

**MARKS & SPENCER  
UK 100 COMPANIES FUND**

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# **Manager's annual report**

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**For the period 1 March 2018 to 28 February 2019**

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# Marks & Spencer UK 100 Companies Fund

## **Manager, Registrar, dealing, administration and marketing**

Marks and Spencer Unit Trust  
Management Limited

Authorised and regulated by the Financial  
Conduct Authority.

Investor helpline: 0808 005 5555 or  
+44 1244 688632 if calling from abroad.  
Lines are open from 8am to 6pm Monday to  
Friday (closed weekends and public holidays).  
Please be aware that opening hours may be  
restricted over the Christmas period. Please  
contact us for details. Calls may be recorded.

## **Head office and registered office**

Kings Meadow  
Chester CH99 9FB  
Registered in England  
No. 2253009

## **Directors of the Manager**

James Coyle (Chairman and non-Executive  
Director)

Paul Spencer (Interim Chief Executive Officer  
and Director)

David Stewart (Non-Executive Director)

Phillip Scott (Director)

Douglas van den Aardweg (Non-Executive  
Director)

Matt Handley (Director)

Peter Dew (Non-Executive Director)

Simon Ellis (Director)

## **Investment manager**

HSBC Global Asset Management (UK) Limited  
8 Canada Square  
London E14 5HQ

Authorised and regulated by the Financial  
Conduct Authority.

## **Trustee**

State Street Trustees Limited  
Quartermile 3  
10 Nightingale Way  
Edinburgh EH3 9EG  
Authorised and regulated by the Financial  
Conduct Authority.

## **Independent auditor**

KPMG LLP  
15 Canada Square  
London  
E14 5CL

# Manager's investment report

This section gives you confirmation of the Fund objective. It also gives you the investment strategy employed by the investment adviser and an economic, market and portfolio review for the period of the report.

## Our objectives and methods

The Fund's objective is to provide long term capital growth by matching the performance of the FTSE® 100 Index ('the index') as closely as practically possible.

The Fund seeks to achieve this objective by generally fully replicating the FTSE® 100 Index by holding all the constituents of the index. It will invest in companies that make up the FTSE® 100 Index and may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash instruments that will assist the Fund achieve its objective.

The Fund may use derivative instruments (options, futures and contracts for differences) and forward transactions in a currency for the purposes of efficient portfolio management. These instruments can therefore be used to reduce risk, reduce costs, or generate additional capital or income with no, or low levels of, risk. The Fund does not intend to use financial derivative instruments extensively.

The Fund may not comprise the same securities (either in terms of exact composition and/or weighting) that are tracked by the index in circumstances where the Manager determines that this is appropriate for reasons of poor liquidity, excessive cost to the Fund or where there are investment restrictions due to regulations or the Manager's cluster munitions and controversial weapons policy.

## Strategy

The Investment Manager will use a replication approach to track the FTSE® 100 Index. This means that the Fund will seek to invest in all of the companies that make up the index and in the same or very similar proportions in which they are included in the index.

The FTSE® 100 Index is a market-capitalisation weighted index of UK-listed blue chip companies. The index is part of the FTSE® UK series and is designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. FTSE® 100 constituents are all traded on the London Stock Exchange's SETS trading system. The index rebalances quarterly on the third Friday of March, June, September and December.

Details of the constituents of the index can be found at [ftse.com/products/indices/UK](http://ftse.com/products/indices/UK).

## Review of the twelve months to 28 February 2019

### Economic and market review

2018 was a challenging year for UK equities with varied performance between quarters; the first quarter showed negative equity returns, the second and third quarters showed positive equity returns and the year ended with strongly negative returns. UK equities recovered during January and early February 2019 which made back the ground lost in December.

	Percentage growth				
	28.02.14 to 28.02.15	28.02.15 to 28.02.16	28.02.16 to 28.02.17	28.02.17 to 28.02.18	28.02.18 to 28.02.19
Fund	4.9%	-9.1%	23.1%	2.7%	2.0%

This information relates to the past, and past performance is no guarantee of future performance. All the above figures are on a bid to bid basis, net income reinvested. Source: Morningstar.

Negotiations on Brexit continued to garner attention and dominate economic news throughout the review period. In late March, the UK and EU proposed a transitional period running from 29 March 2019 to 31 December 2020, during which the UK would remain in the Single Market and Customs Union on current terms and would be able to negotiate trade deals, but not implement them. In November, the British government announced details of the draft Withdrawal Agreement, the terms on which the transition period would operate. Parliament had been scheduled to vote on the draft agreement in December but, after it became clear that it was most unlikely to be accepted, the decision was postponed until the New Year. The Irish backstop element of the agreement – which seeks to avoid a hard border between Northern Ireland and Ireland – proved to be a major sticking point. This prompted Prime Minister May to seek reassurances from her EU colleagues that this stipulation is, indeed, ‘temporary’. As a result, political risk rose sharply, leading to a vote of no confidence in the Prime Minister from her own party. While she survived that particular challenge and can remain as leader for another year, the fact that around a third of MPs voted against the Prime Minister has undermined her authority which led her to announce that she will stand down before the next general election. Meanwhile, the UK Parliament is likely to be offered further opportunities to avert a potentially disruptive “no-deal” Brexit.

Following its increase in August, the Bank of England’s (BoE) Monetary Policy Committee kept interest rates at 0.75%. Although BoE governor, Mark Carney, has said that future rises are possible until inflation falls back below the BoE’s 2% target, monetary policy is likely to remain loose given economic risks such as increased protectionism, ongoing Brexit uncertainty, and volatility in markets. Elsewhere in the US, the Fed continued its policy of gradual normalisation of interest rates and raised rates four times in 2018, ending at 2.5%.

However, in the face of market volatility at the end of 2018 and a slowing global economy, the Federal Open Market Committee (FOMC) predicted that there will be fewer rate increases in 2019, with two rate rises planned.

## Portfolio review

The Fund aims to track the FTSE® 100 Index as closely as possible. The FTSE® 100 Index made a positive return in the period, and as a result the Marks & Spencer UK 100 Companies Fund also produced a positive return. The list of companies held within the index is reviewed every three months. During the period, Ocado Group, Hiscox, Spirax-Sarco Engineering and Phoenix Group Holdings joined the index. Mediclinic International, G4S and Royal Mail left the index.

