



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

SMALLER COMPANIES FUND

A pooled management service for private clients

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28TH FEBRUARY 2019

SUMMARY

At 28th February 2019, total net assets of the fund amounted to £119,256,864 compared with £106,494,195 at 28th February 2018. There were 352 investors (excluding ISA holders), each with an average holding worth £303,222.

The price of units in the fund at 28th February 2019 stood at £52.470, virtually unchanged from the level of the unit price at 28th February 2018. After outperforming their larger counterparts in the first part of the period, smaller companies lagged in the later months of the fund's reporting year as investors sought the perceived safety and liquidity of blue-chip stocks in response to the prospect of slowing global growth.

The objective of the fund is to grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and on 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, over the same period. Over the 3 years to 28th February 2019 the total return for unitholders in the fund was 47%, compared to inflation of 9% on the above basis over the same period.

A final dividend distribution of 53.829p per unit is now being paid. This brings the overall distribution for the year to 73.829p, which is substantially higher than the corresponding payments for the previous reporting period, despite the fund's reversion from a 13- to a 12-month period over which income has been earned. The increase partly reflects a significantly depressed prior year payment due to a one-off change in Swiss taxation rules. Otherwise, several significant increases in dividend payments from individual companies added to the level of income, notably a one-off special dividend from Victrex that contributed 3p to the full year distribution.

McInroy & Wood has a long record of profitable investment in smaller companies and considers that they can offer outstanding investment opportunities. In many cases, they will be more attractively valued than their better-known larger counterparts, and will generally be able to grow faster. It remains essential to identify sound businesses with strong market positions that can be sustained through testing economic conditions. If this is successfully achieved, patient investors should be well rewarded.

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

INTRODUCTION

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

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

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

The investment objective of the Smaller Companies Fund is to grow the real value of investors' capital and income. Investments will primarily be in global smaller companies, which do not form part of the leading market indices. An equal emphasis will be placed on the generation of income and on capital growth.

The fund may invest in any geographic areas and any economic sectors.

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

MANAGER'S INVESTMENT REPORT

At 28th February 2019, total net assets of the fund amounted to £119,256,864 compared with £106,494,195 at 28th February 2018. There were 352 investors (excluding ISA holders), each with an average holding worth £303,222.

Markets

Although the US equity market gained ground over the year to 28th February 2019, most other equity markets were weaker. The US economy continued to grow strongly over the first part of the period, boosted by aggressive tax cuts. In response, the Federal Reserve raised interest rates four times in 2018, and this began to unsettle investors. Meanwhile, protectionist measures by the US and retaliation by its trading partners also worried markets. The uncertainty of the Brexit negotiations damaged confidence in the UK. By the end of last year, signs that growth might be slowing worldwide represented another hit to investor sentiment. In response, central banks postponed further rises in interest rates, and consequently markets rallied in the early months of the current year.

Measured by MSCI indices in local currencies, the US market rose by 3%. By contrast, the UK fell by 2%, Europe by 3% and Japan by 8%. The strength of the US dollar against sterling was offset by weakness in the euro, and the MSCI All Country World Index rose by 1%, expressed in sterling terms.

Results

The price of units in the fund at 28th February 2019 stood at £52.470, virtually unchanged from the level of the unit price at 28th February 2018. After outperforming their larger counterparts in the first part of the period, smaller companies lagged in the later months of the fund's reporting year as investors sought the perceived safety and liquidity of blue-chip stocks in response to the prospect of slowing global growth.

The objective of the fund is to grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and on 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, over the same period. Over the 3 years to 28th February 2019 the total return for unitholders in the fund was 47%, compared to inflation of 9% on the above basis over the same period.

Dividend Distribution

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MANAGER'S INVESTMENT REPORT

Portfolio Strategy

There was no significant change to the investment strategy over the period. At 28th February 2019, the UK equity allocation was 34% (32% at 28th February 2018), USA 23% (22%), Europe 28% (30%), Japan 5% (7%) and Australia 7% (6%). Cash accounted for a further 3% (3%). This level of cash is temporary; the fund operates with a target allocation of 1%.

Investments

New positions were established in Victrex, a UK manufacturer of a high-performance plastic, Basler, a German producer of industrial cameras, and Accesso Technology, a specialist ticket operator. Holdings in Energen (US), Keller (UK), Boskalis Westminster (Netherlands), Sysmex (Japan), Virbac and Medicea International (both France) were sold.

