# MORAY PLACE INVESTMENT COMPANY

**REPORT AND FINANCIAL STATEMENTS**
**for the year ended 30 September 2013**

# CONTENTS

# ABOUT YOUR COMPANY

Moray Place Investment Company (MPIC) was formed on 2 May 2012 as an open-ended investment company and commenced trading on 15 May 2012. It is regulated and authorised by the Financial Conduct Authority in the UK as a non-UCITS retail scheme. The company is intended to be a low cost, long-term investment vehicle for like-minded private individuals. It is straightforward and totally free of the conflicts of interest that bedevil the professional money management industry.

MPIC's objective is to preserve and grow (in that order) the purchasing power of its investors' capital. The investment manager believes that it is most meaningful to assess MPIC's progress over a full economic cycle, which is typically 5-10 years. Over this time frame, useful comparators include UK consumer price inflation, the yield on undated gilts, and equity indices.

MPIC expects to achieve its objective primarily through owning established companies listed on stock exchanges around the world. It will not "short" securities, will not invest in derivatives nor directly in property, and it will not borrow to invest.

The investment approach is uncomplicated, disciplined and patient. The investment manager also believes that it is conservative, if idiosyncratic. MPIC is not designed to appeal to a broad constituency. It is only suitable for investors who are capable of evaluating the merits and risks of such an approach: if you cannot, or it makes you uncomfortable, or it simply does not suit your psychology, you should not invest.

| | |
|---|---|
| **Size of company as at 30 September 2013** | £22,793,043 |
| **Authorised Corporate Director (ACD)** | Valu-Trac Investment Management Limited |
| **Investment manager** | Hollis Capital Limited |
| **Minimum investment** | Initial: £100,000<br>Subsequent: £10,000 |
| **Dealing spread** | 1% |
| **Ongoing charges (annualised)** | 0.79%<br>*Capped at 1.0% p.a. until 30 September 2014* |
| **Performance fee** | Not applicable |
| **Initial charges** | Not applicable |
| **Redemption charges** | 5% for sales within 2 years of purchase;<br>2% for sales between 2 and 5 years of purchase |
| **Ex-dividend date** | 30 September |
| **Dividend date** | 30 November |

| | | As at | |
|---|---|---|---|
| | | 30 Sept 2013 | 30 Sept 2012 |
| **Net asset value** | | | |
| Value of company | | £22.8m | £15.6m |
| Shares outstanding | Gross accumulation | 12.6m | 9.9m |
| | Gross income | 1.8m | 1.8m |
| | Net accumulation | 1.9m | 1.1m |
| | Net income | 2.6m | 2.2m |
| | | Offer–Bid | Offer–Bid |
| NAV per share | Gross accumulation | 122.5–121.3p | 104.6–103.5p |
| | Gross income | 121.4–120.2p | 104.6–103.5p |
| | Net accumulation | 122.5–121.3p | 104.6–103.5p |
| | Net income | 121.4–120.2p | 104.6–103.5p |
| **Effective liquidity** † | | 29% | 31% |
| | | **Year to 30 Sept 2013** | **15 May 2012 to 30 Sept 2012** |
| **Dividend per share** | | | |
| | Gross accumulation | 1.04p | 0p |
| | Gross income | 1.04p | 0p |
| | Net accumulation | 1.04p | 0p |
| | Net income | 1.04p | 0p |
| **Ongoing charges (annualised)** ‡ | | 0.79% | 0.87% |
| **Portfolio turnover (annualised)** | | 7% | 0% |

*Shares were issued at 100p each when the company commenced trading on 15 May 2012*
*† Effective liquidity includes the investment in gold; all the current constituents are shown on p.9*
*‡ The Ongoing Charges ratio is based on the actual charges and the average NAV during the period*

Dear fellow shareholders

In last year's shareholders' letter I outlined how I assess Moray Place Investment Company's progress. Those comments are repeated in full on page six, as part of a reiteration of the guiding principles by which I manage the company. From them it follows that I do not regard the period since MPIC was established in May 2012 as long enough to make any meaningful assessment of my investment decisions. It may be better to regard the advance in the share price as a statistical curiosity than as a foreteller of future returns.

In contrast, there are three statistics from the Financial Summary on page two that I do regard as meaningful and worthy of comment: ongoing charges, portfolio turnover and effective liquidity.

**1. Ongoing charges and the tyranny of compounding costs**

An important objective for MPIC is to be one of the lowest cost investment companies available to a private investor. For the year to 30 September 2013, historic ongoing charges absorbed 0.79% of average funds under management. As at 1 October 2013, the ongoing charges run-rate was 0.66%.

For comparison, in May 2012 the UK Investment Management Association calculated that the average annual ongoing charge of the 15 largest global equity-oriented OEICs was 1.7%. Investment trusts typically have lower costs, but the Association of Investment Companies calculates that only a third of all investment trusts have ongoing charges below 1.0% p.a. Best of all are the large generalist investment trusts, whose annual operating costs typically are between 0.5% and 1.0%.

