

The Munro Fund
Annual Report and Accounts
for the year ended 31 January 2011

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The Munro Fund

Annual Report and Accounts for the year ended 31 January 2011

Authorised Corporate Director's report to the shareholders of The Munro Fund

The Authorised Corporate Director ("the ACD") presents herewith the annual report and accounts ("the Report") for The Munro Fund for the year ended 31 January 2011.

The Munro Fund ("the Company") is an authorised open-ended investment company with variable capital ("ICVC") further to a Financial Services Authority ("FSA") authorisation order dated 18 July 2007. The Company is incorporated under registration number IC000551. It is a UCITS scheme complying with the investment and borrowing powers rules in the Collective Investment Schemes sourcebook ("COLL") issued by the FSA.

The Company has been set up as an umbrella company. Provision exists for an unlimited number of sub-funds to be included within the "umbrella" and additional sub-funds may be established by the ACD with the agreement of the Depositary and the approval of the FSA. A sub-fund is not a legal entity. If the net assets attributable to one sub-fund are insufficient to meet the liabilities attributable to that sub-fund, the shortfall may have to be met out of the assets attributable to the other sub-funds.

The Company has currently one Fund available for investment, Munro UK Fund.

The ACD is of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities which are readily realisable and, accordingly, the Company has adequate financial resource to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

The shareholders are not liable for the debts of the Company.

The Instrument of Incorporation can be inspected at the office of the ACD.

The Company has no Directors other than the ACD.

The base currency of the Company is UK Sterling.

Copies of the Prospectus and simplified Prospectus are available free of charge from the ACD.

Investment objective and policy

The objective of Munro UK Fund (the "Fund") is to maximize the overall return through investment in securities listed on the UK stock market.

The Fund will seek to outperform the FTSE 350 over the long term by holding all securities, excluding Investment Trusts, in that index that are forecast to pay a dividend. The Fund will be constructed on the basis of the underlying fundamental financial attributes of the companies in the index rather on their market capitalisation. The weight of each company in the Fund will be determined by the proportion that its forecast total dividend will be expected to make of the total income of all the companies held in the Fund. The data will be sourced from consensus forecasts as compiled by information providers such as Bloomberg and Reuters. Allowance will be made for securities forecast to be bought back. Such a rigorous process can be closely defined and will be insensitive to the personal preferences of the Investment Adviser.

The Fund may also invest in bonds, collective investment schemes, warrants, money market instruments, cash, deposits and other permitted investments.

It is the ACD's intention that derivatives be used for hedging purposes using efficient portfolio management style techniques.

The ACD does not intend to have an interest in any immovable property or tangible movable property.

Changes to the Company

There were no changes in the Company in the year.

In accordance with the requirements of the OEIC Regulations and COLL, we hereby certify the Report on behalf of the ACD, Smith & Williamson Fund Administration Limited.

K. Stopps

Director
Smith & Williamson Fund Administration Limited
31 May 2011

The Munro Fund

Statement of the ACD's responsibilities

COLL rules requires the ACD to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the Company as at the end of the financial period and of its net revenue and the net gains or losses on the property of the Company for the year. In preparing the financial statements, the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice: "Financial Statements of Authorised Funds" issued by the Investment Management Association ("the IMA") in October 2010;
- follow generally accepted United Kingdom accounting principles (UK accounting standards and applicable law);
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent; and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The ACD is responsible for the management of the Company in accordance with the Instrument of Incorporation, the Prospectus and COLL.

Report of the Depositary to the shareholders of The Munro Fund

Depositary's responsibilities

The Depositary is responsible for the safekeeping of all the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and borrowing powers applicable to the Company.

Report of the Depositary to the shareholders of The Munro Fund

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

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's revenue in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and the Prospectus of the Company; and
- ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

The Royal Bank of Scotland Plc
Trustee and Depositary Services
31 May 2011

Independent auditor's report to the shareholders of The Munro Fund ('the Company')

We have audited the financial statements of the Company for the year ended 31 January 2011 set out on pages 14 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL rules') issued by the Financial Services Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Authorised Corporate Director ('the ACD') Smith & Williamson Fund Administration Limited and the auditor

As explained more fully in the Statement of ACD's Responsibilities set out on page 3 the ACD is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Company as at 31 January 2011 and of the net revenue and the net capital gains on the property of the Company for the year then ended; and
- have been properly prepared in accordance with the Instrument of Incorporation, the Statement of Recommended Practice relating to Authorised Funds and the COLL Rules.

Opinion on other matters prescribed by the COLL Rules

In our opinion the information given in the Authorised Corporate Director's Report is consistent with the financial statements.

We have received all the information and explanations which we consider necessary for the purposes of our audit.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

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

Gareth Horner
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
31 May 2011

The Munro Fund

Investment Adviser's report

Investment activity

The Fund was managed during the year in accordance with its stated objective of delivering the return of the FTSE 350 Total Return index in a less volatile way than conventional market capitalization tracker Funds. Although prevented by dealing costs from being fully invested because of its small size the Fund was able to follow its strategy of tracking the forecast gross cash dividends for the index for the 93% that it was able to invest. Over the course of the year additional inflows and a rising market increased the size of the Fund. This allowed it to buy additional stocks which increased the efficiency of the process. Nevertheless, the Fund held an average cash position during the year of about 7% which is sub-optimal.

