

Charity Value & Income Fund

Annual Report

for the year ended 31 December 2019

## Contents

	Page
Report of the Manager	2
Statement of the Manager's responsibilities	4
Report of the Trustee to the unitholders of Charity Value & Income Fund	5
Independent Auditor's report to the charity trustees of Charity Value & Income Fund	6
Accounting policies of Charity Value & Income Fund	8
Investment Manager's report	10
Summary of portfolio changes	13
Portfolio statement	14
Comparative table	17
Financial statements:	
Statement of total return	18
Statement of change in net assets attributable to unitholders	18
Balance sheet	19
Notes to the financial statements	20
Distribution table	28
Remuneration	30
Further information	32
Appointments	33

## Charity Value & Income Fund Report of the Manager

Smith & Williamson Fund Administration Limited, as Manager, presents herewith the Annual Report for Charity Value & Income Fund for the year ended 31 December 2019.

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 an 'Alternative Investment Fund', 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.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. As Manager we have applied appropriate accounting policies consistently, supported by reasonable and prudent judgements and estimates. However, as Manager we are unable to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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 and policy

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 philosophy

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.

## Report of the Manager (continued)

### Important Note from the Manager

Since January 2020, global financial markets have been affected by Covid-19. The impact on the Scheme will take longer to assess; however, the Manager has enacted its business continuity plans and continues to monitor this situation closely.

The virus has caused major uncertainty and disruption to business and everyday life. Financial markets have reacted sharply to this news, with concerns regarding the economic impact this may have on a global scale. The long-term impact on the global economy and markets will depend upon the overall scale and the duration of the outbreak, as well as on the actions taken by governments and central banks.

Please refer to Note 13 Events after the balance sheet date in the Notes to the financial statements.

### 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 set out on page 32.

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.

Brian McLean  
Directors  
Smith & Williamson Fund Administration Limited  
4 September 2020

James Gordon

## 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 the net revenue and net capital gain 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 Trust 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 maintenance and integrity of the Fund's information on the Manager's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 & 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 revenue is applied in accordance with the Regulations and the Scheme documents; and
- the instructions of the Alternative Investment Fund Manager ('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.

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.

NatWest Trustee & Depositary Services Limited  
4 September 2020

## 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 2019 which comprise the Accounting policies of the Fund, the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders, the Balance Sheet, the Notes to the financial statements, 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 2019 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 4, 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.

### Use of our 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  
Chartered Accountants and Statutory Auditors  
82 St John Street  
London EC1M 4JN  
4 September 2020

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 & Income Fund

for the year ended 31 December 2019

### 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.

The Manager has considered the impact of the emergence and spread of Covid-19 and potential implications on future operations of the Fund of reasonably possible downside scenarios. The Manager has considered a detailed assessment of the Fund's ability to meet its liabilities as they fall due, including liquidity, declines in global capital markets and investor redemption levels. Based on this assessment, the Fund continues to be open for trading and the Manager is satisfied the Fund has adequate financial resources to continue in operation for at least the next 12 months and accordingly it is appropriate to adopt the going concern basis in preparing the financial statements.

### b *Valuation of investments*

The purchase and sale of investments are included up to close of business on 31 December 2019.

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 31 December 2019 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.

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.

### e *Expenses*

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

### f *Taxation*

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

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

for the year ended 31 December 2019

### *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
- the Manager is satisfied that the transaction is not speculative.

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.

### *h 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*

All 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.

## Charity Value & Income Fund Investment Manager's report

### The market\*

Despite concerns about the pace of global economic growth, 2019 was a bumper year for equity investors. From a global perspective, 2018 had been characterised by weakening economic growth expectations, political tensions and tightening monetary conditions, which had combined to depress share prices throughout the year and especially in the final quarter. Towards the end of December 2018, the US Federal (Fed) Reserve announced that it would move to a more accommodating monetary stance, which has been followed by many of the world's other central banks and share prices have barely looked back since. This is despite there being scant evidence of a pick-up in the rate of economic growth and continuing political tension and trade disputes. Although the UK stock market generated strong returns for investors over 2019 it underperformed other world markets for much of the year, held back by Brexit political paralysis. This Gordian Knot has been cut dramatically by the Conservatives' unexpectedly large majority in the recent general election, which has removed all doubt as to whether or not the UK would actually leave the European Union (EU).

