



HERIOT INVESTMENT FUNDS

ANNUAL REPORT &
AUDITED FINANCIAL STATEMENTS

For the year ended 31 May 2020

CONTENTS

The Authorised Corporate Director and Investment Manager, Your Investments, Risk Profile, Synthetic Risk and Reward Indicator, Other Information.....	1
Authorised Status, Structure of the Company, Investment Objective and Policy.....	2
Ongoing Charges Figure, Changes to the Fund.....	3
Remuneration Policy of the Authorised Corporate Director.....	4
Statement of the Authorised Corporate Director's Responsibilities, Director's Statement.....	6
Statement of Depositary's Responsibilities, Depositary's Report to the Shareholders of Heriot Investment Funds.....	7
Report of the Independent Auditor to the Shareholders of Heriot Investment Funds.....	8
Investment Review.....	11
Portfolio Statement.....	14
Summary of Fund Performance.....	19
Statement of Total Return, Statement of Change in Net Assets Attributable to Shareholders	23
Balance Sheet.....	24
Notes to the Financial Statements.....	25
Distribution Table.....	40
Directory.....	41

Note: The Authorised Corporate Director's Report consists of 'Authorised Status', 'Structure of the Company' and 'Investment Objective and Policy' on page 2, 'Investment Review' as provided by the Investment Manager, on pages 11 to 13 and 'Directory' on page 41.

THE AUTHORISED CORPORATE DIRECTOR AND INVESTMENT MANAGER

The Authorised Corporate Director (the 'ACD') of Heriot Investment Funds (the 'Company') is T. Bailey Fund Services Limited ('TBFS'). Dundas Partners LLP is the Investment Manager (the 'Investment Manager') of the Company.

Dundas Partners LLP and T. Bailey Fund Services Limited are authorised and regulated by the Financial Conduct Authority. Further information about Dundas Partners LLP can be found at www.dundasglobal.com.

YOUR INVESTMENTS

You can buy or sell shares in the Company through your Financial Advisor. Alternatively, you can telephone the dealing line, 0115 988 8272, during normal office hours. Application forms can be requested in writing from the ACD or by calling the Client Services Team on the dealing line. They can also be downloaded from www.tbaileys.co.uk/funds/heriot-investment-funds.

The Company is eligible for ISA investments/transfers and the shares are available as part of a regular savers scheme.

Prices are published each normal business day on www.tbaileys.co.uk/funds/heriot-investment-funds.

RISK PROFILE

The value of investments may go down as well as up in response to general market conditions and the performance of the assets held. Investors may not get back the money which they invested.

There is no guarantee that the Fund will meet its stated objectives.

The Fund invests predominantly in global shares, with some regions being regarded as more risky. The movements of exchange rates may lead to further changes in the value of investments and the income from them.

There is a risk that any company providing services such as the safe keeping of assets may become insolvent, which may cause losses to the Fund.

SYNTHETIC RISK AND REWARD INDICATOR

The Synthetic Risk and Reward Indicator demonstrates in a standard format where the Fund ranks in terms of its potential risk and reward. It is based on historical performance data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The indicator uses a scale of 1 to 7. The higher the rank the greater the potential reward but the greater the risk of losing money. The lowest category does not mean a fund is a risk free investment.

The Fund is in risk category 5 because it will invest primarily in global company shares, which have experienced high rises and falls in value in the past five years.

OTHER INFORMATION

Full details of Heriot Investment Funds are set out in the Prospectus which provides extensive information about the Fund including risks and expenses. A copy of the Prospectus is available on request from the ACD or can be downloaded from www.tbaileys.co.uk/funds/heriot-investment-funds.

The Key Investor Information document and Supplementary Information document are also available from www.tbaileys.co.uk/funds/heriot-investment-funds.

AUTHORISED STATUS

Heriot Investment Funds is an investment company with variable capital incorporated in Great Britain, and having its head office in England, under registered number IC000967 and authorised and regulated by the Financial Conduct Authority ('FCA') with effect from 26 February 2013.

Shareholders are not liable for the debts of the Company.

STRUCTURE OF THE COMPANY

The Company is a UCITS scheme.

The Company is structured as an umbrella so that the Scheme Property of the Company may be divided among one or more sub-funds. The assets of each sub-fund will generally be treated as separate from those of every other sub-fund and will be invested in accordance with the investment objective and investment policy applicable to that sub-fund. New sub-funds may be established from time to time by the ACD with the approval of the FCA and the agreement of the Depositary. If a new sub-fund is introduced, a new Prospectus will be prepared to set out the required information in relation to that sub-fund.

The Company is compliant with the Protected Cell Regime for OEICs. Under the Protected Cell Regime, each sub-fund represents a segregated portfolio of assets and accordingly, the assets of a sub-fund belong exclusively to that sub-fund and shall not be used or made available to discharge (directly or indirectly) the liabilities of, or claims against, any other person or body, including any other sub-fund and shall not be available for any such purpose.

Currently, there is one sub-fund in existence; Heriot Global Fund (the 'Fund').

The base currency of the Company is Pound Sterling.

INVESTMENT OBJECTIVE AND POLICY*

The aim of the Fund is to provide capital appreciation over the long term (5 years or more) by investing in dividend growth companies.

The Fund invests in listed global equities. The Fund aims to invest in a portfolio of approximately 60-100 companies which have high levels of profitability and cash generation, consistent re-investment, low levels of debt and prudent governance in order to deliver the investment objective. The Investment Manager will perform research to identify shares in companies that provide this. To the extent that the Fund is not fully invested in the asset class listed above, investments may be made in money market instruments, deposits, cash and near cash. Such investments are not intended to be more than 10% in aggregate of the value of the Fund.

The Fund will not use derivatives.

** Please note that the Investment Objective and Policy wording was changed on 29 July 2019 to that stated above. The previous Investment Objective and Policy wording was as follows:*

'The aim of the Fund is to provide long-term dividend growth and capital appreciation.

The Fund will invest predominantly in listed global equity securities. The Fund may also invest in fixed income securities, collective investment schemes and derivatives for the purpose of efficient portfolio management from time to time. The Fund aims to invest in a portfolio of shares in approximately 60-100 companies offering a combination of high and growing cash-flows. The Investment Manager will perform research to identify shares in companies that offer this combination. However, the Fund may invest in other types of investment at the discretion of the ACD. These investments may include money market instruments, deposits, cash and near cash.'

ONGOING CHARGES FIGURE

The Ongoing Charges Figure ('OCF') provides investors with a clearer picture of the total annual costs in running a collective investment scheme. The OCF consists principally of the annual management charge, but also includes the costs for other services paid in respect of Depositary, custody, FCA and audit fees. The OCFs, as calculated in accordance with ESMA guidelines, are disclosed as 'Operating charges (p.a.)' in the Summary of Fund Performances tables on pages 19 to 22.

