

The Munro Fund
Interim Short Report
as at 31 July 2011

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The Munro Fund

Interim Short Report for the six months ended 31 July 2011

Report of the ACD

Smith & Williamson Fund Administration Limited ("the ACD") presents herewith the Interim Short Report for The Munro Fund for the six months ended 31 July 2011.

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 Fund consist predominantly of securities which are readily realisable and, accordingly, the Fund 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.

Risk disclosure

The main risks which may affect the assets and liabilities of the Fund, either directly or indirectly through its underlying holdings, are market risk, interest rate risk, currency risk, credit risk, liquidity risk and counterparty risk. The ACD has processes in place to mitigate these risks.

The ACD monitors the investment activity of the Investment Advisers to ensure the investment activity is consistent with the Investment objectives and the investment borrowing powers that are laid out in the prospectus.

There is no material difference between the value of the financial assets and liabilities and their fair value.

For further information please refer to the Prospectus or the Long Report.

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.

Distributions

Where net revenue is available it will be paid on 31 May (final) and 30 September (interim). In the event of a distribution, shareholders will receive a tax voucher.

Report

Reporting dates:	31 January	final
	31 July	interim

Shareholders will receive a report of the accounts within four months of the final reporting date and within two months of the interim reporting date.

Buying and selling shares

The property of the Fund is valued at 12 noon on each business day and prices of shares are calculated as at that time. Share dealing is on a forward basis i.e. investors can buy and sell shares at the next valuation point following receipt of the order.

Prices of shares and the estimated yield of the sub-funds are published on the following website www.investmentfunds.org.uk or may be obtained from the ACD by calling 0141 222 1150.

Report of the ACD (continued)

Management charges and minimum investment

There are net income shares and net accumulation shares each in the following classes: A Class, B Class and X Class.

	A class	B class	X class
ACD's preliminary charge	5%	5%	0%
Annual management charge	1.50%	1.25%	0.50%
Minimum initial investment	£1,000	£100,000	£250
Minimum subsequent investment	£1,000	£1,000	£100
Minimum holding	£1,000	£100,000	£250

Changes affecting the Fund in the period

The annual management charge applied to X class shares reduced from 0.75% to 0.50% on 1 August 2011.

As part of an internal re-structuring in 2011 The Royal Bank of Scotland Group plc transferred its Trustee and Depositary Services business from The Royal Bank of Scotland plc to National Westminster Bank plc and consequently National Westminster Bank plc was appointed as Depositary of the Fund on 7 October 2011.

As Depositary, National Westminster Bank plc will have the same duties and responsibilities as The Royal Bank of Scotland plc and the change of Depositary will have no impact on the way the Fund is operated.

The Interim Long Report is available on request from the ACD.

Investment Adviser's report

Investment performance

In the period under review the X Class accumulation units declined by 1.84% compared with a fall of 2.14% in the FTSE 350 Index and a drop of 0.33% in the FTSE 350 Total Return index (Source: Bloomberg).

The Fund achieved this return at much lower volatility than its peers. According to Citywire the Fund had a standard deviation of 3.00 for the year to the end of July 2011 compared to 3.2 for the FT All Share Index and 3.6 for the UK All Companies sector.

The performance of each class over the period is detailed in the table below.

A Class Accumulation	-2.03%
B Class Accumulation	-2.23%
X Class Accumulation	-1.84%
FTSE 350 TR Index	-0.33%
A Class Income	-2.14%
B Class Income	-2.02%
X Class Income	-1.79%
FTSE 350 Index	-2.14%

(Source: Bloomberg)

Investment activities

The Fund invested in accordance with the model portfolio created by the Fundamental tracking process. It has adhered to this investment policy of investing in stocks in the FTSE 350 index using its proprietary fundamental tracking process. This process allocates weights to stocks according to their contribution to the gross forecast cash dividend for all the constituents of the index excluding investment trusts.

As the Fund grew in size from new money invested it was able to increase the number of stocks in its portfolio. This is because the threshold for the minimum dealing size declined as a percentage of the Fund, allowing the Fund to move down the capital distribution curve as more stocks in the model exceeded the minimum dealing size. Stocks added over the period because of this were: TalkTalk, Weir, Mondi, Travis Perkins, Cairn Energy, Melrose, Croda, Aggreko. Glencore and New World Resources were also added after they were listed on the London Stock Exchange and Royal Bank of Scotland was repurchased after consensus forecasts indicated it would pay a dividend next year.

The only position sold was Cairn Energy after analysts revised their opinion and decided that it would not pay a dividend in 2012.

Investment strategy and outlook

The Fund will continue to use its fundamental tracking process to allocate capital to stocks in proportion to a company's contribution to the gross cash dividend income for the FTSE 350 Index. Rebalancing the model portfolio every month ensures that the Fund always incorporates the latest forecast data. Reconciling the Fund to the model on a daily basis allows the Fund to benefit from the short term volatility in the market. This allows it to acquire more shares in companies that are temporarily out of favour and reduce holdings in companies that are overvalued by other investors relative to our model.

Despite recent stock market volatility, largely created by macroeconomic events at the sovereign level, the managers view the future with optimism. At the current valuation of the market the forecast dividend payments for next year indicate that it has a prospective yield of over 4%. That compares favourably with the income offered by cash or bonds.

Fundamental Tracker Investment Management Limited
18 August 2011

Note: Investments carry risks. Past performance is not a guide to future performance. Investors may not get back the amount invested.