Over the year, the FTSE All Share Index rose by 14.2% and, including dividends, recorded a total return of +19.2%. As noted above, the UK market was a laggard in global terms, constrained for much of the year by the ongoing Brexit wrangles. The American market led the way once more, powered by the seemingly unstoppable 'Facebook, Apple, Amazon, Netflix and Google' stocks and rose by 28.9% (measured in US dollars). Europe was also strong, despite the anaemic economic background, with the German and French stock markets rising by 25.5% and 26.4% (measured in euros) respectively. Elsewhere in the world, the Japanese stock market rose by 18.2% and Emerging Markets by 16.7% (measured in Japanese yen and US dollars respectively). The buoyant performance of world markets illustrates the fact that economic growth and stock market returns are not particularly closely correlated and that the best stock market returns are often experienced when monetary policy is loosened, after a period of share price weakness.

Within the UK equity market mid-cap and smaller companies significantly outperformed their larger counterparts. The FTSE 100 Index rose by 12.1% well behind the 25.0% rise in the FTSE 250 Index and the 18.8% rise in the FTSE SmallCap Index. The FTSE 250 Index was aided by a number of high-profile bids, which saw companies such as Greene King, Entertainment One, Consort Medical, Cobham and Sophos taken over by foreign predators.

Bond yields remained very low in Europe and Japan but have started to rise in the UK. Ten-year gilt yields closed the year just under 0.8%, having traded as low as 0.4% over the summer, although this still represents a notable fall from 1.8% at the start of 2019. Conventional gilts generated a total return of 6.9% over the year, despite a -3.9% return in the fourth quarter as yields began to rise. Ten-year US Treasury bond yields were also volatile and ended the year at 1.9%, down from 2.7% at the end of 2018. The Fed Funds rate in America was cut by 0.25% three times during the year and now stands at 1.5% and the Fed has also restarted its quantitative easing program. Many other central banks have followed the Fed's lead and eased monetary policy with one notable exception, the Bank of England. Consequently, the UK Base Rate remained unchanged throughout the year at 0.75%. In currency markets, the pound endured a volatile year, falling for the first nine months before rallying strongly in the final quarter as hopes of a Brexit resolution increased and in the immediate aftermath of the Conservatives general election victory, which has prevented an economically destructive Labour administration. Over the year as a whole, the pound actually rose by 3.9% against the US dollar to \$1.33 and 6.3% against the euro to €1.18. Oil prices and other commodities followed the general trend in financial markets and both finished higher over the twelve months, having endured a weaker period over the summer. At the end of 2019, Brent Crude stood at \$66 per barrel, up from \$54 a year ago.

### Performance\*

Whilst pleasing in absolute terms, the 18.6%\*\* total return recorded by the Fund was a little behind the 19.2% return from the FTSE All Share Index. High-yielding shares struggled against the index with some of the larger income paying sectors, such as Banks and Oil & Gas Producers, being particularly weak in relative terms. For much of the year, the market was led by global growth stocks with value stocks only returning to the fore in the fourth quarter. Performance was also impacted by trading difficulties at Eddie Stobart Logistics. The shares were suspended in September and the company has subsequently had a rescue package approved by shareholders. The shares remain suspended and the valuation has been written down to the level of a substantial recently-reported off-market trade.

\* Source: Bloomberg.

\*\* Source: OLIM and Bloomberg (12pm published price)

## Investment Manager's report (continued)

### Performance (continued)\*

For the remainder of the portfolio stock selection was positive over the year but this was offset by negative performance from sector allocation. The overweight positions in Chemicals, Fixed Line Telecommunications and Non-Life Insurance were all negative influences over the year, only partially offset by the underweight positions in Banks and Oil & Gas Producers. In stock selection Informa (+36%), ITV (+21%), Crest Nicholson Holding's (+32%), DS Smith (+28%) and Babcock International Group (+29%) all outperformed the index substantially. The portfolio's two utility holdings, Pennon Group (+48%) and United Utilities Group (+28%) also performed well after the threat of renationalisation was removed by the general election result. Underperformers included Unilever (+6%), HSBC Holdings (-9%) and Vodafone Group (-4%) which, as overseas earners, were affected by the strength of sterling. Cineworld Group (-17%) also underperformed, as cinema audiences declined due to a weaker slate of new films.

\* Source: Bloomberg.

### Distribution

For the year as a whole the distribution was 4.8p, an increase of 4.3% compared with the 4.6p paid for 2018 and represents an increase of more than double the current rate of inflation. Underlying dividend growth on the portfolio was reasonable and this was supplemented by a number of special dividends during the year. We have a surplus of income to carry forward into 2020.