After the extreme volatility of the previous year the period under review was much less dramatic. This reduced trading activities overall although the Fund did increase its holding in BP by three fold following the explosion at the Macondo Well in the Gulf of Mexico and the near halving of the share price. Some of this stock was sold as the share price recovered.

As a result of new money coming in the following new stocks were added as the Fund was able to move down the capital distribution curve: Aberdeen Asset Management, AMEC, Babcock International Group, Burberry Group, Cairn Energy, Carillion, Close Brothers Group, Cobham, Daily Mail & General Trust, GKN, Exillon Energy, Hargreaves Lansdown, Hiscox, Intercontinental Hotels Group Holdings, I G Group Holdings, IMI, Informa, Intermediate Capital Group, Kazakhmys, Ladbrokes, Logica, United Business Media, Whitbread, Phoenix Group Holdings, RBS, Lloyds Banking Group and Meggitt,

Only two positions were sold. Tomkins was taken over and RBS was sold when it was no longer forecast to pay a dividend in 2011.

In addition to these two takeovers there was significant corporate activity. This resulted in British Airways becoming International Consolidated Airline Group, Cable & Wireless split into Cable & Wireless Communications and Cable & Wireless Worldwide, EnQuest was spun off from Petrofac and Liberty International split into Capital and Counties Properties and Capital Shopping Centres Group.

Investment performance

Over the period under review the Fund rose by 12.0%. This compares to a 13.1% rise in the FTSE 350 Index and a 16.8% rise in the FTSE 350 Total Return index. The shortfall was due to three reasons that will diminish as the Fund grows.

A significant factor was the drag from the cash holding. This cash position was a consequence of many desired positions being below the minimum dealing size and thus not economic to deal in. At an average of about 7% over the course of the year this reduced returns by about 1.2%. More significantly this element of the Fund should have been mostly invested in the FTSE 250 which rose more than the FTSE 100 over the period.

Another consequence of the Fund being a suboptimal size was that it was unable to take full advantage of market volatility that would have added alpha and additional return. Finally, fees reduced the return of the Fund by about 1.5%.

Investment strategy

There was no change in the investment strategy of the Fund. The Fund uses a proprietary process that allocates weights to shares in proportion to their contribution to the total cash dividend forecast for the FTSE 350 index. In practice the model portfolio had to be adjusted to ensure that the Fund stayed within the FSA guideline that no single stock can represent more than 10% of the Fund and that all stocks that have weights in excess of 5% cannot, in aggregate, account for more than 40% of the Fund. This meant that the positions of BP and Royal Dutch were sometimes reduced from their model weights and that on occasions the Fund was obliged to reduce its holdings in BHP Billiton and GlaxoSmithKline.

Fundamental Tracker Investment Management Limited
10 February 2011

Major purchases and sales

for the year ended 31 January 2011

Purchases	Cost	Sales	Proceeds
	£		£
BP	152,040	BP	151,177
HSBC Holdings	73,996	Vodafone Group	60,533
Vodafone Group	58,010	HSBC Holdings	42,222
GlaxoSmithKline	37,418	BHP Billiton	37,099
BHP Billiton	35,192	Royal Dutch Shell A	25,186
AstraZeneca	32,625	Royal Dutch Shell B	20,941
Royal Dutch Shell A	30,933	AstraZeneca	18,835
British American Tobacco	28,278	Rio Tinto	16,160
Lloyds Banking Group	23,933	British American Tobacco	15,854
Royal Dutch Shell B	19,862	GlaxoSmithKline	10,747

Total purchases	<u>745,031</u>	Total sales	<u>471,673</u>
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The above represents the major purchases and sales in the year to reflect a clearer picture of investment activities.

Portfolio statement

as at 31 January 2011

Investment	Nominal value or holding	Market value £	% of total net assets
United Kingdom 93.55% (90.99%)			
Oil & Gas 16.86% (19.40%)			
BG Group	1,220	16,702	0.82
BP	26,418	128,074	6.29
Royal Dutch Shell A	5,114	113,224	5.56
Royal Dutch Shell B	3,902	85,259	4.19
		<u>343,259</u>	<u>16.86</u>
Basic Materials 10.26% (8.23%)			
Anglo American	830	25,186	1.24
Antofagasta	764	10,627	0.52
BHP Billiton	3,808	90,535	4.45
Eurasian Natural Resources	885	8,912	0.44
Fresnillo	371	4,767	0.23
Johnson Matthey	141	2,707	0.13
Kazakhmys	231	3,447	0.17
Rexam	1,044	3,585	0.18
Rio Tinto	951	40,427	1.99
Vedanta Resources	170	3,837	0.19
Xstrata	1,077	14,707	0.72
		<u>208,737</u>	<u>10.26</u>
Industries 3.64% (3.55%)			
Babcock International Group	369	2,117	0.10
BAE Systems	5,544	18,949	0.93
Balfour Beatty	757	2,499	0.12
Bunzl	311	2,343	0.11
Capita Group	612	4,155	0.20
Carillion	520	1,958	0.10
Cobham	742	1,583	0.08
Experian	849	6,508	0.32
Firstgroup	656	2,456	0.12
G4S	1,041	2,791	0.14
Hays	1,875	2,250	0.11
IMI	299	2,583	0.13
International Consolidated Airlines Group	671	1,729	0.08
Meggitt	630	2,240	0.11
Rentokil Initial	1,339	1,339	0.07
Rolls-Royce Group	1,497	9,596	0.47
Smiths Group	399	5,442	0.27
Wolseley	168	3,657	0.18
		<u>74,195</u>	<u>3.64</u>

