

THE MUNRO FUND

INTERIM LONG REPORT

For the six months ended 31 July 2010

THE MUNRO FUND

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THE MUNRO FUND

COMPANY INFORMATION

Authorised Corporate Director, Administrator and Registrar

Smith & Williamson Fund Administration Limited

25 Moorgate

London EC2R 6AY

Telephone: 020 7131 4000 (General)

020 7131 4951 (Dealing & Registration)

Authorised and regulated by the Financial Services Authority

Directors

Jeremy Boadle

Michael Fosberry

Michael Lea

Giles Murphy

Gareth Pearce

Kevin Stopps

Paul Wyse

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

The Royal Bank of Scotland plc

Trustee and Depositary Services

The Broadstone

50 South Gyle Crescent

Edinburgh EH12 9UZ

Telephone: 0131 523 8487

Authorised and regulated by the Financial Services Authority

Auditor

KPMG Audit Plc

Chartered Accountants and Registered Auditors

15 Canada Square

London E14 5GL

THE MUNRO FUND

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 2010.

AUTHORISED STATUS

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 sub-fund available for investment, which complies with COLL.

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

The instrument of incorporation can be inspected at the office of the ACD.

INVESTMENT OBJECTIVE AND POLICY

Munro UK Fund

The objective of the fund is to maximize the overall return through investment 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 than 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 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.

The Company will be managed in a manner that maintains eligibility for the stocks and shares component of an individual savings account.

REVENUE

Where net revenue is available it will be distributed semi-annually on 30 September (interim) and 31 May (final). In the event of a distribution, shareholders will receive a tax voucher and a distribution warrant unless they have given instructions for payment to be made direct to a bank.

THE MUNRO FUND

THE AUTHORISED CORPORATE DIRECTOR'S REPORT (continued)

CAPITAL GAINS TAX

Authorised collective investment schemes, such as the Company are exempt from capital gains tax.

You may be liable to capital gains tax when you sell all or some of your shares if your total gains in the relevant tax year exceed the annual exemption. For the tax year 2009/2010, the first £10,100 of any gains is exempt for UK individuals and certain companies.

If investors are in any doubt as to their taxation position they should consult their professional adviser. Levels and bases of, and reliefs from, taxation are subject to change in the future.

STAMP DUTY RESERVE TAX (SDRT)

SDRT is a tax that arises on transactions in shares by investors. The ACD has the power to charge an SDRT provision on entry to and/or exit from the Company. It is the ACD's current intention to settle this liability from the assets of the Company itself.

PROSPECTUS AND SIMPLIFIED PROSPECTUS

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

GENERIC REGULATORY DISCLOSURE

This document is issued by Smith & Williamson Fund Administration Limited which is authorised and regulated by the Financial Services Authority.

Tax reliefs may change in the future. Any references in this report to other investments held within the Company should not be read as a recommendation to the investor to buy or sell, but are included as illustrations only. This is not an offer nor a solicitation to buy or sell any investment referred to in this document. The issuer and its affiliates and/or their officers, directors and employees may own or have positions in any investment mentioned herein or any investment related thereto and from time to time may add to or dispose of any such investment. The contents of this document are based upon sources of information believed to be reliable but no guarantee, warranty or representation, express or implied, is given to their accuracy or completeness.

THE MUNRO FUND

MUNRO UK FUND

INVESTMENT ADVISER'S REPORT For the six months ended 31 July 2010

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. As the fund grew the threshold for the minimum dealing size declined as a percentage of the fund. This results in more stocks exceeding the £2,000 minimum dealing size. Stocks added over the period were: Aberdeen Asset Management, Cobham, Capita Group, Hays, Intercontinental Hotels, IMI, Informa, Intermediate Capital, Kazakhmys, Northumbrian Water and Vedanta Resources. The number of holdings also increased as result of corporate actions. Cable & Wireless was split into Cable & Wireless Communications and Cable & Wireless Worldwide. Liberty International became Capital and Counties Properties after changing its name from Liberty International and spinning off Capital Shopping Centres Group. Enquest was a new company created when it was spun off from Petrofac.