### Portfolio

Apart from purchases and sales to cover unit creations and redemptions we made a number of changes to the portfolio to improve both the quality and dividend growth prospects. At the start of the year, we sold the holding in British Land as the outlook for its retail properties worsened. Subsequently, we disposed of the entire holdings in BT Group and Centrica where, in both cases, difficult trading and a weak balance sheet were putting pressure on the companies' dividends. Centrica actually announced a dividend cut after the disposal but the BT dividend remains in doubt. We also sold the Johnson Matthey holding, concerned about the long-term future of its diesel engine related activities, and sold the remaining Halma shares. Profits were also taken in BP and Royal Dutch Shell 'B'. New holdings were started in FDM Group Holdings, an international IT consultancy, and PayPoint, a payments and transaction services business focused on convenience store retailers. Both companies have strong balance sheets and attractive cash generation characteristics. Towards the end of the year M&G, the leading savings and investment business, was demerged from the Prudential and we took the opportunity to build up the holding on an attractive yield basis. We also made additions to Vodafone Group, after its dividend had been reduced to a sustainable level, and ITV, Lloyds Banking Group and Phoenix Group Holdings on valuation grounds. At the end of December, we were invested in 36 companies with an average yield of 4.5%.

### Outlook

2019 was a bumper year for stock market returns as share prices took heart from looser monetary conditions. However, market sentiment has reversed abruptly in the early months of 2020 as the coronavirus outbreak has caused widespread economic disruption and, consequently, the outlook for equities has rarely been as difficult to foresee. On the one hand, the scale of economic contraction caused by the coronavirus could be at least double that caused by the financial crisis in 2008/9. Many companies have been severely affected and have announced that they will be suspending dividend payments. Large numbers have even resorted to cancelling previously declared payments, which is a sign of how fast the situation is changing.

## Investment Manager's report (continued)

### Outlook (continued)

As a result of this Fund distributions are likely to be lower in 2020, even allowing for the income reserve. Corporate profit forecasts are almost meaningless at the time of writing and the dividend base of the market is therefore unknown. On the other hand, the scale of the government response around the world has been unprecedented. Measures including state support of wages, funding packages for businesses impacted by a lack of trade and other support programmes have been announced with potential costs running into the hundreds of billions of pounds in the UK alone. Similar measures worth literally trillions of US dollars have been announced worldwide and governments may be running fiscal deficits at levels never seen outside of times of war. On top of this central banks around the world have cut interest rates sharply and many, including the Bank of England, the European Central Bank and the US Fed, have announced new quantitative easing measures or similar asset purchase schemes, which have flooded the world with liquidity. This seems to have halted the decline in share prices, which have bounced off the bottom. Whether this proves to be of only temporary relief or the start of the recovery will be dependent on the future path of the virus and the success or otherwise of efforts to contain it. Nonetheless, following the market falls, share valuations on most measures are now low and judicious investment in companies able to survive without dilutive rescue fundraising should prove profitable in the longer term.

OLIM Limited  
1 April 2020

FTSE® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under licence. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept liability for any errors or omissions in the FTSE Indices or underlying data.

## Summary of portfolio changes

for the year ended 31 December 2019

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

	Cost
Purchases:	£
ITV	510,913
FDM Group Holdings	462,148
Lloyds Banking Group	384,274
PayPoint	384,086
M&G	379,121
DS Smith	352,754
Vodafone Group	290,068
Phoenix Group Holdings	172,457
SThree	140,642
Devro	106,833
Sales:	Proceeds
	£
BP	687,839
Halma	563,614
British Land	509,788
Royal Dutch Shell 'B'	504,122
Informa	481,026
Johnson Matthey	473,383
BT Group	464,298
Centrica	407,665
GlaxoSmithKline	316,513
Crest Nicholson Holdings	314,215
Unilever	298,480
Beazley	278,745
Croda International	270,940
Vodafone Group	262,049
Spectris	255,843
Babcock International Group	234,503
Dechra Pharmaceuticals	227,554
Go-Ahead Group	221,332
Britvic	214,630
DS Smith	212,394

