



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 AUGUST 2023

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

INTRODUCTION

The McInroy & Wood Smaller Companies Fund (the fund) is an authorised unit trust for those who wish to have their assets personally managed by McInroy & Wood Limited (MW). The fund is designed for use by both discretionary clients of MW, and by those who are comfortable deciding whether the fund is suitable for them.

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

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

The investment objective of the fund is to grow the real value of investors' capital and income. Investments will 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. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The UK Retail Prices Index (RPI) is the measure of inflation used by the Manager. Investors should intend to hold an investment in the fund for a minimum period of 3 years. Investors should be aware that their capital is at risk.

The fund may invest in any geographical area and any economic sector. The fund invests at least 50 percent in shares of smaller companies, quoted on the world's stock markets, which are considered to have above-average long-term growth prospects. Smaller, in this context, means companies which, normally, are likely to fall outside those comprising any narrowly constituted local market index of large companies. But there may also be some investments in companies included in such indices. Other appropriate investments may also be held such as cash or cash equivalents. It is not intended that the fund will have an interest in any immovable property or tangible movable property.

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

MANAGER'S INVESTMENT REPORT

At 31st August 2023, total net assets of the fund amounted to £138,499,201 compared with £144,327,251 at 28th February 2023. There were 408 investors (excluding ISA holders), each with an average holding worth £296,745.

The price of units in the fund at 31st August 2023 stood at £61.394, a fall of 2% from the level of the unit price six months before. Smaller companies generally remained out of favour compared to their larger counterparts. In addition, the strength of sterling against major foreign currencies depressed the value of overseas assets for sterling-based investors.

Markets

Although concerns over slowdowns in the housing and manufacturing sectors weighed on the UK equity market (-6%), overseas markets made progress in local currency terms over the six months to 31st August 2023. The USA (+14%) advanced strongly, but this was mainly due to a rise in the share prices of a narrow band of global technology companies. Japan (+18%) also rose sharply. Gains in Europe (+1%) were comparatively modest. All markets are measured by MSCI indices. The relative weakness of global smaller companies can be seen in the performance of the MSCI World Small Cap Index which fell by 5% in sterling terms compared to a 4% rise in the MSCI All Country World Index on the same basis.

The pound strengthened against other major currencies (+13% against the Japanese yen, +5% against the US dollar, and +3% against the euro).

Inflation (RPI) was 3% over the six-month period.

Results

Over the 3 years to 31st August 2023, the total return for unitholders in the fund was 5%, compared to RPI of 29%. Over 5 years, the fund returned 10% against RPI of 33%. The fund has provided a total return to unitholders of 667% above RPI since its inception in March 2001.

The UK is currently experiencing an episode of unusually high inflation. In recent months, annual price rises have reached levels last seen in 1980. This has proved difficult for investment returns to match at a time when all financial markets have been negatively impacted by global efforts to contain rising prices with tighter monetary policies. However, the portfolio's equity allocation focuses on investing in companies with pricing power and the potential to deliver good profit growth, aiming for strong capital appreciation and, in some cases, a growing stream of dividends. This approach is designed to enable the portfolio to deliver returns ahead of inflation over the long term, in line with the fund's objectives and investment horizon.

MANAGER'S INVESTMENT REPORT

Dividend Distribution

An interim dividend distribution of 22.000 pence per unit is now being paid, 10% higher than the comparable interim payment last year. Based on current forecasts, the total distribution for the full period is estimated to be higher than last year. This reflects the contribution of a handful of dividend-paying stocks added to the portfolio over the past year that are now contributing to the income earned by the fund.

Portfolio Strategy

There was no significant change to the investment strategy over the period. At 31st August 2023, the UK equity allocation was 29% (31% at 28th February 2023), USA 23% (18%), Europe 25% (30%), Japan 11% (9%) and Australia 10% (9%). Cash accounted for a further 2% (3%).

Investments

The holdings of Dr Hoenle (Germany) and Ossur HF (Iceland) were sold in full. SimCorp (Denmark) was acquired by Deutsche Boerse. New positions were established in Kadant (US) and Toyo Tanso (Japan).

The best-performing stocks in local currency terms were Xero (+61%) and Tokyo Ohka Kogyo (+37%). Basler (-53%) and Teleperformance (-47%) fell back.