Portfolio statement (continued)

as at 31 January 2011

Investment	Nominal value or holding	Market value £	% of total net assets
Consumer Goods 4.91% (10.85%)			
Barratt Developments	312	288	0.01
Burberry Group	236	2,532	0.12
Carnival	515	14,760	0.73
Compass Group	2,019	11,165	0.55
Daily Mail & General Trust	355	1,993	0.10
GKN	1,690	3,448	0.17
Home Retail Group	1,575	3,319	0.16
Informa	502	2,164	0.11
Intercontinental Hotels Group	206	2,711	0.13
ITV	2,103	1,638	0.08
Kingfisher	2,358	5,921	0.29
Ladbrokes	1,518	1,973	0.10
Marks & Spencer Group	2,168	7,712	0.38
Next	198	3,932	0.19
Pearson	883	9,077	0.45
Persimmon	321	1,283	0.06
Reed Elsevier	1,427	7,877	0.39
Thomas Cook Group	838	1,612	0.08
TUI Travel	1,917	4,835	0.24
United Business Media	302	2,108	0.10
Whitbread	141	2,442	0.12
WPP	929	7,163	0.35
		<u>99,953</u>	<u>4.91</u>
Health Care 8.31% (8.48%)			
AstraZeneca	2,472	75,235	3.70
GlaxoSmithKline	8,016	90,821	4.46
Smith & Nephew	447	3,122	0.15
		<u>169,178</u>	<u>8.31</u>
Consumer Services 15.24% (7.34%)			
AMEC	199	2,376	0.12
Associated British Foods	604	6,439	0.32
British American Tobacco	3,348	76,234	3.74
British Sky Broadcasting Group	1,758	13,352	0.66
Diageo	2,851	34,355	1.69
Imperial Tobacco Group	1,825	32,284	1.58
J Sainsbury	2,121	7,990	0.39
Petrofac	237	3,659	0.18
Reckitt Benckiser Group	765	25,857	1.27
SABMiller	1,275	25,953	1.27
Tate & Lyle	704	3,847	0.19
Tesco	9,960	40,074	1.97
Unilever	1,597	29,113	1.43
WM Morrison Supermarkets	3,296	8,734	0.43
		<u>310,267</u>	<u>15.24</u>

Portfolio statement (continued)

as at 31 January 2011

Investment	Nominal value or holding	Market value £	% of total net assets
Telecommunications 8.96% (9.26%)			
BT Group	10,572	18,586	0.91
Cable & Wireless Communications	8,569	3,920	0.19
Cable & Wireless Worldwide	5,143	3,585	0.18
Inmarsat	437	2,980	0.15
Vodafone Group	86,251	<u>153,397</u>	<u>7.53</u>
		182,468	8.96
Utilities 6.07% (5.86%)			
Capital & Counties Properties	253	372	0.02
Cairn Energy	474	1,949	0.10
Centrica	7,328	23,640	1.16
Drax Group	568	2,211	0.11
EnQuest	237	333	0.02
Exillon Energy	547	2,199	0.11
Hammerson	683	2,938	0.14
International Power	1,582	6,741	0.33
National Grid	7,790	42,261	2.07
Northumbrian Water Group	742	2,202	0.11
Pennon Group	389	2,338	0.11
Scottish & Southern Energy	1,855	21,555	1.06
Segro	973	2,893	0.14
Severn Trent	394	5,437	0.27
United Utilities Group	1,197	<u>6,554</u>	<u>0.32</u>
		123,623	6.07
Financials 19.02% (17.72%)			
Aberdeen Asset Management	1,637	3,629	0.18
Admiral Group	366	5,958	0.29
Amlin	602	2,340	0.11
Ashmore Group	967	3,351	0.16
Aviva	5,891	25,873	1.27
Barclays	9,434	27,576	1.35
British Land	1,085	5,588	0.27
Capital Shopping Centres Group	818	3,032	0.15
Catlin Group	591	2,181	0.11
Close Brothers Group	233	1,970	0.10
F&C Asset Management	159	138	0.01
Hargreaves Lansdown	550	2,948	0.14
Hiscox	556	2,104	0.10
HSBC Holdings	21,666	147,307	7.24
ICAP	645	3,470	0.17
IG Group Holdings	449	1,986	0.10
Intermediate Capital Group	759	2,616	0.13
Investec	725	3,444	0.17
Land Securities Group	929	6,248	0.31
Legal & General Group	9,102	10,149	0.50
Lloyds Banking Group	27,940	17,429	0.86
London Stock Exchange Group	281	2,367	0.12

Portfolio statement (continued)

as at 31 January 2011

Investment	Nominal value or holding	Market value £	% of total net assets
Financials (continued)			
Man Group	3,317	9,725	0.48
Old Mutual	6,669	8,350	0.41
Phoenix Group Holdings	350	2,168	0.11
Provident Financial	238	2,234	0.11
Prudential	2,738	18,632	0.91
Resolution	2,748	7,145	0.35
RSA Insurance Group	7,839	10,630	0.52
Schroders	160	2,877	0.14
Standard Chartered	2,198	35,333	1.73
Standard Life	3,716	8,458	0.42
		<u>387,256</u>	<u>19.02</u>
Technology 0.28% (0.30%)			
Logica	1,567	2,123	0.11
Sage Group	1,181	3,487	0.17
		<u>5,610</u>	<u>0.28</u>
Portfolio of Investments		1,904,546	93.55
Other net assets		131,240	6.45
Total net assets		2,035,786	100.00

The comparative percentage figures in brackets are as at 31 January 2010.
All investments are quoted securities unless otherwise stated.

