

Charity Value and Income Fund

Annual Report

for the year ended 31 December 2017

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## Charity Value and Income Fund

### Report of the Manager

Smith & Williamson Fund Administration Limited, as Manager, presents herewith the Annual Report (“the Report”) for Charity Value and Income Fund for the year ended 31 December 2017.

Charity Value and Income Fund (“the Scheme” or “the Fund”) is a Common Investment Fund established by a Scheme of the Charity Commission for England and Wales (“the Commission”) dated 11 April 2007, made pursuant to the powers given to it by the Charities Act 1993, section 24 and now existing under the Charities Act 2011, section 96, as amended by a Resolution of the Trustee pursuant to the Charities Act 2011, section 280. The registered charity number is 1119289. The Scheme is not an authorised unit trust within the meaning of the Financial Services and Markets Act 2000 (“FSMA”). The Scheme is operated by Smith & Williamson Fund Administration Limited as an unregulated collective investment scheme in accordance with the Financial Conduct Authority (“the FCA”) rules, the Collective Investment Schemes sourcebook (“COLL”) and the Investment Funds sourcebook (“FUND”), published by the FCA. As the Scheme is a non-Undertakings for Collective Investments in Transferable Securities (“non-UCITS”) retail scheme, the Manager also acts as Alternative Investment Fund Manager (“AIFM”) in order to comply with the Alternative Investment Fund Manager’s Directive (“AIFMD”).

The Manager 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 Scheme consist predominantly of securities which are readily realisable and, accordingly, the Scheme has adequate financial resources 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 base currency of the Scheme is UK sterling.

The Scheme Particulars can be inspected at the offices of the Manager.

A copy of the Scheme Particulars are available free of charge from the Manager.

#### Investment objective

The objective of the Scheme is to achieve long-term capital and income growth through investment primarily in UK equities with an above-average yield. The Scheme may also from time to time invest in other securities, including UK government securities, other fixed interest securities, convertible securities and cash.

#### Investment policy

The investments for the Scheme will be made principally in UK companies listed on the London Stock Exchange, typically within the FTSE All Share Index or quoted on the Alternative Investment Market. As such, both income received from those investments and their capital valuation will be subject to fluctuation. However, the Investment Manager will endeavour to manage the portfolio in a way that leads to an increasing income year on year, and to invest in a portfolio whose volatility is not significantly different to that of the FTSE All Share Index. The Investment Manager’s portfolios historically have tended to have volatility similar to that of the FTSE All Share Index.

#### Benchmark and performance target

The performance target will be to outperform the FTSE All Share Index on a total return basis. The Scheme will be benchmarked against the FTSE All Share Index.

#### Changes affecting the Scheme in the year

There were no fundamental or significant changes to the Scheme in the year.

Further information in relation to the Scheme is illustrated on page 31.

In accordance with the requirements of The Charities (Accounts and Reports) Regulations 2008 and the Scheme Particulars, we hereby approve the Annual Report on behalf of Smith & Williamson Fund Administration Limited.

B. McLean

J. Gordon

Directors

Smith & Williamson Fund Administration Limited

21 May 2018

## Statement of the Manager's responsibilities

The Manager is required to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Fund as at the end of the financial period and of its net revenue and the net capital gains on the property of the Fund for the year. In preparing the financial statements, the Manager is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- following UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- complying with the disclosure requirements of the Charities Act 2011, the Charities (Accounts and Reports) Regulations 2008 ('the Regulations') and where relevant the Statement of Recommended Practice: "Financial Statements of UK Authorised Funds" issued by The Investment Association, in May 2014;
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so;
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- taking reasonable steps for the prevention and detection of fraud and irregularities.

The Manager is responsible for the management of the Fund in accordance with the Scheme Particulars.

## Report of the Trustee to the unitholders of Charity Value and Income Fund

### Trustee's responsibilities

The Trustee must ensure that the Scheme is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook (the "Regulations"), the Scheme Order and Scheme Particulars (together "the Scheme documents") as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Scheme and its investors.

The Trustee is responsible for the safekeeping of the assets of the Scheme in accordance with the Regulations.

The Trustee must ensure that:

- the Scheme's cash flows are properly monitored and that cash of the Scheme is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations and the Scheme documents;
- the value of units of the Scheme are calculated in accordance with the Regulations and the Scheme documents;
- any consideration relating to transactions in the Scheme's assets is remitted to the Scheme within the usual time limits;
- the Scheme's income is applied in accordance with the Regulations and the Scheme documents; and
- the instructions of the Alternative Investment Fund Manager ("the AIFM") are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Scheme.

### Report of the Trustee to the unitholders of Charity Value and Income Fund

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Scheme, acting through the AIFM, has been managed in accordance with the Regulations and the Scheme documents.

National Westminster Bank Plc  
Trustee and Depositary Services  
21 May 2018

## Independent auditor's report to the charity trustees of Charity Value and Income Fund ("the Fund")

### Opinion

We have audited the financial statements of the Fund for the year ended 31 December 2017 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders, the Balance Sheet, the notes to the financial statements, including a summary of significant accounting policies, and the Distribution Table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland " (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 December 2017 and of the incoming resources and application of the resources of the Fund for the year then ended;
- give a true and fair view of the movement in the net assets of the Fund for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use by the Manager (Smith & Williamson Fund Administration Limited) of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Independent auditor's report to the charity trustees of Charity Value and Income Fund ("the Fund") (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require us to report to you if, in our opinion:

- the information given in the financial statements is inconsistent in any material respect with the other information; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

### Manager's responsibilities

As explained more fully in the Statement of the Manager's Responsibilities set out on page 3, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

This report is made solely to the charity trustees, as a body, in accordance with Part 4 of the Charities (Accounts and Reports) Regulations 2008. Our audit work has been undertaken so that we might state to the charity trustees 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 Fund and the charity trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Beavis Morgan Audit Limited  
Statutory Auditor  
82 St John Street  
London EC1M 4JN  
21 May 2018

Beavis Morgan Audit Limited is eligible to act as an auditor of the Fund by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

## Accounting policies of Charity Value and Income Fund

for the year ended 31 December 2017

### 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 FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and in accordance with the Statement of Recommended Practice for UK Authorised Funds ("the SORP") published by The Investment Association in May 2014 as applicable to Charity Common Investment Funds and The Charities (Accounts and Reports) Regulations 2008.