## Portfolio statement

as at 31 December 2019

	Nominal value or holding	Market value £	% of total net assets
Investment			
Equities - United Kingdom 97.93% (97.46%)			
Equities - incorporated within the United Kingdom 97.83% (97.29%)			
Energy 8.88% (12.53%)			
BP	215,000	1,013,940	4.38
Royal Dutch Shell 'B'	46,500	1,041,367	4.50
		<u>2,055,307</u>	<u>8.88</u>
Materials 10.81% (11.50%)			
BHP Group	26,200	465,522	2.01
Croda International	14,000	716,100	3.09
DS Smith	180,000	691,380	2.99
Rio Tinto	14,000	630,350	2.72
		<u>2,503,352</u>	<u>10.81</u>
Industrials 8.59% (6.88%)			
Babcock International Group	80,000	501,440	2.17
Eddie Stobart Logistics^	281,000	16,860	0.07
Go-Ahead Group	24,000	529,920	2.29
SThree	138,100	522,018	2.26
PayPoint	41,300	417,130	1.80
		<u>1,987,368</u>	<u>8.59</u>
Consumer Discretionary 8.11% (7.32%)			
Crest Nicholson Holdings	200,000	862,800	3.73
Marston's	500,000	635,000	2.74
Restaurant Group	233,000	379,790	1.64
		<u>1,877,590</u>	<u>8.11</u>
Consumer Staples 8.33% (8.34%)			
Britvic	73,000	658,825	2.85
Devro	250,000	442,500	1.91
Unilever	19,000	826,595	3.57
		<u>1,927,920</u>	<u>8.33</u>
Health Care 8.45% (7.60%)			
Dechra Pharmaceuticals	35,000	1,014,300	4.38
GlaxoSmithKline	53,000	942,658	4.07
		<u>1,956,958</u>	<u>8.45</u>

## Portfolio statement (continued)

as at 31 December 2019

Investment	Nominal value or holding	Market value £	% of total net assets
Equities - incorporated within the United Kingdom (continued)			
Financials 19.90% (15.46%)			
Beazley	130,000	722,800	3.12
HSBC Holdings	148,000	876,012	3.79
Legal & General Group	225,000	681,750	2.95
Lloyds Banking Group	1,220,000	762,500	3.30
M&G	195,500	463,335	2.00
Phoenix Group Holdings	82,000	613,934	2.65
Prudential	33,500	484,410	2.09
		<u>4,604,741</u>	<u>19.90</u>
Information Technology 7.19% (6.36%)			
FDM Group Holdings	61,100	631,774	2.74
Midwich Group	50,000	271,000	1.18
Spectris	26,000	755,560	3.27
		<u>1,658,334</u>	<u>7.19</u>
Communication Services 13.27% (13.63%)			
Cineworld Group	293,000	641,963	2.77
Informa	105,000	899,850	3.89
ITV	430,000	648,870	2.80
Vodafone Group	600,000	880,560	3.81
		<u>3,071,243</u>	<u>13.27</u>
Utilities 4.30% (5.82%)			
Pennon Group	50,000	510,750	2.22
United Utilities Group	51,000	481,134	2.08
		<u>991,884</u>	<u>4.30</u>
Real Estate 0.00% (1.85%)			
		-	-
Total equities - incorporated in the United Kingdom		<u>22,634,697</u>	<u>97.83</u>

## Portfolio statement (continued)

as at 31 December 2019

Investment	Nominal value or holding	Market value £	% of total net assets
Equities - United Kingdom (continued)			
Equities - incorporated outwith the United Kingdom 0.10% (0.17%)			
Financials 0.10% (0.17%)			
Hansard Global	59,419	23,768	0.10
Total equities - incorporated outwith the United Kingdom		<u>23,768</u>	<u>0.10</u>
Total equities - United Kingdom		<u>22,658,465</u>	<u>97.93</u>
Portfolio of investments		22,658,465	97.93
Other net assets		480,085	2.07
Total net assets		<u>23,138,550</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 2018.

^ Eddie Stobart Logistics Fund is a suspended security and is valued by the fair value pricing committee.

United Kingdom equities are grouped in accordance with Global Industry Classification Standard (GICS).

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Smith & Williamson Services Ltd. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## 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			Accumulation		
	2019 p	2018 p	2017 p	2019 p	2018 p	2017 p
Change in net assets per unit						
Opening net asset value per unit	88.93	107.93	97.64	153.19	177.26	153.56
Return before operating charges	16.91	(13.58)	15.63	29.65	(22.68)	25.06
Operating charges	(0.75)	(0.82)	(0.84)	(1.34)	(1.39)	(1.36)
Return after operating charges *	16.16	(14.40)	14.79	28.31	(24.07)	23.70
Distributions <sup>^</sup>	(4.80)	(4.60)	(4.50)	(8.42)	(7.69)	(7.19)
Retained distributions on accumulation units <sup>^</sup>	-	-	-	8.42	7.69	7.19
Closing net asset value per unit	100.29	88.93	107.93	181.50	153.19	177.26
* after direct transaction costs of:	0.05	0.04	0.03	0.09	0.07	0.03
Performance						
Return after charges	18.17%	(13.34%)	15.15%	18.48%	(13.58%)	15.43%
Other information						
Closing net asset value (£)	19,597,091	23,165,729	20,440,113	3,541,459	2,734,224	4,323,653
Closing number of units	19,540,761	26,050,622	18,937,790	1,951,173	1,784,828	2,439,213
Operating charges <sup>^^</sup>	0.67%	0.68%	0.67%	0.67%	0.68%	0.67%
Direct transaction costs	0.05%	0.04%	0.02%	0.05%	0.04%	0.02%
Prices						
Highest offer unit price	102.9	108.7	110.4	184.0	178.5	179.3
Lowest bid unit price	88.40	88.39	97.72	152.3	150.2	153.7