CHANGES TO THE FUND

On 29 July 2019 the following changes were made to the Fund:

- The Investment Objective and Policy wording was amended as shown on the previous page.
- The Fund's two benchmarks, the MSCI All Country World Index and the Investment Association (IA) Global Sector, were identified as Comparator Benchmarks.
- The minimum amount of investment within the B share class was increased from £10,000 to £100,000,000 for new investors.
- The valuation point of the Fund was changed from weekly to daily. As part of this change the dealing cut-off point was changed from 12 noon on the business day before each dealing day to 5pm on the business day before each dealing day.
- The power for the ACD to carry out compulsory share class conversions was introduced.

Please note that these changes were notified to investors in advance in a letter dated 25 July 2019.

REMUNERATION POLICY OF THE AUTHORISED CORPORATE DIRECTOR

Introduction and Scope

TBFS has policies and practices for those staff whose professional activities have a material impact on the risk profile of the combined activities of the Authorised Corporate Director. TBFS is a UCITS firm and is therefore subject to the UCITS Remuneration Code.

The Remuneration Policy of the Authorised Corporate Director:

- (i) Is consistent with and promotes sound and effective risk management;
- (ii) Does not encourage risk taking that exceeds the level of tolerated risk of the firm;
- (iii) Encourages behaviour that delivers results which are aligned to the interests of TBFS's clients and the UCITS funds it manages;
- (iv) Aligns the interests of Code Staff with the long-term interests of TBFS's clients and the UCITS funds it manages;
- (v) Recognises that remuneration should be competitive and reflect both financial and personal performance. Accordingly, Remuneration for Code Staff is made up of fixed pay (salary and benefits, including pension) and variable (performance-related) pay and;
- (vi) Recognises that fixed and variable components should be appropriately balanced and that the variable component should be flexible enough so that in some circumstances no variable component may be paid at all. Variable pay is made up of short-term awards typically based on short-term financial and strategic measures for the area of the business in which the member of Code Staff works.

Decision making process for determining remuneration policy, link between pay and performance

There is no remuneration committee. The Board of T. Bailey Holdings Limited ('TBH'), TBFS's immediate parent company, oversees the setting and review of remuneration levels performed by the operating Board of TBFS. Remuneration is set within the context of a 5-year plan which ensures any threats to capital adequacy, liquidity and solvency caused by excessive remuneration would be identified. The bonus and commission arrangements including the staff bonus pool are set annually as part of the annual operating plan and any changes to the pool require approval by the CEO of TBFS and the Board of TBH.

The main shareholders are represented on the Board of TBH, which ratifies the annual operating plans. The annual operating plan includes the level of remuneration for all staff including Code Staff.

To assist with the above process, a benchmarking exercise was conducted in 2015 which incorporated information from external consultants in connection with remuneration.

Policy on link between pay and performance

The staff bonus scheme is operated so as to allow for meaningful rewards to be paid to staff whose performance during the year merits recognition but within the context of an annual operating plan. The TBH Board bears in mind the projected performance of the companies when making any adjustments to the scheme. Payment of scheme bonus to individuals is linked to their performance against agreed objectives from staff appraisals.

REMUNERATION POLICY OF THE AUTHORISED CORPORATE DIRECTOR (CONTINUED)

Total remuneration paid by the ACD for the year ended 30 September 2019

Total Number of Staff	40
	£'000
Fixed	1,414
Variable	<u>43</u>
Total Remuneration Paid	<u>1,457</u>

Total remuneration paid by the ACD to Remuneration Code Staff for the year ended 30 September 2019

	Senior Management	Staff with Material Impact
Total Number of Staff	9	0
	£'000	£'000
Fixed	703	-
Variable	<u>34</u>	-
Total Remuneration Paid	<u>737</u>	-

Please note that there were no remuneration payments made directly from Heriot Investment Funds or its sub-fund.

STATEMENT OF THE AUTHORISED CORPORATE DIRECTOR'S RESPONSIBILITIES

The Authorised Corporate Director ('the ACD') of Heriot Investment Funds ('the Company') is responsible for preparing the Annual Report and the Financial Statements in accordance with the Open-Ended Investment Companies Regulations 2001 ('the OEIC Regulations'), the Financial Conduct Authority's Collective Investment Schemes' Sourcebook ('COLL') and the Company's Instrument of Incorporation.

The OEIC Regulations and COLL require the ACD to prepare financial statements for each annual accounting period which:

- are in accordance with United Kingdom Generally Accepted Accounting Practice ('United Kingdom Accounting Standards and applicable law'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice: 'Financial Statements of UK Authorised Funds' issued by the Investment Association ('IA SORP') in May 2014; and
- give a true and fair view of the financial position of the Company as at the end of that period and the net revenue and the net capital gains on the property of the Company for that period.

In preparing the financial statements, the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the IA SORP have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the applicable IA SORP and United Kingdom Accounting Standards and applicable law. The ACD is also responsible for the system of internal controls, for management of the Company in accordance with the COLL and the Prospectus and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTOR'S STATEMENT

In accordance with COLL 4.5.8BR, the Annual Report and the Audited Financial Statements were approved by the board of directors of the ACD of the Company and authorised for issue on 25 September 2020. The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the financial statements as the assets of the Company and its sub-fund consist predominantly of readily realisable securities and accordingly the Company has adequate resources to continue in operational existence in the foreseeable future.

Gavin Padbury, Director of Operations
T. Bailey Fund Services Limited
Nottingham, United Kingdom
25 September 2020

Rachel Elliott, Finance Director
T. Bailey Fund Services Limited
Nottingham, United Kingdom
25 September 2020

STATEMENT OF DEPOSITARY'S RESPONSIBILITIES

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Company's Instrument of Incorporation and Prospectus (together "the Scheme documents") as detailed below.

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

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares in the Company is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Corporate Director ('the ACD') are carried out (unless they conflict with the Regulations).

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

DEPOSITARY'S REPORT TO THE SHAREHOLDERS OF HERIOT INVESTMENT FUNDS

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the ACD:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

NatWest Trustee and Depositary Services Limited
London, United Kingdom
25 September 2020

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Heriot Investment Funds (the 'company'):

- give a true and fair view of the financial position of the company as at 31 May 2020 and of the net revenue and the net capital gains on the property of the company for the year ended 31 May 2020; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the Statement of Recommended Practice "Financial Statements of UK Authorised Funds", the rules in the Collective Investment Schemes Sourcebook and the Instrument of Incorporation.

We have audited the financial statements which comprise for each sub-fund:

- the statement of total return;
- the statement of change in net assets attributable to shareholders;
- the balance sheet;
- the related individual notes 1 to 16; and
- the distribution tables.

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), the Statement of Recommended Practice: "Financial Statements of UK Authorised Funds" issued by the Investment Association in May 2014, the Collective Investment Schemes Sourcebook and the Trust Deed.

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 company 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 (the FRC'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 are required by ISAs (UK) to report in respect of the following matters where:

- the Authorised Corporate Director's (ACD's) use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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.

