



# The McHattie Warrants Alert Fund

Manager's annual report  
as at 30th September 2000

# Contents

Page 2	<ul style="list-style-type: none"><li>• <b>Fund Profile and Investment Objective of the Scheme</b><ul style="list-style-type: none"><li>Investment Objective</li><li>Authorised Status</li><li>Risk Factors</li><li>Net Asset Value / Fund Size</li><li>Price and Income History</li><li>Fund Performance</li></ul></li></ul>
Page 3	<ul style="list-style-type: none"><li>• <b>Manager's Investment Report</b><ul style="list-style-type: none"><li>European Investment Trust Warrants</li><li>Special Situations</li></ul></li></ul>
Page 4	<ul style="list-style-type: none"><li>Latin American Investment Trust Warrants</li><li>Japanese Investment Trust Warrants</li><li>UK Investment Trust Warrants</li></ul>
Page 5	<ul style="list-style-type: none"><li>Asia (excluding Japan) Investment Trust Warrants</li><li>Emerging Markets Investment Trust Warrants</li><li>Technology Investment Trust Warrants and Capital Shares</li></ul>
Page 6	<ul style="list-style-type: none"><li>US Investment Trust Warrants</li><li>Covered Warrants</li><li>UK Equity Warrants</li><li>Cash</li></ul>
Page 7	<ul style="list-style-type: none"><li>• <b>Total Return and Movements in Unitholders' Funds</b></li></ul>
Page 8	<ul style="list-style-type: none"><li>• <b>Portfolio of Investments and Net Current Assets</b></li></ul>
Page 9	<ul style="list-style-type: none"><li>• <b>Balance Sheet as at 30th September 2000</b></li></ul>
Page 10	<ul style="list-style-type: none"><li>• <b>Portfolio Changes for the Period From 22nd October 1999 to 30th September 2000</b><ul style="list-style-type: none"><li>Purchases</li></ul></li></ul>
Page 11	<ul style="list-style-type: none"><li>Sales</li></ul>
Page 12	<ul style="list-style-type: none"><li>• <b>Notes to the Financial Statements as at 30th September</b><ul style="list-style-type: none"><li>Accounting Policies</li></ul></li></ul>
Page 13	<ul style="list-style-type: none"><li>Net Gains on Investments</li><li>Gross Income</li><li>Expenses</li><li>Distributions</li><li>Debtors</li></ul>
Page 14	<ul style="list-style-type: none"><li>Creditors</li><li>Interest Rate Risk Profile of Financial Assets and Liabilities</li><li>Contingent Liabilities and Outstanding Commitments</li><li>Related Party Transactions</li><li>Directors' Statement</li></ul>
Page 15	
Page 16	<ul style="list-style-type: none"><li>• <b>Responsibilities of the Manager and the Trustee</b></li></ul>
Page 17	<ul style="list-style-type: none"><li>• <b>Report of the Trustee to the Unitholders</b></li></ul>
Page 18	<ul style="list-style-type: none"><li>• <b>Auditors' Report to the Unitholders</b></li></ul>
Page 19	<ul style="list-style-type: none"><li>• <b>General Information</b><ul style="list-style-type: none"><li>Valuation of the Fund</li><li>Buying and Selling of Units</li><li>Prices</li><li>Stamp Duty Reserve Tax (SDRT)</li><li>Other Information</li></ul></li></ul>
Page 20	<ul style="list-style-type: none"><li>• <b>Top-Up Investment Application Form - with a 2% discount for lump sums</b></li></ul>

# Fund Profile and Investment Objective of the Scheme

## Investment Objective

The McHattie Warrants Alert Fund is an authorised UK unit trust. Its objective is to achieve capital growth in the medium to long-term through an internationally diversified portfolio of investment trust warrants, company warrants, covered warrants, and offshore closed end fund warrants, together with investment trust capital shares. The scheme may also invest in the equities of listed companies as and when it is considered to be in the best interests of the Fund. It is anticipated that there may be periods of significant turnover of investments within the Fund. There are no specific restrictions on the investments of the Fund (as to economic sectors or geographical areas) except as provided in the Regulations.

## Authorised Status

The McHattie Warrants Alert Fund is an Authorised Unit Trust Scheme established on 24th August 1999 and launched on 22nd October 1999. The Fund is a 'warrants fund' authorised under Section 78 of the Financial Services Act 1986. The currency of the Fund is pounds sterling.

## Risk Factors

Unit trusts should be regarded as medium to long term investments and investors should be aware that the value of their units and any income from them can go down as well as up. Warrants may involve a high degree of 'gearing' or 'leverage'. This means that a small movement in the price of the underlying asset may have a disproportionately dramatic effect on the investment, both unfavourable as well as favourable. Moreover, because of the limited life of warrants, they may expire worthless. Changes in rates of exchange may also have an adverse effect on the value or price of an investment in sterling terms.

