

# The Munro Dividend Fund

Interim Short Report  
(unaudited)  
for the six months ended 31 July 2013

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# The Munro Dividend Fund

## Authorised Corporate Director's report

The Authorised Corporate Director ("the ACD") presents herewith the Interim Report and Financial Statements ("the Report") for The Munro Dividend Fund for the six months ended 31 July 2013.

The Munro Dividend Fund ("the Company") is an authorised open-ended investment company with variable capital ("ICVC") further to a Financial Services Authority (the predecessor of the FCA) authorisation order dated 18 July 2007. The Company is incorporated under registration number IC000551. It is a UCITS scheme complying with the investment and borrowing powers rules in the Collective Investment Schemes sourcebook ("COLL") issued by the FCA.

The Company has been set up as an umbrella company. The Company has currently one sub-fund available for investment, Munro UK Dividend Fund ("the Fund").

The ACD is of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

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

The Instrument of Incorporation can be inspected at the office of the ACD.

The Company has no Directors other than the ACD.

The base currency of the Company is UK sterling.

Copies of the Prospectus and Key Investor Information Document are available free of charge from the ACD.

### Investment objective and policy

The objective of the Fund is to maximize the overall return through investment in securities listed on the UK stock market.

The sub-fund will seek to deliver a consistent return over the long term by holding large and medium sized securities, excluding Investment Trusts, in the UK stock market that are forecast to pay a dividend. The Fund will be constructed on the basis of the underlying fundamental financial attributes of the companies in the index rather than on their market capitalisation. The weight of each company in the Fund will be determined by the proportion that its forecast total dividend will be expected to make of the total income of all the companies held in the Fund. The data will be sourced from consensus forecasts as compiled by information providers such as Bloomberg and Reuters. Allowance will be made for securities forecast to be bought back. Such a rigorous process can be closely defined and will be insensitive to the personal preferences of the Investment Adviser.

The Fund may also invest in bonds, collective investment schemes, warrants, money markets instruments, cash, deposits and other permitted investments.

It is the ACD's intention that derivatives be used for hedging purposes using efficient portfolio management style techniques.

The ACD does not intend to have an interest in any immovable property or tangible movable property.

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

# The Munro Dividend Fund

## Authorised Corporate Director's report (continued)

### Distributions and reporting dates

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

|                  |            |         |
|------------------|------------|---------|
| Reporting dates: | 31 January | annual  |
|                  | 31 July    | interim |

Shareholders will receive a report of the accounts within four months of the annual reporting date (audited) and within two months of the interim reporting date.

### Buying and selling shares

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

Prices of shares and the estimated yield of the Fund are published on the following website: [www.investmentfunds.org.uk](http://www.investmentfunds.org.uk) or may be obtained by calling +44 (0)1343 880344.

### Management charges

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

|                          | A class | B class | X class |
|--------------------------|---------|---------|---------|
| Annual management charge | 1.50%   | 1.25%   | 0.50%   |

The annual management charge includes the ACD's periodic charge and the Investment Adviser's fee.

|                               |        |          |      |
|-------------------------------|--------|----------|------|
| Minimum initial investment    | £1,000 | £100,000 | £250 |
| Minimum subsequent investment | £1,000 | £1,000   | £100 |
| Minimum holding               | £1,000 | £100,000 | £250 |

### Risk Profile

Based on past data, the fund is ranked a '6' on the synthetic risk and reward indicator scale (of 1 to 7) as described fully in the Key Investor Information Document. The Fund is in a higher category because the price of its investments has risen or fallen frequently and more dramatically than some other types of investment. The higher the rank, the greater the potential reward but the greater the risk of losing money.

## The Munro Dividend Fund

### Authorised Corporate Director's report (continued)

#### Changes affecting the Company in the period

There were no fundamental or significant changes to the Company in the period.

#### Statement of the Authorised Corporate Director's Responsibilities

The rules of the Financial Conduct Authority's Collective Investment Schemes Sourcebook require the Authorised Corporate Director to prepare financial statements for each accounting period which give a true and fair view of the financial affairs of the Company and of its net revenues and net capital gains/losses for the period. In preparing these financial statements the Authorised Corporate Director is required to:

- comply with the Prospectus, the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards, subject to any material departures which are required to be disclosed and explained in the financial statements.
- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in operation for the foreseeable future.

