McInroy & Wood

PERSONAL INVESTMENT MANAGERS

INCOME FUND

A pooled management service for private clients

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28TH FEBRUARY 2023

SUMMARY

At 28th February 2023, total net assets of the fund amounted to £199,104,206 compared with £204,111,925 twelve months before. There were 569 unitholders, excluding ISAs, with an average holding worth £280,757.

The objective of the fund is to preserve and to grow the real value of investors' capital and income, with an emphasis on the generation of income. Investors are encouraged to hold units for at least three years to provide the best chance of achieving that objective. Real value is defined as the value of capital and income after adjusting for inflation, as measured by the UK Retail Prices Index (RPI), over the same period. Total return is the aggregate of capital appreciation, if any, which would be indicated by a rise in the unit price, plus income received from the fund's quarterly dividends.

The price of units in the fund at 28th February 2023 stood at £29.352, up 3% compared to the figure twelve months before. A final dividend distribution of 33.744 pence per unit is now being paid. This brings the total distribution over the year to 76.744 pence per unit, 13% higher than the equivalent payment in the prior year. The fund's income was boosted by especially large payments from energy companies which had benefited from rising commodity prices, while favourable foreign exchange movements lifted the sterling value of dividends from international companies.

The total return of the fund over the period was 5%. This was lower than the rate of inflation which was at a particularly high level of 14% over the twelve months to 28th February 2023. Similarly, over the 3 years to 28th February 2023 (the minimum recommended holding period) the total return for unitholders in the fund was 22%, compared to RPI of 25% on the above basis. However, over 5 years, the fund returned 32%, against RPI of 31%. Since its inception in March 1994, the fund has provided a total return to unitholders of 476% above RPI.

The immediate outlook for equities still seems difficult. Profit margins and disposable incomes are both vulnerable at a time of pronounced macroeconomic and geopolitical uncertainty. Moreover, the need for significant intervention to salvage distressed banks and prevent contagion is a salutary reminder of the remaining systemic risk in the financial sector. If confidence improves, the fund's holdings in short-dated government bonds can be sold quickly, allowing a rapid increase in the portfolio's equity weighting. For now, however, the portfolio strategy reflects a degree of caution and is positioned to preserve capital.

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

INTRODUCTION

The McInroy & Wood Income Fund (the fund) is an authorised unit trust for those who wish to have their assets personally managed by McInroy & Wood Limited (MW). The fund is designed for use by both discretionary clients of MW, and by those who are comfortable deciding whether the fund is suitable for them.

The fund has been established with the aim of providing investors 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 investment objective of the fund is to preserve and to grow the real value of investors' capital and income, with an emphasis on the generation of income. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The UK Retail Prices Index is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years. Investors should be aware that their capital is at risk.

The fund may invest in any geographical area and any economic sector. The Income Fund invests at least 50 percent in a combination of shares of companies quoted on the world's stock markets, fixed income and debt securities (investment and sub-investment grade). Other appropriate investments, such as cash or cash equivalents may also be held, particularly to preserve capital in the event of volatile market conditions. It is not intended that the Income Fund will have an interest in any immovable property or tangible movable property.

The fund has always avoided investment in tobacco and arms companies, as well as companies involved in usurious lending and gambling.

The Manager has power to invest more than 35 percent in value of the scheme property of the fund in government and other public securities. This power is restricted to bonds or other securities issued by the governments of the United Kingdom or the United States of America.

Further information and application forms may be obtained from McInroy & Wood Portfolios Limited (MWP), Easter Alderston, Haddington, EH41 3SF (Tel. +44(0)1620 825867) or through the website: www.mcinroy-wood.co.uk.

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Markets

Although central banks across the developed world increased interest rates to tackle persistently high inflation, it was the tightening of US monetary policy in particular that had the most significant effect on financial markets during the year. The US dollar strengthened, and there were sharp falls in the share prices of consumer technology stocks, including those of many of the largest companies in the world.

It proved a mixed period for equity markets. The US market fell by 10% and Emerging Markets lost 18%, as measured by MSCI indices in local currencies. By contrast, Europe rose by 2% after recovering from a weak phase at the beginning of 2022, while Japan benefited from subdued inflation to record a 5% gain. The UK was even stronger, advancing 6% as its leading sectors outperformed. Energy and mining stocks were lifted by rising commodity prices, while higher interest rates improved the profitability of the banking sector. In sterling terms, the positive return from the MSCI All Country World Index (+1%) was largely a reflection of currency movements.

