



# **F&C Managed Portfolio Trust plc**

Annual Report and Accounts

2015

Year to 31 May 2015

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The Association of  
Investment Companies

**This document is important and requires your immediate attention. Shareholders who are in any doubt as to what action to take should consult an appropriate independent financial adviser immediately. If you have sold or otherwise transferred all of your Shares in the Company, you should immediately send this document and the accompanying form of proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for transmission to the purchaser or transferee.**

# Company Summary

## The Company

The Company is an investment trust and was launched on 16 April 2008. Its shares are listed on the Official List and traded on the main market of the London Stock Exchange. It is a member of the Association of Investment Companies ('AIC').

Net assets attributable to shareholders at 31 May 2015 were £43.8 million (Income shares) and £44.4 million (Growth shares).

## Capital Structure

The Company has two classes of shares, Income shares and Growth shares. Details of the Capital Structure are provided on pages 35 and 36.

In addition, the Company has a £5,000,000 unsecured revolving credit facility with The Royal Bank of Scotland plc.

Any net income arising in the Growth Portfolio is transferred to the Income Portfolio, in exchange for the transfer of an identical amount made from the capital attributable to the Growth Portfolio. It is expected that this will both benefit the income prospects of the Income shares and the capital growth prospects of the Growth shares.

## Investment Objective

The Company's investments are managed in two separate portfolios: the Income Portfolio and the Growth Portfolio, to which the Income shares and the Growth shares are respectively entitled.

The Company's investment objective is to provide an attractive level of income with the potential for income and capital growth to Income shareholders and to provide capital growth for Growth shareholders, in each case through investing principally in a diversified portfolio of investment companies.

The benchmark index for both the Income Portfolio and the Growth Portfolio is the FTSE All-Share Index.

## Investment Policy

The Company's investment policy is set out in the Report of the Directors on page 23.

## Dividend Policy

Income shares are entitled to all dividends of the Company. The Growth shares do not carry an entitlement to receive dividends. The Company typically pays four quarterly interim dividends per financial year in October, January, April and July.

## Management

The Board has appointed F&C Investment Business Limited (the 'Manager'), a wholly-owned subsidiary of F&C Asset Management plc, as investment manager. Details of the management contract, are provided in note 4 to the Accounts.

## How to Invest

F&C Management Limited operates a number of investment plans which facilitate investment in the Income shares and Growth shares of the Company. Details are contained on page 67.

You may also invest through a stockbroker.

## Alternative Investment Fund

The Company is an Alternative Investment Fund ("AIF") under the European Union's Alternative Investment Fund Managers' Directive ('AIFMD'). Its Alternative Investment Fund Manager ('AIFM') is F&C Investment Business Limited. Further disclosures required under the AIFMD can be found on the Company's website [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk)

## ISA Status

The Company's shares are eligible for Individual Savings Accounts ('ISAs').

## Suitability for Retail Distribution

The Company conducts its affairs so that its Income shares and Growth shares can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's rules relating to non-mainstream investment products and intends to continue to do so.

## Website

The internet address for the Company is [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk)

# Income shares – Financial Highlights for the year

- Annual dividend increased by 4.2% to 5.0p per Income share
- Net asset value total return per Income share was 10.0%, compared to the FTSE All-Share Index total return of 7.5%
- Dividend yield of 3.9% at 31 May 2015, based on dividends at the current annual rate of 5.0p per Income share, compared to the yield on the FTSE All-Share Index of 3.3%. Dividends are paid quarterly.
- £8.8 million net proceeds raised from Income share issuance

## Income shares – Performance Summary

|   | At 31 May 2015                | At 31 May 2014         | % change |
|---|-------------------------------|------------------------|----------|
| <b>Capital</b>  |                               |                        |          |
| Net asset value per Income share  | <b>126.37p</b>                | 119.85p                | +5.4     |
| FTSE All-Share Index  | <b>3,797.12</b>               | 3,655.01               | +3.9     |
| Income Share price  | <b>128.5p</b>                 | 122.0p                 | +5.3     |
| <b>Premium<sup>++</sup></b>   | <b>1.7%</b>                   | 1.8%                   |          |
| <b>Gearing<sup>†</sup></b>  |                               |                        |          |
| Net Gearing   | <b>0.3%</b>                   | 1.4%                   |          |
| <b>Total Return<sup>*</sup></b>   |                               |                        |          |
|   | <b>Year ended 31 May 2015</b> | Year ended 31 May 2014 |          |
| Net asset value per Income share  | <b>+10.0%</b>                 | +6.0%                  |          |
| FTSE All-Share Index  | <b>+7.5%</b>                  | +8.9%                  |          |
| Income Share price  | <b>+9.8%</b>                  | +9.0%                  |          |
| <b>Revenue and Dividends</b>  |                               |                        |          |
| Revenue return per share (including net income transfer from Growth shares) | <b>5.87p</b>                  | 5.56p                  |          |
| Dividends per Income share  | <b>5.00p</b>                  | 4.80p                  |          |
| <b>Ongoing Charges<sup>‡</sup></b>  | <b>1.16%</b>                  | 1.16%                  |          |

\* All total returns are calculated assuming that net dividends are re-invested.

++ Percentage difference between share price and net asset value per share.

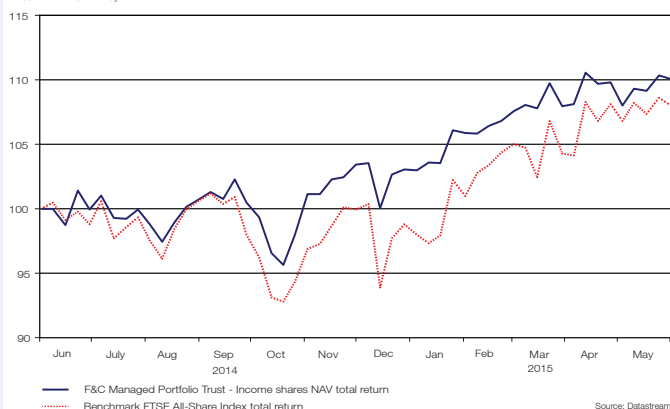
† Net gearing = (Total assets less cash) ÷ shareholders funds.

‡ The total expenses (both revenue and capital) incurred by the Company (excluding finance costs and any performance fee) divided by the average net asset value in the year. Ongoing charges of the Company's underlying investments have not been included in this calculation.

Sources: F&C Investment Business Limited and Datastream

### Net Asset Value per share performance for the year to 31 May 2015

rebased to 100 at 31 May 2014



### Year end 31 May 2015 Highs/Lows

|                                 | Income Shares |               |
|---------------------------------|---------------|---------------|
|                                 | High          | Low           |
| Net asset value per share       | <b>126.7p</b> | <b>110.5p</b> |
| Share price                     | <b>129.0p</b> | <b>111.5p</b> |
| Premium/(discount) <sup>‡</sup> | <b>4.0%</b>   | <b>(1.3)%</b> |

‡Premium/(discount) high – Widest premium/narrowest (discount) in year  
 Premium/(discount) low – Narrowest premium/widest (discount) in year  
 Sources: F&C Investment Business Limited and Datastream

# Growth shares – Financial Highlights for the year

- Net asset value total return per Growth share was 12.8%, compared to the FTSE All-Share Index total return of 7.5%
- £4.3 million net proceeds raised from Growth share issuance

## Growth shares – Performance Summary

|                                  | At 31 May 2015  | At 31 May 2014 | % change |
|----------------------------------|-----------------|----------------|----------|
| <b>Capital</b>                   |                 |                |          |
| Net asset value per Growth share | <b>153.92p</b>  | 136.41p        | +12.8    |
| FTSE All-Share Index             | <b>3,797.12</b> | 3,655.01       | +3.9     |
| Growth Share price               | <b>155.0p</b>   | 136.0p         | +14.0    |
| <b>Premium/(Discount)**</b>      | <b>0.7%</b>     | (0.3)%         |          |
| <b>Gearing†</b>                  |                 |                |          |
| Net Gearing                      | <b>0.8%</b>     | –              |          |
| Net cash                         | –               | 1.0%           |          |
| <b>Total Return*</b>             |                 |                |          |
| Net asset value per Growth share | <b>+12.8%</b>   | +9.3%          |          |
| FTSE All-Share Index             | <b>+7.5%</b>    | +8.9%          |          |
| Growth Share price               | <b>+14.0%</b>   | +10.6%         |          |
| <b>Ongoing Charges‡</b>          | <b>1.15%</b>    | 1.17%          |          |

\* All total returns are calculated assuming that net dividends are re-invested.

\*\* Percentage difference between share price and net asset value per share.

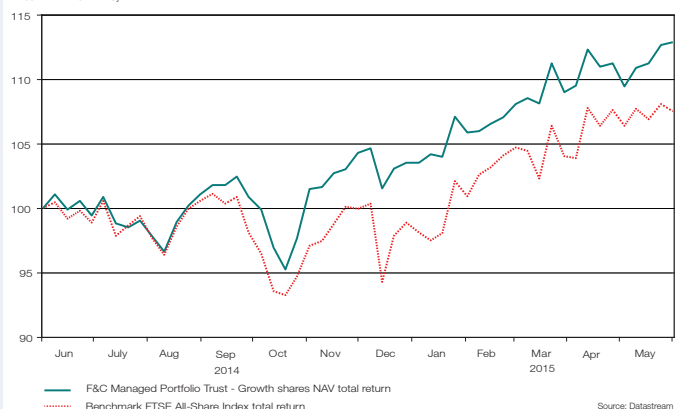
† Net gearing = (Total assets less cash) ÷ shareholders funds. Net cash = (cash and cash equivalents after any offset against gearing) ÷ shareholders funds.

‡ The total expenses (both revenue and capital) incurred by the Company (excluding finance costs and any performance fee) divided by the average net asset value in the year. Ongoing charges of the Company's underlying investments have not been included in this calculation.

Sources: F&C Investment Business Limited and Datastream

### Net Asset Value per share performance for the year to 31 May 2015

rebased to 100 at 31 May 2014



### Year end 31 May 2015 Highs/Lows

|                           | Growth Shares |               |
|---------------------------|---------------|---------------|
|                           | High          | Low           |
| Net asset value per share | <b>153.9p</b> | <b>127.1p</b> |
| Share price               | <b>155.0p</b> | <b>131.5p</b> |
| Premium/(discount)‡       | <b>4.7%</b>   | <b>(3.9)%</b> |

‡Premium/(discount) high – Widest premium/narrowest (discount) in year  
Premium/(discount) low – Narrowest premium/widest (discount) in year  
Sources: F&C Investment Business Limited and Datastream

# Chairman's Statement



**Richard Martin** Chairman

## Highlights

- NAV total returns for the Income shares of 10.0% and the Growth shares of 12.8% compared to the FTSE All-Share Index of 7.5%
- Annual dividend increased by 4.2% to 5.0p per Income share for the year
- £13.1 million net proceeds raised from the issue of shares

## Introduction

This was another good year for shareholders, with reasonable returns comfortably above the UK equity market.

We were also able to increase the dividend by 4.2%, well above inflation on any realistic measure. As a result, the yield on the Income shares was 3.9% on the year end share price.

Both share classes have maintained their record of out-performance against the benchmark over both 3 years and 5 years to 31 May 2015.

## Performance

### Net asset value total return

For the Company's financial year to 31 May 2015, the NAV total return (i.e. adding dividends paid to capital performance) was 10.0% for the **Income**

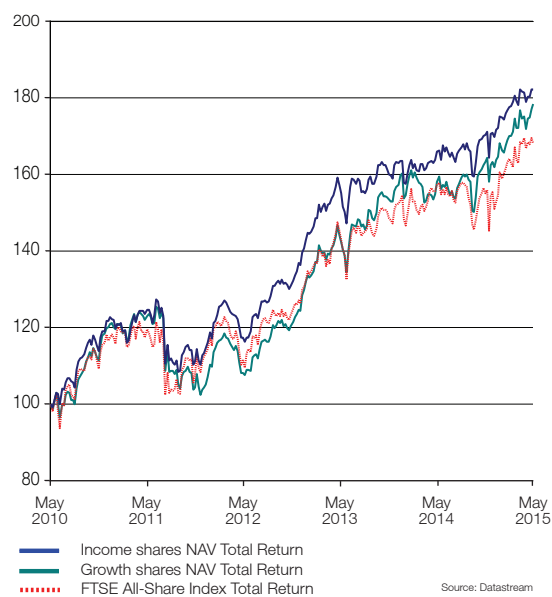
shares and 12.8% for the **Growth** shares. The total return for the benchmark index for both Portfolios, the FTSE All-Share Index was 7.5%, while the Investment Company sector, as measured by the FTSE Equity Investment Instruments Index, returned 13.0%.

The principal contributors to the performance and additional information on the Company's investment portfolios are included in the Investment Manager's Review commencing on page 11.

The longer-term track record is illustrated graphically and in the table below. Both share classes have also outperformed the benchmark over the 3 years and 5 years to 31 May 2015.

## 5 Year Net Asset Value per share performance

rebased to 100 at 31 May 2010



| Period                  | 3 years | 5 years |
|-------------------------|---------|---------|
| Income NAV total return | 56.5%   | 81.9%   |
| Growth NAV total return | 63.8%   | 77.5%   |
| Benchmark total return* | 52.2%   | 68.6%   |

\* Benchmark: FTSE All-Share Index

The Board would like to commend our dedicated manager, Peter Hewitt, for this considerable achievement.

### **Revenue and dividends**

The Board has adopted the twin objectives of increasing the total dividends paid each year and of maintaining a revenue reserve equivalent to 6 months dividends. Notwithstanding the sizeable issuance of shares in the latter part of the year (which is referred to below) we have been able to increase the annual dividend by 4.2% and add to the revenue reserve, which is now equivalent to approximately 45% of the annual dividend cost.

For the year ended 31 May 2015, four interim dividends have now been paid totalling 5.0p per Income share. The fourth interim dividend was paid after the year end on 3 July 2015.

In the absence of unforeseen circumstances, your Board intends to declare three interim dividends, each of 1.2p per Income share payable in October 2015, January 2016 and April 2016. A fourth interim dividend will be paid in July 2016 when a clearer view emerges of income for the year.

### **Borrowing**

During the year, the Company entered into a £5 million unsecured revolving credit facility with The Royal Bank of Scotland plc to replace the borrowing facility it had used with its custodian JPMorgan Chase Bank. The Board is responsible for the Company's gearing strategy and sets parameters within which the Investment Manager operates.

Borrowings are not normally expected to exceed 20% of the total assets of the relevant Portfolio and at the time of writing total £1.5 million (3.4%) in the Income Portfolio and £1.4 million (3.0%) in the Growth Portfolio.

### **Share capital**

As I reported in the Interim report, the Board believes that the Company's continuing ability to

issue shares at a premium to NAV increases liquidity, adds to net asset value per share and reduces share price volatility by preventing the build-up of excessive demand for shares. Towards the end of 2014, it was anticipated that future demand for shares would exceed the share issuance authority approved at the last AGM.

Accordingly, shareholder authority to allot up to a further 50,000,000 Income shares and 50,000,000 Growth shares and to dis-apply pre-emption rights in respect of those shares, was granted at a General Meeting held on 2 February 2015. A prospectus was then published on 4 February 2015 in accordance with the Prospectus Rules.

During the financial year, 7,175,000 new Income shares were issued raising £8.8 million net of expenses. In the Growth portfolio, the remaining 1,490,000 Growth shares were resold from treasury and a further 1,435,000 new Growth shares were also issued, raising a total of £4.3 million net of expenses. The Income shares and Growth shares were issued at average premiums to NAV of 1.6% and 1.5% respectively. This enhanced the respective net asset values after allowing for the costs of the issues which included the cost of the prospectus.

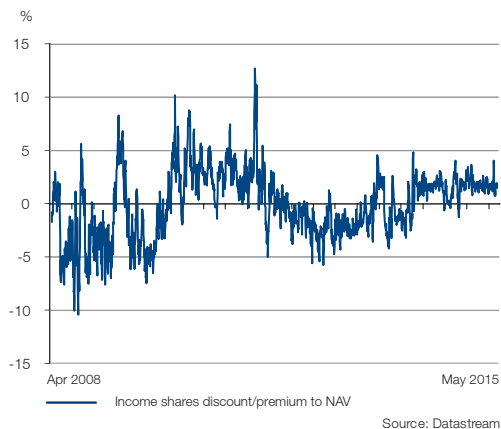
Much of the demand came from shareholders in British Assets Trust whose shares were no longer eligible for the F&C Share Plans when that company moved to another investment manager. Overall, this issuance has increased the size of the Company by approximately 19% to net assets of £88 million, which will assist in spreading operating costs over a larger asset base and should, increase liquidity.

In normal circumstances, we aim to maintain the discount to NAV at which our shares trade, at not more than 5%. In practice over the years the shares have generally traded close to NAV. During the year to 31 May 2015 we have been able to maintain an average premium of 1.6% for the Income shares and 0.6% for the Growth shares.

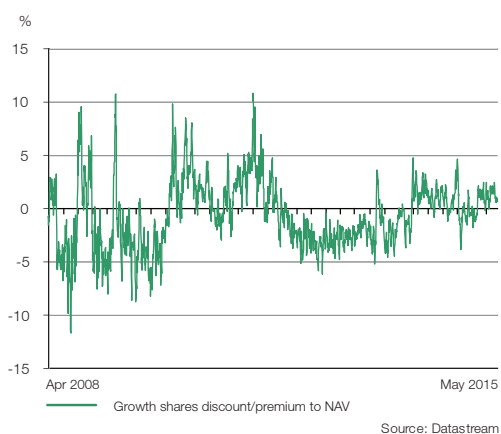
# Chairman's Statement (continued)

## Discount/Premium to Net Asset Value since launch

### Income Shares



### Growth shares



We will be seeking shareholders' approval to renew the powers to allot shares, buy back shares and sell shares from treasury at the Annual General Meeting. The resolutions are explained on pages 25 to 27 in the Report of the Directors.

### Alternative Investment Fund Managers Directive ("AIFMD")

In July 2014 as required under AIFMD, the Board entered into arrangements with the Manager, F&C Investment Business Limited, to act as the Company's Alternative Investment Fund Manager, at no additional cost to the Company. The appointment of a Depositary was also required and JPMorgan Europe Limited were appointed.

Sadly, further regulation lies ahead and the Board is starting to assess the possible impact of MiFID II and the OECD Common Reporting Standard.

### Share plans and conversion facility

Shareholders have the opportunity to convert their Income shares into Growth shares or their Growth shares into Income shares upon certain dates every year subject to minimum thresholds. The next opportunity will be on 22 October 2015. Information is provided in the Shareholder Information section on pages 65 and 66 and full details will be provided on the Company's website ([www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk)) from 27 July 2015.

Since launch, no conversion has yet taken place as the number of shares offered for conversion has been well below the minimum threshold. This minimum threshold is set by the Board in order to ensure that costs of a conversion are not incurred which would be disproportionate to the level of converting assets.

