

**The Munro Fund**  
**Interim Long Report**  
**for the six months ended 31 July 2011**

## Contents

	<b>Page</b>
Authorised Corporate Director's report	2
Investment Adviser's report	3
Major purchases and sales	4
Portfolio statement	5
Comparative table	9
Financial statements:	
- Statement of total return	11
- Statement of change in net assets attributable to shareholders	11
- Balance sheet	12
- Notes to the financial statements	13
- Distribution table	15
Further information	17
Appointments	18

## **The Munro Fund**

### **Interim Long Report for the six months ended 31 July 2011**

#### **Authorised Corporate Director's report**

The Authorised Corporate Director ("the ACD") presents herewith the Interim Long Report ("the Report") for The Munro Fund for the six months ended 31 July 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**

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 Company 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 Company is operated.

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  
30 September 2011

## 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 Telecom Group, Weir Group, Mondi, Travis Perkins, Cairn Energy, Melrose, Croda International, 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.

Cairn Energy was sold 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.

## Major purchases and sales (unaudited)

for the six months ended 31 July 2011

Purchases	Cost £	Sales	Proceeds £
HSBC Holdings	69,964	BP	36,123
Vodafone Group	67,452	Vodafone Group	31,440
Lloyds Banking Group	41,602	Lloyds Banking Group	23,940
GlaxoSmithKline	38,291	HSBC Holdings	21,978
BP	30,931	GlaxoSmithKline	18,768
BHP Billiton	29,530	AstraZeneca	17,067
Royal Dutch Shell A	24,383	Royal Dutch Shell	13,888
Glencore International	23,550	BHP Billiton	11,174
Barclays	17,023	British American Tobacco	10,655
AstraZeneca	16,628	Anglo American	6,956
Total purchases in the period	<u>549,767</u>	Total sales in the period	<u>236,614</u>

The above represents the major purchases and sales in the period to reflect a clearer picture of the major investment activities.

**Portfolio statement (unaudited)**  
as at 31 July 2011

Investments	Holding	Market value £	% of total net assets
<b>UK Equities 93.62% (93.55%)</b>			
<b>Automobiles &amp; Parts 0.16% (0.17%)</b>			
GKN	1,690	3,797	0.16
		<u>3,797</u>	<u>0.16</u>
<b>Banks 11.78% (11.18%)</b>			
Barclays	15,744	35,093	1.50
HSBC Holdings	28,911	171,876	7.34
Lloyds Banking Group	53,611	23,240	0.99
Royal Bank of Scotland Group	25,975	9,265	0.40
Standard Chartered	2,333	36,313	1.55
		<u>275,787</u>	<u>11.78</u>
<b>Basic Resources 11.47% (10.13%)</b>			
Anglo American	813	23,577	1.01
Antofagasta	1,425	20,093	0.86
BHP Billiton	4,558	103,603	4.42
Eurasian Natural Resources	1,110	8,575	0.37
Fresnillo	516	9,082	0.39
Glencore International	4,571	21,721	0.93
Kazakhmys	231	3,112	0.13
Mondi	360	2,156	0.09
New World Resources	458	3,659	0.16
Rio Tinto	1,167	50,181	2.14
Vedanta Resources	170	3,009	0.13
Xstrata	1,517	19,653	0.84
		<u>268,421</u>	<u>11.47</u>
<b>Chemicals 0.21% (0.13%)</b>			
Croda International	111	2,115	0.09
Johnson Matthey	141	2,876	0.12
		<u>4,991</u>	<u>0.21</u>
<b>Construction &amp; Materials 0.10% (0.12%)</b>			
Balfour Beatty	757	2,298	0.10
		<u>2,298</u>	<u>0.10</u>
<b>Financial Services 1.82% (3.28%)</b>			
Aberdeen Asset Management	1,637	3,610	0.16
Ashmore Group	967	3,900	0.17
Capital & Counties Properties	253	475	0.02
Close Brothers Group	233	1,734	0.08
F&C Asset Management	159	112	0.00
Hargreaves Lansdown	550	3,135	0.13
Henderson Group	1,214	1,944	0.08
ICAP	645	2,888	0.12
IG Group Holdings	449	1,987	0.08
Intermediate Capital Group	759	2,020	0.09
Investec	725	3,485	0.15
London Stock Exchange Group	281	2,802	0.12
Man Group	4,192	9,340	0.40
Provident Financial	238	2,654	0.11
Schroders	160	2,605	0.11
		<u>42,691</u>	<u>1.82</u>