The strongest performing stocks in the portfolio in local currency terms were Technology One (+54%), Tractor Supply (+47%) and Craneware (+44%). NCC (-38%) and Anika Therapeutics (-37%) both lost ground, as did Accesso Technology which fell 53% after its initial purchase in the fund following a disappointing announcement.

Outlook

All major economies have experienced lower growth in recent months, and investors are increasingly nervous that global economic growth is set to slow this year. Latest figures from the US show disappointing annualised growth of 2.6%, while the eurozone was notably sluggish, recording an anaemic 0.2% growth in the fourth quarter.

As a result, central banks have postponed further increases in interest rates while they assess the extent of the weakness. They continue to wrestle with the conundrum that inflation has not risen sharply at a time of record employment in some countries. However, if bond markets are correct in anticipating no change in rates until 2020, this would offer some support for financial markets.

The prospect of Brexit continues to dominate the UK's economic outlook. The recent strength of the pound seems to reflect optimism that a no-deal exit can be avoided. But the final shape of Britain's relationship with the EU remains unclear at the time of writing, and this is damaging business and consumer confidence. The economy is now at a virtual standstill and the Bank of England is forecasting a one in four chance of a recession this year.

While economic conditions clearly impact the companies in the portfolio in the short term, all the holdings have been selected for their prospects for growth in specific sectors. A recurrent theme has been investment into manufacturing companies with specialist operations. These businesses are producing leading products in particular market niches.

MANAGER'S INVESTMENT REPORT

Outlook (continued)

The fund has held the Swiss company Belimo for many years. The company manufactures actuators, special motorised fire dampers and air-volume controls for heating, ventilation and air conditioning equipment systems. It is the world leader in this area, emphasising the “Swiss made” quality of its products. Belimo has an outstanding record of profitable growth, and has been able to sustain this by taking advantage of a global trend to make new and existing buildings more efficient in their consumption of water and energy. Particular market gains have been made in Asia, and the company looks well-positioned for further expansion.

Another good example is ARB. This Australian company produces accessories and parts specifically designed for four-wheel drive vehicles in the testing conditions of the Outback, and has become known for its well-engineered and durable products. ARB is the market leader in Australia and has broadened its growth by expanding internationally, with an export network in more than 100 countries. As with Belimo, the company is focused on mastering a particular market segment in order to benefit from both gains in market share and from overall growth in the sector.

McInroy & Wood has a long record of profitable investment in smaller companies and considers that they can offer outstanding investment opportunities. In many cases, they will be more attractively valued than their better-known larger counterparts, and will generally be able to grow faster as well. It remains essential to identify sound businesses with strong market positions that can be sustained through testing economic conditions. If this is successfully achieved, patient investors should be well rewarded.

COMPARATIVE TABLE — PERSONAL CLASS

	Year to 28 th February 2019 (pence per unit)	13 months to 28 th February 2018 (pence per unit)	Year to 31 st January 2017 (pence per unit)
Change in net assets per unit			
Opening net asset value per unit	5,177.16	4,400.16	3,546.70
Return before operating charges*	161.75	896.68	965.79
Operating charges	(63.16)	(62.83)	(49.61)
Return after operating charges	98.59	833.85	916.18
Distributions	(73.83)	(56.85)	(62.72)
Closing net asset value per unit			
	5,201.92	5,177.16	4,400.16
*After direct transaction costs of	(2.62)	(2.11)	(2.89)
Performance**			
Return after charges	1.90%	18.95%	25.83%
Other information			
Closing net asset value (£'000)	119,257	106,494	80,149
Closing number of units	2,292,555	2,057,000	1,821,500
Operating charges	1.16%	1.19%	1.22%
Direct transaction costs	0.05%	0.04%	0.08%
Prices			
Highest unit price	£59.879	£53.900	£45.978
Lowest unit price	£49.198	£44.006	£33.456
Portfolio turnover			
Annualised	16%	9%	12%

**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 accounts 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 noon, whereas the valuation of investments reported in the 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.