### AGM

The annual general meeting ("AGM") will be held at 12.30pm on Monday 14 September 2015 in the offices of F&C Asset Management plc, Exchange House, Primrose Street, London. It will be followed by a presentation from our fund manager, Peter Hewitt. This is a good opportunity for shareholders to meet the Board and Manager and I would encourage you to attend.

### Outlook

In recent years, it seems that almost every Chairman's statement points to the uncertainties ahead. That is more true this year than ever, with the badly-handled negotiations between Greece and its creditors leaving the future of the Eurozone and the place of Greece within it, deeply unclear. Beyond that lie the timing and impact of interest rate rises, the outlook for the Chinese economy and the ever-growing threat from global terrorism.



Against this background, we believe that the merits of a diversified portfolio of investment companies are more attractive than ever. The portfolios offer exposure to a wide sweep of economies and sectors, including fast-growing sectors such as biotechnology. I hope to be able to present similarly positive results next year.

**Richard M Martin**

Chairman

27 July 2015

# Business Model and Strategy

As explained within the Report of the Directors on page 22, the Company carries on business as an investment trust and its Income shares and Growth shares are listed on the official list and traded on the main market of the London Stock Exchange.

## Key relationships and responsibilities

The Company's Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 21. The Company has no executive directors or employees.

The Board has contractually delegated the management of the investment portfolios, and other services, to F&C Investment Business Limited (the '**Manager**'). Peter Hewitt acts as Investment Manager (the '**Investment Manager**') to the Company, on behalf of F&C.

## Investment Strategy

The Company invests principally in listed closed-ended investment companies and the majority of its holdings comprise equity investments. There is no restriction on the geographic regions and sectors that may be held within the Income Portfolio or Growth Portfolio and the Company invests in those deemed most appropriate for the portfolios and their objectives from time to time. Most of the Manager's research effort is devoted to identifying fund managers who can outperform. An analysis of the Income Portfolio and the Growth Portfolio is contained in the Manager's Review and a full list of their investments can be found on pages 16 to 17.

Investment risks are spread through holding a wide range of investment companies that have underlying investment exposures across a range of geographic regions and sectors. As at 31 May 2015, 41 investments were held in the Income Portfolio and 44 in the Growth Portfolio.

At each Board meeting, the Board receives a presentation from the Manager which includes a review of investment performance, recent portfolio activity and market outlook. It also considers compliance with the investment policy and investment restrictions during the reporting period.

## Investment Policy

The Company's Investment Policy is set out in detail on page 23.

## Gearing Strategy

The Company currently has a £5,000,000 unsecured revolving credit facility with The Royal Bank of Scotland plc, which is described in more detail in the notes to the accounts.

The Board receives recommendations on gearing levels from the Manager and it is responsible for setting the gearing range within which the Manager may operate.

## Principal Risks

The Company's Principal Risks are set out in detail on page 20.

## Marketing Strategy

The Manager continues to promote investment in the Company's shares, which are suitable for retail distribution in the UK as well as professionally advised private clients and institutional investors. Promotion has traditionally been made through the F&C Savings Plans, which remain a cost effective and flexible way to invest in the Company.

The Company is well positioned to be a beneficiary of the Retail Distribution Review and continues to see an increase in the number of shares held through investment platforms. The Board hopes to see access to the Company's shares on as many platforms as possible as more and more investors turn to the Direct-to-Consumer execution-only market.

The Board will continue to work closely with the Manager to ensure optimal delivery of the Company's investment proposition through all available channels.

**Share issue and buy-back strategy**

Share issuance and buy-backs help reduce the volatility of the share price discount or premium to net asset value per share and enhance the net asset value per share for continuing shareholders. Shares will not be bought back at a premium to net asset value. Shares which are bought back by the Company may be cancelled or may be held in treasury. Shares held in treasury may be resold, subject to conditions on dilution to net asset value.

**Responsible Ownership**

The Manager is a leader in the field of socially responsible investment and, with the support of the Board, actively engages with investee companies and managers of funds in which the Company invests. Environmental policies and social, human rights, community and ethical issues are, therefore, where appropriate, taken into consideration with regard to investment decisions on behalf of the Company. The Company has no employees and the Board is composed entirely of male, non-executive Directors. As an investment trust, the Company has no significant direct social, human rights, community or environmental responsibilities. The Board notes the Manager's statement of compliance with the UK Stewardship Code issued by the Financial Reporting Council in July 2010 and updated in 2012, which can be found on its website at [www.fandc.com/ukstewardshipcode](http://www.fandc.com/ukstewardshipcode).

**Review of Performance and Outlook**

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on page 18.

The Chairman's Statement and Manager's Review within this Report provide a review of investment performance, the investment portfolios and market conditions during the year and the outlook for the coming year, both of which form part of this Strategic Report.

# Investment Manager and Investment Process



**Peter Hewitt**  
Investment Manager

**Peter Hewitt** Investment Manager has managed the Company's assets (which were previously held in the F&C investment trust managed portfolio service) since 2002, and is the lead Investment Manager of the Company. He has over 30 years' investment experience and specialises in investment companies.

## Manager

F&C Managed Portfolio Trust plc is managed by F&C Investment Business Limited, a wholly-owned subsidiary of F&C Asset Management plc (F&C). F&C is a leading asset manager in both the UK and Europe and provides investment management and other services to a range of investment clients.

F&C is wholly owned by BMO Global Asset Management (Europe) Limited which is wholly owned by the Bank of Montreal.

## Investment Process

The investments of F&C Managed Portfolio Trust are managed in two separate portfolios, the Income Portfolio and the Growth Portfolio, to which the Income shares and the Growth shares are respectively entitled.

## Income Portfolio

The objective for the Income Portfolio is to provide investors with an attractive level of income, with the potential for income and capital growth, from a diversified portfolio of investment companies.

The Income Portfolio holds a portfolio of investment companies which focus on offering an income yield above the yield of the FTSE All-Share Index and is diversified through holding at least 25 investments.



**Ian Ridge**  
Company Secretary

**Ian Ridge** Company Secretary, a chartered accountant, is responsible for the provision of accounting and company secretarial services to the Company.

Each investment provides further diversification through holding a significant number of underlying investments.

The benchmark index for the Income Portfolio is the FTSE All-Share Index.

## Growth Portfolio

The objective for the Growth Portfolio is to provide investors with capital growth from a diversified portfolio of investment companies.

The focus for the Growth Portfolio is to maximise total returns, principally through capital growth. The Manager is entitled to acquire higher yielding investment companies if it believes such companies will offer superior returns, although it is not expected that such investment companies will form a significant part of the Growth Portfolio.

The Growth Portfolio is diversified through holding at least 25 investment companies. Each investment company provides further diversification through holding a significant number of underlying investments.

The benchmark index for the Growth Portfolio is the FTSE All-Share Index.

# Investment Manager's Review

## Stockmarket Background

There were a number of notable features in the global economic background that have been apparent over the past twelve months:

- The decline in the price of oil from \$112 last June to a low of \$50 in January and a recovery to around \$60 currently
- Ongoing saga of Greece and whether an agreement regarding Greek debt and broader reform package can be reached
- Inflation falling to very low levels in the UK and the Euro zone
- Only a moderate recovery in economic growth in the US and UK with no increase in interest rates

Aside from what may finally unfold with regard to the Greek situation, most of the factors highlighted were interpreted positively by global equity markets.

Although there appeared danger at almost every turn; with the threat of deflation, the lack of a robust recovery in the level of growth, the prospect of rising interest rates or even perhaps a geo-political event with widespread negative consequences, what actually transpired was a relatively benign background. The fall in energy costs is an undoubted positive for many countries and helped to keep inflation low, without, so far at least, deflation taking hold. Levels of growth have been lower than in previous recoveries but are evident, particularly in the US and UK and may even be moving in the right direction in Europe. The threat of an increase in interest rates, especially in the US, kept being deferred. Whilst from a UK perspective, although sterling appreciated against a persistently weak Euro, it once again moved lower relative to the all-important US dollar which resumed its upward trend against other major currencies.

As can be seen from the following table, against this background, most major equity markets delivered positive returns.

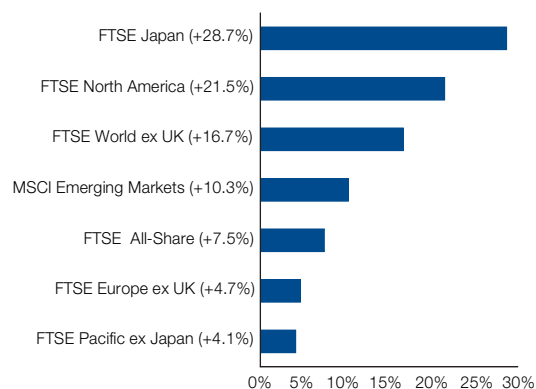
The strongest performing major equity market was in Japan which benefitted from the Bank of Japan embarking upon a policy of very aggressive quantitative easing. This was highly supportive of equity price levels. It also caused further marked weakness in the yen which created a tailwind for

many of Japan's exporting companies enabling them to record substantial profits growth. Over the year the FTSE Japan Index rose over 40% in local currency however due to the yen weakness this translated to a 28.7% gain in sterling.

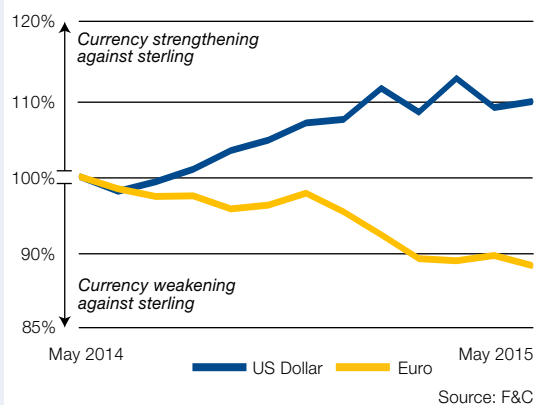
The next most significant return came from North America however in this case the effect of currency translation was exactly the opposite than Japan as dollar strength boosted a 10.5% local currency return in the FTSE North America Index to 21.5% (total return sterling adjusted).

The laggard region was Europe where similar to Japan this was partly the result of currency weakness of the euro relative to sterling which reduced a healthy local currency return to 4.7% (total return sterling adjusted) due to sterling's 13% rise against the Euro.

## Total Return by Region/Market for the year to 31 May 2015 (sterling)



## Currency movements against sterling in year to 31 May 2015

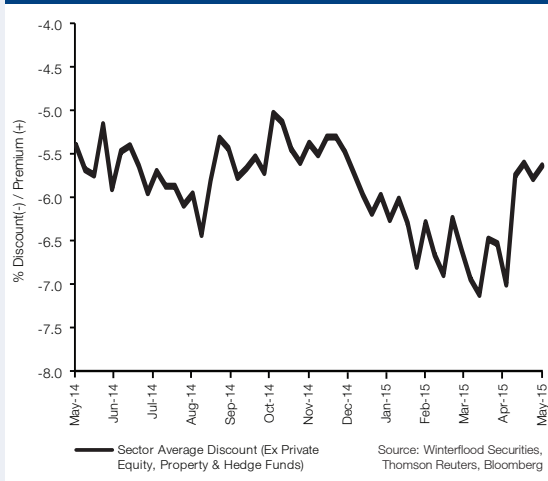


# Investment Manager's Review (continued)

## Performance

For the year to 31 May 2015 the FTSE All-Share Index rose by 7.5% (in total return terms). Over the same period the Net Asset Value for the Income Portfolio was ahead by 10.0% whilst that of the Growth Portfolio gained 12.8% (again both in total return terms). This was a welcome return to form for the Income Portfolio which underperformed the benchmark last year. It has outperformed the benchmark in six of the seven financial years since launch in 2008. The Growth Portfolio has outperformed the benchmark in each of the last three financial years and it is encouraging that both portfolios are ahead of the FTSE All-Share Index over one, three and five years.

### Investment Company – Average Sector Discount over 1 year to 31 May 2015



As can be seen from the chart above the average sector discount for Investment Companies (excluding private equity, property and hedge funds) was largely unchanged over the year. For comparative purposes the FTSE Equity Investment Instruments Index (being the Investment Companies sector index and effectively the universe from which both portfolios are chosen from) rose by 13.0% over the year (also in total return terms). The FTSE World (ex UK) Index (adjusted back into sterling and in total return terms) rose by 16.7%. This index is a useful proxy for global equities where the Investment Company sector has over half its assets invested. The key driver behind the sector performance and global equities was the return recorded by the US (which accounts for well over 50% of the Index by market value). A number of very large global trusts, in which neither portfolio has holdings, did well in share price terms due to large weightings in the US

and this was a key factor in the sector's strong relative performance.

The good returns from both portfolios was mainly due to stock selection the highlights of which is discussed more fully in the next section.

## Income Portfolio – top and bottom five performers

In a year which did not favour high yield investments generally, the Income Portfolio managed to outperform the FTSE All-Share Index. This was driven by a number of equity income holdings whose total return over the year (capital growth plus dividends reinvested) was ahead of the benchmark.

In this regard the leader by far was **BB Biotech** which is an unusual holding for an income portfolio. The fund is Swiss based and listed on the Zurich Stock Exchange in 1993, is large with around £1.7bn of net assets and has an outstanding long term performance record. For the year to 31 May 2015 the share price total return was over 100%. After a prolonged period in the early part of the century, of apparently not much happening, recent years have witnessed an increased number of product approvals and a record number of products in clinical trials. This has been helped by a more co-operative approach from regulatory authorities in the US and Europe and has led to a series of blockbuster products which have addressed previously unmet medical needs. In addition, the pace of industry consolidation has picked up as large pharmaceutical companies have acquired biotech firms to replenish their patent-expiring drug pipelines. BB Biotech has a focussed portfolio and is exposed to a number of major biotech companies where stock valuations are not excessive given the exciting growth prospects. BB Biotech also returns 5% of its share price via a dividend each year which makes it an attractive holding for an income portfolio.

**3i Infrastructure** rather unexpectedly produced a return of 27% over the financial year. The company owns a number of steady income producing assets e.g. 20% of Anglian Water however one of their other holdings, Eversholt, a leading train leasing company, where they had a 33% stake, was acquired at a substantial premium to the valuation it was held at by 3i Infrastructure. This resulted in a useful capital uplift to its net asset value. The dividend yield is 4.1%.

**Majedie Investments** rose by 26% over the financial year which highlights the benefit of the decision, last year, to have the investment portfolio managed by Majedie Asset Management (“MAM”). The portfolio is invested in a number of strongly performing UK and Global funds run by MAM and has also benefitted from a holding in the management company which has risen significantly as funds under management have grown.

One of the largest holdings in the Income Portfolio is **European Assets Trust** and it recorded a share price total return of over 21% for the financial year. European Assets Trust focusses on medium and smaller sized companies in Continental Europe and has had strong performance driven consistently from good stock selection. This continued over the past year. In addition the trust has an attractive dividend yield of nearly 5%.

Long time holding **Bankers Investment Trust** achieved a total return of over 18% through both good asset allocation and stock selection. The trust also increased its dividend for the 48th consecutive year and has one of the lower yields in the Income Portfolio at 2.5%.

As with the positive contributors there was no one investment theme that dominated the holdings that detracted from overall portfolio performance.

The principal laggard was **CQS New City High Yield Fund** which experienced a share price total return decline of 3.1%. The trust invests in bonds, preference shares, convertibles and some equities with a high yield objective and a secondary aim of some capital growth. Over the long run this has been achieved and the dividend has edged ahead every year in the last ten. However last year it moved temporarily to a premium of over 10% but by the end of this fiscal year that had moved back to a more reasonable 3%. Whilst the net asset value has broadly moved sideways over the past year this fund offers an attractive dividend yield of 7%.

The Income Portfolio has a small holding in the **Standard Life UK Smaller Companies Trust 3.5% Convertible Unsecured Loan Stock** which fell by 3% over the year. Again this had less to do with the performance of the asset value of the underlying investment company which was reasonable and more to do with a de rating of the

convertible share price. At current levels it offers interesting value.

The **JPMorgan Global Emerging Markets Income Trust** declined 1.7% in total return terms. The fund suffered from an underweight position in India, one of the best performing emerging markets, due to a lack of yield available from the Indian equity market. Also the fund was underweight China and overweight in its exposure to Russia which held back performance. The trust has an attractive dividend yield of 4.3%.

Long time holding **Murray International Trust** also relatively lagged, with a marginal 0.1% fall in total return terms. This was also due to emerging market exposure, which had previously served the trust well. However, encouragingly, the dividend was raised by 5% which gives the trust a 4.4% dividend yield.

**Lowland Investment Company**, a UK equity income trust, also experienced a small 0.1% decline in its total return over the financial year. The trust has an outstanding long term performance record however its strategy of having a substantial exposure to UK industrial companies was the reason for its dull asset performance and was behind a de-rating of the shares from a small premium to a 4% discount. The bright spot amongst the laggards in the portfolio was their dividends, none of which were reduced and in the case of CQS New City High Yield Fund, Murray International Trust and Lowland Investment Company all were raised during the year.

### Growth Portfolio – top and bottom five performers

The Growth Portfolio had a strong financial year in terms of performance. As with the Income Portfolio the largest share price rise was achieved by a trust specialising in investment in the biotech sector. **Biotech Growth Trust** is managed by Orbimed investors in New York and achieved a 77% gain. Another holding, also managed by Orbimed, recorded the second largest rise in the portfolio; **Worldwide Healthcare Trust** was ahead by 49%. Whereas Biotech Growth Trust is focussed purely on the biotech sector, Worldwide Healthcare Trust has a wider remit with only around 30% exposure to biotech holdings. The balance of the portfolio is in pharmaceuticals, life sciences, medical devices and

# Investment Manager's Review (continued)

diagnostics. In broad terms both holdings have benefitted from the trends outlined previously in the BB Biotech summary. Although share prices in the sector have risen, the superior level of earnings growth from companies has meant forward price earnings multiples for many of the major biotech companies remain at attractive levels.

**Baillie Gifford Japan Trust** had a strong year with a 38% gain. The Japanese stockmarket has been a principal beneficiary of the Bank of Japan's policy of aggressive quantitative easing. Although this caused the yen to weaken, the Tokyo market was still amongst the top performers last year when returns were translated back into sterling. Baillie Gifford Japan Trust has a preference for medium sized growth companies which have done well and were behind last year's performance.

Two more Baillie Gifford managed trusts were the next best performers; **Scottish Mortgage Investment Trust** and **Edinburgh Worldwide Investment Trust** recorded share price total return gains of 33% and 30% respectively. The former has a highly focussed portfolio and takes a long term approach with a preference for companies with outstanding growth characteristics. Many are beneficiaries of the application of new technologies which disrupt traditional industries and have significant competitive advantages e.g. Amazon, Google, Alibaba, Rocket Internet and Facebook. Edinburgh Worldwide Investment Trust applies the same approach to companies with a market value of less than \$5bn, endeavouring to catch the long term winners earlier in their life. Portfolios of both trusts are global in their exposures and have exciting prospects for growth.