## Net Asset Value/Fund Size

Date	Net Asset Value	Units in Issue	Net Asset Value per Unit
31st March 2000	£3,814,105	3,573,201	106.74p
30th September 2000	£3,740,865	3,606,177	103.73p

## Price and Income History

The Fund was launched on 22nd October 1999 at a unit price of 100p. Warrants do not pay dividends, therefore no income is available for distribution at the period end.

Calendar Year	Highest Buying Price	Lowest Selling Price
1999	129.27p	94.28p
2000 (to 30th September)	130.58p	90.97p

## Prices per unit (on last dealing day of period)

Date	Buying	Selling	Yield
29th September 2000	112.01p	104.17p	0.00%

## Fund Performance

From 22nd October 1999 to 30th September 2000 the buying price of units rose by 12%.

## Manager's Investment Report

The first year of the McHattie Warrants Alert Fund has been one of great volatility and uncertainty in worldwide stock markets, and for this reason we are pleased to report a gain of 12% in the offer (buying) price of the units. Since the Fund's launch on 22<sup>nd</sup> October 1999 the offer price has reached a high of 130.58p and a low of 99.97p, reflecting general turbulence in world equity markets during this time. The major contributors to volatility were concerns regarding the slowing of the US and UK economies, the continued weakness of the euro against all major currencies, the rapid increase in commodity prices – particularly oil – which has led to increased fears about inflation in global economies, and worries about the valuations of technology companies. These uncertainties are expected to continue for at least the short-term, which should mean the high level of volatility will continue. Over the medium-term, we see a positive trend in valuations and we expect to take full advantage of opportunities in world markets with unit holders benefiting from the geared nature of the holdings within the Fund.

During the second half of the year, the Fund benefited from corporate activity in both the investment trust sector and the broader equity market. The Fund took advantage of several situations which arose from reconstructions and acquisitions to help maintain the value of its assets during this unstable period. Corporate activity, principally within the investment trust sector, is likely to continue and we will attempt to take full advantage of any potential gains.

Below we provide a review of each section of the Fund's portfolio (with the weighting in each sector on 30<sup>th</sup> September 2000). At the end of the period the average technical figures for the warrants within the Fund, weighted by the size of holding within the portfolio, were gearing of 2.4 times, premium 12.96%, and a capital fulcrum point of 4.10%. The reduction in the gearing level and the capital fulcrum point since the interim results reflects our decision to limit exposure to the covered warrants market during these difficult market conditions, and to increase holdings in attractively valued but lower geared investment trust warrants.

### European Investment Trust Warrants (17.66%)

Continental European investment trust warrants remain the largest positions within the portfolio, following their excellent performance in the first half of the year. Our holdings in TR European Growth Trust warrants and Gartmore European Investment Trust warrants remain the two largest single holdings, and we expect to maintain a high level of exposure to these funds in the medium-term. The European economy remains behind the cycles of both the US and the UK, which would suggest that, with the support of a weak currency and continued expansion of the global economy, this geographic sector should continue to perform well into the future. With interest rates at historically low levels, and unemployment remaining comparatively high, there appears to be scope for further non-inflationary expansion in the European region.

### Special Situations (13.42%)

During the second half of the year we took advantage of several special situations which enabled us to reap good returns. As we mentioned in the interim report, we had acquired a holding of 120,000 warrants in pub and club operator Northern Leisure and were pleased to see rival leisure company Luminar make an attractive offer for Northern. The offer stimulated us to purchase a further 50,000 Northern Leisure warrants when, after scrutinising the offer documentation, it became apparent to us that the warrants did not reflect the true value of the cash and share offer. Following completion of the offer the Fund received a cash lump sum and a holding of 13,577 Luminar shares. We intend to hold these shares for the present time as we believe Luminar remains undervalued at current levels. At the year end, the Fund had made a 34% gain on its original investment in Northern Leisure warrants.

A similar situation occurred when technology incubator company NewMedia SPARK made an offer for Softech.net.com. The offer included a shares plus warrants package which, in our opinion, failed to include the potential value of the warrants in the overall offer price. The Fund purchased a total of 800,000 Softech.net.com shares prior to the completion of the offer, and in exchange received 320,000 NewMedia SPARK ordinary shares and 80,000 warrants. The Fund has since disposed of 50,000 NewMedia SPARK shares, and intends to dispose of the remainder when market conditions are more favourable for this type of investment company and the share price more closely reflects the true valuation of its underlying investments. To date, the Fund has made a 35% gain on its original investment in Softech.net.com.