During the period the fund took up a holding in Royal Bank of Scotland which was bought at the beginning of March for 38p when analysts started estimating a small dividend from the Company in 2011. However, the position in RBS was sold a month later for 45p after analysts revised their forecasts and a dividend was no longer being forecast. The only other stock sold during the period was Cadbury after it was taken over by the American listed Kraft.

In addition to these trades rebalancing was carried out as appropriate to keep the fund in line with the model. In February the fund traded on 4 days, March 10 days, April 9 days, May 9 days, June 14 days and on 13 days in July.

Investment Performance

In the period under review the X Class accumulation units rose by 0.9% compared with an increase of 3.0% in the FTSE 350 Total Return index (Source: Bloomberg). This relative underperformance is due to three reasons that are all a function of the small size of the fund. These are:

- It cannot precisely follow the model, it currently only holds 110 stocks out of a universe of over 200.
- The small size of the fund also increases the impact of drag from fees.
- The small size inhibits its ability to exploit pricing anomalies in the market.

Furthermore, the fund held an overweight position in BP at the time of the Macondo Well MC252 disaster and the subsequent fall in the value of BP shares had a negative impact on the fund. However, some of those losses were recovered in the last month of the period under review.

Investment Strategy

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.

Fundamental Tracker Investment Management Ltd

Date: 11 August 2010

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

THE MUNRO FUND

PORTFOLIO STATEMENT

(Unaudited)

as at 31 July 2010

Holding	Fair value £	% of total net assets
UNITED KINGDOM 91.35% (90.99%)		
EQUITIES 91.35% (90.99%)		
OIL & GAS 18.45% (19.40%)		
1,220 BG	12,377	0.70
35,914 BP	145,811	8.27
237 Enquest	273	0.02
237 Petrofac	2,970	0.17
5,128 Royal Dutch Shell 'A'	90,971	5.16
4,269 Royal Dutch Shell 'B'	72,744	4.13
	<u>325,146</u>	<u>18.45</u>
BASIC MATERIALS 10.24% (8.23%)		
920 Anglo American	23,455	1.33
764 Antofagasta	7,598	0.43
4,110 BHP Billiton	80,392	4.56
885 Eurasian Natural Resources	7,987	0.45
221 Fresnillo	2,270	0.13
141 Johnson Matthey	2,381	0.14
231 Kazakhmys	2,825	0.16
1,228 Rio Tinto	40,800	2.31
73 Vedanta Resources	1,793	0.10
1,077 Xstrata	11,045	0.63
	<u>180,546</u>	<u>10.24</u>
INDUSTRIALS 3.10% (3.67%)		
4,920 BAE Systems	15,724	0.89
757 Balfour Beatty	1,904	0.11
312 Barratt Developments	300	0.02
311 Bunzl	2,166	0.12
297 Capita	2,141	0.12
742 Cobham	1,774	0.10
849 Experian	5,332	0.30
1,041 G4S	2,712	0.15
1,875 Hays	1,706	0.10
299 IMI	2,130	0.12
321 Persimmon	1,141	0.06
1,339 Rentokil Initial	1,406	0.08
1,044 Rexam	3,272	0.19
1,176 Rolls-Royce	6,880	0.39
231 Smiths	2,585	0.15
863 Tomkins	2,799	0.16
46 Wolseley	663	0.04
	<u>54,635</u>	<u>3.10</u>
CONSUMER GOODS 10.90% (10.85%)		
604 Associated British Foods	6,227	0.35
2,924 British American Tobacco	64,752	3.67
236 Burberry	2,000	0.11
2,342 Diageo	26,137	1.48
1,291 Imperial Tobacco	23,509	1.33
641 Reckitt Benckiser	20,076	1.14
1,172 Sabmiller	22,590	1.28
704 Tate & Lyle	3,207	0.18
1,314 Unilever	23,928	1.36
	<u>192,426</u>	<u>10.90</u>