Comparative table

Number of shares in issue		31.01.11	31.01.10	31.01.09
A class net income shares		81,424	61,497	26,518
X class net income shares		1,097,926	819,119	594,640
A class net accumulation shares		203,931	257,058	178,504
B class net accumulation shares		126,594	125,459	125,459
X class net accumulation shares		808,737	714,151	615,451
Net Asset Value (NAV)		£	£	£
Total NAV of Fund		2,035,786	1,575,208	979,137
A class net income shares		65,646	45,711	15,862
X class net income shares		913,684	628,100	369,037
A class net accumulation shares		180,359	201,810	109,663
B class net accumulation shares		134,422	118,255	92,626
X class net accumulation shares		741,675	581,332	391,949
Net asset value per share (based on bid)		p	p	p
A class net income shares		80.62	74.33	59.82
X class net income shares		83.22	76.68	62.06
A class net accumulation shares		88.44	78.51	61.43
B class net accumulation shares		106.2	94.26	73.83
X class net accumulation shares		91.71	81.40	63.68
Quoted prices (based on xxxxx)		p	p	p
A class net income shares		81.38	74.66	60.37
X class net income shares		84.00	77.02	62.50
A class net accumulation shares		88.40	78.86	61.88
B class net accumulation shares		106.1	94.68	74.36
X class net accumulation shares		91.67	81.76	64.14
Performance record				
		Distribution	Highest	Lowest
		per share	price	price
Calendar year		p	p	p
2007	A class net income shares	n/a	103.5	90.26
2007	X class net income shares	n/a	104.7	93.37
2007	A class net accumulation shares	n/a	103.5	90.27
2007	B class net accumulation shares	n/a	100.0	100.0
2007	X class net accumulation shares	n/a	104.7	93.42
2008	A class net income shares	2.492	95.96	54.40
2008	X class net income shares	2.492	99.32	56.36
2008	A class net accumulation shares	2.492	95.98	55.83
2008	B class net accumulation shares	2.492	107.9	66.99
2008	X class net accumulation shares	2.492	99.32	57.84
2009	A class net income shares	2.093	78.09	50.06
2009	X class net income shares	2.160	80.58	51.55
2009	A class net accumulation shares	2.158	82.50	51.81
2009	B class net accumulation shares	2.593	99.05	62.17
2009	X class net accumulation shares	2.238	85.54	53.68
2010	A class net income shares	2.085	82.91	68.46
2010	X class net income shares	2.138	85.56	70.61
2010	A class net accumulation shares	2.209	90.06	73.14
2010	B class net accumulation shares	2.673	108.1	87.80
2010	X class net accumulation shares	2.297	93.67	75.80
2011*	A class net income shares	0.760	84.20	81.38
2011*	X class net income shares	0.779	86.87	84.00
2011*	A class net accumulation shares	0.825	91.46	88.40
2011*	B class net accumulation shares	0.989	109.8	106.1
2011*	X class net accumulation shares	0.859	94.80	91.67

* to 31 January 2011 and payable in respect of income shares and allocated in respect of accumulation shares on 31 May 2011

Comparative table (continued)

Total Expense Ratio (TER)

The TER provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the Annual Management Charge, but also includes the costs for other services paid.

	2011	2010
A class net income shares	2.38%	2.38%
X class net income shares	1.63%	1.87%
A class net accumulation shares	2.41%	2.58%
B class net accumulation shares	2.13%	2.39%
X class net accumulation shares	1.63%	1.89%

Financial statements - The Munro Fund

Statement of total return

for the year ended 31 January 2011

	Notes	2011		2010	
		£	£	£	£
Income					
Net capital gains	4		196,817		277,958
Revenue	6	61,964		54,620	
Expenses	7	(31,278)		(26,046)	
Finance costs: Interest	9	<u>(34)</u>		<u>-</u>	
Net revenue before taxation		30,652		28,574	
Taxation	8	<u>(795)</u>		<u>(607)</u>	
Net revenue after taxation			<u>29,857</u>		<u>27,967</u>
Total return before distributions			226,674		305,925
Finance costs: Distributions	9		(45,422)		(39,085)
Change in net assets attributable to shareholders from investment activities			<u>181,252</u>		<u>266,840</u>

Statement of change in net assets attributable to shareholders

for the year ended 31 January 2011

	2011		2010	
	£	£	£	£
Opening net assets attributable to shareholders		1,575,208		979,139
Amounts receivable on issue of shares	425,123		552,682	
Amounts payable on cancellation of shares	<u>(170,004)</u>		<u>(248,375)</u>	
		255,119		304,307
Dilution levy		-		439
Stamp duty reserve tax		(124)		(288)
Change in net assets attributable to shareholders from investment activities		181,252		266,840
Retained accumulation distributions		24,331		24,771
Closing net assets attributable to shareholders		<u>2,035,786</u>		<u>1,575,208</u>