A powerful rule-of-thumb in life is that you get what you pay for, but not in finance: for investment funds, the investor's return is improved by low costs. Lower investment and administration fees are directly correlated with higher client returns. Although some high cost funds do produce good results, it is notoriously difficult to identify them in advance. A low cost base is arguably the single best quantifiable predictor of future investment fund results.

Jack Bogle founded the Vanguard index funds in the US. He has written extensively on the corrosive effects of investment fund expenses on long-term returns; the "tyranny of compounding costs". Indeed, as he describes in his latest book, *The Clash of Cultures: Investment versus Speculation*, the consistent superiority of index funds over active funds is not because markets are unbeatable, but because active funds' ongoing costs are so high. Bogle calls it the "Costs Matter Hypothesis".

There is a final reason why the ongoing charges figure deserves emphasis, and it may be the best reason of all: it is a litmus test of the investment manager's priorities. Is the manager's primary aim to make money *for* the client-investors, or *from* them?

**2. Portfolio turnover and purposeful inactivity**

By my interpretation of the vast literature on investment fund results, another good quantifiable indicator of future returns appears to be low portfolio turnover. One marvellous, succinct summary is Michael Mauboussin's article, *Investing: Profession or Business?* According to Mauboussin, the average portfolio turnover for the top-ranking US mutual fund investors over the decade to 2002 was under 30%, compared to around 100% for all equity funds.

Trading is more costly than most investors realise. Jack Bogle claims that low turnover is the second significant advantage of a good index fund. For instance, the annual turnover for funds that replicate the S&P 500 Index is typically around 5%, or 10-20% for trackers of the FTSE100 Index.

In his book *The Future for Investors*, Jeremy Siegel calculated that even the apparently minor annual adjustments made to the S&P 500 Index by its construction committee detract value. Siegel showed that if an investor had bought the original 500 firms when the S&P Index was first introduced in 1957, and never sold any shares in the open market nor bought any new companies added to the index, in the 46 years to 2003 the investor would have earned about 0.5% annually more than the real S&P 500 Index.

If a simple strategy of buying and holding an index is good, perhaps buying and holding a careful selection of superior companies is even better. This was the intriguing argument made 30 years ago in an article entitled *The Coffee Can Portfolio* by Robert Kirby, an experienced and respected professional investor. Unfortunately, Kirby provided no test of his thesis as he suspected that few clients would pay a recurring fee for a buy-and-never-sell service.

However, I do know of one real test of the Coffee Can thesis: the Corporate Leaders Trust fund. The fund was created in 1935 with the careful selection of 30 leading, dividend-paying US businesses, but with a mandate never to trade. Holdings only change because of bankruptcy, mergers and demergers. Kevin McDevitt of Morningstar wrote about the fund in 2011: *Celebrating 75 Years of Sloth!* Moreover, the fund is not just a curiosity; it has been a spectacularly successful investment. During its first 75 years its returns were 2% p.a. more than the S&P 500 Index. Of the 17 US equity mutual funds that existed in 1935 and survive today, none has performed better. The fund's own factsheet suggests that its superior returns continue: for instance, over the latest decade to June 2013, its annual return has been 3% more than the S&P 500 Index, and it is ranked second out of a Morningstar universe of 605 comparable funds.

The Corporate Leaders Trust is a testament to the benefits of low costs and minimal activity within a portfolio of durable, profitable companies. Hence, low investment turnover is a strategic feature of MPIC designed to minimise the frictional costs of financial intermediaries – the "croupiers' take". The inactivity is purposeful.

**3. Effective liquidity and the ultimate resource**

In contrast, I regard MPIC's current 29% effective liquidity as a tactical feature, not strategic. The effective liquidity is a poor investment, which in aggregate has little chance of maintaining investors' purchasing power over time. However, it does represent an option to buy superior, productive assets at better prices in future.

Since 2008 the world's central bankers have been conducting a massive monetary experiment, in part by raising asset prices to induce a sense of prosperity. I am not optimistic that fallible policymakers can solve all our problems, and fear some form of widespread inflation and default. However, one must distinguish between money and wealth. Modern paper money is a form of government promise. Value and wealth are derived from scarcity, and government promises are not scarce.

Investing is not just about money and lending, but about wealth creation and ownership. My pessimism on money is surpassed by my optimism on the continued ability of mankind to solve problems, improve living standards and create wealth. Every generation seems to see limits to growth because of finite natural resources. Yet, human ideas allow resources to be combined into more valuable forms. The ultimate resource is people: skilled, motivated and free.

**Investing in durable wealth**

MPIC's mandate is to preserve and grow its investors' purchasing power. I believe that the best means of achieving that is to exchange money for ownership stakes in the corporate manifestation of the ultimate resource: businesses run by skilled, motivated and honest people. This form of wealth is valuable and durable because it is scarce and adaptable. MPIC currently invests in businesses operating in three broad categories:

- Investment-oriented property and casualty insurers. I regard these companies as diversified investment vehicles geared by non-callable insurance policyholders' funds, or float. Two of MPIC's largest investments, Markel and Fairfax, are exemplars: both are led by frugal owner-managers with excellent investment records. And, importantly, their share prices appear anomalously cheap relative to their underlying business values