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PORTFOLIO STATEMENT

(Unaudited)

as at 31 July 2010

Holding	Fair value £	% of total net assets
HEALTH CARE 8.10% (8.48%)		
1,893 AstraZeneca	61,589	3.49
7,045 GlaxoSmithKline	78,798	4.47
447 Smith & Nephew	2,472	0.14
	<u>142,859</u>	<u>8.10</u>
CONSUMER SERVICES 7.26% (7.34%)		
671 British Airways	1,482	0.08
1,758 British Sky Broadcasting	12,570	0.71
515 Carnival	11,969	0.68
1,675 Compass	8,970	0.51
656 FirstGroup	2,431	0.14
630 Home Retail	1,509	0.09
502 Informa	1,977	0.11
206 Intercontinental Hotels	2,289	0.13
2,103 ITV	1,106	0.06
2,358 Kingfisher	5,119	0.29
1,650 Marks & Spencer	5,747	0.33
2,516 Morrison (WM) Supermarkets	6,738	0.38
109 Next	2,353	0.13
883 Pearson	8,755	0.50
1,048 Reed Elsevier	5,774	0.33
2,121 Sainsbury (J)	7,313	0.41
8,148 Tesco	32,132	1.82
838 Thomas Cook	1,534	0.09
937 TUI Travel	1,968	0.11
929 WPP	6,303	0.36
	<u>128,039</u>	<u>7.26</u>
TELECOMMUNICATIONS 8.90% (9.26%)		
13,255 BT	18,955	1.08
8,569 Cable & Wireless Communications	5,116	0.29
5,143 Cable & Wireless Worldwide	3,459	0.20
437 Inmarsat	3,262	0.19
83,882 Vodafone	125,655	7.14
	<u>156,447</u>	<u>8.90</u>
UTILITIES 5.71% (5.86%)		
6,667 Centrica	20,581	1.17
568 Drax	2,198	0.12
1,582 International Power	5,706	0.32
6,988 National Grid	36,407	2.07
742 Northumbrian Water	2,502	0.14
389 Pennon	2,315	0.13
1,675 Scottish & Southern Energy	18,693	1.06
394 Severn Trent	5,217	0.30
1,197 United Utilities	7,074	0.40
	<u>100,693</u>	<u>5.71</u>

THE MUNRO FUND

PORTFOLIO STATEMENT

(Unaudited)

as at 31 July 2010

Holding	Fair value £	% of total net assets
FINANCIALS 18.53% (17.72%)		
1,637 Aberdeen Asset Management	2,292	0.13
240 Admiral	3,504	0.20
602 Amlin	2,569	0.15
967 Ashmore	2,743	0.16
5,891 Aviva	21,367	1.21
8,678 Barclays	28,945	1.64
1,085 British Land	5,037	0.29
253 Capital & Counties Properties	280	0.02
253 Capital Shopping Centres	878	0.05
591 Catlin	2,268	0.13
159 F&C Asset Management	79	0.00
683 Hammerson	2,641	0.15
19,518 HSBC	128,292	7.29
645 Icap	2,614	0.15
759 Intermediate Capital	2,054	0.12
725 Investec	3,605	0.20
929 Land Securities	5,699	0.32
9,102 Legal & General	8,287	0.47
20,035 Lloyds Banking	14,004	0.79
281 London Stock Exchange	1,833	0.10
3,317 Man Group	7,294	0.41
8,430 Old Mutual	10,318	0.59
238 Provident Financial	1,946	0.11
2,738 Prudential	15,374	0.87
98 Resolution	235	0.01
1,676 Resolution Rights (05/08/2010)	1,492	0.08
6,262 RSA Insurance	8,028	0.46
160 Schroders	2,048	0.12
973 Segro	2,762	0.16
1,625 Standard Chartered	30,371	1.72
3,716 Standard Life	7,547	0.43
	<u>326,406</u>	<u>18.53</u>
TECHNOLOGY 0.16% (0.18%)		
1,181 Sage	2,823	0.16
	<u>2,823</u>	<u>0.16</u>
TOTAL EQUITIES	<u>1,610,020</u>	<u>91.35</u>
TOTAL UNITED KINGDOM	<u>1,610,020</u>	<u>91.35</u>
Portfolio of investments	1,610,020	91.35
Net other assets	152,498	8.65
Net assets	<u>1,762,518</u>	<u>100.00</u>

All investments are quoted securities unless otherwise stated.

The comparative percentage figures in brackets are as at 31 January 2010.