Meanwhile, government bond prices weakened as interest rates rose. Short-dated conventional stocks issued by western governments generally fell by around 5%. However, UK index-linked gilts of comparable maturities were up 1%, an indication of continuing misgivings over the trajectory of domestic inflation. However, a more stable picture in the US resulted in a 4% fall in their US counterparts.

In foreign exchange markets, the euro strengthened by 5% and the US dollar by 10% against sterling. The Japanese yen weakened by 6%.

The price of gold fell by 4% in US dollar terms.

Results and Dividend Distribution

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Results and Dividend Distribution continued

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The total return of the fund over the period was 5%. This was lower than the rate of inflation which was at a particularly high level of 14% over the twelve months to 28th February 2023. Similarly, over the 3 years to 28th February 2023 (the minimum recommended holding period) the total return for unitholders in the fund was 22%, compared to RPI of 25% on the above basis. However, over 5 years, the fund returned 32%, against RPI of 31%. Since its inception in March 1994, the fund has provided a total return to unitholders of 476% above RPI.

Portfolio Strategy

The portfolio holds a diversified selection of global equities, emphasising cash-generative dividend-paying companies; this is counterbalanced by allocations to government bonds, both conventional and inflation-protected, and gold. In June, the weighting in conventional government bonds was increased by 10% with a corresponding reduction in equities, notably those in emerging markets and the UK. This policy change reflected concern over the outlook for equity markets, given the rising possibility of an economic slowdown caused by elevated inflation.

At 28th February 2023, 56% of the portfolio was allocated to equities (64% at 28th February 2022), 38% to bonds (29%), 5% to gold (5%), and 1% to cash deposits (2%). Inflation-protected bonds constituted 10% of the investments (11%).

Investments

As part of the strategic reduction in the allocation to equities noted above, DS Smith (UK), Fielmann (Germany), GSK (UK), Thai Beverage (Thailand), and Victrex (UK) were all sold in full. Separately, new holdings were bought in Lloyds Banking, a solidly funded UK retail bank well positioned to benefit from rising interest rates, and SSE (UK), a leading energy group with a focus on regulated electricity networks and renewable energy.

Novo Nordisk (+46%), Total Energies (+45%) and Embotelladora Andina (+30%) were the strongest performing stocks in local currency terms. It was a difficult period for XP Power (-44%), Segro (-27%) and SGS (-16%).

Investments continued
Two US treasuries (maturing in 2024 and 2027) were added to the portfolio when increasing the bond allocation. Two UK gilts were also sold in full, and another was redeemed along with a US treasury and an inflation-protected issue. Most of the proceeds were reinvested into similar stocks, although the UK gilts were switched into shorter-duration issues. As a result, the average duration of the bond portfolio at the end of the period had fallen to 1.8 years from 4.6 years twelve months before.

Higher interest rates have lifted the yields of government bonds, so the fund's income was enhanced by higher coupon payments as proceeds arising from redeemed issues were reinvested.

A summary of all portfolio changes is shown on pages 12 to 13 of this report.

Outlook
Global growth prospects have improved since the start of the period, but the investment outlook remains highly uncertain. Financial markets are being buffeted by tighter monetary policy, volatile inflation and pressure on disposable incomes. It is difficult to predict the full ramifications. Higher interest rates have already induced stress in unexpected ways. Recent crises in the US and Swiss banking sectors are a cause for concern, and a careful watch will need to be kept on the financial sector. In these circumstances, portfolio strategy continues to be based on maintaining a broad diversification of investments, including allocations to a range of short-dated government bonds and gold.

Central banks have ended fifteen years of economic stimulus by increasing interest rates and reversing quantitative easing. Higher borrowing costs for businesses and consumers are designed to reduce demand and to slow down the momentum behind rising prices. Encouragingly, there are signs that this approach is beginning to work. Inflation has fallen from its recent peaks, but policymakers must tread a delicate path between tipping economies back into recession and allowing inflation to surge higher.

China's abrupt decision to reopen its economy after imposing highly restrictive lockdowns should be positive for financial markets. The country is not only a crucial link in worldwide supply chains, but its vast population also makes a material contribution to global demand. Neighbouring countries in the Asia Pacific region will be direct beneficiaries from this. However, there is a risk that inflation might pick up sharply in China if pent-up demand results in a surge in consumption, while there is also some apprehension that medical provision in the country could prove inadequate if the pandemic were to spread rapidly again. Further worries include a deepening crisis in the property sector and rising tensions with the US. Nevertheless, the International Monetary Fund has upgraded forecasts for China, which is still among the fastest growing of the world's major economies.