- A variety of investment and holding companies. Typically, these have negligible broker coverage, and are controlled by low-profile families who treat outside owners with respect. The Wallenbergs of Investor and Tisches at Loews are prime examples. Outside shareholders benefit from: (1) low cost investment expertise; (2) vicarious capital discipline in the investee companies, as the holding companies usually control large stakes with Board representation; and (3) an average discount of share price to asset value of over 30%

- A diverse collection of companies involved in such apparently mundane activities as instant coffee, pet food, compressed air power generators, parcel delivery, dentists' supplies, syringes, glass bottles and tin cans. However, while their activities are commonplace, their investment characteristics are scarce: businesses that are profitable and durable; managed by selfless, motivated people who treat their customers well; available at reasonable valuations

I believe that my selection of companies is conservative, although this is not easy to corroborate. One reasonable test of investing conservatism is evaluating results in down markets. Conversely, be aware that in a bull market for equities I may look out-of-step, or just wrong. Warren Buffett's partner, Charlie Munger, recently commented that if you are not confused by the outlook, you do not understand the situation. Despite confusion and uncertainty, one must decide. For the moment, my emphasis is on preserving the purchasing power of investors' capital, and waiting for better opportunities to exchange more money for durable wealth.

**The golden rule**

My governing principle in managing MPIC is to abide by the golden rule: to treat others as I would wish to be treated myself.

I have and will maintain the majority of my own money invested alongside yours in MPIC. While this does not ensure a satisfactory outcome, it does ensure that MPIC will be receiving my full attention and that I will treat your investment as if it were my own.

Thank you for investing in MPIC - I appreciate that there are many alternative uses for your money. Please contact me if you have any questions or comments.

Peter Hollis

I introduced my first letter to shareholders in 2012 by stating that all enduring human endeavours and relationships appear to have a commitment to common goals and shared values. To help potential co-investors assess whether they share my goals and values, I outlined the objectives and guiding principles by which I manage MPIC; they are repeated in full below. They are principles, so I do not expect significant changes in coming years; however, they may evolve as I continue to learn from new insights as well as from my mistakes.

**Investment objective and appropriate gauges of progress**

One key to attracting and keeping like-minded co-investors is that we gauge progress by the same yardstick. Moreover, that yardstick needs to be stated at the start of the relationship.

The essence of investment is to defer consumption today so that one may consume more in future. Hence, MPIC's objective is to preserve and grow (in that order) the purchasing power of its investors' capital. In deferring consumption today one might wish, for instance, to buy more groceries, property or education in future. All would represent valid standards by which to assess progress. However, for ease, I will compare MPIC's results against three benchmarks.

1. *The UK Consumer Price Index*
   Spending power is most commonly evaluated with respect to consumer goods. One basic hurdle for MPIC is thus to grow faster than UK consumer goods inflation.

2. *The yield on UK irredeemable gilts*
   Consumer goods are only a part of personal expenditure. Perhaps the most comprehensive gauge of purchasing power is the yield on UK irredeemable gilts. This yield can be interpreted as the market's best guess of the nominal return required at least to sustain the purchasing power of pound sterling in the future.

3. *The UK FTSE All-Share Index*
   MPIC is not an equity fund, but it does expect primarily to use quoted equities as the means of achieving its objective. An equity index is thus an informative comparator, as well as a test of whether MPIC is preserving its investors' purchasing power in one specific form of assets: publicly quoted companies.

Note, first, that the comparators are UK-oriented. This seems appropriate as MPIC's owners are British with predominantly pound sterling commitments and liabilities. Second, I do not believe that a single year is an informative time frame over which to assess progress. I believe that the most appropriate period is an economic cycle, not the time it takes the earth to orbit the sun. Thus, I will compare MPIC's returns against its three comparators over a full economic cycle. The economic cycle varies in length, but for simplicity I will define it as a minimum of five years and maximum of ten, and comment on both periods.

**My guiding principles**

Another way of assessing whether there is a community of interest with my investment values is to compare your investing beliefs, or principles, with mine. These are mine:

- *I will treat an investment in MPIC as I would treat my own*
  I have, and will maintain, most of my personal wealth in MPIC.

- *Costs matter*
  While the investment results of MPIC will be volatile and inherently uncertain, I am certain of one thing: costs erode long-term returns. Therefore, MPIC aspires to be one of the lowest cost investment companies available to private investors.

- *Long-term thinking*
  I will invest so as to be untroubled if markets were to close for five years. Expect turnover of investments within MPIC to average less than 10% each year.

- *Independent thinking*
  My investment philosophy is to be conservative, but not conventional. I will shun excessively popular, fashionable investments. I believe that an important paradox in investment is that the more popular an idea becomes, the less profitable it is likely to be.

- *Long-term optimism on man's instincts to trade, barter and exchange goods and ideas*
  I believe that this is the true source of durable prosperity and wealth. Rising living standards are largely derived from accumulated knowledge and new ideas, which is only constrained by human ingenuity and imagination.

- *Long-term pessimism on the value of government promises*
  The logic of politicians is to trade short-term, obvious benefits for long-term, less obvious costs, which undermines the worth of government-backed promises, such as paper money and bonds. This process is commonly called inflation. I believe that inflation is at source a political phenomenon. It has been one of the tragedies of modern financial academic work to label government bonds "risk-free".

