



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

INCOME FUND

A pooled management service for private clients

ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR TO 31ST DECEMBER 2012

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** The information provided on the back of this booklet also forms part of the Authorised Fund Manger's Report.*

INTRODUCTION

McInroy & Wood Income Fund (the fund) is an authorised unit trust for investors who wish to have their assets personally managed by McInroy & Wood Limited (MW) and for whom a discretionary managed portfolio may not be appropriate. Investors will gain access, through the fund, to a portfolio which it might well be impracticable for them to assemble themselves.

The fund has been established with the aim of providing clients with professional investment management at an economic cost.

Through the fund, investors who have similar objectives are able to pool their resources in order to secure the benefits of scale.

The principal investment objective of the fund is to provide unitholders with an above average level of income, together with a measure of capital growth.

The fund may invest in any geographic areas and any economic sectors.

Further information and application forms may be obtained from McInroy & Wood Limited, Easter Alderston, Haddington, EH41 3SF. (Tel. 01620 825867) or through the website www.mcinroy-wood.co.uk

MANAGER'S INVESTMENT REPORT

At 31st December 2012 the total net assets of the fund amounted to £243,113,076 compared with £217,216,904 twelve months before. At 31st December there were 916 investors (excluding ISA holders), with an average holding worth £229,373.

Markets

The year to 31st December 2012 saw a strong recovery in equity markets. Further stimulatory policy announcements from central banks in America and Europe allayed concerns over the outlook for global growth, and investors became increasingly confident that the risk of an early break-up of the eurozone had been averted.

Reflecting in part this improvement in investor sentiment, the FTSE 100 index in the UK gained 6% over the year. Overseas markets registered even stronger advances. In local currency terms, the USA rose by 14%, Europe by 16%, Japan by 19% and the rest of the Pacific region by 16%. Expressed in sterling the FTSE World index gained 9%.

By contrast it was a lacklustre period for bond markets. Both conventional and index-linked gilts fell by 1% while US government inflation-protected stocks were largely unchanged.

In the foreign exchange markets, sterling rose by 3% against the euro and by 4% against the US dollar.

Results

At 31st December 2012 the price of units stood at £22.056, a rise of 9% over the twelve months. This increase reflected the gains in equity markets which more than offset the negative impact of the rise in sterling on the value of overseas assets. The portfolio also benefited from its emphasis on well financed companies with strong market positions.

Dividend Distribution

A dividend distribution of 43.013p per unit is now being paid. This means that total distributions paid to shareholders in respect of the year past will amount to 71.013p per unit, up 6% from the corresponding figure for 2011.

Increases in the regular dividends paid by many of the holdings in the portfolio boosted distributions for the year. In addition, 'special' dividends (from Severn Trent and Watsco in particular) amounted to 5.9p of the total distributed. Such dividends are by their nature unpredictable and should not be regarded as recurring components of the portfolio's income.

MANAGER'S INVESTMENT REPORT

The distribution for the next six months is expected to be similar to that for the corresponding period in 2012.

Portfolio Strategy

The portfolio's equity allocation was increased by approximately 5% in early October; the bond allocation was correspondingly reduced. These adjustments reflected a reassessment of the relative attractions of the two asset classes at a time when many shares appeared to offer reasonable value and bond valuations by contrast seemed increasingly stretched. Thus at 31st December 2012, 76% of the portfolio was allocated to equities (70% at 31st December 2011), 22% to bonds (28%), and 2% to cash deposits (2%).

Of the equities, 41% were allocated to the UK, 12% to the USA, 10% to Europe, and 13% to Developing Markets. The latter figure includes for this purpose Standard Chartered Bank.

The bond component was allocated as to 16% into sterling, 5% into US dollar, and 1% into stocks denominated in other currencies.

Investments

New equity holdings in Kone (Finland) and MTN (South Africa) were purchased during the year. The positions in Rhön Klinikum and Neopost were sold.

Investments in 2014 and 2021 conventional gilts were added to the sterling-denominated bond allocations; the German government bond and the sterling floating-rate note were sold; treasury bills denominated in sterling and Norwegian krone matured.

Keller (+160%) and CP All (+77%) performed notably well over the period; CEMIG (-24%) and BG (-26%) lost ground.

Outlook

Global economic growth remains sluggish, but may be picking up slowly. The latest US consumer confidence, housing and manufacturing data have all surpassed expectations. Sentiment has been further boosted by an interim accommodation over the American 'fiscal cliff', but perhaps most critical in reinforcing the prospect of continuing recovery has been the Federal Reserve's open-ended commitment to a third round of quantitative easing.

In China, industrial production has rebounded strongly (currently running 10% higher than a year ago) and sharp increases in both exports and imports indicate that the economy is regaining momentum.