As with the Income Portfolio there were no holdings which experienced substantial loss of value over the financial year. **Graphite Enterprise Trust** experienced a share price total return decline of 2.9%. It invests mainly in private equity funds in the UK and Europe and also has a direct portfolio of unquoted private companies. After a period of good progress in asset value growth, the past year has seen a slower pace in realisations in both portfolios and with a sizeable exposure to Europe the 13% rise in sterling relative to the Euro over the year further limited progress. However the trust is well positioned for future growth and is attractively

valued with a share price discount of 15% relative to its asset value.

**Aberdeen Asian Smaller Companies** and **BlackRock Frontiers Investment Trust** have also had strong past performance records however poor performance from smaller companies in the Asia Pacific region and also from many frontier stock markets led to small share price declines from both trusts of 2.7% and 0.5% respectively. However the areas they invest in have exciting prospects for growth and as both trusts are well managed the intention is to maintain holdings in both trusts for the Growth Portfolio. The other two negative performers were holdings which are common to both portfolios; **Murray International Trust** and **Lowland Investment Company** which are covered earlier.

## Investment strategy and prospects

The core view remains that we are still in a liquidity driven bull phase to equity markets. Although the policy of quantitative easing is no longer being operated by either the Federal Reserve in the US or the Bank of England in the UK it has been started, albeit rather belatedly, by the European Central Bank in the Euro zone and very aggressively by the Bank of Japan. In a global context the net effect is that monetary policy remains highly accommodative with ultra-low interest rates which is supportive of asset prices generally and equity markets in particular. Levels of economic activity have been below trend in this cycle, however, there appear signs that growth in the US economy is firming, continuing at decent levels in the UK and starting to improve in Europe. Only in certain emerging markets is the rate of growth slowing. In the short term the effect of the substantial decline in the price of oil has, in the US, actually been to depress activity levels as major energy companies have sharply curtailed expenditure. However, over time, as consumers become more confident, the impact on income levels is positive and should be supportive of consumer spending. This is good for growth. A similar scenario is likely in the US, Europe and also Japan.

It is likely that by the time of next year's annual report interest rates in the US will have begun to rise, although that may well not be the case in the UK. Employment levels and real wages are rising which are relevant indicators. On a long view, interest rates are unlikely to rise to anywhere near as in previous



economic cycles however that is not to dismiss that volatility in both bond and equity markets will rise with setbacks to be anticipated.

As for equity markets, valuations are elevated, especially in the US, but are not excessive or in “bubble territory”. The forward price earnings ratio in the US is between 16 and 17 times whilst for the UK it is around 14 to 15 times earnings. Should valuations rise markedly from here, it would increase the level of risk significantly. Further progress in equity markets requires corporate earnings to display growth, to begin to bring valuations back to more normal ranges. Excluding oil and commodity sectors, there are indications that profits and earnings growth is being achieved although more evidence is needed to confirm the trend.

What is encouraging is the recovery in relative performance within the equity market of medium and small companies as represented in the UK by the FTSE Mid 250 Index and the FTSE Small Companies (ex-Investment Companies) Index.

| Total Returns to 31 May 2015                | 6 months | 1 year |
|---|----------|--------|
| FTSE 100 Index<br>(Large Companies)         | +5.8%    | +5.7%  |
| FTSE Mid 250 Index<br>(Medium Companies)    | +16.1%   | +16.5% |
| FTSE Small Companies<br>(ex Inv. Companies) | +15.0%   | +8.6%  |

The recovery began in the second half of the fiscal year and is an interesting forward indicator of a strengthening economy both domestically and in Europe where much of the revenues for medium and smaller companies are reliant. Good earnings and dividend growth are anticipated and this would help to justify current valuations and create scope for more general progress in equity markets.

In terms of investment strategy both the Growth and Income Portfolios have a number of holdings in Investment Companies which specialise in the UK Mid and Small cap sectors. In the Growth Portfolio, **The Mercantile Investment Trust** and **Schroder UK Mid Cap Fund**, focus on mid caps whilst **Strategic Equity Capital**, new to the portfolio this year and **BlackRock Throgmorton Trust** are

examples for the small cap sector. Two new holdings have been taken, both of which were IPO's this year and target the micro-cap sub sector (defined as quoted companies with a market value of less than £100m). They are **River & Mercantile UK Micro Cap Investment Company** and **Miton UK MicroCap Trust**. Provided there is a supportive macro environment, which there is in the UK currently, valuations are particularly attractive and if stock selection is good then returns can be especially strong. It is harder for an Income Portfolio to gain exposure in these areas due to a lack of dividend yield, however both **The Mercantile Investment Trust** and **Invesco Perpetual UK Smaller Companies Investment Trust**, a recent purchase, feature as holdings. One other holding purchased in the Growth Portfolio this year was **Woodford Patient Capital Trust** which listed in April, raising £800m. Eventually most of this fund will be invested in early stage growth companies in the UK many of which will have spun out from UK universities. Over the long term this fund has significant potential to grow.

From a longer term investment perspective this has been a period of unusually benign economic conditions both in the UK and the US. Combined with highly accommodative monetary policy this has been positive for equity markets. Although it is likely that the direction of interest rates over the next fiscal year may well change in the US which could cause a setback over the longer term, the broad environment in terms of inflation and growth remains constructive for equity markets. Provided corporate earnings and dividends grow as anticipated then that should support further progress in equity markets.

#### Peter Hewitt

Investment Manager

F&C Investment Business Limited

27 July 2015

## Income Shares

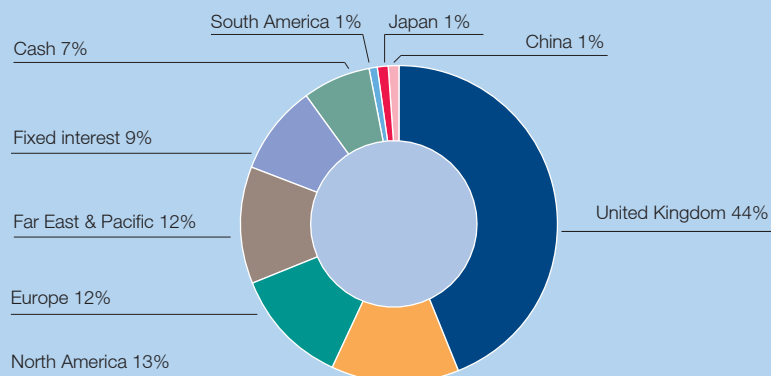
# Investment Portfolio

at 31 May 2015

| Investment   | Sector                         | Valuation<br>£'000 | % of Net assets<br>of Income<br>Portfolio |
|--|--------------------------------|--------------------|---|
| Perpetual Income & Growth Investment Trust                     | UK Equity Income               | 2,112              | 4.8                                       |
| European Assets Trust†   | European Smaller Companies     | 1,755              | 4.0                                       |
| Law Debenture Corporation                                      | Global                         | 1,708              | 3.9                                       |
| Murray International Trust                                     | Global Equity Income           | 1,551              | 3.6                                       |
| City of London Investment Trust                                | UK Equity Income               | 1,547              | 3.5                                       |
| Lowland Investment Company                                     | UK Equity Income               | 1,542              | 3.5                                       |
| Schroder Real Estate Investment Trust                          | Property Direct – UK           | 1,515              | 3.5                                       |
| Henderson High Income Trust                                    | UK Equity & Bond Income        | 1,447              | 3.3                                       |
| BB Biotech   | Biotechnology & Healthcare     | 1,430              | 3.3                                       |
| Henderson International Income Trust                           | Global Equity Income           | 1,418              | 3.2                                       |
| <b>Ten largest investments</b>                                 |                                | <b>16,025</b>      | <b>36.6</b>                               |
| Troy Income & Growth Trust                                     | UK Equity Income               | 1,401              | 3.2                                       |
| Temple Bar Investment Trust                                    | UK Equity Income               | 1,393              | 3.2                                       |
| Edinburgh Investment Trust                                     | UK Equity Income               | 1,391              | 3.2                                       |
| Invesco Perpetual Enhanced Income Limited                      | Global High Income             | 1,321              | 3.0                                       |
| The Mercantile Investment Trust                                | UK All Companies               | 1,277              | 2.9                                       |
| Invesco Perpetual UK Smaller Companies<br>Investment Trust     | UK Smaller Companies           | 1,242              | 2.8                                       |
| Henderson Far East Income                                      | Asia Pacific – excluding Japan | 1,186              | 2.7                                       |
| Majedie Investments  | Global                         | 1,186              | 2.7                                       |
| Schroder Oriental Income Fund                                  | Asia Pacific – including Japan | 1,176              | 2.7                                       |
| The Bankers Investment Trust                                   | Global                         | 1,143              | 2.6                                       |
| <b>Twenty largest investments</b>                              |                                | <b>28,741</b>      | <b>65.6</b>                               |
| JPM Global Emerging Markets Income Trust                       | Global Emerging Markets        | 1,088              | 2.5                                       |
| Aberdeen Asian Income Fund                                     | Asia Pacific – excluding Japan | 1,081              | 2.5                                       |
| 3i Infrastructure  | Infrastructure                 | 1,049              | 2.4                                       |
| Keystone Investment Trust                                      | UK All Companies               | 1,025              | 2.3                                       |
| Utilico Emerging Markets                                       | Global Emerging Markets        | 1,005              | 2.3                                       |
| Princess Private Equity Holding                                | Private Equity                 | 963                | 2.2                                       |
| NB Private Equity Partners                                     | Private Equity                 | 852                | 1.9                                       |
| Ranger Direct Lending  | Debt                           | 776                | 1.8                                       |
| The Merchants Trust  | UK Equity Income               | 733                | 1.7                                       |
| CQS New City High Yield Fund Limited                           | UK High Income                 | 726                | 1.6                                       |
| <b>Thirty largest investments</b>                              |                                | <b>38,039</b>      | <b>86.8</b>                               |
| BlackRock North American Income                                | North America                  | 687                | 1.6                                       |
| Investors Capital Trust†                                       | UK Equity & Bond Income        | 686                | 1.5                                       |
| City Merchants High Yield Trust                                | UK Equity & Bond Income        | 617                | 1.4                                       |
| JPMorgan Global Convertibles Income Fund Limited               | Debt                           | 566                | 1.3                                       |
| GCP Infrastructure Investments                                 | Infrastructure                 | 561                | 1.3                                       |
| Polar Capital Global Financials Trust                          | Financials                     | 542                | 1.2                                       |
| Carador Income Fund  | Global High Income             | 520                | 1.2                                       |
| Aberdeen Asian Smaller Companies<br>3.5% CULS 31/05/19         | Asia Pacific – excluding Japan | 492                | 1.1                                       |
| Juridica Investments   | Litigation                     | 491                | 1.1                                       |
| Standard Life UK Smaller Companies Trust<br>3.5% CULS 31/03/18 | UK Smaller Companies           | 383                | 0.9                                       |
| <b>Forty largest investments</b>                               |                                | <b>43,584</b>      | <b>99.4</b>                               |
| BlackRock Income Strategies                                    | Global Equity Income           | 380                | 0.9                                       |
| <b>Total investments</b>                                       |                                | <b>43,964</b>      | <b>100.3</b>                              |
| <b>Net current liabilities</b>                                 |                                | <b>(125)</b>       | <b>(0.3)</b>                              |
| <b>Net assets of Income Portfolio</b>                          |                                | <b>43,839</b>      | <b>100.0</b>                              |

† Investment managed by the Manager, F&C

### Analysis of the investment areas of the Income Portfolio's Investments on a 'look-through' basis



Note: This analysis is gross of any gearing in the underlying investee companies. Source: AIC (underlying data at 31 May 2015)

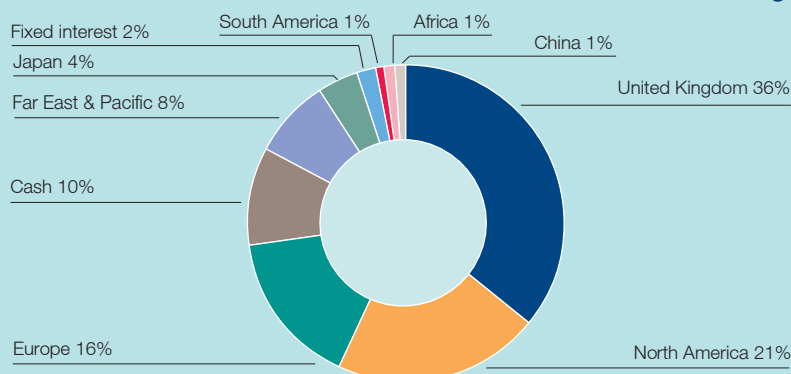
## Growth Shares

## Investment Portfolio at 31 May 2015

| Investment  | Sector                         | Valuation<br>£'000 | % of Net assets<br>of Growth<br>Portfolio |
|---|--------------------------------|--------------------|---|
| Perpetual Income & Growth Investment Trust            | UK Equity Income               | 1,925              | 4.3                                       |
| Jupiter European Opportunities Trust                  | Europe                         | 1,653              | 3.7                                       |
| Lowland Investment Company                            | UK Equity Income               | 1,542              | 3.5                                       |
| TR Property Investment Trust†                         | Property Securities            | 1,448              | 3.3                                       |
| Finsbury Growth & Income Trust                        | UK Equity Income               | 1,429              | 3.2                                       |
| Biotech Growth Trust                                  | Biotechnology/Life Sciences    | 1,424              | 3.2                                       |
| Polar Capital Technology Trust                        | Technology Media & Telecom     | 1,404              | 3.2                                       |
| Scottish Mortgage Investment Trust                    | Global                         | 1,364              | 3.1                                       |
| Diverse Income Trust                                  | UK Equity Income               | 1,301              | 2.9                                       |
| The Mercantile Investment Trust                       | UK All Companies               | 1,277              | 2.9                                       |
| <b>Ten largest investments</b>                        |                                | <b>14,767</b>      | <b>33.3</b>                               |
| Allianz Technology Trust                              | Technology Media & Telecom     | 1,240              | 2.8                                       |
| Henderson European Focus Trust                        | Europe                         | 1,210              | 2.7                                       |
| JPMorgan American Investment Trust                    | North America                  | 1,207              | 2.7                                       |
| Worldwide Healthcare Trust                            | Biotechnology & Healthcare     | 1,162              | 2.6                                       |
| Fidelity Special Values                               | UK All Companies               | 1,118              | 2.5                                       |
| Strategic Equity Capital                              | UK Smaller Companies           | 1,095              | 2.5                                       |
| Woodford Patient Capital Trust                        | UK All Companies               | 1,063              | 2.4                                       |
| Mid Wynd International Investment Trust               | Global                         | 1,023              | 2.3                                       |
| Herald Investment Trust                               | Small Media, Comms & IT Cos.   | 1,002              | 2.3                                       |
| Schroder UK Mid Cap Fund                              | UK All Companies               | 996                | 2.2                                       |
| <b>Twenty largest investments</b>                     |                                | <b>25,883</b>      | <b>58.3</b>                               |
| BACIT Ltd   | Global                         | 989                | 2.2                                       |
| Edinburgh Worldwide Investment Trust                  | Global                         | 985                | 2.2                                       |
| Genesis Emerging Markets Fund                         | Global Emerging Markets        | 936                | 2.1                                       |
| Ruffer Investment Company                             | Global                         | 930                | 2.1                                       |
| Personal Assets Trust                                 | Global                         | 921                | 2.1                                       |
| Baillie Gifford Japan Trust                           | Japan                          | 920                | 2.1                                       |
| Graphite Enterprise Trust                             | Private Equity                 | 918                | 2.1                                       |
| BlackRock Throgmorton Trust                           | UK Smaller Companies           | 894                | 2.0                                       |
| Law Debenture Corporation                             | Global                         | 893                | 2.0                                       |
| Miton UK MicroCap Trust                               | UK Smaller Companies           | 880                | 2.0                                       |
| <b>Thirty largest investments</b>                     |                                | <b>35,149</b>      | <b>79.2</b>                               |
| BH Macro  | Hedge Funds                    | 879                | 2.0                                       |
| Sanditon Investment Trust                             | Europe                         | 848                | 1.9                                       |
| European Assets Trust†                                | European Smaller Companies     | 834                | 1.9                                       |
| Murray International Trust                            | Global Equity Income           | 775                | 1.8                                       |
| Gabelli Value Plus+ Trust                             | North America                  | 754                | 1.7                                       |
| River & Mercantile UK Micro Cap Investment<br>Company | UK Smaller Companies           | 731                | 1.6                                       |
| Edinburgh Dragon Trust                                | Asia Pacific – excluding Japan | 712                | 1.6                                       |
| Impax Environmental Markets                           | Environmental                  | 686                | 1.5                                       |
| Asian Total Return                                    | Asia Pacific – excluding Japan | 633                | 1.4                                       |
| Montanaro UK Smaller Companies                        | UK Smaller Companies           | 628                | 1.4                                       |
| <b>Forty largest investments</b>                      |                                | <b>42,629</b>      | <b>96.0</b>                               |
| Fundsmith Emerging Equities Trust                     | Global Emerging Markets        | 625                | 1.4                                       |
| BlackRock Frontiers Investment Trust                  | Global Emerging Markets        | 616                | 1.4                                       |
| Aberdeen Asian Smaller Companies                      | Asia Pacific – excluding Japan | 606                | 1.4                                       |
| Standard Life European Private Equity Trust           | Private Equity                 | 536                | 1.2                                       |
| <b>Total investments</b>                              |                                | <b>45,012</b>      | <b>101.4</b>                              |
| <b>Net current liabilities</b>                        |                                | <b>(621)</b>       | <b>(1.4)</b>                              |
| <b>Net assets of Growth Portfolio</b>                 |                                | <b>44,391</b>      | <b>100.0</b>                              |

† Investment managed by the Manager, F&C

#### Analysis of the investment areas of the Growth Portfolio's Investments on a 'look-through' basis



Note: This analysis is gross of any gearing in the underlying investee companies. Source: AIC (underlying data at 31 May 2015)

# Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

1. Net asset value total return of the Income shares and Growth shares relative to the total return on the FTSE All-Share Index, the benchmark index.
2. Dividend level of the Income shares.
3. Discount of the share price of the Income shares and Growth shares, relative to their net asset value.
4. Ongoing charges as a percentage of the average net asset value.

A record of these indicators is shown below and contained within the 'Performance Summary' and 'Seven Year Record' on pages 2 and 3 and 19 respectively. Additional comments are provided in the Chairman's Statement and Manager's Review discussing the performance of the Company over the current year.