During the second half of the year, venture capital fund Pantheon International Participations decided to reconstruct itself, stripping out the large cash element of its portfolio which was proving to be a drag on the overall trust's asset performance. The creation of participating loan notes (PLNs) split Pantheon's cash from its investments, into two separate forms of listed equity. This helped lift the value of the cash position, which had traded at a discount due to the nature of the investment trust market, and helped the performance of the ordinary shares which now consist solely of the fund's equity investments. We took advantage of what we perceived would be an uplift not only in the valuation of the fund, but also the performance of the underlying assets, and added a further 26,000 warrants to the 25,000 we purchased in the first half of the year. The subsequent performance in the underlying ordinary shares and the PLNs has been excellent, and the Fund's overall return on its investment is 128%.

### **Latin American Investment Trust Warrants (11.14%)**

Latin American markets are inextricably linked to the US, and are dependent on inflows of cash from foreign investors. This geographic region – along with the US – had performed well since hitting a low in May, but the sell off in September was sharp and acute, with Brazil's Bovespa Index losing 10.5% from its August peak. The Mexican IPC Index shows a similar tale, with the index 15.8% below its July peak. With ongoing economic reforms, and increasing infrastructure investment in the region, we remain positive about the long-term future of the sector and have, as a result, increased our exposure to the sector with a further purchase of Scudder Latin America Investment Trust warrants.

As this report is finalised, Scudder Latin America Investment Trust has become the latest investment trust to succumb to the demands of arbitrageurs, and decided to offer holders of the shares and warrants an exit due to the persistently wide discount to net assets at which the shares traded. This should provide us with a positive cash exit from the warrants.

### **Japanese Investment Trust Warrants (10.41%)**

The sun is yet to rise on the Japanese stockmarket, and the weakness experienced at the end of the first half has continued. The fragile Japanese economy continues to provide chequered signals of a fledgling recovery and this, along with numerous high profile bankruptcies, has weighed heavily on the stockmarket. The continued weakness in the sector has led to a disappointing performance from this portion of the Fund's portfolio, but in the long-term the Japanese market should perform well. In the short-term, however, it is likely to remain nervous.

### **UK Investment Trust Warrants (10.07%)**

One of the few sectors showing a gain during this period has been the UK smaller companies market. The FTSE Small Cap (excluding investment trusts) Index has risen by 1.8% during the six months since the interim results, which has been reflected in the performance of our

holdings in smaller companies investment trust warrants. The partial recovery in value stocks has also helped to lift the value of our holding in Perpetual Income & Growth Trust warrants over the second half. During the period we repurchased a holding in Investors Capital Trust warrants which offers general exposure to the UK growth sector.

### **Asia (excluding Japan) Investment Trust Warrants (9.81%)**

Asian stockmarkets were hit by, amongst other factors, the weakness in the technology market during the second half of the year, which erased many of the gains achieved in the first half of the year. Some well-timed sales of Aberdeen Asian Smaller Companies Trust warrants in the first half helped limit the downside. This portion of the Fund's portfolio weighed on its performance during the second period, but we remain confident that Asian markets, along with other emerging markets, offer long-term growth and we are keen to maintain exposure to this area in the Fund's portfolio.

### **Emerging Markets Investment Trust Warrants (7.68%)**

The performance of Templeton Emerging Markets Investment Trust has continued to disappoint us, and this has been reflected in the weak performance of the warrants. The trust's manager, Mark Mobius, has a value based approach to his investments, which has not proved to be the most successful strategy of late. Emerging markets have also been hit by weakness in US markets and the prospects for exports from emerging markets economies. Over the long-term, Templeton Emerging Markets Investment Trust should re-establish itself as the premier trust in the sector, but this is a long-term view. The attractive level of gearing, and the potential for a sharp recovery in emerging markets has persuaded us to maintain our holding in the warrants, but Dr Mobius must improve his fund's performance or we will be forced to sell it from the Fund.

### **Technology Investment Trust Warrants and Capital Shares (6.21%)**

Investors will be well aware that the technology, media and telecoms (TMT) sectors have come to the fore during the past 12 months, leading the markets initially higher and then lower during a turbulent period. Over the past six months the US technology bellwether Nasdaq Composite Index has slumped by almost 20%, and is 27% down from its March peak, as investors have stampeded from the sector, much as they herded into the sector in the fourth quarter last year. The increased importance of this sector has prompted us to create a separate section in the report to show our direct exposure to warrants of investment trusts investing in this specific area. Holdings within this sector include Henderson Technology Trust warrants and Murray Enterprise Trust warrants. Other holdings, such as Edinburgh Small Companies Trust and TR European Growth Trust, invest in these sectors as part of a wider portfolio, but are included elsewhere under their relevant headings.