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PRICE AND DISTRIBUTION RECORD

(Unaudited)

The following tables show the highest and lowest prices of shares in the sub-fund, the income and accumulation shares distributions, net asset value, quoted prices, shares in issue and total expense ratio for each share class and the portfolio turnover rate since launch of the sub-fund on 14 September 2007.

Share prices

Shares were first issued at 100.00p on 14 September 2007.

Class X Income shares (share prices)

Calendar year	Highest price p	Lowest price p
2007	104.70	93.37
2008	99.32	56.36
2009	80.58	51.55
2010*	84.43	70.61

Class A Income shares (share prices)

Calendar year	Highest price p	Lowest price p
2007	103.50	90.26
2008	95.96	54.40
2009	78.09	50.06
2010*	81.84	68.46

Class A Accumulation shares (share prices)

Calendar year	Highest price p	Lowest price p
2007	103.50	90.27
2008	95.98	55.83
2009	82.50	51.81
2010*	87.42	73.14

Class X Accumulation shares (share prices)

Calendar year	Highest price p	Lowest price p
2007	104.70	93.42
2008	99.32	57.84
2009	85.54	53.68
2010*	90.63	75.80

Class B Accumulation shares (share prices)

Calendar year	Highest price p	Lowest price p
2007	100.00	100.00
2008	107.90	66.99
2009	99.05	62.17
2010*	105.00	87.80

Class X Income shares (Net distribution per share)

Calendar year	Interim p	Final p	Total p
2008	2.492	n/a	2.492
2009	1.343	0.817	2.160
2010**	1.290	0.848	2.138

Class A Income shares (Net distribution per share)

Calendar year	Interim p	Final p	Total p
2008	2.492	n/a	2.492
2009	1.303	0.790	2.093
2010**	1.263	0.822	2.085

* to 31 July 2010

** to 30 September 2010 (payment date)

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PRICE AND DISTRIBUTION RECORD (continued)

Class A Accumulation shares (Net distribution per share)

Calendar year	Interim p	Final p	Total p
2008	2.492	n/a	2.492
2009	1.349	0.809	2.158
2010**	1.341	0.868	2.209

Class X Accumulation shares (Net distribution per share)

Calendar year	Interim p	Final p	Total p
2008	2.492	n/a	2.492
2009	1.399	0.839	2.238
2010**	1.397	0.900	2.297

Class B Accumulation shares (Net distribution per share)

Calendar year	Interim p	Final p	Total p
2008	2.492	n/a	2.492
2009	1.620	0.973	2.593
2010**	1.630	1.043	2.673

Class X Income

Net asset value, quoted prices, shares in issue and total expense ratio

Accounting date	Total net asset value £	Net asset value per share p	Quoted	Income shares in issue	Total expense ratio %
			Income price p		
31/01/2009	369,037	62.06	62.50	594,640	1.63%
31/01/2010	628,099	76.68	77.02	819,119	1.87%
31/07/2010	853,585	75.69	76.94	1,127,730	1.73%***

Class A Income

Net asset value, quoted prices, shares in issue and total expense ratio

Accounting date	Total net asset value £	Net asset value per share p	Quoted	Income shares in issue	Total expense ratio %
			Income price p		
31/01/2009	15,862	59.82	60.37	26,517	1.63%
31/01/2010	45,711	74.33	74.66	61,497	2.38%
31/07/2010	54,182	73.38	74.60	73,842	2.52%***

Class A Accumulation

Net asset value, quoted prices, shares in issue and total expense ratio

Accounting date	Total net asset value £	Net asset value per share p	Quoted	Accumulation shares in issue	Total expense ratio %
			Accumulation price p		
31/01/2009	109,663	61.43	61.88	178,504	2.17%
31/01/2010	201,810	78.51	78.86	257,058	2.58%
31/07/2010	161,381	79.74	79.71	202,378	2.52%***

Class X Accumulation

Net asset value, quoted prices, shares in issue and total expense ratio

Accounting date	Total net asset value £	Net asset value per share p	Quoted	Accumulation shares in issue	Total expense ratio %
			Accumulation price p		
31/01/2009	391,949	63.68	64.14	615,451	1.63%
31/01/2010	581,333	81.40	81.76	714,151	1.89%
31/07/2010	573,274	82.64	82.60	693,690	1.77%***