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

<sup>^^</sup> The operating charges are represented by the Total Expense Ratio (TER). The TER consists principally of the Manager's periodic charge and the Investment Manager's fee which are included in the annual management charge, but also includes the costs for other services paid. It is indicative of the charges which the unit class may incur in a year as it is calculated on historical data.

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

## Financial statements - Charity Value & Income Fund

### Statement of total return

for the year ended 31 December 2019

	Notes	2019		2018	
		£	£	£	£
Income:					
Net capital gains / (losses)	2		3,338,641		(4,953,012)
Revenue	3	1,260,457		1,109,506	
Expenses	4	<u>(171,920)</u>		<u>(171,748)</u>	
Net revenue			<u>1,088,537</u>		<u>937,758</u>
Total return before distributions			4,427,178		(4,015,254)
Distributions	6		(1,388,099)		(1,066,996)
Change in net assets attributable to unitholders from investment activities			<u><u>3,039,079</u></u>		<u><u>(5,082,250)</u></u>

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

for the year ended 31 December 2019

		2019		2018	
		£	£	£	£
Opening net assets attributable to unitholders			25,899,953		24,763,766
Unit exchange issues on in specie transfers			-	8,400,052	
Amounts receivable on issue of units		579,292		1,780,758	
Amounts payable on cancellation of units		<u>(6,539,249)</u>		<u>(4,136,508)</u>	
			(5,959,957)		6,044,302
Change in net assets attributable to unitholders from investment activities			3,039,079		(5,082,250)
Retained distributions on accumulation units			159,475		174,135
Closing net assets attributable to unitholders			<u><u>23,138,550</u></u>		<u><u>25,899,953</u></u>

**Balance sheet**  
*as at 31 December 2019*

	Notes	2019 £	2018 £
<b>Assets:</b>			
<b>Fixed assets:</b>			
Investments		22,658,465	25,241,428
<b>Current assets:</b>			
Debtors	7	96,105	121,716
Cash and bank balances	8	624,751	857,057
<b>Total assets</b>		<u>23,379,321</u>	<u>26,220,201</u>
<b>Liabilities:</b>			
<b>Creditors:</b>			
Distribution payable		(234,489)	(312,607)
Other creditors	9	(6,282)	(7,641)
<b>Total liabilities</b>		<u>(240,771)</u>	<u>(320,248)</u>
<b>Net assets attributable to unitholders</b>		<u>23,138,550</u>	<u>25,899,953</u>

B. McLean  
 Directors  
 Smith & Williamson Fund Administration Limited  
 4 September 2020

J. Gordon

Registered Charity number 1119289

Notes to the financial statements  
for the year ended 31 December 2019

1. Accounting policies

The accounting policies are disclosed on pages 8 and 9.

2. Net capital gains / (losses)

	2019	2018
	£	£
Non-derivative securities - realised gains	268,365	1,003,741
Non-derivative securities - movement in unrealised gains / (losses)	2,958,180	(5,954,770)
Capital special dividend	114,508	-
Transaction charges	(2,412)	(1,983)
Total net capital gains / (losses)	<u>3,338,641</u>	<u>(4,953,012)</u>

3. Revenue

	2019	2018
	£	£
UK revenue	1,249,409	1,067,420
Unfranked revenue	6,948	22,612
Overseas revenue	2,884	19,075
Bank and deposit interest	1,216	399
Total revenue	<u>1,260,457</u>	<u>1,109,506</u>

4. Expenses

	2019	2018
	£	£
Payable to the Manager and associates		
Annual management charge	<u>157,414</u>	<u>152,690</u>
Payable to the Trustee		
Trustee fees	<u>9,193</u>	<u>9,201</u>
Other expenses:		
Audit fee	6,120	5,940
Safe custody fees	753	797
Publication fee	(1,560)	3,120
	<u>5,313</u>	<u>9,857</u>
Total expenses	<u>171,920</u>	<u>171,748</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.