A sell off in technology stocks during the month of August reduced significantly the value of this section of the portfolio. This sell-off, we believe, is a temporary one and we think the sector could experience a period of strength during the final quarter of the current calendar year. The difference will be that investors are likely to be far more discerning with their investments. Rather than the rush to plough cash into the sector we experienced during the final quarter of 1999, investors are likely to pick and choose the companies which have a long-term future and prospects for near-term profitability, whilst many of the 'dot.com' businesses which have weak business plans and no real product are likely to be abandoned and left to fail. We believe that parts of the sector, including select software companies, business-to-business (B2B) internet facilitators, and mobile phone component manufacturers continue to offer excellent value, and that these will continue to perform well over the long-term as the weaker competitors fall away. We intend to maintain a significant portion of the portfolio in the technology sector.

## **US Investment Trust Warrants (6.04%)**

It is surprisingly difficult to obtain exposure to the US via the UK investment trust warrants market. Our exposure to the US is gained through an investment in the warrants of Foreign & Colonial US Smaller Companies, which invests in small and medium-sized 'value' US companies. This trust has remained less volatile than the US market in general, as the holdings within the trust tend to be more 'old economy' in nature. We believe that over the long-term some level of balance will return to the market and that value companies will, once again, form an important part of investors' portfolios. We are happy to hold these low premium warrants with the prospect of solid returns over the long-term.

## **Covered Warrants (4.16%)**

During this period of increased volatility, the divergence in valuations between covered warrants and investment trust warrants intensified. With many investment trust warrants trading at or around zero premiums, and the premiums on covered warrants increasing, we found it increasingly difficult to justify investments in the sector. The lower levels of gearing in the investment trust sector also provided us with some downside protection during this uncertain period. The result has been a reduction in the level of exposure to covered warrants in the second half of the year. During the second half the 'old economy' experienced something of a recovery, which enabled us to exit the covered warrants we invested in during the first half. These included sales of warrants on insurer Royal & Sun Alliance, retailer Boots, and the basket of water companies. We took advantage of a setback in telecom stocks to open covered warrant positions on Vodafone and Spain's Telefonica. Both are rated among the sector's better companies, and although the European round of auctions for third generation mobile phone licences has proved expensive, both companies are expected to be well placed to experience a strong rally once the auction season nears its end. It remains our intention to increase the Fund's exposure to the covered warrants sector once market conditions allow.

## **UK Equity Warrants (1.16%)**

Following the disposal of our holding in BAE Systems (formerly British Aerospace) warrants in April and May, the Fund's exposure to equity warrants has been reduced significantly. Our only holdings of equity warrants are Sanctuary Group, which have performed extremely well since the company's interim results in June, and NewMedia SPARK warrants (which are included under Special Situations, above). Sanctuary is best known as the management company for the heavy metal band, Iron Maiden. However, it is rapidly expanding its internet exposure and record label activities and the future looks very bright for this small company, with analysts forecasting rapid earnings growth over the next few years.

## **Cash (2.24%)**

The figure shows that the cash level of the fund has fallen below the 5% target level, which reflects our decision to gain full exposure to current valuations in the investment trust warrants sector. We feel the recent correction in western markets offers a buying opportunity and we have taken advantage of the low valuations to top-up holdings in some key areas.

**McHattie Investment Management Limited**  
**Manager**  
**26<sup>th</sup> October 2000**

## Total Return and Movements in Unitholders' Funds For the Period from 22nd October 1999 to 30th September 2000

<b>Total Return</b>	<b>Note</b>	<b>30th September 2000</b>
		<b>£</b>
Net gains on investments	2	142,945
Exchange losses		(1,890)
Gross income	3	30,329
Expenses	4	<u>(66,745)</u>
Net deficit		<u>(36,416)</u>
<b>Total return for the period</b>		<b>104,639</b>
Distributions	5	<u>1,077</u>
<b>Net increase in unitholders' funds from investment activities</b>		<b><u>105,716</u></b>
 <b>Movements in Unitholders' Funds</b>		
Amounts received on creation of units		4,186,545
Less: Amounts paid on cancellation of units		<u>(549,280)</u>
		3,637,265
Net increase in unitholders' funds		
From investment activities		105,716
Stamp duty reserve tax		(2,116)
		<u>103,600</u>
<b>Net assets at the end of the period</b>		<b><u>3,740,865</u></b>