Class B Accumulation

Net asset value, quoted prices, shares in issue and total expense ratio

Accounting date	Total net asset value £	Net asset value per share p	Quoted	Accumulation shares in issue	Total expense ratio %
			Accumulation price p		
31/01/2009	92,626	73.83	74.36	125,459	2.62%
31/01/2010	118,255	94.26	94.68	125,459	2.39%
31/07/2010	120,096	95.72	95.68	125,459	2.27%***

* to 31 July 2010

** to 30 September 2010 (payment date)

*** annualised

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PRICE AND DISTRIBUTION RECORD (continued)

Accounting date	Portfolio turnover rate %
31/01/2009	8.73%
31/01/2010	26.00%
31/07/2010	nil

TOTAL PURCHASES AND SALES IN THE PERIOD

Total purchases in the year were £421,815

Total sales in the year were £259,393

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

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DISTRIBUTION TABLE

(Unaudited)

for the six months ended 31 July 2010

Interim: Distribution number 5

Class X Income

Group 1: shares purchased prior to 1 February 2010

Group 2: shares purchased between 1 February 2010 to 31 July 2010

	Gross income 2010 pence per share	Tax credit 2010 pence per share	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	1.433	0.143	1.290	-	1.290	1.343
Group 2	0.108	0.011	0.097	1.193	1.290	1.343

Class A Income

Group 1: shares purchased prior to 1 February 2010

Group 2: shares purchased between 1 February 2010 to 31 July 2010

	Gross income 2010 pence per share	Tax credit 2010 pence per share	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	1.403	0.140	1.263	-	1.263	1.303
Group 2	0.472	0.047	0.425	0.838	1.263	1.303

Class A Accumulation

Group 1: shares purchased prior to 1 February 2010

Group 2: shares purchased between 1 February 2010 to 31 July 2010

	Gross income 2010 pence per share	Tax credit 2010 pence per share	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	1.490	0.149	1.341	-	1.341	1.349
Group 2	0.518	0.052	0.466	0.875	1.341	1.349

Class X Accumulation

Group 1: shares purchased prior to 1 February 2010

Group 2: shares purchased between 1 February 2010 to 31 July 2010

	Gross income 2010 pence per share	Tax credit 2010 pence per share	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	1.552	0.155	1.397	-	1.397	1.399
Group 2	0.417	0.042	0.375	1.022	1.397	1.399

Class B Accumulation

Group 1: shares purchased prior to 1 February 2010

Group 2: shares purchased between 1 February 2010 to 31 July 2010

	Gross income 2010 pence per share	Tax credit 2010 pence per share	Net income 2010 pence per share	Equalisation 2010 pence per share	Distribution payable 2010 pence per share	Distribution paid 2009 pence per share
Group 1	1.811	0.181	1.630	-	1.630	1.620
Group 2	1.811	0.181	1.630	0.000	1.630	1.620

THE MUNRO FUND

CERTIFICATION OF ACCOUNTS BY THE AUTHORISED CORPORATE DIRECTOR

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.

G. Murphy

K. Stopps

Directors
Smith & Williamson Fund Administration Limited

30 September 2010

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MUNRO UK FUND

STATEMENT OF TOTAL RETURN

(Unaudited)

for the six months ended 31 July 2010

	2010		2009	
	£	£	£	£
Net capital gains on investments during the period		12,514		148,428
Revenue	35,370		31,643	
Expenses	(15,275)		(12,387)	
Finance costs: Interest	<u>(9)</u>		<u>-</u>	
Net revenue before taxation	20,086		19,256	
Taxation	<u>(377)</u>		<u>(300)</u>	
Net revenue after taxation for the period		<u>19,709</u>		<u>18,956</u>
Total return before distributions		32,223		167,384
Finance costs: Distributions		(26,863)		(23,896)
Change in net assets attributable to shareholders		<u>5,360</u>		<u>143,488</u>

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

(Unaudited)

for the six months ended 31 July 2010

	2010		2009	
	£	£	£	£
Net assets at the start of the period		1,575,208		979,138
<i>Movement due to sales and repurchases of shares</i>				
Amounts receivable on issue of shares	288,164		263,821	
Less: amounts payable on cancellation of shares	<u>(120,584)</u>		<u>(111,667)</u>	
		167,580		152,154
Income retained on Income Accumulation		14,450		14,804
Stamp duty reserve tax		(80)		(84)
Change in net assets attributable to shareholders (see Statement of Total Return above)		5,360		143,488
Net assets at the end of the period		<u>1,762,518</u>		<u>1,289,500</u>

There have been no recognised gains and losses in the period other than those shown in the above statements.