## Outlook

UK economic momentum is likely to remain subdued as a result of lower investment, driven by the higher uncertainty for businesses coming from ongoing Brexit negotiations. The services sector is weakening but the labour market remains strong, with further improvements in real wages recently. We expect the Bank of England to hold any rate hikes until at least after Brexit uncertainty stops. In the unlikely scenario of a ‘hard Brexit’, the Bank of England would likely implement policies to support economic growth. Provided economic growth remains positive and a recession is averted, the scope for financial markets, and particularly equities, to perform positively remains. This will be to the benefit of the Fund.

# Portfolio statement

This section details all the different companies in which the Fund invests, by sector. It also shows the number of shares held, the percentage each company represents of the Fund as a whole and the value of those shares at the end of the accounting year (shown under bid value).

## As at 28 February 2019

UK EQUITIES & CONVERTIBLES (98.67%; 28.02.18 98.76%)				Tobacco			
HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS		HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS	
<b>BASIC MATERIALS (9.16%; 28.02.18 9.10%)</b>							<b>4.80</b>
<b>Chemicals</b>		<b>0.66</b>		British American Tobacco	341,978	9,433,463	3.48
Croda International	19,072	917,554	0.34	Imperial Brands	142,251	3,570,500	1.32
Johnson Matthey	28,508	881,752	0.32	<b>Total Consumer goods</b>		<b>42,232,122</b>	<b>15.57</b>
<b>Forestry &amp; paper</b>			<b>0.35</b>				
Mondi	54,900	948,946	0.35	<b>CONSUMER SERVICES (10.49%; 28.02.18 10.61%)</b>			
<b>Industrial metals</b>			<b>0.16</b>	<b>Food &amp; drug retailers</b>			<b>1.95</b>
Evraz Group	76,060	429,283	0.16	Morrison (Wm)			
<b>Mining</b>			<b>7.99</b>	Supermarkets	326,177	750,533	0.28
Anglo American	147,877	2,962,716	1.09	Ocado Group	67,400	697,253	0.26
Antofagasta	51,952	486,375	0.18	Sainsbury (J)	242,632	555,627	0.20
BHP Group	311,480	5,438,441	2.01	Tesco	1,447,615	3,271,610	1.21
Fresnillo	27,679	238,039	0.09	<b>General retailers</b>			<b>0.91</b>
Glencore	1,709,636	5,196,439	1.92	Kingfisher	322,719	781,303	0.29
Rio Tinto	169,155	7,334,561	2.70	Marks & Spencer	243,932	665,203	0.24
<b>Total Basic materials</b>		<b>24,834,106</b>	<b>9.16</b>	Next	20,031	1,019,177	0.38
				<b>Media</b>			<b>3.50</b>
<b>CONSUMER GOODS (15.57%; 28.02.18 16.71%)</b>				Informa	186,546	1,315,522	0.48
<b>Beverages</b>			<b>4.16</b>	ITV	559,224	732,583	0.27
Coca-Cola HBC	29,566	748,907	0.27	Pearson	116,663	986,969	0.36
Diageo	361,865	10,542,937	3.89	RELX	286,398	4,951,821	1.83
<b>Food producers</b>			<b>0.43</b>	WPP	183,613	1,516,276	0.56
Associated British Foods	52,080	1,168,154	0.43	<b>Travel &amp; leisure</b>			<b>4.13</b>
<b>Household goods</b>			<b>3.33</b>	Carnival	24,623	1,037,613	0.38
Barratt Developments	151,062	904,257	0.33	Compass Group	236,973	3,943,231	1.45
Berkeley Group Holdings	18,019	711,030	0.26	easyJet	37,113	455,191	0.17
Persimmon	47,095	1,145,350	0.42	GVC Holdings	86,270	566,363	0.21
Reckitt Benckiser	93,764	5,407,370	1.99	InterContinental Hotels Group	27,116	1,222,796	0.45
Taylor Wimpey	488,148	884,768	0.33	International Consolidated Airlines	237,502	1,422,637	0.53
<b>Personal goods</b>			<b>2.85</b>	Paddy Power	11,822	712,867	0.26
Burberry	61,108	1,154,330	0.43	TUI AG	65,302	522,416	0.19
Unilever	163,699	6,561,056	2.42	Whitbread	27,474	1,332,764	0.49
				<b>Total Consumer services</b>		<b>28,459,755</b>	<b>10.49</b>

# Portfolio statement

This section details all the different companies in which the Fund invests, by sector. It also shows the number of shares held, the percentage each company represents of the Fund as a whole and the value of those shares at the end of the accounting year (shown under bid value).

