



# McInroy & Wood

PERSONAL INVESTMENT MANAGERS

## EMERGING MARKETS FUND

*A pooled management service for private clients*

ANNUAL REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 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 Emerging Markets Fund (the fund) is an authorised unit trust for investors who wish to have their assets personally managed by McInroy & Wood Limited (MW) and for whom a discretionary managed portfolio may not be appropriate. Investors will gain access, through the fund, to a portfolio which it might well be impracticable for them to assemble themselves.

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

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

The investment objective of the Emerging Markets Fund is to grow the real value of investors' capital and income. Investments will primarily be in companies operating or incorporated in developing countries. 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 Limited, Easter Alderston, Haddington, EH41 3SE (Tel. +44(0)1620 825867) or through the website [www.mcinroy-wood.co.uk](http://www.mcinroy-wood.co.uk)

## MANAGER'S INVESTMENT REPORT

At 31<sup>st</sup> March 2017, the total net assets of the fund amounted to £61,622,969, compared with £47,290,737 at 31<sup>st</sup> March 2016. There was a net investment inflow of £3,198,000 into the fund over the year. At 31<sup>st</sup> March 2017, there were 256 investors (excluding ISA holders), each with an average holding worth £235,139.

### Markets

Over the year to 31<sup>st</sup> March 2017, emerging markets rose by 32% in sterling terms as measured by the MSCI Emerging Markets Index.

Emerging markets were broadly strong over course of the year. Among the group, there were some remarkable rises. Brazil was particularly buoyant and strength in the Brazilian real boosted returns further for sterling-based investors. The 'Lava Jato' scandal, which has dominated the government and led to the impeachment of the president, is still unfolding but there are promising signs of political reform. India's equity market also rose, in part due to long-awaited progress on tax reform. It has also been considered a relatively safe haven amongst emerging markets. Hong Kong gained ground over the period as well, as concerns about the potential impact of a Trump presidency were allayed and economic growth remained resilient.

In foreign exchange markets, most emerging market currencies advanced against sterling. US dollar-related currencies rose by 14%. The South African rand was up by 26%, the Brazilian real 32% and the Indian rupee 17%.

### Results

The price of units in the fund at 31<sup>st</sup> March 2017 stood at £21.421, 24% above the figure twelve months before. The portfolio had a limited exposure to China, which performed strongly in the period. However, equity market gains for UK investors were boosted by the currency strength noted above.

### Dividend Distribution

A final dividend distribution of 22.411p per personal unit is now being paid. When aggregated with the interim dividend of 14.000p, total distributions for the year amount to 36.411p, 7% more than the equivalent figure for 2016. On current estimates, the distribution in respect of the next six months is expected to be little changed from the equivalent payment last year.

# MANAGER'S INVESTMENT REPORT

## Portfolio Strategy

The portfolio remains broadly diversified by region and market. At 31<sup>st</sup> March 2017, the regional distribution of the portfolio's investments was 66% in Asia (70% in 2016), 3% in Africa (5%), 6% in Central and Eastern Europe (3%), 21% in Latin America (19%) and 4% in cash (3%).

Considerable thought has been given to a strategic initiative concerning smaller, so-called 'frontier', economies. Relatively underdeveloped markets have potential for significant growth from lesser known and under-invested companies. The portfolio will be extended to include holdings in these as opportunities are identified. A first investment has been made in Vietnam. This is a country which benefits from a young, well-educated population, relatively low wages and accelerating growth rates. It is anticipated that investments will be smaller, initially, than those in more recognised developing markets.

## Investments

Further to the initiative noted above, a new position was established in Vietnam Dairy Products. The company dominates the dairy market in the country. Holdings in Endesa Chile, Hong Kong & China Gas, Telekomunikasi Indonesia, Telesites and Standard Bank were sold. SABMiller was acquired by AB InBev. Proceeds from these transactions were used to increase existing holdings.

During the year, there were notable gains in MP Evans (+97% after takeover offers) and Jain Irrigation Systems (+56%), measured in local currencies. By contrast, it was a disappointing period for Universal Robina (-24%) and Ezion Holdings (-31%). At 31<sup>st</sup> March 2017, there were 44 holdings in the portfolio.