PORTFOLIO STATEMENT

as at 28th February 2019

INVESTMENTS	Holding at 28 th Feb. 2019	Bid Market Value £'000	Percentage of Value of total net assets 28 th Feb. 2019 28 th Feb. 2018	
<i>Equities</i>				
UK				
Abcam	223,770	2,871	2.4	
Accesso Technology	75,000	630	0.5	
Advanced Medical Solutions	782,547	2,379	2.0	
Assura	3,600,100	2,077	1.7	
Barr (A.G.)	323,914	2,478	2.1	
Craneware	154,850	4,073	3.4	
GB Group	518,700	2,534	2.1	
Hill & Smith	219,630	2,583	2.2	
James Fisher & Sons	141,250	2,805	2.3	
Mattioli Woods	280,790	2,120	1.8	
NCC	1,189,900	1,462	1.2	
Rotork	860,200	2,447	2.0	
Spectris	70,140	1,851	1.6	
Spirax-Sarco Engineering	45,785	3,049	2.6	
Treatt	676,769	2,842	2.4	
Victrex	114,725	2,687	2.3	
XP Power	90,750	1,833	1.5	
		<u>40,721</u>	<u>34.1</u>	<u>31.3</u>
USA				
Anika Therapeutics	114,475	2,803	2.3	
AptarGroup	36,700	2,806	2.4	
Dorman Products	47,900	2,913	2.4	
Lindsay	24,190	1,680	1.4	
Proto Labs	40,230	3,419	2.9	
Sun Hydraulics	90,600	3,241	2.7	
Tractor Supply	44,760	3,206	2.7	
US Physical Therapy	42,535	3,527	3.0	
Watsco	30,250	3,273	2.7	
		<u>26,868</u>	<u>22.5</u>	<u>22.4</u>
DENMARK				
Össur	729,100	<u>2,777</u>	<u>2.3</u>	<u>1.1</u>
FRANCE				
Boiron	43,108	2,026	1.7	
Rubis	66,774	2,973	2.5	
Somfy	39,133	2,426	2.1	
Teleperformance	25,910	3,483	2.9	
		<u>10,908</u>	<u>9.2</u>	<u>10.6</u>

PORTFOLIO STATEMENT

continued

<i>Equities continued</i>	Holding at 28 th Feb. 2019	Bid Market Value £'000	Percentage of Value of total net assets	
			28 th Feb. 2019	28 th Feb. 2018
GERMANY				
Basler	20,259	2,744	2.3	
Dr Hoenle	51,224	2,083	1.8	
HELLA	78,140	2,662	2.2	
ISRA Vision	76,215	2,404	2.0	
Krones	26,110	1,639	1.4	
Pfeiffer Vacuum	7,176	824	0.7	
		<u>12,356</u>	<u>10.4</u>	<u>10.7</u>
NETHERLANDS				
		<u>—</u>	<u>0.0</u>	<u>1.2</u>
SWITZERLAND				
Belimo	930	3,302	2.8	
Sonova	20,860	2,939	2.4	
Vifor Pharma	16,240	1,531	1.3	
		<u>7,772</u>	<u>6.5</u>	<u>6.6</u>
AUSTRALIA				
ARB	309,800	2,799	2.3	
Bapcor	794,000	2,565	2.2	
Technology One	817,040	3,221	2.7	
		<u>8,585</u>	<u>7.2</u>	<u>6.0</u>
JAPAN				
Asahi Intecc	94,800	3,419	2.9	
Nabtesco	133,600	2,650	2.2	
		<u>6,069</u>	<u>5.1</u>	<u>7.0</u>
TOTAL INVESTMENTS		116,056	97.3	96.9
Net other assets		<u>3,201</u>	<u>2.7</u>	<u>3.1</u>
TOTAL NET ASSETS		<u><u>119,257</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 28th February 2019

Purchases	Cost £'000
75,000 Accesso Technology	1,157
82,847 Advanced Medical Solutions	218
51,500 Anika Therapeutics	1,421
3,770 AptarGroup	314
107,600 ARB	1,100
130,355 Bapcor	469
20,259 Basler	2,737
13,820 Boiron	857
11,600 Dorman	579
724 Dr Hoenle	29
178,200 GB Group	917
28,760 HELLA	1,128
80,235 Hill & Smith	881
62,390 ISRA Vision	220
32,050 James Fisher & Sons	554
3,960 Kronas	381
100,715 Mattioli Woods	789
57,200 Nabtesco	1,330
280,500 NCC	629
378,100 Össur	1,247
5,000 Proto Labs	402
122,200 Rotork	349
7,900 Rubis	350
11,728 Somfy	811
18,868 Sun Hydraulics	593
368,280 Technology One	962
114,725 Victrex	3,074
8,115 Watsco	948
TOTAL	<u>24,446</u>

SUMMARY OF ALL PORTFOLIO CHANGES

continued

Disposals	Proceeds
	£'000
18,500 Asahi Intecc	695
46,200 Boskalis Westminster	1,011
8,562 Dr Hoenle	579
52,060 Energen	3,020
109,681 Keller	964
163,665 Medicrea International	421
11,370 Proto Labs	1,164
35,500 Sysmex	2,549
262,040 Technology One	959
6,485 US Physical Therapy	624
10,520 Virbac	1,156
TOTAL	<u>13,142</u>

GENERAL INFORMATION

Authorisation

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

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

Capital Gains Tax

Authorised unit trusts are exempt from UK 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.