Balance sheet
as at 31 January 2011

	Notes	2011		2010	
		£	£	£	£
ASSETS:					
Investment assets			1,904,546		1,433,359
Debtors	10	4,899		13,913	
Cash and bank balances	11	<u>145,234</u>		<u>143,513</u>	
Total other assets			<u>150,133</u>		<u>157,426</u>
Total assets			<u>2,054,679</u>		<u>1,590,785</u>
LIABILITIES:					
Creditors	12	(9,721)		(8,125)	
Distribution payable on income shares		<u>(9,172)</u>		<u>(7,452)</u>	
Total liabilities			<u>(18,893)</u>		<u>(15,577)</u>
Net assets attributable to shareholders			<u><u>2,035,786</u></u>		<u><u>1,575,208</u></u>

Notes to the financial statements

as at 31 January 2011

1 Accounting policies

a Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments. They have been prepared in accordance with the applicable UK Accounting Standards and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010. Previously the requirements for the Statement of Recommended Practice issued by the IMA in November 2008 had been applied. These changes are summarised below:

The October 2010 SORP details three conditions which if met cause a sub fund's shares to be classified as equity instruments. None of the sub funds' shares meet all of these conditions and as such have not been reclassified as equity instruments.

Portfolio turnover ratio disclosure is no longer required. The adoption of the October 2010 SORP did not result in any restatements to either the total return or net assets attributable to shareholders in either the current or preceding period.

As described in the ACD's report, the ACD continues to adopt the going concern basis in the preparation of the accounts.

b Valuation of investments

Purchase and sale of investments are included up to close of business on 31 January 2011.

Purchases and sales of investments are recognised when a legally binding and unconditional right to obtain, or an obligation to deliver an asset arises.

Investments are stated at their fair value at balance sheet date. In determining fair value, the valuation point is 12 noon on 31 January 2011 with reference to quoted bid prices from reliable external sources.

Where an observable market price is unreliable or does not exist, investments are valued at the ACD's best estimate of the amount that would be received from an immediate transfer at arm's length.

c Foreign exchange

The base currency of the Fund is Sterling which is taken to be the Fund's functional currency.

All transactions in foreign currencies are converted into Sterling at the rates of exchange ruling at the dates of such transactions. The resulting exchange differences are disclosed in the Statement of total return.

Any foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate prevailing at 12 noon as at the balance sheet date.

d Revenue

Revenue is recognised in the Statement of total return on the following basis:

Dividends from quoted equity instruments and non equity shares are recognised as revenue, net of attributable tax credits on the date when the securities are quoted ex-dividend.

Overseas dividends are recognised as revenue gross of any withholding tax and the tax consequences are recognised within the tax expense.

Interest on bank deposits and short term deposits is recognised on an accruals basis.

Ordinary scrip dividends are recognised wholly as revenue on the basis of the market values of the shares on the date that they are quoted ex-dividend. Where an enhancement is offered the amount by which the market value of the shares on the date they are quoted ex-dividend exceeds the cash dividend is taken to capital. The ordinary element of scrip dividends is treated as revenue and forms part of the Fund's distributions.

e Expenses

The Annual Management Charge is charged to the relevant share class against revenue and then reallocated to capital net of any tax effect.

All other expenses, other than those relating to the purchase and sale of investments are charged to revenue.

f Allocation of revenue and expenses to multiple share classes

All revenue and expenses which are directly attributable to a particular share class are allocated to that share class. All revenue and expenses which are attributable to the Fund are allocated to the Fund and are normally allocated across the share classes pro rata to the net asset value of each class on a daily basis.

Notes to the financial statements as at 31 January 2011

1 Accounting policies (continued)

g Taxation

Tax payable on profits is recognised as an expense in the period in which profits arise. The tax effects of tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

UK corporation tax is provided at amounts to be paid/recovered using the tax rates and laws that have been enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at 31 January 2011 to pay more or less tax, at a future date, at rates expected to apply when they crystallise based on current rates and tax laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted.

Provision for deferred tax assets are only made to the extent the timing differences are expected to be of future benefit.

All foreign dividend revenue is recognised at a gross amount which includes any withholding tax deducted at source. Where foreign tax is withheld in excess of the applicable treaty rate a tax debtor is recognised to the extent that the overpayment is considered recoverable.

h Efficient portfolio management

Where appropriate, certain permitted instruments such as derivatives or forward currency contracts may be used for efficient portfolio management purposes. Where such instruments are used to protect or enhance revenue, the revenue or expenses derived therefrom are included in the Statement of total return as revenue related items and form part of the distribution. Where such instruments are used to protect or enhance capital, the gains and losses derived therefrom are included in the Statement of total return as capital related items.

i Dilution levy

The need to charge a dilution levy will depend on the volume of sales or redemptions. The ACD may charge a discretionary dilution levy on the sale and redemption of shares if, in its opinion, the existing shareholders (for sales) or remaining shareholders (for redemptions) might otherwise be adversely affected, and if charging a dilution levy is, so far as practicable, fair to all shareholders and potential shareholders. Please refer to the Prospectus for further information.

j Stamp Duty Reserve Tax (SDRT)

SDRT is a tax which arises on transactions in shares by investors. The ACD may charge an SDRT provision on entry to and/or exit from the Fund. It is the ACD's current policy to settle this liability from the capital property of the Fund. Please refer to the Prospectus for further information.