- *The role of quoted equity investments*
  I believe that the long-term ownership of exceptional businesses run by honest people is the best means of allowing the investor to participate in the general tendency for global living standards to rise, while simultaneously protecting his capital from inflation. Quoted equity securities allow the investor to part-own a variety of high quality businesses around the world, at remarkably low cost. Consequently, it is likely that investments in quoted equities will dominate the portfolio.

- *Risk and uncertainty cannot be avoided*
  Business and investing are complex, unpredictable and fraught with uncertainty. I do not believe that government bonds are risk-free; I do not believe that investment risk can be quantified; and I do not believe in smooth progress. MPIC is designed to cope with investment risk and uncertainty, not to eliminate it.

- *Progress will be lumpy*
  Quoted equities represent claims on corporate cash flows, yet their market prices have proved far more volatile than their underlying business values. Historically, publicly listed businesses have suffered widespread, general falls in market prices in approximately one calendar year in three. Indeed, dramatic declines of over 30% have occurred at some point in most decades. I do not believe that MPIC can avoid such characteristic downturns in business and stockmarket cycles, but it will seek to survive them without undue distress.

- *I will discourage investors who cannot commit funds for at least five years*

Peter Hollis

| Security | Country | Holding | Value (£) | % | *30 Sept 2012* |
|---|---|---|---|---|---|
| Markel | US | 5,400 | 1,730,629 | 7.6% | |
| Fairfax Financial | Canada | 5,400 | 1,373,700 | 6.0% | |
| Investor B | Sweden | 70,000 | 1,313,185 | 5.8% | |
| Washington Post B | US | 2,600 | 979,989 | 4.3% | |
| Handelsbanken | Sweden | 30,000 | 793,336 | 3.5% | |
| Loews | US | 24,000 | 692,121 | 3.0% | |
| Progressive Corp | US | 40,000 | 671,094 | 3.0% | |
| Moodys | US | 15,000 | 650,045 | 2.9% | |
| Sofina | Belgium | 10,000 | 607,452 | 2.7% | |
| Hansa Trust A | UK | 68,366 | 532,571 | 2.3% | |
| GBL | Belgium | 10,000 | 525,814 | 2.3% | |
| Nestle | Switzerland | 12,000 | 518,227 | 2.3% | |
| Atlas Copco B | Sweden | 30,000 | 490,082 | 2.1% | |
| Rights & Issues Capital | UK | 10,000 | 382,250 | 1.7% | |
| RLI Corp | US | 7,000 | 372,215 | 1.7% | |
| Philip Morris International | US | 6,000 | 322,303 | 1.4% | |
| Spirax-Sarco | UK | 10,592 | 318,396 | 1.4% | |
| Tesco | UK | 80,000 | 287,940 | 1.3% | |
| Wm Morrisons Supermarket | UK | 100,000 | 279,800 | 1.2% | |
| Capital Southwest Corp | US | 12,000 | 256,886 | 1.1% | |
| Alleghany Corp | US | 900 | 225,468 | 1.0% | |
| Greggs | UK | 50,000 | 211,525 | 0.9% | |
| PepsiCo | US | 4,000 | 196,757 | 0.9% | |
| Coca-Cola HBC | UK | 10,000 | 185,050 | 0.8% | |
| bioMerieux | France | 3,000 | 179,452 | 0.8% | |
| Colruyt | Belgium | 5,000 | 170,767 | 0.7% | |
| CF-Alba | Spain | 5,000 | 170,360 | 0.7% | |
| Jardine Strategic | Singapore | 8,000 | 167,798 | 0.7% | |
| HAL Trust | Netherlands | 2,000 | 161,076 | 0.7% | |
| Crown Holdings | US | 6,000 | 156,593 | 0.7% | |
| Becton Dickinson & Co | US | 2,500 | 154,384 | 0.7% | |
| FedEx Corp | US | 2,000 | 140,933 | 0.6% | |
| The Coca-Cola Company | US | 6,000 | 140,822 | 0.6% | |
| BATS | UK | 4,000 | 131,190 | 0.6% | |
| Owens-Illinois | US | 7,000 | 129,851 | 0.6% | |
| Bank of Ireland | Ireland | 700,000 | 123,187 | 0.5% | |
| Patterson Companies | US | 5,000 | 123,019 | 0.5% | |
| Sigma-Aldrich | US | 2,000 | 105,408 | 0.5% | |
| Wells Fargo warrants (28.10.18) | US | 10,000 | 87,099 | 0.4% | |
| Hornbach Holding prefs. | US | 1,841 | 84,590 | 0.4% | |
| ***Total equities*** | | | ***16,143,364*** | ***70.9%*** | *69.1%* |

