99	
Total transaction costs as a % of average net assets		0.02%		0.01%	

There was an additional sales value of £13,205,953 due to an Inspecie transfer.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 13. Portfolio Transaction Costs continued

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

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

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

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.13% (2020 - 0.17%).

## DISTRIBUTION TABLES

**in pence per unit  
for the year ended 28<sup>th</sup> February 2021**

### INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> March 2020

Group 2 - Units purchased 1<sup>st</sup> March 2020 to 31<sup>st</sup> August 2020

	Dividend income	Equalisation*	Amount paid
Group 1	25.000	–	25.000
Group 2	2.827	22.173	25.000

### FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> September 2020

Group 2 - Units purchased 1<sup>st</sup> September 2020 to 28<sup>th</sup> February 2021

	Dividend income	Equalisation*	Amount payable
Group 1	41.635	–	41.635
Group 2	11.807	29.828	41.635

\*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 28<sup>th</sup> February 2021**

	Year to 28 <sup>th</sup> Feb. 2021	Year to 29 <sup>th</sup> Feb. 2020
Interim paid	25.000	31.000
Final payable/paid	41.635	50.573
	<u>66.635</u>	<u>81.573</u>

### DISTRIBUTION XD AND PAYMENT DATES

	<i>XD Date</i>	<i>Payment Date</i>
Final	28.02.21	30.04.21
Interim	31.08.21	31.10.21







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