MANAGER'S INVESTMENT REPORT

The European Central Bank's backing for the eurozone's peripheral countries and the recent accommodation with Greece seem to have staved off any immediate threat of a disorderly collapse in the currency union. In the meantime there are some indications of a recovery in manufacturing in the eurozone led by Germany.

Even in the UK, despite a slight fall in GDP in the final quarter of 2012, there is some encouragement to be drawn from a pick up in manufacturing activity. An apparent levelling-off in national house prices may be assisting sentiment.

For bond markets, the longer term implications of central bank policies still cause concern that the real value of fixed-interest obligations may over time be diminished by rising inflation. The present level of bond yields provides little margin for any such erosion of value.

Selective equities, on the other hand, should provide a relatively attractive means of preserving capital. Despite an unexciting outlook for company profits, share prices continue to be bolstered by dividend payments. The portfolio continues to be concentrated on stocks with solid business prospects and a limited exposure to more cyclical areas.

The portfolio maintains a broadly diversified range of investments spread across types, regions, and currencies. As ever, such diversification is considered to be the most effective means of minimising the overall risk for investors while pursuing the fund's investment objectives.

20th February 2013

CAPITAL RECORD

Highest and lowest bid and offer prices.

Year (to 31 st Dec)	High	Low
2008	£19.394	£15.231
2009	£18.840	£14.843
2010	£21.246	£18.079
2011	£21.617	£19.325
2012	£22.056	£19.925

INCOME RECORD

Year (to 31 st Dec)	Per unit (net)
2008	66.210p
2009	59.910p
2010	62.551p
2011	66.965p
2012	71.013p

NET ASSET VALUES

Date	Net asset value of fund	Net asset value per unit	Number of units
31.12.08	£125,351,014	£16.268	7,705,599
31.12.09	£166,593,278	£18.400	9,054,079
31.12.10	£206,531,716	£20.698	9,978,280
31.12.11	£217,216,904	£19.780	10,981,645
31.12.12	£243,113,076	£21.442	11,338,190

ONGOING CHARGES FIGURE

Date	Annualised
31.12.08	1.551%
31.12.09	1.556%
31.12.10	1.550%
31.12.11	1.552%
31.12.12	1.550%

PORTFOLIO TURNOVER

Date	Annualised
31.12.08	64%
31.12.09	15%
31.12.10	8%
31.12.11	9%
31.12.12	17%

PORTFOLIO STATEMENT

as at 31st December 2012

INVESTMENTS	Holding or Nominal Value of positions at 31 st Dec. 2012	Bid Market Value £	Percentage of Value of total net assets 31 st Dec. 2012 31 st Dec. 2011	
<i>Bonds</i>				
UK				
EIB 3.375% 2014	£6,028,000	6,302,274	2.6	
UK Treasury 2.5% I-L 2013	£2,739,500	7,676,901	3.2	
UK Treasury 2.25% 2014	£3,717,000	3,801,339	1.6	
UK Treasury 4% 2016	£6,942,000	7,811,092	3.2	
UK Treasury 3.75% 2019	£6,113,000	7,109,358	2.9	
UK Treasury 3.75% 2021	£5,207,000	6,113,487	2.5	
		<u>38,814,451</u>	<u>16.0</u>	<u>18.8</u>
GERMANY		<u>0</u>	<u>0.0</u>	<u>2.1</u>
NORWAY				
KfW 3.25% 2014	NOK 34,860,000	<u>3,934,075</u>	<u>1.6</u>	<u>1.7</u>
USA				
US Treasury TIPS 2% 2014	\$5,730,000	4,553,736	1.8	
US Treasury TIPS 1.625% 2015	\$9,437,000	7,471,668	3.1	
		<u>12,025,404</u>	<u>4.9</u>	<u>5.0</u>
TOTAL BONDS		<u><u>54,773,930</u></u>	<u><u>22.5</u></u>	<u><u>27.5</u></u>
<i>Equities</i>				
UK				
AG Barr	1,028,865	5,043,496	2.1	
BG Group	332,370	3,361,923	1.4	
GlaxoSmithKline	400,635	5,344,471	2.2	
Hill & Smith	629,814	2,506,660	1.0	
Inmarsat	746,360	4,336,352	1.8	
Keller	555,330	3,831,777	1.6	
Land Securities	670,940	5,454,742	2.2	
Majestic Wine	1,126,625	5,114,878	2.1	
National Grid	836,255	5,874,691	2.4	
Pearson	489,730	5,817,992	2.4	
Reckitt Benckiser	132,216	5,124,692	2.1	
Rio Tinto	151,767	5,327,781	2.2	
Rotork	199,700	5,082,365	2.1	
Royal Dutch Shell B	348,895	7,583,233	3.1	
RPS Group	1,289,000	2,696,588	1.1	
Severn Trent	323,730	5,095,510	2.1	
Spectris	248,390	5,029,898	2.1	
Spirax Sarco	208,595	4,707,989	1.9	
Standard Chartered	263,271	4,138,620	1.7	
Standard Life	1,731,530	5,745,217	2.4	
Vodafone	3,096,950	4,781,691	2.0	
		<u>102,000,566</u>	<u>42.0</u>	<u>41.3</u>