## Outlook

Emerging economies face some uncertainty as populist trends in developed nations may undermine the globalisation of business which has been of such enormous benefit to them. Nonetheless, at least two long-term factors reinforce the attractions of emerging markets for investors. Firstly, favourable demographic trends in many cases provide the impetus for continuing growth. Secondly, economic power and prosperity continues to shift from developed to developing areas. In the near term, the relationship between China and the USA is particularly important; President Trump has made numerous allegations against China of unfair trading practices. He has also threatened punitive counter-measures. While a direct trade war seems unlikely, given the potential impact on both parties, there is a risk of damaging disruption. Other countries might also be affected, with South Korea looking most vulnerable.

## MANAGER'S INVESTMENT REPORT

### Outlook continued

While exports remain important to China, the economy is becoming more balanced. Rising real wages should boost consumption. The industrial sector is benefiting from 'off-shoring' lower margin activities, often to Vietnam. The People's Bank of China has recently increased interest rates, a strong signal of confidence in the economic outlook. There are, however, few signs of reform targeting the country's opaque financial system. It has been destabilised by years of debt-fuelled stimulus. Many state-owned enterprises are highly leveraged and the government has not yet been prepared to allow companies with unsustainably high debt to go bankrupt. Perhaps China can live with piecemeal rather than fundamental reform, but it is clear that the authorities are more comfortable reacting to specific problems rather than addressing structural issues.

India's economy is fairly well insulated from global changes, relying far more on internally generated growth. It has therefore come to be regarded as something of a refuge for emerging market investors. Prime Minister Narendra Modi's position has been strengthened by his party's success in the Uttar Pradesh assembly elections, where the margin of victory was the largest achieved by any party in over 30 years. The economy is growing by over 7% and, by some estimates, has exceeded even Chinese growth rates. There are therefore some solid political and economic foundations for further reform. The recent demonetisation of high value paper currency has demonstrated a willingness to initiate drastic action in taking on traditional vested interests. Another promising signal was a long overdue simplification of the country's tax code, but overall progress continues to be slow. India's bureaucratic system remains frustratingly complex.

Brazil, too, is making some progress on domestic reform, albeit from a much less secure economic and political base. The ongoing corruption scandal overrides all other political considerations at present and there could be further high-profile casualties from it. Painful spending cuts may be necessary for the longer-term health of the economy, but are likely to be deeply unpopular. Nonetheless, the government does have an opportunity for genuine long-term reform to stabilise the economy, reduce corruption and increase political accountability.

Mexico's economy is reviving after the jolt to confidence which it received from the election of Donald Trump. After weakening in the immediate aftermath, the peso has recovered sharply. But here too the political climate is unstable ahead of the country's own presidential election. The early front runner, Andrés Manuel López Obrador, has been accused of promising whatever the public want to hear. Some of his policies may be helpful for markets, including a crackdown on corruption and a massive infrastructure spending programme. However he is fiercely opposed to the current president's structural reforms, such as the privatisation of the energy sector. If Obrador were to win power, attitudes towards foreign investors could deteriorate significantly. His administration would also be likely to take a more combative stance against Trump's rhetoric.

## MANAGER'S INVESTMENT REPORT

### **Outlook continued**

Politics in the Philippines also provide a volatile background to investment. President Rodrigo Duterte's term in office has been characterised thus far by vigilante killings and his obscene outbursts. But such unpredictability, while it may colour the country's image viewed from the outside, is unlikely to discourage foreign investment in the long term. While popular with the electorate, the President's proposed 'separation' from the United States is controversial and, if enduring, could have long-term geopolitical ramifications. Even so, trading and political relationships with the US are probably too important to be entirely abandoned. In the near term, the weakening of the Filipino peso has been positive for business and domestic consumption.

Political risk has also risen sharply in South Africa following President Zuma's dismissal of the well-respected Finance Minister Pravin Gordhan. International confidence in his government and the country's financial standing have been severely undermined. By removing one of the few moderate voices among his colleagues, the president appears to be prioritising personal patronage and rewards for loyal supporters in advance of party elections in December. He seems to be happy to ignore evidence of growing discontent among the electorate, perhaps believing that the system is already sufficiently rigged in his favour. Such behaviour must also raise concerns that he will not be prepared to leave office quietly before or immediately after national elections in 2019.

In summary, although developing markets (like their developed peers) face considerable political uncertainty, there are promising signs of reform. Yet change is occurring slowly. The volatility of Brazil's stock market over the past two years highlights the importance of looking beyond short-term overreactions. A long-term perspective is essential. For what it is worth, the IMF has raised growth forecasts for emerging economies as a group to almost 5% in 2018. This represents a pace more than double that forecast for developed nations. Given this fundamentally positive economic environment for companies to trade in, developing markets still offer excellent opportunities for long-term investors.