| Security | Country | Holding | Value (£) | % | *30 Sept 2012* |
|---|---|---|---|---|---|
| US 0.125% Inflation-protected Treasury 2016 | US | 1,500,000 | 1,007,131 | 4.4% | |
| UK 2.5% Index-linked Gilt 2016 | UK | 200,000 | 684,680 | 3.0% | |
| Sweden 0.5% Inflation-linked Treasury 2017 | Sweden | 6,000,000 | 604,990 | 2.6% | |
| UK 1.25% Index-linked Gilt 2017 | UK | 300,000 | 437,138 | 1.9% | |
| UK 0.125% Index-linked Gilt 2024 | UK | 400,000 | 427,153 | 1.9% | |
| UK 0.125% Index-linked Gilt 2019 | UK | 300,000 | 323,093 | 1.4% | |
| Royal Canadian Mint Gold ETR | Canada | 120,000 | 1,070,845 | 4.7% | |
| Cash and equivalents | Various | | 2,131,227 | 9.4% | |
| ***Total effective liquidity*** | | | ***6,686,257*** | ***29.3%*** | *31.1%* |
| *Adjustment to revalue assets from Mid to Bid* | | | *-36,578* | *-0.2%* | |
| **Total portfolio** | | | **22,793,043** | **100%** | |

# 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 annual accounting period which give a true and fair view of the financial affairs of the Company and of its revenue or expense for the period. In preparing these financial statements the Authorised Corporate Director is required to:

- comply with the Prospectus 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 regulations and the Prospectus. The Authorised Corporate Director is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Anne A. Laing Martin J. Henderson

Valu-Trac Investment Management Limited
Authorised Corporate Director

**November 20th 2013**

The depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Scheme Sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company, the application of revenue of the Company, and the investment and borrowing powers applicable to the Company.

**Report of the Depositary**

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 Authorised Corporate Director:

- 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 revenue in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

National Westminster Bank Plc
1 October 2013

We have audited the Company's financial statements for the year ended 30 September 2013 which comprise the Statement of Total Return, Statement of Changes in Net Assets Attributable to Shareholders, Balance Sheet and the related Notes to the Financial Statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules 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 auditors' 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.

**Respective responsibilities of the ACD and Auditors**

As explained more fully in the Statement of the ACD's Responsibilities set out on page 10, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the ACD; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Company as at 30 September 2013 and of the net income and the net capital gains on the property of the Company for the year then ended;
- the financial statements have been properly prepared in accordance with the IMA Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Instrument of Incorporation;
- the report of the ACD is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

Johnston Carmichael LLP
Chartered Accountants
Statutory Auditors
Edinburgh

**November 21st 2013**

## Statement of Total Return

| For the period to 30 September | Notes | £ | Year to 2013 £ | £ | 15 May to 2012 £ |
|---|---|---|---|---|---|
| Income | | | | | |
| Net capital gains | 2 | | 2,538,777 | | 491,294 |
| Revenue | 3 | 399,613 | | 48,079 | |
| Expenses | 4 | (153,841) | | (50,690) | |
| Net revenues/(expenses) before taxation | | 245,772 | | (2,611) | |
| Taxation | 6 | (32,006) | | (4,262) | |
| Net revenues/(expenses) after taxation | | | 213,766 | | (6,873) |
| Total return before dividends | | | 2,752,543 | | 484,421 |
| Finance costs: dividends | 5 | | (196,057) | | - |
| **Change in net assets attributable to shareholders from investment activities** | | | 2,556,486 | | 484,421 |

## Statement of Changes in Net Assets Attributable to Shareholders

| For the period to 30 September | Year to 2013 £ | 15 May to 2012 £ |
|---|---|---|
| **Opening net assets attributable to shareholders** | 15,609,946 | - |
| Amounts receivable on creation of shares | 4,475,544 | 15,125,525 |
| Dividends accumulated | 151,067 | - |
| Change in net assets attributable to shareholders from investment activities (see above) | 2,556,486 | 484,421 |
| **Closing net assets attributable to shareholders** | 22,793,043 | 15,609,946 |

## Balance Sheet

| As at 30 September | Notes | £ | 2013 £ | £ | 2012 £ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Investment assets | | | 20,661,816 | | 14,179,286 |
| Debtors | 7 | 180,765 | | 17,750 | |
| Bank balances | 8 | 2,192,959 | | 1,505,004 | |
| **Total other assets** | | | 2,373,724 | | 1,522,754 |
| **Total assets** | | | 23,035,540 | | 15,702,040 |
| **LIABILITIES** | | | | | |
| Creditors | 9 | (46,440) | | (92,094) | |
| Dividend payable | | (196,057) | | - | |
| **Total liabilities** | | | (242,497) | | (92,094) |
| **Net assets attributable to shareholders** | | | 22,793,043 | | 15,609,946 |

**For the year ended 30 September 2013**

**1 Accounting policies**

(a) The financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds (SORP) issued by the Investment Management Association (IMA) in October 2010.

(b) Dividends on equities are recognised when the security is quoted ex-dividend. Bond interest is accrued daily into the fund. An adjustment is made to the amount of income recognised in bonds using the effective interest yield basis. Interest on deposits is accounted for on an accruals basis. Other revenue is accounted for on receipts basis. Accumulation of revenue, relating to accumulation units or shares held in underlying funds, is not included in the amount available for distribution.

Equalisation received by the way of distributions from OEICs or unit trust investments is not included in revenue but is reflected as a reduction in the book cost of that investment.