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

### b *Valuation of investments*

The purchase and sale of investments are included up to close of business on 29 December 2017, being the last business day.

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 the balance sheet date. In determining fair value, the valuation point is global close of business on 29 December 2017 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 Manager'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 UK 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 note 2 of the Notes to the financial statements.

Any foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate prevailing 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.

Dividends from unquoted equity shares are recognised when declared.

Special dividends are treated as either revenue or a repayment of capital depending on the facts of each particular case.

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*

All expenses, other than those relating to the purchase and sale of investments are charged to the relevant unit class against revenue and are then reallocated to capital, net of any tax effect.

## Accounting policies of Charity Value and Income Fund (continued)

for the year ended 31 December 2017

### *f Taxation*

The Fund is a Registered Charity and is not subject to Income, Capital Gains and Corporation Tax.

### *g Use of derivatives*

The Fund may (subject to the provisions of the Scheme) enter into derivatives and forward transactions (i.e. futures, options and contracts for differences) provided that:

- the transaction is entered into for the purpose of protection or the reduction of risk and/or the reduction of costs to the Fund;
- the Manager is satisfied that the transaction is expedient in the interests of the Fund;
- any securities to be acquired under the transaction are eligible to be held by the Fund, having regard to clause 38 of the Schemes and the investment objective and policy of the Fund; and

### *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 Distribution policies*

#### *i Basis of distribution*

Where income is available, distributions are made quarterly from the Fund and take the form of dividend distributions. Distributions attributable to income units are paid to unitholders. Distributions attributable to accumulation units are re-invested in the relevant class on behalf of the unitholders.

#### *ii Unclaimed distributions*

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

#### *iii Revenue*

Revenue is included in the final distribution with reference to policy d.

#### *iv 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 policy e.

#### *v Equalisation*

Group 2 units are units purchased on or after the previous XD date and before the current XD date. Equalisation applies only to group 2 units. Equalisation is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax in the hands of the unitholders but must be deducted from the cost of units for capital gains tax purposes. Equalisation per unit is disclosed in the Distribution table.

## Investment Manager's report

### The market

Equity markets rose strongly in 2017. In the UK, the FTSE All Share Index rose by 9.0% and recorded a total return of 13.1%. Overseas equities rose more, measured in US dollars. The FTSE World Index rose by 21.1% but translated into sterling terms the rise was 10.4%, not significantly higher than the performance of the UK market. In the UK, the rise was strongest in the last quarter of 2017, as investors looked forward to continuing strong growth in the global economy and a more encouraging background for consumer spending in the UK. Within the UK market, the FTSE 250 Index of mid-cap companies (+14.7%) and FTSE Small-cap Index (+15.0%) outperformed the FTSE 100 Index (+7.6%) but the Higher Yield Index (+4.9%) significantly underperformed.

During the first half of our year, the UK market rose despite the outcome of the General Election in early June, with no single party holding an overall majority, and several severe terrorist atrocities in Manchester and London. In addition to the domestic political uncertainties, investors suffered the uncertainty of the aggressive exchanges of war words between Donald Trump in America and Kim Jong-Un in North Korea, as the latter continued to launch missile tests close to Japan. During the summer months, concerns grew about the strength of consumer spending, with the rise in the inflation rate, due largely to sterling's depreciation during 2016, which was higher than the growth of wages. Following the General Election the Conservatives reached agreement with the Democratic Union Party of Northern Ireland and the government began to negotiate the terms for leaving the European Union (EU). Despite many initial setbacks, Mrs May reached provisional agreement on the cost of exiting the EU in November and trade negotiations have since begun.

Economic growth in the UK was muted in the first half but strengthened in the second half and the economy is expected to have grown by about 1.5% in 2017, with a slightly lower growth rate currently expected for 2018. Our growth rate in 2017 was lower than in Europe and the developed nations but follows stronger growth than those countries in 2016. Our manufacturing sectors have reported rising Purchasing Managers Index indicators, resulting from accelerating growth in overseas economies combined with the lower sterling exchange rate, which followed the Brexit outcome of the EU Referendum. The level of unemployment has continued to fall and at 4.3% is the lowest level for forty years. The annual rate of Consumer Price Inflation continued to climb in the second half of our year and reached 3.1% in November, though it declined slightly in December. The Bank of England finally raised the bank base rate by 0.25% to 0.5%, reversing the post Brexit reduction of the same amount. The base rate is now back to the level first established in early 2009.

Interest rates remained low across the yield curve, with ten year gilts yielding 1.2% at the end of December 2017, the same level as at the end of 2016. The total return on the FTSE Gilts All Stocks Index for the year was 1.8%. In the currency markets, though the pound rose by 9.5% against the US dollar, it fell by 4.0% against the euro. In the commodity markets the price of Brent Crude oil rose by 18% over the year, though most of the increase occurred in the final quarter, helped by the Organisation of the Petroleum Exporting Countries' supply restrictions. The copper price rose by 31% over the year, reflecting both supply issues as well as stronger demand, with global Gross Domestic Product growth estimated to have reached 3.5% for 2017 and even higher growth expected in 2018.

Source: FTSE All Share Indices.

### Performance

The total return on the Fund was +15.4%, measured by the increase in the bid price of the accumulation units. Our return was significantly ahead of the return on the FTSE All Share Index of +13.1%. In sector allocations our overweight holdings in electronics and personal goods were significant positives though our overweight holdings in utilities and fixed line telecommunications were negative. In stock selection our large holdings in Conviviality (+87%), Dechra Pharmaceuticals (+56%) and Beazley (+38%) all contributed to the overall outperformance. Unilever performed strongly with a rise of 25%, having benefited from a bid approach by Kraft during the year. Our holding of N Brown Group (+22%) also contributed to the outperformance as it recovered from earlier trading setbacks. Contrary to these positive stock movements, our holdings in travel & leisure performed poorly, in particular Go-Ahead Group (-34%) and Marston's (-17%). Our support services holdings also had a negative effect; Carillion fell by 52% to the point when we sold it in July and Babcock International Group (-26%) was affected by negative sentiment towards public sector outsourcing contracts.