2. Distribution policies

a Basis of distribution

The distribution policy of the Fund is to distribute all available revenue after deduction of expenses payable from revenue. Distributions attributable to income shares are paid to shareholders. Distributions attributable to accumulation shares are re-invested in the Fund on behalf of the shareholders.

b Unclaimed distributions

Distributions to shareholders outstanding after 6 years are taken to the capital property of the Fund.

c Revenue

All revenue is included in the final distribution with reference to the Accounting policies for revenue disclosed in note 1.

d Expenses

Expenses incurred against the revenue of the Fund are included in the final distribution, subject to any expense which may be transferred to capital for the purpose of calculating the distribution, with reference to the Accounting policies in Note 1.

e Equalisation

Group 2 shares are shares which are purchased on or after the previous XD date and before the current XD date.

Equalisation applies only to Group 2 shares. It is the average amount of revenue included in the purchase price of Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital it is not liable to income tax in the hands of the share holders but must be deducted from the cost of shares for capital gains tax purposes. Equalisation per share is disclosed in the Distribution table on page 25.

Notes to the financial statements (continued)

as at 31 January 2011

3 Risk management policies

In pursuing the Fund's investment objective, as set out in the Prospectus, the following are accepted by the ACD as being the main risks from the Fund's holding of financial instruments, either directly or indirectly through its underlying holdings. These are presented with the ACD's policy for managing these risks. To ensure these risks are consistently and effectively managed these are continually reviewed by the Risk Committee who are a body appointed by the ACD who set the risk appetite and ensure continued compliance with the management of all known risks.

a Market risk

Market risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices which are governed by three elements; price risk, currency risk, and interest rate risk.

(i) Price risk

The Fund's exposure to price risk comprises mainly of movements in the holding of investment positions in the face of price movements.

This risk is generally regarded as consisting of two elements; stock specific risk and market risk. Through these two factors, the Fund is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy.

Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective of the Fund, spreading exposure in the portfolio of investments both globally and across sectors can mitigate market risk. Please refer to the Portfolio statement.

(ii) Currency risk

Currency risk is the risk that the value of investments or future cash flows will fluctuate as a result of exchange rate movements. Investment in overseas securities will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates.

The ACD may seek to manage the portfolio exposure to currency movements by using forward currency contracts.

The Fund had no significant exposure to foreign currency in the period.

(iii) Interest rate risk profile of financial assets and liabilities

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes.

The amount of revenue receivable from bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates.

b Credit risk

The Fund may find that companies in which it invests fail to settle their debts on a timely basis. The value of securities issued by such companies may fall as a result of the perceived increase in credit risk.

The Fund had no exposure to interest bearing debt securities in the period.

c Liquidity risk

The main liability of the Fund is the cancellation of any shares which investors may wish to sell. Securities may have to be sold in order to fund such cancellations should insufficient cash be held at the bank to meet this obligation. If there were significant requests for the redemption of shares in the Fund at a time when a large proportion of the Fund's portfolio of investments were not easily tradeable due to market volumes or market conditions, then the Fund's ability to fund those redemptions would be impaired and it may be necessary to suspend dealings in shares in the Fund.

Notes to the financial statements (continued)

as at 31 January 2011

3 Risk management policies (continued)

c Liquidity risk (continued)

Investments in smaller companies at times may prove illiquid, as by their nature they tend to have relatively modest traded share capital. Shifts in investor sentiment, or the announcement of new price sensitive information, can provoke significant movement in share prices, and make dealing in any quantity difficult.

d Counterparty risk

Transactions in securities entered into by the Fund give rise to exposure to the risk that the counterparties may not be able to fulfil their responsibility by completing their side of the transaction.

The Depositary has appointed the custodian to provide custody services for the assets of the Fund. There is a credit risk that the custodian could cease to be in a position to provide custody services to the Fund. The Fund's investments (excluding cash) are ring fenced hence the risk is considered to be negligible.

e Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

To ensure this, the Fair Value Pricing Committee is a body appointed by the ACD who analyse, review and vote on price adjustments/maintenance where no current secondary market exists and/or where there are potential liquidity issues that would effect the disposal of an asset. In addition, the Committee may also consider adjustments to Fund prices should the constituent investments be exposed to closed markets during general market volatility or instability.

Notes to the financial statements (continued)
as at 31 January 2011

4. Net capital gains	2011	2010
	£	£
Non-derivative securities	200,710	281,264
Transaction charges	<u>(3,893)</u>	<u>(3,306)</u>
Total net capital gains	<u><u>196,817</u></u>	<u><u>277,958</u></u>
5. Purchases, sales and transaction costs	2011	2010
	£	£
Purchases excluding transaction costs	<u>739,334</u>	<u>705,825</u>
Commissions	2,081	2,165
Taxes	<u>3,616</u>	<u>3,477</u>
Total purchase transaction costs *	<u><u>5,697</u></u>	<u><u>5,642</u></u>
Purchases including transaction costs	<u><u>745,031</u></u>	<u><u>711,467</u></u>
Sales excluding transaction costs	<u>472,393</u>	<u>423,276</u>
Commissions	(680)	(618)
Taxes	<u>(40)</u>	<u>(7)</u>
Total sales transaction costs *	<u><u>(720)</u></u>	<u><u>(625)</u></u>
Sales including transaction costs	<u><u>471,673</u></u>	<u><u>422,651</u></u>
* These amounts have been deducted in determining net capital gains / (losses).		
6. Revenue	2011	2010
	£	£
UK dividends	56,275	49,900
Unfranked UK dividends	514	631
Overseas dividends	5,175	4,051
Bank interest	-	38
Total revenue	<u><u>61,964</u></u>	<u><u>54,620</u></u>
7. Expenses	2011	2010
	£	£
Payable to the ACD, associates of the ACD and agents of either of them:		
Management charge	<u>15,564</u>	<u>11,121</u>
	<u>15,564</u>	<u>11,121</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	<u>8,877</u>	<u>8,593</u>
Other expenses:		
Audit fees	6,804	6,655
Safe custody fees	33	27
FSA fee	<u>-</u>	<u>(350)</u>
	<u><u>6,837</u></u>	<u><u>6,332</u></u>
Total expenses	<u><u>31,278</u></u>	<u><u>26,046</u></u>