Comparative table

Number of shares in issue	31.07.11	31.01.11	31.01.10	31.01.09
A class net income shares	81,620	81,424	61,497	26,517
B class net income shares*	53,560	n/a	n/a	n/a
X class net income shares	1,107,802	1,097,926	819,119	594,640
A class net accumulation shares	206,424	203,931	257,058	178,504
B class net accumulation shares	2,396	126,594	125,459	125,459
X class net accumulation shares	1,219,731	808,737	714,151	615,451

Net Asset Value (NAV)	£	£	£	£
Total NAV of Fund	2,342,337	2,035,786	1,575,208	979,139
A class net income shares	65,001	65,646	45,711	15,862
B class net income shares*	56,226	n/a	n/a	n/a
X class net income shares	910,091	913,684	628,100	369,037
A class net accumulation shares	183,688	180,359	201,810	109,663
B class net accumulation shares	2,630	134,422	118,255	92,626
X class net accumulation shares	1,124,701	741,675	581,332	391,949

Net asset value per share (based on bid value)	p	p	p	p
A class net income shares	79.64	80.62	74.33	59.82
B class net income shares*	105.0	n/a	n/a	n/a
X class net income shares	82.15	83.22	76.68	62.06
A class net accumulation shares	88.99	88.44	78.51	61.43
B class net accumulation shares	109.8	106.18	94.26	73.83
X class net accumulation shares	92.21	91.71	81.40	63.68

Quoted prices (based on mid of bid/offer value)^	p	p	p	p
A class net income shares	80.46	81.38	74.66	60.37
B class net income shares*	107.3	n/a	n/a	n/a
X class net income shares	83.96	84.00	77.02	62.50
A class net accumulation shares	87.67	88.40	78.86	61.88
B class net accumulation shares	105.8	106.10	94.68	74.36
X class net accumulation shares	92.42	91.67	81.76	64.14

^The above quoted prices have been restated.

Performance record

Calendar year		Distribution per share p	Highest price p	Lowest price 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

*B class net income shares commenced trading on 4 February 2011.

Comparative table (continued)

Performance record (continued)

Calendar year		Distribution per share p	Highest price p	Lowest price p
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	2.306	84.21	78.07
2011***	B class net income shares	1.882	110.8	102.5
2011**	X class net income shares	2.365	86.87	80.55
2011**	A class net accumulation shares	2.512	92.30	85.56
2011**	B class net accumulation shares	3.089	113.9	102.7
2011**	X class net accumulation shares	2.615	95.66	88.70

** To 31 July 2011

*** From 4 February 2011 to 31 July 2011

The following distributions will be paid to income shareholders and allocated to accumulation shareholders on 30 September 2011:

	pence per share
A class net income shares	1.546
B class net income shares	1.882
X class net income shares	1.586
A class net accumulation shares	1.687
B class net accumulation shares	2.100
X class net accumulation shares	1.756

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.

	Period to 31.07.11*	Year to 31.01.11
A class net income shares	2.20%	2.38%
B class net income shares	1.96%	n/a
X class net income shares	1.45%	1.63%
A class net accumulation shares	2.21%	2.41%
B class net accumulation shares	1.98%	2.13%
X class net accumulation shares	1.45%	1.63%

* Annualised based on the expenses incurred during the current period.

Portfolio information

The tables below show the percentage of the Fund's assets and liabilities by investment and geographical classification at the end of the current period and previous year, and the largest holdings in the Fund at the end of the current period and previous year.

Investment classification

Investment type	Percentage of the total net assets as at 31.07.11	Percentage of the total net assets as at 31.01.11
Equities	93.58%	93.55%
Other net assets	6.38%	6.45%
Total net assets	99.96%	100.00%

Geographical classification

Region	Percentage of the total net assets as at 31.07.11	Percentage of the total net assets as at 31.01.11
United Kingdom	93.58%	93.55%
Other net assets	6.38%	6.45%
Total net assets	99.96%	100.00%

Top ten holdings at the end of the current period

Holding	Percentage of the total net assets as at 31.07.11
Vodafone Group	7.92%
HSBC Holdings	7.34%
GlaxoSmithKline	5.54%
Royal Dutch Shell A	5.38%
BP	5.01%
BHP Billiton	4.42%
Royal Dutch Shell B	4.18%
British American Tobacco	3.78%
AstraZeneca	3.13%
Rio Tinto	2.14%

Top ten holdings at the end of the previous year

Holding	Percentage of the total net assets as at 31.01.11
Vodafone Group	7.53%
HSBC Holdings	7.24%
BP	6.29%
Royal Dutch Shell A	5.56%
GlaxoSmithKline	4.46%
BHP Billiton	4.45%
Royal Dutch Shell B	4.19%
British American Tobacco	3.74%
AstraZeneca	3.70%
National Grid	2.07%

Appointments

ACD and Registered office

Smith & Williamson Fund Administration Limited
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Authorised and regulated by the Financial Services Authority

Administrator and Registrar

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Glasgow G2 5SG
Telephone: 0141 222 1151 (Registration)
0141 222 1150 (Dealing)
Authorised and regulated by the Financial Services Authority

Directors of the ACD

Giles Murphy
Jeremy Boadle
Michael Fosberry – resigned 10 June 2011
Michael Lea
Gareth Pearce
Kevin Stopps
Paul Wyse
Philip Moody
Tim Lyford - appointed 30 August 2011

Investment Adviser

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Depositary to 7 October 2011

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Depositary from 7 October 2011

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