(c) The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the Company, and where applicable is included in the distribution. In the case of an enhanced stock dividend the value of the enhancement is treated as capital.

(d) Special dividends are treated as repayments of capital or revenue depending on the facts of each particular case.

(e) All expenses are accounted for on an accruals basis and other than those relating to the buying and selling of investments, all expenses are charged to the revenue of the Company.

(f) Where the revenue from investments exceeds the expenses of the Company, annual dividends are paid to all holders of income shares. In all cases, tax vouchers will be issued to shareholders.

(g) The Company is not more than 60% invested in qualifying investments (as defined by S468L ICTA 1988) and where applicable will pay a dividend distribution.

(h) The listed investments of the Company have been valued at bid market prices at 4.30pm UK time on 30 September 2013. Suspended securities are valued initially at the suspended price but are subject to constant review.

(i) All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the date of such transactions. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rates at the closing valuation point on 30 September 2013.

(j) Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised only to the extent that the ACD considers that it is more likely than not there will be taxable profits from which underlying timing differences can be deducted.

(k) In certain circumstances the ACD may charge a dilution levy on the sale or repurchase of shares. The levy, which is paid into the Company, is intended to cover certain charges not included in the bid market value of the Company, used in calculating the share price, which could have a diluting effect on the performance of the Company.

(l) Stamp duty reserve tax (SDRT), where payable, is deducted as an expense from the capital of the Company.

| 2 | **Net capital gains** | **2013** | **2012** |
|---|---|---|---|
| | | **£** | **£** |
| | The net capital gains comprise: | | |
| | Currency losses | (17,507) | (126) |
| | Non-derivative securities gains | 2,557,582 | 492,315 |
| | Transaction charges | (1,298) | (895) |
| | Total net capital gains | 2,538,777 | 491,294 |

| 3 | **Revenue** | **2013** | **2012** |
|---|---|---|---|
| | | **£** | **£** |
| | UK dividends | 66,674 | 8,450 |
| | Overseas dividends | 308,973 | 29,771 |
| | Bond income | 23,966 | 9,858 |
| | Total revenue | 399,613 | 48,079 |

| 4 | **Expenses** | **2013** | **2012** |
|---|---|---|---|
| | | **£** | **£** |
| | Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director, and agents of either of them: | | |
| | ACD fee | 108,694 | 31,618 |
| | Payable to the depositary, associates of the depositary, and agents of either of them: | | |
| | Depositary and safekeeping fees | 36,719 | 13,580 |
| | Other expenses: | | |
| | Audit fee | 8,100 | 5,400 |
| | FCA fee | 328 | 92 |
| | | 8,428 | 5,492 |
| | Total expenses | 153,841 | 50,690 |

| 5 | Finance costs | 2013 | 2012 |
|---|---|---|---|
| | | £ | £ |
| | Final dividend for the year | 196,057 | - |
| | | | |
| | **Reconciliation of dividends** | | |
| | Net revenue after taxation | 213,766 | - |
| | Prior year net revenue expenses including foreign exchange | (11,495) | - |
| | Current year foreign exchange losses | (6,214) | - |
| | **Net dividend for the year** | 196,057 | - |

| 6 | Taxation | 2013 | 2012 |
|---|---|---|---|
| | | £ | £ |
| (a) | **Analysis of charge in the year** | | |
| | Irrecoverable income tax | 32,006 | 4,262 |
| | Total current tax charge for the year (note 6b) | 32,006 | 4,262 |

**(b) Factors affecting current tax charge for the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an open-ended investment company (20%). The differences are explained below:

| | 2013 | 2012 |
|---|---|---|
| Net revenues/(expenses) before taxation | 245,772 | (2,611) |
| Corporation tax at 20% | 49,154 | - |
| Effects of: | | |
| Revenue not subject to taxation | (75,129) | - |
| Current year expenses not utilized | 25,975 | - |
| Overseas tax expenses | 32,006 | 4,262 |
| Current tax charge for year (note 6a) | 32,006 | 4,262 |

**(c) Provision for deferred taxation**

At 30 September 2013 there is a potential deferred tax asset of £34,141 (2012 £8,166) in relation to surplus management expenses. It is unlikely the Company will generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised.

| 7 | Debtors | 2013 | 2012 |
|---|---|---|---|
| | | £ | £ |
| | Accrued revenue | 29,682 | 16,613 |
| | Other debtors | 16 | 1,017 |
| | Prepayments | - | 120 |
| | Dividend accumulated | 151,067 | - |
| | Total debtors | 180,765 | 17,750 |

| 8 | Cash and bank balances | 2013 | 2012 |
|---|---|---|---|
| | | £ | £ |
| | Cash and bank balances | 2,192,959 | 1,505,004 |

**9 Creditors**

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| Accrued expenses | 46,440 | 38,913 |
| Unsettled trades | - | 53,181 |
| Total creditors | 46,440 | 92,094 |

**10 Related party transactions**

Valu-Trac Investment Management Limited was the Authorised Corporate Director and Hollis Capital Limited the Investment Manager during the period.