## Net asset value total return performance to 31 May 2015

|                         | 1 year<br>% | 3 years<br>% | 5 years<br>% |
|-------------------------|-------------|--------------|--------------|
| Income NAV total return | 10.0        | 56.5         | 81.9         |
| Growth NAV total return | 12.8        | 63.8         | 77.5         |
| Benchmark total return* | 7.5         | 52.2         | 68.6         |

\*Benchmark: FTSE All-Share Index

Source: F&C Investment Business Limited and Datastream

## Dividend level of the Income Shares

| Financial year to 31 May      | 2015        | 2014 | 2013 | 2012 | 2011 |
|-------------------------------|-------------|------|------|------|------|
| Annual dividend               | <b>5.0p</b> | 4.8p | 4.6p | 4.5p | 4.4p |
| Dividend yield†               | <b>3.9%</b> | 3.9% | 3.9% | 4.9% | 4.3% |
| Yield on FTSE All-Share index | <b>3.3%</b> | 3.3% | 3.3% | 3.8% | 3.0% |

†Based on Income share price at 31 May

Source: F&C Investment Business Limited and Datastream

## Average premium/(discount) to NAV

| During the financial year to 31 May | Income shares<br>% | Growth shares<br>% |
|-------------------------------------|--------------------|--------------------|
| <b>2015</b>                         | <b>1.6</b>         | <b>0.6</b>         |
| 2014                                | 0.2                | (0.6)              |
| 2013                                | (2.1)              | (2.7)              |
| 2012                                | 0.8                | 0.9                |
| 2011                                | 2.9                | 1.7                |

Source: F&C Investment Business Limited

## Ongoing Charges

(as a percentage of the average net asset value)

| At 31 May   | Income shares*<br>% | Growth shares<br>% |
|-------------|---------------------|--------------------|
| <b>2015</b> | <b>1.16</b>         | <b>1.15</b>        |
| 2014        | 1.16                | 1.17               |
| 2013        | 1.24                | 1.24               |
| 2012        | 1.44                | 1.59               |

\*Excludes the performance fee

The total expenses (both revenue and capital) incurred by the Company (excluding finance costs and any performance fee) divided by the average net asset value in the year. The ongoing charges figure at 31 May 2013 (and subsequently) excludes private investor share plan expenses as, from 6 April 2013, the Company no longer incurs these costs. Ongoing charges of the Company's underlying investments have not been included in this calculation.

# Seven Year Record

## Income Shares

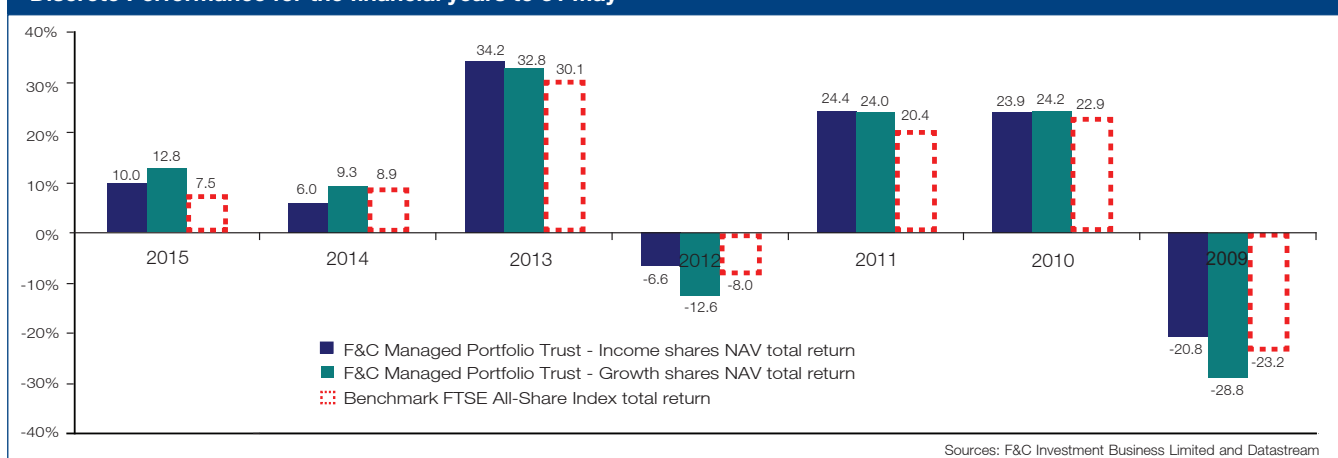
| As at 31 May | Financial Year               |                              | Net Asset Value per share | Share Price   | Premium/(Discount) | Revenue return per share | Dividend per share | Total expenses/ongoing charges |
|--------------|------------------------------|------------------------------|---------------------------|---------------|--------------------|--------------------------|--------------------|--------------------------------|
|              | Net Asset Value Total Return | Benchmark Index Total Return |                           |               |                    |                          |                    |                                |
| 2009         | -20.8%                       | -23.2%                       | 73.86p                    | 75.0p         | 1.5%               | 5.33p                    | 4.9p‡              | 1.47%                          |
| 2010         | 23.9%                        | 22.9%                        | 86.81p                    | 89.5p         | 3.1%               | 4.58p                    | 4.4p               | 1.51%                          |
| 2011         | 24.4%                        | 20.4%                        | 103.09p                   | 103.0p        | -0.1%              | 4.20p                    | 4.4p               | 1.42%                          |
| 2012         | -6.6%                        | -8.0%                        | 91.86p                    | 91.5p         | -0.4%              | 5.04p                    | 4.5p               | 1.44%                          |
| 2013         | 34.2%                        | 30.1%                        | 117.68p                   | 116.5p        | -1.0%              | 5.20p                    | 4.6p               | 1.24%                          |
| 2014         | 6.0%                         | 8.9%                         | 119.85p                   | 122.0p        | 1.8%               | 5.56p                    | 4.8p               | 1.16%                          |
| <b>2015</b>  | <b>10.0%</b>                 | <b>7.5%</b>                  | <b>126.37p</b>            | <b>128.5p</b> | <b>1.7%</b>        | <b>5.87p</b>             | <b>5.0p</b>        | <b>1.16%</b>                   |

‡4.9p was paid in respect of the first 13½ month financial period from launch.

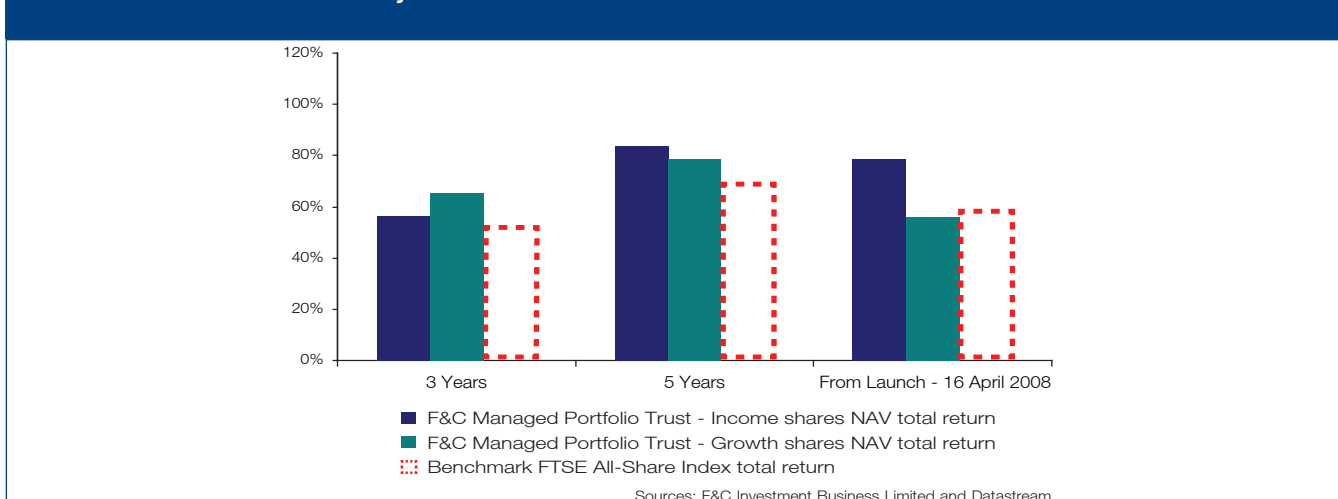
## Growth Shares

| As at 31 May | Financial Year               |                              | Net Asset Value per share | Share Price   | Premium/(Discount) | Total expenses/ongoing charges |
|--------------|------------------------------|------------------------------|---------------------------|---------------|--------------------|--------------------------------|
|              | Net Asset Value Total Return | Benchmark Index Total Return |                           |               |                    |                                |
| 2009         | -28.8%                       | -23.2%                       | 69.79p                    | 68.5p         | -1.8%              | 1.45%                          |
| 2010         | 24.2%                        | 22.9%                        | 86.70p                    | 87.0p         | 0.3%               | 1.53%                          |
| 2011         | 24.0%                        | 20.4%                        | 107.52p                   | 109.0p        | 1.4%               | 1.55%                          |
| 2012         | -12.6%                       | -8.0%                        | 93.97p                    | 93.0p         | -1.0%              | 1.59%                          |
| 2013         | 32.8%                        | 30.1%                        | 124.78p                   | 123.0p        | -1.4%              | 1.24%                          |
| 2014         | 9.3%                         | 8.9%                         | 136.41p                   | 136.0p        | -0.3%              | 1.17%                          |
| <b>2015</b>  | <b>12.8%</b>                 | <b>7.5%</b>                  | <b>153.92p</b>            | <b>155.0p</b> | <b>0.7%</b>        | <b>1.15%</b>                   |

### Discrete Performance for the financial years to 31 May



### Cumulative Performance to 31 May 2015



# Principal Risks

## Principal Risks and Uncertainties and Risk Management

As stated within the Report of the Audit Committee on pages 30 to 32, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the needs of the Company in managing the risks and uncertainties to which it is exposed.

The Company's assets consist mainly of listed equity securities and its principal risks are therefore market-related. More detailed explanations of these risks and the way in which they are managed are contained in the notes to the accounts.

Other risks faced by the Company include the following:

- External – events such as terrorism, protectionism, inflation or deflation, economic recessions and movements in interest rates and exchange rates could affect share prices in particular markets.
- Investment and strategic – incorrect strategy, asset allocation, stock selection and the use of gearing could all lead to poor returns for shareholders.
- Credit risk – is the risk that a counterparty will fail to discharge an obligation or commitment that it had entered into with the Company. All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to the securities held by the custodian to be delayed or limited.

- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains.
- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring to the Company, leading to a loss of shareholders' confidence.
- Financial – inadequate controls by the Manager or third party service providers could lead to misappropriation of assets of the Company. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.

The Board seeks to mitigate and manage these risks through continual review, policy-setting and reliance upon contractual obligations. It also regularly monitors the investment environment and the management of the Company's investment portfolios.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU

27 July 2015

# Board of Directors



## **Richard Martin**

Chairman of the Board and the Nomination Committee

He is an adviser to several family groups and a director of Montanaro European Smaller Companies Trust plc and Aurora Investment Trust plc. He was formerly Chairman of the Investment Committee of the National Trust for Scotland.



## **Colin McGill**

Chairman of the Audit Committee

He is a qualified lawyer and accountant. He was Chief Executive Officer of Sportech PLC, a company listed on the London Stock Exchange, between 2000 and 2003. Between 1975 and 2000 he was with the Bank of Scotland and from 1998 to 2000 was Chief Executive of the Corporate Division of the Bank of Scotland, responsible for all UK and global corporate banking.



## **David Harris**

Senior Independent Director

He is Chief Executive of InvaTrust Consultancy Ltd, a specialist investment and marketing consultancy group that undertakes a variety of projects within the investment fund management industry. He was previously director responsible for training, education and marketing issues at the Association of Investment Companies from 1995 to 1999. He is currently a non-executive director of The Character Group plc, Aseana Properties Ltd, Small Companies Dividend Trust plc, Manchester and London Investment Trust plc and SDF Productions Ltd.



## **Alistair Stewart**

Chairman of the Remuneration Committee

After qualifying as a Chartered Accountant he joined Murray Johnstone Ltd (investment managers) in 1973 where he served as a director between 1983 and 1999. Between 2000 and 2007 he was head of research at Speirs & Jeffrey Ltd, private client stockbrokers.

All of the Directors are non-executive, were appointed on 22 February 2008 and are considered by the Board to be independent. All of the Directors are members of the Audit Committee, Remuneration Committee and Nomination Committee.

# Report of the Directors

The Directors submit the seventh Annual Report and Accounts of the Company for the year ended 31 May 2015.

## Results and Dividends

The results for the year are set out in the attached accounts. The total return attributable to shareholders was £8,265,000 of which £3,497,000 was attributable to the Income Portfolio and £4,768,000 to the Growth Portfolio.

First, second and third interim dividends, each of 1.15p per Income share, were paid on 3 October 2014, 5 January 2015 and 7 April 2015 respectively. A fourth interim dividend of 1.55p per Income share was paid after the year end, on 3 July 2015 to Income shareholders on the register at close of business on 19 June 2015.

**Company Number** SC338196

## Principal Activity and Status

The Company is registered in Scotland as a public limited company in terms of the Companies Act 2006. The Company is an investment company within the terms of section 833 of the Companies Act 2006.

The Company carries on business as an investment trust and has been approved as such by HM Revenue & Customs ('HMRC'), subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. As a result, it is not liable to corporation tax on capital gains. The Company intends to conduct its affairs so as to enable it to comply with the requirements.

The Company is required to comply with company law, the rules of the UK Listing Authority, financial reporting standards, and its Articles of Association.

The Company is a member of the Association of Investment Companies (the 'AIC').

## Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 21. There were no changes to the composition of the Board during the year.

Mr Colin McGill and Mr Alistair Stewart, retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to provide effective strategic leadership and proper governance of the Company. The Board confirms that, following formal performance evaluations, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that the Directors seeking re-election are re-elected.

There are no service contracts in existence between the Company and any Directors but each of the Directors has been issued with, and accepted, the terms of a letter of appointment that sets out the main terms of his appointment. Amongst other things, the letter includes confirmation that the Directors have a sufficient understanding of the Company and the sector in which it operates, and sufficient time available to discharge their duties effectively taking into account their other commitments. These letters are available for inspection upon request at the Company's registered office during normal business hours.

No Director has any material interest in any contract to which the Company is a party.

## Directors' Deeds of Indemnity

The Company has entered into deeds of indemnity in favour of each of the Directors. The deeds give each Director the benefit of an indemnity to the extent permitted by the Companies Act 2006 against liabilities incurred by each of them in the execution of their duties and the exercise of their powers. A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.



### Investment Objective and Investment Policy

The Company's investment objective is:

- to provide **Income** shareholders with an attractive level of income with the potential for income and capital growth from a diversified portfolio of investment companies; and
- to provide **Growth** shareholders with capital growth from a diversified portfolio of investment companies.

The **Income** Portfolio invests in a diversified portfolio of at least 25 investment companies that:

- have underlying investment exposures across a range of geographic regions and sectors.
- focus on offering an income yield above the yield of the FTSE All-Share Index.

The **Growth** Portfolio invests in a diversified portfolio of at least 25 investment companies:

- that have underlying investment exposures across a range of geographic regions and sectors.
- the focus of which will be to maximise total returns, principally through capital growth.

The Company invests principally in closed-ended investment companies, wherever incorporated, which are listed on the Official List of the UK Listing Authority. The majority of the Company's holdings comprise equity investments although it is permitted to invest in other securities issued by investment companies.

- The Company is permitted to invest in other closed-ended investment companies, wherever incorporated, whose shares are traded on AIM or a Regulated Exchange (other than the Official List of the UK Listing Authority) up to a maximum of 25 per cent of the total assets of the relevant Portfolio.
- In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 10 per cent in aggregate of its total assets in other UK listed investment companies that themselves may invest more than 15 per cent of their total assets in other UK listed investment companies.
- There are no maximum levels set for underlying exposures to geographic regions or sectors.

- No investment in either Portfolio may exceed 15 per cent of the relevant Portfolio's total assets at the time of the latest purchase.
- The Manager may invest the assets of the Company in other investment companies managed by the Manager or another member of the F&C Group, provided that such investments in the Income or Growth Portfolios shall not exceed 20 per cent of the total assets of the relevant Portfolio at the time of investment.
- There are no defined limits on securities and accordingly the Company may invest up to 100 per cent of total assets in any particular type of security.
- The Company may use derivatives, principally for the purpose of efficient portfolio management, including protecting the Portfolios against market falls.
- The Company may use gearing in either Portfolio. Borrowings are not normally expected to exceed 20 per cent of the total assets of the relevant Portfolio. Under the Company's Articles of Association, the maximum borrowing limit is 50 per cent of the total assets of the relevant Portfolio.

### Substantial Interests in Share Capital

At 31 May 2015 the Company had 34,689,936 Income shares and 28,839,843 Growth shares in issue. As at and since that date the Company had received no notifications of significant voting rights (under the FCA's Disclosure and Transparency Rules) in respect of the Company's share capital. Since the launch of the Company, the majority of the Income shares and Growth shares have been held through the F&C retail share plans. Approximately 86 per cent of the Income shares and 94 per cent of the Growth shares are held in this manner. The voting arrangement for these shares is explained on page 36.

### Conflicts of Interest

Under the Companies Act 2006 a Director must avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another

# Report of the Directors (continued)

company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve such situations.

The Company maintains a register of Directors' conflicts of interest which have been disclosed and approved by the other Directors. This register is kept up-to-date and the Directors are required to disclose to the Company Secretary any changes to conflicts or any potential new conflicts.

## Management and Administration

The Manager provides management, secretarial and administrative services to the Company. A summary of the management agreement between the Company and F&C Investment Business Limited in respect of the services provided is given in notes 4 and 5 to the accounts.

Since the end of the year, the Remuneration Committee has reviewed the appropriateness of the Manager's appointment. In carrying out its review the Committee considered the past investment performance of the Company and the ability of the Manager to produce satisfactory investment performance in the future. It also considered the length of the notice period of the investment management contract and the fees payable to the Manager, together with the standard of other services provided, which include company secretarial, accounting and marketing services. Following this review, it is the Directors' opinion that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

## Depository

JPMorgan Europe Limited was appointed as depository on 17 July 2014 in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). The depository's responsibilities include, but are not limited to, cash monitoring, segregation and safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment and leverage limit requirements.

## Other Companies Act Disclosures

- The Company's capital structure is explained in the 'Capital Structure' section on pages 35 and

36 of this Annual Report and details of the share capital are set out in note 13 to the accounts. Details of voting rights are also set out in the Notes to the Notice of Annual General Meeting. At 31 May 2015, the total issued share capital of the Company (excluding treasury shares) was represented 54.6 per cent by Income shares and 45.4 per cent by Growth shares.