Source: Smith & Williamson Fund Administration Limited; Bid to Bid Basis to 12pm on 29 December 2017; net income reinvested.

## Investment Manager's report (continued)

### Portfolio

Early in 2017 we reduced our holdings of Spectris, BHP Billiton, Go-Ahead Group and Royal Dutch Shell 'B' and reinvested in a new holding in British Land, which manages a high quality property portfolio split evenly between retail and office properties. The share price was hit hard in the aftermath of the EU Referendum and, at the time of purchase, was trading on a 30% discount to historic Net Asset Value and with a dividend yield of 5%. Immediately after the announcement of Carillion's trading statement in July, with the cancellation of the dividend and strains on the balance sheet, we sold the shares at 124p. We realised a significant loss on our original investment but the shares have subsequently become worthless. We reinvested the proceeds, and subsequently added to, a new holding in Eddie Stobart Logistics. This transport company was demerged from Stobart Holdings. With the benefit of new management, the company has broadened its operations to include transport solutions for e-commerce companies, including Amazon and John Lewis, and other industrials sectors, especially the building trade. Late in our year we sold part of our holding in Midwich Group, which more than doubled over the year, and added to our holding in Babcock International Group, which was trading at a very depressed price.

### Distribution

For the year as a whole the distribution was 4.5p, an increase of 2.3% compared with the 4.4p paid for 2016 and an increase of 12.5% over the 4.0p distributed in 2015. We have a surplus of income to carry forward into 2018.

### Outlook

A further modest acceleration in global economic growth in 2018, currently forecast at 3.7%, and the highest rate of growth since 2014, supports current valuations of equities, which are high by historic standards. In particular growth in the eurozone, combined with a favourable sterling exchange rate, should enable a healthy rate of demand by companies operating in the eurozone for UK products. These factors should be supportive for the UK in the next phase of negotiations with the EU over the terms of UK withdrawal in 2019. After the recent rise in the base rate in the UK, further significant rises are unlikely in the near future and bond yields, currently at 1.3% on ten year gilts, continue to support equity investment, where the average yield is 3.6%. There are substantial clouds on the horizon, most notably in the form of tightening monetary policy in America and elsewhere and further tensions between President Trump and Kim Jong-Un could result in more volatile markets. Though the UK political scene is more settled at the time of writing, the possibility of another election and a subsequent Corbyn-led administration would unnerve investors. We believe that the positive economic background and the uncertain geopolitical outlook are finely balanced factors in the current valuation of the UK equity market and that our portfolio is positioned to benefit from the growth in the global economy while also being reasonably defensive.

OLIM Limited

18 January 2018

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## Portfolio changes

*for the year ended 31 December 2017*

The following represents the total purchases and the total sales in the year to reflect a clearer picture of the investment activities.

	Cost
Purchases:	£
Eddie Stobart Logistics	600,852
British Land	442,964
Babcock International Group	196,680
	Proceeds
Sales:	£
John Laing Infrastructure Fund	580,701
Midwich Group	439,367
Carillion	251,313
Go-Ahead Group	113,318
BHP Billiton	108,440
Spectris	74,317
Royal Dutch Shell 'B'	65,026

## Portfolio statement

as at 31 December 2017

	Nominal value or holding	Market value £	% of total net assets
Investment			
Equities - United Kingdom 95.26% (97.17%)			
Equities - incorporated within the United Kingdom 94.96% (93.99%)			
Oil & Gas 8.72% (9.71%)			
BP	201,800	1,053,598	4.25
John Wood Group	29,250	189,979	0.77
Royal Dutch Shell 'B'	36,562	915,512	3.70
		<u>2,159,089</u>	<u>8.72</u>
Chemicals 4.32% (3.99%)			
Croda International	16,220	717,411	2.90
Johnson Matthey	11,427	351,037	1.42
		<u>1,068,448</u>	<u>4.32</u>
Basic Resources 2.78% (3.04%)			
BHP Billiton	18,000	273,960	1.11
Rio Tinto	10,500	413,700	1.67
		<u>687,660</u>	<u>2.78</u>
Industrial Goods & Services 14.82% (14.13%)			
Babcock International Group	67,000	472,685	1.91
Eddie Stobart Logistics	380,000	589,000	2.38
Halma	82,800	1,043,280	4.21
Midwich Group	65,000	325,000	1.31
Spectris	32,900	817,565	3.30
SThree	115,000	423,200	1.71
		<u>3,670,730</u>	<u>14.82</u>
Food & Beverage 2.52% (1.96%)			
Britvic	76,500	623,475	2.52
Personal & Household Goods 7.93% (7.19%)			
Crest Nicholson Holdings	113,000	614,720	2.48
Unilever	32,700	1,348,548	5.45
		<u>1,963,268</u>	<u>7.93</u>
Health Care 8.65% (8.37%)			
Dechra Pharmaceuticals	60,500	1,265,055	5.11
GlaxoSmithKline	66,500	876,470	3.54
		<u>2,141,525</u>	<u>8.65</u>
Retail 7.22% (4.83%)			
Conviviality	360,000	1,438,200	5.80
N Brown Group	130,000	350,870	1.42
		<u>1,789,070</u>	<u>7.22</u>