Outlook continued

Despite recent falls, oil and gas prices are well above pre-pandemic levels, and a strong Chinese recovery is likely to push them even higher. The eurozone remains notably exposed after narrowly avoiding a severe energy crisis thanks to a relatively mild winter to date. Considerable investment in new infrastructure will be needed both to improve the region's access to global liquid natural gas supplies and to accelerate its transition to renewable sources of energy. A major increase in new gas projects will also require significant funding from the oil industry. Of course, any escalation in the war in Ukraine would bring a whole range of other concerns for neighbouring countries.

Meanwhile, labour markets remain robust in developed economies. In the UK, unemployment is at its lowest rate in almost fifty years, and the US has to go back even further to 1969 to match its current level. While this indicates that business is coping with higher interest rates, it also adds to fears that inflation is becoming more firmly entrenched. Staff shortages and industrial action are becoming more widespread, creating upward pressure on wages. This, in turn, is squeezing profit margins at a time when companies are already struggling to adapt to the higher costs of raw materials and energy.

The immediate outlook for equities still seems difficult. Profit margins and disposable incomes are both vulnerable at a time of pronounced macroeconomic and geopolitical uncertainty. Moreover, the need for significant intervention to salvage distressed banks and prevent contagion is a salutary reminder of the remaining systemic risk in the financial sector. If confidence improves, the fund's holdings in short-dated government bonds can be sold quickly, allowing a rapid increase in the portfolio's equity weighting. For now, however, the portfolio strategy reflects a degree of caution and is positioned to preserve capital.

21st April 2023

COMPARATIVE TABLE - PERSONAL CLASS

	28th February 2023 (pence per unit)	28th February 2022 (pence per unit)	28th February 2021 (pence per unit)
Change in net assets per unit			
Opening net asset value per unit	2,840.09	2,653.12	2,561.29
Return before operating charges*	165.49	286.99	180.82
Operating charges	(32.43)	(32.17)	(29.57)
Return after operating charges	133.06	254.82	151.25
Distributions	(76.74)	(67.85)	(59.42)
Closing net asset value per unit	2,896.41	2,840.09	2,653.12
*After direct transaction costs of	(1.26)	(0.66)	(2.19)
Performance**			
Return after charges	4.69%	9.60%	5.91%
Other information			
Closing net asset value (£'000)	199,104	204,112	205,082
Closing number of units	6,874,174	7,186,819	7,729,841
Operating charges	1.12%	1.13%	1.13%
Direct transaction costs	0.04%	0.02%	0.08%
Prices			
Highest unit price	£29.909	£29.899	£28.080
Lowest unit price	£27.889	£26.674	£23.150
Portfolio turnover			
Annualised	46%	16%	73%

** Performance is capital gains (or losses) plus income earned.

Turnover has been higher in recent periods due to changes in the fund's asset allocation and the reinvestment of maturing bond proceeds.

COMPARATIVE TABLE - PERSONAL CLASS

Please note that the capital return element, reflected in the performance figure noted above is based on the movement in the net asset value per the published financial statements and includes the impact of post year end accounting adjustments. It may therefore vary from the unit price movement noted in the Manager's Report. The unit price is struck at the daily valuation point at 12 noon, whereas the valuation of investments reported in the financial statements is struck at the close of business on the last business day of the period (See note 1(g)), creating a timing difference.

PORTFOLIO STATEMENT

as at 28th February 2023

INVESTMENTS	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets 28th Feb. 2023	28th Feb. 2022
Bonds				
UK				
UK Treasury 0.125% I-L 2028	£5,213,400	6,714	3.4	
UK Treasury 2.75% 2024	£6,852,000	6,721	3.4	
UK Treasury 5% 2025	£6,560,000	6,705	3.3	
		20,140	10.1	11.5
USA				
US Treasury 0.125% 2024	$12,795,000	10,121	5.1	
US Treasury 0.125% I-L 2024	$7,307,100	7,378	3.7	
US Treasury 0.125% I-L 2027	$6,375,000	5,176	2.6	
US Treasury 0.375% 2024	$10,987,000	8,511	4.3	
US Treasury 2.25% 2024	$5,693,000	4,497	2.3	
US Treasury 2.75% 2023	$23,392,000	19,000	9.5	
		54,683	27.5	17.6
TOTAL BONDS		*74,823*	*37.6*	*29.1*
Equities				
UK				
Assura	5,888,125	3,015	1.5	
Hill & Smith	244,394	3,363	1.7	
Lloyds Banking	8,573,610	4,511	2.3	
National Grid	565,697	5,926	3.0	
Rio Tinto	64,128	3,662	1.8	
Segro	435,154	3,581	1.8	
Shell	189,675	4,792	2.4	
Spirax-Sarco Engineering	23,276	2,715	1.3	
SSE	216,905	3,786	1.9	
XP Power	56,671	1,326	0.7	
		36,677	18.4	20.3
USA				
AbbVie	34,804	4,422	2.2	
Cisco Systems	102,792	4,109	2.1	
Flowers Foods	186,345	4,291	2.1	
National Retail Properties	94,659	3,542	1.8	
Paychex	36,330	3,312	1.7	
Watsco	17,954	4,519	2.3	
		24,195	12.2	14.1

