



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

SMALLER COMPANIES FUND

A pooled management service for private clients

INTERIM REPORT
AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JULY 2016

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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 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 31st July 2016, total net assets of the fund amounted to £72,182,034 compared with £59,369,550 at 31st January 2016. There was a further net investment inflow into the fund over the six month period. At 31st July, there were 313 investors (excluding ISA holders), each with an average holding worth £211,109.

Markets

Most equity markets rose over the six months to 31st July 2016, despite the political and economic uncertainty engendered by the result of the UK's referendum on Europe. In the aftermath, the UK equity market has been helped by the devaluation of sterling and the increased attraction of sterling investments for overseas investors. It has also been bolstered by Bank of England assurances of further monetary easing. Indeed monetary policies around the world have provided considerable encouragement for investors in equities.

The UK FTSE 100 rose 11% over the period. Measured by MSCI indices in local currency, the USA was also strong, rising 12%, while Europe, by contrast, ended the period little changed. Expressed in sterling, the overall MSCI All Country World index gained 19%.

Results

The price of Personal units in the fund at 31st July stood at £41.784, a rise of 18% from the level of the unit price at 31st January 2016. Gains from equity markets were magnified by sterling's weakness against many overseas currencies.

Dividend Distribution

A dividend distribution of 20.000p per unit is now being paid to holders of both unit classes, an increase of 5% on the equivalent payment a year ago.

On current estimates, the distribution for the next six months to 31st January 2017 is expected to be higher than the corresponding payment last year.

Portfolio Strategy

There was no significant change to portfolio strategy in the period. At 31st July 2016, the UK equity allocation was 28% (29% at 31st January 2016), the USA 29% (30%), Europe 29% (30%), Japan 3% (3%) and Australia 8% (5%). Cash accounted for a further 3% (3%).

Investments

New investments were purchased in Advanced Medical Solutions, which develops dressings for chronic and acute wounds, and Bapcor, an Australian automotive parts company. Otherwise, cash was used to increase existing holdings. Questar Corporation was sold.

Dorman Products (+47%) and Hill & Smith Holdings (+43%) were the best performing stocks over the period, while Parkmead Group (-20%) and Sepura (-64%) fell appreciably.

MANAGER'S INVESTMENT REPORT

continued

Outlook

In the UK, the vote to leave the European Union has already overturned the political status quo. The economic impact of the decision, however, could inflict more lasting hurt to the country. Protracted uncertainty over the terms of Brexit is likely to hamper companies' investment plans. Some forecasters have reduced estimates for 2017 economic growth to a minimal 0.3% and employers are becoming more pessimistic about hiring new staff.

Nevertheless, unemployment remains low and the sharp slump in the value of sterling should make UK exporters more competitive. Much will depend on whether the UK's fiscal and financial credibility can be maintained; the Bank of England has already responded with its largest stimulus package since the financial crisis. This may help maintain some prospect of growth but carries political risks to overseas confidence in the UK. In any event, separation from the EU will take some time to be implemented.

The longer-term implications for the EU itself may also be testing. Marine Le Pen, leader of France's nationalist party, is expected to receive considerable support in the presidential election next year. Polls suggest euroscepticism is also growing in the Netherlands; there must be some prospect of fragmentation across the union if such political movements gain further momentum. EU leaders are well aware of these dynamics, so fear of 'contagion' may colour future negotiations with the UK.

In the USA, the outcome of the presidential election may also begin to worry markets. Until recently, Donald Trump's likely appeal was greatly underestimated – and it may still be, even if his campaign now appears to be foundering on the national stage. After offending swathes of the electorate, he is facing rising opposition from within the Republican Party and is, at the time of writing, lagging Hilary Clinton in the polls. But the significance of his success so far may prove more enduring and far-reaching than a temporary expression of current popular resentment. Social divides, indignation at the behaviour of establishment elites, asset inflation caused by quantitative easing, and rising populism are all linked. These factors have combined to provide an ideal platform for Trump and may do so for similar opportunists elsewhere among developed nations.

Nonetheless, current economic conditions reveal some positives. In the US, companies have been hiring at the quickest rate for several months and, although still tepid, wage growth is accelerating. Sentiment indicators have been better than expected and consumer spending remains robust. There has also been some improvement in the outlook for growth in China, while business confidence appears to be holding up in Europe.