## Portfolio statement (continued)

as at 31 December 2017

	Nominal value or holding	Market value £	% of total net assets
Investment			
Equities - incorporated within the United Kingdom (continued)			
Media 3.83% (4.34%)			
Daily Mail & General Trust	30,000	177,600	0.72
Informa	107,000	772,005	3.11
		<u>949,605</u>	<u>3.83</u>
Travel & Leisure 7.14% (9.85%)			
Cineworld Group	100,000	599,500	2.42
Go-Ahead Group	26,700	397,296	1.60
Marston's	460,000	516,580	2.09
Restaurant Group	85,000	255,850	1.03
		<u>1,769,226</u>	<u>7.14</u>
Telecommunications 6.44% (7.37%)			
BT Group	198,000	537,372	2.17
Vodafone Group	450,340	1,057,623	4.27
		<u>1,594,995</u>	<u>6.44</u>
Utilities 4.25% (5.85%)			
Centrica	185,000	254,005	1.02
Pennon Group	48,600	378,594	1.53
United Utilities Group	50,700	420,303	1.70
		<u>1,052,902</u>	<u>4.25</u>
Banks 3.56% (3.42%)			
HSBC Holdings	115,000	881,015	3.56
Insurance 10.76% (9.94%)			
Beazley	175,000	934,500	3.77
Legal & General Group	306,000	836,298	3.38
Prudential	47,000	894,410	3.61
		<u>2,665,208</u>	<u>10.76</u>
Real Estate 2.02% (0.00%)			
British Land	72,500	501,338	2.02
Total equities - incorporated within the United Kingdom		<u>23,517,554</u>	<u>94.96</u>

## Portfolio statement (continued)

as at 31 December 2017

	Nominal value or holding	Market value £	% of total net assets
Investment			
Equities - United Kingdom (continued)			
Equities - incorporated outwith the United Kingdom 0.30% (3.18%)			
Insurance 0.30% (0.39%)			
Hansard Global	85,000	<u>73,100</u>	<u>0.30</u>
Financial Services 0.00% (2.79%)		-	-
Total equities - incorporated outwith the United Kingdom		<u>73,100</u>	<u>0.30</u>
Total equities - United Kingdom		<u>23,590,654</u>	<u>95.26</u>
Portfolio of investments		23,590,654	95.26
Other net assets		1,173,112	4.74
Total net assets		<u>24,763,766</u>	<u>100.00</u>

All investments are listed on recognised stock exchanges and are approved securities within the meaning of the FCA rules unless otherwise stated.

The comparative figures in brackets are as at 31 December 2016.

United Kingdom equities are grouped in accordance with the Industry Classification Benchmark.

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## Comparative table

The following disclosures give a unitholder an indication of the performance of a unit in the Fund. It also discloses the operating charges and direct transaction costs applied to each unit. Operating charges are those charges incurred in operating the Fund and direct transaction costs are costs incurred when purchasing or selling securities in the portfolio of investments.

Income units were first issued at 100.0p per unit on 6 June 2007.

Accumulation units were first issued at 100.0p per unit on 6 June 2007.

	Income			Accumulation		
	2017 p	2016 p	2015 p	2017 p	2016 p	2015 p
Change in net assets per unit						
Opening net asset value per unit	97.64	94.64	91.57	153.56	142.05	131.59
Return before operating charges	15.63	8.17	7.85	25.06	12.70	11.61
Operating charges	(0.84)	(0.77)	(0.78)	(1.36)	(1.19)	(1.15)
Return after operating charges *	14.79	7.40	7.07	23.70	11.51	10.46
Distributions <sup>^</sup>	(4.50)	(4.40)	(4.00)	(7.19)	(6.72)	(5.84)
Retained distributions on accumulation units <sup>^</sup>	-	-	-	7.19	6.72	5.84
Closing net asset value per unit	107.93	97.64	94.64	177.26	153.56	142.05
* after direct transaction costs of:	0.03	0.03	0.05	0.03	0.03	0.05
Performance						
Return after charges	15.15%	7.82%	7.72%	15.43%	8.10%	7.95%
Other information						
Closing net asset value (£)	20,440,113	18,468,610	17,755,308	4,323,653	3,602,260	3,332,085
Closing number of units	18,937,790	18,914,404	18,760,499	2,439,213	2,345,793	2,345,793
Operating charges	0.67%	0.68%	0.68%	0.67%	0.68%	0.68%
Direct transaction costs	0.02%	0.02%	0.05%	0.02%	0.02%	0.05%
Prices						
Highest offer unit price	110.4	100.8	100.9	179.3	156.3	146.5
Lowest bid unit price	97.72	85.19	89.51	153.7	127.9	128.6

<sup>^</sup> Rounded to 2 decimal places.

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

## Total expense ratio

The total expense ratio ("TER") provides investors with a clearer picture of the total annual costs in running a collective investment scheme. The total expense ratio consists principally of the Manager's periodic charge and the Investment Adviser's fee which are included in the annual management charge, but also includes the costs for other services paid.

	31.12.17	31.12.16
Annual management charge <sup>^</sup>	0.60%	0.60%
Other expenses	0.07%	0.08%
Total expense ratio	<u>0.67%</u>	<u>0.68%</u>

<sup>^</sup> inclusive of VAT.

Please note the total expense ratio is indicative of the charges which the Fund may incur in a year as it is calculated on historical data.

## Financial statements - Charity Value and Income Fund

### Statement of total return

for the year ended 31 December 2017

	Notes	2017		2016	
		£	£	£	£
Income:					
Net capital gains	2		2,535,078		905,546
Revenue	3	975,200		951,039	
Expenses	4	<u>(157,349)</u>		<u>(147,474)</u>	
Net revenue			<u>817,851</u>		<u>803,565</u>
Total return before distributions			3,352,929		1,709,111
Distributions	6		(1,018,660)		(1,000,616)
Change in net assets attributable to unitholders from investment activities			<u><u>2,334,269</u></u>		<u><u>708,495</u></u>

### Statement of change in net assets attributable to unitholders

for the year ended 31 December 2017

		2017		2016	
		£	£	£	£
Opening net assets attributable to unitholders			22,070,870		21,087,393
Amounts receivable on issue of units		328,238		928,666	
Amounts payable on cancellation of units		<u>(140,140)</u>		<u>(811,345)</u>	
			188,098		117,321
Change in net assets attributable to unitholders from investment activities			2,334,269		708,495
Retained distributions on accumulation units			170,529		157,661
Closing net assets attributable to unitholders			<u><u>24,763,766</u></u>		<u><u>22,070,870</u></u>

## Balance sheet

as at 31 December 2017

	Notes	2017 £	2016 £
Assets:			
Fixed assets:			
Investments		23,590,654	21,446,200
Current assets:			
Debtors	7	109,057	105,585
Cash and bank balances	8	1,298,043	790,790
Total assets		<u>24,997,754</u>	<u>22,342,575</u>
Liabilities:			
Creditors:			
Distribution payable		(227,253)	(264,802)
Other creditors	9	(6,735)	(6,903)
Total liabilities		<u>(233,988)</u>	<u>(271,705)</u>
Net assets attributable to unitholders		<u>24,763,766</u>	<u>22,070,870</u>

B. McLean

Directors

Smith & Williamson Fund Administration Limited

21 May 2018

J. Gordon

Registered Charity number 1119289

## Notes to the financial statements

for the year ended 31 December 2017

### 1. Accounting policies

The accounting policies are disclosed on pages 7 to 8.