The Authorised Corporate Director is required to keep proper accounting records and to manage the Company in accordance with the COLL regulations, the Instrument of Incorporation, and the Prospectus. The Authorised Corporate Director is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### DIRECTOR'S STATEMENT

In accordance with the requirements of the Financial Conduct Authority's Collective Investment Scheme's Sourcebook, we hereby certify the interim report.

Valu-Trac Investment Management Limited  
Authorised Corporate Director

Date .....

## Investment Adviser's report

### Investment Objectives

The investment objective of the VT Munro UK Dividend Fund is to maximise the overall return through investment in the 300 largest dividend paying securities listed on the UK stock market but excluding investment trusts.

### Investment Activities

The fund was managed during the period in accordance with its stated objective of investing in the 300 listed companies forecast to pay the largest dividends. The fund continues to follow the same process of investing in large and medium companies listed on the London Stock Exchange excluding investment trusts in line with each stock's contribution to the total forecasted dividend payout for the group as a whole.

This process is designed to minimize trading and exploit volatility. Rather than continuously buy and sell stocks, new money is allocated to securities which have decreased in price relative to the rest of the market yet remain fundamentally strong. The process can therefore take advantage of specific opportunities to add to underweight positions. This low level of activity keeps turnover down which minimizes costs charged to the fund.

The fund made purchases during the year that amounted to just over £713,460 while sales came to £189,250.

Additional inflows and a rising market have helped to increase the size of the fund, which enabled the fund to buy stocks not already held. This improves diversification and the efficiency of the process while reducing tracking error. Throughout this period the cash position was kept at a low percentage of the total portfolio: from 1.6% to 0.4%.

The fund added 39 new stocks over the period. These were: Ashtead, AZ Electronic Material, BBA Aviation, Beazley, Bellway, Britvic, DCC, Derwent London, Dunelm, Elementis, Essar, Esure, Galliford Try, Go-Ahead Group, Halma, Homeserve, Howden joinery, Huntings, Invensys, Jupiter Fund Management, Laird, Londonmetric Property, Marstons, Michael Page International, Micro Focus International, Mitie Group, Moneysupermarket.com Group, N Brown, Premier Farnell, PZ Cussons, Randgold Resources, Regus, Renishaw, Rotork, Spirax-Sarco Engineering, Tullet Prebon, Victrex, W H Smith and W S Atkins.

The merger of Glencore with Xstrata was finally consummated in this period. Also in this period, the company Filtrona was renamed as Essentra.

### Investment Performance

Over the period under review the fund rose by 5.82%. This compares to an 8.82% rise in its benchmark and means the fund lagged its benchmark after costs by 3%. Although the fund has an AMC of only 0.5% (X class) the ongoing charges figure was 1.55% which is a function of the small size of the fund. The fund grew from £3.1m to £3.86m over the six months and continued growth will help reduce costs and improve net returns.

During the period under review a degree of confidence returned to equity markets and helped raise share prices. This improved sentiment was undoubtedly helped by increased returns over the period which increased dividend payments.

## The Munro Dividend Fund

The current dividend yield of large and medium sized securities in the UK stock market is 3.6% which suggests that the bulk of the returns will continue to come from dividends rather than capital gains which are volatile.

### **Investment Strategy**

There was no change in the investment strategy of the fund. The fund uses a proprietary process that allocates weights to shares in proportion to their contribution to the total cash dividend forecast for the large and medium sized securities in the UK stock market.

The fundamental dividend tracking process captures this effect by focusing solely on forecast dividend flows and ignoring capital values. As far as we know this makes it unique.

In practice the fund has to be adjusted to ensure that the fund stayed within the FCA guidelines that no single stock can represent more than 10% of the fund and that all stocks that have weights in excess of 5% cannot, in aggregate, account for more than 40% of the fund. This meant that the fund's position in GlaxoSmithKline was sometimes trimmed back to comply with these rules.