PORTFOLIO STATEMENT

as at 31st December 2012

continued

	Holding or Nominal Value of positions at 31 st Dec. 2012	Bid Market Value £	Percentage of Value of total net assets	
			31 st Dec. 2012	31 st Dec. 2011
<i>Equities</i>				
USA				
Abbott Laboratories	89,370	3,601,740	1.5	
AT&T	204,020	4,232,270	1.7	
Donaldson	161,480	3,262,383	1.3	
Ecolab	75,870	3,355,456	1.4	
Paychex	227,245	4,351,976	1.8	
RPM	227,440	4,109,451	1.7	
Schlumberger	67,100	2,860,264	1.2	
Watsco	64,855	2,988,397	1.2	
		<u>28,761,937</u>	<u>11.8</u>	<u>9.6</u>
FINLAND				
Kone	55,460	<u>2,514,764</u>	<u>1.0</u>	<u>0.0</u>
FRANCE				
Danone	71,410	2,889,244	1.2	
Total SA	145,490	4,610,848	1.9	
Unibail	22,100	<u>3,267,589</u>	<u>1.3</u>	
		<u>10,767,681</u>	<u>4.4</u>	<u>4.3</u>
GERMANY				
Fielmann	57,500	3,417,947	1.4	
Pfeiffer Vacuum	49,330	<u>3,649,843</u>	<u>1.5</u>	
		<u>7,067,790</u>	<u>2.9</u>	<u>3.5</u>
NETHERLANDS				
Reed Elsevier	238,130	<u>2,157,606</u>	<u>0.9</u>	<u>0.6</u>
SWITZERLAND				
Kühne & Nagel	34,875	<u>2,576,567</u>	<u>1.1</u>	<u>1.0</u>

PORTFOLIO STATEMENT

as at 31st December 2012

continued

		Holding or Nominal Value of positions at 31 st Dec. 2012	Bid Market Value £	Percentage of Value of total net assets 31 st Dec. 2012 31 st Dec. 2011	
<i>Equities</i>					
DEVELOPING MARKETS					
<i>Brazil</i>	CEMIG - ADR	213,031	1,421,954	0.6	
	Natura Cosmetics	95,825	1,688,556	0.7	
<i>Chile</i>	Andina - ADR	64,230	1,496,790	0.6	
	IAM	1,573,000	1,932,865	0.8	
<i>Czech Rep.</i>	CEZ	43,490	956,040	0.4	
<i>Hong Kong</i>	Cheung Kong	198,000	1,864,436	0.8	
	China Mobile	245,000	1,757,023	0.7	
	MTR	608,000	1,471,143	0.6	
	Shenzhen Expressway	4,153,000	986,727	0.4	
	Vitasoy	3,648,000	2,295,853	0.9	
<i>Indonesia</i>	Perusahaan Gas Negara	5,219,500	1,491,468	0.6	
<i>Malaysia</i>	Digi.Com	2,294,000	2,424,752	1.0	
<i>Philippines</i>	Universal Robina	2,126,000	2,643,554	1.1	
<i>Singapore</i>	Keppel	293,870	1,628,495	0.7	
<i>South Africa</i>	MTN	81,500	1,048,376	0.4	
<i>Thailand</i>	CP All	2,916,000	2,685,056	1.1	
			<u>27,793,088</u>	<u>11.4</u>	<u>9.8</u>
TOTAL EQUITIES			<u>183,639,999</u>	<u>75.5</u>	<u>70.0</u>
TOTAL INVESTMENTS			238,413,929	98.1	97.5
Net other assets			<u>4,699,147</u>	<u>1.9</u>	<u>2.5</u>
TOTAL NET ASSETS			<u>243,113,076</u>	<u>100.0</u>	<u>100.0</u>

Note: Unless otherwise stated, the above securities are admitted to official stock exchange listings or traded on a regulated market.

SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 31st December 2012

	Cost £
Purchases	
27,180 Abbott Laboratories	1,138,735
685,910 AG Barr (<i>stock split</i>)	0
72,520 AT&T	1,702,381
25,320 BG Group	325,275
80,126 CEMIG - ADR	353,022
22,900 CEZ	544,091
32,000 Cheung Kong	299,566
1,458,000 CP All (<i>stock dividend</i>)	2,949
33,370 Danone	1,414,906
80,740 Donaldson (<i>stock split</i>)	0
11,690 Ecolab	514,934
23,270 Fielmann	1,366,505
84,100 Hill & Smith	333,072
1,900,000 KfW 3.25% 2014	212,040
55,460 Kone	2,463,257
5,940 Kühne & Nagel	400,373
81,500 MTN	922,010
256,000 MTR	604,697
2,335 National Grid (<i>securities exchanged</i>)	81
46,100,000 Norway T-Bill 2012	5,113,376
67,610 Paychex	1,385,573
576 Reckitt Benckiser (<i>securities exchanged</i>)	104
71,510 Reed Elsevier	529,277
16,595 Royal Dutch Shell B	299,059
51,660 RPM	876,215
18,570 Schlumberger	802,196
807 Standard Chartered (<i>securities exchanged</i>)	57
5,837,000 UK Treasury 2.25% 2014	6,050,495
2,542,000 UK Treasury 3.75% 2019	2,943,781
5,207,000 UK Treasury 3.75% 2021	5,970,238
1,084,000 UK Treasury 4% 2016	1,237,440
7,650 Unibail	863,088
2,082,000 US Treasury TIPS 1.625% 2015	1,667,136
15,100 Vodafone (<i>securities exchanged</i>)	134
14,905 Watsco	672,751
TOTAL	<u>41,008,811</u>

SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 31st December 2012

Sales		Proceeds £
773,000	CP All	1,058,810
5,160,000	DBR (Bund) 3.75% 2013	4,240,431
5,554,000	KfW FRN 2013	5,549,557
29,800	Neopost	1,015,517
46,100,000	Norway T-Bill 21/12/2011	4,896,442
98,060	Pearson	1,210,126
227,743	Rhön Klinikum	2,697,465
20,300	Rotork	470,316
41,640	Spectris	731,397
30,200	Spirax Sarco	642,868
4,000,000	UK T-Bill 16/1/2012	4,000,000
4,010,000	UK T-Bill 9/1/2012	4,010,000
2,120,000	UK Treasury 2.25% 2014	2,181,904
2,074,000	UK Treasury 3.75% 2019	2,447,320
1,235,000	Universal Robina	1,173,474
	TOTAL	<u>36,325,626</u>

GENERAL INFORMATION

Auditor

Unitholders should note that PricewaterhouseCoopers (“PwC”) have been appointed auditor of the fund, in place of Scott-Moncrieff, with effect from November 2012. PwC have recommended a number of updated disclosures, which have been incorporated throughout the Report and Financial Statements.

Authorisation

The Income Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is categorised as a UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Services Authority.

McInroy & Wood Limited and its subsidiary, McInroy & Wood Portfolios Limited, are authorised and regulated by the Financial Services Authority.

Transactions and Dealings

The average rate of dealing commission, including mark up and mark down, added to the cost of investments purchased and deducted from the proceeds of investments sold, was 0.24% where commission or mark up was involved.

During the period under review RIA Limited dealt in more than 10% of the aggregate value of such transactions in the property of the fund.

Income Tax

All income distributions carry a notional tax credit of 10%. A basic rate taxpayer has no further liability in respect of this income but is unable to reclaim the tax.

Capital Gains Tax

Authorised unit trusts are exempt from corporation tax on realised capital gains.

Applications

The minimum initial investment in the fund is £10,000. Further investments may be made for a minimum of £1,000.

Data Protection

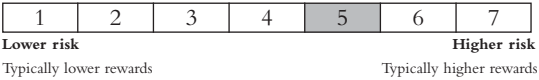
Unitholders’ names could be added to a mailing list which may be used by the Manager, its associates or third parties to inform investors of other products. Unitholders who would not like to receive such details can write to the Manager requesting their removal from any such mailing list.

GENERAL INFORMATION

A Word of Caution

You should remember that the price of units and the income from them may go down as well as up. Gains are not necessarily achieved in the short term. Exchange rate fluctuations may also cause the value of an investment to rise and fall. Investment in emerging markets can be subject to risk not normally associated with developed markets.

Synthetic Risk and Reward Indicator (Volatility measure)



This indicator shows how much a fund’s price has risen and fallen in the past and therefore how much its returns have varied: it is a measure of the fund’s volatility. The higher the past volatility, the higher the number on the scale. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 5 because its volatility has been measured as slightly above average.

This indicator is prescribed by EU reporting guidelines and is based on historical data. It should not be used as an indicator of the fund’s future risk profile. The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority ("the Rules") requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the fund and of its net revenue and the net capital gains on the property of the fund for the year. In preparing the financial statements the Manager is required to:

- Select suitable accounting policies and then apply them consistently.
- Comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the IMA in October 2010.
- Follow generally accepted accounting principles and applicable accounting standards.
- Prepare the accounts on the basis that the fund will continue in operation unless it is inappropriate to do so.
- Keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and the Rules and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The maintenance and integrity of the McInroy & Wood website is the responsibility of the Authorised Fund Manager.