### 2. Net capital gains

	2017	2016
	£	£
Non-derivative securities - realised (losses) / gains	(11,458)	553,782
Non-derivative securities - movement in unrealised gains	2,547,898	352,188
Currency gains	-	1
Transaction charges	(1,362)	(425)
Total net capital gains	<u>2,535,078</u>	<u>905,546</u>

Unrealised gains/(losses) are disclosed as the movement in unrealised gains/(losses) on investments between the prior year and the current year. Where realised gains/(losses) on investments include unrealised gains/(losses) arising in previous periods, a corresponding gain/(loss) is included in unrealised gains/(losses).

### 3. Revenue

	2017	2016
	£	£
Franked revenue	918,420	910,934
Unfranked revenue	16,037	-
Overseas revenue	40,743	40,105
Total revenue	<u>975,200</u>	<u>951,039</u>

### 4. Expenses

	2017	2016
	£	£
Payable to the Manager and associates		
Annual management charge	<u>142,475</u>	<u>129,560</u>
Payable to the Trustee		
Trustee fees	<u>9,000</u>	<u>9,097</u>
Other expenses:		
Audit fee	5,700	6,600
Safe custody fees	174	1,617
Legal fee	-	600
	<u>5,874</u>	<u>8,817</u>
Total expenses	<u>157,349</u>	<u>147,474</u>

### 5. Taxation

The Fund is a Registered Charity and is not subject to Income, Capital Gains and Corporation Tax. Distributions are paid and credited gross to unitholders on the basis that all UK taxation has been both reclaimed and received. No overseas taxation has been suffered on income arising or paid during the year.

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 6. Distributions

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

	2017	2016
	£	£
Quarter 1 income distribution	208,058	195,972
Quarter 1 accumulation distribution	40,559	35,187
Interim income distribution	208,316	195,972
Interim accumulation distribution	41,004	35,585
Quarter 3 income distribution	208,316	187,586
Quarter 3 accumulation distribution	41,450	35,985
Final income distribution	227,253	264,802
Final accumulation distribution	47,516	50,904
	<u>1,022,472</u>	<u>1,001,993</u>
Equalisation:		
Amounts deducted on cancellation of units	3,791	29,956
Amounts added on issue of units	(7,603)	(31,333)
Total net distributions	<u>1,018,660</u>	<u>1,000,616</u>

### Reconciliation between net revenue and distributions:

	2017	2016
	£	£
Net revenue per Statement of total return	817,851	803,565
Undistributed revenue brought forward	461,106	510,683
Expenses paid from capital	157,349	147,474
Undistributed revenue carried forward	(417,646)	(461,106)
Distributions	<u>1,018,660</u>	<u>1,000,616</u>

Details of the distribution per unit are disclosed in the Distribution table.

### 7. Debtors

	2017	2016
	£	£
Accrued revenue	109,057	105,585
Total debtors	<u>109,057</u>	<u>105,585</u>

### 8. Cash and bank balances

	2017	2016
	£	£
Total cash and bank balances	<u>1,298,043</u>	<u>790,790</u>

### 9. Other creditors

	2017	2016
	£	£
Accrued expenses:		
Payable to the Manager and associates		
Manager's periodic charge	820	354

## Notes to the financial statements (continued)

for the year ended 31 December 2017

9. Other creditors (continued)	2017	2016
Other expenses:		
Trustee fees	49	25
Safe custody fees	127	989
Audit fee	5,700	5,400
Transaction charges	39	135
	<u>5,915</u>	<u>6,549</u>
Total accrued expenses	<u>6,735</u>	<u>6,903</u>
Total other creditors	<u>6,735</u>	<u>6,903</u>

### 10. Commitments and contingent liabilities

At the balance sheet date there are no commitments or contingent liabilities.

### 11. Unit classes

The Fund currently has two unit classes; income and accumulation.

The following reflects the change in units in issue for each unit class in the year:

	Income
Opening units in issue	18,914,404
Total units issued in the year	<u>23,386</u>
Closing units in issue	<u>18,937,790</u>
	Accumulation
Opening units in issue	2,345,793
Total units issued in the year	177,013
Total units cancelled in the year	<u>(83,593)</u>
Closing units in issue	<u>2,439,213</u>

The annual management charge for the year ended 31 December 2017 is 0.60% (0.50% plus VAT at 20%). The annual management charge includes the Manager's periodic charge and the Investment Adviser's fee.

Further information in respect of the return per unit is disclosed in the Comparative table.

### 12. Related party transactions

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

The Manager acts as principal in respect of all transactions of units in the Fund. The aggregate monies received and paid through the creation and cancellation of units are disclosed in the Statement of change in net assets attributable to unitholders.

Amounts payable to the Manager and its associates are disclosed in note 4. The amount due to the Manager and its associates at the balance sheet date is disclosed in note 9.

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

There were no parties with an interest in excess of 20% of the Fund at any time during the year.

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 13. Events after the balance sheet date

Subsequent to the year end, the net asset value per income unit has decreased from 107.93p to 104.85p and the accumulation unit has decreased from 177.26p to 174.19p as at 17 May 2018. This movement takes into account routine transactions but also reflects the market movements of recent months.