## Portfolio of Investments and Net Current Assets As at 30th September 2000

Holding	Portfolio of Investments	Total net assets	
		Value £	%
80,000	Equity Warrants NewMedia SPARK	14,600	0.39
100,000	Sanctuary Group	43,500	1.16
		<u>58,100</u>	<u>1.55</u>
	<b>Investment Trust Warrants and Capital Shares</b>		
352,500	Aberdeen Asian Smaller Companies	152,456	4.07
55,000	Aberforth Smaller Companies	96,525	2.58
215,000	Baillie Gifford Shin Nippon 2005	106,425	2.84
140,000	Baring Emerging Europe	116,945	3.13
175,000	Deutsche Latin American	35,438	0.95
25,000	Discovery	24,500	0.65
60,000	Edinburgh Small Companies	85,500	2.29
281,000	F & C Latin American	229,974	6.14
320,000	Fidelity Japanese Values	104,000	2.78
10,000	Fidelity Special Values	11,450	0.31
425,000	Fleming Asian	122,187	3.27
200,000	Foreign & Colonial US Smaller Companies	226,000	6.04
200,000	Framlington NetNet Inc Growth (Capital Shares)	16,000	0.43
99,000	Gartmore European 2000/04	296,010	7.91
40,000	Henderson Technology	153,200	4.10
50,000	Hill Samuel UK Emerging Companies	43,250	1.16
795,000	Invesco Tokyo	103,350	2.76
50,000	Investors Capital	40,750	1.09
80,000	Mercury European	90,000	2.41
29,000	Murray Enterprise	70,325	1.88
250,000	Murray Japan Growth & Income	40,000	1.07
51,000	Pantheon International Participations	179,265	4.79
250,000	Perpetual Income & Growth	74,375	1.99
450,000	Schroder AsiaPacific	92,250	2.47
175,000	Schroder Emerging Countries	23,625	0.63
35,875	Schroder Japan Growth	35,875	0.96
600,000	Scudder Latin America	151,500	4.05
675,000	Templeton Emerging Markets	146,813	3.92
104,000	TR European Growth	274,560	7.34
400,000	TR Property	40,500	1.08
		<u>3,183,048</u>	<u>85.09</u>
	<b>Covered Warrants</b>		
31,000	Exane Dresdner Telefonica 22/06/01 21.18 Call	71,888	1.92
157,000	Exane Vodafone 3/02 278.25 Call	83,728	2.24
		<u>155,616</u>	<u>4.16</u>
	<b>Ordinary Shares</b>		
13,577	Luminar	88,929	2.38
270,000	NewMedia SPARK	171,450	4.58
		<u>260,379</u>	<u>6.96</u>
	Total value of investments	3,657,143	97.76
	Net current assets	83,722	2.24
	Total value of the Fund as at 30th September 2000	<u>3,740,865</u>	<u>100.00</u>

Investments have been valued in accordance with note 1c) and are warrants to subscribe for ordinary shares unless otherwise stated.

## Balance Sheet as at 30th September 2000

	Note	30th September 2000 £
<b>Portfolio of investments</b>		3,657,143
<b>Net current assets</b>		
Debtors	6	2,589
Bank balances		<u>223,475</u>
		226,064
Less:		
Creditors	7	<u>142,342</u>
<b>Net current assets</b>		<u>83,722</u>
<b>Net assets</b>		<u>3,740,865</u>
<b>Unitholders' funds</b>		<u>3,740,865</u>

## Portfolio Changes for the Period from 22nd October 1999 to 30th September 2000

	<b>Cost £</b>
<b>Purchases</b>	
Aberdeen Asian Smaller Companies	170,321
Aberforth Smaller Companies	93,009
BAE Systems	181,273
Baillie Gifford Shin Nippon 2005	168,753
Baring Emerging Europe	133,713
Commerzbank Alliance & Leicester 680 Call 01/01	160,454
Commerzbank Royal & Sun Alliance 375 Call 12/00	104,815
Deutsche Latin American	52,015
Discovery	25,685
Edinburgh Small Companies	70,194
Exane Dresdner Telefonica 22/06/01 22.18 Call	79,189
Exane Vodafone 3/02 278.25 Call	99,920
F&C Latin American	174,457
Fidelity Japanese Values	218,223
Fidelity Special Values	8,171
Fleming Asian	111,280
Foreign & Colonial US Smaller Companies	216,008
Framlington NetNet Inc Growth (Capital Shares)	25,181
Gartmore European 2000/04	191,334
Henderson Technology	152,876
Herald	18,132
Hill Samuel UK Emerging Companies	30,211
Invesco Tokyo	185,502
Investors Capital	103,986
Mercury European	79,314
Merrill Lynch Boots 575 Call 11/00	100,657
Merrill Lynch SmithKline Beecham 800 11/00 Call	99,825
Merrill Lynch TI Group 430 11/00 Call	170,064
Merrill Lynch UK Water Basket	130,282
Murray Enterprise	72,586
Murray Japan Growth & Income	47,847
Northern Leisure	74,179
Pantheon International Participations	78,418
Perpetual Income & Growth	88,880
Sanctuary Group	32,230
Schroder AsiaPacific	89,503
Schroder Emerging Countries	41,065
Schroder Japan Growth	46,449
Scudder Latin America	129,173
Softtechnet.com (Ordinary Shares)	159,125
Templeton Emerging Markets	227,330
TR European Growth	175,086
TR Property	34,333
Total purchases for the period	<u>4,651,048</u>