Authorised Corporate Director's fees and Investment Manager's fees were payable to the following related parties during the period:

| | | |
|---|---|---|
| Hollis Capital Limited | £98,694 | (2012 - £27,810) |
| Valu-Trac Investment Management Limited | £10,000 | (2012 - £ 3,808) |

The balances due to these related parties at 30 September 2013 were as follows:

| | | |
|---|---|---|
| Hollis Capital Limited | £27,464 | (2012 - £19,943) |
| Valu-Trac Investment Management Limited | £ 2,493 | (2012 - £ 2,521) |

**11 Financial instruments**

In pursuing its investment objective as stated on page 1, the Company holds a number of financial instruments. The Company's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for issues and payable for redemptions and debtors for accrued revenue.

The main risks arising from the Company's financial instruments, those of its underlying holdings and the ACD's policies for managing these risks are summarised below. These policies have been applied throughout the year.

**Market price risk**

Market price risk is the risk that the value of the Company's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the company holds. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy as set out in the Prospectus.

Adherence to investment guidelines and to investment and borrowing powers set out in the Instrument of Incorporation, the Prospectus and in the rules of the Financial Conduct Authority's Collective Investment Schemes Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

**Foreign currency risk**

Foreign currency risk is the risk that the value of the Company's investment holdings will fluctuate as a result of changes in foreign currency exchange rates.

The Company's investment portfolio can be invested in holdings that are registered overseas, and this means that the balance sheet can be affected by movements in foreign exchange rates. Revenue received in other currencies is converted to sterling on or near the date of receipt.

A portion of the net assets of the Company is denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by currency movements.

As at 30 September 2013, net currency monetary assets and liabilities consist of:

| | Monetary assets | | Non-monetary assets | | Total net assets | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | £ | £ | £ | £ | £ | £ |
| Sterling | 1,813,103 | 1,503,277 | 4,080,371 | 2,366,607 | 5,893,474 | 3,869,884 |
| Canadian Dollars | - | - | 2,444,545 | 735,902 | 2,444,545 | 735,902 |
| Euros | - | - | 2,031,709 | 1,506,356 | 2,031,709 | 1,506,356 |
| Swedish Kroner | 92,311 | - | 3,202,621 | 2,514,573 | 3,294,932 | 2,514,573 |
| Swiss Francs | - | - | 521,308 | 429,911 | 521,308 | 429,911 |
| US Dollars | 287,545 | 1,727 | 8,319,530 | 6,551,593 | 8,607,075 | 6,553,320 |
| Total | 2,192,959 | 1,505,004 | 20,600,084 | 14,104,942 | 22,793,043 | 15,609,946 |

**Interest rate risk**

Interest rate risk is the risk that the value of the Company's investment holdings will fluctuate as a result of changes in interest rates.

The Company currently does not invest in floating rate securities. Interest rate risk exposure is restricted to interest receivable on fixed rate securities and bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

At the period end date 24.6% of the Company's assets by value were interest bearing.

**Maturity of financial liabilities**

The financial liabilities of the Company as at 30 September 2013 are payable either within one year or on demand.

**Liquidity risk**

The Company's assets comprise mainly of readily realisable securities. The main liability of the Company is the redemption of any shares that the investors wish to sell. Assets of the Company may need to be sold if insufficient cash is available to finance such redemptions.

**Credit risk**

Certain transactions in securities that the Company 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 Company has fulfilled its responsibilities. The Company only buys and sells investments through brokers which have been approved by the ACD as acceptable counterparties and fund management companies. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

**Fair value of financial assets and financial liabilities**

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their market value.

**12 Contingent assets and liabilities**

At 30 September 2013, the Company had no contingent liabilities or commitments.

**13 Portfolio transaction costs**

| | | 2013 | | 2012 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Analysis of total purchase costs** | | | | |
| Purchases before transaction costs | | 5,303,751 | | 13,672,265 |
| Commissions & Taxes | 4,528 | | 14,704 | |
| Total purchase costs | | 4,528 | | 14,704 |
| Total purchases including transaction costs | | 5,308,279 | | 13,686,969 |

| | | 2013 | | 2012 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Analysis of total sales costs** | | | | |
| Sales before transaction costs | | 1,388,107 | | - |
| Commissions & Taxes | 513 | | - | |
| Total sales costs | | 513 | | - |
| Total sales including transaction costs | | 1,387,594 | | - |

**Authorised Corporate Director's charges**

The annual ACD charges are £10,000 plus the Investment Management Fee. The Investment Management Fee is currently equal to:

1. 0.50% of the Net Asset Value of the Company on the first £20 million; and
2. 0.35% of the Net Asset Value of the Company thereafter.

**Dividend**

Dividends of the revenue of the Company will be made to shareholders on or before 30 November each year.

**Taxation**

The Company will pay no corporation tax for the year ended 30 September 2013 and capital gains within the Company will not be taxed.

**Individual shareholders**

*Tax on dividends*
Revenue distributed by an OEIC is paid net but individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit equivalent to one ninth of the amount of the net dividend. Tax vouchers are sent to shareholders with each dividend and UK resident shareholders will be taxed on the total of the dividend and tax credit shown on the voucher. The credit will meet liability to basic rate tax but if the shareholder pays tax at a higher rate there will be a further liability. If the shareholder is not liable to income tax the amount of the tax credit cannot be reclaimed from HM Revenue and Customs.