Outlook

The investment outlook is brightening, but there are still reasons to be cautious. Many economies are overcoming the dampening effect of higher interest rates to record modest levels of growth. Meanwhile, a period of lower energy prices has helped consumers and inflation readings are improving, but central bankers are taking a prudent approach. Energy markets remain tight, and prices have moved higher. A prolonged period of restrictive financial conditions may be necessary to reduce inflation further. Economies that have held up well so far may find this environment increasingly challenging as the full effects of higher interest rates play out.

Concerns are already mounting that Europe will slip back into recession while the UK continues to struggle with Brexit-related frustrations and productivity issues. Sentiment is much better in the USA. Federal Reserve policy looks capable of lowering inflation without causing a recession, aided by remarkably resilient consumer demand. Even so, many US companies are preparing for a spell of slower growth by reducing stock, retaining cash buffers, and, in some instances, cutting staff levels. There are also good reasons to be optimistic about the Japanese economy. The modest inflation registered there so far has lifted expectations for growth, and at last there are signs of a broad-based recovery in consumer spending and business investment.

MANAGER'S INVESTMENT REPORT

Outlook continued

The recent portfolio additions noted above reflect these more encouraging prospects for the USA and Japan. The purchase of Kadant followed a transatlantic research trip and a meeting with the company's management team. Kadant's highly sophisticated engineered systems have a broad range of applications in many different industries. These include manufacturing processes for OSB cross-laminated timber (an environmentally friendly alternative to concrete and steel) and for fibre-based packaging for food and beverage (which is increasingly replacing plastic containers). Kadant is clearly well-positioned to benefit from the increasing demand for more sustainable products and the continued growth of e-commerce, which typically uses more packaging than traditional retailing. Furthermore, the company also enjoys a reliable income stream from selling critical replacement parts.

Toyo Tanso occupies a technical leadership position in isotropic graphite manufacturing. This niche industry supplies essential products used to create silicon carbide semiconductors. These chips perform better than traditional silicon variants at high temperatures and in magnetic fields. As a result, they are preferred in a wide variety of applications including electric vehicles, charging stations, and electric turbines for wind generation. The company plans to invest heavily in expanding its manufacturing capacity over the next five years to satisfy rising demand in these areas.

Although the investment outlook has improved, it remains challenging. A period of sustained inflation and tighter financial conditions is likely, and corporate earnings growth looks set to slow as a result. Any ensuing market weakness should provide good opportunities to add new companies to the portfolio at attractive valuations. The fund remains focused on investment in smaller companies with robust business models and compelling prospects. This approach should deliver attractive returns for patient unitholders willing to invest over the long term.

23rd October 2023

CAPITAL RECORD

Highest and lowest unit prices.

Accounting year

(to 28 th Feb.)	High	Low
2021	£73.514	£45.488
2022	£81.386	£63.948
2023	£68.512	£54.990
2024*	£63.292	£58.904

*Up to 31st August 2023, for the year ending 29th February 2024.

INCOME RECORD

Accounting year

(to 28 th Feb.)	Per unit (net)
2021	60.991p
2022	73.961p
2023	84.287p
2024 (interim only)	22.000p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
28.02.21	£156,531,764	£68.800	2,275,163
28.02.22	£156,354,822	£65.813	2,375,761
28.02.23	£144,327,251	£62.114	2,323,573
31.08.23	£138,499,201	£61.047	2,268,745

OPERATING CHARGES

Date	Annualised
28.02.21	1.140%
28.02.22	1.120%
28.02.23	1.120%
31.08.23	1.140%

PORTFOLIO TURNOVER

Date	Annualised
28.02.21	11%
28.02.22	16%
28.02.23	15%
31.08.23	26%

DISCRETE PERFORMANCE

Year to	Year to	Year to	Year to	Year to
31.08.23	31.08.22	31.08.21	31.08.20	31.08.19
2.3%	-23.0%	33.0%	7.3%	-2.2%

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

PORTFOLIO STATEMENT

as at 31st August 2023 (unaudited)