**Portfolio statement (continued)**  
*as at 31 July 2011*

<b>Investments</b>	<b>Holding</b>	<b>Market value £</b>	<b>% of total net assets</b>
<b>Food &amp; Beverage 4.71% (4.90%)</b>			
Associated British Foods	604	6,463	0.28
Diageo	2,627	32,706	1.40
SABMiller	1,364	31,154	1.33
Tate & Lyle	704	4,287	0.18
Unilever	1,831	35,668	1.52
		<hr/>	<hr/>
		110,278	4.71
<b>Health Care 8.89% (8.31%)</b>			
AstraZeneca	2,467	73,344	3.13
GlaxoSmithKline	9,511	129,730	5.54
Shire	106	2,246	0.10
Smith & Nephew	447	2,863	0.12
		<hr/>	<hr/>
		208,183	8.89
<b>Industrial Goods &amp; Services 3.50% (3.52%)</b>			
Aggreko	108	2,087	0.09
Babcock International Group	369	2,483	0.11
BAE Systems	6,321	19,210	0.82
Bunzl	311	2,395	0.10
Capita Group	612	4,394	0.19
Carillion	520	1,907	0.08
Cobham	742	1,511	0.07
Experian	849	6,813	0.29
G4S	1,041	2,853	0.12
Hays	1,875	1,685	0.07
IMI	299	3,137	0.13
Meggitt	630	2,446	0.10
Melrose	596	2,128	0.09
Rentokil Initial	1,339	1,229	0.05
Rexam	1,044	3,878	0.17
Rolls-Royce Holdings	1,836	11,980	0.51
Smiths Group	399	4,525	0.19
Travis Perkins	214	1,891	0.08
Weir Group	116	2,462	0.11
Wolseley	168	3,049	0.13
		<hr/>	<hr/>
		82,063	3.50
<b>Insurance 4.57% (3.83%)</b>			
Admiral Group	489	7,570	0.32
Amlin	602	2,427	0.10
Aviva	5,891	23,493	1.00
Catlin Group	591	2,449	0.10
Hiscox	556	2,263	0.10
Legal & General Group	9,102	10,212	0.44
Old Mutual	6,669	8,476	0.36
Phoenix Group Holdings	350	1,988	0.08
Prudential	3,043	20,981	0.90
Resolution	2,748	7,584	0.32
RSA Insurance Group	7,839	10,308	0.45
Standard Life	4,718	9,346	0.40
		<hr/>	<hr/>
		107,097	4.57

**Portfolio statement (continued)**  
*as at 31 July 2011*

<b>Investments</b>	<b>Holding</b>	<b>Market value £</b>	<b>% of total net assets</b>
<b>Media 2.12% (1.89%)</b>			
British Sky Broadcasting Group	1,758	12,508	0.53
Daily Mail & General Trust	355	1,459	0.06
Informa	502	2,028	0.09
ITV	4,660	3,255	0.14
Pearson	1,083	12,704	0.54
Reed Elsevier	1,427	7,906	0.34
United Business Media	302	1,631	0.07
WPP	1,188	8,245	0.35
		<u>49,736</u>	<u>2.12</u>
<b>Oil &amp; Gas 15.66% (17.16%)</b>			
AMEC	199	2,097	0.09
BG Group	1,220	17,617	0.75
BP	25,505	117,425	5.01
EnQuest	237	296	0.01
Exillon Energy	547	2,325	0.10
Petrofac	237	3,320	0.14
Royal Dutch Shell A	5,639	126,003	5.38
Royal Dutch Shell B	4,369	97,822	4.18
		<u>366,905</u>	<u>15.66</u>
<b>Personal &amp; Household Goods 6.78% (6.78%)</b>			
Barratt Developments	312	307	0.01
British American Tobacco	3,140	88,564	3.78
Burberry Group	236	3,523	0.15
Imperial Tobacco Group	1,680	35,549	1.52
Persimmon	321	1,482	0.06
Reckitt Benckiser Group	853	29,480	1.26
		<u>158,905</u>	<u>6.78</u>
<b>Real Estate 1.01% (0.73%)</b>			
British Land	1,085	6,342	0.27
Capital Shopping Centres Group	818	3,052	0.13
Hammerson	683	3,177	0.14
Land Securities Group	929	7,938	0.34
Segro	973	2,937	0.13
		<u>23,446</u>	<u>1.01</u>
<b>Retail 3.41% (3.81%)</b>			
Home Retail Group	1,575	2,134	0.09
J Sainsbury	2,641	8,029	0.34
Kingfisher	2,358	5,959	0.25
Marks & Spencer Group	2,760	9,552	0.41
Next	198	4,699	0.20
Tesco	10,475	40,145	1.71
WM Morrison Supermarkets	3,296	9,585	0.41
		<u>80,103</u>	<u>3.41</u>
<b>Technology 0.22% (0.28%)</b>			
Logica	1,567	1,826	0.08
Sage Group	1,181	3,241	0.14
		<u>5,067</u>	<u>0.22</u>