MANAGER'S INVESTMENT REPORT

continued

Outlook (continued)

Commodity prices show signs of stabilisation, while consumers should continue to benefit from historically depressed energy costs. Critically for financial investments, interest rate rises in the major economies look likely to be deferred and the frantic search for yield may well continue to support historically high equity valuations.

Despite these supportive factors, equity markets could come under pressure should current anxieties become more acute. Admittedly, the world is not yet in recession, and short-term equity market weakness might throw up some attractive long-term investment opportunities particularly in smaller companies. These tend to be marked down indiscriminately in market sell-offs. The fund's robust performance over the last ten years is some indication that, given time, a diversified portfolio of carefully selected smaller companies can provide satisfactory returns.

9th September 2016

CAPITAL RECORD

Highest and lowest unit prices.

Accounting year (to 31 st Jan)	High		Low	
	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>
2012	£28.734	—	£23.442	—
2013	£28.511	£28.520	£23.657	£27.224
2014	£33.856	£34.036	£28.006	£28.017
2015	£34.940	£35.308	£30.290	£30.566
2016	£37.737	£38.174	£33.441	£33.909
2017*	£41.285	£42.035	£32.934	£33.456

*Up to 31st July 2016 only.

INCOME RECORD

Accounting year (to 31 st Jan)	Per unit (net)	
	<i>Legacy</i>	<i>Personal</i>
2012	42.134p	—
2013	59.012p	40.023p
2014	53.931p	54.051p
2015	61.459p	61.932p
2016	58.422p	59.160p
2017 (<i>Interim only</i>)	20.000p	20.000p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
31.01.14 <i>Legacy</i>	£2,208,260	£32.080	68,835
31.01.14 <i>Personal</i>	£54,177,510	£32.255	1,679,663
31.01.15 <i>Legacy</i>	£1,876,116	£34.065	55,075
31.01.15 <i>Personal</i>	£57,522,291	£34.425	1,670,942
31.01.16 <i>Legacy</i>	£1,611,591	£34.920	46,151
31.01.16 <i>Personal</i>	£57,757,959	£35.467	1,628,498
31.07.16 <i>Legacy</i>	£1,718,987	£40.885	42,044
31.07.16 <i>Personal</i>	£70,463,047	£41.634	1,692,460

OPERATING CHARGES

Date	Annualised	
	<i>Legacy</i>	<i>Personal</i>
31.01.12	1.605%	—
31.01.13	1.599%	1.099%
31.01.14	1.630%	1.214%
31.01.15	1.714%	1.216%
31.01.16	1.725%	1.225%
31.07.16	1.739%	1.240%

PORTFOLIO TURNOVER

Date	Annualised
31.01.12	3%
31.01.13	(2%)
31.01.14	2%
31.01.15	(3%)
31.01.16	11%
31.07.16	2%

PORTFOLIO STATEMENT

as at 31st July 2016 (unaudited)

INVESTMENTS	Holding or Nominal Value of positions at 31 st July 2016	Bid Market Value £'000	Percentage of Value of total net assets	
<i>Equities</i>			31 st July 2016	31 st Jan. 2016
UK				
Abcam	164,020	1,255	1.7	
Advanced Medical Solutions	327,640	708	1.0	
AG Barr	276,414	1,493	2.1	
Assura	2,874,400	1,692	2.3	
Cape	234,353	435	0.6	
Craneware	118,820	1,105	1.5	
Hill & Smith	139,395	1,490	2.1	
Intermediate Capital	204,822	1,174	1.6	
Keller	118,165	1,204	1.7	
MP Evans	94,805	398	0.5	
NCC Group	404,000	1,313	1.8	
Parkmead	1,126,691	439	0.6	
Rotork	494,000	1,075	1.5	
RPS	528,465	994	1.4	
Sepura	850,000	487	0.7	
Spectris	70,140	1,318	1.8	
Spirax Sarco	45,785	1,824	2.5	
Treatt	519,650	925	1.3	
XP Power	58,750	952	1.3	
		20,281	28.0	29.4
USA				
Anika Therapeutics	62,975	2,368	3.3	
Anixter International	26,230	1,210	1.7	
Dorman Products	36,300	1,741	2.4	
Energen	29,380	1,048	1.5	
Landauer	25,060	787	1.1	
Lindsay Corp.	24,190	1,278	1.8	
O'Reilly Automotive	6,630	1,451	2.0	
Owens & Minor	40,464	1,087	1.5	
Proto Labs	28,000	1,161	1.6	
Sun Hydraulics	63,392	1,439	2.0	
Tractor Supply Company	33,060	2,281	3.2	
US Physical Therapy	55,335	2,485	3.4	
Watsco	22,135	2,400	3.3	
		20,736	28.8	30.1