## As at 28 February 2019

	HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS		HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS
<b>FINANCIALS (21.45%; 28.02.18 23.68%)</b>				<b>HEALTHCARE (9.28%; 28.02.18 8.88%)</b>			
<b>Banks</b>			<b>12.40</b>	<b>Healthcare equipment &amp; services</b>			<b>0.82</b>
Barclays	2,554,679	4,193,250	1.55	NMC Health	12,916	348,732	0.13
HSBC Holdings*	3,011,126	18,455,191	6.80	Smith & Nephew	131,075	1,882,892	0.69
Lloyds Banking	10,640,261	6,757,630	2.49	<b>Pharmaceuticals &amp; biotechnology</b>			<b>8.46</b>
Royal Bank of Scotland	676,775	1,797,514	0.66	AstraZeneca	189,902	11,656,185	4.30
Standard Chartered	405,081	2,436,967	0.90	GlaxoSmithKline	730,183	10,933,760	4.03
<b>Equity investment instruments</b>			<b>0.39</b>	Hikma Pharmaceuticals	20,994	350,180	0.13
Scottish Mortgage Investment Trust	215,937	1,065,001	0.39	<b>Total Healthcare</b>		<b>25,171,749</b>	<b>9.28</b>
<b>Financial services</b>			<b>1.70</b>				
3i Group	142,653	1,349,212	0.50	<b>INDUSTRIALS (8.47%; 28.02.18 6.82%)</b>			
Hargreaves Lansdown	39,440	685,467	0.25	<b>Aerospace &amp; defence</b>			<b>1.71</b>
London Stock Exchange	46,712	2,105,310	0.78	BAE Systems	478,107	2,227,979	0.82
Schroders	16,761	458,413	0.17	Rolls-Royce	252,043	2,406,507	0.89
<b>Life insurance</b>			<b>4.73</b>	<b>Construction &amp; materials</b>			<b>1.75</b>
Aviva	587,059	2,484,434	0.92	CRH (London listed)	122,825	2,924,463	1.08
Legal & General	886,492	2,487,497	0.92	Ferguson	34,745	1,814,036	0.67
Prudential	388,169	6,171,887	2.27	<b>Electronic &amp; electrical equipment</b>			<b>0.33</b>
St James's Place Capital	78,310	761,330	0.28	Halma	56,863	882,514	0.33
Standard Life Aberdeen	378,238	933,113	0.34	<b>General industrials</b>			<b>0.83</b>
<b>Non-equity investment instruments</b>			<b>0.11</b>	Smith (David S)	190,734	639,913	0.24
iShares Core FTSE 100® UCITS ETF	41,550	292,096	0.11	Smiths Group	59,429	850,132	0.31
<b>Non-life insurance</b>			<b>1.05</b>	Smurfit Kappa	35,635	762,589	0.28
Admiral	30,532	665,903	0.25	<b>Industrial engineering</b>			<b>0.73</b>
Direct Line Insurance	206,573	735,193	0.27	Melrose Industries	720,768	1,253,055	0.46
Hiscox	41,693	665,837	0.24	Spirax-Sarco Engineering	11,016	733,666	0.27
Royal & Sun Alliance Insurance	153,824	786,041	0.29	<b>Support services</b>			<b>3.12</b>
<b>Real estate investment services</b>			<b>0.35</b>	Ashtead	71,667	1,434,773	0.53
Land Securities REIT	106,749	960,101	0.35	Bunzl	50,298	1,192,566	0.44
<b>Real estate investment trust</b>			<b>0.72</b>	DCC (London listed)	14,714	960,088	0.35
British Land REIT	145,313	877,981	0.33	Experian	137,082	2,691,605	0.99
Segro REIT	161,687	1,067,134	0.39	Intertek	24,172	1,228,904	0.45
				Rentokil Initial	276,890	971,884	0.36
<b>Total Financials</b>		<b>58,192,502</b>	<b>21.45</b>	<b>Total Industrials</b>		<b>22,974,674</b>	<b>8.47</b>

# Portfolio statement

This section details all the different companies in which the Fund invests, by sector. It also shows the number of shares held, the percentage each company represents of the Fund as a whole and the value of those shares at the end of the accounting year (shown under bid value).

## As at 28 February 2019

TECHNOLOGY (1.31%; 28.02.18 1.13%)				UTILITIES (3.23%; 28.02.18 2.87%)			
HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS		HOLDING OR NOMINAL VALUE OF POSITIONS AS AT 28 FEBRUARY 2019	BID VALUE (£)	% OF NET TOTAL ASSETS	
<b>Software &amp; Computer Services</b>		<b>1.31</b>		<b>Electricity</b>		<b>0.67</b>	
Auto Trader	139,130	0.24		SSE	153,825	0.67	1,827,441
Micro Focus International	62,643	0.43		<b>Gas, water &amp; multi-utilities</b>		<b>2.56</b>	
Rightmove	132,814	0.24		Centrica	840,085	0.39	1,045,906
Sage	162,376	0.40		National Grid	508,803	1.59	4,314,141
<b>Total Technology</b>	<b>3,546,403</b>	<b>1.31</b>		Severn Trent	35,539	0.26	717,532
				United Utilities	102,408	0.32	860,432
				<b>Total Utilities</b>	<b>8,765,452</b>	<b>3.23</b>	
<b>TELECOMMUNICATIONS (2.97%; 28.02.18 3.94%)</b>				<b>Portfolio of investments</b>	<b>267,643,126</b>	<b>98.67</b>	
<b>Fixed line telecommunications</b>		<b>0.99</b>		<b>Net other assets</b>	<b>3,595,560</b>	<b>1.33</b>	
British Telecom	1,249,553	0.99		<b>Net assets</b>	<b>271,238,686</b>	<b>100.00</b>	
<b>Mobile telecommunications</b>		<b>1.98</b>					
Vodafone	3,998,940	1.98					
<b>Total Telecommunications</b>	<b>8,051,943</b>	<b>2.97</b>					
<b>OIL &amp; GAS (16.74%; 28.02.18 15.02%)</b>							
<b>Oil &amp; gas producers</b>		<b>16.55</b>					
BP	2,926,602	5.77					
Royal Dutch Shell 'A'	680,180	5.89					
Royal Dutch Shell 'B'	561,621	4.89					
<b>Oil equipment &amp; services</b>		<b>0.19</b>					
John Wood Group	98,942	0.19					
<b>Total Oil and gas</b>	<b>45,414,420</b>	<b>16.74</b>					

\*Related party

The securities held are approved and are admitted to an official listing unless otherwise specified.



# Net asset value per unit and comparative table

This section details in concise figures how the Fund has performed, in terms of the size of the Fund, the price of units and the income distributions made.

## INCOME

<b>Change in net assets per unit</b>	<b>28.02.19</b>	<b>28.02.18</b>	<b>28.02.17</b>
Opening net asset value per unit	212.27p	213.47p	179.51p
Return before operating charges*	4.69p	7.34p	42.32p
Operating charges**	(1.30p)	(1.32p)	(1.19p)
Return after operating charges*	3.39p	6.02p	41.13p
Distributions on income unit	(8.12p)	(7.22p)	(7.17p)
Closing net asset value per unit	207.54p	212.27p	213.47p

\*after direct transaction costs of:\*\*\*

	0.08p	0.07p	0.07p
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## Performance

Return after charges	1.60%	2.82%	22.91%
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## Other information

Closing net asset value	£39,584,278	£42,072,356	£43,820,538
Closing number of units	19,073,527	19,819,963	20,527,379
Operating charges	0.60%	0.60%	0.60%
Direct transaction costs	0.04%	0.03%	0.03%

## Prices

Highest unit price	233.50p	229.60p	217.70p
Lowest unit price	195.90p	209.50p	176.90p

\*\* The operating charges include all costs borne by the Trust, except for direct transaction costs. It includes the operating charges of any collective investment schemes in which the Trust invests.