### 14. Transaction costs

#### a Direct transaction costs

Direct transaction costs include fees and commissions paid to agents, advisers, brokers and dealers; levies by regulatory agencies and security exchanges; and transfer taxes and duties.

Commission is a charge which is deducted from the proceeds of the sale of securities and added to the cost of the purchase of securities. This charge is a payment to agents, advisers, brokers and dealers in respect of their services in executing the trades.

Tax is payable on the purchase of securities in the United Kingdom. It may be the case that 'other taxes' will be charged on the purchase of securities in countries other than the United Kingdom.

The total purchases and sales and the related direct transaction costs incurred in these transactions are as follows:

	2017	% of purchases by asset class	2016	% of purchases by asset class
Purchases:	£		£	
Equities - purchases before transaction costs	1,238,015		1,960,971	
Commission	2,476	0.20%	3,179	0.16%
Taxes	5	0.00%	13	0.00%
Total direct transaction costs - Equities	2,481	0.20%	3,192	0.16%
Equities - purchases after direct transaction costs	1,240,496		1,964,163	
Total purchases after direct transaction costs	1,240,496		1,964,163	
Capital events <sup>^</sup>	-		66,150	

<sup>^</sup> The total purchases exclude the capital events as there were no direct transaction costs charged in these transactions.

	2017	% of sales by asset class	2016	% of sales by asset class
Sales:	£		£	
Equities - sales before transaction costs	1,635,466		1,012,195	
Commission	(2,981)	0.18%	(2,024)	0.20%
Taxes	(3)	0.00%	(12)	0.00%
Total direct transaction costs - Equities	(2,984)	0.18%	(2,036)	0.20%
Equities - sales after direct transaction costs	1,632,482		1,010,159	
Total sales after direct transaction costs	1,632,482		1,010,159	
Capital events <sup>^</sup>	-		858,660	

<sup>^</sup> The total sales exclude the capital events as there were no direct transaction costs charged in these transactions.

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 14. Transaction costs (continued)

#### a Direct transaction costs (continued)

##### Summary of direct transaction costs

The following represents the total of each type of transaction cost, expressed as a percentage of the Fund's average net asset value in the year:

	2017	% of average net asset value	2016	% of average net asset value
	£		£	
Commission	5,457	0.02%	5,203	0.02%
Taxes	8	0.00%	25	0.00%

#### b Average portfolio dealing spread

The average portfolio dealing spread is calculated as the difference between the bid and offer value of the portfolio as a percentage of the offer value.

The average portfolio dealing spread of the investments at the balance sheet date was 0.32% (2016: 0.32%).

### 15. Risk management policies

In pursuing the Fund's investment objective, as set out in the Prospectus, the following are accepted by the Manager 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 Manager's policy for managing these risks. To ensure these risks are consistently and effectively managed these are continually reviewed by the risk committee, a body appointed by the Manager, which sets the risk appetite and ensures 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 and comprise three elements; other price risk, currency risk, and interest rate risk.

##### (i) Other price risk

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

The main element of the portfolio of investments which is exposed to this risk is equities which are disclosed in the Portfolio statement.

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 Manager 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 or geography can mitigate market risk.

At 31 December 2017, if the price of the investments held by the Fund increased or decreased by 5%, with all other variables remaining constant, then the net assets attributable to unitholders would increase or decrease by approximately £1,179,533 (2016: £1,072,310).

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 15. Risk management policies (continued)

#### a Market risk (continued)

##### (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 or holdings of foreign currency cash will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates against sterling. These fluctuations can also affect the profitability of some UK companies, and thus their market prices, as sterling's relative strength or weakness can affect export prospects, the value of overseas earnings in sterling terms, and the prices of imports sold in the UK.

Forward currency contracts may be used to manage the portfolio exposure to currency movements.

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

##### (iii) Interest rate risk

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

During the year the Fund's direct exposure to interest rates consisted of cash and bank balances.

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

In the event of a change in interest rates, there would be no material impact upon the net assets attributable to the unitholders of the Fund.

The Fund would not in normal market conditions hold significant cash balances and would have limited borrowing capabilities as stipulated in the COLL rules.

There is no exposure to interest bearing securities at the balance sheet date.

#### b Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This includes counterparty risk and issuer risk.

The Trustee has appointed the custodian to provide custody services for the assets of the Fund. There is a counterparty 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.

The Fund holds cash and cash deposits with financial institutions which potentially exposes the Fund to counterparty risk. The credit rating of the financial institution is taken into account so as to minimise the risk to the Fund of default.

#### c Liquidity risk

A significant risk is the cancellation of units which investors may wish to sell and that securities may have to be sold in order to fund such cancellations if insufficient cash is held at the bank to meet this obligation. If there were significant requests for the redemption of units at a time when a large proportion of the portfolio of investments were not easily tradable due to market volumes or market conditions, the ability to fund those redemptions would be impaired and it might be necessary to suspend dealings in units 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.

The Fund may also invest in securities that are not listed or traded on any stock exchange. In such situations the Fund may not be able to immediately sell such securities.

To reduce liquidity risk the Manager will ensure, in line with the limits stipulated within the COLL rules, a substantial portion of the Fund's assets consist of readily realisable securities. This is monitored on a monthly basis and reported to the Risk Committee together with historical outflows of the Fund.

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 15. Risk management policies (continued)

#### c Liquidity risk (continued)

In addition liquidity is subject to stress testing on an annual basis to assess the ability of the Fund to meet large redemptions (50% of the net asset value and 80% of the net asset value), while still being able to adhere to its objective guidelines and the FCA investment borrowing regulations.

All of the financial liabilities are payable on demand. In the case of forward foreign currency contracts these are payable in less than one year.

#### d 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 Manager to analyse, review and vote on price adjustments/maintenance where no current secondary market exists and/or where there are potential liquidity issues that would affect the disposal of an asset. In addition, the committee may also consider adjustments to the Fund's price should the constituent investments be exposed to closed markets during general market volatility or instability.