- The rules for appointment and replacement of Directors are contained in the Articles of Association of the Company. In respect of periodic retirement, the Articles of Association provide that each Director is required to retire at the third Annual General Meeting after the Annual General Meeting at which last elected.
- Amendment of the Articles of Association and powers to issue and buy back shares require shareholder authority.
- There are no significant restrictions concerning the transfer of securities in the Company (other than certain restrictions imposed by laws and regulations such as insider trading laws); no agreements known to the Company concerning restrictions on the transfer of securities in the Company or on voting rights; and no special rights with regard to control attached to securities. There are no significant agreements which the Company is a party to that might be affected by a change of control of the Company following a takeover bid.
- There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs because of a takeover bid.

## Going Concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

The Company's investment objective and policy, which is described on page 23 and which is subject to regular Board monitoring processes, is designed to ensure that the Company is invested principally in listed securities. The Company retains title to all assets held by its custodian. Cash is only held with banks approved and regularly reviewed by the Manager.

Notes 18 to 23 to the accounts set out the financial risk profile of the Company and indicate the effect on the assets and liabilities of falls (and rises) in the value of securities and market rates of interest.

The Directors believe, in light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets and revenue and expenditure projections, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Company does not have a fixed life. However, the Company's Articles of Association require the Board to put a resolution to shareholders at the tenth annual general meeting of the Company to be held in 2018 and five-yearly thereafter to continue the Company. The continuation vote will be proposed as an ordinary resolution.

### Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company. The Company's Manager considers socially responsible investment and actively engages with investee companies.

### Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions.

### Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors of the Company and a resolution proposing their re-appointment will be submitted at the forthcoming Annual General Meeting.

### Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives

and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in notes 18 to 23 to the accounts.

### Annual General Meeting

The Annual General Meeting will be held at Exchange House, Primrose Street, London, on Monday 14 September 2015 at 12.30pm. The notice of Annual General Meeting is set out on pages 71 to 75.

### Recommendation

The Directors consider that the passing of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that shareholders vote in favour of those resolutions. Information on shareholder voting rights is set out in the Notes to the Annual General Meeting on pages 74 and 75.

### Directors' Authority to Allot Shares

In order to meet the continuing and expected demand for the Company's shares, the Company published a prospectus on 4 February 2015 in connection with the issue and admission to trading of up to 100 million new Income shares and 100 million new Growth shares. The prospectus will be in force until 3 February 2016.

In connection with the publication of the prospectus, at a general meeting of the Company held on 2 February 2015, shareholders granted the Board authority to issue new Income shares and new Growth shares up to an aggregate nominal amount of £5,000,000 Income shares (consisting of 50,000,000 Income shares) and £5,000,000 Growth shares (consisting of 50,000,000 Growth shares) on a non pre-emptive basis for cash, such authority to expire at the upcoming annual general meeting.

Since the granting of those authorities and the publication of the prospectus, the Board has exercised its powers by issuing 6,525,000 new Income shares and 2,135,000 new Growth shares (representing 18.6 per cent and 7.2 per cent of the Company's total issued Income share and Growth share capital respectively as at 27 July 2015) on a non pre-emptive basis and at a premium to the net asset value per share.

# Report of the Directors (continued)

The Directors believe that the Company's continuing ability to issue shares at a premium to net asset value will increase liquidity and reduce volatility by preventing the build-up of excessive demand for shares.

The Directors also wish to retain flexibility to make use of the prospectus which is currently in force and to issue shares should appropriate opportunities arise.

Accordingly, the Directors are seeking authority to allot further Income shares and Growth shares. Resolution 6 will, if passed, authorise the Directors to allot new Income shares up to an aggregate nominal amount of £2,500,000 (consisting of 25,000,000 Income shares) and new Growth shares up to an aggregate nominal amount of £2,500,000 (consisting of 25,000,000 Growth shares), being approximately 71 per cent of the Company's total issued Income shares and approximately 85 per cent of the Company's total issued Growth shares as at 27 July 2015.

Resolution 7 will, if passed, authorise the Directors to allot new Income shares up to an aggregate nominal amount of £2,500,000 (consisting of 25,000,000 Income shares) and new Growth shares up to an aggregate nominal amount of £2,500,000, (consisting of 25,000,000 Growth shares) being approximately 71 per cent of the Company's total issued Income shares and approximately 85 per cent of the Company's total issued Growth shares as at 27 July 2015, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. These authorities will continue until the earlier of 14 December 2016 (being 15 months from the date of the Annual General Meeting in 2015) and the conclusion of the Annual General Meeting in 2016. The Directors will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and will not result in a dilution of net asset value per share.

## **Directors' Authority to Buy Back Shares**

During the year to 31 May 2015, the Company did not purchase through the market, any Income shares or Growth shares for treasury.

The current authority of the Company to make market purchases of up to 14.99 per cent of each of the issued Income shares and Growth shares (in each case, excluding shares held in treasury)

expires at the end of the Annual General Meeting and Resolution 8, as set out in the notice of the Annual General Meeting, seeks renewal of that authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of each of the issued Income shares and issued Growth shares (in each case, excluding treasury shares) of the Company on the date of the passing of the resolution. The price paid for shares will not be less than the nominal value of 10p per share nor more than the higher of (a) 5 per cent above the average of the middle market values of those shares for the five business days before the shares are purchased and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. This power will only be exercised if, in the opinion of the Directors, a purchase will result in an increase in net asset value per share and is in the interests of the shareholders. Any shares purchased under this authority will either be held in treasury or cancelled at the determination of the Directors. This authority will expire on the earlier of 14 December 2016 and the conclusion of the next Annual General Meeting of the Company.

There is no limit on the number of shares that a company can hold in treasury at any one time and the Board has not set a limit on the number of shares that can be held in treasury by the Company.

Since the year end the Company has sold 425,000 Income shares and 700,000 Growth shares from its block listing facilities.

Accordingly there were 35,114,936 Income shares and 29,539,843 Growth shares in issue as at 27 July 2015. At that date, the Company held nil Income shares (nil per cent of the total Income share capital) in treasury and nil Growth shares (nil per cent of the total Growth share capital) in treasury.

The Company therefore in aggregate holds nil shares in treasury representing nil per cent of the total share capital in issue.

## **Treasury Shares**

The Board continues to believe that the effective use of treasury shares assists the liquidity in the Company's securities and management of the discount by addressing imbalances between demand and supply for the Company's securities.

The discount management policy that was adopted at the time of the Company's launch in 2008 included the ability of the Company to resell treasury shares at a discount to net asset value, subject to certain conditions (see the following paragraph).

Resolution 9, if passed, will continue to allow the Company to sell shares from treasury at a discount to net asset value. Shares would only be resold from treasury when market demand is identified and, pursuant to the authority conferred by this resolution, at a price representing a discount of not more than 5 per cent to net asset value at the time of resale, subject to the conditions that, first, the discount at which shares are to be resold must be less than the average discount at which shares of that class held in treasury have been repurchased and, second, the net asset value dilution in any one financial year on the Income shares and the Growth shares respectively must not exceed 0.5 per cent of net assets attributable to the relevant share class. Resolution 9 is conditional on the passing of Resolution 10.

Resolution 10, if passed, will enable the Company to sell shares from treasury without having first to make a pro rata offer to existing shareholders. This authority will be limited to shares representing approximately 10 per cent of the Company's expected issued Income share capital and Growth share capital as at the date of passing of the resolution. Resolution 10 is not conditional on the passing of Resolution 9.

#### **Approval of the proposed Purchase Contract**

Resolution 11 gives the Company authority to buy its deferred shares, arising on the conversion of any of the Growth shares or Income shares into the other class of shares, by way of an off-market purchase in accordance with sections 693 and 694 of the UK Companies Act 2006. The deferred shares will be purchased for nil consideration (as they have no economic value) in order to keep the balance sheet transparent. The exact number of deferred shares which will arise as a result of any

conversions is not yet known and therefore the purchase contract constitutes a contract under section 694(3) of the Companies Act 2006. By law the Company will only be able to purchase these shares off-market if the Purchase Contract is approved by special resolution at a general meeting of the Company.

#### **Statement of Disclosure of Information to Auditors**

As far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Individual Savings Accounts**

The Company's shares are qualifying investments for Individual Savings Accounts. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

#### **Statement Regarding Annual Report and Accounts**

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU

27 July 2015

# Corporate Governance Statement

Arrangements in respect of corporate governance have been put in place by the Board, which it believes are appropriate to an investment trust. The Company complied throughout the year with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council ('the Code') available at website: [www.frc.org.uk](http://www.frc.org.uk). The Board has also taken into account the recommendations of the AIC Code of Corporate Governance ('the AIC Code'). Since the Company has no employees and all the Directors are non-executive, the provisions of the Code on the role of a chief executive and on Directors' remuneration, except in so far as they apply to non-executive Directors, are not relevant to the Company and are not reported on further.

Under the requirements of the Articles of Association, each Director is required to retire at the third Annual General Meeting after the Annual General Meeting at which last elected. Directors are appointed for a term of no more than three years, subject to reappointment by shareholders, as recommended by the Code. In addition, the terms of Directors' appointments adhere to the requirements of the Companies Act 2006 and Directors are not appointed for a guaranteed term of more than two years without shareholder approval. Full details of the duties of Directors are provided at the time of appointment.

The Board consists solely of non-executive Directors. Richard Martin is Chairman and David Harris is the Senior Independent Director. All the Directors are considered by the Board to be independent of the Company's Manager. New

Directors receive an induction from the Manager on joining the Board, and all Directors are encouraged to attend relevant training courses and seminars and receive regular updates on the industry and changes to regulations from the Company Secretary and other parties, including the AIC.

During the year the performance of the Board, Committees and individual Directors was evaluated through a formal assessment process, led by the Senior Independent Director. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director. This process involved consideration of completed questionnaires tailored to suit the nature of the Company and discussion of the points arising amongst the Directors. The Board confirms that the performance of each of the Directors continues to be effective and demonstrates commitment to their role. The Board believes that each Director is independent in character and that there are no relationships or circumstances which are likely to affect his judgement.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

The basis on which the Company aims to generate value over the longer term is set out in the Strategic Report on pages 8 to 9.

The Company has no executive Directors or employees. A management agreement between the

|             | Board of Directors |          | Audit Committee |          | Remuneration Committee |          | Nomination Committee |          |
|-------------|--------------------|----------|-----------------|----------|------------------------|----------|----------------------|----------|
|             | Held               | Attended | Held            | Attended | Held                   | Attended | Held                 | Attended |
| R M Martin  | 7                  | 7        | 3               | 3        | 1                      | 1        | 1                    | 1        |
| D Harris    | 7                  | 5        | 3               | 3        | 1                      | 1        | 1                    | 1        |
| C S McGill  | 7                  | 7        | 3               | 3        | 1                      | 1        | 1                    | 1        |
| A G Stewart | 7                  | 7        | 3               | 3        | 1                      | 1        | 1                    | 1        |

The table above sets out the number of formal Board and Committee meetings held during the year ended 31 May 2015 and the number of meetings attended by each Director. In addition, committee meetings were held during the year to approve the interim dividends and applications for block listing facilities for the Income shares and Growth shares. All Directors attended the annual general meeting ('AGM') in September 2014. With the exception of D. Harris all Directors attended the General Meeting in February 2015.

Company and its Manager, F&C Investment Business Limited, sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, corporate governance and risk management procedures, are reserved for the approval of the Board of Directors. The Board currently meets at least four times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions on behalf of the Company. The Company's Manager considers socially responsible investment and actively engages with investee companies.

Throughout the year a number of committees have been in existence. The committees are the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these Committees operate within clearly defined written terms of reference which are available upon request.

#### **Audit Committee**

Details of the Audit Committee are contained in the Report of the Audit Committee on pages 30 to 32.

#### **Remuneration Committee**

The Remuneration Committee, chaired by Alistair Stewart, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis. The Remuneration Committee also determines the level of Directors' fees.

#### **Nomination Committee**

The Nomination Committee chaired by Richard Martin, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board these are based on merit. The Nomination Committee also takes into account the ongoing requirements of the Company and the need to have within the Board a balance of relevant skills, experience, independence and diversity, including gender and knowledge of the Company. The Directors have not set any measurable objectives in relation to diversity of the Board.

#### **Relations with Shareholders**

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. The notice for the forthcoming Annual General Meeting, to be held on 14 September 2015 is set out on pages 71 to 75.

#### **Risk Management and Internal Control**

Details of the principal risks assessed, and internal controls applied by the Board are set out on page 20 and pages 31 to 32 respectively.

#### **Share Capital Structure**

Details of the Company's share capital structure is set out on pages 35 and 36.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU

27 July 2015

# Report of the Audit Committee

## Audit Committee

The Audit Committee comprises the full Board and is chaired by Colin McGill.

The Audit Committee operates within clearly defined terms of reference and has recent and relevant financial experience. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment and remuneration of the Auditor, Ernst & Young LLP ('EY'), including its independence and objectivity. It also provides a forum through which the Auditor reports to the Board of Directors and meets at least twice a year including at least one meeting with EY.

The Audit Committee met on three occasions during the year and the attendance of each of the members is set out on page 28. In the due course of its duties, the committee had direct access to EY and senior members of the Managers' fund management and investment trust teams. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The accounting policies of the Company;
- The principal risks faced by the Company and the effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, their re-appointment, remuneration and terms of engagement;
- The policy on the engagement of EY to supply non-audit services;
- The implications of proposed new accounting standards and regulatory changes;
- The effectiveness of the Company's internal control and risk management environment;
- The need for the Company to have its own internal audit function;
- The receipt of an internal controls report from the Manager and other significant third party service providers; and
- Whether the Annual Report is fair, balanced and understandable.
- The annual and half-yearly results announcements, and annual and half-yearly reports and accounts;

## Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

| Matter  | Action  |
|---|---|
| <p><b>Investment Portfolio Valuation</b></p> <p>The Company's portfolios are invested predominantly in listed securities. Errors in the portfolio valuations could have a material impact on the Company's net asset value per share.</p> | <p>The Audit Committee reviewed the Manager's annual internal control report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of equity and fixed interest securities, including the application of exchange rate movements.</p>   |
| <p><b>Misappropriation of Assets</b></p> <p>Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.</p>   | <p>The Audit Committee reviewed the Managers' annual internal control report, as referred to on page 31, which details the controls around the reconciliation of the Manager's records to those of the custodian. The Audit Committee also reviewed the custodian's annual internal control report, which is reported on by independent external accountants, and which provides details regarding its control environment.</p> |



As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 31 May 2015. At the conclusion of the audit EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 38 to 40.

In relation to the provision of non-audit services by the Auditor it has been agreed that all non-audit work to be carried out by the Auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. In addition to statutory audit fees of £18,500 (2014: £18,300), EY received fees, excluding VAT, for non-audit services of £12,000 (2014: £7,000) for the year which included £5,000 in relation to the Prospectus issued by the Company in February 2015 and £7,000 for the provision of tax services. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. EY have been auditors to the Company since the Company's launch in 2008. The Audit Committee, from direct observation and enquiry of the Manager, remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. Following professional guidelines, the audit partner rotates at least every five years with the audit partner next due to rotate following the current audit of the Accounts for the year ended 31 May 2015. Although the Company is not a member of the FTSE 350 and therefore the requirement of the UK Corporate Governance Code to conduct an audit tender every ten years does not apply, under new EU mandatory audit rotation rules, the Company will be required to put the external audit out to tender at

least every ten years and it is anticipated that the auditor will change at least every twenty years. The Audit Committee is of the opinion that a regular audit tender would constitute good corporate governance and is therefore minded to recommend that a tender should be conducted in 2018, being ten years since the launch of the Company. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

### Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance provided by the Financial Reporting Council.

The process is based principally on the Manager's existing risk-based approach to internal control whereby a matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The Board is provided with reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken.

A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports issued by the Manager and other service providers. The Audit Committee has reviewed the Manager's "Report on internal controls in accordance with AAF (01/06)" for the year ended 31 December 2014 that has been prepared for their investment company clients. Containing a report from independent external accountants, the report sets out the Manager's control policies and procedures with respect to the management of their clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's audit, risk and

# Report of the Audit Committee (continued)

compliance departments. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No significant failings or weaknesses in respect of the Company were identified in the year under review nor to the date of this report.

The Audit Committee also reviewed appropriate reports on the internal controls of other significant service providers, such as the Custodian, the Depository and Registrar and was satisfied that there were no material exceptions.

Such review procedures have been in place throughout the financial year and up to the date of approval of the accounts, and the Board is satisfied with the effectiveness of the internal controls for the year to 31 May 2015. These procedures are designed to manage, rather than eliminate, risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting, the Board monitors the investment performance of the Company in comparison to its objective and relevant equity market indices. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, which are reported on by a firm of external auditors, together with the Manager's internal audit function, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. In addition, the Company's financial statements are audited by external auditors. An internal audit function, specific to the Company, is therefore considered unnecessary but this decision will be kept under review.

**Colin S McGill**

Chairman of the Audit Committee

27 July 2015

# Directors' Remuneration Report

The Board consists solely of independent non-executive Directors. The Company has no executive Directors or employees. The Remuneration Committee is responsible for determining the level of Directors' fees and considers these at least annually.

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 May 2015, are shown below. This shows all major decisions on Directors' remuneration, and any substantial changes made during the year relating to Directors' remuneration, including the context in which any changes occurred.

Under company law, the Auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on pages 38 to 40.

## Remuneration Committee

The Remuneration Committee consists of all four non-executive Directors and it is chaired by Alistair Stewart. A comprehensive review of comparative Directors' fees is considered in advance of each review.

## Directors' Remuneration Policy

The Company's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, their responsibilities, duties and time commitment required and be fair and comparable to that of other investment trusts that are similar in size and have similar investment objectives. There were no changes to the policy during the year.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £120,000 per annum and may not be changed without seeking shareholder approval at a general meeting. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The non-executive Directors are engaged under letters of appointment and do not have service contracts. Each Director has a letter of appointment

setting out the terms and conditions of his appointment and such letters are available for inspection at the Company's registered office. The terms of appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after his or her appointment. Directors are thereafter obliged to retire periodically and, if they wish, to offer themselves for re-election, by shareholders at the third annual general meeting after the annual general meeting at which last elected. Any Director who has served on the Board for more than nine years will offer himself or herself for re-election annually. There is no notice period and no provision for compensation upon termination of appointment.

The Company has not received any views from its Shareholders in respect of the levels of Directors' remuneration.

## Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 23 September 2014, shareholders approved the Directors' Remuneration Policy. 93.1% of votes were in favour of the resolution and 6.9% were against. The Directors' Remuneration Policy will be put to shareholders for approval at the Annual General Meeting in 2017 unless changes are made to the policy before then.

Based on the current levels of fees, Directors' remuneration for the forthcoming financial year would be as follows:

| Director              | 2016*<br>£    | 2015#<br>£ |
|-----------------------|---------------|------------|
| R M Martin (Chairman) | <b>26,000</b> | 24,000     |
| D Harris              | <b>19,000</b> | 18,000     |
| C S McGill            | <b>21,000</b> | 20,000     |
| A G Stewart           | <b>19,000</b> | 18,000     |
| <b>Total</b>          | <b>85,000</b> | 80,000     |

\* Directors' remuneration for the year ending 31 May 2016 based on current fee levels.