PORTFOLIO STATEMENT

continued

<i>Equities continued</i>	Holding or Nominal Value of positions at 31 st July 2016	Bid Market Value £'000	Percentage of Value of total net assets	
			31 st July 2016	31 st Jan. 2016
FRANCE				
Boiron	24,938	1,734	2.4	
Medicrea International	181,100	773	1.1	
Rubis	29,437	1,784	2.5	
Somfy	5,481	1,551	2.1	
Teleperformance	25,910	1,813	2.5	
Virbac	10,520	1,555	2.2	
		<u>9,210</u>	<u>12.8</u>	<u>12.4</u>
GERMANY				
Dr Höhle	59,062	1,214	1.7	
ISRA Vision	7,500	507	0.7	
Krones	22,150	1,667	2.3	
Pfeiffer Vacuum	7,176	557	0.8	
		<u>3,945</u>	<u>5.5</u>	<u>5.6</u>
NETHERLANDS				
Boskalis Westminster	46,000	1,273	1.8	2.1
SWITZERLAND				
Belimo	930	2,202	3.1	
Galenica	1,624	1,582	2.2	
Kuehne & Nagel	13,920	1,474	2.0	
Sonova	14,160	1,464	2.0	
		<u>6,722</u>	<u>9.3</u>	<u>9.4</u>
AUSTRALIA				
ARB	162,300	1,686	2.3	
Bapcor	419,500	1,374	1.9	
Technology One	842,500	2,744	3.8	
		<u>5,804</u>	<u>8.0</u>	<u>5.4</u>
JAPAN				
Sysmex	35,500	1,868	2.6	2.6
<i>TOTAL INVESTMENTS</i>		<i>69,839</i>	<i>96.8</i>	<i>97.0</i>
Net other assets		<u>2,343</u>	<u>3.2</u>	<u>3.0</u>
<i>TOTAL NET ASSETS</i>		<u><u>72,182</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>

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

SUMMARY OF ALL PORTFOLIO CHANGES

for the six months ended 31st July 2016 (unaudited)

	Cost £'000
Purchases	
327,640 Advanced Medical Solutions	643
419,500 Bapcor	1,157
13,000 Dr Hönle	244
24,000 Hill & Smith	181
304,500 NCC Group	886
1,550 Somfy	360
20,000 XP Power	327
TOTAL	<u>3,798</u>
	Proceeds £'000
Disposals	
94,805 MP Evans	403
99,870 Queststar	1,708
TOTAL	<u>2,111</u>

GENERAL INFORMATION

Authorisation

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

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

Capital Gains Tax

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

Applications

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

Data Protection

Unitholders' names will be added to a mailing list which may be used by the Manager, or its associate, to provide investors with information related to their investment, including occasional topical articles. Unitholders who would not like to receive such information can write to the Manager requesting their removal from any such mailing list.

A Word of Caution

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

GENERAL INFORMATION

continued

Synthetic Risk and Reward Indicator (Volatility measure)

1	2	3	4	5	6	7
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Lower risk

Typically lower rewards

Higher risk

Typically higher rewards

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

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

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

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

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

- Select suitable accounting policies and then apply them consistently.
- Comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the IMA in 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, 9th September 2016

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

The Trustee is under a duty to take into its custody and to hold the property of the Trust in trust for the holders of units. It is also the duty of the Trustee to enquire into the conduct of the Manager in the management of the Trust and to ensure that the Trust is managed in accordance with all applicable rules and restrictions in each annual accounting period, and to report thereon to unitholders.