We have nothing to report in respect of these matters.

**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF HERIOT INVESTMENT FUNDS
(CONTINUED)**

Other information

The ACD is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 respect of these matters.

Responsibilities of depositary and ACD

As explained more fully in the Statement of Depositary's responsibilities and the Statement of ACD's responsibilities, the Depositary is responsible for the safeguarding the property of the company and the ACD 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 the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 FRC's website at: 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 company's shareholders, as a body, in accordance with Paragraph 4.5.12R of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the company's shareholders 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 company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF HERIOT INVESTMENT FUNDS
(CONTINUED)**

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook

In our opinion:

- proper accounting records for the company have been kept and the financial statements are in agreement with those records;
- we have received all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit; and
- the information disclosed in the annual report for the year ended 31 May 2020 for the purpose of complying with Paragraph 4.5.9R of the Collective Investment Scheme Sourcebook is consistent with the financial statements.

**Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
25 September 2020**

INVESTMENT REVIEW

Performance

	Cumulative returns for the periods ended 31 May 2020 (%)				
	6 months	1 year	3 years	5 years	From launch ¹
A Accumulation Shares	4.37	17.98	39.39	76.02	114.32
B Accumulation Shares	4.50	18.27	40.43	78.20	118.56
IA Global Sector*	(0.56)	7.68	19.91	50.88	87.38
MSCI All Country World Index*	(1.61)	7.49	21.53	59.68	100.39

	Compound annual returns for the period ended 31 May 2020 (%)	
	Per annum from launch ¹	
A Accumulation Shares	11.16	
B Accumulation Shares	11.46	
IA Global Sector*	9.11	
MSCI All Country World Index*	10.13	

* *Comparator Benchmarks*

¹ 20 March 2013.

Source: *Financial Express*. Total return, bid to bid. Sterling terms.

Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

Dear fellow investor

This annual report covers the twelve months ended 31 May 2020. Reports like this usually discuss markets, performance and politics over the period under review but the COVID-19 pandemic and its economic impact must take centre stage.

INVESTMENT REVIEW (CONTINUED)

Dundas Partners has worked normally throughout the UK lockdown. Our ability to manage the Heriot Fund is unaffected. Microsoft is the Fund's biggest investment and we knew it had launched a new product called Teams to meet rising demand for video conferencing, but we hadn't used it. From the initiation of lockdown, Teams became the single most important medium for our internal communications, enabling us to meet daily at 10:00 and keep working without a hiccup. Our research meetings are also held via Teams and we have communicated with clients around the UK and wider world through it.

Video conferencing has allowed us to contact the companies we invest in and others under consideration. In short, Teams and similar systems have allowed us to do the research necessary to support investment decision-making and implementation. We have not needed to use the UK furlough scheme and are presently recruiting new trainee staff.

Other parts of the economy have not been so fortunate. Travel, tourism, aviation, hospitality, car manufacture and other sectors have been badly affected. At the time of writing local schools have re-opened but the authorities are alert to new outbreaks. Society sits in limbo, following government social distancing recommendations but aware that unless and until a vaccine is available we cannot return to the old normal.

Economic well-being is the result of free exchange between willing buyers and sellers. The measures governments took to suppress virus transmission reduce economic exchange. That caused the sharp GDP declines in the June quarter. Keeping us at home hurt the 'old' economy badly while the new digital industries received a giant boost. Take one example with which every reader of this report will be familiar; the shift to digital banking and the associated closure of branch networks, already under way pre-lockdown, has accelerated and become irreversible. In the months before lockdown the Walt Disney Company had already begun offering its film and TV library over its own digital streaming channels. At the launch of Disney+, its main streaming service, the company said it hoped for 60 million subscribers by 2024. That figure was reached in August 2020. The speed and scale of subscription take-up led the company to switch the launch of *Mulan*, the latest of its live action re-makes of its library of cartoon hits, from cinemas to exclusively via Disney+.

Discussion on the post-COVID economy is an understandable focus of many people's attention. Many are thinking hard about new ways of living and working. Our job is to make sure the Fund avoids declining businesses and industries whilst focusing investment in those providing products and services that people need and want in growing numbers. Lockdowns imposed to control COVID-19 have accelerated already established trends. Some of the Fund's investments benefitted from the crisis, especially its technology companies and healthcare stocks. Demand for their products has supported performance. They are providing things people need, such as Microsoft's Teams or Disney+. Two of our healthcare investments, Roche and Abbott Laboratories, are world leaders in medical diagnostics and testing. Others in a similar vein are Lonza and Tecan which provide equipment and services that are essential in the discovery of new therapies, vaccines included.

Many companies globally have deferred or omitted their dividends. For some, COVID-19 gave them the opportunity to cut unsustainable dividends while others held back dividend payment under encouragement from their governments. The longer partial lockdowns continue, the greater the financial damage and the longer it will take for dividends to recover. The Fund has felt the effect of foregone dividends, but the majority of its investments have maintained their distributions.

INVESTMENT REVIEW (CONTINUED)

Since the last annual report, we started to promote the Fund to a wider audience of potential investors. Monthly factsheets on the Fund's progress are available at <https://dundasglobevents.co.uk/content-library/> as well as video updates and webinars by members of the investment team. Expense ratios for the four share classes have continued to decline thanks to the Fund's increased size, some of which is due to new investors during the year. The expense ratios for the two A share classes have declined by just over 2.5% since 2016. The expense ratios for the Fund's four share classes are set out on pages 19 to 22.

Thank you for investing alongside us.

Yours Sincerely

Alan McFarlane
Senior Partner
Dundas Partners LLP
Edinburgh, United Kingdom
25 September 2020

PORTFOLIO STATEMENTAs at 31 May 2020

Holding or nominal value of positions	Bid market value £	Percentage of total net assets %
Canada (2.2%; 31.05.19 - 3.7%)		
114,116 CAE	1,386,337	1.1
41,659 OpenText	1,397,211	1.1
	2,783,548	2.2
Denmark (4.0%; 31.05.19 - 4.0%)		
14,036 Coloplast	1,897,077	1.5
30,263 Novo Nordisk	1,591,031	1.2
36,490 Novozymes	1,601,717	1.3
	5,089,825	4.0
France (8.9%; 31.05.19 - 6.4%)		
16,771 Air Liquide	1,841,326	1.4
20,583 Biomerieux	2,376,456	1.9
6,298 Dassault Systèmes	861,933	0.7
23,650 Essilor Luxottica	2,461,548	1.9
8,217 L'Oréal	1,932,890	1.5
5,688 LVMH Moët Hennessy	1,917,993	1.5
	11,392,146	8.9
Germany (1.8%; 31.05.19 - 3.4%)		
9,994 SAP	1,010,993	0.8
15,444 Symrise	1,360,950	1.0
	2,371,943	1.8
Hong Kong (1.1%; 31.05.19 - 1.5%)		
214,738 AIA Group	1,410,226	1.1
	1,410,226	1.1