Notes to the financial statements (continued)

as at 31 January 2011

8. Taxation	2011 £	2010 £
a. Analysis of the tax charge for the period		
Overseas tax	795	607
Total taxation (note 8b)	<u>795</u>	<u>607</u>

b. Factors affecting the tax charge for the period

The tax assessed for the period is lower than the standard rate of UK corporation tax for an authorised collective investment scheme of 20% (2010-20%). The differences are explained below:

	2011 £	2010 £
Net revenue before taxation	<u>30,652</u>	<u>28,574</u>
Corporation tax @ 20%	6,130	5,715
Effects of:		
Scrip dividends		
UK Dividends	(11,262)	(9,980)
Overseas dividends	(1,035)	(412)
Excess management expenses	6,180	4,736
Movement in short term differences	(13)	-
Overseas tax expensed	-	(59)
Overseas tax	795	607
Current tax charge (note 8a)	<u>795</u>	<u>607</u>

c. Deferred taxation

A deferred tax asset has not been recognised in respect of timing differences relating to excess management expenses. The amount of the asset not recognised is £16,018 (2010: £9,838).

9. Finance costs

Distributions and interest

The distributions take account of revenue added on the issue of shares and revenue deducted on cancellation of shares, and comprise:

	2011 £	2010 £
Interim distributions	29,930	24,836
Final distributions	<u>19,053</u>	<u>17,419</u>
	48,983	42,255
Equalisation:		
Amounts deducted on cancellation of shares	1,811	2,643
Amounts added on issue of shares	(5,372)	(5,813)
Finance costs: Distributions	<u>45,422</u>	<u>39,085</u>
Finance costs: Interest	34	-
Total finance costs	<u>45,456</u>	<u>39,085</u>

Notes to the financial statements (continued)

as at 31 January 2011

9. Finance costs (continued)

Distributions and interest (continued)

Reconciliation between net revenue and distributions:	2011	2010
	£	£
Net revenue after taxation per Statement of total return	29,857	27,967
Undistributed revenue brought forward	13	10
Expenses paid from capital	15,564	11,121
Undistributed revenue carried forward	(12)	(13)
Finance costs: Distributions	<u>45,422</u>	<u>39,085</u>

Details of the distribution per share are disclosed in the distribution table on pages 24 to 26.

10. Debtors

	2011	2010
	£	£
Amounts receivable on issue of shares	-	10,359
Accrued revenue	4,899	3,554
Total debtors	<u>4,899</u>	<u>13,913</u>

11. Cash and bank balances

	2011	2010
	£	£
Total cash and bank balances	<u>145,234</u>	<u>143,513</u>

12. Creditors

	2011	2010
	£	£
Purchases awaiting settlement	2,187	-
Accrued expenses	7,534	8,125
Total creditors	<u>9,721</u>	<u>8,125</u>

13. Share classes

The Scheme currently five share classes. The current annual management charge on each share class is illustrated in Further information on page 27.

The net asset value of each share class, the net asset value per share, and the number of shares in each class are disclosed in the Comparative table on page 12.

On the winding up of a sub-fund all the assets of the sub-fund will be realised and apportioned to the shareclasses in relation to the Net Asset Value on the closure date. Shareholders will receive their respective share of the proceeds, net of liabilities.

Notes to the financial statements (continued)

as at 31 January 2011

14. Related party transactions

Smith & Williamson Fund Administration Limited, as ACD is a related parties due to its ability to act in respect of the operations of the Company.

The ACD acts as principal in respect of all transactions of shares in the Company. The aggregate monies received through creations and cancellations of shares are disclosed in the Statement of change in net assets attributable to shareholders.

Amounts payable to the ACD in respect of fund administration and registration services are disclosed in note 4 to the Financial Statements. The amount due to the ACD at the balance sheet date is £nil (2010: £nil).

A shareholder with a holding in excess of 20% of the value of the Company may be able to exercise significant influence over the financial and operating policies of the Company with reference to shareholders' voting rights at general meetings and as such is deemed to be a related party.

Parties with an interest in excess of 20% of the Company are as follows:

	2011	2010
Lloyds Bank (branches) Nominees limited	20.45%	18.84%

15. Post balance sheet events

Subsequent to the year end, the net asset value per share of the individual classes has increased as follows as at 24 May 2011:

X income share class from 84.00p to 84.46p

A income share class from 81.38p to 81.84p

X accumulation share class from 91.67p to 93.00p

A accumulation share class from 88.40p to 89.69p

B accumulation share class from 106.1p to 110.7p

This movement takes into account routine transactions but also reflects the market movements of recent months.

16 Financial instruments

In accordance with the investment objective, the Fund holds certain financial instruments. These comprise:

- Securities held in accordance with the investment objective and policies
- Cash and short term debtors and creditors arising directly from operations

a Currency exposure

The Fund had no significant exposure to foreign currency during the year.

b Interest rate risk

The Fund has no exposure to interest bearing securities during the year.