PORTFOLIO STATEMENT

continued

	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets 28th Feb. 2023	28th Feb. 2022
Equities continued				
CANADA				
TELUS	258,995	4,258	2.1	3.3
DENMARK				
Novo Nordisk	41,817	4,917	2.5	1.5
FRANCE				
Air Liquide	39,177	5,166	2.6	
Schneider Electric	39,040	5,202	2.6	
TotalEnergies	112,188	5,755	2.9	
		16,123	8.1	7.2
GERMANY		–	0.0	1.3
SWITZERLAND				
Kuehne + Nagel	14,581	3,096	1.6	
SGS	2,565	4,878	2.4	
		7,974	4.0	4.6
AUSTRALIA				
Sonic Healthcare	210,210	3,772	1.9	2.0
JAPAN				
Nabtesco	131,200	2,796	1.4	
Nissan Chemical Industries	74,600	2,692	1.3	
		5,488	2.7	2.6
DEVELOPING MARKETS				
Chile Embotelladora Andina ADR	156,730	1,908	0.9	
Embotelladora Andina 'B' Pref.	284,261	572	0.3	
Hong Kong Vitasoy International	1,292,000	2,170	1.1	
Mexico Wal-Mart de Mexico	716,140	2,319	1.2	
Vietnam Vietnam Dairy Products	980,000	2,565	1.3	
		9,534	4.8	6.6
TOTAL EQUITIES		*112,938*	*56.7*	*63.5*

continued

	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets 28th Feb. 2023	28th Feb. 2022
Exchange Traded Commodities (ETC) - Physically Backed				
IRELAND				
iShares Physical Gold ETC	338,680	9,955	5.0	5.2
TOTAL INVESTMENTS		197,716	99.3	97.8
Net other assets		1,388	0.7	2.2
TOTAL NET ASSETS		*199,104*	*100.0*	*100.0*

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

All debt securities in the portfolio at 28th February 2023 are investment grade.

SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 28th February 2023

Purchases		Cost £'000
9,155	Fielmann	402
14,670	Flowers Foods	301
1,985	Kuehne + Nagel	403
8,573,610	Lloyds Banking	4,030
24,100	Nabtesco	427
4,692	Novo Nordisk	414
179,339	Segro	1,359
216,905	SSE	3,799
6,852,000	UK Treasury 2.75% 2024	6,690
6,560,000	UK Treasury 5% 2025	6,678
12,795,000	US Treasury 0.125% 2024	9,807
6,375,000	US Treasury 0.125% I-L 2027	5,245
10,987,000	US Treasury 0.375% 2024	8,454
5,693,000	US Treasury 2.25% 2024	4,815
	TOTAL	52,824

continued

Disposals		Proceeds £'000
29,983	AbbVie	3,538
2,381	Air Liquide	298
24,478	Cisco Systems	991
763,612	DS Smith	2,345
67,460	Fielmann	2,880
11,300	Flowers Foods	259
252,960	GSK	4,275
69,100	Hill & Smith	1,043
45,265	iShares Physical Gold ETC	1,299
6,730	Kuehne + Nagel	1,379
51,852	National Grid	634
25,621	National Retail Properties	994
2,650	Novo Nordisk	298
20,870	Paychex	2,192
36,815	Rio Tinto	2,209
1,995	Schneider Electric	259
104,100	TELUS	2,101
7,992,000	Thai Beverage	3,100
24,622	TotalEnergies	1,254
1,516,000	UK Treasury 0.5% 2022	1,516
6,359,000	UK Treasury 4.25% 2032	6,474
4,873,000	UK Treasury 4.25% 2036	4,924
7,662,000	US Treasury 0.125% 2022	6,774
679,900	US Treasury 0.125% I-L 2024	699
5,531,000	US Treasury 1.875% 2022	4,998
92,906	Victrex	1,652
794,300	Wal-Mart de Mexico	2,212
	TOTAL	60,597

GENERAL INFORMATION

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 UK UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority.