PORTFOLIO STATEMENT (CONTINUED)As at 31 May 2020

Holding or nominal value of positions	Bid market value £	Percentage of total net assets %
India (0.6%; 31.05.19 - 1.1%)		
22,278 HDFC Bank	754,813	0.6
	754,813	0.6
Japan (8.1%; 31.05.19 - 6.8%)		
7,600 Keyence	2,513,364	2.0
18,300 Kose	1,853,666	1.4
76,100 Misumi	1,634,321	1.3
75,900 Sundrug	2,056,068	1.6
35,200 Sysmex	2,266,804	1.8
	10,324,223	8.1
Netherlands (1.9%; 31.05.19 - 1.7%)		
9,031 ASML Holding	2,378,951	1.9
	2,378,951	1.9
Norway (0.9%; 31.05.19 - 0.0%)		
42,000 Tomra	1,221,840	0.9
	1,221,840	0.9
Singapore (1.2%; 31.05.19 - 1.5%)		
133,000 DBS Group	1,483,368	1.2
	1,483,368	1.2

PORTFOLIO STATEMENT (CONTINUED)As at 31 May 2020

Holding or nominal value of positions	Bid market value £	Percentage of total net assets %
South Korea (1.1%; 31.05.19 - 1.3%)		
1,648 Samsung Electronics	1,368,549	1.1
	1,368,549	1.1
Spain (1.6%; 31.05.19 - 2.6%)		
78,690 Grifols	1,989,008	1.6
	1,989,008	1.6
Sweden (1.1%; 31.05.19 - 0.0%)		
87,083 Assa Abloy	1,426,781	1.1
	1,426,781	1.1
Switzerland (8.0%; 31.05.19 - 8.8%)		
238 Lindt & Sprüengli	1,603,909	1.3
7,404 Lonza	2,968,149	2.3
5,778 Roche	1,619,359	1.3
13,903 Sonova	2,464,149	1.9
5,381 Tecan	1,513,987	1.2
	10,169,553	8.0
Taiwan (1.0%; 31.05.19 - 1.2%)		
32,929 Taiwan Semiconductor	1,342,451	1.0
	1,342,451	1.0

PORTFOLIO STATEMENT (CONTINUED)As at 31 May 2020

Holding or nominal value of positions	Bid market value £	Percentage of total net assets %
United Kingdom (6.5%; 31.05.19 - 5.4%)		
36,654 Close Brothers	395,130	0.3
42,787 Diageo	1,193,971	0.9
569,952 Legal & General	1,131,355	0.9
131,229 Prudential	1,373,311	1.1
32,862 Reckitt Benckiser	2,373,294	1.8
272,056 Sage	1,879,363	1.5
	8,346,424	6.5
United States (46.1%; 31.05.19 - 46.1%)		
31,885 Abbott Laboratories	2,457,441	1.9
16,372 Accenture	2,674,328	2.1
35,304 Activision Blizzard	2,057,660	1.6
20,630 Akamai Technologies	1,766,829	1.4
2,020 Alphabet	2,335,200	1.8
20,866 American Express	1,607,171	1.3
26,970 Analog Devices	2,467,352	1.9
7,007 Apple	1,804,687	1.4
17,425 Applied Materials	792,828	0.6
34,984 Baxter International	2,549,186	2.0
33,038 Bristol-Myers Squibb	1,598,501	1.2
9,439 Costco Wholesale	2,356,729	1.8
31,879 Intel	1,622,748	1.3
19,197 International Flavors & Fragrances	2,071,808	1.6
8,271 IPG Photonics	1,041,062	0.8
13,228 Littelfuse	1,736,155	1.4
24,673 Marsh & McLennan	2,115,485	1.7
25,856 Microsoft	3,838,075	3.0
23,789 PayPal	2,986,972	2.3
18,635 PPG Industries	1,533,919	1.2
15,961 Ross Stores	1,253,423	1.0
9,726 Stryker	1,540,889	1.2

PORTFOLIO STATEMENT (CONTINUED)As at 31 May 2020

Holding or nominal value of positions	Bid market value £	Percentage of total net assets %
United States (continued)		
9,859 The Home Depot	1,984,660	1.6
21,203 The Walt Disney Company	2,012,249	1.6
6,752 Thermo Fisher Scientific	1,909,684	1.5
8,927 Visa	1,411,411	1.1
9,669 W. W. Grainger	2,427,473	1.9
22,160 Waste Management	1,916,177	1.5
29,377 W. R. Berkley	1,378,051	1.1
14,408 Zoetis	1,624,883	1.3
	<hr/> 58,873,036	<hr/> 46.1
Portfolio of investments	122,726,685	96.1
Net other assets	4,973,842	3.9
Total net assets	<hr/> 127,700,527 <hr/>	<hr/> 100.0 <hr/>

All holdings are in equities quoted on official stock exchanges.

SUMMARY OF FUND PERFORMANCE

B Income Shares	1 Jun 2019 to 31 May 2020	1 Jun 2018 to 31 May 2019	1 Jun 2017 to 31 May 2018
	(pence per share)	(pence per share)	(pence per share)
Change in net assets per share			
Opening net asset value per share	163.04	156.44	142.26
Return before operating charges*	32.38	10.03	17.21
Operating charges	(0.87)	(0.78)	(0.73)
Return after operating charges*	31.51	9.25	16.48
Distributions on income shares	(2.25)	(2.65)	(2.30)
Closing net asset value per share	192.30	163.04	156.44
* after direct transaction costs of:	0.10	0.06	0.02
Performance			
Return after charges	19.33%	5.91%	11.58%
Other information			
Closing net asset value	£18,447,600	£15,646,637	£14,520,188
Closing number of shares	9,593,136	9,597,045	9,281,508
Operating charges (p.a.)	0.48%	0.49%	0.49%
Direct transaction costs (p.a.)	0.06%	0.04%	0.02%
Prices			
Highest published share price	197.65	168.44	158.47
Lowest published share price	156.58	146.87	139.62

Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

SUMMARY OF FUND PERFORMANCE (CONTINUED)

B Accumulation Shares	1 Jun 2019 to 31 May 2020	1 Jun 2018 to 31 May 2019	1 Jun 2017 to 31 May 2018
	(pence per share)	(pence per share)	(pence per share)
Change in net assets per share			
Opening net asset value per share	183.48	173.18	155.15
Return before operating charges*	36.48	11.16	18.82
Operating charges	(0.98)	(0.86)	(0.79)
Return after operating charges*	35.50	10.30	18.03
Distributions	(2.54)	(2.94)	(2.52)
Retained distributions on accumulation shares	2.54	2.94	2.52
Closing net asset value per share	218.98	183.48	173.18
* after direct transaction costs of:	0.12	0.07	0.03
Performance			
Return after charges	19.35%	5.95%	11.62%
Other information			
Closing net asset value	£31,365,608	£10,513,778	£8,958,942
Closing number of shares	14,323,822	5,730,266	5,173,135
Operating charges (p.a.)	0.48%	0.49%	0.49%
Direct transaction costs (p.a.)	0.06%	0.04%	0.02%
Prices			
Highest published share price	223.50	187.71	173.88
Lowest published share price	177.05	163.78	152.26

Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

SUMMARY OF FUND PERFORMANCE (CONTINUED)

A Income Shares	1 Jun 2019 to 31 May 2020	1 Jun 2018 to 31 May 2019	1 Jun 2017 to 31 May 2018
	(pence per share)	(pence per share)	(pence per share)
Change in net assets per share			
Opening net asset value per share	160.32	154.23	140.60
Return before operating charges*	31.81	9.86	16.98
Operating charges	(1.29)	(1.16)	(1.08)
Return after operating charges*	30.52	8.70	15.90
Distributions on income shares	(2.21)	(2.61)	(2.27)
Closing net asset value per share	188.63	160.32	154.23
* after direct transaction costs of:	0.10	0.06	0.02
Performance			
Return after charges	19.04%	5.64%	11.31%
Other information			
Closing net asset value	£63,019,914	£50,947,761	£49,049,777
Closing number of shares	33,409,389	31,778,100	31,803,911
Operating charges (p.a.)	0.73%	0.74%	0.74%
Direct transaction costs (p.a.)	0.06%	0.04%	0.02%
Prices			
Highest published share price	194.01	165.95	156.24
Lowest published share price	153.66	144.57	137.95

Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

SUMMARY OF FUND PERFORMANCE (CONTINUED)

A Accumulation Shares	1 Jun 2019 to 31 May 2020	1 Jun 2018 to 31 May 2019	1 Jun 2017 to 31 May 2018
	(pence per share)	(pence per share)	(pence per share)
Change in net assets per share			
Opening net asset value per share	180.36	170.66	153.27
Return before operating charges*	35.85	10.98	18.57
Operating charges	(1.47)	(1.28)	(1.18)
Return after operating charges*	34.38	9.70	17.39
Distributions	(2.49)	(2.90)	(2.48)
Retained distributions on accumulation shares	2.49	2.90	2.48
Closing net asset value per share	214.74	180.36	170.66
* after direct transaction costs of:	0.12	0.06	0.03
Performance			
Return after charges	19.06%	5.68%	11.35%
Other information			
Closing net asset value	£14,867,405	£2,491,986	£2,366,820
Closing number of shares	6,923,577	1,381,698	1,386,842
Operating charges (p.a.)	0.73%	0.74%	0.74%
Direct transaction costs (p.a.)	0.06%	0.04%	0.02%
Prices			
Highest published share price	219.31	184.56	171.36
Lowest published share price	173.70	161.16	150.38

Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

STATEMENT OF TOTAL RETURN
For the year ended 31 May 2020

	Notes	£	31.05.20 £	31.05.19 £
Income				
Net capital gains	2		18,025,071	3,569,195
Revenue	3	1,509,550		1,429,391
Expenses	4	(651,668)		(504,047)
Interest payable and similar charges	6	(7,703)		(2,309)
Net revenue before taxation		850,179		923,035
Taxation	5	(178,653)		(145,151)
Net revenue after taxation			671,526	777,884
Total return before distributions			18,696,597	4,347,079
Distributions	6		(1,324,896)	(1,283,162)
Change in net assets attributable to shareholders from investment activities			17,371,701	3,063,917

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS
For the year ended 31 May 2020

	Notes	£	31.05.20 £	31.05.19 £
Opening net assets attributable to shareholders			79,600,162	74,895,727
<i>Movements due to sales and repurchases of shares:</i>				
Amounts receivable on issue of shares		31,902,631		1,718,494
Amounts payable on cancellation of shares		(1,630,066)		(281,223)
			30,272,565	1,437,271
Change in net assets attributable to shareholders from investment activities			17,371,701	3,063,917
Retained distributions on accumulation shares	6		456,099	203,247
Closing net assets attributable to shareholders			127,700,527	79,600,162

BALANCE SHEET
As at 31 May 2020

	Notes	31.05.20 £	31.05.19 £
Assets:			
Fixed Assets:			
Investments		122,726,685	77,252,151
Current Assets:			
Debtors	7	498,583	234,660
Cash and bank balances	8	5,155,627	2,783,225
Total assets		128,380,895	80,270,036
Liabilities:			
Creditors			
Distribution payable on income shares	6	572,812	608,626
Other creditors	9	107,556	61,248
Total liabilities		680,368	669,874
Net assets attributable to shareholders		127,700,527	79,600,162

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2020

1. Accounting policies**(a) Basis of accounting**

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of UK Authorised Funds issued by the Investment Association in May 2014.

As described in the Statement of the Authorised Corporate Director's Responsibilities, the ACD continues to adopt the going concern basis in the preparation of the financial statements of the Fund.

(b) Functional Currency

The functional currency used in the financial statements is Pound Sterling because it is the currency of the primary economic environment in which the Company operates.

(c) Recognition of revenue

Dividends on holdings, net of any irrecoverable tax credits, are recognised when the underlying transferable security is quoted ex-dividend. Bank interest is accounted for on an accruals basis.

All revenue is recognised on the condition that the flow of economic benefits is probable and the amount can be measured reliably.

(d) Treatment of stock dividends

Stock dividends are credited to the capital account when the stock is quoted ex-dividend. The cash equivalent is then transferred to the revenue account and forms part of the distributable revenue.

The allocation of special dividends is considered on a case-by-case basis in determining whether the dividend is to be treated as revenue or capital.

(e) Treatment of expenses

All expenses, net of any associated tax effect, are allocated to the capital account with the exception of bank interest and transaction charges relating to the payment of revenue, which are allocated to the revenue account on an accrual basis.

(f) Allocation of revenue and expenses to multiple share classes

Any assets or liabilities not attributable to a particular share class are allocated by the ACD in a manner which is considered fair to shareholders in general, usually pro-rata based on the net asset values of the relevant share classes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 2020

1. Accounting policies (continued)**(g) Taxation/deferred taxation**

Corporation tax is provided for on taxable revenue, less deductible expenses, at a rate of 20%. This is the rate that has been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided for in respect of all items that have been included in these financial statements that will be included in future periods for taxation purposes, other than those timing differences regarded as permanent. Any liability to deferred tax is provided for at the rate of tax expected to apply.

(h) Distribution policy

Revenue produced by the Fund's investments accrues six-monthly. At the end of each period, the revenue plus an adjustment for expenses allocated to capital, is accumulated/distributed at the discretion of the Investment Manager as per the prospectus.