INVESTMENTS	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			31 st Aug. 2023	28 th Feb. 2023
<i>Equities</i>				
UK				
Advanced Medical Solutions	1,212,270	3,091	2.2	
Assura	5,378,355	2,468	1.8	
Barr	732,749	3,561	2.6	
Craneware	220,620	2,934	2.1	
GB	1,269,540	2,884	2.1	
Hill & Smith	276,570	4,951	3.6	
Porvair	397,449	2,432	1.7	
Rotork	1,001,800	3,014	2.2	
Spectris	106,985	3,557	2.6	
Spirax-Sarco Engineering	35,687	3,615	2.6	
Treatt	510,541	2,803	2.0	
Weir	174,875	3,207	2.3	
XP Power	104,376	2,218	1.6	
		<u>40,735</u>	<u>29.4</u>	<u>31.4</u>
USA				
Abcam	249,345	4,447	3.2	
AptarGroup	45,400	4,749	3.4	
Energy Recovery	192,295	4,113	3.0	
Helios Technologies	72,104	3,288	2.4	
Kadant	21,385	3,704	2.7	
Omnicell	58,445	2,620	1.9	
US Physical Therapy	42,135	3,349	2.4	
Watsco	17,429	5,012	3.6	
		<u>31,282</u>	<u>22.6</u>	<u>17.5</u>
BELGIUM				
Deme	34,085	3,153	2.3	2.0
DENMARK				
FLSmidth	103,130	3,719	2.7	6.3
FRANCE				
Robertet	4,914	3,556	2.6	
Rubis	146,009	2,809	2.0	
SOITEC	31,127	4,503	3.2	
Teleperformance	23,667	2,592	1.9	
		<u>13,460</u>	<u>9.7</u>	<u>9.4</u>
GERMANY				
Basler	202,159	2,403	1.8	4.1

PORTFOLIO STATEMENT

continued

	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			31 st Aug. 2023	28 th Feb. 2023
<i>Equities continued</i>				
SWEDEN				
HMS Networks	104,633	3,320	2.4	2.4
SWITZERLAND				
Belimo	12,280	5,109	3.7	
Sonova	17,530	3,659	2.6	
		<u>8,768</u>	<u>6.3</u>	<u>6.1</u>
AUSTRALIA				
ARB	163,269	2,821	2.0	
Bapcor	1,058,790	3,588	2.6	
Technology One	524,691	4,130	3.0	
Xero	52,073	3,329	2.4	
		<u>13,868</u>	<u>10.0</u>	<u>9.3</u>
JAPAN				
Asahi Intecc	227,600	3,653	2.6	
Furuya Metal	56,100	2,880	2.1	
Nabtesco	214,800	3,212	2.3	
Tokyo Ohka Kogyo	62,600	3,341	2.4	
Toyo Tanso	63,500	2,048	1.5	
		<u>15,134</u>	<u>10.9</u>	<u>8.8</u>
TOTAL INVESTMENTS		135,842	98.1	97.3
Net other assets		<u>2,657</u>	<u>1.9</u>	<u>2.7</u>
TOTAL NET ASSETS		<u><u>138,499</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 August 2023 (unaudited)

Purchases		Cost £'000
49,960	Basler	699
6,785	Deme	700
17,200	Furuya Metal	938
681,000	GB	1,766
21,385	Kadant	3,654
6,404	SOITEC	758
8,910	Teleperformance	1,383
6,500	Tokyo Ohka Kogyo	301
63,500	Toyo Tanso	1,910
	TOTAL	<u>12,109</u>

SUMMARY OF ALL PORTFOLIO CHANGES

continued

Disposals		Proceeds £'000
55,600	Abcam	1,047
137,482	Dr Hoenle	2,652
41,720	Energy Recovery	903
800,653	Ossur HF	2,890
45,794	SimCorp	3,852
15,190	Spectris	569
17,140	US Physical Therapy	1,543
2,130	Watsco	598
	TOTAL	<u><u>14,054</u></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 UK UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority.

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

Capital Gains Tax

Authorised unit trusts are exempt from UK capital gains tax on realised capital gains. Overseas capital gains tax is accounted for on an accruals basis.

Applications

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

Costs of Investment Research

MW, the Investment Adviser to the Manager of 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 the 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

MWP delegates investment management of the fund, and other in-house funds (together "funds") to MW, the Investment Adviser. Directors and staff involved in the management of the fund are remunerated in accordance with MW's Remuneration Policy. The Remuneration Policy is available on our website and 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 risks 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 as adopted by the Financial Conduct Authority 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 change over time.

Value Assessment

The Manager conducted an assessment of value for the fund. The assessment of value report is published annually by 30th June and is available to investors in a composite report for all the McInroy & Wood funds on our website.