## Portfolio Changes for the Period from 22nd October 1999 to 30th September 2000 (continued)

<b>Sales</b>	<b>Proceeds £</b>
Aberdeen Asian Smaller Companies	11,364
BAE Systems	201,578
Commerzbank Alliance & Leicester 680 Call 01/01	129,694
Commerzbank Royal & Sun Alliance 375 Call 12/00	85,203
Fidelity Japanese Values	40,939
Henderson Technology	32,728
Herald	24,794
Investors Capital	61,670
Merrill Lynch Boots 575 Call 11/00	60,940
Merrill Lynch SmithKline Beecham 800 11/00 Call	81,111
Merrill Lynch TI Group 430 11/00 Call	20,413
Merrill Lynch UK Water Basket	178,329
Murray Enterprise	2,614
NewMedia SPARK (Ordinary Shares)	31,431
Northern Leisure	7,650
TR European Growth	166,393
Total sales for the period	<u>1,136,851</u>

# Notes to the Financial Statements as at 30th September 2000

## 1. Accounting Policies

### a) Preparation of financial statements

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice (SORP) for Authorised Unit Trust Schemes issued by the Investment Management Regulatory Organisation Limited (IMRO) in January 1997.

### b) Financial instruments

The Fund's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for liquidations and debtors for accrued income.

The Fund has little exposure to credit or cash flow risk. There are no net borrowings or unlisted securities and so little exposure to liquidity risk. The main risks it faces arising from its financial instruments are (i) foreign currency risk, being the risk that the value of the Fund's investments will fluctuate as a result of exchange rate movements; (ii) interest rate risk, being the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes; (iii) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement; and (iv) counterparty risk, being the risk that the counterparty will not deliver the investments for a purchase, or the cash for a sale after the Fund has fulfilled its responsibilities.

### c) Investments

The investments of the Fund have been valued at the closing mid-market prices ruling on the principal markets on which the stocks are quoted on the last business day of the accounting period.

### d) Foreign currencies

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing middle exchange rates ruling on that date.

### e) Income

The Fund invests in warrants and capital shares which do not pay dividends. Bank and other interest receivable is accrued up to the accounting date.

### f) Taxation/deferred tax

(i) Corporation Tax is provided for at 20% on income, other than UK dividends, after deduction of expenses.

(ii) Deferred tax is accounted for and provided on all material financing differences.

### g) Treatment of management expenses

The Manager's periodic charge is deducted from the Income of the Fund.

### h) Distribution policy

The Fund invests in warrants and capital shares which do not pay dividends, and it is therefore unlikely that a surplus of income will arise. In the event of there being a surplus of income this will be allocated in accordance with the Regulations.

## i) Stamp duty reserve tax

With effect from 6th February 2000, stamp duty reserve tax (SDRT) suffered on surrender of units has been charged against the capital assets of the Fund.

## 2. Net Gains on Investments

30th September 2000

	£
Proceeds from sales of investments	1,136,851
Original cost of investments sold	(1,204,130)
Gains realised on investments sold	(67,279)
Net unrealised appreciation	210,224
	<u>142,945</u>

## 3. Gross Income

Bank interest	<u>30,329</u>
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## 4. Expenses

Payable to the Manager or associates of the Manager: Manager's periodic charge	<u>49,458</u>
Payable to the Trustee or associates of the Trustee: Trustee's fees	5,642
Safe custody and other bank charges	384
Interest payable	140
	<u>6,166</u>
Other expenses: FSA fee	901
Audit fee	3,525
Registration fees	6,695
	<u>11,121</u>
	<u>66,745</u>

## 5. Distributions

Included in the income available for distributions is the income received on the creation of units and deducted on the cancellation of units, and comprise:

Income deducted on cancellation of units	53
Income received on creation of units	(1,130)
	<u>(1,077)</u>

## 6. Debtors

Amounts receivable for creation of units	2,482
Accrued income	107
	<u>2,589</u>

## 7. Creditors

30th September 2000

	£
Amounts payable on cancellation of units	22,285
Purchases awaiting settlement	113,609
Accrued expenses	6,447
	<u>142,342</u>

## 8. Interest Rate Risk Profile of Financial Assets and Liabilities

The interest rate risk profile of financial assets and liabilities at the balance sheet date was as follows:

Floating rate	
assets	223,475
liabilities	-
Fixed rate	
assets	-
liabilities	-
Items on which interest is not paid	
assets	3,659,732
liabilities	(142,342)
Net assets	<u>3,740,865</u>

## 9. Contingent Liabilities and Outstanding Commitments

There were no contingent liabilities at the balance sheet date.