\*\*\* The direct transaction costs are made up of fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges as well as transfer taxes and duties.

# Net asset value per unit and comparative table

This section details in concise figures how the Fund has performed, in terms of the size of the Fund, the price of units and the accumulation distributions made.

## ACCUMULATION

<b>Change in net assets per unit</b>	<b>28.02.19</b>	<b>28.02.18</b>	<b>28.02.17</b>
Opening net asset value per unit	366.24p	356.36p	289.47p
Return before operating charges*	7.73p	12.11p	68.82p
Operating charges**	(2.26p)	(2.23p)	(1.93p)
Return after operating charges*	5.47p	9.88p	66.89p
Distributions on accumulation unit	(14.13p)	(12.14p)	(11.66p)
Retained distributions on accumulation unit	14.13p	12.14p	11.66p
Closing net asset value per unit	371.71p	366.24p	356.36p

*after direct transaction costs of:***	0.13p	0.11p	0.11p
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## Performance

Return after charges	1.49%	2.77%	23.10%
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## Other information

Closing net asset value	£231,654,408	£241,710,996	£249,089,103
Closing number of units	62,321,442	65,998,377	69,899,122
Operating charges	0.60%	0.60%	0.60%
Direct transaction costs	0.04%	0.03%	0.03%

## Prices

Highest unit price	402.80p	391.30p	358.70p
Lowest unit price	345.60p	350.50p	285.20p

\*\* The operating charges include all costs borne by the Trust, except for direct transaction costs. It includes the operating charges of any collective investment schemes in which the Trust invests.

\*\*\* The direct transaction costs are made up of fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges as well as transfer taxes and duties.



# Trustee report

## Statement of the Depositary's Responsibilities in Respect of the Scheme and Report of the Depositary to the Unitholders of the Marks & Spencer UK 100 Companies Fund ('the Trust') for the Period Ended 28 February 2019.

The Depositary in its capacity as Trustee of the Marks & Spencer UK 100 Companies Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed 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 Trust and its investors.

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

The Depositary must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM") which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

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

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

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



**Ewan Gillies (Officer)**



**Faron Jackson (Assistant Vice President)**

**State Street Trustees Limited**  
**25 April 2019**

# Statement of the Manager's responsibilities

The Collective Investment Schemes sourcebook published by the FCA, ("the COLL Rules") require the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Trust and of the net income and net capital gains on the property of the Trust for the period.

In preparing the financial statements the Manager is responsible for:

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

The Manager is responsible for the management of the Trust in accordance with its Trust Deed, the Prospectus and the COLL Rules.

# Certification of financial statements by Directors of the Manager

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority.



**Paul Spencer (Interim Chief Executive)**



**Phillip Scott (Director)**

**For and on behalf of Marks and Spencer Unit Trust Management Limited.**

**25 April 2019**

# Independent auditor's report

## Independent auditor's report to the unitholders of the Marks & Spencer UK 100 Companies Fund ('the Trust')

### Opinion

We have audited the financial statements of the Trust for the year ended 28 February 2019 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders, the Balance Sheet, the Related Notes and Distribution Tables and the accounting policies set out on page 17.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the financial position of the Trust as at 28 February 2019 and of the net revenue and the net capital losses on the property of the Trust for the year then ended; and
- have been properly prepared in accordance with the Trust Deed, the Statement of Recommended Practice relating to Authorised Funds, and the COLL Rules.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard.

We have received all the information and explanations which we consider necessary for the purposes of our audit and we believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Trust's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Trust's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### Going concern

The Manager has prepared the financial statements on the going concern basis as they do not intend to liquidate the Trust or to cease their operations, and as they have concluded that the Trust's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Manager's conclusions, we considered the inherent risks to the Trust's business model, including the impact of Brexit,

and analysed how those risks might affect the Trust's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Trust will continue in operation.

### **Other information**

The Manager is responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information; and
- in our opinion the information given in the Manager's Report for the financial year is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Trust have not been kept; or
- the financial statements are not in agreement with the accounting records.

### **Manager's responsibilities**

As explained more fully in their statement set out on page 11, the Manager is responsible for: the preparation of financial statements that give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Trust'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 they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Trust's unitholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Conduct Authority under section 247 of the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the Trust's unitholders 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 Trust and the Trust's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink that reads "Grant Archer". The signature is written in a cursive, flowing style.

**Grant Archer**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

St Vincent Plaza  
319 St Vincent Street  
Glasgow  
G2 5AS

**25 April 2019**



# Statement of total return

This section details the income of the Fund over the period of the report and explains how this income is distributed to the investors. It also provides an analysis of increases and decreases in net assets over the accounting year.

## For the year ended 28 February 2019

	Notes	28.02.19		28.02.18	
		£	£	£	£
Income					
Net capital losses	2		(6,025,889)		(1,433,858)
Revenue	3	12,485,845		11,580,275	
Expenses	4	(1,700,579)		(1,774,630)	
Interest payable and similar charges		(447)		(176)	
Net revenue before taxation		<u>10,784,819</u>		<u>9,805,469</u>	
Taxation	5	(134,260)		(111,330)	
Net revenue after taxation			<u>10,650,559</u>		<u>9,694,139</u>
<b>Total return before distributions</b>			<b>4,624,670</b>		<b>8,260,281</b>
Distributions/Accumulations	6		<u>(10,651,067)</u>		<u>(9,693,664)</u>
<b>Change in net assets attributable to Unitholders</b>			<b><u>(6,026,397)</u></b>		<b><u>(1,433,383)</u></b>

# Statement of change in net assets attributable to Unitholders

## For the year ended 28 February 2019

	28.02.19		28.02.18	
	£	£	£	£
<b>Opening net assets attributable to Unitholders</b>		<b>283,783,352</b>		<b>292,909,641</b>
Amounts receivable on issue of units	2,699,639		3,758,083	
Less: Amounts payable on cancellation of units	<u>(18,159,538)</u>		<u>(19,592,180)</u>	
		(15,459,899)		(15,834,097)
Change in net assets attributable to Unitholders from investment activities (see above)		(6,026,397)		(1,433,383)
Retained distribution on accumulation units		8,939,582		8,141,191
Unclaimed distributions over 6 years old		<u>2,048</u>		<u>-</u>
<b>Change in net assets attributable to Unitholders</b>		<b><u>271,238,686</u></b>		<b><u>283,783,352</u></b>

The notes on pages 17 to 25 are an integral part of these financial statements.