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

Capital Gains Tax

Authorised unit trusts are exempt from UK capital gains tax on realised capital gains. Overseas capital gains tax is accounted for on an accruals basis.

Applications

The minimum initial and subsequent investment in the fund is £1,000. Regular monthly contributions may be made for a minimum of £100. Online dealing is available.

Costs of Investment Research

MW, the Investment Adviser to the Manager of the Income Fund, pays for all research costs relating to the management of the investments within the fund from its own resources. No additional charges are placed upon the fund relating to the provision of investment research.

Using your Personal Information

The personal information which we obtain from you when you invest in the fund is used to help administer your investment. All processing of your personal information will be carried out in accordance with our Privacy Policy, which you can access at the foot of the homepage on our website (www.mcinroy-wood.co.uk). Please read our Privacy Policy, as it sets out your rights with respect to any personal information we collect from or about you, and explains in more detail how we use that information to administer your investment.

Remuneration Policy

MWP delegates investment management of the fund, and other in-house funds (together "funds") to MW, the Investment Adviser. Directors and staff involved in the management of the fund are not remunerated by MWP, but they are subject to the remuneration requirements of the UCITS Remuneration Code. The group remuneration policy is approved annually by the MW Board and is designed to ensure that the remuneration of directors and staff is consistent with and promotes sound and effective risk management. MW pays no variable remuneration to its directors. No other employees have authority to influence the risk profile of the funds. It is, therefore, not possible for variable remuneration incentives to encourage risk taking which is inconsistent with the risk profile of the funds managed. MWP's compliance with its duty to act in the best interests of the funds it manages is therefore not subject to any conflict of interest.

continued

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 risks not normally associated with developed markets.

Synthetic Risk and Reward Indicator (Volatility measure)

1	2	3	4	5	6	7

Lower risk — Typically lower rewards

Higher risk — Typically higher rewards

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.

This indicator is prescribed by EU reporting guidelines as adopted by the Financial Conduct Authority 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 change over time.

Value Assessment

The Manager produces a composite annual Assessment of Value for the funds managed by it. The document is published on McInroy & Wood's website by 30th June each year.

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (the Rules) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 102), 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 Investment Management Association in May 2014, updated in June 2017;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the fund will continue as a going concern unless it is inappropriate to do so; and
- 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 Our Fund pages 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 Conduct Authority, we hereby certify the Report and Financial Statements of the fund on behalf of the Directors of McInroy & Wood Portfolios Limited.

T A U Wood
Director

J C McAulay
Director

Haddington, 21st April 2023

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE

to the Unitholders of the McInroy & Wood Income Fund (the Trust) for the year ended 28th February 2023

The Trustee in its capacity as Trustee of the McInroy & Wood Income 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 Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

The Trustee 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 Trustee 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 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 UK UCITS Management Company, are carried out (unless they conflict with the Regulations).

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE

continued

The Trustee also has a duty to take reasonable care to ensure that the 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 considered necessary to discharge our responsibilities as Trustee 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 the Scheme documents of the Trust.

For and on behalf of
The Bank of New York Mellon
(International) Limited

21st April 2023

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD INCOME FUND

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of McInroy & Wood Income Fund (the "Fund"):

- give a true and fair view of the financial position of the Fund as at 28th February 2023 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 28th February 2023; the Statement of Total Return and the Statement of Change in Net Assets Attributable to Unitholders for the year then ended; the Distribution Tables; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Conclusions relating to going concern continued
However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Fund's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Manager with respect to going concern are described in the relevant sections of this report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on our work undertaken in the course of the audit, the Collective Investment Schemes sourcebook requires us also to report certain opinions as described below.

Manager's Report
In our opinion, the information given in the Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Manager for the financial statements
As explained more fully in the Statement of the Manager's Responsibilities, the Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Manager is also responsible for 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.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to wind up or terminate the Fund, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Fund/Industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Collective Investment Schemes sourcebook, and we considered the extent to which non-compliance might have a material effect on the financial statements, in particular those parts of the sourcebook which may directly impact on the determination of amounts and disclosures in the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the Fund. Audit procedures performed included:

- Discussions with the Manager, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes, including those of the Manager's board of directors;
- Identifying and testing journal entries, specifically any journals posted as part of the financial year end close process; and

- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

Opinion on matter required 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.