	Investment assets	Investment liabilities
Valuation technique	2017	2017
	£	£
Quoted prices	23,590,654	-
Observable market data	-	-
Unobservable data	-	-
	<u>23,590,654</u>	<u>-</u>
	Investment assets	Investment liabilities
Valuation technique	2016	2016
	£	£
Quoted prices	21,446,200	-
Observable market data	-	-
Unobservable data	-	-
	<u>21,446,200</u>	<u>-</u>

No securities in the portfolio of investments are valued using valuation techniques.

#### e Assets subject to special arrangements arising from their illiquid nature

There are no assets held in the portfolio of investments which are subject to special arrangements arising from their illiquid nature.

#### f Derivatives

The Fund may employ derivatives with the aim of reducing the Fund's risk profile, reducing costs or generating additional capital or revenue, in accordance with efficient portfolio management.

The Manager monitors that any exposure is covered globally to ensure adequate cover is available to meet the Fund's total exposure, taking into account the value of the underlying investments, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.

For certain derivative transactions cash margins may be required to be paid to the brokers with whom the trades were executed and settled. These balances are subject to daily reconciliations and are held by the broker in segregated cash accounts that are afforded client money protection.

During the year there were no derivative transactions.

## Notes to the financial statements (continued)

for the year ended 31 December 2017

### 15. Risk management policies (continued)

#### f Derivatives (continued)

##### (i) Counterparties

Transactions in securities 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. This risk is mitigated by the Fund using a range of brokers for security transactions, thereby diversifying the risk of exposure to any one broker. In addition the Fund will only transact with brokers who are subject to frequent reviews with whom transaction limits are set.

The Fund may transact in derivative contracts which potentially exposes the Fund to counterparty risk from the counterparty not settling their side of the contract. Transactions involving derivatives are entered into only with investment banks and brokers with appropriate and approved credit rating, which are regularly monitored. Forward currency transactions are only undertaken with the custodians appointed by the Trustee.

At the balance sheet date, there are no securities in the portfolio of investments subject to a repurchase agreement.

##### (ii) Leverage

There have been no leveraging arrangements in the year.

##### (iii) Global exposure

Global exposure is a measure designed to limit the leverage generated by a Fund through the use of financial derivative instruments, including derivatives with embedded assets.

At the balance sheet date there is no global exposure to derivatives.

There have been no collateral arrangements in the year.

## Distribution table

for the year ended 31 December 2017

Distributions on income units in pence per unit

Payment date	Unit type	Distribution type	Net revenue	Equalisation	Distribution current year	Distribution prior year
31.05.17	group 1	quarter 1	1.100	-	1.100	1.000
31.05.17	group 2	quarter 1	1.100	-	1.100	1.000
31.08.17	group 1	interim	1.100	-	1.100	1.000
31.08.17	group 2	interim	-	1.100	1.100	1.000
30.11.17	group 1	quarter 3	1.100	-	1.100	1.000
30.11.17	group 2	quarter 3	1.100	-	1.100	1.000
28.02.18	group 1	final	1.200	-	1.200	1.400
28.02.18	group 2	final	1.200	-	1.200	1.400

### Equalisation

Equalisation applies only to group 2 units. It is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax in the hands of the unitholder but must be deducted from the cost of units for capital gains tax purposes.

### Quarter 1 distribution:

- Group 1 Units purchased before 1 January 2017
- Group 2 Units purchased 1 January 2017 to 31 March 2017

### Interim distribution:

- Group 1 Units purchased before 1 April 2017
- Group 2 Units purchased 1 April 2017 to 30 June 2017

### Quarter 3 distribution:

- Group 1 Units purchased before 1 July 2017
- Group 2 Units purchased 1 July 2017 to 30 September 2017

### Final distribution:

- Group 1 Units purchased before 1 October 2017
- Group 2 Units purchased 1 October 2017 to 31 December 2017

## Distribution table (continued)

for the year ended 31 December 2017

Distributions on accumulation units in pence per unit

Allocation date	Unit type	Distribution type	Net revenue	Equalisation	Distribution current year	Distribution prior year
31.05.17	group 1	quarter 1	1.729	-	1.729	1.500
31.05.17	group 2	quarter 1	1.729	-	1.729	1.500
31.08.17	group 1	interim	1.748	-	1.748	1.517
31.08.17	group 2	interim	1.748	-	1.748	1.517
30.11.17	group 1	quarter 3	1.767	-	1.767	1.534
30.11.17	group 2	quarter 3	1.767	-	1.767	1.534
28.02.18	group 1	final	1.948	-	1.948	2.170
28.02.18	group 2	final	-	1.948	1.948	2.170

### Equalisation

Equalisation applies only to group 2 units. It is the average amount of revenue included in the purchase price of group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax in the hands of the unitholder but must be deducted from the cost of units for capital gains tax purposes.

### Accumulation distributions

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

#### Quarter 1 distribution:

- Group 1 Units purchased before 1 January 2017
- Group 2 Units purchased 1 January 2017 to 31 March 2017

#### Interim distribution:

- Group 1 Units purchased before 1 April 2017
- Group 2 Units purchased 1 April 2017 to 30 June 2017

#### Quarter 3 distribution:

- Group 1 Units purchased before 1 July 2017
- Group 2 Units purchased 1 July 2017 to 30 September 2017

#### Final distribution:

- Group 1 Units purchased before 1 October 2017
- Group 2 Units purchased 1 October 2017 to 31 December 2017

## Remuneration

### Remuneration code disclosure

The remuneration committee is responsible for setting remuneration policy for all partners, directors and employees within the Smith and Williamson Group including individuals designated as Material Risk Takers under the Remuneration Code. The remuneration policy is designed to be compliant with the Code and provides a framework to attract, retain, motivate and reward partners, directors and employees. The overall policy is designed to promote the long-term success of the group and to support prudent risk management, with particular attention to conduct risk.

### Remuneration committee

The remuneration committee report contained in pages 39-41 of the Smith & Williamson Report and Financial Statements for the year ended 30 April 2017 (available <http://smithandwilliamson.com/about-us/financial-reports>) includes details on the remuneration policy. The remuneration committee comprises five non-executive directors and is governed by formal terms of reference, which are reviewed and agreed by the board. The committee met five times during 2016-17.