*12<sup>th</sup> May 2017*

## COMPARATIVE TABLE — PERSONAL CLASS

	31 <sup>st</sup> March 2017 (pence per unit)	31 <sup>st</sup> March 2016 (pence per unit)	31 <sup>st</sup> March 2015 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	1,708.13	1,860.09	1,649.13
Return before operating charges*	459.28	(95.62)	274.35
Operating charges	(26.04)	(22.39)	(24.29)
Return after operating charges	433.24	(118.01)	250.06
Distributions	(36.41)	(33.95)	(39.10)
<b>Closing net asset value per unit</b>			
	2,104.96	1,708.13	1,860.09
*After direct transaction costs of	(1.66)	(0.83)	(2.55)
<b>Performance**</b>			
Return after charges	25.36%	(6.34)%	15.16%
<b>Other information</b>			
Closing net asset value (£'000)	61,623	46,998	55,907
Closing number of units	2,927,504	2,751,441	3,005,616
Operating charges	1.33%	1.35%	1.34%
Direct transaction costs	0.08%	0.05%	0.14%
<b>Prices</b>			
Highest unit price	22.014	19.544	19.671
Lowest unit price	16.619	14.603	16.569
<b>Portfolio turnover</b>			
Annualised	9%	8%	17%

\*\*Performance is capital gains (or losses) plus income earned. Please note that the capital return element, reflected in the performance figure noted above, may vary from the unit price movement noted in the Manager's Report. The unit price is struck at the daily valuation point at noon, whereas the valuation of investments reported in financial statements are struck at the close of business on the last business day of the period (see note 1 (g)), creating a timing difference.



## COMPARATIVE TABLE — LEGACY CLASS

	21 <sup>st</sup> Dec. 2016 (pence per unit)	31 <sup>st</sup> March 2016 (pence per unit)	31 <sup>st</sup> March 2015 (pence per unit)
<b>Change in net assets per unit</b>			
Opening net asset value per unit	1,680.44	1,839.41	1,639.12
Return before operating charges*	245.19	(95.37)	272.14
Operating charges	(25.06)	(30.10)	(33.06)
Return after operating charges	220.13	(125.47)	239.08
Distributions	(14.00)	(33.50)	(38.79)
Amount transferred to the Personal Class***	(1,886.57)	—	—
<b>Closing net asset value per unit</b>			
	—	1,680.44	1,839.41
*After direct transaction costs of	(1.16)	(0.82)	(2.53)
<b>Performance**</b>			
Return after charges	13.10%	(6.82)%	14.59%
<b>Other information</b>			
Closing net asset value (£'000)	—	293	1,041
Closing number of units	—	17,410	56,588
Operating charges	1.83%	1.84%	1.84%
Direct transaction costs	0.12%	0.05%	0.14%
<b>Prices</b>			
Highest unit price	21.591	19.323	19.508
Lowest unit price	16.339	14.409	16.468

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

\*\*\*Units in the Legacy class were converted to units in the Personal class on 21<sup>st</sup> December 2016.

## PORTFOLIO STATEMENT

as at 31<sup>st</sup> March 2017

INVESTMENTS	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2017	Bid Market Value £'000	Percentage of Value of total net assets	
<i>Equities</i>			31 <sup>st</sup> Mar. 2017	31 <sup>st</sup> Mar. 2016
<b>BRAZIL</b>				
Kroton Educacional	516,736	1,728	2.8	
Localiza Rent A Car	180,000	1,889	3.1	
Natura	110,000	804	1.3	
Weg	412,000	1,805	2.9	
		<u>6,226</u>	<u>10.1</u>	<u>6.5</u>
<b>CHILE</b>				
Andina - ADR	90,000	<u>1,678</u>	<u>2.7</u>	<u>3.8</u>
<b>HONG KONG</b>				
CNOOC	820,000	783	1.3	
Hang Lung Properties	1,020,000	2,115	3.4	
MTR	270,000	1,213	1.9	
Shandong Weigao Medical Polymer	2,250,000	1,281	2.1	
Television Broadcasts	210,000	676	1.1	
Vitasoy International	1,200,000	1,904	3.1	
		<u>7,972</u>	<u>12.9</u>	<u>15.1</u>
<b>INDIA</b>				
ICICI Bank ADR	90,000	618	1.0	
Infosys ADR	145,000	1,832	3.0	
Jain Irrigation Systems	1,500,000	1,730	2.8	
Larsen & Toubro	33,000	639	1.0	
Larsen & Toubro - GDR	37,500	726	1.2	
Mahindra & Mahindra	95,000	1,512	2.4	
Marico	540,000	1,963	3.2	
		<u>9,020</u>	<u>14.6</u>	<u>13.0</u>
<b>INDONESIA</b>				
Arwana Citramulia	30,000,000	850	1.4	
Kalbe Farma	19,023,800	1,752	2.8	
Perusahaan Gas	3,500,000	529	0.9	
		<u>3,131</u>	<u>5.1</u>	<u>7.1</u>
<b>MALAYSIA</b>				
Telekom Malaysia	900,000	<u>1,042</u>	<u>1.7</u>	<u>2.2</u>