DIRECTORS' STATEMENT

In accordance with the requirements of the rules in the Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority, we hereby certify the Report and Financial Statements of the fund on behalf of the Directors of McInroy & Wood Portfolios Limited.

J D S Cumming
Director

J C McAulay
Director

Haddington, 20th February 2013

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

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 Rules 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 Rules. A copy of the Trustee's report is included in this report.

TRUSTEE'S REPORT

In our opinion, the Manager has managed the Scheme, in all material respects, during the period covered by this Report in accordance with the investment and borrowing powers and the restrictions applicable to the scheme and otherwise in accordance with the provisions of the Trust Deed and the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook.

For and on behalf of
BNY Mellon Trust & Depositary
(UK) Limited
London

20th February 2013

AUDITOR'S REPORT

Independent Auditor's Report to the Unitholders of the McInroy & Wood Income Fund

We have audited the financial statements of McInroy & Wood Income Fund (the "fund") for the year ended 31st December 2012 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of Authorised Fund Manager and Auditors

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

This report, including the opinions, has been prepared for and only for the fund's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes Sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

AUDITOR'S REPORT

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the fund at 31st December 2012 and of the net revenue and the net capital gains of the scheme property of the fund for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared 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 the Collective Investment Schemes Sourcebook requires us to report to you if, in our opinion:

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

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
Edinburgh

20th February 2013

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF TOTAL RETURN

for the year ended 31st December 2012

		Year to 31 st Dec. 2012		Year to 31 st Dec. 2011	
	Notes	£	£	£	£
Income					
Net capital gains/(losses)	2		21,688,116		(6,338,952)
Revenue	3	8,727,874		7,557,233	
Expenses	4	(3,638,865)		(3,371,135)	
Net revenue before taxation		5,089,009		4,186,098	
Taxation	5	(363,100)		(311,216)	
Net revenue after taxation			<u>4,725,909</u>		<u>3,874,882</u>
Total return before distributions			26,414,025		(2,464,070)
Finance costs: distributions	6		(7,944,370)		(7,133,061)
Change in net assets attributable to unitholders from investment activities			<u>18,469,655</u>		<u>(9,597,131)</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 31st December 2012

		Year to 31 st Dec. 2012		Year to 31 st Dec. 2011	
		£	£	£	£
Opening net assets attributable to unitholders			217,216,904		206,531,716
Amounts receivable on creation of units	22,197,299			34,402,773	
Amounts payable on cancellation of units	(14,882,213)			(14,244,602)	
			7,315,086		21,158,171
Securities exchanged			139,573		143,327
Stamp duty reserve tax			(28,142)		(19,179)
Change in net assets attributable to unitholders from investment activities			<u>18,469,655</u>		<u>(9,597,131)</u>
Closing net assets attributable to unitholders			<u>243,113,076</u>		<u>217,216,904</u>

BALANCE SHEET

as at 31st December 2012

		31 st Dec. 2012		31 st Dec. 2011	
	<i>Notes</i>	£	£	£	£
ASSETS:					
Investment assets			238,413,929		211,827,827
Debtors	7	1,467,941		1,383,498	
Cash & bank balances		<u>8,439,752</u>		<u>9,687,277</u>	
Total other assets			<u>9,907,693</u>		<u>11,070,775</u>
Total assets			<u>248,321,622</u>		<u>222,898,602</u>
LIABILITIES:					
Creditors	8		(331,655)		(1,358,738)
Distribution payable			<u>(4,876,891)</u>		<u>(4,322,960)</u>
Total liabilities			<u>(5,208,546)</u>		<u>(5,681,698)</u>
Net assets attributable to unitholders			<u>243,113,076</u>		<u>217,216,904</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31st December 2012

1. Accounting policies

- (a) The Financial Statements have been prepared under the historical cost basis, as modified by the re-valuation of investments, and in accordance with the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the Investment Management Association in October 2010.
- (b) Dividends receivable from equity investments are recognised net of attributable tax credits and are credited to revenue when they are first quoted ex dividend. Interest receivable from debt securities is accounted for on an effective yield basis. All other income is recognised on an accruals basis.
- (c) Special dividends are treated as revenue or capital depending on the facts of each particular case.
- (d) Expenses of the fund are charged against revenue except for Stamp Duty Reserve Tax and costs associated with the purchase and sale of investments which are allocated to the capital of the fund. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.
- (e) Corporation tax is provided for on the revenue liable to corporation tax less deductible expenses.

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

- (f) The revenue available for distribution is the total revenue earned by the fund, less deductible expenses and taxation charged to revenue. This revenue is distributed annually on the last business day of February. An interim distribution based on available revenue is distributed on the last day of August. The ordinary element of scrip dividends is treated as revenue but does not form part of the distribution. The distribution is in accordance with the FSA's Collective Investment Schemes Sourcebook.
- (g) Listed investments of the fund have been valued at market value on the balance sheet date. Market value is defined by the SORP as fair value which generally is the bid value of each security.