The interest rate on bank balances are determined by the following:

UK Sterling Bank of England base rate

c Fair value of financial assets and liabilities

Securities held by the Fund are valued in accordance with the Accounting policies in Note 1. There is no material difference between the fair value and the market value. Other financial assets and liabilities of the Fund are included in the Balance sheet at fair value.

Distribution table

for the year ended 31 January 2011

Distributions on X income shares in pence per share

Group 1 : Shares purchased prior to 1 February 2010

Group 2 : Shares purchased 1 February 2010 to 31 July 2010

Payment date	Payment type	Net income 2010	Equalisation 2010	Distribution payable 2010	Distribution paid 2009
Group 1					
30.09.10	interim	1.290	-	1.290	1.343
Group 2					
30.09.10	interim	0.097	1.193	1.290	1.343

Distributions on A income shares in pence per share

Group 1 : Shares purchased prior to 1 February 2010

Group 2 : Shares purchased 1 February 2010 to 31 July 2010

Payment date	Payment type	Net income 2010	Equalisation 2010	Distribution payable 2010	Distribution paid 2009
Group 1					
30.09.10	interim	1.263	-	1.263	1.303
Group 2					
30.09.10	interim	0.425	0.838	1.263	1.303

Distributions on X accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 February 2010

Group 2 : Shares purchased 1 February 2010 to 31 July 2010

Payment date	Payment type	Net income 2010	Equalisation 2010	Distribution allocated 2010	Distribution allocated 2009
Group 1					
30.09.10	interim	1.397	-	1.397	1.399
Group 2					
30.09.10	interim	0.375	1.022	1.397	1.399

Distributions on A accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 February 2010

Group 2 : Shares purchased 1 February 2010 to 31 July 2010

Payment date	Payment type	Net income 2010	Equalisation 2010	Distribution allocated 2010	Distribution allocated 2009
Group 1					
30.09.10	interim	1.341	-	1.341	1.349
Group 2					
30.09.10	interim	0.466	0.875	1.341	1.349

Distribution table (continued)

for the year ended 31 January 2011

Distributions on B accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 February 2010

Group 2 : Shares purchased 1 February 2010 to 31 July 2010

Payment date	Payment type	Net income 2010	Equalisation 2010	Distribution allocated 2010	Distribution allocated 2009
Group 1					
30.09.10	interim	1.630	-	1.630	1.620
Group 2					
30.09.10	interim	1.630	-	1.630	1.620

Distributions on X income shares in pence per share

Group 1 : Shares purchased prior to 1 August 2010

Group 2 : Shares purchased 1 August 2010 to 31 January 2011

Payment date	Payment type	Net income 2011	Equalisation 2011	Distribution payable 2011	Distribution paid 2010
Group 1					
31.05.11	final	0.779	-	0.779	0.848
Group 2					
31.05.11	final	0.364	0.415	0.779	0.848

Distributions on A income shares in pence per share

Group 1 : Shares purchased prior to 1 August 2010

Group 2 : Shares purchased 1 August 2010 to 31 January 2011

Payment date	Payment type	Net income 2011	Equalisation 2011	Distribution payable 2011	Distribution paid 2010
Group 1					
31.05.11	final	0.760	-	0.760	0.822
Group 2					
31.05.11	final	0.356	0.404	0.760	0.822

Distributions on X accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 August 2010

Group 2 : Shares purchased 1 August 2010 to 31 January 2011

Payment date	Payment type	Net income 2011	Equalisation 2011	Distribution allocated 2011	Distribution allocated 2010
Group 1					
31.05.11	final	0.859	-	0.859	0.900
Group 2					
31.05.11	final	0.248	0.611	0.859	0.900

Distribution table (continued)

for the year ended 31 January 2011

Distributions on A accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 August 2010

Group 2 : Shares purchased 1 August 2010 to 31 January 2011

Payment date	Payment type	Net income	Equalisation	Distribution allocated	Distribution allocated
		2011	2011	2011	2010
Group 1 31.05.11	final	0.825	-	0.825	0.868
Group 2 31.05.11	final	0.425	0.400	0.825	0.868

Distributions on B accumulation shares in pence per share

Group 1 : Shares purchased prior to 1 August 2010

Group 2 : Shares purchased 1 August 2010 to 31 January 2011

Payment date	Payment type	Net income	Equalisation	Distribution allocated	Distribution allocated
		2011	2011	2011	2010
Group 1 31.05.11	final	0.989	-	0.989	1.043
Group 2 31.05.11	final	0.294	0.695	0.989	1.043

Equalisation

Equalisation applies only to Group 2 shares. It is the average amount of income included in the purchase price of Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital it is not liable to income tax in the hands of the shareholders.

Accumulation distributions

Holders of accumulation shares should add the distributions received thereon to the cost of the shares for capital gains tax purposes.

Appointments

ACD and Registered office

Smith & Williamson Fund Administration Limited
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Administrator and Registrar

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Telephone: 0141 222 1151 (Registration)
0141 222 1150 (Dealing)
Authorised and regulated by the Financial Services Authority

Directors

Giles Murphy
Jeremy Boadle
Michael Fosberry
Michael Lea
Gareth Pearce
Kevin Stopps
Paul Wyse
Phillip Moody - appointed 11 November 2010

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