# Balance sheet

As at 28 February 2019

	Notes	28.02.19		28.02.18	
		£	£	£	£
<b>ASSETS</b>					
<b>Fixed assets:</b>					
Investments			<b>267,643,126</b>		<b>280,264,781</b>
<b>Current assets:</b>					
Debtors	8	2,623,838		2,860,539	
Cash and bank balances	9	<u>2,277,099</u>		<u>1,891,744</u>	
<b>Total current assets</b>			<b><u>4,900,937</u></b>		<b><u>4,752,283</u></b>
<b>TOTAL ASSETS</b>			<b>272,544,063</b>		<b>285,017,064</b>
<b>LIABILITIES</b>					
<b>Creditors:</b>					
Distribution payable		(604,097)		(519,660)	
Other creditors	10	<u>(701,280)</u>		<u>(714,052)</u>	
<b>TOTAL LIABILITIES</b>			<b><u>(1,305,377)</u></b>		<b><u>(1,233,712)</u></b>
<b>Net assets attributable to Unitholders</b>			<b><u>271,238,686</u></b>		<b><u>283,783,352</u></b>

The notes on pages 17 to 25 are an integral part of these financial statements.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the accounting year ended 28 February 2019

### 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 compliance with FRS102 and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by the Investment Association in May 2014 (and amended in June 2017). Unless otherwise stated all accounting policies are consistent with those of the prior year.

#### (b) Recognition of revenue

Revenue from quoted equities is recognised net of attributable tax credits when the security is quoted ex-dividend.

Interest from bank deposits is recognised on an accrual basis. All other revenue is recognised on a receipts basis.

Overseas revenue received after the deduction of withholding tax is shown gross of taxation, with the taxation consequences shown within the taxation charge.

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

The ordinary element of stock dividends is treated as revenue and forms part of the distribution. In the case of an enhanced stock dividend, the value of the enhancement is treated as capital and does not form part of the distribution.

#### (c) Treatment of expenses

All expenses (other than the Manager's periodic fee) incurred by the Fund have been borne by the Manager.

The Manager's periodic charge is deducted from revenue for the purpose of calculating the distribution.

#### (d) Distribution policy

The policy is to distribute all available revenue, after deduction of those expenses which are chargeable in calculating the distribution.

In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the year.

All remaining revenue is distributed in accordance with the Collective Investment Schemes Sourcebook.

Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

#### (e) Basis of valuation of investments

The investments, including derivatives, are valued at bid market value, excluding any accrued revenue, at 5pm on 28 February 2019, being the last working day of the accounting year.

Where values cannot be readily determined, the securities are valued at the Manager's best assessment of their value.

#### (f) Taxation

Provision is made for taxation at current rates on the excess of taxable investment revenue over expenses. Deferred tax is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences that are regarded as permanent. Any liability to deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

#### (g) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 5pm on 28 February 2019, being the last working day of the accounting year.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### 2. Net capital losses on investments

The net capital (losses)/gains on investments during the year comprise:

	28.02.19	28.02.18
	£	£
Currency gains/(losses)	17	(4,223)
Losses on non-derivative securities	<u>(6,025,906)</u>	<u>(1,429,635)</u>
<b>Net capital losses on investments</b>	<b><u>(6,025,889)</u></b>	<b><u>(1,433,858)</u></b>
Amounts included in net losses on investments in respect of special dividends which were treated as capital	<u>419,862</u>	<u>603,532</u>

### 3. Revenue

	28.02.19	28.02.18
	£	£
UK dividends	10,389,942	10,035,534
Overseas dividends	1,743,061	1,430,080
Property income	119,628	114,137
Bank interest	3,321	524
Stock dividends	<u>229,893</u>	<u>-</u>
<b>Total revenue</b>	<b><u>12,485,845</u></b>	<b><u>11,580,275</u></b>

### 4. Expenses

	28.02.19	28.02.18
	£	£
Payable to the Manager, associates of the Manager, and agents of either of them:		
<b>Manager's periodic charge</b>	<b><u>1,700,579</u></b>	<b><u>1,774,630</u></b>

Please note that the remaining expenses of the Fund are paid by the Manager.

### 5. Taxation

	28.02.19	28.02.18
	£	£
<b>(a) Analysis of charge in year</b>		
Overseas tax	<u>134,260</u>	<u>111,330</u>
<b>Total current tax charge for year (note 5b)</b>	<b><u>134,260</u></b>	<b><u>111,330</u></b>

### (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 authorised unit trust (20%). The differences are explained below:

	28.02.19	28.02.18
	£	£
Net revenue before taxation	10,784,819	9,805,469
Corporation tax at 20%	2,156,964	1,961,094
Effects of:		
Revenue not subject to taxation	(2,472,579)	(2,293,123)
Current year expenses not utilised	315,615	332,029
Irrecoverable overseas tax	<u>134,260</u>	<u>111,330</u>
<b>Current tax charge for year (note 5a)</b>	<b><u>134,260</u></b>	<b><u>111,330</u></b>

### (c) Provision for deferred taxation

At 28 February 2019 there is a potential deferred tax asset of £10,312,443 (28.02.18: £9,996,828) in relation to surplus management expenses. It is unlikely the Fund will generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised in the year.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### 6. Distributions

The distributions take account of amounts received on the issue of units and amounts deducted on the cancellation of units, and comprise:

	28.02.19	28.02.18
	£	£
Interim dividend distribution	6,414,523	6,112,516
Final dividend distribution	4,086,495	3,468,467
	<u>10,501,018</u>	<u>9,580,983</u>
Add: Amount deducted on cancellation of units	164,566	128,880
Deduct: Income received on issue of units	(14,517)	(16,199)
<b>Net distribution for the year</b>	<b><u>10,651,067</u></b>	<b><u>9,693,664</u></b>

### 7. Movement between net revenue and distributions

	28.02.19	28.02.18
	£	£
Net revenue after taxation	10,650,559	9,694,139
Movement in net income property	508	(475)
<b>Net distribution</b>	<b><u>10,651,067</u></b>	<b><u>9,693,664</u></b>

### 8. Debtors

	28.02.19	28.02.18
	£	£
Sales awaiting settlement	485,735	974,185
Accrued revenue	2,028,976	1,809,010
Overseas tax recoverable	109,127	77,344
<b>Total debtors</b>	<b><u>2,623,838</u></b>	<b><u>2,860,539</u></b>

### 9. Cash and bank balances

	28.02.19	28.02.18
	£	£
<b>Cash and bank balances</b>	<b><u>2,277,099</u></b>	<b><u>1,891,744</u></b>

### 10. Creditors

	28.02.19	28.02.18
	£	£
Amounts payable for cancellation of units	575,206	582,086
Accrued expenses	126,074	131,966
<b>Total creditors</b>	<b><u>701,280</u></b>	<b><u>714,052</u></b>

### 11. Reconciliation of units

	Income	Accumulation
Opening units issued at 01.03.18	19,819,963	65,998,377
Units issued	619,000	376,000
Units cancelled	(1,370,500)	(4,050,000)
Units converted	5,064	(2,935)
<b>Closing units at 28.02.19</b>	<b><u>19,073,527</u></b>	<b><u>62,321,442</u></b>

### 12. Equalisation

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

### 13. Contingent liabilities and outstanding commitments

There were no contingent liabilities and outstanding commitments at the balance sheet date (28.02.18: no contingent liabilities and outstanding commitments).

### 14. Risk in relation to financial instruments

In accordance with its investment objectives and policies, the Fund holds certain financial instruments.

These comprise:

- Securities held in accordance with the investment objectives and policies;
- Cash and short-term debtors and creditors that arise directly from its operations;
- Unitholders' funds which represent investors' monies which are invested on their behalf.

The Fund does not trade in financial instruments to make short-term speculative gains. It buys investments with the intention of tracking the FTSE® 100 Index.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

Overall responsibility for the Marks and Spencer Unit Trust Funds rests with the Board of Directors of Marks and Spencer Unit Trust Management Limited (M&SUTM), which is part of the HSBC group. The performance of the Fund, and the individual investment managers to the Fund, is monitored by the M&SUTM Business Committee on a monthly basis. This Committee reports any findings or recommendations to the Board of Directors. HSBC Global Asset Management, as the overall investment manager to the Fund, also provides its own separate performance analysis to the Board of Directors on a quarterly basis. The accountability for Fund performance and the selection or de-selection of investment managers sits with the Board of Directors. They are responsible for ensuring that the Fund is managed in accordance with the Fund's investment objective, policy and risk profile.

The main risks arising from the Fund's financial instruments are market price risk, foreign currency risk, liquidity risk and credit/counterparty risk. The Manager has policies for managing each of these risks and these are summarised below. These policies have remained unchanged for the current and prior year.

### Market price risk

The Fund's investment portfolio is exposed to market price fluctuations. As most of the Fund is invested in shares on the stock market, such price movements can significantly affect the Fund value.

The risk is reduced by having a spread of investments in the Fund, as shown in the Portfolio Statement in this report.

In addition, we ensure that the Fund complies with the investment guidelines and investment and borrowing powers set out in the Trust Deed and the Prospectus. This is done through daily checks and quarterly reviews.

If market prices had increased by 10% as at the balance sheet date, the net asset value of the Fund would have increased by £26,764,313 (28.02.18: £28,026,478). If market prices had decreased by 10% as at the balance sheet date, the net asset value of the Fund would have decreased by £26,764,313 (28.02.18: £28,026,478). These calculations assume all other variables remain constant.

### Foreign currency risk

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

The Manager may seek to manage exposure to currency movements by using forward exchange contracts or by hedging the Sterling value of investments that are priced in other currencies.

Revenue received in other currencies is converted to Sterling on the date of receipt.

The balance sheet can be affected by movements in foreign exchange rates. The table below shows the foreign currency holdings at the report date. As the Fund invests mainly on the UK stock market, there is usually very little investment in foreign currency assets.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

Net currency monetary/non-monetary assets and liabilities consist of:

	Portfolio of investments		Net current assets		Net assets	
	28.02.19	28.02.18	28.02.19	28.02.18	28.02.19	28.02.18
	£	£	£	£	£	£
Sterling	267,643,126	280,259,359	2,041,621	2,051,854	269,684,747	282,311,213
Euro	-	5,422	84,297	76,378	84,297	81,800
United States dollar	-	-	1,469,642	1,390,339	1,469,642	1,390,339
<b>Total</b>	<b><u>267,643,126</u></b>	<b><u>280,264,781</u></b>	<b><u>3,595,560</u></b>	<b><u>3,518,571</u></b>	<b><u>271,238,686</u></b>	<b><u>283,783,352</u></b>

If sterling to foreign currency exchange rates had increased by 10% as at the balance sheet date, the net asset value of the Fund would have decreased by £155,394 (28.02.18: £147,214). If sterling to foreign currency exchange rates had decreased by 10% as at the balance sheet date, the net asset value of the Fund would have increased by £155,394 (28.02.18: £147,214).

### Interest rate risk

Interest rate risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in interest rates. Cash balances are held with HSBC Bank plc and interest is earned at a rate linked to the UK base rate, or international equivalent.

At the year end date 0.84% (28.02.18: 0.67%) of the Fund's assets by value were interest bearing.

A change in interest rates would not have a significant impact on the Fund.

### Liquidity risk

This is the risk that the Fund does not have enough liquid assets, such as cash, to cover any liabilities that become due.