**Portfolio statement (continued)**  
*as at 31 July 2011*

Investments	Holding	Market value £	% of total net assets
<b>Telecommunications 9.34% (8.96%)</b>			
BT Group	11,754	23,590	1.01
Cable & Wireless Communications	8,569	3,170	0.14
Cable & Wireless Worldwide	5,143	2,152	0.09
Inmarsat	437	2,355	0.10
TalkTalk Telecom Group	1,349	1,917	0.08
Vodafone Group	107,896	<u>185,581</u>	<u>7.92</u>
		218,765	9.34
<b>Travel &amp; Leisure 2.23% (2.30%)</b>			
Carnival	896	18,950	0.81
Compass Group	2,380	13,673	0.58
Firstgroup	656	2,389	0.10
Intercontinental Hotels Group	206	2,487	0.11
International Consolidated Airlines Group	671	1,590	0.07
Ladbrokes	1,518	2,239	0.10
Thomas Cook Group	3,399	2,230	0.10
TUI Travel	1,917	3,738	0.16
Whitbread	141	2,194	0.09
William Hill	1,097	<u>2,533</u>	<u>0.11</u>
		52,023	2.23
<b>Utilities 5.64% (6.07%)</b>			
Centrica	8,650	26,512	1.13
Drax Group	568	3,036	0.13
International Power	5,611	17,153	0.73
National Grid	7,241	43,229	1.85
Northumbrian Water Group	742	3,351	0.14
Penon Group	389	2,818	0.12
Scottish & Southern Energy	1,795	23,461	1.00
Severn Trent	394	5,638	0.24
United Utilities Group	1,197	<u>7,038</u>	<u>0.30</u>
		132,236	5.64
Total UK equities		<u>2,192,792</u>	<u>93.62</u>
<b>Portfolio of investments</b>		2,192,792	93.62
<b>Other net assets</b>		149,545	6.38
<b>Total net assets</b>		<u>2,342,337</u>	<u>100.00</u>

The comparative figures in brackets are as at 31 January 2011.

All investments are quoted securities or regulated collective investment schemes unless otherwise stated.

## Comparative table

<b>Number of shares in issue</b>	<b>31.07.11</b>	<b>31.01.11</b>	<b>31.01.10</b>	<b>31.01.09</b>
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

<b>Net Asset Value (NAV)</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
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

<b>Net asset value per share (based on bid value)</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
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

<b>Quoted prices (based on mid of bid/offer value)^</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
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

<b>Calendar year</b>		<b>Distribution per share p</b>	<b>Highest price p</b>	<b>Lowest price p</b>
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.

## Financial statements - The Munro Fund (unaudited)

### Statement of total return (unaudited)

for the six months ended 31 July 2011

	31.07.11		31.07.10	
	£	£	£	£
Income				
Net capital (losses) / gains		(27,383)		12,514
Revenue	49,507		35,370	
Expenses	(17,387)		(15,275)	
Finance costs: Interest	<u>-</u>		<u>(9)</u>	
Net revenue before taxation	32,120		20,086	
Taxation	<u>(161)</u>		<u>(377)</u>	
Net revenue after taxation		<u>31,959</u>		<u>19,709</u>
<b>Total return before distributions</b>		4,576		32,223
Finance costs: Distributions		(41,445)		(26,863)
<b>Change in net assets attributable to shareholders from investment activities</b>		<u><u>(36,869)</u></u>		<u><u>5,360</u></u>

### Statement of change in net assets attributable to shareholders (unaudited)

for the six months ended 31 July 2011

	31.07.11		31.07.10	
	£	£	£	£
Opening net assets attributable to shareholders		2,035,786 *		1,575,208
Amounts receivable on issue of shares	533,299		288,164	
Amounts payable on cancellation of shares	<u>(215,165)</u>		<u>(120,584)</u>	
		318,134		167,580
Dilution levy		643		-
Stamp duty reserve tax		(308)		(80)
Change in net assets attributable to shareholders from investment activities		(36,869)		5,360
Retained accumulation distributions		24,951		14,450
<b>Closing net assets attributable to shareholders</b>		<u><u>2,342,337</u></u>		<u><u>1,762,518 *</u></u>

\*The opening net assets in the current period do not equal the closing net assets in the comparative period as they are not consecutive periods.