*Capital gains tax*
Individual shareholders resident in the UK for tax purposes may be liable to capital gains tax on realisation of their shares as with other chargeable assets. However, the first £10,900 of gains each year are presently tax free for individuals. Gains in excess of that amount are charged at the rate of tax applicable to the individual taxpayer.

**Corporate shareholders**

Companies resident for tax purposes in the UK which hold shares should note that OEIC dividends are streamed into both franked and unfranked income. The unfranked income element will be treated as an annual payment which is subject to income tax at a rate of 20% and will be liable to tax accordingly. On realisation of their shares, UK resident companies may be liable to pay corporation tax on any capital gains.

The above information on taxation is only a general summary, and shareholders should consult their own tax advisers in relation to their own circumstances. Shareholders should also note that the position as outlined may change to reflect future changes in tax legislation.

**Stamp duty reserve tax**

SDRT may be charged either against the investors or against the property of the Company. The ACD may directly charge the incoming or outgoing investors, therefore creating a provision from which the SDRT would be paid. Under this option either the costs of purchasing shares would be increased or the proceeds from the sale would be reduced. Alternatively the ACD may treat SDRT as an expense, charging it against the capital property of the Company.

The ACD has chosen to charge SDRT against the Company, believing this to be in the best interests of the shareholders. The depositary is liable for payment of the SDRT liability.

SDRT is to be abolished on 1 April 2014.

**Issue and redemption of shares**

Valu-Trac Investment Management Limited is the Registrar. Valu-Trac Investment Management Limited will receive requests for the purchase or sale of shares at any time during normal business hours. Instructions may be given by telephone (01343 880344) or by sending an Application Form. Application forms are available from the Registrar.

The price of shares will be determined by reference to a valuation of the Company's net assets at 4.30pm on the 1st and 15th (or the next business day) of each month.

The ACD has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any application for shares in whole or part, and in this event the ACD will return any money sent, or the balance of such monies, at the risk of the applicant.

Any subscription monies remaining after a whole number of shares has been issued will not be returned to the applicant. Instead, smaller denomination shares will be issued in such circumstances.

A contract note giving details of the shares purchased and the price used will be issued by the Registrar by the end of the business day following the valuation point by reference to which the purchase price is determined. Settlement is due on the date specified on the Contract Note.

Ownership of shares will be evidenced by an entry on the Company's Register of Shareholders. Certificates will not be issued. Statements in respect of periodic distributions of revenue will show the number of shares held by the recipient in respect of which the distribution is made. Individual statements of a shareholder's (or, when shares are jointly held, the first named holder's) shares will also be issued at any time on request by the registered holder.

Where shares are redeemed, payment will be made not later than the close of business on the fourth business day following the trade date. The minimum value of shares that a shareholder may hold is £100,000 at cost. The ACD may at its discretion accept subscriptions lower than the minimum amount.

The most recent issue and redemption prices are available from the ACD.

**Share price range**

| | **Calendar YTD 2013** | **15 May 2012 to 31 December 2012** |
|---|---|---|
| | Bid high–Offer low | Bid high–Offer low |
| Gross accumulation | 127.1–106.5p | 107.2–98.9p |
| Gross income | 127.1–106.5p | 107.2–98.9p |
| Net accumulation | 127.1–106.5p | 107.2–98.9p |
| Net income | 127.1–106.5p | 107.2–98.9p |

**Advantages of investing through an open-ended investment company**

Moray Place Investment Company is an open-ended investment company (OEIC). Investing through an OEIC offers considerable advantages for private investors compared to managing their own portfolio directly or through a financial adviser. These advantages include:

- The full-time attention of an experienced professional investor
- Participation in a diversified portfolio of assets
- The OEIC does not incur capital gains tax on transactions within its portfolio. Investors thus defer any capital gains tax liability until they sell their shares in the OEIC
- The OEIC is able to offset management and administration costs against taxable income. It is not possible to do this with the costs of directly managed portfolios or financial adviser fees
- Less paperwork and record-keeping

# CORPORATE DIRECTORY

| | |
|---|---|
| **Authorised Corporate Director & Registrar** | Valu-Trac Investment Management Limited<br>Orton<br>Moray<br>IV32 7QE<br><br>Telephone: 01343 880344<br>Fax: 01343 880267<br>E-mail: mpic@valu-trac.com<br><br>Authorised and regulated by the Financial Conduct Authority<br>Registered in England No 2428648 |
| **Director** | Valu-Trac Investment Management Limited as ACD |
| **Investment Manager** | Hollis Capital Limited<br>18 Torphichen Street<br>Edinburgh<br>EH3 8JB<br><br>Authorised and regulated by the Financial Conduct Authority |
| **Depositary** | National Westminster Bank Plc<br>Younger Building<br>1st Floor, 3 Redheughs Avenue<br>Edinburgh<br>EH12 9RH<br><br>Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority |
| **Auditors** | Johnston Carmichael LLP<br>Chartered Accountants<br>7-11 Melville Street<br>Edinburgh<br>EH3 7PE |