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (the Rules) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 102), of the financial position of the fund and of its net revenue and the net capital gains on the property of the fund for the 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 Investment Management Association in May 2014, updated in June 2017;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the fund will continue as a going concern unless it is inappropriate to do so; and
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

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

The maintenance and integrity of the Our Fund pages 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, 23rd October 2023

STATEMENT OF TOTAL RETURN

for the six months ended 31st August 2023 (unaudited)

	Notes	Six months ended 31 st Aug. 2023		Six months ended 31 st Aug. 2022	
		£'000	£'000	£'000	£'000
Income					
Net capital losses			(2,713)		(13,656)
Revenue	2	1,710		1,637	
Expenses	3	<u>(807)</u>		<u>(859)</u>	
Net revenue before taxation		903		778	
Taxation	4	<u>(104)</u>		<u>(118)</u>	
Net revenue after taxation			<u>799</u>		<u>660</u>
Total return before distributions			(1,914)		(12,996)
Distributions			<u>(525)</u>		<u>(481)</u>
Change in net assets attributable to unitholders from investment activities			<u>(2,439)</u>		<u>(13,477)</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the six months ended 31st August 2023 (unaudited)

	Six months ended 31 st Aug. 2023		Six months ended 31 st Aug. 2022	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		144,327		156,355
Amounts receivable on creation of units		2,088		7,088
Amounts payable on cancellation of units		<u>(5,477)</u>		<u>(4,639)</u>
		(3,389)		2,449
Change in net assets attributable to unitholders from investment activities		<u>(2,439)</u>		<u>(13,477)</u>
Closing net assets attributable to unitholders		<u>138,499</u>		<u>145,327</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 August 2023 (unaudited)

	31 st Aug. 2023		28 th Feb. 2023	
	£'000	£'000	£'000	£'000
ASSETS:				
Fixed assets:				
Investments		135,842		140,443
Current assets				
Debtors	281		271	
Cash & bank balances	<u>3,165</u>		<u>5,371</u>	
Total other assets		<u>3,446</u>		<u>5,642</u>
Total assets		<u>139,288</u>		<u>146,085</u>
LIABILITIES:				
Creditors				
Distribution payable	(499)		(1,494)	
Other creditors	<u>(290)</u>		<u>(264)</u>	
Total liabilities		<u>(789)</u>		<u>(1,758)</u>
Net assets attributable to unitholders		<u>138,499</u>		<u>144,327</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st August 2023 (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 Aug. 2023 £'000	Six months ended 31 st Aug. 2022 £'000
Bank interest	25	10
Overseas dividends	1,138	1,139
Property income distributions on UK REITs	86	82
UK dividends	461	406
Total revenue	<u>1,710</u>	<u>1,637</u>

3. Expenses

	Six months ended 31 st Aug. 2023 £'000	Six months ended 31 st Aug. 2022 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
– Manager's periodic charge	713	772
– Transfer agency fee	30	33
Payable to the Trustee, associates of the Trustee and agents of either of them:		
– Trustee's fee	16	17
– Safe custody fee	10	10
Other expenses:		
– Audit fee	8	1
– Fund accounting fee	23	20
– Interest payable and similar charges	1	1
– Professional services fees*	2	2
– Sundry fees**	4	3
Total expenses	<u>807</u>	<u>859</u>

*Includes non-audit service fees of £1,814 payable to the fund's auditors, PricewaterhouseCoopers LLP (2022: £ 1,724).

**Includes FT listing fees, financial statement printing and postage and other fees.

NOTES TO THE FINANCIAL STATEMENTS

continued

4. Taxation

	Six months ended 31 st Aug. 2023 £'000	Six months ended 31 st Aug. 2022 £'000
Analysis of tax charge		
Overseas tax	<u>104</u>	<u>118</u>
	<u>104</u>	<u>118</u>

DISTRIBUTION TABLES

in pence per unit

for the six months ended 31st August 2023 (unaudited)

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st March 2023

Group 2 - Units purchased 1st March 2023 to 31st August 2023

	Dividend income	Equalisation*	Amount payable
Group 1	22.000	—	22.000
Group 2	0.000	22.000	22.000

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

DISTRIBUTION SUMMARY

in pence per unit

for the six months ended 31st August 2023 (unaudited)

	Six months to 31 st Aug. 2023	Year to 28 th Feb. 2023
Interim payable/paid	22.000	20.000
Final paid	—	64.287
	<u>22.000</u>	<u>84.287</u>

Manager

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D J O Cruickshank
W A Ferguson
J R Jesty
J E Marshall
J C McAulay
T A U Wood
J A Young

Secretary

J C McAulay

Investment Adviser

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AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

McInroy & Wood Portfolios Limited is a subsidiary of
McInroy & Wood Limited
MWSCF0823