## PORTFOLIO STATEMENT

continued

<i>Equities continued</i>	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2017	Bid Market Value £'000	Percentage of Value of total net assets	
			31 <sup>st</sup> Mar. 2017	31 <sup>st</sup> Mar. 2016
<b>MEXICO</b>				
America Movil - ADR	64,000	725	1.2	
Fomento Economico Mexicano	265,000	1,865	3.0	
Grupo Financiero Banorte	140,000	640	1.1	
Wal-Mart de Mexico	1,050,000	1,925	3.1	
		<u>5,155</u>	<u>8.4</u>	<u>8.3</u>
<b>PHILIPPINES</b>				
Jollibee Foods	475,000	1,492	2.4	
Manila Water	2,700,000	1,325	2.2	
Universal Robina	670,000	1,746	2.8	
		<u>4,563</u>	<u>7.4</u>	<u>8.7</u>
<b>PORTUGAL</b>				
Jeronimo Martins	140,000	2,003	3.3	3.4
<b>SINGAPORE</b>				
Ezion	2,100,000	427	0.7	
Ezion warrants 2020	467,460	22	0.1	
Keppel	177,000	703	1.1	
Singapore Exchange	200,000	880	1.4	
Thai Beverage	3,182,700	1,703	2.8	
		<u>3,735</u>	<u>6.1</u>	<u>7.1</u>
<b>SOUTH AFRICA</b>				
MTN	250,000	1,819	2.9	2.8
<b>SOUTH KOREA</b>				
LG Household & Healthcare	4,000	2,317	3.8	
Lotte Shopping	3,600	559	0.9	
POSCO	8,000	1,662	2.7	
		<u>4,538</u>	<u>7.4</u>	<u>7.1</u>
<b>TAIWAN</b>				
Chroma ATE	1,000,000	2,414	3.9	
Giant Manufacturing	341,680	1,617	2.6	
		<u>4,031</u>	<u>6.5</u>	<u>5.8</u>

## PORTFOLIO STATEMENT

continued

	Holding or Nominal Value of positions at 31 <sup>st</sup> March 2017	Bid Market Value £'000	Percentage of Value of total net assets	
			31 <sup>st</sup> Mar. 2017	31 <sup>st</sup> Mar. 2016
<i>Equities continued</i>				
<b>TURKEY</b>				
BIM Birlesik Magazalar	120,000	<u>1,473</u>	<u>2.4</u>	<u>1.0</u>
<b>UK</b>				
M.P. Evans	270,000	<u>1,998</u>	<u>3.2</u>	<u>4.4</u>
<b>VIETNAM</b>				
Vietnam Dairy Products	58,900	<u>297</u>	<u>0.5</u>	<u>0.0</u>
TOTAL INVESTMENTS		58,681	95.2	96.3
Net other assets		<u>2,942</u>	<u>4.8</u>	<u>3.7</u>
<i>TOTAL NET ASSETS</i>		<u><u>61,623</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>