The main liability of the Fund is the redemption of any units that Unitholders may wish to sell. All of the Fund's financial liabilities are payable on demand. To manage this risk, the majority of the Fund's assets are in shares of large companies in the UK which can usually be sold immediately to raise cash to settle any liabilities.

In addition, a small percentage of the Fund is held as cash in Sterling with the custodian, HSBC, and interest is earned at a rate linked to the UK base rate.

### Credit/counterparty risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment (purchase), or cash (sale) after the Fund has fulfilled its responsibilities.

The extent of this risk is usually limited as amount awaiting settlement from transactions at any point is only a small proportion of the Fund.

This risk is managed by the investment adviser, carefully selecting the authorised counterparties they deal with and dealing only on eligible stock markets. Cash in the Fund is held with the custodian, HSBC. The Trustee appoints the custodian and has the regulatory responsibility for monitoring them.

The Fund's assets held with banks and with the Trustee are also exposed to credit risk. The banks and Trustee used by the Fund are subject to regular review.

### 15. Post balance sheet events

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### 16. Ultimate controlling party and related party transactions

The Manager is regarded as a controlling party of the Fund by virtue of having the ability to act in concert in respect of Fund operations. The ultimate controlling party of the Manager is HSBC Group plc. This entity and its subsidiaries are also related parties of the Fund.

At the year end, the Manager and its associates held 0.01% (0.01% as at 28 February 2018) of the Fund's units in issue.

Details of all other material related party transactions during the year and any payment amounts outstanding at the balance sheet date are disclosed in notes 3, 4, 8 and 10 to the financial statements and the statement of change in net assets attributable to Unitholders and the portfolio statement. Within note 10, accrued expenses (including amounts due to associates and agents) of £126,074 (£131,966 as at 28 February 2018) are due to the Manager.

At the year end the Fund held £18,455,191 (£21,647,198 as at 28 February 2018) in HSBC Holdings, the parent company of the Manager. During the period transactions in HSBC Holdings totalled £1,700,892 (£1,304,425 as at 28 February 2018).

Certain expenses of the Fund amounting to £84,460 (£85,452 as at 28 February 2018) were met by the Manager in order that the fund can meet the CAT standards.

There were no units held by the Trustee or its associates. There were no other material unitholders at the year end.



# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### 17. Portfolio transaction costs

For the year ended 28 February 2019

	Purchases		Commissions		Taxes		Other expenses	
	£	£	%	£	%	£	%	
<b>Analysis of total purchase costs</b>								
Equity transactions	19,229,049	2,118	0.01	63,996	0.33	22,855	0.12	
Fund transactions	14,710,907	4,207	0.03	-	-	-	-	
Corporate actions	140,115	-	-	-	-	-	-	
Total purchases before transaction costs	<b>34,080,071</b>	<b>6,325</b>		<b>63,996</b>		<b>22,855</b>		
Transaction costs	<b>93,176</b>							
Total purchases after commission and tax	<b><u>34,173,247</u></b>							

	Sales		Commissions		Taxes		Other expenses	
	£	£	%	£	%	£	%	
<b>Analysis of total sales costs</b>								
Equity transactions	25,564,453	2,967	0.01	-	-	276	-	
Fund transactions	14,666,954	4,050	0.03	-	-	-	-	
Corporate actions	354,912	-	-	-	-	-	-	
Total sales before transaction costs	<b>40,586,319</b>	<b>7,017</b>		-		<b>276</b>		
Transaction costs	<b>(7,293)</b>							
Total sales after commission and tax	<b><u>40,579,026</u></b>							

### Commissions and taxes as % of average Net Assets

Commissions	0.01%
Taxes	0.03%

Portfolio transaction costs are incurred by the Fund when buying and selling underlying investments. These costs vary depending on the class of investment, country of exchange and method of execution. These costs can be classified as either direct or indirect transaction costs:

**Direct transaction costs:** Broker commissions, fees and taxes.

**Indirect transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the Fund's underlying investments.

In order to protect existing investors from the effects of dilution, portfolio transaction costs incurred as a result of investors buying and selling units in the Fund are recovered from those investors through a 'dilution levy' applied as stated in the Fund's prospectus.

At the balance sheet date the portfolio dealing spread was 0.04%, being the difference between the respective bid and offer prices for the Fund's investments.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### For the year ended 28 February 2018

	Purchases		Commissions		Taxes		Other expenses	
	£	£	%	£	%	£	%	
<b>Analysis of total purchase costs</b>								
Equity transactions	15,240,120	2,014	0.01	-	-	75,655	0.50	
Fund transactions	15,006,758	4,084	0.03	-	-	-	-	
Corporate actions	7,965	-	-	-	-	-	-	
Total purchases before transaction costs	<b>30,254,843</b>	<b>6,098</b>		-		<b>75,655</b>		
Transaction costs	<b>81,753</b>							
Total purchases after commission and tax	<b><u>30,336,596</u></b>							

	Sales		Commissions		Taxes		Other expenses	
	£	£	%	£	%	£	%	
<b>Analysis of total sales costs</b>								
Equity transactions	21,412,013	2,329	0.01	-	-	342	-	
Fund transactions	15,949,994	4,396	0.03	-	-	-	-	
Corporate actions	126,089	-	-	-	-	-	-	
Total sales before transaction costs	<b>37,488,096</b>	<b>6,725</b>		-		<b>342</b>		
Transaction costs	<b>(7,067)</b>							
Total sales after commission and tax	<b><u>37,481,029</u></b>							

### Commissions and taxes as % of average Net Assets

Commissions	0.00%
Taxes	0.03%

Portfolio transaction costs are incurred by the Fund when buying and selling underlying investments. These costs vary depending on the class of investment, country of exchange and method of execution. These costs can be classified as either direct or indirect transaction costs:

**Direct transaction costs:** Broker commissions, fees and taxes.

**Indirect transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the Fund's underlying investments.

In order to protect existing investors from the effects of dilution, portfolio transaction costs incurred as a result of investors buying and selling units in the Fund are recovered from those investors through a 'dilution levy' applied as stated in the Fund's prospectus.