Collective Investment Schemes sourcebook exception reporting
Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
Edinburgh

21st April 2023

STATEMENT OF TOTAL RETURN

for the year ended 28th February 2023

	Notes	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000	Year ended 28th Feb. 2022 £'000
Income					
Net capital gains	2		5,689		16,244
Revenue	3	6,326		5,861	
Expenses	4	(2,270)		(2,358)	
Net revenue before taxation		4,056		3,503	
Taxation	5	(352)		(376)	
Net revenue after taxation			3,704		3,127
Total return before distributions			9,393		19,371
Distributions	6		(5,415)		(5,046)
Change in net assets attributable to unitholders from investment activities			3,978		14,325

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 28th February 2023

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000	Year ended 28th Feb. 2022 £'000
Opening net assets attributable to unitholders		204,112		205,082
Amounts receivable on creation of units	5,291		4,725	
Amounts payable on cancellation of units	(14,277)		(20,020)	
		(8,986)		(15,295)
Change in net assets attributable to unitholders from investment activities		3,978		14,325
Closing net assets attributable to unitholders		199,104		204,112

BALANCE SHEET

as at 28th February 2023

	Notes	28th Feb. 2023 £'000	28th Feb. 2023 £'000	28th Feb. 2022 £'000	28th Feb. 2022 £'000
ASSETS:					
Fixed assets:					
Investments			197,716		199,628
Current assets					
Debtors	7	623		520	
Cash & bank balances		3,608		6,147	
Total other assets			4,231		6,667
Total assets			201,947		206,295
LIABILITIES:					
Creditors					
Distribution payable		(2,320)		(1,858)	
Other creditors	8	(523)		(325)	
Total liabilities			(2,843)		(2,183)
Net assets attributable to unitholders			199,104		204,112

for the year ended 28th February 2023

1. Accounting policies

(a) The financial statements have been prepared on a going concern basis in accordance with FRS 102 and the Statement of Recommended Practice ‘Financial Statements of UK Authorised Funds’ issued by the IMA (now known as the Investment Association) in May 2014, updated in June 2017, (the “SORP”).

(b) Dividends receivable from equity investments are recognised gross of withholding tax 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 costs associated with the purchase and sale of investments which are allocated to 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.

Overseas capital gains tax is accounted for on an accruals basis.

(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 April. An interim distribution based on available revenue is distributed on the last day of July, October and January. The ordinary element of stock dividends is treated as revenue and forms part of the distribution and indexation on index linked bonds is included as part of the distribution. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.

(g) All investments have been valued at their fair value, at close of business on the last business day of the period, which is generally the bid market value net of any accrued revenue.

continued

1. Accounting policies continued

(h) Foreign currency transactions are translated at the rates ruling on the date of the transaction. Assets and liabilities valued in foreign currencies have been translated into sterling at exchange rates prevailing at the balance sheet date.

2. Net capital gains

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
Non-derivative securities	5,478	16,368
Currency gains/(losses)	223	(120)
Custodian transaction costs	(4)	(4)
US REIT dividends	(8)	–
Net capital gains*	5,689	16,244
**includes realised gains on investments sold*	8,309	9,394

3. Revenue

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
Bank interest	22	42
Interest on overseas debt securities	892	416
Interest on UK debt securities	679	555
Overseas dividends	3,065	2,906
Property income distributions on UK REITs	179	149
UK dividends	1,489	1,793
Total revenue	6,326	5,861

continued

4. Expenses

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
– Manager's periodic charge	2,037	2,109
– Transfer agency fee	81	84
Payable to the Trustee, associates of the Trustee and agents of either of them:		
– Trustee's fee	41	41
– Safe custody fee	41	41
Other expenses:		
– Audit fee	16	13
– Fund accounting fee	41	39
– Interest payable and similar charges	3	1
– Professional services fees*	2	21
– Sundry fees**	8	9
Total expenses	2,270	2,358

*Includes non-audit service fees of £3,779 payable to the fund's auditors, PricewaterhouseCoopers LLP (2022: £14,913).