NOTES TO THE FINANCIAL STATEMENTS

continued

- (h) Foreign currency transactions are translated at the rates ruling on the date of the transaction.
- (i) Stamp Duty Reserve Tax (SDRT) suffered on the surrender of units has been charged against the capital assets of the Trust.

	Year to 31 st Dec. 2012 £	Year to 31 st Dec. 2011 £
2. Net gains/(losses) on investments:		
Non-derivative securities	21,695,383	(6,338,952)
Currency losses	(7,267)	—
Net capital gains/(losses)*	<u>21,688,116</u>	<u>(6,338,952)</u>
<i>* includes realised gains on investments sold</i>	<u>3,026,215</u>	<u>2,426,472</u>

3. Revenue

Dividends on UK equities	3,811,628	3,447,167
Property income distributions on UK REITs	197,258	165,149
Dividends on overseas equities	3,079,685	2,454,667
Interest on UK bonds	1,072,715	895,718
Interest on overseas bonds	566,588	594,484
Interest on bank deposits	—	48
Total revenue	<u>8,727,874</u>	<u>7,557,233</u>

4. Expenses

Payable to the manager, associates of the manager and agents of either of them:		
- Manager's periodic charge	3,504,646	3,249,959
- Registrar's fee	22,627	20,939
Payable to the trustee, associates of the trustee and agents of either of them:		
- Trustee's fee	38,859	36,805
- Safe custody fee and activity charges	61,199	56,331
Other expenses		
- FSA fee	291	289
- Audit fee	9,612	6,647
- Legal fees	1,631	165
Total expenses	<u>3,638,865</u>	<u>3,371,135</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

5. Taxation

	Year to 31 st Dec. 2012 £	Year to 31 st Dec. 2011 £
(a) Analysis of tax charge		
Corporation tax	–	(18,406)
Overseas withholding tax	<u>363,100</u>	<u>329,622</u>
	<u>363,100</u>	<u>311,216</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an authorised unit trust (20%). The differences are explained below:

	Year to 31 st Dec. 2012 £	Year to 31 st Dec. 2011 £
Net income before taxation	<u>5,089,009</u>	<u>4,186,098</u>
Corporation tax at 20%	<u>1,017,802</u>	<u>837,220</u>

Effects of:

Revenue not subject to corporation tax	(1,378,263)	(1,180,387)
Movement in excess management charges	360,461	324,741
Irrecoverable overseas withholding tax	363,100	329,622
Current tax charge for the year	<u>363,100</u>	<u>311,216</u>

(c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £917,589 (2011 - £557,128) in respect of unutilised management expenses. The fund may not generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised in the year or prior year.

NOTES TO THE FINANCIAL STATEMENTS

continued

6. Finance costs: Distributions

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

	Year to 31 st Dec. 2012 £	Year to 31 st Dec. 2011 £
Interim	3,141,456	2,955,990
Final	4,876,891	4,322,960
	<u>8,018,347</u>	<u>7,278,950</u>
Add: Income deducted on cancellation of units	105,362	98,747
Deduct: Income received on creation of units	(179,339)	(244,636)
Net distribution for the period	<u>7,944,370</u>	<u>7,133,061</u>
Net revenue after taxation	4,725,909	3,874,882
Expenses taken to capital	3,518,220	3,258,179
Tax attributable to capital	(299,759)	–
Net distribution for the period	<u>7,944,370</u>	<u>7,133,061</u>

Details of the distributions per unit are shown in the Distribution Table on page 29.

7. Debtors

	31 st Dec. 2012 £	31 st Dec. 2011 £
Income receivable:		
UK equities	520,542	584,553
Overseas equities	284,621	147,795
UK bond interest	380,810	279,248
Overseas bond interest	178,693	241,156
Corporation tax recoverable	–	18,383
Overseas withholding tax recoverable	103,275	112,363
	<u>1,467,941</u>	<u>1,383,498</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Creditors	31 st Dec. 2012 £	31 st Dec. 2011 £
Purchases awaiting settlement	–	1,074,732
Accrued expenses:		
Manager's periodic charge	307,582	266,662
Registrar's fee	1,875	1,742
Trustee's fee	3,425	3,091
Safe custody fee and activity charges	11,726	8,480
Other	7,047	4,031
	<u>331,655</u>	<u>1,358,738</u>

9. Related Party Transactions

Trustee fees, safe custody and transaction fees paid to BNY Mellon Trust & Depositary (UK) Limited are shown in note 4 and details of units created and cancelled by BNY Mellon Trust & Depositary (UK) Limited are shown in the Statement of Change in Net Assets Attributable to Unitholders.