At the balance sheet date the portfolio dealing spread was 0.05%, being the difference between the respective bid and offer prices for the Fund's investments.

# Notes to the financial statements

This section provides a more detailed explanation of specific items included in the balance sheet and statement of total return.

## For the year ended 28 February 2019

### 18. Fair value of investments

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

**Level 1:** unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

**Level 2:** inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level 3:** inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

#### For the year ended 28 February 2019

Category	1	2	3	Total
Investment Assets	£	£	£	£
Equities	267,351,030	-	-	267,351,030
Pooled investment vehicles	292,096	-	-	292,096
	<b>267,643,126</b>	-	-	<b>267,643,126</b>

#### For the year ended 28 February 2018

Category	1	2	3	Total
Investment Assets	£	£	£	£
Equities	279,977,759	-	-	279,977,759
Pooled investment vehicles	287,022	-	-	287,022
	<b>280,264,781</b>	-	-	<b>280,264,781</b>

### 19. Stock lending activities

The Fund does not currently undertake stock lending.

# Distribution tables

For the year ended 28 February 2019

## Interim

	<b>Net income 2018</b>	<b>Equalisation 2018</b>	<b>Distribution paid 2018</b>	<b>Distribution paid 2017</b>
	<b>pence per unit</b>	<b>pence per unit</b>	<b>pence per unit</b>	<b>pence per unit</b>
Group 1: Units purchased prior to 1 March 2018				
Group 2: Units purchased between 1 March 2018 to 31 August 2018				
<b>Income units</b>				
Group 1	4.9494	-	4.9494	4.5969
Group 2	3.1919	1.7575	4.9494	4.5969
<b>Accumulation units</b>				
Group 1	8.5392	-	8.5392	7.6736
Group 2	5.5069	3.0323	8.5392	7.6736

## Final

	<b>Net income 2019</b>	<b>Equalisation 2019</b>	<b>Distribution payable 2019</b>	<b>Distribution paid 2018</b>
	<b>pence per unit</b>	<b>pence per unit</b>	<b>pence per unit</b>	<b>pence per unit</b>
Group 1: Units purchased prior to 1 September 2018				
Group 2: Units purchased between 1 September 2018 to 28 February 2019				
<b>Income units</b>				
Group 1	3.1672	-	3.1672	2.6219
Group 2	2.1280	1.0392	3.1672	2.6219
<b>Accumulation units</b>				
Group 1	5.5878	-	5.5878	4.4680
Group 2	3.7543	1.8335	5.5878	4.4680

# Important changes

The following changes were made to the Fund's Prospectus during the reporting period ending 28 February 2019:

## Prospectus update 31 August 2018:

- "Definitions" – "Client Money" wording has been updated.
- Section 3 "Investment Objective, Policy & Strategy" – section has been updated to include Benchmark Regulation wording.
- Section 4 "Best Execution" – wording updated to reflect standardised terms and current website links.
- Section 5 "Fund Property – Exercising Voting Rights" – wording updated to reflect current website links.
- Section 7 "Historical Performance" – figures updated to reflect latest performance.
- Section 9 "Distributions" – wording updated to reflect cessation of short reports.
- Section 12 "Manager" – wording updated to reflect current directorships.
- Section 13 "Delegated Functions" – wording updated to reflect current delegated function names.
- Section 14 "Trustee" – wording updated to reflect the new address of the Trustee.
- Section 15 "Investment Manager" – amendment to reflect current postcode of the Investment Manager.
- Section 20 "Fees and Expenses of the Manager" – updated to remove wording which is no longer relevant.
- Section 24 "Purchase and Redemption of Units" – wording updated to show current written correspondence address for the "Savings & Investments Team" at M&S Bank.
- Section 27 "General Information" – wording amended to reflect that the reference to the "long report" is no longer relevant as this has effectively become the only report with the cessation of the short report.

- Section 28 "Taxation" – wording amended for whole section to include current fund taxation details.
- Section 31 "Risks" – wording has been updated to include Brexit risks.
- Section 32 "Anticipated Tracking Error" – wording updated to include the latest figure.
- Section 33 "Other Matters" – wording updated to include the new address for the Financial Conduct Authority and the change to entity wording as a result of Ring-fencing legislation.
- Appendix 1 – table updated to reflect global sub-custodians.

## Prospectus update 7 December 2018:

- Opening section updated to highlight the changes to the telephony support operating times.
- Section 24 "Purchase and Redemption of Units" updated to highlight the changes to the telephony support operating times.

The following changes have been made to the Fund's Key Investor Information Document (KIID) during the reporting period ending 28 February 2019:

## KIID Update 19 February 2019

- Update of "Past performance" to include performance data for 2018.

# Remuneration

Marks and Spencer Unit Trust Management Limited (M&SUTM) is the authorised Fund Manager and operator of four Unit Trust Funds governed by the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive. Under the UCITS V Directive, the Manager is required to disclose information relating to the remuneration paid to its staff for the financial year.

No staff are directly employed by M&SUTM. Staff employed by Marks & Spencer Financial Services plc (M&SFS) carry out a number of activities on behalf of M&SUTM. M&SUTM does not directly manage the investments held in the Funds. Fund management has been delegated to HSBC Global Asset Management (UK) Limited (AMEU), who is not currently sub-delegating management of the Fund to any investment adviser. M&SUTM, M&SFS, and AMEU are part of the HSBC Holdings plc Group. HSBC Global Asset Management (UK) Limited is an authorised UCITS Management Company and complies with the Financial Conduct Authority's remuneration rules applicable to UCITS management companies.

We consider that the remuneration information of employees of M&SFS and AMEU, carrying out activities for M&SUTM UCITS Funds, is not materially relevant for the M&SUTM UCITS Funds taking into account the other activities carried out by these employees for HSBC Group. Accordingly, no remuneration related information has been provided.

The up-to-date remuneration policy of the Manager, including, but not limited to, a description of how remuneration and benefits are determined and the governance arrangements for determining remuneration and benefits is available at <https://bank.marksandspencer.com/remuneration-policy>.

A paper copy is available from the Manager free of charge upon request.

Please call 0808 005 5555 if you would like to receive this information in an alternative format such as large print, Braille or audio.

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