**Includes FT listing fees, financial statement printing and postage and other fees.

continued

5. Taxation

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
(a) Analysis of tax charge for the year		
Overseas tax	352	376
	352	376

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2022 - lower) than the standard rate of corporation tax in the UK for an authorised unit trust (20% (2022 - 20%)). The differences are explained below:

	Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
Net revenue before taxation	4,056	3,503
Corporation tax at 20%	811	701
Effects of:		
Indexation allowance	(185)	(101)
Movement in unrecognised tax losses	264	315
Overseas tax	352	376
Overseas tax expensed	(5)	(5)
Prior year adjustment to unrecognised tax losses	(17)	–
Revenue not subject to tax	(868)	(910)
Current tax charge for the year	352	376

(c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £3,550,023 (2022 - £3,286,066) in respect of unrecognised tax losses. 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 current or prior year.

continued

6. Distributions

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

		Year ended 28th Feb. 2023 £'000	Year ended 28th Feb. 2022 £'000
Interim		3,024	3,105
Final		2,319	1,858
		5,343	4,963
Add:	Revenue deducted on cancellation of units	110	111
Deduct:	Revenue received on creation of units	(38)	(28)
Net distribution for the year		5,415	5,046
Net revenue after taxation		3,704	3,127
Expenses taken to capital		2,037	2,109
Tax attributable to capital		(326)	(190)
Net distribution for the year		5,415	5,046

Details of the distributions per unit are shown in the Distribution Tables on page 37.

continued

7. Debtors

	28th Feb. 2023 £'000	28th Feb. 2022 £'000
Amounts receivable for creation of units	13	49
Overseas withholding tax recoverable	29	21
Prepaid expenses	2	–
Revenue receivable:		
Overseas equities	28	21
Overseas bond interest	194	175
UK bond interest	249	162
UK equities	108	92
	623	520

8. Other Creditors

	28th Feb. 2023 £'000	28th Feb. 2022 £'000
Accrued expenses:		
Audit fee	15	12
Custodial transaction fees	–	1
Fund accounting fee	7	4
Manager's periodic charge	156	158
Safe custody fees	7	7
Transfer agency fee	6	17
Trustee's fee	3	3
Other	8	10
Amounts payable for cancellation of units	321	113
	523	325

9. Unit movement

For the year 1st March 2022 to 28th February 2023

Opening units	7,186,819
Units created	183,843
Units cancelled	(496,488)
Closing units	6,874,174

10. Related Party Transactions

The Manager actively exercises control over the fund and is therefore a related party by virtue of its controlling influence.

Amounts paid during the year or due to the Manager at the balance sheet date are disclosed under Expenses and Creditors in the Notes to the Financial Statements.

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 Distributions in the Notes to the Financial Statements. 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 Financial Statements.

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 1.9% (2022 - 1.7%).

11. Portfolio Risk Analysis

In pursuing its investment objectives, the fund's portfolio is invested 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 is operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and debtors for accrued revenue.

Credit and Liquidity Risk

Credit risk is the risk that the counterparty in a financial transaction will fail to fulfil their obligation or commitment, and includes the risk that the issuer of a security will be unable to pay interest and principal in a timely manner. The fund is exposed to credit risk through its investment in debt securities. In order to limit credit risk during the period, bonds held by the fund were backed by either the German, Swiss, US or UK government and the gold ETCs, which are structured as debt securities, were backed by physical gold.

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.

It is estimated that 99% of the fund could be realised within 5 days, based upon normal trading activities and achieving 30% of the 30-day average traded volume.

11. Portfolio Risk Analysis continued

Credit Quality

All debt securities in the portfolio at the balance sheet date are investment grade (2022 - same).

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, Prospectus and in the rules of the Collective Investment Schemes sourcebook. This 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.

Interest Rate Risk

The Manager commonly invests part of the fund's 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 future cash flows from such deposits and on the amount of income derived from them.

The Manager reviews policies for managing these risks in pursuance of the investment objective and policy.

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.

Valuation of financial investments

The categorisation of financial investments in the tables below reflects the methodology used to measure their fair value.

	Assets £'000	Liabilities £'000
28th February 2023		
Level 1: Quoted prices	197,716	–
Level 2: Observable market data	–	–
Level 3: Unobservable data	–	–
	197,716	**–**

continued

11. Portfolio Risk Analysis continued

Valuation of financial investments continued

	Assets £'000	Liabilities £'000
28th February 2022		
Level 1: Quoted prices	199,628	–
Level 2: Observable market data	–	–
Level 3: Unobservable data	–	–
	199,628	**–**

12. Risk Exposure

The Manager uses Value at Risk (VaR) to measure the risks relating to the financial assets in which the fund is invested.