## Balance sheet (unaudited)

as at 31 July 2011

	31.07.11		31.01.11	
	£	£	£	£
ASSETS:				
Investment assets		2,192,792		1,904,546
Debtors	10,463		4,899	
Cash and bank balances	<u>176,632</u>		<u>145,234</u>	
Total other assets		<u>187,095</u>		<u>150,133</u>
Total assets		<u>2,379,887</u>		<u>2,054,679</u>
LIABILITIES:				
Creditors	(17,710)		(9,721)	
Distribution payable on income shares	<u>(19,840)</u>		<u>(9,172)</u>	
Total liabilities		<u>(37,550)</u>		<u>(18,893)</u>
<b>Net assets attributable to shareholders</b>		<u><u>2,342,337</u></u>		<u><u>2,035,786</u></u>

## Notes to the financial statements (unaudited) as at 31 July 2011

### 1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds (the SORP) issued by the Investment Management Association (IMA) in October 2010.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 January 2011 and are described in those annual financial statements.

### 2 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.

##### *(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.

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.

## Notes to the financial statements (continued)

as at 31 July 2011

### 2 Risk management policies (continued)

#### 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.

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 fulfill 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.

**Distribution table (unaudited)**  
*for the six months ended 31 July 2011*

**Distributions on X net income shares in pence per share**

Distribution number 7

Group 1 : Shares purchased prior to 1 February 2011

Group 2 : Shares purchased 1 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution payable	Distribution paid
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	1.586	-	1.586	1.290
<b>Group 2</b>					
30.09.11	interim	1.024	0.562	1.586	1.290

**Distributions on A net income shares in pence per share**

Distribution number 7

Group 1 : Shares purchased prior to 1 February 2011

Group 2 : Shares purchased 1 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution payable	Distribution paid
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	1.546	-	1.546	1.263
<b>Group 2</b>					
30.09.11	interim	0.002	1.544	1.546	1.263

**Distributions on X net accumulation shares in pence per share**

Distribution number 7

Group 1 : Shares purchased prior to 1 February 2011

Group 2 : Shares purchased 1 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution allocated	Distribution allocated
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	1.756	-	1.756	1.397
<b>Group 2</b>					
30.09.11	interim	0.700	1.056	1.756	1.397

## Distribution table (continued) for the six months ended 31 July 2011

### Distributions on A net accumulation shares in pence per share

Distribution number 7

Group 1 : Shares purchased prior to 1 February 2011

Group 2 : Shares purchased 1 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution allocated	Distribution allocated
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	1.687	-	1.687	1.341
<b>Group 2</b>					
30.09.11	interim	0.536	1.151	1.687	1.341

### Distributions on B net income shares in pence per share

Distribution number 1

Group 1 : Shares purchased prior to 4 February 2011

Group 2 : Shares purchased 4 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution payable	Distribution paid
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	1.882	-	1.882	n/a
<b>Group 2</b>					
30.09.11	interim	1.882	0.063	1.882	n/a

### Distributions on B net accumulation shares in pence per share

Distribution number 7

Group 1 : Shares purchased prior to 1 February 2011

Group 2 : Shares purchased 1 February 2011 to 31 July 2011

Payment date	Payment type	Net income	Equalisation	Distribution allocated	Distribution allocated
		2011	2011	2011	2010
<b>Group 1</b>					
30.09.11	interim	2.100	-	2.100	1.630
<b>Group 2</b>					
30.09.11	interim	2.100	-	2.100	1.630

### Equalisation

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 shareholders but must be deducted from the cost of shares for capital gains tax purposes.

### 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  
25 Moorgate  
London EC2R 6AY  
Telephone: 020 7131 4000  
Authorised and regulated by the Financial Services Authority

### Administrator and Registrar

Smith & Williamson Fund Administration Limited  
206 St. Vincent Street  
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

Fundamental Tracker Investment Management Limited  
Exchange House  
50 Drymen Road  
Bearsden  
Glasgow G61 2RH  
Authorised and regulated by the Financial Services Authority

### Depositary to 7 October 2011

The Royal Bank of Scotland Plc  
Trustee and Depositary Services  
The Broadstone  
50 South Gyle Crescent  
Edinburgh EH12 9UZ  
Authorised and regulated by the Financial Services Authority

### Depositary from 7 October 2011

National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 3UR  
Authorised and regulated by the Financial Services Authority

### Auditor

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

**Smith & Williamson Fund Administration Limited**  
25 Moorgate, London EC2R 6AY  
*Telephone: 020 7131 4000 Fax: 020 7131 4001*

Authorised and regulated by the Financial Services Authority

[www.smith.williamson.co.uk](http://www.smith.williamson.co.uk)