## 10. Related Party Transactions

Amounts payable to the Manager or associates of the Manager are shown in note 4.

Details of units created and cancelled by the Manager are shown in the Statement of Movements in Unitholders' Funds.

Amounts payable to the Trustee or associates of the Trustee are shown in note 4.

Any amounts due to or from the Manager or associates of the Manager, and the Trustee or associates of the Trustee are included in either other debtors or accrued expenses (notes 6 and 7 respectively).

## Directors' Statement

This report is signed in accordance with the requirements of the Financial Services (Regulated Schemes) Regulations 1991.

Signed:

A handwritten signature in black ink, consisting of a large, stylized 'A' followed by a horizontal line and a wavy underline.

A R McHattie - Director

A handwritten signature in black ink, featuring a large, circular 'B' with a horizontal line through it, followed by a long, sweeping tail.

B D Cooper - Director

**McHattie Investment Management Limited**  
**Manager of McHattie Warrants Alert Fund**  
**23rd November 2000**

## Responsibilities of the Manager and the Trustee

### The Manager

The Financial Services (Regulated Schemes) Regulations 1991 require the Manager to prepare annual financial statements which give a true and fair view of the financial position of the Scheme at the end of each accounting period. In preparing these financial statements, the Manager is required to:

- i) Select suitable accounting policies and apply them consistently;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) prepare the financial statements in accordance with generally accepted accounting principles, the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by the Investment Management Regulatory Organisation (IMRO) in January 1997, the Financial Services (Regulated Schemes) Regulations 1991 and the Trust Deed, subject to any material departures disclosed and explained in the financial statements;
- iv) prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Scheme will continue in operation.

The Manager is responsible for keeping such accounting and other records as are necessary to enable the Manager to comply with the Financial Services (Regulated Schemes) Regulations 1991 (as amended) and to demonstrate at any time that such compliance has been achieved.

### The Trustee

The Trustee is under a duty to take into custody and to hold the property of the Scheme in trust for the holders of units. Under the Regulations relating to Reports it is the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each annual accounting period and report thereon to unitholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Trustee's report is included in this Report.

## **Report of the Trustee to the Unitholders**

### **For the period from 22nd October 1999 to 30th September 2000**

In our opinion, the Manager has managed the Scheme in all material respects during the period covered by this Report in accordance with the limitations imposed on the investment and borrowing powers of the Manager and the Trustee by the Trust Deed, by Scheme Particulars and by all regulations for the time being in force under Section 81 of the Act, and otherwise in accordance with the provisions of the Trust Deed and those regulations.

**The Bank of New York Trust & Depository Company Limited**  
**Trustee of McHattie Warrants Alert Fund**  
**23rd November 2000**

## Auditors' Report to the Unitholders

We have audited the financial statements on pages 7 to 15, which have been prepared under the historical cost convention, as modified by the revaluation of investments, and accounting policies set out in Note 1.

### Respective Responsibilities of the Manager and the Auditors

The Manager of the Scheme is responsible for preparing the Annual Report, including as described on page 16 the financial statements. Our responsibilities, as independent auditors, are established by regulation, the Accounting Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the generally accepted accounting principles, the Statement of Recommended Practice for Authorised Unit Trust Schemes issued by IMRO in January 1997, the Financial Services (Regulated Schemes) Regulations 1991 as amended, and the Trust Deed. We also report to you if, in our opinion, the Manager's Report is not consistent with the financial statements, if the Manager of the Scheme has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of Opinion

We conducted our audit in accordance with the Accounting Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied, and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularities or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Scheme as at 30th September 2000 and of its net deficit of income and net gains on the property of the Scheme for the period then ended, and have been properly prepared in accordance with the generally accepted accounting principles, the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997, the Financial Services (Regulated Schemes) Regulations 1991 and the Trust Deed.

**AGN Shipleys**  
**Chartered Accountants and Registered Auditors**  
**23rd November 2000**

## General Information

### Valuation of the Fund

The Fund is valued at 11:00am on each business day for the purpose of determining prices at which units in the Fund may be bought or sold. Valuations may be made at other times with the Trustee's approval. No maximum buying/selling price spread is stipulated in the Trust Deed and the Manager's discretion to set buying and selling prices is subject to relevant Regulations under the Financial Services Act 1986.

### Buying and Selling of Units

The Manager will accept orders to buy or sell units on normal business days between 9.30am and 5.00pm and transactions will be effected at prices determined by the next valuation. Instructions to buy or sell units may be either in writing to: City Financial Centre, 88 Borough High Street, London SE1 1ST or by telephone on 0845 922 0044. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

### Prices

The most recent buying and selling prices of units are published in the *Financial Times* in the FT Managed Funds Service Authorised Investment Funds section, under the heading McHattie Investment Management Limited. The associated cancellation price is available on request from the Manager.