(i) Exchange rates

Assets and liabilities in overseas currencies at the year-end are translated into Sterling at the latest available rates of exchange on the balance sheet date. Transactions in overseas currencies occurring during the year are recorded at the rate of exchange on the date of the transaction.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognised at transaction price (including transaction costs) and subsequently measured at amortised cost, except for the Fund's investments classified as financial assets at fair value through profit or loss, which are initially recognised at fair value (excluding transaction costs).

The investments are measured at closing prices on the balance sheet date, with any gains or losses arising on measurement recognised in the statement of total return. If closing prices are not available, the latest available prices are used. If separate offer and bid prices are quoted for shares or units, then the bid price is used. If no price or recent available price exists, the investments are valued at a price which, in the opinion of the ACD, reflects the fair value of the asset. This may involve the use of an appropriate valuation technique/methodology.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

2. Net capital gains

	31.05.20	31.05.19
	£	£
Non-derivative securities	15,861,774	1,467,861
Currency gains	2,167,468	2,103,194
Transaction charges	(4,088)	(1,770)
Market associated costs	(83)	(90)
Net capital gains	18,025,071	3,569,195

3. Revenue

	31.05.20	31.05.19
	£	£
UK franked dividends	239,239	207,304
Overseas dividends	1,269,359	1,220,665
Bank interest	1,285	1,155
Unfranked income currency (losses)/gains	(333)	267
Total revenue	1,509,550	1,429,391

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

4. Expenses

	31.05.20	31.05.19
	£	£
Payable to the ACD, associates of the ACD and agents of either:		
Annual management charge	570,629	437,189
Administration fees	1,989	1,998
	<u>572,618</u>	<u>439,187</u>
Payable to the Depositary, associates of the Depositary and agents of either:		
Depositary's fees	40,516	31,818
Safe custody fees	26,467	22,729
	<u>66,983</u>	<u>54,547</u>
Other expenses:		
Audit fee	7,404	6,822
Tax fee	2,352	2,352
FCA fee	166	154
Other expenses	2,145	985
	<u>12,067</u>	<u>10,313</u>
Total expenses	<u>651,668</u>	<u>504,047</u>
	31.05.20	31.05.19
	£	£
Fees payable to the company auditor for the audit of the company's financial statements:		
Total audit fee	<u>7,404</u>	<u>6,822</u>
Total non audit fees - Tax compliance services	<u>2,352</u>	<u>2,352</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

5. Taxation**(a) Analysis of the charge in the year**

	31.05.20	31.05.19
	£	£
Analysis of charge in the year		
Overseas tax	178,653	145,151
Total current tax for the year (see note 5(b))	<u>178,653</u>	<u>145,151</u>
Deferred tax (see note 5(c))	-	-
Total taxation for the year	<u>178,653</u>	<u>145,151</u>

Corporation tax has been provided at a rate of 20%.

(b) Factors affecting the current taxation charge for the year

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for an authorised Open-Ended Investment Company (20%). The differences are explained below:

	31.05.20	31.05.19
	£	£
Net revenue before taxation	<u>850,179</u>	<u>923,035</u>
Corporation tax at 20%	170,036	184,607
Effects of:		
Revenue not subject to taxation	(301,720)	(285,594)
Excess expenses for which no relief taken	131,684	100,987
Overseas taxation	<u>178,653</u>	<u>145,151</u>
Current tax charge for the year (see note 5(a))	<u>178,653</u>	<u>145,151</u>

(c) Provision for deferred tax

At 31 May 2020 the Fund had surplus management expenses of £2,613,492 (31 May 2019: £1,955,074). The deferred tax in respect of this would be £522,699 (31 May 2019: £391,015). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised at the year-end (see note 5(a)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

6. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:

	31.05.20	31.05.19
	£	£
Interim - Income	366,970	474,632
Final - Income	<u>572,812</u>	<u>608,626</u>
	939,782	1,083,258
Interim - Accumulation	133,359	85,487
Final - Accumulation	<u>322,740</u>	<u>117,760</u>
	456,099	203,247
Add: Revenue deducted on cancellation of shares	5,390	1,074
Deduct: Revenue received on issue of shares	<u>(76,375)</u>	<u>(4,417)</u>
Net distribution for the year	<u>1,324,896</u>	<u>1,283,162</u>
Interest	7,703	2,309
Total finance costs	<u>1,332,599</u>	<u>1,285,471</u>
Reconciliation to net distribution for the year		
Net revenue after taxation for the year	671,526	777,884
Expenses allocated to capital, net of tax relief	651,668	504,047
Realised income currency gains	<u>1,702</u>	<u>1,231</u>
Net distribution for the year	<u>1,324,896</u>	<u>1,283,162</u>

Details of the distributions per share are set out in the distribution tables on page 40.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

7. Debtors

	31.05.20	31.05.19
	£	£
Amounts receivable for issue of shares	236,651	-
Accrued revenue	196,589	178,968
Income tax recoverable	65,343	55,692
Total debtors	498,583	234,660

8. Cash and bank balances

	31.05.20	31.05.19
	£	£
Cash and bank balances	5,155,627	2,783,225
Total cash and bank balances	5,155,627	2,783,225

9. Other creditors

	31.05.20	31.05.19
	£	£
Amounts payable for cancellation of shares	29,746	-
Accrued managers fees	53,567	39,010
Accrued administration fees	156	167
Accrued depositary fees	3,584	2,822
Accrued custody fees	10,271	9,550
Accrued audit fees	7,404	6,822
Accrued tax fees	2,352	2,352
Accrued FCA fees	23	24
Debit interest payable	453	501
Total creditors	107,556	61,248

10. Related party transactions

The ACD is regarded as a related party of the Fund. The ACD acts as either agent or principal for the Depositary in respect of all transactions of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the statement of change in net assets attributable to shareholders.

As at the balance sheet date, there were no shares held by the ACD, the Depositary or associates of either the ACD or the Depositary. As at 31 May 2020, one single shareholder held shares equal to approximately 35.6% of the Fund's total Net Asset Value.

Details of transactions occurring during the accounting period with the ACD and the Depositary, and any balances due at the year-end, are fully disclosed in the notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

11. Share classes

The Fund currently has four share classes. The following table shows a breakdown of the change in shares in issue of each share class in the year:

	B Income
Opening shares at the start of the year	9,597,044.959
Total creation of shares in the year	-
Total cancellation of shares in the year	(3,909.220)
Closing shares at the end of the year	9,593,135.739

	A Income
Opening shares at the start of the year	31,778,099.830
Total creation of shares in the year	1,724,930.864
Total cancellation of shares in the year	(93,641.479)
Closing shares at the end of the year	33,409,389.215

	B Accumulation
Opening shares at the start of the year	5,730,266.294
Total creation of shares in the year	8,638,273.107
Total cancellation of shares in the year	(44,717.821)
Closing shares at the end of the year	14,323,821.580

	A Accumulation
Opening shares at the start of the year	1,381,697.630
Total creation of shares in the year	6,245,604.613
Total cancellation of shares in the year	(703,724.950)
Closing shares at the end of the year	6,923,577.293

The annual management charge of each share class is as follows:

A Accumulation Shares	0.65% p.a.
A Income Shares	0.65% p.a.
B Accumulation Shares	0.40% p.a.
B Income Shares	0.40% p.a.