The Manager and the Trustee actively co-operate to exercise control over the fund and are therefore related parties by virtue of their controlling influence.

Amounts paid during the year or due to the Manager or the Trustee at the balance sheet date are disclosed under Expenses and Creditors in the Notes to the Accounts. Bank interest payable by the fund which is paid or payable to the Trustee is disclosed separately within Finance costs in the Notes to the Accounts.

Cash and bank balances with the Trustee are disclosed in the Balance Sheet. Bank interest paid or payable to the fund by the Trustee is disclosed in Revenue and Debtors in the Notes to the Accounts.

The Manager acts as principal on all transactions of units in the fund. The aggregate monies received through the creation and cancellation of units are disclosed in the Statement of Change in Net Assets Attributable to Unitholders and Finance costs in the Notes to the Accounts. Amounts due to or from the Manager in respect of unit transactions at the balance sheet date are disclosed under Debtors and Creditors in the Notes to the Accounts.

Units held or managed by the Manager or associates of the Manager as a percentage of the fund's value at the balance sheet date were 0.3%.

continued

10. Portfolio Risk Analysis

In pursuing its investment objectives, the fund invests in a variety of financial assets. These comprise securities and other investments. There are also cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and debtors for accrued income.

Credit and Cashflow Risk

The Fund has little exposure to any specific credit risk, holding prime quality government or government backed issues in its fixed interest allocations.

The Fund's assets comprise mainly readily realisable securities. There are no borrowings or unlisted securities of a material nature. The main potential liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions. The Manager has reviewed the portfolio's investments and considers them to be sufficiently liquid for these purposes.

Market Price Risk

Market price risk arises from the effect which falls in the price or value of the assets held could have on the property of the fund. The Manager seeks to mitigate such risk by maintaining a prudent diversification of its investments.

The Manager adheres to investment guidelines and to investment borrowing powers set out in the Trust Deed, Scheme Particulars and in the rules of the Collective Investment Schemes Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the Manager's Investment Report and Portfolio Statement.

Foreign Currency Risk

The fund invests in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. The fund has not hedged the sterling value of investments that are priced in other currencies. Revenue received in other currencies is translated to sterling on or near the date of receipt. The fund does not hedge or otherwise seek to avoid currency movement risk on accrued revenue.

NOTES TO THE FINANCIAL STATEMENTS

continued

Interest Rate Risk

The fund commonly invests part of the portfolio in quoted debt instruments, generally bonds, issued by third parties. It also holds cash on deposit. Changes in interest rates may have an adverse effect on the value of such securities and deposits and on the amount of income derived from them.

The Manager reviews policies for managing these risks in pursuance of Investment Objective and Policy.

The currency and interest rate profile of portfolio investments at 31st December was:

Interest rate profile

	Floating rate (Bonds/Cash) £	Fixed rate (Bonds) £	Non interest bearing (Equities/Other) £	Total £	Total %
31st Dec. 2012					
UK Sterling	15,831,651	31,137,550	98,259,961	145,299,162	59.7
US Dollar	12,025,404		31,680,681	43,706,085	18.0
Euro			22,507,841	22,507,841	9.3
HK Dollar			8,375,182	8,375,182	3.4
Norwegian Krone		3,934,075		3,934,075	1.6
Thai Baht			2,685,056	2,685,056	1.1
Philippines Peso			2,643,554	2,643,554	1.1
Swiss Franc			2,576,567	2,576,567	1.1
Malaysian Ringgit			2,424,752	2,424,752	1.0
Chilean Peso			1,932,865	1,932,865	0.8
Brazilian Real			1,688,556	1,688,556	0.7
Singapore Dollar			1,628,495	1,628,495	0.7
Indonesian Rupiah			1,491,468	1,491,468	0.6
SA Rand			1,048,376	1,048,376	0.4
Czech Koruna			956,040	956,040	0.4
Taiwan Dollar	285,002			285,002	0.1
	<u>28,142,057</u>	<u>35,071,625</u>	<u>179,899,394</u>	<u>243,113,076</u>	<u>100.0</u>
31st Dec. 2011					
UK Sterling	31,010,376	19,490,970	85,353,998	135,855,344	62.5
US Dollar	10,839,169		23,715,021	34,554,190	15.9
Euro		4,534,767	18,167,356	22,702,123	10.5
HK Dollar			6,383,002	6,383,002	2.9
Norwegian Krone		3,615,956		3,615,956	1.7
Chilean Peso			2,629,175	2,629,175	1.2
Philippines Peso			2,362,872	2,362,872	1.1
Thai Baht			2,339,003	2,339,003	1.1
Swiss Franc			2,090,708	2,090,708	1.0
Malaysian Ringgit			1,792,297	1,792,297	0.8
Brazilian Real			1,199,715	1,199,715	0.6
Indonesian Rupiah			1,165,848	1,165,848	0.5
Czech Koruna			526,671	526,671	0.2
	<u>41,849,545</u>	<u>27,641,693</u>	<u>147,725,666</u>	<u>217,216,904</u>	<u>100.0</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