Costs of Investment Research

McInroy & Wood Limited, the Investment Adviser to the Smaller Companies 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 our homepage on our website (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.

Remuneration Policy

McInroy & Wood Portfolios Limited (“MWP”) delegates investment management of the fund 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 remuneration requirements which are equally as effective as those in place under the UCITS Directive. 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.

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

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

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

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

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

- Select suitable accounting policies and then apply them consistently.
- Comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the IMA in May 2014.
- Follow generally accepted accounting principles and applicable accounting standards.
- Prepare the accounts on the basis that the fund will continue in operation unless it is inappropriate to do so.
- Keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and the Rules, and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The maintenance and integrity of the McInroy & Wood website is the responsibility of the Authorised Fund Manager.

DIRECTORS' STATEMENT

In accordance with the requirements of the rules in the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority, we hereby certify the Report and Financial Statements of the fund on behalf of the Directors of McInroy & Wood Portfolios Limited.

T A U Wood
Director

J C McAulay
Director

Haddington, 17th April 2019

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

The Trustee in its capacity as Trustee of McInroy & Wood Smaller Companies 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 monitored¹ 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.

¹This requirement on the Trustee applied from 18th March 2016.

REPORT OF THE TRUSTEE

to the unit holders of McInroy & Wood Smaller Companies Fund for the year ended 28th February 2019

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.

17th April 2019

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

INDEPENDENT AUDITORS' REPORT

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the financial position of the Trust as at 28th February 2019 and of the net revenue and the net capital gains of the scheme property of the Trust for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (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 28th February 2019; 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 Trust 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

ISAs (UK) require us to report to you when:

- the Authorised Fund Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Authorised Fund Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

INDEPENDENT AUDITORS' REPORT

continued

Conclusions relating to going concern continued

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Trust's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the fund's business and the wider economy.

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 Authorised Fund Manager for the financial statements

As explained more fully in the Statement of the Manager's Responsibilities set out on page 14, the Authorised Fund 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 Authorised Fund Manager is also responsible for such internal control as they determine 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 Authorised Fund Manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Authorised Fund Manager either intends to wind up or terminate the Trust, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

continued

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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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. 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

17th April 2019

STATEMENT OF TOTAL RETURN

for the year ended 28th February 2019

	Notes	Year ended 28 th Feb. 2019		Period ended 28 th Feb. 2018	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		1,512		16,157
Revenue	3	1,854		1,479	
Expenses	4	<u>(1,351)</u>		<u>(1,224)</u>	
Net revenue before taxation		503		255	
Taxation	5	<u>(91)</u>		<u>(189)</u>	
Net revenue after taxation			<u>412</u>		<u>66</u>
Total return before distributions			1,924		16,223
Distributions	6		<u>(1,577)</u>		<u>(1,103)</u>
Change in net assets attributable to unitholders from investment activities			<u>347</u>		<u>15,120</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 28th February 2019

	Year ended 28 th Feb. 2019		Period ended 28 th Feb. 2018	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		106,494		80,149
Amounts receivable on creation of units	15,908		13,430	
Amounts payable on cancellation of units	<u>(3,492)</u>		<u>(2,205)</u>	
		12,416		11,225
Change in net assets attributable to unitholders from investment activities		<u>347</u>		<u>15,120</u>
Closing net assets attributable to unitholders		<u>119,257</u>		<u>106,494</u>

BALANCE SHEET

as at 28th February 2019

	Notes	28 th Feb. 2019		28 th Feb. 2018	
		£'000	£'000	£'000	£'000
ASSETS:					
Investments			116,056		103,174
Current assets					
Debtors	7	309		309	
Cash & bank balances		<u>5,563</u>		<u>3,881</u>	
Total other assets			<u>5,872</u>		<u>4,190</u>
Total assets			<u>121,928</u>		<u>107,364</u>
LIABILITIES:					
Creditors					
Distribution payable		(1,234)		(758)	
Other creditors	8	<u>(1,437)</u>		<u>(112)</u>	
Total liabilities			<u>(2,671)</u>		<u>(870)</u>
Net assets attributable to unitholders			<u>119,257</u>		<u>106,494</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28th February 2019