Robert Davies

Fundamental Tracker Investment Management Limited

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

## The Munro Dividend Fund

### Comparative table (Unaudited)

| <b>Number of shares in issue</b> | <b>31.07.13</b> | <b>31.01.13</b> | <b>31.01.12</b> | <b>31.01.11</b> |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| A class net income               | 74,267          | 67,736          | 82,039          | 81,424          |
| B class net income               | 7,434           | 53,560          | 53,560          | -               |
| X class net income               | 1,464,417       | 1,201,919       | 1,095,931       | 1,097,926       |
| A class net accumulation         | 175,737         | 170,620         | 233,381         | 203,931         |
| B class net accumulation         | 2,396           | 2,396           | 3,402           | 126,594         |
| X class net accumulation         | 2,036,446       | 1,662,327       | 1,430,731       | 808,737         |

| <b>Net Asset Value (based on bid value)</b> | <b>£</b>  | <b>£</b>  | <b>£</b>  | <b>£</b>  |
|---|-----------|-----------|-----------|-----------|
| Total NAV of Fund                           | 3,863,119 | 3,100,241 | 2,524,420 | 2,035,786 |
| A class net income                          | 64,902    | 57,567    | 63,779    | 65,646    |
| B class net income                          | 8,628     | 60,191    | 54,954    | -         |
| X class net income                          | 1,343,282 | 1,067,020 | 883,381   | 913,684   |
| A class net accumulation                    | 184,794   | 170,358   | 205,564   | 180,359   |
| B class net accumulation                    | 3,272     | 3,103     | 3,704     | 134,422   |
| X class net accumulation                    | 2,258,241 | 1,742,002 | 1,313,038 | 741,675   |

| <b>Net Asset Value per share (based on bid value)</b> | <b>p</b> | <b>p</b> | <b>p</b> | <b>p</b> |
|---|----------|----------|----------|----------|
| A class net income                                    | 87.39    | 84.99    | 77.74    | 80.62    |
| B class net income                                    | 116.06   | 112.38   | 102.60   | -        |
| X class net income                                    | 91.73    | 88.78    | 80.61    | 83.22    |
| A class net accumulation                              | 105.15   | 99.85    | 88.08    | 88.44    |
| B class net accumulation                              | 136.59   | 129.53   | 108.90   | 106.20   |
| X class net accumulation                              | 110.89   | 104.79   | 91.77    | 91.71    |

| <b>Quoted prices (based on mid value)</b> | <b>p</b> | <b>p</b> | <b>p</b> | <b>p</b> |
|---|----------|----------|----------|----------|
| A class net income                        | 87.42    | 85.02    | 79.01    | 81.38    |
| B class net income                        | 116.10   | 112.42   | 104.30   | -        |
| X class net income                        | 91.76    | 88.80    | 81.84    | 84.00    |
| A class net accumulation                  | 105.19   | 99.88    | 88.19    | 88.40    |
| B class net accumulation                  | 136.64   | 129.57   | 109.00   | 106.10   |
| X class net accumulation                  | 110.93   | 104.83   | 91.79    | 91.67    |

### Performance record

| <b>Calendar year</b> |                          | <b>Distribution<br/>per share<br/>p</b> | <b>Highest<br/>price<br/>p</b> | <b>Lowest<br/>price<br/>p</b> |
|----------------------|--------------------------|---|--------------------------------|-------------------------------|
| 2007                 | A class net income       | n/a                                     | 103.5                          | 90.26                         |
| 2007                 | X class net income       | n/a                                     | 104.7                          | 93.37                         |
| 2007                 | A class net accumulation | n/a                                     | 103.5                          | 90.27                         |
| 2007                 | B class net accumulation | n/a                                     | 100.0                          | 100.00                        |
| 2007                 | X class net accumulation | n/a                                     | 104.7                          | 93.42                         |
| 2008                 | A class net income       | 2.492                                   | 95.96                          | 54.40                         |
| 2008                 | X class net income       | 2.492                                   | 99.32                          | 56.36                         |
| 2008                 | A class net accumulation | 2.492                                   | 95.98                          | 55.83                         |
| 2008                 | B class net accumulation | 2.492                                   | 107.90                         | 66.99                         |
| 2008                 | X class net accumulation | 2.492                                   | 99.32                          | 57.84                         |