6. Distributions

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

	2019	2018
	£	£
Quarter 1 income distribution	312,672	208,316
Quarter 1 accumulation distribution	36,892	44,052
Interim income distribution	311,488	175,635
Interim accumulation distribution	40,116	44,564
Quarter 3 income distribution	247,272	299,214
Quarter 3 accumulation distribution	40,614	49,126
Final income distribution	234,489	312,607
Final accumulation distribution	41,853	36,393
	<u>1,265,396</u>	<u>1,169,907</u>
Equalisation:		
Amounts deducted on cancellation of units	136,116	112,952
Amounts added on issue of units	(13,413)	(215,863)
Total net distributions	<u>1,388,099</u>	<u>1,066,996</u>

Notes to the financial statements (continued)  
for the year ended 31 December 2019

6. Distributions (continued)

Reconciliation between net revenue and distributions:	2019	2018
	£	£
Net revenue per Statement of total return	1,088,537	937,758
Undistributed revenue brought forward	460,156	417,646
Expenses paid from capital	171,920	171,748
Undistributed revenue carried forward	(332,514)	(460,156)
Distributions	<u>1,388,099</u>	<u>1,066,996</u>

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

7. Debtors

	2019	2018
	£	£
Accrued revenue	96,105	121,716
Total debtors	<u>96,105</u>	<u>121,716</u>

8. Cash and bank balances

	2019	2018
	£	£
Total cash and bank balances	<u>624,751</u>	<u>857,057</u>

9. Other creditors

	2019	2018
	£	£
Other expenses:		
Safe custody fees	107	141
Audit fee	6,120	5,940
Publication fee	-	1,560
Transaction charges	55	-
Total accrued expenses	<u>6,282</u>	<u>7,641</u>
Total other creditors	<u>6,282</u>	<u>7,641</u>

10. Commitments and contingent liabilities

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

11. Unit classes

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

	Income
Opening units in issue	26,050,622
Total units issued in the year	313,353
Total units cancelled in the year	(6,823,214)
Closing units in issue	<u>19,540,761</u>
	Accumulation
Opening units in issue	1,784,828
Total units issued in the year	166,345
Closing units in issue	<u>1,951,173</u>

For the year ended 31 December 2019, the annual management charge is 0.60% (0.50% plus VAT at 20%).

The annual management charge includes the Manager's periodic charge and the Investment Management fees.

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

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 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.

### 13. Events after the balance sheet date

The outbreak of the Covid-19, declared by the World Health Organisation as a Public Health Emergency of International Concern on 30 January 2020, has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Manager is monitoring developments relating to Covid-19 and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, UK government and general pandemic response best practice.

The Manager considers the emergence and spread of Covid-19 to be a non-adjusting post balance sheet event. Subsequent to the year end, the Fund's Net Asset Value (NAV) has suffered as a result of a decline in global stock markets and the NAV as at the close of business on 21 August 2020 had declined by 27.19% in the Income units and 25.53% in the Accumulation units, compared to the NAV at the year end.

Unit Class Name	NAV per unit 31.12.2019	NAV per unit 21.08.2020	Movement
Income units	100.29p	73.02p	(27.19%)
Accumulations units	181.50p	135.17p	(25.53%)
Over the same period, the movement in the Fund's target benchmark (FTSE All Share Index) was -18.32%.			

### 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:

	Purchases before transaction costs		Commission		Taxes		Financial transaction tax		Purchases after transaction costs
	£		£	%	£	%	£	%	£
2019									
Equities	3,180,099		3,180	0.10%	17	0.00%	-	-	3,183,296
Total	3,180,099		3,180	0.10%	17	0.00%	-	-	3,183,296

Notes to the financial statements (continued)  
for the year ended 31 December 2019

14. Transaction costs (continued)

a Direct transaction costs (continued)

	Purchases before transaction costs		Commission		Taxes		Financial transaction tax		Purchases after transaction costs
	£	£	%	£	%	£	%	£	
2018									
Equities	3,212,411	3,213	0.10%	10	0.00%	-	-	-	3,215,634
Total	3,212,411	3,213	0.10%	10	0.00%	-	-	-	3,215,634

Capital events amount of £nil (2018: £629,364) is excluded from the total purchases as there were no direct transaction costs charged in these transactions.

There was no in specie purchases in the current year.