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 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 April. An interim distribution based on available revenue is distributed on the last day of October. 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 the exchange rates prevailing at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. Net capital gains on investments:

	Year ended 28 th Feb. 2019	Period ended 28 th Feb. 2018
	£'000	£'000
Non-derivative securities	1,579	16,265
Currency gains/(losses)	(60)	(96)
Custodial transaction fees	(7)	(12)
Net capital gains*	<u>1,512</u>	<u>16,157</u>
<i>*includes realised gains on investments sold</i>	<u>6,959</u>	<u>1,507</u>

3. Revenue

	Year ended 28 th Feb. 2019	Period ended 28 th Feb. 2018
	£'000	£'000
Bank interest	15	3
Dividends on UK equities	702	521
Dividends on overseas equities	1,113	932
Property income distributions on UK REITs	24	18
Stock dividends	—	5
Total revenue	<u>1,854</u>	<u>1,479</u>

4. Expenses

	Year ended 28 th Feb. 2019	Period ended 28 th Feb. 2018**
	£'000	£'000
Payable to the Manager, associates of the Manager and agents of either of them:		
- Manager's periodic charge	1,165	1,037
- Transfer agency fee	75	82
Payable to the Trustee, associates of the Trustee and agents of either of them:		
- Trustee's fee	28	28
- Safe custody fee	23	21
Other expenses:		
- Audit fee	9	8
- Fund accounting fee	36	39
- Sundry fees*	15	9
Total expenses	<u>1,351</u>	<u>1,224</u>

*Includes FT listing fees, accounts printing and postage, tax computation fees and other fees.

**The period ended 28th Feb. 2018 was 13 months long.

NOTES TO THE FINANCIAL STATEMENTS

continued

5. Taxation

	Year ended 28 th Feb. 2019 £'000	Period ended 28 th Feb. 2018 £'000
(a) Analysis of tax charge		
Overseas tax	91	189
	<u>91</u>	<u>189</u>

(b) Factors affecting the tax charge for the year/period

The tax assessed for the year is lower (2018 - higher) than the standard rate of corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:

	Year ended 28 th Feb. 2019 £'000	Period ended 28 th Feb. 2018 £'000
Net revenue before taxation	<u>503</u>	<u>255</u>
Corporation tax at 20%	101	51
<i>Effects of:</i>		
Movement in unrecognised tax losses	262	241
Overseas tax	91	189
Revenue not subject to corporation tax	<u>(363)</u>	<u>(292)</u>
Current tax charge for the year/period	<u>91</u>	<u>189</u>

(c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £1,551,963 (2018 - £1,289,386) due to 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 th Feb. 2019 £'000	Period ended 28 th Feb. 2018 £'000
Interim	426	395
Final	1,234	758
	<u>1,660</u>	<u>1,153</u>
Add: Revenue deducted on cancellation of units	15	13
Deduct: Revenue received on creation of units	(98)	(63)
Net distribution for the year/period	<u>1,577</u>	<u>1,103</u>
Net revenue after taxation	412	66
Expenses taken to capital	1,165	1,037
Net distribution for the year/period	<u>1,577</u>	<u>1,103</u>

Details of the distributions per unit are shown in the Distribution Tables on page 32.

7. Debtors

	28 th Feb. 2019 £'000	28 th Feb. 2018 £'000
Amounts receivable for creation of units	76	121
Overseas withholding tax recoverable	114	124
Prepaid expenses	2	2
Tax recoverable on UK REITs	5	4
Revenue receivable:		
Income tax recoverable	4	—
Overseas equities	67	25
UK equities	41	33
	<u>309</u>	<u>309</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Creditors	28 th Feb. 2019	28 th Feb. 2018
	£'000	£'000
Accrued expenses:		
Audit fees	9	9
Fund accounting fee	4	5
Manager's periodic charge	92	81
Safe custody fee	3	5
Transfer agency fee	8	3
Trustee's fee	2	2
Custodial transaction fees	2	2
Other	5	4
Amounts payable for cancellation of units	—	1
Purchases awaiting settlement	1,312	—
	<u>1,437</u>	<u>112</u>

9. Unit movement

For the year 1st March 2018 to 28th February 2019

	Personal
Opening units	2,057,000
Units issued	300,259
Units redeemed	(64,704)
Units converted	—
Closing units	<u>2,292,555</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 their 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 2.4% (2018 - 2.9%).