## The Munro Dividend Fund

### Comparative table (continued)

#### Performance record (continued)

| Calendar year |                          | Distribution<br>per share<br>p | Highest<br>price<br>p | Lowest<br>price<br>p |
|---------------|--------------------------|--------------------------------|-----------------------|----------------------|
| 2009          | A class net income       | 2.093                          | 78.09                 | 50.06                |
| 2009          | X class net income       | 2.160                          | 80.58                 | 51.55                |
| 2009          | A class net accumulation | 2.158                          | 82.50                 | 51.81                |
| 2009          | B class net accumulation | 2.593                          | 99.05                 | 62.17                |
| 2009          | X class net accumulation | 2.238                          | 85.54                 | 53.68                |
|               |                          |                                |                       |                      |
| 2010          | A class net income       | 2.085                          | 82.91                 | 68.46                |
| 2010          | X class net income       | 2.138                          | 85.56                 | 70.61                |
| 2010          | A class net accumulation | 2.209                          | 90.06                 | 73.14                |
| 2010          | B class net accumulation | 2.673                          | 108.10                | 87.80                |
| 2010          | X class net accumulation | 2.297                          | 93.67                 | 75.80                |
|               |                          |                                |                       |                      |
| 2011          | A class net income       | 2.306                          | 84.21                 | 69.23                |
| 2011*         | B class net income       | 1.882                          | 110.80                | 91.27                |
| 2011          | X class net income       | 2.365                          | 86.87                 | 71.48                |
| 2011          | A class net accumulation | 2.512                          | 92.30                 | 77.27                |
| 2011          | B class net accumulation | 3.089                          | 113.90                | 95.35                |
| 2011          | X class net accumulation | 2.615                          | 95.66                 | 80.16                |
|               |                          |                                |                       |                      |
| 2012          | A class net income       | 3.471                          | 81.64                 | 73.03                |
| 2012          | B class net income       | 4.580                          | 107.92                | 96.45                |
| 2012          | X class net income       | 3.598                          | 85.16                 | 75.91                |
| 2012          | A class net accumulation | 3.938                          | 100.75                | 82.81                |
| 2012          | B class net accumulation | 4.926                          | 121.48                | 105.40               |
| 2012          | X class net accumulation | 4.105                          | 105.74                | 86.48                |
|               |                          |                                |                       |                      |
| 2013**        | A class net income       | 2.602                          | 90.69                 | 80.90                |
| 2013**        | B class net income       | 3.443                          | 120.02                | 107.41               |
| 2013**        | X class net income       | 2.719                          | 95.03                 | 84.83                |
| 2013**        | A class net accumulation | 3.067                          | 108.05                | 95.96                |
| 2013**        | B class net accumulation | 3.968                          | 140.28                | 122.27               |
| 2013**        | X class net accumulation | 3.222                          | 113.74                | 100.62               |

\* From launch on 4 February 2011 to 31 December 2011.

\*\* To 31 July 2013.

#### Ongoing Charges Figure (OCF)

The ongoing charges figure provides investors with a clearer picture of the total annual costs in running a collective investment scheme. The ongoing charges consist principally of the ACD'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.

|                              |                             |                 |
|------------------------------|-----------------------------|-----------------|
| <b>A class net income</b>    | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge     | 1.50%                       | 1.50%           |
| Other expenses               | 0.89%                       | 0.74%           |
| Total ongoing charges figure | 2.39%                       | 2.24%           |

<sup>^</sup> annualised based on the expenses incurred during the period 1 February 2013 to 31 July 2013.

## The Munro Dividend Fund

### Comparative table (continued)

#### Ongoing Charges Figure (OCF) (continued)

|                                 |                             |                 |
|---------------------------------|-----------------------------|-----------------|
| <b>B class net income</b>       | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge        | 1.25%                       | 1.25%           |
| Other expenses                  | 0.89%                       | 0.74%           |
| Total ongoing charges figure    | 2.14%                       | 1.99%           |
| <br>                            |                             |                 |
| <b>X class net income</b>       | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge        | 0.50%                       | 0.50%           |
| Other expenses                  | 0.95%                       | 0.77%           |
| Total ongoing charges figure    | 1.45%                       | 1.27%           |
| <br>                            |                             |                 |
| <b>A class net accumulation</b> | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge        | 1.50%                       | 1.50%           |
| Other expenses                  | 0.92%                       | 0.72%           |
| Total ongoing charges figure    | 2.42%                       | 2.22%           |
| <br>                            |                             |                 |
| <b>B class net accumulation</b> | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge        | 1.25%                       | 1.25%           |
| Other expenses                  | 0.89%                       | 0.73%           |
| Total ongoing charges figure    | 2.14%                       | 1.98%           |
| <br>                            |                             |                 |
| <b>X class net accumulation</b> | <b>31.07.13<sup>^</sup></b> | <b>31.01.13</b> |
| Annual management charge        | 0.50%                       | 0.50%           |
| Other expenses                  | 0.97%                       | 0.78%           |
| Total ongoing charges figure    | 1.47%                       | 1.28%           |

<sup>^</sup> annualised based on the expenses incurred during the period 1 February 2013 to 31 July 2013.