	In specie purchases before transaction costs		Commission		Taxes		Financial transaction tax		In specie purchases after transaction costs
	£	£	%	£	%	£	%	£	
2018									
Equities*	8,569,017	-	-	-	-	-	-	-	8,569,017
Total	8,569,017	-	-	-	-	-	-	-	8,569,017

\* No direct transaction costs were incurred in these transactions.

	Sales before transaction costs		Commission		Taxes		Financial transaction tax		Sales after transaction costs
	£	£	%	£	%	£	%	£	
2019									
Equities	9,001,894	(9,002)	0.10%	(114)	0.00%	-	-	-	8,992,778
Total	9,001,894	(9,002)	0.10%	(114)	0.00%	-	-	-	8,992,778

	Sales before transaction costs		Commission		Taxes		Financial transaction tax		Sales after transaction costs
	£	£	%	£	%	£	%	£	
2018									
Equities	5,818,072	(5,818)	0.10%	(41)	0.00%	(1)	0.00%	(1)	5,812,212
Total	5,818,072	(5,818)	0.10%	(41)	0.00%	(1)	0.00%	(1)	5,812,212

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:

	£	% of average net asset value
2019		
Commission	12,182	0.05%
Taxes	131	0.00%

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 14. Transaction costs (continued)

#### a Direct transaction costs (continued)

2018	£	% of average net asset value
Commission	9,031	0.04%
Taxes	51	0.00%
Financial transaction tax	1	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 0.19% (2018: 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 2019, if the price of the investments held by the Fund increased or decreased by 15%, with all other variables remaining constant, then the net assets attributable to unitholders of the Fund would increase or decrease by approximately £3,398,770 (2018: £3,786,214).

##### (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.

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 15. Risk management policies (continued)

#### a Market risk (continued)

#### (ii) Currency risk (continued)

The foreign currency risk profile of the Fund's financial instruments and cash holdings at the balance sheet date is as follows:

	Financial instruments and cash holdings	Net debtors and creditors	Total net foreign currency exposure
	£	£	£
2019			
Euro	-	24,403	24,403
Total foreign currency exposure	-	24,403	24,403
<hr/>			
	Financial instruments and cash holdings	Net debtors and creditors	Total net foreign currency exposure
	£	£	£
2018			
Euro	-	24,254	24,254
Total foreign currency exposure	-	24,254	24,254

At 31 December 2019, if the value of sterling increased or decreased by 15% against all other currencies, with all other variables remaining constant, then the net assets attributable to unitholders of the Fund would increase or decrease by approximately £3,660 (2018: £3,638).

#### (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.

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.

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.

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 15. Risk management policies (continued)

#### 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.

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.

#### 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.

Basis of valuation	Investment	Investment
	2019	2019
	£	£
Quoted prices	22,641,605	-
Observable market data	-	-
Unobservable data*	16,860	-
	<u>22,658,465</u>	<u>-</u>

\*The following security is valued in the portfolio of investments using a valuation technique:

*Eddie Stobart Logistics Fund*: This is a suspended security and is valued by the fair value pricing committee.

Basis of valuation	Investment	Investment
	assets	liabilities
	2018	2018
	£	£
Quoted prices	25,241,428	-
Observable market data	-	-
Unobservable data	-	-
	<u>25,241,428</u>	<u>-</u>

## Notes to the financial statements (continued)

for the year ended 31 December 2019

### 15. Risk management policies (continued)

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

The following asset held in the portfolio of investments are subject to special arrangements arising from their illiquid nature:

	2019	2018
	% of the total net asset value	% of the total net asset value
Eddie Stobart Logistics	0.07%	1.27%
Total	0.07%	1.27%

#### 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.

#### (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

The leverage is calculated as the sum of the net asset value and the incremental exposure generated through the use of derivatives (calculated in accordance with the commitment approach) divided by the net asset value.

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 2019

Distributions on income units in pence per unit

Payment date	Unit type	Distribution type	Net revenue	Equalisation	Distribution current year	Distribution prior year
31.05.19	group 1	quarter 1	1.200	-	1.200	1.100
31.05.19	group 2	quarter 1	-	1.200	1.200	1.100
31.08.19	group 1	interim	1.200	-	1.200	1.100
31.08.19	group 2	interim	-	1.200	1.200	1.100
30.11.19	group 1	quarter 3	1.200	-	1.200	1.200
30.11.19	group 2	quarter 3	-	1.200	1.200	1.200
29.02.20	group 1	final	1.200	-	1.200	1.200
29.02.20	group 2	final	-	1.200	1.200	1.200