Currency profile

	Monetary (Cash/Other assets) £	Non-monetary (Securities) £	Total £	Total %
31st Dec. 2012				
UK Sterling	4,414,145	140,815,017	145,299,162	59.7
US Dollar		43,706,085	43,706,085	18.0
Euro		22,507,841	22,507,841	9.3
HK Dollar		8,375,182	8,375,182	3.4
Norwegian Krone		3,934,075	3,934,075	1.6
Thai Baht		2,685,056	2,685,056	1.1
Philippines Peso		2,643,554	2,643,554	1.1
Swiss Franc		2,576,567	2,576,567	1.1
Malaysian Ringgit		2,424,752	2,424,752	1.0
Chilean Peso		1,932,865	1,932,865	0.8
Brazilian Real		1,688,556	1,688,556	0.7
Singapore Dollar		1,628,495	1,628,495	0.7
Indonesian Rupiah		1,491,468	1,491,468	0.6
SA Rand		1,048,376	1,048,376	0.4
Czech Koruna		956,040	956,040	0.4
Taiwan Dollar	285,002		285,002	0.1
	<u>4,699,147</u>	<u>238,413,929</u>	<u>243,113,076</u>	<u>100.0</u>
31st Dec. 2011				
UK Sterling	5,389,077	130,466,267	135,855,344	62.5
US Dollar		34,554,190	34,554,190	15.9
Euro		22,702,123	22,702,123	10.5
HK Dollar		6,383,002	6,383,002	2.9
Norwegian Krone		3,615,956	3,615,956	1.7
Chilean Peso		2,629,175	2,629,175	1.2
Philippines Peso		2,362,872	2,362,872	1.1
Thai Baht		2,339,003	2,339,003	1.1
Swiss Franc		2,090,708	2,090,708	1.0
Malaysian Ringgit		1,792,297	1,792,297	0.8
Brazilian Real		1,199,715	1,199,715	0.6
Indonesian Rupiah		1,165,848	1,165,848	0.5
Czech Koruna		526,671	526,671	0.2
	<u>5,389,077</u>	<u>211,827,827</u>	<u>217,216,904</u>	<u>100.0</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

Fixed rate interest

	Weighted average rates		Weighted average maturity	
	31 st Dec. 12	31 st Dec. 11	31 st Dec. 12	31 st Dec. 11
UK Sterling	3.53%	3.70%	4 years	5 years
Euro	—	3.75%	—	2 years
Norwegian Kr	3.25%	3.25%	2 years	2 years

The variable-rate financial assets comprise sterling bank balances that bear interest calculated at the current Bank of England base rate less 0.75% and index-linked bonds. Under normal circumstances, interest rates will not fall below 0%.

The fixed rate financial assets comprise UK and EU government and public sector issues.

The non-interest bearing financial assets largely consist of equities, which do not have maturity dates.

Fair value of financial assets and financial liabilities

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

11. Portfolio Transaction Costs

	Year ended 31 st Dec. 2012
Analysis of total purchase costs	£
Purchases in period before transaction costs	40,963,781
Add: Broker Commissions	39,544
Stamp Duty	<u>5,487</u>
Total purchase costs	45,031
Gross purchases total	<u><u>41,008,811</u></u>
Analysis of total sales costs	
Gross sales in period before transaction costs	36,350,192
Less: Broker Commissions	<u>(24,566)</u>
Total sales costs	(24,566)
Total sales net of transaction costs	<u><u>36,325,626</u></u>

DISTRIBUTION TABLE

in pence per unit

for the year to 31st December 2012

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st January 2012

Group 2 - Units purchased 1st January to 30th June 2012

	Gross income	Tax credit @ 10%	Net income	Equalisation	Amount paid 31.08.12
Group 1	31.111	3.111	28.000	—	28.000
Group 2	15.287	1.529	13.758	14.242	28.000

FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1st July 2012

Group 2 - Units purchased 1st July to 31st December 2012

	Gross income	Tax credit @ 10%	Net income	Equalisation	Amount payable 28.02.13
Group 1	47.792	4.779	43.013	—	43.013
Group 2	25.095	2.510	22.586	20.428	43.013

DISTRIBUTION SUMMARY

in pence per unit

for the year to 31st December 2012

	Year to 31 st Dec. 2012 <i>net rate</i>	Year to 31 st Dec. 2011 <i>net rate</i>
Interim paid	28.000	27.600
Final payable/paid	<u>43.013</u>	<u>39.365</u>
	<u>71.013</u>	<u>66.965</u>

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