### Remuneration policy

The main principles of the remuneration policy are:

- to align remuneration with the strategy and performance of the business
- to ensure that remuneration is set at an appropriate and competitive level taking into account market rates and practices
- to foster and support conduct and behaviours which are in line with our culture and values
- to maintain a sound risk management framework
- to ensure that the ratio between fixed and variable remuneration is appropriate and does not encourage excessive risk taking
- to comply with all relevant regulatory requirements
- to align incentive plans with the business strategy and shareholder interests.

The policy is designed to reward partners, directors and employees for delivery of both financial and non-financial objectives which are set in line with company strategy. As part of a “balanced scorecard” approach to variable remuneration non-financial criteria including compliance and risk issues, client management, supervision, leadership and teamwork are considered alongside financial performance.

### Remuneration systems

The committee reviews all partners' and directors' fixed and variable remuneration. In addition, it approves hurdles and awards in respect of equity incentive plans, namely a deferred option plan, Equity Matching Plan, Matching Share Plan, Executive Long Term Incentive Plan and an Investment Management Long Term Incentive Plan.

The remuneration of partners is made up of a fixed profit share, discretionary bonus profit share and non-discretionary bonus profit share. The remuneration of employees typically comprises of a salary with benefits including pension contribution, life assurance, permanent health insurance, private medical insurance, SAYE scheme and a discretionary bonus scheme. Partners, directors and associate directors are also eligible to participate, at the invitation of the committee, in the equity incentive plans described above.

The committee approved the introduction of a new Equity Matching Plan for partners, and the continuation of the existing Matching Share Plan for employees. The purpose of the plans is to reward individual performance and to encourage wider share ownership.

When considering variable remuneration for the executive directors, the committee takes account of overall business profit for the group and divisions, the achievement of both financial and non-financial objectives (including adherence to the principles of treating customers fairly, conduct risk, compliance and regulatory rules), personal performance and any other relevant policy of the board in respect of the year ended 30 April 2017. The committee agrees the individual allocation of variable remuneration and the proportion of that variable remuneration to be awarded as restricted shares.

## Remuneration (continued)

### Aggregate Quantitative Information

The total amount of remuneration paid by Smith & Williamson Fund Administration Limited (SWFAL) is nil as SWFAL has no employees. However, a number of employees have remuneration costs recharged to SWFAL and the annualised remuneration for these 72 employees is £2,924,504, of which £2,705,376 is fixed remuneration. This is based on the annualised salary and benefits for those identified as working in SWFAL as at 30 April 2017. Any variable remuneration is awarded for the year ending 30 April 2017. This information excludes any senior management or other Material Risk Takers (MRTs) whose remuneration information is detailed below.

Smith & Williamson reviews its MRTs at least annually. These individuals are employed by and provide services to other companies in the Smith & Williamson group. It is difficult to apportion remuneration for these individuals in respect of their duties to SWFAL. For this reason, the aggregate total remuneration awarded for the financial year 2016-17 for senior management and other MRTs detailed below has not been apportioned.

Table to show the aggregate remuneration split by Senior Management and other MRTs for SWFAL (£000)	Financial Year ending 30 April 2017				
	Fixed	Variable		Total	No. MRTs
		Cash	Equity		
Senior Management	£2,929	£1,776	£580	£5,285	16
Other MRTs	£1,476	£872	£184	£2,532	11
<b>Total</b>	<b>£4,405</b>	<b>£2,648</b>	<b>£764</b>	<b>£7,817</b>	<b>27</b>

## Further information

### Distributions and reporting dates

Where net revenue is available it will be distributed/allocated quarterly on 31 May (interim), 31 August (interim), 30 November (interim) and the last day in February (final). In the event of a distribution, unitholders will receive a tax voucher.

XD dates:	1 January	final
	1 April	quarter 1
	1 July	interim
	1 October	quarter 3

Reporting dates:	31 December	annual
	30 June	interim

### Buying and selling units

The Fund will be valued as though it was an authorised unit trust subject to the terms of the Financial Conduct Authority Collective Investment Schemes sourcebook (“COLL”). The property of the Fund is valued every business day at 12 noon and prices of units are calculated as at that time. Units can be bought at the offer price and sold at the bid price. Unit dealing is on a forward basis i.e. investors can buy and sell units at the next valuation point following receipt of the order.

The minimum holding of units in the Fund at any time in terms of value is currently £1,000. The minimum value of units in the Fund which may be the subject of any one sale or purchase is £1,000. The Manager may in its discretion waive any or all of the above minima either generally or in any particular case.

The Manager is entitled to receive and retain for its own use and benefit an initial charge to be included in the issue price of units. Should the Manager make an initial charge, this will not exceed 5%.

Prices of units and the estimated yield of the unit classes are published on the following website: [www.fundlistings.com](http://www.fundlistings.com) or may be obtained by calling 0141 222 1151.

### Taxation

As long as it is applied for charitable purposes, any income received by a unitholder from the Fund will not be subject to UK tax and a unitholder will be exempt from UK tax on chargeable gains on the disposal of its units. No tax will be deducted from income distributed by the Fund.

## Appointments

### Manager and Registered office

Smith & Williamson Fund Administration Limited

25 Moorgate

London EC2R 6AY

Telephone: 020 7131 4000

Authorised and regulated by the Financial Conduct 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 Conduct Authority

### Directors of the Manager

David Cobb

Giles Murphy

Grant Hotson

James Gordon

Jocelyn Dalrymple

Kevin Stopps

Paul Wyse

Peter Maher

Susan Shaw

Tas Quayum

Brian McLean - appointed 17 February 2017

### Investment Manager

OLIM Limited

1 King's Arms Yard

London EC2R 7AF

Authorised and regulated by the Financial Conduct Authority

### Trustee

National Westminster Bank Plc

Trustee and Depositary Services

2nd Floor

Drummond House

1 Redheughs Avenue

Edinburgh EH12 9RH

National Westminster Bank plc is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

### Auditor

Beavis Morgan Audit Limited

Chartered Accountants and Statutory Auditors

82 St John Street

London EC1M 4JN