# Actual Directors' remuneration for the year ended 31 May 2015.

# Directors' Remuneration Report (continued)

## Annual Report on Directors' Remuneration

### Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following emoluments in the form of fees. No other forms of remuneration were paid during the year.

| Director              | 31 May 2015<br>£ | 31 May 2014<br>£ |
|-----------------------|------------------|------------------|
| R M Martin (Chairman) | <b>24,000</b>    | 22,000           |
| D Harris              | <b>18,000</b>    | 17,000           |
| C S McGill            | <b>20,000</b>    | 19,000           |
| A G Stewart           | <b>18,000</b>    | 17,000           |
| <b>Total</b>          | <b>80,000</b>    | 75,000           |

Following a review of the level of Directors' fees for the forthcoming year to 31 May 2016, the Remuneration Committee concluded that the amount paid to Directors should increase by £2,000 per annum for the Chairman and £1,000 per annum for each of the other Directors.

### Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration, other expenses and shareholder distributions:

|   | 31 May 2015<br>£ | 31 May 2014<br>£ | Change<br>% |
|---|------------------|------------------|-------------|
| Aggregate Directors' Remuneration                         | <b>80,000</b>    | 75,000           | +6.7        |
| Management and other expenses                             | <b>771,000</b>   | 679,000          | +13.5       |
| Distributions paid to Shareholders (relating to the year) | <b>1,510,000</b> | 1,305,000        | +15.7       |

### Directors' Shareholdings (audited)

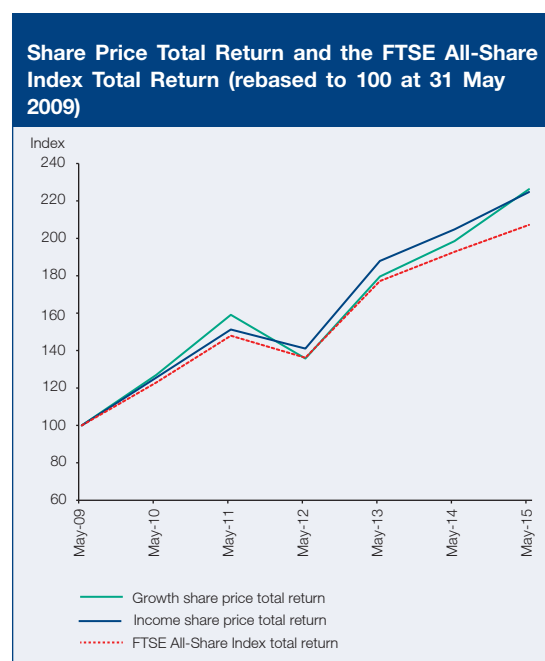
The Directors who held office at the year end and their interests in the shares of the Company at 31 May 2015 (all of which were beneficially held) were as follows:

| Director    | 31 May 2015   |               | 31 May 2014   |               |
|-------------|---------------|---------------|---------------|---------------|
|             | Income Shares | Growth Shares | Income Shares | Growth Shares |
| R M Martin  | <b>31,000</b> | <b>10,000</b> | 31,000        | 10,000        |
| D Harris    | <b>2,500</b>  | <b>2,500</b>  | 2,500         | 2,500         |
| C S McGill  | <b>10,000</b> | <b>10,000</b> | 10,000        | 10,000        |
| A G Stewart | <b>10,000</b> | <b>10,000</b> | 10,000        | 10,000        |

There have been no changes in the Directors' interests in the shares of the Company between 31 May 2015 and 27 July 2015.

### Company Performance

The graph below compares, for the six financial years ended 31 May 2015, the total return (assuming all dividends are reinvested) to Income shareholders and Growth shareholders compared to the total return on the FTSE All-Share Index. This index was chosen for comparison purposes, as it is the Company's benchmark. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.



### Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 23 September 2014, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 May 2014. 93.5% of votes were in favour of the resolution and 6.5% were against. An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

**Alistair G. Stewart**

Director

27 July 2015

# Capital Structure

At 31 May 2015

## **The Company has a capital structure comprising Income shares and Growth shares.**

The Company has two classes of shares, Income shares and Growth shares, each with distinct investment objectives, investment policies and underlying asset portfolios. Both the Income shares and Growth shares are listed on the London Stock Exchange. There is no fixed ratio of Income shares to Growth shares and the relative sizes of the Income and Growth portfolios may vary over time.

Neither the Income shares nor the Growth shares represent capital gearing for the other share class.

### **Dividends**

Income shares are entitled to all dividends of the Company. It is expected that the Company will pay four quarterly dividends per financial year. The Growth shares do not carry an entitlement to receive dividends.

Any net income arising in the Growth Portfolio is transferred to the Income Portfolio, and a corresponding transfer of an identical amount made from the capital attributable to the Income Portfolio to the Growth Portfolio. It is expected that this will both benefit the income prospects of the Income shares and the capital growth prospects of the Growth shares.

### **Capital**

The net asset value of the Income shares is based on the Income Portfolio and the net asset value of the Growth shares is based on the Growth Portfolio.

As a matter of law, the Company is a single entity and, while under the Articles of Association the assets of the Income Portfolio are separated for the benefit of the Income shareholders and the assets of the Growth Portfolio are separated for the benefit of the Growth shareholders, there is no distinction between the assets of the Income Portfolio and the Growth Portfolio as far as creditors of the Company are concerned.

On a return of assets, on a liquidation or otherwise, the surplus assets of the Company comprised in either of the Income Portfolio or the Growth Portfolio, after payment of all debts and satisfaction of all the liabilities associated with that Portfolio and any other relevant liabilities, shall be paid to the holders of the shares of the particular Portfolio and distributed amongst such holders rateably according to the amounts paid up on the relevant shares held by them respectively.

If, in the course of liquidation of the Company the assets attributable to a particular Portfolio are insufficient to satisfy the liabilities attributable to that Portfolio and that Portfolio's pro rata share of the Company's general liabilities, the outstanding liabilities shall be attributable to the other Portfolio.

### **Voting**

At any general meeting of the Company, on a show of hands, each Income shareholder and each Growth shareholder shall have one vote and, upon a poll, a weighted vote determined in accordance with the underlying NAV of the relevant share as specified in the Articles.

At any class meeting of Income shareholders, on a show of hands, each Income shareholder shall have one vote and, upon a poll, one vote for each Income share held and at any class meeting of Growth shareholders, on a show of hands, each Growth shareholder shall have one vote and, upon a poll, one vote for each Growth share held.

Any material change to the investment policy of the Company will only be made with the prior class consent of shareholders of the class to which the change relates (where the proposed material change only relates to a particular class) and with the prior approval of the shareholders of the Company.

# Capital Structure (continued)

## **Voting of shares held in the Share Plans**

Since the launch of the Company, the majority of the Income shares and Growth shares in the Company have been held through the F&C Share Plans which are administered by the Manager. The Manager does not have discretion to exercise any voting rights in respect of the shares held through the F&C Share Plans. The shares are voted in accordance with the instructions of the underlying shareholders. The Manager has undertaken that, subject to any regulatory restrictions, it would operate a proportional voting system whereby, provided that the nominee company holding the shares received instructions to vote in respect of more than 10 per cent of the shares held in the F&C Share Plans, it would vote all the shares in respect of which it had not received instructions proportionately to those for which it had received instructions. Any shares held by the underlying holder in excess of 0.25 per cent of the issued shares of the relevant class would not be counted for the purposes of pro-rating the voting of non-directed shares. Any shares voted by an underlying shareholder in excess of the maximum limit would remain valid, but would not form part of the proportional voting basis.

## **Conversion between Income shares and Growth shares**

Subject to certain minimum and maximum thresholds, shareholders have the right to convert their Income shares into Growth shares and/or their Growth shares into Income shares upon certain dates, the next of which will be in October 2015 and then annually thereafter. Under current law, such conversions will not be treated as disposals for UK capital gains tax purposes.

The ratio in which shares convert will be determined on a relative net asset value basis as at the Conversion Date, adjusted for any dividends that will go ex-dividend prior to the Conversion Date and such that the converting shares bear the costs of conversion. Upon conversion, the converted shares shall rank *pari passu* with all other shares of its new class.

The Board may from time to time set a maximum number of Income shares or Growth shares which may be converted on any Conversion Date. If this limit is exceeded, requests to convert will be satisfied pro rata by the total number of shares each Shareholder wished to convert and any shares above those amounts shall not be converted. Full details are provided in the Shareholder Information section on pages 65 and 66.

# Statement of Directors' Responsibilities

## Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for ensuring that the Annual Report and Accounts is fair, balanced and understandable and for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable

them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Directors' Remuneration Report and Corporate Governance Statement.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, net return and cash flows of the Company; and
- the Strategic Report and the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Richard M Martin

Chairman

27 July 2015

# Independent Auditor's Report

## **Our audit opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 May 2015 and of its net return for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## **Our audit opinion on matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 28 and 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## **What we have audited**

We have audited the financial statements of the Company for the year ended 31 May 2015 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's

members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the Directors are 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, International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **The 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 applied are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

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



### Our assessment of the risk of material misstatement and our audit response

The risks included in the table below represent those material risks of misstatement that have had the greatest impact on our audit strategy and approach for

the year ended 31 May 2015 (including the allocation of resources and the directing of efforts of the engagement team). The table also includes our audit response to each of these risks:

| Risk identified  | Our response   |
|--|--|
| <p>The valuation of the assets held in the investment portfolios is the key driver of the Company's investment return. The value of the Company's investment portfolios at 31 May 2015 was £89.0 million (movements in the investment portfolios are shown in note 10 to the financial statements).</p> <p>Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.</p> | <ul style="list-style-type: none"> <li>We agreed the year end prices of the investments to an independent source. We did not identify any material differences.</li> <li>We agreed the number of shares held in each security to a confirmation of legal title received from both the company's custodian and its depository.</li> </ul> |

### Our application of materiality

We have defined the concept of materiality and planning materiality below.

We determined materiality for the company to be £880,000, which is one per cent of total shareholder's funds (2014: £680,000 based on one per cent of total shareholder's funds). We have derived our materiality calculation based on a proportion of total equity as we consider it to be the most important financial metric on which shareholders would judge the performance of the company.

We determined performance materiality for the company to be 75% of materiality, or £660,000 (2014: 75% of materiality or £510,000).

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate performance materiality of £87,000 for the Income Statement being five per cent of the return on ordinary activities before tax.

In addition, we agreed with the Audit Committee that we would report any audit differences in excess of £40,000 (2014: £32,000), as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

In accordance with the scope of our audit, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply the concept of materiality for the purposes of obtaining sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. For this reason, we also define a separate performance materiality threshold which reflects our tolerance for misstatement in an individual account balance and is set as a proportion of our overall materiality.

Our objective in setting the performance materiality threshold is to identify the amount of testing required in respect of each balance to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements in the financial statements as a whole exceeds our materiality level.

We evaluate any uncorrected misstatements and potential audit differences against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

# Independent Auditor's Report (continued)

We applied the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion. When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole. This provided a basis for determining the nature of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

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

We are required by the International Standards on Auditing (UK and Ireland), the Companies Act 2006 and the Listing Rules to report to you by exception if certain matters are identified during the course of our audit. These matters are listed below and we have nothing to report in respect of any of these matters.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 24 and 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

**Susan Dawe** (Senior statutory auditor)  
for and on behalf of  
Ernst & Young LLP, Statutory Auditor  
Edinburgh

27 July 2015

# Income Statement

for the year ended 31 May

|   | Notes | 2015             |                  |                | 2014             |                  |                |
|---|-------|------------------|------------------|----------------|------------------|------------------|----------------|
|   |       | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
| Gains on investments  | 10    | –                | 6,908            | 6,908          | –                | 3,528            | 3,528          |
| Foreign exchange losses   |       | –                | (4)              | (4)            | –                | (9)              | (9)            |
| Income  | 3     | 2,260            | –                | 2,260          | 1,971            | –                | 1,971          |
| Investment management fees  | 4     | (147)            | (349)            | (496)          | (125)            | (297)            | (422)          |
| Other expenses  | 5     | (355)            | –                | (355)          | (332)            | –                | (332)          |
| <b>Return on ordinary activities<br/>before finance costs and tax</b> |       | <b>1,758</b>     | <b>6,555</b>     | <b>8,313</b>   | 1,514            | 3,222            | 4,736          |
| Finance costs   | 6     | (13)             | (27)             | (40)           | (11)             | (21)             | (32)           |
| <b>Return on ordinary activities<br/>before tax</b>                   |       | <b>1,745</b>     | <b>6,528</b>     | <b>8,273</b>   | 1,503            | 3,201            | 4,704          |
| Tax on ordinary activities  | 7     | (8)              | –                | (8)            | (4)              | –                | (4)            |
| <b>Return attributable to shareholders</b>                            |       | <b>1,737</b>     | <b>6,528</b>     | <b>8,265</b>   | 1,499            | 3,201            | 4,700          |
| <b>Return per Income share</b>  | 9     | <b>5.87p</b>     | <b>5.95p</b>     | <b>11.82p</b>  | 5.56p            | 1.22p            | 6.78p          |
| <b>Return per Growth share</b>  | 9     | <b>–</b>         | <b>17.80p</b>    | <b>17.80p</b>  | –                | 11.41p           | 11.41p         |

The total column of this statement is the Profit and Loss Account of the Company. The supplementary revenue and capital columns are prepared under guidance published by The Association of Investment Companies.

Segmental analysis, illustrating the two separate portfolios of assets, the Income Portfolio and the Growth Portfolio, is shown in note 2 to the accounts.

All revenue and capital items in the Income Statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes are an integral part of these financial statements

# Balance Sheet

as at 31 May

|  | Notes | 2015                   |                        |                | 2014                   |                        |                |
|--|-------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|  |       | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| <b>Fixed assets</b>                      |       |                        |                        |                |                        |                        |                |
| Investments at fair value                | 10    | 43,964                 | 45,012                 | 88,976         | 33,514                 | 35,218                 | 68,732         |
| <b>Current assets</b>                    |       |                        |                        |                |                        |                        |                |
| Debtors                                  | 11    | 110                    | 44                     | 154            | 41                     | 49                     | 90             |
| Cash at bank and on deposit              |       | 1,388                  | 1,063                  | 2,451          | –                      | 341                    | 341            |
|  |       | 1,498                  | 1,107                  | 2,605          | 41                     | 390                    | 431            |
| <b>Creditors</b>                         |       |                        |                        |                |                        |                        |                |
| Amounts falling due within one year      | 12    | (1,623)                | (1,728)                | (3,351)        | (577)                  | (258)                  | (835)          |
| <b>Net current (liabilities)/assets</b>  |       | <b>(125)</b>           | <b>(621)</b>           | <b>(746)</b>   | <b>(536)</b>           | <b>132</b>             | <b>(404)</b>   |
| <b>Net assets</b>                        |       | <b>43,839</b>          | <b>44,391</b>          | <b>88,230</b>  | <b>32,978</b>          | <b>35,350</b>          | <b>68,328</b>  |
| <b>Capital and reserves</b>              |       |                        |                        |                |                        |                        |                |
| Called-up share capital                  | 13    | 3,469                  | 2,884                  | 6,353          | 2,751                  | 2,740                  | 5,491          |
| Share premium                            | 14    | 13,346                 | 10,927                 | 24,273         | 5,312                  | 8,295                  | 13,607         |
| Capital redemption reserve               | 14    | –                      | 182                    | 182            | –                      | 182                    | 182            |
| Special reserve                          | 14    | 19,380                 | 17,197                 | 36,577         | 19,380                 | 15,700                 | 35,080         |
| Capital reserves                         | 14    | 6,320                  | 13,201                 | 19,521         | 4,560                  | 8,433                  | 12,993         |
| Revenue reserve                          | 14    | 1,324                  | –                      | 1,324          | 975                    | –                      | 975            |
| <b>Shareholders' Funds</b>               | 15    | <b>43,839</b>          | <b>44,391</b>          | <b>88,230</b>  | <b>32,978</b>          | <b>35,350</b>          | <b>68,328</b>  |
| <b>Net asset value per share (pence)</b> | 15    | <b>126.37p</b>         | <b>153.92p</b>         |                | <b>119.85p</b>         | <b>136.41p</b>         |                |

Approved by the Board and authorised for issue on 27 July 2015 and signed on its behalf by:

**Richard M Martin**, Director.

The accompanying notes are an integral part of these financial statements.

# Cash Flow Statement

for the year ended 31 May

|   | Notes | 2015                      |                           |                 | 2014                      |                           |                |
|---|-------|---------------------------|---------------------------|-----------------|---------------------------|---------------------------|----------------|
|   |       | Income<br>Shares<br>£'000 | Growth<br>Shares<br>£'000 | Total<br>£'000  | Income<br>Shares<br>£'000 | Growth<br>Shares<br>£'000 | Total<br>£'000 |
| <b>Operating activities</b>   |       |                           |                           |                 |                           |                           |                |
| Investment income received, net of<br>withholding tax suffered                |       | 1,552                     | 633                       | 2,185           | 1,397                     | 565                       | 1,962          |
| Deposit interest received   |       | 3                         | 1                         | 4               | -                         | -                         | -              |
| Investment management and performance<br>fees paid                            |       | (220)                     | (239)                     | (459)           | (322)                     | (210)                     | (532)          |
| Other cash payments   |       | (181)                     | (193)                     | (374)           | (163)                     | (187)                     | (350)          |
| <b>Net cash inflow from operating activities</b>                              | 16    | <b>1,154</b>              | <b>202</b>                | <b>1,356</b>    | 912                       | 168                       | 1,080          |
| <b>Servicing of finance</b>   |       |                           |                           |                 |                           |                           |                |
| Interest paid on bank borrowings  |       | (24)                      | (16)                      | (40)            | (25)                      | (7)                       | (32)           |
| <b>Net cash outflow from servicing of finance</b>                             |       | <b>(24)</b>               | <b>(16)</b>               | <b>(40)</b>     | (25)                      | (7)                       | (32)           |
| <b>Capital expenditure and financial investment</b>                           |       |                           |                           |                 |                           |                           |                |
| Purchases of investments  |       | (9,748)                   | (6,963)                   | (16,711)        | (3,602)                   | (3,937)                   | (7,539)        |
| Disposals of investments  |       | 1,609                     | 1,826                     | 3,435           | 2,858                     | 3,275                     | 6,133          |
| <b>Net cash outflow from capital expenditure<br/>and financial investment</b> |       | <b>(8,139)</b>            | <b>(5,137)</b>            | <b>(13,276)</b> | (744)                     | (662)                     | (1,406)        |
| <b>Equity dividends paid</b>  |       | <b>(1,388)</b>            | -                         | <b>(1,388)</b>  | (1,235)                   | -                         | (1,235)        |
| <b>Net cash outflow before financing</b>                                      |       | <b>(8,397)</b>            | <b>(4,951)</b>            | <b>(13,348)</b> | (1,092)                   | (501)                     | (1,593)        |
| <b>Financing</b>  |       |                           |                           |                 |                           |                           |                |
| Issue of new shares   |       | 8,752                     | 2,115                     | 10,867          | 180                       | -                         | 180            |
| Sale of shares from treasury  |       | -                         | 2,158                     | 2,158           | 866                       | 1,597                     | 2,463          |
| Shares purchased to be held in treasury                                       |       | -                         | -                         | -               | -                         | (325)                     | (325)          |
| Loan drawdown   |       | 1,500                     | 1,400                     | 2,900           | -                         | -                         | -              |
| <b>Net cash inflow from financing</b>   |       | <b>10,252</b>             | <b>5,673</b>              | <b>15,925</b>   | 1,046                     | 1,272                     | 2,318          |
| <b>Increase/(decrease) in cash</b>  | 17    | <b>1,855</b>              | <b>722</b>                | <b>2,577</b>    | (46)                      | 771                       | 725            |
| <b>Reconciliation of net cash flow<br/>to movement in net (debt)/cash</b>     |       |                           |                           |                 |                           |                           |                |
| Increase/(decrease) in cash in the year                                       |       | 1,855                     | 722                       | 2,577           | (46)                      | 771                       | 725            |
| Increase in loans   |       | (1,500)                   | (1,400)                   | (2,900)         | -                         | -                         | -              |
| Opening net (debt)/cash   |       | (467)                     | 341                       | (126)           | (421)                     | (430)                     | (851)          |
| <b>Closing net (debt)/cash</b>  | 17    | <b>(112)</b>              | <b>(337)</b>              | <b>(449)</b>    | <b>(467)</b>              | <b>341</b>                | <b>(126)</b>   |

The accompanying notes are an integral part of these financial statements.