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Summary of Fund Performance tables on pages 19 to 22. The distributions per share class are given in the distribution tables on page 40. All share classes have the same rights on winding up.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

12. Risk management policies

In pursuing the investment objectives financial instruments are held which may expose the Fund to various types of risk. The main risks inherent in the investment portfolio, and the ACD's policies for managing these risks, which were applied consistently throughout the year, are set out below:

(a) Currency exposures

The Fund's financial assets are invested in equities and other transferrable securities whose prices are quoted in various different currencies. This gives rise to a direct currency exposure, details of which are shown in the following table.

	Net foreign currency assets at 31 May 2020			Net foreign currency assets at 31 May 2019		
	Monetary exposures	Non- monetary exposures	Total	Monetary exposures	Non- monetary exposures	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Canadian Dollar	-	2,790	2,790	-	2,976	2,976
Danish Krone	-	5,134	5,134	-	3,197	3,197
Euro	-	18,156	18,156	(6)	11,195	11,189
Hong Kong Dollar	-	1,410	1,410	682	1,216	1,898
Japanese Yen	61	10,368	10,429	-	5,413	5,413
Norwegian Krone	-	1,222	1,222	-	-	-
Singapore Dollar	-	1,483	1,483	15	1,177	1,192
South African Rand	-	-	-	-	695	695
Swedish Krona	-	1,428	1,428	-	-	-
Swiss Franc	301	10,169	10,470	1,033	7,053	8,086
US Dollar	-	62,395	62,395	590	40,150	40,740

If GBP to foreign currency exchange rates had strengthened by 10% as at the balance sheet date, the net asset value of the fund would have decreased by £10,398,206 (31 May 2019: £6,628,192). If GBP to foreign currency exchange rates had weakened by 10% as at the balance sheet date, the net asset value of the fund would have increased by £12,708,918 (31 May 2019: £8,101,124). These calculations assume all other variables remain constant. The Investment Manager employs no specific policy to manage currency risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

12. Risk management policies (continued)**(b) Cash flow risk and interest rate risk profile of financial assets and liabilities**

The Fund's revenue is mainly received from holdings in equities. The Fund does not have any long term financial liabilities. The Fund is affected by the impact of movements in interest rates on its own cash balances.

The direct exposure of the Fund to interest rate risk as at the balance sheet date is shown in the following table:

	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets not bearing interest £'000	Floating rate financial liabilities £'000	Financial liabilities not bearing interest £'000	Total £'000
31.05.20						
Canadian Dollar	-	-	2,790	-	-	2,790
Danish Krone	-	-	5,134	-	-	5,134
Euro	-	-	18,156	-	-	18,156
Hong Kong Dollar	-	-	1,410	-	-	1,410
Japanese Yen	61	-	10,368	-	-	10,429
Norwegian Krone	-	-	1,222	-	-	1,222
Singapore Dollar	-	-	1,483	-	-	1,483
Sterling	4,793	-	8,671	-	(680)	12,784
Swedish Krona	-	-	1,428	-	-	1,428
Swiss Franc	301	-	10,169	-	-	10,470
US Dollar	-	-	62,395	-	-	62,395
31.05.19						
Canadian Dollar	-	-	2,976	-	-	2,976
Danish Krone	-	-	3,197	-	-	3,197
Euro	-	-	11,195	(6)	-	11,189
Hong Kong Dollar	682	-	1,216	-	-	1,898
Japanese Yen	-	-	5,413	-	-	5,413
Singapore Dollar	15	-	1,177	-	-	1,192
South African Rand	-	-	695	-	-	695
Sterling	469	-	4,415	-	(670)	4,214
Swiss Franc	1,033	-	7,053	-	-	8,086
US Dollar	590	-	40,150	-	-	40,740

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 2020

12. Risk management policies (continued)**(b) Cash flow risk and interest rate risk profile of financial assets and liabilities (continued)**

Short term debtors and creditors are included as financial assets and liabilities not interest bearing in the above table. The floating rate financial assets and liabilities comprise: Sterling denominated bank account balances that bear interest at the Bank of England base rate less 75 basis points (to a minimum of NIL) and overdrafts that bear interest at the Bank of England base rate plus 100 basis points. Financial assets and liabilities not interest bearing mainly comprise investments that do not have a maturity date.

Changes in interest rates would have no material impact to the valuation of floating rate financial assets or liabilities as at the balance sheet date. Consequently, no sensitivity analysis has been presented.

(c) Liquidity risk

All of the Fund's underlying financial assets are considered to be readily realisable. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement. All of the Fund's financial liabilities are payable on demand or in less than one year.

(d) Credit risk

Credit risk 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 and issuer risk. Cash is held with reputable credit institutions and credit risk is assessed on a regular basis.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. The Fund only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty and these are reviewed on an ongoing basis.

(e) Market price risk

The Fund's underlying investments are in securities quoted on recognised stock exchanges or traded on regulated markets. The value of shares is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual share/unit held within an underlying investment or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio.

The Investment Manager seeks to minimise these risks by holding a diversified portfolio of investments in line with the investment objectives. In addition, the management of the Fund complies with the Financial Conduct Authority's Collective Investment Schemes sourcebook, which includes rules prohibiting a holding greater than 20% of the assets of the Fund in any one underlying investment.

If the value of shares/units in the underlying investments were to increase or decrease by 10% the change in the net asset value of the Fund would be £12,272,669 (31 May 2019: £7,725,215). This calculation assumes all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)For the year ended 31 May 2020

12. Risk management policies (continued)**(f) Fair value of financial assets and liabilities**

Basis of Valuation	Investment Assets	
	31 May 2020	31 May 2019
	£	£
Level 1: Quoted Prices	122,726,685	77,252,151
Level 2: Observable Market Data	-	-
Level 3: Unobservable Data	-	-
	<u>122,726,685</u>	<u>77,252,151</u>

As at the year-end there were no investment liabilities (31 May 2019: £nil). There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

(g) Commitments on derivatives

No derivatives were held at the balance sheet date (31 May 2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

 For the year ended 31 May 2020

13. 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 securities exchanges, and transfer taxes and duties incurred when purchasing and selling the underlying securities. In addition to the direct transaction cost below, indirect cost are incurred through the bid offer spread. It is not possible for the ACD to quantify these indirect cost. A breakdown of the purchases and sales, and the related direct transaction costs incurred by the Fund in the year are shown in the table below:

	31.05.20		31.05.19	
	£		£	
Analysis of total purchase costs				
PURCHASES				
Equities	44,175,739		12,681,897	
Net purchases before direct transaction costs	44,175,739		12,681,897	
		% of total		% of total
DIRECT TRANSACTION COSTS		purchases		purchases
Equities	53,470	0.12%	18,022	0.14%
Total direct transaction costs	53,470	0.12%	18,022	0.14%
Gross purchases total	44,229,209		12,699,919	
Analysis of total sale costs				
SALES				
Equities	16,802,219		12,798,634	
Gross sales before direct transaction costs	16,802,219		12,798,634	
		% of total		% of total
DIRECT TRANSACTION COSTS		sales		sales
Equities	(5,918)	0.04%	(10,257)	0.08%
Total direct transaction costs	(5,918)	0.04%	(10,257)	0.08%
Net sales total	16,796,301		12,788,377	
	31.05.20	% of	31.05.19	% of
	£	average NAV	£	average NAV
Analysis of total direct transaction costs				
Equities	59,388	0.06%	28,279	0.04%
Total direct transaction costs	59,388	0.06%	28,279	0.04%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 2020

13. Transaction costs (continued)**(b) Average portfolio dealing spread**

The average portfolio dealing spread of the investments at the balance sheet date was 0.11% (31 May 2019: 0.07%). This is calculated as the difference between the offer and bid value of the portfolio as a percentage of the offer value.

14. Capital commitments and contingent liabilities

The Fund had no capital commitments or contingent liabilities at the balance sheet date (31 May 2019: £nil).

15. Going Concern

Prior to the date of the Balance Sheet to the date that the Financial Statements were approved, the coronavirus (COVID-19) outbreak has caused extensive disruptions to businesses and economic activities globally. The uncertainties over the emergence and spread of COVID-19 have caused market volatility on a global scale.

The Fund's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Manager's Investment Review on pages 11 to 13. The Fund has sufficient resources to meet both further investments in portfolio companies and working capital requirements for the foreseeable future. The ACD believes the key risk facing the Fund to be the Fund's ability to cover any potential significant redemptions out of the Fund. However, as the assets of the Fund consist predominantly of readily realisable securities the ACD believes the Fund is well positioned to manage its business risks successfully. In light of this the ACD has a reasonable expectation that the Fund will continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 2020

16. Post balance sheet events

During the period from the date of the Balance Sheet to the date that the Financial Statements were approved, the coronavirus (COVID-19) outbreak has caused extensive disruptions to businesses and economic activities globally. The uncertainties over the emergence and spread of COVID-19 have caused market volatility on a global scale. In accordance with the requirements of FRS 102 the fair valuations at the Balance Sheet date reflect the economic conditions in existence at that date.

Since the Balance Sheet date, the valuation of the quoted investments held has increased from £122,726,685 to £132,972,176 (15 September 2020).

Subsequent to the year-end, the net asset value per unit of each unit class has changed as follows:

B Income Units – Increased from 192.30 pence per unit to 205.01 pence per unit (15 September 2020).

A Income Units – Increased from 188.63 pence per unit to 200.94 pence per unit (15 September 2020).

B Accumulation Units – Increased from 218.98 pence per unit to 233.45 pence per unit (15 September 2020).

A Accumulation Units – Increased from 214.74 pence per unit to 228.76 pence per unit (15 September 2020).

There are no post balance sheet events which require adjustments at the year-end.

DISTRIBUTION TABLE

For the year ended 31 May 2020

Interim Distribution (30 November 2019)

Group 1 - Shares purchased on or prior to 31 May 2019

Group 2 - Shares purchased after 31 May 2019

Shares	Revenue	Equalisation	Paid/Accumulated	Paid/Accumulated
	(pence)	(pence)	31.01.20 (pence)	31.01.19 (pence)
B Income				
Group 1	0.8984	-	0.8984	1.1592
Group 2	0.8984	-	0.8984	1.1592
A Income				
Group 1	0.8829	-	0.8829	1.1419
Group 2	0.2577	0.6252	0.8829	1.1419
B Accumulation				
Group 1	1.0154	-	1.0154	1.2831
Group 2	0.6569	0.3585	1.0154	1.2831
A Accumulation				
Group 1	0.9934	-	0.9934	1.2637
Group 2	0.3758	0.6176	0.9934	1.2637

Final Distribution (31 May 2020)

Group 1 - Shares purchased on or prior to 30 November 2019

Group 2 - Shares purchased after 30 November 2019

Shares	Revenue	Equalisation	Paid/Accumulated	Paid/Accumulated
	(pence)	(pence)	31.07.20 (pence)	31.07.19 (pence)
B Income				
Group 1	1.3515	-	1.3515	1.4895
Group 2	1.3515	-	1.3515	1.4895
A Income				
Group 1	1.3264	-	1.3264	1.4653
Group 2	0.8964	0.4300	1.3264	1.4653
B Accumulation				
Group 1	1.5283	-	1.5283	1.6611
Group 2	0.9801	0.5482	1.5283	1.6611
A Accumulation				
Group 1	1.4995	-	1.4995	1.6335
Group 2	1.0008	0.4987	1.4995	1.6335

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

DIRECTORY

The Company

Heriot Investment Funds
64 St. James's Street
Nottingham NG1 6FJ

Authorised Corporate Director

T. Bailey Fund Services Limited
64 St. James's Street
Nottingham NG1 6FJ

Tel: 0115 988 8200
Dealing Line: 0115 988 8272
Website: [www.tbaileyfs.co.uk/funds/
heriot-investment-funds](http://www.tbaileyfs.co.uk/funds/heriot-investment-funds)

Authorised and regulated by the Financial
Conduct Authority.

Directors of the ACD

Mr M Hughes
Mr G M J Padbury
Mrs R E Elliott
Mrs H C Stevens (Resigned 30 April 2020)
Mr R J Taylor (Resigned 31 October 2019)
Mrs A E Troup (Non-executive)
Mr A Kerneis (Non-executive)

Investment Manager

Dundas Partners LLP
41 Northumberland Street
Edinburgh EH3 6JA

Tel: 0131 556 2627
Website: www.dundasglobal.com
Email: info@dundasglobal.com

Authorised and regulated by the Financial
Conduct Authority.

Depositary

NatWest Trustee and Depositary Services
Limited
135 Bishopsgate
London EC2M 3UR

Authorised and regulated by the Financial
Conduct Authority and by the Prudential
Regulation Authority.

Registrar and Share Dealing

T. Bailey Fund Services Limited
64 St. James's Street
Nottingham NG1 6FJ

Tel: 0115 988 8200
Dealing Line: 0115 988 8272

Authorised and regulated by the Financial
Conduct Authority.

Auditor

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham B1 2HZ
United Kingdom

Registered to carry out audit work by the
Institute of Chartered Accountants in England
and Wales.

Issued by T. Bailey Fund Services Limited ('TBFS'). TBFS is a Regulated Collective Investment Scheme Manager and is authorised and regulated by the Financial Conduct Authority. Registered in England No: 3720363.