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

## SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 31<sup>st</sup> March 2017

	Cost £'000
Purchases	
90,000 BIM Birlesik Magazalar	1,160
630,000 Ezion ( <i>rights issue</i> )	—
467,612 Ezion warrants 2020	—
140,000 Fomento Economico Mexicano	878
35,000 Giant Manufacturing	180
370,000 Hang Lung Properties	491
45,000 Infosys ADR	528
115,000 Jollibee Foods	369
10,023,800 Kalbe Farma	809
203,500 Kroton Educacional	622
1,000 LG Household & Healthcare	578
64,000 Localiza Rent A Car	452
140,000 MTN	893
182,700 Thai Beverage	95
120,000 Universal Robina	311
58,900 Vietnam Dairy Products	278
330,000 Wal-Mart de Mexico	542
TOTAL	<u>8,186</u>
	Proceeds £'000
Disposals	
21,000 Endesa Chile	607
630,000 Ezion ( <i>rights issue</i> )	32
140,000 Grupo Financiero Banorte	532
907,140 Hong Kong & China Gas	1,154
40,000 M.P. Evans	293
130,000 MTR	507
20,000 SABMiller	874
95,000 Standard Bank	802
7,000,000 Telekomunikasi	1,256
64,000 Telesites	26
900,000 Thai Beverage	522
TOTAL	<u>6,605</u>

## GENERAL INFORMATION

### **Authorisation**

The Emerging Markets Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is categorised as a UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority.

McInroy & Wood Limited and its subsidiary, McInroy & Wood Portfolios Limited, are authorised and regulated by the Financial Conduct Authority.

### **Capital Gains Tax**

Authorised unit trusts are exempt from 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 risk taking which is inconsistent with the risk profile of the funds managed. MWP's compliance with its duty to act in the best interests of the funds it manages is therefore not subject to any conflict of interest.

## GENERAL INFORMATION

continued

### A Word of Caution

You should remember that the price of units and the income from them may go down as well as up. Gains are not necessarily achieved in the short term. Exchange rate fluctuations may also cause the value of an investment to rise and fall. Investment in emerging markets can be subject to risk not normally associated with developed markets.

### Synthetic Risk and Reward Indicator (Volatility measure)

1	2	3	4	5	6	7
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#### Lower risk

Typically lower rewards

#### Higher risk

Typically higher rewards

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

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

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

The Fund was ranked at 6 at the time of the last Annual Report.

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

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (“the Rules”) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the fund and of its net revenue and the net capital gains/(losses) on the property of the fund for the period. In preparing the financial statements the Manager is required to:

- Select suitable accounting policies and then apply them consistently.
- Comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the 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, 12<sup>th</sup> May 2017*



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

The Trustee in its capacity as Trustee of McInroy & Wood Emerging Markets 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 all of 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 UCITS Management Company, are carried out (unless they conflict with the Regulations).

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.

## REPORT OF THE TRUSTEE

### to the unit holders of **McInroy & Wood Emerging Markets Fund for the year ended 31<sup>st</sup> March 2017**

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.

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

*12<sup>th</sup> May 2017*

# INDEPENDENT AUDITORS' REPORT

## Report on the financial statements

### *Our opinion*

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

- give a true and fair view of the financial position of the Trust as at 31<sup>st</sup> March 2017 and of the net revenue and the net capital gains/(losses) of the scheme property of the Trust for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

### *What we have audited*

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

- the balance sheet as at 31<sup>st</sup> March 2017;
- the statement of total return for the year then ended;
- the statement of change in net assets attributable to unitholders for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information; and
- the distribution tables.

The financial reporting framework that has been applied in their preparation is 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 'Financial Statements of UK Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for UK Authorised Funds"), the Collective Investment Schemes sourcebook and the Trust Deed.

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

# INDEPENDENT AUDITORS' REPORT

continued

## **Opinions on matters prescribed by the Collective Investment Schemes Sourcebook**

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

*Propriety of accounting records and information and explanations received*

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

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

We have no exceptions to report arising from this responsibility.

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

*Our responsibilities and those of the Authorised Fund Manager*

As explained more fully in the Authorised Fund Manager's Responsibilities Statement set out on page 15, the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes Sourcebook and for no other purpose.

We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## INDEPENDENT AUDITORS' REPORT

continued

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

#### *What an audit of financial statements involves*

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

- whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Edinburgh

12<sup>th</sup> May 2017

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

## STATEMENT OF TOTAL RETURN

for the year ended 31<sup>st</sup> March 2017

	Notes	Year ended 31 <sup>st</sup> March 2017		Year ended 31 <sup>st</sup> March 2016	
		£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	2		11,679		(4,355)
Revenue	3	1,309		1,276	
Expenses	4	<u>(708)</u>		<u>(634)</u>	
Net revenue before taxation		601		642	
Taxation	5	<u>(134)</u>		<u>(125)</u>	
Net revenue after taxation			<u>467</u>		<u>517</u>
Total return before distributions			12,146		(3,838)
Distributions	6		<u>(1,012)</u>		<u>(1,001)</u>
Change in net assets attributable to unitholders from investment activities			<u>11,134</u>		<u>(4,839)</u>

## STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 31<sup>st</sup> March 2017

	Year ended 31 <sup>st</sup> March 2017		Year ended 31 <sup>st</sup> March 2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		47,291		56,948
Amounts receivable on creation of units	6,514		3,683	
Amounts payable on cancellation of units	<u>(3,316)</u>		<u>(8,501)</u>	
		3,198		(4,818)
Change in net assets attributable to unitholders from investment activities		<u>11,134</u>		<u>(4,839)</u>
Closing net assets attributable to unitholders		<u>61,623</u>		<u>47,291</u>

## BALANCE SHEET

as at 31<sup>st</sup> March 2017

	Notes	31 <sup>st</sup> March 2017		31 <sup>st</sup> March 2016	
		£'000	£'000	£'000	£'000
<b>ASSETS:</b>					
Investments			58,681		45,523
Current assets					
Debtors	7	385		110	
Cash & bank balances		<u>3,401</u>		<u>2,387</u>	
Total other assets			<u>3,786</u>		<u>2,497</u>
Total assets			<u>62,467</u>		<u>48,020</u>
<b>LIABILITIES:</b>					
Creditors					
Distribution payable		(656)		(552)	
Other creditors	8	<u>(188)</u>		<u>(177)</u>	
Total liabilities			<u>(844)</u>		<u>(729)</u>
Net assets attributable to unitholders			<u>61,623</u>		<u>47,291</u>

# NOTES TO THE FINANCIAL STATEMENTS

as at 31<sup>st</sup> March 2017

## 1. Accounting policies

- (a) The financial statements have been prepared on a going concern basis in accordance with FRS 102 and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the IMA (now known as the Investment Association) in May 2014 (the "SORP").
- (b) Dividends receivable from equity investments are recognised net of attributable tax credits and are credited to revenue when they are first quoted ex dividend. Interest receivable from debt securities is accounted for on an effective yield basis. All other income is recognised on an accruals basis.
- (c) Special dividends are treated as revenue or capital depending on the facts of each particular case.
- (d) Expenses of the fund are charged against revenue except for Stamp Duty Reserve Tax and costs associated with the purchase and sale of investments which are allocated to the capital of the fund. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.
- (e) Corporation tax is provided for on the revenue liable to corporation tax less deductible expenses.

Deferred taxation is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences regarded as permanent. Any liability to deferred taxation is provided for at the average rate of taxation expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

- (f) The revenue available for distribution is the total revenue earned by the fund, less deductible expenses and taxation charged to revenue. This revenue is distributed annually on the last business day of May. An interim distribution based on available revenue is distributed on the last day of November. The ordinary element of scrip dividends is treated as revenue but does not form part of the distribution.
- (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/(losses) on investments:

	Year ended 31 <sup>st</sup> March 2017 £'000	Year ended 31 <sup>st</sup> March 2016 £'000
Non-derivative securities	11,707	(4,312)
Currency losses	(13)	(23)
Custodial transaction fees	(15)	(20)
Net capital gains/(losses)*	<u>11,679</u>	<u>(4,355)</u>
<i>*includes realised gains on investments sold</i>	<u>1,804</u>	<u>1,902</u>

### 3. Revenue

Dividends on overseas equities	1,267	1,225
Dividends on UK equities	42	51
Total revenue	<u>1,309</u>	<u>1,276</u>

### 4. Expenses

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

- Manager's periodic charge	545	484
- Transfer agency fee	33	33

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

- Trustee's fee	19	15
- Safe custody fee	53	44

Other expenses:

- Accounts printing and postage	2	1
- Audit fee	11	8
- Fund accounting fee	36	32
- Legal and professional fees	—	5
- Overseas tax compliance	5	4
- Tax computation	—	3
- Sundry fees*	4	5

Total expenses	<u>708</u>	<u>634</u>
----------------	------------	------------

\*Includes FT listing fees, FTSE licence fees and other fees.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 5. Taxation

	Year ended 31 <sup>st</sup> March 2017 £'000	Year ended 31 <sup>st</sup> March 2016 £'000
<b>(a) Analysis of tax charge</b>		
Overseas withholding tax	134	125
	<u>134</u>	<u>125</u>

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

The tax assessed for the period is higher (2016 - lower) than the standard rate of corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:

	Year ended 31 <sup>st</sup> March 2017 £'000	Year ended 31 <sup>st</sup> March 2016 £'000
Net revenue before taxation	601	642
Corporation tax at 20%	120	128
<i>Effects of:</i>		
Irrecoverable overseas withholding tax	134	125
Movement in excess management charges	125	112
Overseas tax expensed	(3)	(3)
Revenue not subject to corporation tax	(242)	(237)
Current tax charge for the year	<u>134</u>	<u>125</u>

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

At the balance sheet date, there is a potential deferred tax asset of £858,577 (2016 - £737,234) in respect of unutilised management expenses. The fund may not generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised in the year or prior year.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 6. Distributions

The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:

	Year ended 31 <sup>st</sup> March 2017 £'000	Year ended 31 <sup>st</sup> March 2016 £'000
Interim	384	411
Final	656	552
	<hr/>	<hr/>
	1,040	963
	<hr/>	<hr/>
Add: Revenue deducted on cancellation of units	21	67
Deduct: Revenue received on creation of units	(49)	(29)
	<hr/>	<hr/>
Net distribution for the year	1,012	1,001
	<hr/>	<hr/>
Net revenue after taxation	467	517
Expenses taken to capital	545	484
	<hr/>	<hr/>
Net distribution for the year	1,012	1,001
	<hr/>	<hr/>

*Details of the distributions per unit are shown in the Distribution Tables on page 33.*

## NOTES TO THE FINANCIAL STATEMENTS

continued

<b>7. Debtors</b>	31 <sup>st</sup> March 2017	31 <sup>st</sup> March 2016
	£'000	£'000
Amounts receivable for creation of units	262	3
Overseas withholding tax recoverable	22	15
Prepaid expenses	2	3
Revenue receivable:		
Overseas equities	72	89
UK Equities	27	—
	<u>385</u>	<u>110</u>

<b>8. Other creditors</b>	31 <sup>st</sup> March 2017	31 <sup>st</sup> March 2016
	£'000	£'000
Accrued expenses:		
Audit fee	9	7
Custodial transaction fees	3	2
Fund accounting fees	8	15
Manager's periodic charge	53	39
Overseas tax compliance	4	6
Safe custody fee	13	7
Transfer agency fee	5	4
Tax computation fee	3	3
Trustee's fee	2	1
Amounts payable for cancellation of units	88	93
	<u>188</u>	<u>177</u>

## 9. Unit movement

For the year 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017

	Legacy	Personal
Opening units	17,410	2,751,441
Units created	84	337,288
Units cancelled	(460)	(177,919)
Units converted	(17,034)	16,694
	<u>—</u>	<u>2,927,504</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 2.9% (2016 - 2.7%).

### 11. Portfolio Risk Analysis

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

#### **Credit and Cashflow Risk**

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

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

#### **Market Price Risk**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 11. Portfolio Risk Analysis continued

#### Interest Rate Risk

The fund holds cash on deposit. Changes in interest rates may have an adverse effect on the value of such deposits and on the amount of income derived from them.

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

The interest rate profile of portfolio investments at 31<sup>st</sup> March was:

#### Interest rate profile

	Floating rate Investments £'000	Fixed rate Investments £'000	Non interest bearing Investments £'000	Total £'000
<b>31<sup>st</sup> March 2017</b>				
Investment assets	—	—	58,681	58,681
<b>31<sup>st</sup> March 2016</b>				
Investment assets	—	—	45,523	45,523

#### Foreign Currency Risk

The fund invests in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. The fund has not hedged the sterling value of investments that are priced in other currencies. Revenue received in other currencies is translated to sterling on or near the date of receipt. The fund does not hedge or otherwise seek to avoid currency movement risk on accrued revenue.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. Portfolio Risk Analysis continued

### Currency profile

The currency profile of the fund's net assets at 31<sup>st</sup> March was:

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
<b>31<sup>st</sup> March 2017</b>				
Brazilian Real	29	6,226	6,255	10.2
Euro	23	2,003	2,026	3.3
Hong Kong Dollar		7,972	7,972	12.9
Indian Rupee		4,331	4,331	7.0
Indonesian Rupiah		3,132	3,132	5.1
Korean Won	42	4,538	4,580	7.4
Malaysian Ringgit		1,042	1,042	1.7
Mexican Peso		4,429	4,429	7.2
New Turkish Lira		1,473	1,473	2.4
Philippine Peso		4,564	4,564	7.4
Singapore Dollar		3,735	3,735	6.1
South African Rand		1,819	1,819	3.0
Taiwan Dollar		4,031	4,031	6.5
UK Sterling	2,830	1,998	4,828	7.8
US Dollar		7,091	7,091	11.5
Vietnamese Dong	18	297	315	0.5
	2,942	58,681	61,623	100.0
<b>31<sup>st</sup> March 2016</b>				
Brazilian Real	11	3,088	3,099	6.6
Euro	16	1,593	1,609	3.4
Hong Kong Dollar		7,160	7,160	15.2
Indian Rupee	5	2,754	2,759	5.8
Indonesian Rupiah		3,364	3,364	7.1
Korean Won	35	3,337	3,372	7.1
Malaysian Ringgit		1,058	1,058	2.2
Mexican Peso		3,177	3,177	6.7
New Turkish Lira		452	452	1.0
Philippine Peso		4,123	4,123	8.7
Singapore Dollar		3,412	3,412	7.2
South African Rand	39	1,297	1,336	2.8
Taiwan Dollar		2,727	2,727	5.8
UK Sterling	1,657	2,060	3,717	7.9
US Dollar	5	5,921	5,926	12.5
	1,768	45,523	47,291	100.0

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 11. Portfolio Risk Analysis continued

#### Valuation of financial investments

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

	Assets £'000	Liabilities £'000
<b>31<sup>st</sup> March 2017</b>		
Quoted prices for identical instruments in active markets	58,681	—
	<b>58,681</b>	<b>—</b>
<b>31<sup>st</sup> March 2016</b>		
Quoted prices for identical instruments in active markets	45,523	—
	<b>45,523</b>	<b>—</b>

### 12. Portfolio Transaction Costs

For the year 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	8,159	23	0.28	4	0.05
<b>Total purchases</b>	<b>8,159</b>	<b>23</b>		<b>4</b>	

#### Total purchases including transaction costs

**8,186**

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	6,625	16	0.24	4	0.06
<b>Total sales</b>	<b>6,625</b>	<b>16</b>		<b>4</b>	

#### Total sales net of transaction costs

**6,605**

Total transaction costs	39	8
Total transaction costs as a % of average net assets	0.07%	0.01%



## NOTES TO THE FINANCIAL STATEMENTS

continued

### 12. Portfolio Transaction Costs continued

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

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

**Total purchases including transaction costs**

**1,357**

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

**Total sales net of transaction costs**

**6,614**

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

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

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

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

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.26% (2016 - 0.48%).

### 13. Post Balance Sheet Events

There are no post balance sheet events that require disclosure or adjustments to the financial statements.

## DISTRIBUTION TABLES

in pence per unit  
for the year ended 31<sup>st</sup> March 2017

### INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> April 2016

Group 2 - Units purchased 1<sup>st</sup> April 2016 to 30<sup>th</sup> September 2016

	Unit Class	Dividend income	Equalisation*	Amount paid 30.11.16
Group 1	Legacy	14.000	—	14.000
Group 2	Legacy	4.244	9.756	14.000
Group 1	Personal	14.000	—	14.000
Group 2	Personal	3.095	10.905	14.000

### FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1<sup>st</sup> October 2016

Group 2 - Units purchased 1<sup>st</sup> October 2016 to 31<sup>st</sup> March 2017

	Unit Class	Dividend income	Equalisation*	Amount payable 31.05.17
Group 1	Legacy**	—	—	—
Group 2	Legacy**	—	—	—
Group 1	Personal	22.411	—	22.411
Group 2	Personal	5.793	16.618	22.411

\*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.

\*\*Units in the Legacy class were converted to units in the personal class on 21<sup>st</sup> December 2016.

## DISTRIBUTION TABLES

continued

### DISTRIBUTION SUMMARY in pence per unit for the year ended 31<sup>st</sup> March 2017

	Year to 31 <sup>st</sup> March 2017		Year to 31 <sup>st</sup> March 2016	
	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>
Interim paid	14.000	14.000	14.000	14.000
Final payable/paid	22.411	—	19.949	19.503
	36.411	14.000	33.949	33.503

### DISTRIBUTION XD AND PAYMENT DATES

	<i>XD Date</i>	<i>Payment Date</i>
Final	31.03.17	31.05.17
Interim	30.09.17	30.11.17





*Manager*

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