# Reconciliation of Movements in Shareholders' Funds

for the year ended 31 May 2015

|  | Notes | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
|--|-------|------------------------|------------------------|----------------|
| Opening shareholders' funds  |       | 32,978                 | 35,350                 | 68,328         |
| Increase in share capital in issue, net of share issuance expenses | 13    | 8,752                  | 2,115                  | 10,867         |
| Shares sold from treasury  | 13    | –                      | 2,158                  | 2,158          |
| Transfer of net income to Income shares from Growth shares         | 2     | 393                    | (393)                  | –              |
| Transfer of capital from Income shares to Growth shares            | 2     | (393)                  | 393                    | –              |
| Dividends paid   | 8     | (1,388)                | –                      | (1,388)        |
| Return attributable to shareholders                                | 2     | 3,497                  | 4,768                  | 8,265          |
| Closing shareholders' funds  |       | 43,839                 | 44,391                 | 88,230         |

for the year ended 31 May 2014

|  | Notes | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
|--|-------|------------------------|------------------------|----------------|
| Opening shareholders' funds                                |       | 31,338                 | 31,207                 | 62,545         |
| Increase in share capital in issue                         | 13    | 180                    | –                      | 180            |
| Shares sold from treasury                                  | 13    | 866                    | 1,597                  | 2,463          |
| Shares purchased for treasury                              | 13    | –                      | (325)                  | (325)          |
| Transfer of net income to Income shares from Growth shares | 2     | 368                    | (368)                  | –              |
| Transfer of capital from Income shares to Growth shares    | 2     | (368)                  | 368                    | –              |
| Dividends paid   | 8     | (1,235)                | –                      | (1,235)        |
| Return attributable to shareholders                        | 2     | 1,829                  | 2,871                  | 4,700          |
| Closing shareholders' funds                                |       | 32,978                 | 35,350                 | 68,328         |

The accompanying notes are an integral part of these financial statements.

# Notes to the Accounts

## 1. Accounting policies

A summary of the principal accounting policies adopted is set out below.

### (a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with guidelines set out in the Statement of Recommended Practice ("SORP") for Investment Trust Companies and Venture Capital Trusts issued by the Association of Investment Companies ("AIC") in January 2009. The audited financial statements for the Company comprise the Income Statement and the total columns of the Balance Sheet, the Cash Flow Statement, Reconciliation of Movements in Shareholders' Funds and the Company totals shown in the notes to the financial statements.

#### *Presentation of the Income Statement*

In order to reflect better the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue return is the measure the Directors believe to be appropriate in assessing the Company's compliance with certain requirements set out in Chapter 4, Part 24 of the Corporation Tax Act 2010.

The notes and financial statements are presented in pounds sterling (functional and reporting currency) and are rounded to the nearest thousand except where otherwise indicated.

### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth and the Company's investments have been categorised as "financial assets at fair value through profit or loss". Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales. At the time of acquisition the investments are valued at cost of purchase.

Listed and quoted investments are valued at their fair value which is represented by the bid price at the close of business on the relevant date on the exchange on which the investment is quoted.

As investments have been categorised as "financial assets at fair value through profit or loss," gains and losses arising from changes in fair value are included in the Income Statement as a capital item.

### (c) Income

Dividends are recognised as income on the date that the related investments are marked ex-dividend.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Dividends from overseas companies are shown gross of any withholding tax.

Other investment income and deposit interest are included on an accruals basis.

Interest income from fixed interest securities is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income.

Special dividends are recognised in the revenue account unless they are of a capital nature, following which they will be recognised in the capital account.

### (d) Expenses

All expenses and finance costs are accounted for on an accruals basis. Expenses are charged to the Income Statement as a revenue item except where incurred in connection with the maintenance or enhancement of the value of the Company's investment portfolio and taking account of the expected long-term returns as follows:

- Management fees and finance costs have been allocated 40 per cent to revenue and 60 per cent to capital in the Income Portfolio and 20 per cent to revenue and 80 per cent to capital in the Growth Portfolio;
- Performance fees are charged wholly to capital.

Expenses charged to the Company common to both Portfolios are allocated to the Portfolios in the same proportion as their net assets at the quarter end immediately preceding the date on which the cost is to be accounted for.

Expenses charged to the Company in relation to a specific Portfolio are charged directly to that Portfolio, with the other Portfolio remaining unaffected.

# Notes to the Accounts (continued)

## 1. Accounting policies (continued)

### (e) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax is computed for each Portfolio separately, however the Company is the taxable entity. A Portfolio which generates taxable revenues in excess of tax deductible expenses may benefit from the excess of tax deductible expenses in the other Portfolio. In return, by way of compensation, there would be a transfer from the Portfolio with taxable profits to the Portfolio with taxable losses.

### (f) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

Investment trusts which have approval under Chapter 4, Part 24 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

### (g) Debt instruments

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of any issue costs. Finance costs, including interest are accrued using the effective interest rate method. See 1(d) for the allocation of finance costs.

### (h) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in either the capital or revenue column of the income statement depending on whether the gain or loss is of a capital or revenue nature respectively.

| Rates of exchange at 31 May | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------------|---------------|---------------|
| US dollar                   | 1.53          | 1.68          |
| Swiss Franc                 | 1.44          | 1.50          |
| Euro                        | 1.39          | 1.22          |

### (i) Reserves

- Share premium* – the surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. Gains arising on the resale of shares from treasury are credited to this reserve. The reserve is non-distributable. The balance of this account which arose as a result of the shares issued at launch was subsequently cancelled by the Court of Session to create the Special reserve.
- Capital redemption reserve* – the nominal value of any of the shares bought back for cancellation is added to this reserve. This reserve is non-distributable.
- Special reserve* – created from the Court cancellation of the share premium account which had arisen from premiums paid on the Income shares and Growth shares at launch. Available as distributable profits to be used for the buy back of shares. The cost of any shares bought back is deducted from this reserve. The cost of any shares resold from treasury is added back to this reserve.
- Capital reserve – investments sold* – gains and losses on realisation of investments and losses on transactions in own shares, are dealt with in this reserve together with the proportion of management and performance fees, finance costs and taxation allocated to capital. This reserve also includes dividends received of a capital nature.
- Capital reserve – investments held* – increases and decreases in the valuation of investments held are accounted for in this reserve.
- Revenue reserve* – the net profit/(loss) arising in the revenue column of the Income Statement is added to or deducted from this reserve. This is available for paying dividends on the Income shares.



## 1. Accounting policies (continued)

### (j) Transfer of capital and revenue

All net revenue of the Company attributable to the Growth Portfolio is, immediately following recognition in accordance with the Company's accounting policies, reallocated, applied and transferred to, and treated as revenue attributable to, the Income Portfolio. Contemporaneously with any such reallocation, application and transfer of any revenue to the Income Portfolio, such assets comprising part of the Income Portfolio as have a value equal to the net revenue so reallocated, applied and transferred shall be reallocated, applied, transferred and treated as capital attributable to the Growth Portfolio.

## 2. Segmental analysis

The Company carries on business as an investment trust and manages two separate portfolios of assets: the Income Portfolio and the Growth Portfolio.

The Company's Income Statement, on page 41, can be analysed as follows. This has been disclosed to assist shareholders' understanding, but this analysis is additional to that required by UK GAAP:

### Year ended 31 May 2015

|   | Notes | Income Portfolio |                  |                | Growth Portfolio |                  |                | Total            |                  |                |
|---|-------|------------------|------------------|----------------|------------------|------------------|----------------|------------------|------------------|----------------|
|   |       | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
| Gains on investments  | 10    | –                | 2,315            | 2,315          | –                | 4,593            | 4,593          | –                | 6,908            | 6,908          |
| Foreign exchange losses   |       | –                | (4)              | (4)            | –                | –                | –              | –                | (4)              | (4)            |
| Income  | 3     | 1,629            | –                | 1,629          | 631              | –                | 631            | 2,260            | –                | 2,260          |
| Investment management fees  | 4     | (96)             | (144)            | (240)          | (51)             | (205)            | (256)          | (147)            | (349)            | (496)          |
| Other expenses  | 5     | (173)            | –                | (173)          | (182)            | –                | (182)          | (355)            | –                | (355)          |
| <b>Return on ordinary activities<br/>before finance costs and tax</b> |       | <b>1,360</b>     | <b>2,167</b>     | <b>3,527</b>   | <b>398</b>       | <b>4,388</b>     | <b>4,786</b>   | <b>1,758</b>     | <b>6,555</b>     | <b>8,313</b>   |
| Finance costs   | 6     | (10)             | (14)             | (24)           | (3)              | (13)             | (16)           | (13)             | (27)             | (40)           |
| Return on ordinary activities before tax                              |       | <b>1,350</b>     | <b>2,153</b>     | <b>3,503</b>   | <b>395</b>       | <b>4,375</b>     | <b>4,770</b>   | <b>1,745</b>     | <b>6,528</b>     | <b>8,273</b>   |
| Tax on ordinary activities  | 7     | (6)              | –                | (6)            | (2)              | –                | (2)            | (8)              | –                | (8)            |
| <b>Return §</b>   | 9     | <b>1,344</b>     | <b>2,153</b>     | <b>3,497</b>   | <b>393</b>       | <b>4,375</b>     | <b>4,768</b>   | <b>1,737</b>     | <b>6,528</b>     | <b>8,265</b>   |

### Year ended 31 May 2014

|   | Notes | Income Portfolio |                  |                | Growth Portfolio |                  |                | Total            |                  |                |
|---|-------|------------------|------------------|----------------|------------------|------------------|----------------|------------------|------------------|----------------|
|   |       | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
| Gains on investments  | 10    | –                | 845              | 845            | –                | 2,683            | 2,683          | –                | 3,528            | 3,528          |
| Foreign exchange losses   |       | –                | (9)              | (9)            | –                | –                | –              | –                | (9)              | (9)            |
| Income  | 3     | 1,388            | –                | 1,388          | 583              | –                | 583            | 1,971            | –                | 1,971          |
| Investment management fees  | 4     | (82)             | (123)            | (205)          | (43)             | (174)            | (217)          | (125)            | (297)            | (422)          |
| Other expenses  | 5     | (162)            | –                | (162)          | (170)            | –                | (170)          | (332)            | –                | (332)          |
| <b>Return on ordinary activities<br/>before finance costs and tax</b> |       | <b>1,144</b>     | <b>713</b>       | <b>1,857</b>   | <b>370</b>       | <b>2,509</b>     | <b>2,879</b>   | <b>1,514</b>     | <b>3,222</b>     | <b>4,736</b>   |
| Finance costs   | 6     | (10)             | (15)             | (25)           | (1)              | (6)              | (7)            | (11)             | (21)             | (32)           |
| Return on ordinary activities before tax                              |       | <b>1,134</b>     | <b>698</b>       | <b>1,832</b>   | <b>369</b>       | <b>2,503</b>     | <b>2,872</b>   | <b>1,503</b>     | <b>3,201</b>     | <b>4,704</b>   |
| Tax on ordinary activities  | 7     | (3)              | –                | (3)            | (1)              | –                | (1)            | (4)              | –                | (4)            |
| <b>Return §</b>   | 9     | <b>1,131</b>     | <b>698</b>       | <b>1,829</b>   | <b>368</b>       | <b>2,503</b>     | <b>2,871</b>   | <b>1,499</b>     | <b>3,201</b>     | <b>4,700</b>   |

§Any net revenue return attributable to the Growth Portfolio is transferred to the Income Portfolio and a corresponding transfer of an identical amount of capital is made from the Income Portfolio to the Growth Portfolio and accordingly the whole return in the Growth Portfolio is capital. Refer to the Reconciliation of Movements in Shareholders' Funds.

# Notes to the Accounts (continued)

## 3. Income

|   | 2015                      |                           |                | 2014                      |                           |                |
|---|---------------------------|---------------------------|----------------|---------------------------|---------------------------|----------------|
|   | Income Portfolio<br>£'000 | Growth Portfolio<br>£'000 | Total<br>£'000 | Income Portfolio<br>£'000 | Growth Portfolio<br>£'000 | Total<br>£'000 |
| <b>Income from listed and quoted investments†</b> |                           |                           |                |                           |                           |                |
| UK dividend income                                | 790                       | 561                       | 1,351          | 727                       | 525                       | 1,252          |
| Overseas dividends                                | 820                       | 69                        | 889            | 644                       | 58                        | 702            |
| Interest on fixed interest securities             | 16                        | –                         | 16             | 17                        | –                         | 17             |
|   | <b>1,626</b>              | <b>630</b>                | <b>2,256</b>   | 1,388                     | 583                       | 1,971          |
| <b>Other income‡</b>                              |                           |                           |                |                           |                           |                |
| Deposit interest                                  | 3                         | 1                         | 4              | –                         | –                         | –              |
| <b>Total income</b>                               | <b>1,629</b>              | <b>631</b>                | <b>2,260</b>   | 1,388                     | 583                       | 1,971          |
| Total income comprises:                           |                           |                           |                |                           |                           |                |
| Dividends   | 1,610                     | 630                       | 2,240          | 1,371                     | 583                       | 1,954          |
| Other income                                      | 19                        | 1                         | 20             | 17                        | –                         | 17             |
|   | <b>1,629</b>              | <b>631</b>                | <b>2,260</b>   | 1,388                     | 583                       | 1,971          |

†All investments have been designated as fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

‡Other income on financial assets not designated as fair value through profit or loss.

## 4. Investment management and performance fees

### Year ended 31 May 2015

|  | Income Portfolio          |                  |                | Growth Portfolio |                  |                | Total            |                  |                |
|--|---------------------------|------------------|----------------|------------------|------------------|----------------|------------------|------------------|----------------|
|  | Revenue<br>£'000          | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
|  | Investment management fee | 96               | 144            | 240              | 51               | 205            | 256              | 147              | 349            |
|  | <b>96</b>                 | <b>144</b>       | <b>240</b>     | <b>51</b>        | <b>205</b>       | <b>256</b>     | <b>147</b>       | <b>349</b>       | <b>496</b>     |

### Year ended 31 May 2014

|  | Income Portfolio          |                  |                | Growth Portfolio |                  |                | Total            |                  |                |
|--|---------------------------|------------------|----------------|------------------|------------------|----------------|------------------|------------------|----------------|
|  | Revenue<br>£'000          | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
|  | Investment management fee | 82               | 123            | 205              | 43               | 174            | 217              | 125              | 297            |
|  | <b>82</b>                 | <b>123</b>       | <b>205</b>     | <b>43</b>        | <b>174</b>       | <b>217</b>     | <b>125</b>       | <b>297</b>       | <b>422</b>     |

The Company's investment manager is F&C Investment Business Limited. F&C Investment Business Limited receives an investment management fee comprising a base fee and, if certain conditions are met, a performance fee.

The base fee is a management fee at the rate of 0.65 per cent per annum of the total assets of each portfolio payable quarterly in arrears, subject to being reduced to 0.325 per cent per annum on any assets which are invested in other investment vehicles managed by the Manager.

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 60 per cent to capital and 40 per cent to revenue in the Income Portfolio. In respect of the Growth Portfolio, the management fee has been charged 80 per cent to capital and 20 per cent to revenue.

A performance fee may be payable annually and is equal to 10 per cent of the monetary amount by which the total return of the relevant Portfolio over that year (after all costs and expenses excluding the Performance fee) exceeds the total return on the FTSE All-Share Index (in each case with dividends reinvested).

The performance fee payable in respect of any one year is capped at 0.35 per cent of the total assets of the relevant portfolio and is charged wholly to capital.

#### 4. Investment management and performance fees (continued)

In the event that a portfolio has outperformed the benchmark index such that a performance fee would be payable as described above, but the NAV per share for the relevant portfolio at the end of the financial year is less than (i) the NAV per share at the start of the financial year or (ii) in the case of the Growth shares, the NAV per share immediately following Admission, whichever is the higher, (the "Watermark NAV") payment of the performance fee in respect of that financial year is deferred until the end of the next financial year when the NAV per share for the relevant portfolio is in excess of the Watermark NAV. If the Watermark NAV is not reached by the end of the fourth financial year subsequently, it will no longer be payable. Any underperformance of the relevant portfolio in relation to the FTSE All-Share Index in any financial year must be made up in any subsequent financial year before any performance fee is payable, thereby creating a "high watermark" for the relative performance against the FTSE All-Share Index.

At 31 May 2015 the total return of the Income Portfolio for the period since 31 May 2013, being the date a performance fee was last payable, (+16.6%) did not exceed that of the FTSE All-Share Index (+17.0%) and a performance fee has not been recognised (2014: £nil). At 31 May 2015 the total return of the Growth Portfolio since launch (+57.1%) did not exceed that of the FTSE All-Share Index since launch (+59.2%).

Details of outstanding management fees at 31 May 2015 are included in note 12.

The Investment Management Agreement between the Company and F&C Investment Business Limited is terminable by either party on six months' notice. The Company may terminate the Agreement early upon payment of an amount equal to the base fee which would have been payable had the notice period been complied with, plus any performance fee accrued at termination.