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 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'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.

continued

11. Portfolio Risk Analysis continued

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 fund 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 Investment Objective and Policy.

At 28th February 2019 and 28th February 2018, no interest bearing investments were held by the fund, hence no interest rate risk exposure table has been presented.

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.

Operational Risk - Brexit

Having conducted an internal risk assessment we deem the operational risks to the fund of a no-deal Brexit as low.

NOTES TO THE FINANCIAL STATEMENTS

continued

11. Portfolio Risk Analysis continued

Currency profile

The currency profile of the fund's net assets at 28th February was:

	Monetary (Cash/Other assets) £'000	Non-monetary (Securities) £'000	Total £'000	Total %
28th February 2019				
UK Sterling	2,351	40,721	43,072	36.1
US Dollar	1,058	26,868	27,926	23.4
Euro	(266)	23,264	22,998	19.3
Swiss Franc	—	7,772	7,772	6.5
Australian Dollar	32	8,585	8,617	7.2
Japanese Yen	26	6,069	6,095	5.1
Danish Krone	—	2,777	2,777	2.4
Total	3,201	116,056	119,257	100.0
28th February 2018				
UK Sterling	2,899	33,335	36,234	34.0
US Dollar	279	23,865	24,144	22.7
Euro	125	23,968	24,093	22.6
Swiss Franc	—	7,006	7,006	6.6
Australian Dollar	—	6,355	6,355	6.0
Japanese Yen	17	7,485	7,502	7.0
Danish Krone	—	1,160	1,160	1.1
Total	3,320	103,174	106,494	100.0

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
28th February 2019		
Quoted prices for identical instruments in active markets	116,056	—
	116,056	—
28th February 2018		
Quoted prices for identical instruments in active markets	103,174	—
	103,174	—

NOTES TO THE FINANCIAL STATEMENTS

continued

11. Portfolio Risk Analysis continued

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/period.

	Year ended 28 th Feb. 2019	Period ended 28 th Feb. 2018
	%	%
Year/period end VaR	7.98	6.28
Minimum VaR	6.21	5.51
Maximum VaR	8.87	6.32
Average VaR	7.17	5.23

12. Portfolio Transaction Costs

For the year 1st March 2018 to 28th February 2019

	Value £'000	Commissions £'000	%	Taxes £'000	%
Purchases					
Equity instruments (direct)	24,399	14	0.06	33	0.14
Total purchases	24,399	14		33	

Total purchases including transaction costs

24,446

	Value £'000	Commissions £'000	%	Taxes £'000	%
Sales					
Equity instruments (direct)	13,151	9	0.07	—	—
Total sales	13,151	9		—	

Total sales net of transaction costs

13,142

Total transaction costs 23 33

Total transaction costs as a % of average net assets 0.02% 0.03%

NOTES TO THE FINANCIAL STATEMENTS

continued

12. Portfolio Transaction Costs continued

For the period 1st February 2017 to 28th February 2018

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	18,127	21	0.12	12	0.07
Total purchases	18,127	21		12	

**Total purchases including
transaction costs** 18,160

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments (direct)	6,228	8	0.13	—	—
Total sales	6,228	8		—	

**Total sales net of
transaction costs** 6,220

Total transaction costs 29 12

Total transaction costs
as a % of average net assets 0.03% 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 instrument 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 0.40% (2018 - 0.44%).

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 28th February 2019**

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st March 2018

Group 2 - Units purchased 1st March 2018 to 31st August 2018

	Dividend income	Equalisation*	Amount paid 31.10.18
Group 1	20.000	—	20.000
Group 2	0.000	20.000	20.000

FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1st September 2018

Group 2 - Units purchased 1st September 2018 to 28th February 2019

	Dividend income	Equalisation*	Amount payable 30.04.19
Group 1	53.829	—	53.829
Group 2	12.995	40.834	53.829

*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 28th February 2019**

	Year to 28 th Feb. 2019	Period to 28 th Feb. 2018
Interim paid	20.000	20.000
Final payable/paid	53.829	36.851
	<u>73.829</u>	<u>56.851</u>

DISTRIBUTION XD AND PAYMENT DATES

	<i>XD Date</i>	<i>Payment Date</i>
Final	28.02.19	30.04.19
Interim	31.08.19	31.10.19

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