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

## The Munro Dividend Fund

### Portfolio information (unaudited)

The following tables show the percentage of the fund's assets and liabilities by investment and geographical classification at the end of the current period and prior year, and the major ten holdings in the Fund at the end of the current period and prior year.

#### Investment and geographical classification

| Investment Type                                    | Percentage of the total net assets as at 31.07.13 | Percentage of the total net assets as at 31.01.13 |
|--|---|---|
| Equities - incorporated in the United Kingdom      | 85.43%  | 87.26%  |
| Equities - incorporated outwith the United Kingdom | 11.03%  | 11.39%  |
|  | 96.46%  | 98.65%  |
| Net other assets                                   | 3.54%   | 1.35%   |
| Total net assets                                   | 100.00%   | 100.00%   |

#### Major holdings (top ten) as at 31 July 2013

| Holding                  | Percentage of the total net assets as at 31.07.13 |
|--------------------------|---|
| HSBC Holdings            | 8.21%   |
| Vodafone Group           | 5.85%   |
| BHP Billiton             | 5.39%   |
| Royal Dutch Shell 'A'    | 5.32%   |
| BP                       | 5.30%   |
| GlaxoSmithKline          | 4.65%   |
| British American Tobacco | 3.56%   |
| Royal Dutch Shell 'B'    | 3.54%   |
| Rio Tinto                | 2.92%   |
| AstraZeneca              | 2.73%   |

#### Major holdings (top ten) as at 31 January 2013

| Holding                  | Percentage of the total net assets as at 31.01.13 |
|--------------------------|---|
| Vodafone Group           | 8.03%   |
| HSBC Holdings            | 7.64%   |
| BP                       | 5.70%   |
| BHP Billiton             | 5.56%   |
| Royal Dutch Shell 'A'    | 5.54%   |
| GlaxoSmithKline          | 4.95%   |
| Royal Dutch Shell 'B'    | 3.84%   |
| British American Tobacco | 3.71%   |
| AstraZeneca              | 2.88%   |
| Rio Tinto                | 2.81%   |

# The Munro Dividend Fund

## Directory

### **Authorised Corporate Director & Registered office (From 1 October 2012)**

Valu-Trac Investment Management Limited  
Temple Chambers, 3-7 Temple Avenue, London, EC4Y 0DA  
Telephone: 01343 880344  
Fax: 01343 880267  
(Authorised and regulated by the Financial Conduct Authority)

### **Administrator & Registrar (From 1 October 2012)**

Valu-Trac Investment Management Limited  
Mains of Orton, Fochabers, Moray, IV32 7QE  
Telephone: 01343 880344  
Fax: 01343 880267  
(Authorised and regulated by the Financial Conduct Authority)

### **Authorised Corporate Director & Registered office (Up to 30 September 2012)**

Smith & Williamson Fund Administration Limited  
25 Moorgate, London, EC2R 6AY  
Telephone: 0207 131 4000  
Fax: 0207 131 4001  
(Authorised and regulated by the Financial Conduct Authority)

### **Administrator & Registrar (Up to 30 September 2012)**

Smith & Williamson Fund Administration Limited  
206 St. Vincent Street, Glasgow, G2 5SG  
Telephone: 0141 222 1100  
Fax: 0141 222 1101  
(Authorised and regulated by the Financial Conduct Authority)

### **Investment Adviser**

Fundamental Tracker Investment Management Limited  
Kintyre House, 205 West George Street, Glasgow, G2 2LW  
(Authorised and regulated by the Financial Conduct Authority)

### **Depository**

National Westminster Bank Plc  
Younger Building, 1<sup>st</sup> Floor, 3 Redheughs Avenue, Edinburgh, EH12 9RH  
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority)

### **Auditors**

Frame Kennedy & Forrest  
4<sup>th</sup> Floor Metropolitan House  
31-33 High Street  
Inverness  
IV1 1HT