Value at Risk is a statistical measurement. It intends to measure the maximum potential loss in the fund's Net Asset Value under normal market conditions and is calculated for a given confidence level (probability) over a specific time period. The Manager calculates an absolute VaR daily, based on a one year historical observation period and uses a confidence level of 97.5% with a holding period of 1 month.

The absolute VaR of the fund is not permitted to be greater than 20% of its Net Asset Value under normal market conditions.

The table below details the lowest, highest and average VaR in the year.

	Year ended 28th Feb. 2023 %	Year ended 28th Feb. 2022 %
Year end VaR	5.07	3.05
Minimum VaR	3.02	2.98
Maximum VaR	5.07	11.19
Average VaR	4.15	4.38

Leverage

The fund had no exposure to leverage, either in the form of debt or derivatives during the current or prior year.

continued

13. Portfolio Transaction Costs

For the year 1st March 2022 to 28th February 2023

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	11,084	5	0.05	46	0.42
Debt instruments	41,675	14	0.03	–	–
Total purchases	**52,759**	**19**		**46**	
Total purchases including transaction costs	**52,824**				

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	33,930	16	0.05	1	0.00
Debt instruments	25,390	5	0.02	–	-
Collective Investment Schemes	1,300	1	0.08	–	-
Total sales	**60,620**	**22**		**1**	
Total sales net of transaction costs	**60,597**				
Total transaction costs		41		47	
Total transaction costs as a % of average net assets		0.02%		0.02%	

For the year 1st March 2021 to 28th February 2022

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	22,149	23	0.10	8	0.04
Debt instruments	802	1	0.12	–	–
Total purchases	**22,951**	**24**		**8**	
Total purchases including transaction costs	**22,983**				

Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	35,895	17	0.05	–	-
Debt instruments	500	–	–	–	-
Total sales	**36,395**	**17**		**–**	
Total sales net of transaction costs	**36,378**				
Total transaction costs		41		8	
Total transaction costs as a % of average net assets		0.02%		0.00%	

continued

13. Portfolio Transaction Costs continued

The above analysis covers any direct transaction costs carried by the fund during the most recent financial year and prior financial year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and investment instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the fund's purchase and sale of equity shares. Additionally for equity shares there are dealing spread costs (the difference between the buying and selling prices) which are payable on purchase and sale transactions.

Dealing spread costs incurred by the fund vary depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.13% (2022 - 0.13%).

DISTRIBUTION TABLES

in pence per unit
for the year ended 28th February 2023

INTERIM DISTRIBUTION - JULY 2022

Group 1 - Units purchased prior to 1st March 2022
Group 2 - Units purchased 1st March 2022 to 31st May 2022

	Dividend income	Equalisation*	Amount paid 31.07.22
Group 1	14.000	–	14.000
Group 2	0.000	14.000	14.000

INTERIM DISTRIBUTION - OCTOBER 2022

Group 1 - Units purchased prior to 1st June 2022
Group 2 - Units purchased 1st June 2022 to 31st August 2022

	Dividend income	Equalisation*	Amount paid 31.10.22
Group 1	14.000	–	14.000
Group 2	0.000	14.000	14.000

INTERIM DISTRIBUTION - JANUARY 2023

Group 1 - Units purchased prior to 1st September 2022
Group 2 - Units purchased 1st September 2022 to 30th November 2022

	Dividend income	Equalisation*	Amount paid 31.01.23
Group 1	15.000	–	15.000
Group 2	0.000	15.000	15.000

FINAL DISTRIBUTION - APRIL 2023

Group 1 - Units purchased prior to 1st December 2022
Group 2 - Units purchased 1st December 2022 to 28th February 2023

	Dividend income	Equalisation*	Amount payable 30.04.23
Group 1	33.744	–	33.744
Group 2	4.120	29.624	33.744

*Income arises throughout each reporting period. Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax. Instead, it must be deducted from the cost of units for capital gains purposes.

DISTRIBUTION SUMMARY

in pence per unit
for the year ended 28th February 2023

	Year to 28th Feb. 2023	Year to 28th Feb. 2022
Interim paid - July	14.000	14.000
Interim paid - October	14.000	14.000
Interim paid - January	15.000	14.000
Final payable/paid	33.744	25.846
	76.744	67.846

DISTRIBUTION XD AND PAYMENT DATES

	XD Date	*Payment Date*
Final	28.02.23	30.04.23
Interim	31.05.23	31.07.23
Interim	31.08.23	31.10.23
Interim	30.11.23	31.01.24

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