STATEMENT OF TOTAL RETURN

for the six months ended 31st July 2016 (unaudited)

	Notes	Six months ended 31 st July 2016		Six months ended 31 st July 2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains			10,509		3,377
Revenue	2	834		857	
Expenses	3	<u>(400)</u>		<u>(371)</u>	
Net revenue before taxation		434		486	
Taxation	4	<u>14</u>		<u>(73)</u>	
Net revenue after taxation			<u>448</u>		<u>413</u>
Total return before distributions			10,957		3,790
Distributions			<u>(346)</u>		<u>(334)</u>
Change in net assets attributable to unitholders from investment activities			<u>10,611</u>		<u>3,456</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the six months ended 31st July 2016 (unaudited)

	Six months ended 31 st July 2016		Six months ended 31 st July 2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		59,370		59,398
Amounts receivable on creation of units	3,375		1,984	
Amounts payable on cancellation of units	<u>(1,174)</u>		<u>(4,221)</u>	
		2,201		(2,237)
Change in net assets attributable to unitholders from investment activities		<u>10,611</u>		<u>3,456</u>
Closing net assets attributable to unitholders		<u>72,182</u>		<u>60,617</u>

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

BALANCE SHEET

as at 31st July 2016 (unaudited)

	31 st July 2016		31 st Jan. 2016	
	£'000	£'000	£'000	£'000
ASSETS:				
Investments		69,839		57,614
Current assets				
Debtors	315		155	
Cash & bank balances	<u>2,470</u>		<u>2,355</u>	
Total other assets		<u>2,785</u>		<u>2,510</u>
Total assets		<u>72,624</u>		<u>60,124</u>
 LIABILITIES:				
Creditors				
Distribution payable	(347)		(672)	
Other creditors	<u>(95)</u>		<u>(82)</u>	
Total liabilities		<u>(442)</u>		<u>(754)</u>
Net assets attributable to unitholders		<u>72,182</u>		<u>59,370</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st July 2016 (unaudited)

1. Accounting policies

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

2. Revenue

	Six months ended 31 st July 2016 £'000	Six months ended 31 st July 2015 £'000
Dividends on overseas equities	582	563
Dividends on UK equities	252	294
Total revenue	<u>834</u>	<u>857</u>

3. Expenses

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

- Manager's periodic charge	330	314
- Transfer agency fee	22	18

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

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

Other expenses:

- Audit fee	7	4
- French withholding tax recovery fee	2	—
- Fund accounting fee	19	16
- Sundry fees*	4	4

Total expenses	<u>400</u>	<u>371</u>
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*Includes tax computation fees, FTSE License fee and other fees.

NOTES TO THE FINANCIAL STATEMENTS

continued

4. Taxation

	Six months ended 31 st July 2016 £'000	Six months ended 31 st July 2015 £'000
Analysis of tax (credit)/charge		
French withholding tax recoverable	(65)	—
Overseas tax	51	73
	<u>(14)</u>	<u>73</u>

5. Currency and interest rate profile

<i>Currency</i>	31 st July 2016 %	31 st Jan. 2016 %
UK Sterling	31.0	32.1
US Dollar	28.7	30.1
Euro	20.2	20.2
Swiss Franc	9.5	9.5
Australian Dollar	8.0	5.4
Japanese Yen	2.6	2.7
	<u>100.0</u>	<u>100.0</u>

DISTRIBUTION TABLES

in pence per unit
for the six months ended 31st July 2016 (unaudited)

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st February 2016

Group 2 - Units purchased 1st February 2016 to 31st July 2016

	Unit Class	Dividend income	Equalisation*	Amount payable 30.09.16
Group 1	Legacy	20.0000	—	20.0000
Group 2	Legacy	14.772	5.228	20.0000
Group 1	Personal	20.0000	—	20.0000
Group 2	Personal	9.553	10.447	20.0000

*Income arises throughout each reporting period. Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax. Instead, it must be deducted from the cost of units for capital gains purposes.

DISTRIBUTION SUMMARY

in pence per unit
for the six months ended 31st July 2016 (unaudited)

	Six months to 31 st July 2016		Year to 31 st Jan. 2016	
	<i>Personal</i>	<i>Legacy</i>	<i>Personal</i>	<i>Legacy</i>
Interim payable/paid	20.000	20.000	19.000	19.000
Final paid	—	—	40.160	39.422
	<u>20.000</u>	<u>20.000</u>	<u>59.160</u>	<u>58.422</u>

Manager

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S J Cunningham
W A Ferguson
A H Fraser
J E Marshall
J C McAulay
Lord Francis Seymour
D H Shaw Stewart
C T F White
V N U Wood

Secretary

J C McAulay

Investment Adviser

McInroy & Wood Limited
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Trustee

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AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

McInroy & Wood Portfolios Limited is a subsidiary of
McInroy & Wood Limited
MWSCF0716