### 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 2019

Group 2 Units purchased 1 January 2019 to 31 March 2019

### Interim distribution:

Group 1 Units purchased before 1 April 2019

Group 2 Units purchased 1 April 2019 to 30 June 2019

### Quarter 3 distribution:

Group 1 Units purchased before 1 July 2019

Group 2 Units purchased 1 July 2019 to 30 September 2019

### Final distribution:

Group 1 Units purchased before 1 October 2019

Group 2 Units purchased 1 October 2019 to 31 December 2019

Distribution table (continued)  
for the year ended 31 December 2019

Distributions on accumulation units in pence per unit

Allocation date	Unit type	Distribution type	Net revenue	Equalisation	Distribution current year	Distribution prior year
31.05.19	group 1	quarter 1	2.067	-	2.067	1.806
31.05.19	group 2	quarter 1	2.067	-	2.067	1.806
31.08.19	group 1	interim	2.093	-	2.093	1.827
31.08.19	group 2	interim	-	2.093	2.093	1.827
30.11.19	group 1	quarter 3	2.119	-	2.119	2.014
30.11.19	group 2	quarter 3	2.119	-	2.119	2.014
29.02.20	group 1	final	2.145	-	2.145	2.039
29.02.20	group 2	final	-	2.145	2.145	2.039

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 2019  
Group 2 Units purchased 1 January 2019 to 31 March 2019

Interim distribution:

Group 1 Units purchased before 1 April 2019  
Group 2 Units purchased 1 April 2019 to 30 June 2019

Quarter 3 distribution:

Group 1 Units purchased before 1 July 2019  
Group 2 Units purchased 1 July 2019 to 30 September 2019

Final distribution:

Group 1 Units purchased before 1 October 2019  
Group 2 Units purchased 1 October 2019 to 31 December 2019

## 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 (MRTs) 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 60-63 of the Smith & Williamson Report and Financial Statements for the year ended 30 April 2019 (available <https://smithandwilliamson.com/en/about-us/financial-reports/>) includes details on the remuneration policy. The remuneration committee comprises four 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 2018-19.

### 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, but not limited to, 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.

When setting variable remuneration for the executive directors, the committee considers overall business profit for the group and divisions, 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 2019. The committee agrees the individual allocation of variable remuneration and the proportion of that variable remuneration to be awarded as restricted shares.

### 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 74 employees is £3,188,854 of which £2,954,145 is fixed remuneration. This is based on the annualised salary and benefits for those identified as working in SWFAL as at 30 April 2019. Any variable remuneration is awarded for the year ending 30 April 2019. This information excludes any senior management or other MRTs whose remuneration information is detailed on the next page.

## Remuneration (continued)

### Aggregate quantitative information (continued)

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 2018-19 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	Financial Year ending 30 April 2019				
	Fixed £'000	Cash £'000	Equity £'000	Total £'000	No. MRTs
Senior Management	1,748	1,594	419	3,761	9
Other MRTs	1,214	569	67	1,850	8
Total	2,962	2,163	486	5,611	17

### Investment Manager

The Manager delegates the management of the Scheme's portfolio of investments to OLIM Limited and pays to OLIM Limited, out of the Manager's annual management charge, a monthly fee calculated on the total value of the portfolio of investments at the month end. OLIM Limited are compliant with the Capital Requirements Directive regarding remuneration and therefore OLIM Limited staff are covered by remuneration regulatory requirements.

## Further information

### Distributions and reporting dates

Where net revenue is available it will be distributed/allocated quarterly on the last day in February (final), 31 May (quarter 1), 31 August (interim) and 30 November (quarter 3). 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 initial lump sum purchase value of units in the Fund is currently £1,000. 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.

## 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

Brian McLean  
David Cobb  
James Gordon  
Kevin Stopps  
Paul Wyse - resigned 8 December 2019

### Independent Non-Executive Directors of the Manager

Dean Buckley  
Linda Robinson  
Victoria Muir

Non-Executive Directors of the Manager  
Paul Wyse - appointed 9 December 2019

### Investment Manager

OLIM Limited  
1 Benjamin Street  
London EC1M 5QL  
Authorised and regulated by the Financial Conduct Authority

### Trustee

NatWest Trustee & Depositary Services Limited  
2nd Floor  
Drummond House  
1 Redheughs Avenue  
Edinburgh EH12 9RH  
Authorised and regulated by the Financial Conduct Authority

### Auditor

Beavis Morgan Audit Limited  
Chartered Accountants and Statutory Auditors  
82 St John Street  
London EC1M 4JN