### Stamp Duty Reserve Tax (SDRT)

The Finance Act 1999 introduced a new system of SDRT for dealings in units of unit trusts as from the 6th February 2000. The amount of tax payable will depend upon the pattern of dealing in units and the type of investments held by the Fund. The Manager may charge SDRT in one of two ways: (i) The Manager has the power to make a provision for SDRT, by which a charge is made directly to incoming or outgoing investors as a provision against the tax. Any amount charged by way of such an exit or entry charge would be paid to the Trustee and become part of the property of the Fund from which SDRT would be paid. This means that for an incoming investor the cost of purchasing units would increase, or for a departing investor the proceeds from the sale of units would reduce. (ii) The Manager may treat SDRT as an additional dealing expense, charged against the assets of the Fund.

At the present time the Manager has decided not to make a provision for SDRT but instead to treat SDRT as an additional expense. If, in the future, the Manager decides to make a provision for SDRT, a notification to unitholders would be required. The Manager does not intend to make any special arrangements for SDRT on large transactions, except as follows: SDRT charges arising from non-exempt transfers between unitholders will be charged to the Fund. However, there may be circumstances where in the interests of equity and fairness to all unitholders, the Manager reserves the right to charge the SDRT to the transferee. In this respect, any transfer in excess of £15,000 may be subject to this charge.

### Other Information

The Trust Deed, Scheme Particulars, Financial Statements, Key Features Document and the latest annual and interim reports may be inspected at the offices of the Manager, the Administrator and of the Trustee and copies may be obtained on application to the Manager. The Register of Unitholders can be inspected during normal business hours at the office of the Registrar, City Financial Administrators Limited, City Financial Centre, 88 Borough High Street, London SE1 1ST. Holders who have any complaints about the operation of the Fund, should contact the Manager or the Trustee, or may make their complaint direct to the Investment Ombudsman at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

# McHattie Warrants Alert Fund

## Top-Up Application Form - with a 2% discount for lump sums

Please note that this form is for use by existing unitholders in the McHattie Warrants Alert Fund only, and is for the purpose of making additional investments. Prospective new investors must not use this form, but instead apply to the address below or telephone 0117 925 8882 for a Prospectus containing the Key Features and an application form.

### Step 1 - Investor Details

Name:	.....
Address:	.....
	.....
	..... Postcode:.....
Account Number:	.....

### Step 2 - Top-Up Details

Additional Lump Sum Investment	Increased Monthly Investment
Amount £ ..... (min £500)	Revised Direct Debit Amount £ .....

### Step 3 - Signature(s) and Date

I/We wish to increase my/our investment in the McHattie Warrants Alert Fund subject to the information and Key Features contained in the current Prospectus.

**Signature** ..... **Date** .....

(Joint Holder - in the case of joint holders all participants are required to sign)

**Signature** ..... **Date** .....

### Step 4 - Send This Form

In the case of a lump sum, please make cheques payable to 'McHattie Investment Management Limited'. Please return this form to McHattie Investment Management Limited, City Financial Centre, 88 Borough High Street, London, SE1 1ST.

Please note. The 2% discount applies only to lump sum investments, using this original form (photocopies will not be accepted), by current unit holders. No other discounts or commissions apply when using this form. Offer valid until 31st March 2001.

## MANAGER

McHattie Investment Management Limited  
Clifton Heights  
Triangle West  
Clifton  
Bristol BS8 1EJ  
(Regulated by IMRO)

Telephone: 0117 925 8882  
Fax: 0117 925 4441  
e-mail: [enquiries@mchattie.co.uk](mailto:enquiries@mchattie.co.uk)

## Directors

Chairman: Andrew Robert McHattie  
Chief Executive: Benjamin Douglas Cooper  
Director & Company Secretary: John Harvey McHattie

## ADMINISTRATION OFFICE, REGISTRARS, AND ORDER DESK

City Financial Administrators Limited  
City Financial Centre  
88 Borough High Street  
London SE1 1ST  
(Regulated by IMRO, Affiliated to AUTIF)

Telephone: 020 7556 8800  
Dealing: 0845 922 0044  
e-mail: [enquiries@cityfinancial.co.uk](mailto:enquiries@cityfinancial.co.uk)

## TRUSTEE

Bank of New York Trust and Depositary Company Limited  
One Canada Square  
London E14 5AL  
(Regulated by IMRO)

## AUDITORS

AGN Shipleys  
Chartered Accountants  
10 Orange Street  
Haymarket  
London WC2H 7DQ



**McHattie Investment Management Limited**  
Regulated by IMRO