The difference between the net assets at the start of the period and the comparative net assets at the end of the period is the movement in the second half of the accounting period.

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MUNRO UK FUND

BALANCE SHEET (Unaudited) as at 31 July 2010

	31/07/2010		31/01/2010	
	£	£	£	£
ASSETS				
Portfolio of investments		1,610,020		1,433,359
Debtors	46,083		13,913	
Cash and bank balances	<u>138,650</u>		<u>143,513</u>	
Total other assets		<u>184,733</u>		<u>157,426</u>
Total assets		1,794,753		1,590,785
LIABILITIES				
Creditors	(16,755)		(8,125)	
Distribution payable on income shares	<u>(15,480)</u>		<u>(7,452)</u>	
Total other liabilities		<u>(32,235)</u>		<u>(15,577)</u>
Net assets attributable to shareholders		<u><u>1,762,518</u></u>		<u><u>1,575,208</u></u>

THE MUNRO FUND

MUNRO UK FUND

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

For the six months ended 31 July 2010

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 issued by the IMA in November 2008 ('the IMA SORP 2008').

2 RISK FACTORS – FINANCIAL INSTRUMENTS AND MANAGEMENT OF RISK

The sub-fund, in pursuing its investment policy and objective, holds a number of financial instruments, which may comprise the following:

- Equity shares, equity-related shares, warrants and debt securities;
- Cash, short term borrowings and other short term debtors and creditors arising from operations;
- Collective Investment Schemes;
- Derivatives in the form of forward foreign exchange contracts, exchange traded futures and options contracts for the purpose of efficient portfolio management in accordance with the COLL Sourcebook.

The ACD is responsible for monitoring the portfolio of the sub-fund in accordance with its investment objective and seeks to ensure that individual assets also meet a risk reward profile that is acceptable.

Adherence to the investment guidelines and the investment and borrowing powers as set out in the prospectus and in the rules of the COLL regulations also mitigates the risk of excessive exposure to any particular type of security or issuer.

There is no assurance that the investment objective of the sub-fund will actually be achieved. Past performance is not a guide to future performance.

Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk to the sub-fund comprises two types of risk: currency risk and other price risk.

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The ACD monitors currency exposure and the effects of fluctuations in exchange rates. The ACD considers the effect on the sub-fund's net asset value and income of a movement in the rates of exchange to which the sub-fund's assets, liabilities, income and expenses are exposed.

Other price risk

Other price risk is that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk), whether those changes are caused by factors specific to individual financial instruments or its issuer, or other factors affecting similar financial instruments traded in the market.

The risk can be reduced by diversifying (investing in debt securities with different durations) or hedging (e.g. through an interest rate swap).

THE MUNRO FUND

MUNRO UK FUND

NOTES TO THE FINANCIAL STATEMENTS (continued) (Unaudited)

For the six months ended 31 July 2010

Credit risk

Credit risk is the risk of suffering a loss due to another party not meeting its financial obligations. This includes counterparty risk.

Counterparty risk

The sub-fund will only buy and sell investments through brokers which have been approved by the ACD as an acceptable counterparty. This is overseen by the Depositary to ensure that the exposure to any counterparty remains appropriate for investors.

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

Liquidity risk

The sub-fund's assets comprise mainly readily realisable securities which can be sold promptly to meet liquidity requirements. The main source of risk comes from the obligation of shareholders to meet any redemption proceeds of the sub-fund.

The ACD regularly monitors the sub-fund's liquidity levels (cash and securities) to ensure redemptions can be readily met. Some investments may be less liquid than other securities and can be more sensitive to economic factors. The rules of the COLL regulations mitigate the risk of holding excessive assets which are not readily realisable.

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

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www.smith.williamson.co.uk