#### 5. Other expenses

|  | 2015                      |                           |                | 2014                      |                           |                |
|--|---------------------------|---------------------------|----------------|---------------------------|---------------------------|----------------|
|  | Income Portfolio<br>£'000 | Growth Portfolio<br>£'000 | Total<br>£'000 | Income Portfolio<br>£'000 | Growth Portfolio<br>£'000 | Total<br>£'000 |
| Auditors' remuneration for:                          |                           |                           |                |                           |                           |                |
| – statutory audit*                                   | 11                        | 11                        | 22             | 11                        | 11                        | 22             |
| – taxation and other services (non-audit)**          | 4                         | 4                         | 8              | 4                         | 4                         | 8              |
| Directors' fees                                      | 39                        | 41                        | 80             | 37                        | 38                        | 75             |
| Secretarial fees                                     | 46                        | 49                        | 95             | 45                        | 48                        | 93             |
| Marketing  | 21                        | 22                        | 43             | 13                        | 14                        | 27             |
| Printing and postage                                 | 14                        | 15                        | 29             | 11                        | 12                        | 23             |
| Registrars' fees                                     | 9                         | 9                         | 18             | 8                         | 7                         | 15             |
| Custody and depositary fees                          | 7                         | 7                         | 14             | 3                         | 3                         | 6              |
| Other expenses including listing fees and legal fees | 22                        | 24                        | 46             | 30                        | 33                        | 63             |
|  | <b>173</b>                | <b>182</b>                | <b>355</b>     | 162                       | 170                       | 332            |

All expenses are stated gross of irrecoverable VAT, where applicable.

\* Auditors' remuneration for audit services, exclusive of VAT, amounts to £18,500 (2014: £18,300).

\*\* Auditors' remuneration for non-audit services, exclusive of VAT, amounts to £7,000 (2014: £7,000) for tax compliance services.

The Manager, F&C Investment Business Limited, receives a secretarial and administrative fee of £78,863 per annum (2014: £77,692), subject to annual changes in line with the Consumer Price Index. During the year the Company has incurred secretarial and administrative fees, inclusive of irrecoverable VAT, of £95,000 (2014: £93,000), of which £24,000 (2014: £23,000) is payable to F&C Investment Business Limited at the year end.

The emoluments of the Chairman, the highest paid Director, were at the rate of £24,000 per annum. Full details are provided in the Directors' Remuneration Report.

# Notes to the Accounts (continued)

## 6. Finance costs

| Year ended 31 May 2015      | Income Portfolio |         |       | Growth Portfolio |         |       | Total   |         |       |
|-----------------------------|------------------|---------|-------|------------------|---------|-------|---------|---------|-------|
|                             | Revenue          | Capital | Total | Revenue          | Capital | Total | Revenue | Capital | Total |
|                             | £'000            | £'000   | £'000 | £'000            | £'000   | £'000 | £'000   | £'000   | £'000 |
| Interest on bank borrowings | 10               | 14      | 24    | 3                | 13      | 16    | 13      | 27      | 40    |

| Year ended 31 May 2014      | Income Portfolio |         |       | Growth Portfolio |         |       | Total   |         |       |
|-----------------------------|------------------|---------|-------|------------------|---------|-------|---------|---------|-------|
|                             | Revenue          | Capital | Total | Revenue          | Capital | Total | Revenue | Capital | Total |
|                             | £'000            | £'000   | £'000 | £'000            | £'000   | £'000 | £'000   | £'000   | £'000 |
| Interest on bank borrowings | 10               | 15      | 25    | 1                | 6       | 7     | 11      | 21      | 32    |

Interest payable on bank borrowings has been allocated 60 per cent to capital and 40 per cent to revenue in the Income Portfolio and 80 per cent to capital and 20 per cent to revenue in the Growth Portfolio.

## 7. (a) Tax on ordinary activities

### Year ended 31 May 2015

|  | Income Portfolio |         |       | Growth Portfolio |         |       | Total   |         |       |
|--|------------------|---------|-------|------------------|---------|-------|---------|---------|-------|
|  | Revenue          | Capital | Total | Revenue          | Capital | Total | Revenue | Capital | Total |
|  | £'000            | £'000   | £'000 | £'000            | £'000   | £'000 | £'000   | £'000   | £'000 |
| Current tax charge for the year<br>(all irrecoverable overseas tax)<br>being Taxation on ordinary activities | 6                | –       | 6     | 2                | –       | 2     | 8       | –       | 8     |

### Year ended 31 May 2014

|  | Income Portfolio |         |       | Growth Portfolio |         |       | Total   |         |       |
|--|------------------|---------|-------|------------------|---------|-------|---------|---------|-------|
|  | Revenue          | Capital | Total | Revenue          | Capital | Total | Revenue | Capital | Total |
|  | £'000            | £'000   | £'000 | £'000            | £'000   | £'000 | £'000   | £'000   | £'000 |
| Current tax charge for the year<br>(all irrecoverable overseas tax)<br>being Taxation on ordinary activities | 3                | –       | 3     | 1                | –       | 1     | 4       | –       | 4     |

## 7. (b) Reconciliation of tax charge

The tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company of 20 per cent (2014: 21 per cent). The main rate of corporation tax was reduced from 21 per cent to 20 per cent with effect from 1 April 2015 and accordingly a blended rate has been used in the reconciliation below:

|  | Income<br>Shares<br>£'000 | 2015<br>Growth<br>Shares<br>£'000 | Total<br>£'000 | Income<br>Shares<br>£'000 | 2014<br>Growth<br>Shares<br>£'000 | Total<br>£'000 |
|--|---------------------------|-----------------------------------|----------------|---------------------------|-----------------------------------|----------------|
| Return on ordinary activities before tax:                                  | 3,503                     | 4,770                             | 8,273          | 1,832                     | 2,872                             | 4,704          |
| Corporation tax at standard rate of 20.8 per cent<br>(2014: 22.7 per cent) | 729                       | 994                               | 1,723          | 415                       | 651                               | 1,066          |
| Effects of:  |                           |                                   |                |                           |                                   |                |
| Gains on investments not taxable   | (482)                     | (957)                             | (1,439)        | (192)                     | (608)                             | (800)          |
| Overseas tax suffered  | 6                         | 2                                 | 8              | 3                         | 1                                 | 4              |
| Non taxable UK dividend income   | (165)                     | (117)                             | (282)          | (165)                     | (119)                             | (284)          |
| Non taxable overseas dividend income                                       | (171)                     | (14)                              | (185)          | (146)                     | (13)                              | (159)          |
| Expenses not utilised  | 89                        | 94                                | 183            | 88                        | 89                                | 177            |
| Current year tax charge (note 7. (a))                                      | 6                         | 2                                 | 8              | 3                         | 1                                 | 4              |

As at 31 May 2015, the Company had unutilised expenses of £4,585,000 (2014: £3,715,000). The deferred tax asset of £917,000 (2014: £780,150) in respect of unutilised expenses at 31 May 2015 has not been recognised as it is unlikely that there will be taxable profits from which the future reversal of the deferred tax asset could be deducted.

## 8. Dividends

|  | Register Date     | Payment Date   | 2015<br>Income<br>Shares<br>Total<br>£'000 | 2014<br>Income<br>Shares<br>Total<br>£'000 |
|--|-------------------|----------------|--|--|
| <b>Dividends on Income shares</b>                                    |                   |                |  |  |
| Amounts recognised as distributions to shareholders during the year: |                   |                |  |  |
| <b>For the year ended 31 May 2014</b>                                |                   |                |  |  |
| – fourth interim dividend of 1.5p per Income share (2013: 1.3p)      | 20 June 2014      | 4 July 2014    | 416  | 346  |
| <b>For the year ended 31 May 2015</b>                                |                   |                |  |  |
| – first interim dividend of 1.15p per Income share (2014: 1.1p)      | 19 September 2014 | 3 October 2014 | 318  | 296  |
| – second interim dividend of 1.15p per Income share (2014: 1.1p)     | 19 December 2014  | 5 January 2015 | 325  | 296  |
| – third interim dividend of 1.15p per Income share (2014: 1.1p)      | 30 January 2015   | 7 April 2015   | 329  | 297  |
|  |                   |                | <b>1,388</b>                               | 1,235                                      |
| Amounts relating to the year but not paid at the year end:           |                   |                |  |  |
| – fourth interim dividend of 1.55p per Income share* (2014: 1.5p)    | 19 June 2015      | 3 July 2015    | 538  | 416  |

The Growth shares do not carry an entitlement to receive dividends.

The dividends paid and payable in respect of the financial year ended 31 May 2015, which form the basis of the retention test under Chapter 4, Part 24 of the Corporation Taxes Act 2010 are as follows:

|  | 2015<br>£'000 | 2014<br>£'000 |
|--|---------------|---------------|
| Revenue available for distribution by way of dividends for the year                                      | 1,737         | 1,499         |
| First interim dividend of 1.15p per Income share in respect of the year ended 31 May 2015 (2014: 1.1p)   | (318)         | (296)         |
| Second interim dividend of 1.15p per Income share in respect of the year ended 31 May 2015 (2014: 1.1p)  | (325)         | (296)         |
| Third interim dividend of 1.15p per Income share in respect of the year ended 31 May 2015 (2014: 1.1p)   | (329)         | (297)         |
| Fourth interim dividend of 1.55p per Income share* in respect of the year ended 31 May 2015 (2014: 1.5p) | (538)         | (416)         |
| Revenue reserve transfer   | 227           | 194           |

\*Based on 34,689,936 Income shares in issue at the record date of 19 June 2015.

# Notes to the Accounts (continued)

## 9. Return per share

The Return per share is as follows:

### Year ended 31 May 2015

|   | Income Shares    |                  |                | Growth Shares    |                  |                |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
|   | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
| Return attributable to Portfolios   | 1,344            | 2,153            | 3,497          | 393              | 4,375            | 4,768          |
| Transfer of net income from Growth to Income Portfolio  | 393              | -                | 393            | (393)            | -                | (393)          |
| Transfer of capital from Income to Growth Portfolio   | -                | (393)            | (393)          | -                | 393              | 393            |
| Return attributable to shareholders   | 1,737            | 1,760            | 3,497          | -                | 4,768            | 4,768          |
| Return per share  | 5.87p            | 5.95p            | 11.82p         | -                | 17.80p           | 17.80p         |
| Weighted average number of shares in issue during the year<br>(excluding shares held in treasury) | 29,576,498       |                  |                | 26,785,117       |                  |                |

### Year ended 31 May 2014

|   | Income Shares    |                  |                | Growth Shares    |                  |                |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
|   | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
| Return attributable to Portfolios   | 1,131            | 698              | 1,829          | 368              | 2,503            | 2,871          |
| Transfer of net income from Growth to Income Portfolio  | 368              | -                | 368            | (368)            | -                | (368)          |
| Transfer of capital from Income to Growth Portfolio   | -                | (368)            | (368)          | -                | 368              | 368            |
| Return attributable to shareholders   | 1,499            | 330              | 1,829          | -                | 2,871            | 2,871          |
| Return per share  | 5.56p            | 1.22p            | 6.78p          | -                | 11.41p           | 11.41p         |
| Weighted average number of shares in issue during the year<br>(excluding shares held in treasury) | 26,969,936       |                  |                | 25,153,747       |                  |                |

## 10. Investments

All investments held in the Income Portfolio and Growth Portfolio have been classified as 'at fair value through profit or loss' and all changes in fair value arise in respect of these investments only.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the subjectivity and significance of information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets;
- Level 2 – investments whose value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets;
- Level 3 – investments whose value is not based on observable market data.

In the prior year to 31 May 2014, all of the Company's investments were also classified as Level 1.

|  | Level 1                      |                             |                               | Total<br>£'000 |
|--|------------------------------|-----------------------------|-------------------------------|----------------|
|  | Listed<br>in the UK<br>£'000 | Listed<br>Overseas<br>£'000 | Quoted on<br>AIM/SFM<br>£'000 |                |
| <b>Income Shares</b>                       |                              |                             |                               |                |
| Opening book cost                          | 23,023                       | 1,944                       | 289                           | 25,256         |
| Opening fair value adjustment              | 8,283                        | 177                         | (202)                         | 8,258          |
| Opening valuation                          | 31,306                       | 2,121                       | 87                            | 33,514         |
| Movements in the year:                     |                              |                             |                               |                |
| Purchases at cost                          | 8,196                        | 141                         | 1,407                         | 9,744          |
| Sales – proceeds                           | (1,520)                      | –                           | (89)                          | (1,609)        |
| – losses on sales based on historical cost | (285)                        | –                           | (201)                         | (486)          |
| Increase in fair value adjustment          | 1,740                        | 922                         | 139                           | 2,801          |
| Closing valuation                          | 39,437                       | 3,184                       | 1,343                         | 43,964         |
| Closing book cost                          | 29,414                       | 2,085                       | 1,406                         | 32,905         |
| Closing fair value adjustment              | 10,023                       | 1,099                       | (63)                          | 11,059         |
| Closing valuation                          | 39,437                       | 3,184                       | 1,343                         | 43,964         |

During the year the Income Portfolio incurred transaction costs on purchases of £32,000 (2014: £11,000) and transaction costs on sales of £1,000 (2014: £8,000).

|   | Level 1                      |                             |  | Total<br>£'000 |
|---|------------------------------|-----------------------------|--|----------------|
|   | Listed<br>in the UK<br>£'000 | Listed<br>Overseas<br>£'000 |  |                |
| <b>Growth Shares</b>                      |                              |                             |  |                |
| Opening cost                              | 24,645                       | 547                         |  | 25,192         |
| Opening fair value adjustment             | 9,848                        | 178                         |  | 10,026         |
| Opening valuation                         | 34,493                       | 725                         |  | 35,218         |
| Movements in the year:                    |                              |                             |  |                |
| Purchases at cost                         | 7,027                        | –                           |  | 7,027          |
| Sales – proceeds                          | (1,826)                      | –                           |  | (1,826)        |
| – gains on sales based on historical cost | 239                          | –                           |  | 239            |
| Increase in fair value adjustment         | 4,245                        | 109                         |  | 4,354          |
| Closing valuation                         | 44,178                       | 834                         |  | 45,012         |
| Closing book cost                         | 30,085                       | 547                         |  | 30,632         |
| Closing fair value adjustment             | 14,093                       | 287                         |  | 14,380         |
| Closing valuation                         | 44,178                       | 834                         |  | 45,012         |

During the year the Growth Portfolio incurred transaction costs on purchases of £13,000 (2014: £26,000) and transaction costs on sales of £1,000 (2014: £9,000).

# Notes to the Accounts (continued)

## 10. Investments (continued)

|                         | 2015                   |                        |                | 2014                   |                        |                |
|-------------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|                         | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| Equity shares           | 43,089                 | 45,012                 | 88,101         | 32,933                 | 35,218                 | 68,151         |
| Fixed income securities | 875                    | –                      | 875            | 581                    | –                      | 581            |
|                         | <b>43,964</b>          | <b>45,012</b>          | <b>88,976</b>  | <b>33,514</b>          | <b>35,218</b>          | <b>68,732</b>  |

|  | 2015                   |                        |                | 2014                   |                        |                |
|--|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|  | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| (Losses)/gains on sales in the year        | (486)                  | 239                    | (247)          | 497                    | 734                    | 1,231          |
| Movement in fair value of investments held | 2,801                  | 4,354                  | 7,155          | 348                    | 1,949                  | 2,297          |
| Gains on investments                       | 2,315                  | 4,593                  | 6,908          | 845                    | 2,683                  | 3,528          |

## 11. Debtors

|                               | 2015                   |                        |                | 2014                   |                        |                |
|-------------------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|                               | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| Accrued income                | 99                     | 32                     | 131            | 31                     | 38                     | 69             |
| Other debtors and prepayments | 11                     | 12                     | 23             | 10                     | 11                     | 21             |
|                               | <b>110</b>             | <b>44</b>              | <b>154</b>     | <b>41</b>              | <b>49</b>              | <b>90</b>      |

The carrying value of the balances above approximates to fair value. There are no amounts which are past due, or impaired at the year end (2014: £nil).

## 12. Creditors: amounts falling due within one year

|                                    | 2015                   |                        |                | 2014                   |                        |                |
|------------------------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|                                    | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| Management fee accrued             | 72                     | 73                     | 145            | 52                     | 56                     | 108            |
| Secretarial fee accrued            | 12                     | 12                     | 24             | 11                     | 12                     | 23             |
| Other accruals                     | 39                     | 38                     | 77             | 47                     | 49                     | 96             |
| Due to brokers                     | –                      | 205                    | 205            | –                      | 141                    | 141            |
| Bank borrowing                     | –                      | –                      | –              | 467                    | –                      | 467            |
| Revolving credit facility utilised | 1,500                  | 1,400                  | 2,900          | –                      | –                      | –              |
|                                    | <b>1,623</b>           | <b>1,728</b>           | <b>3,351</b>   | <b>577</b>             | <b>258</b>             | <b>835</b>     |

On 10 December 2014, the Company entered into a one year £5 million unsecured revolving credit facility ('RCF') agreement with The Royal Bank of Scotland plc to be used in place of the borrowing facility with its custodian JPMorgan Chase Bank. £2.9 million of the RCF was drawn down at 31 May 2015. The interest rate on the amounts drawn down are variable, based on LIBOR plus a margin and a non-utilisation fee is payable on undrawn amounts.

Under the covenants which relate to the facility, the Company is required to ensure that at all times:

- gross borrowings of the Company do not exceed 20 per cent of the adjusted portfolio value; and
- net tangible assets are not less than £35 million.

The Company met all covenant conditions during the year.



### 13. Share capital

#### Allotted, issued and fully paid

|                                  | Listed            |              | Held in Treasury |       | In Issue          |              |
|----------------------------------|-------------------|--------------|------------------|-------|-------------------|--------------|
|                                  | Number            | £'000        | Number           | £'000 | Number            | £'000        |
| <b>Income Shares of 10p each</b> |                   |              |                  |       |                   |              |
| Balance at 1 June 2014           | 27,514,936        | 2,751        | –                | –     | 27,514,936        | 2,751        |
| Issued                           | 7,175,000         | 718          | –                | –     | 7,175,000         | 718          |
| Balance at 31 May 2015           | <b>34,689,936</b> | <b>3,469</b> | –                | –     | <b>34,689,936</b> | <b>3,469</b> |

During the year the Company resold nil (2014: 735,000) Income shares out of treasury, receiving net proceeds of £nil (2014: £866,000). At 31 May 2015 the Company held nil (2014: nil) Income shares in treasury. A further 7,175,000 (2014: 150,000) Income shares were issued for net proceeds of £8,752,000 (2014: £180,000).

|                                  |                   |              |             |       |                   |              |
|----------------------------------|-------------------|--------------|-------------|-------|-------------------|--------------|
| <b>Growth Shares of 10p each</b> |                   |              |             |       |                   |              |
| Balance at 1 June 2014           | 27,404,843        | 2,740        | (1,490,000) | (149) | 25,914,843        | 2,591        |
| Resold from treasury             | –                 | –            | 1,490,000   | 149   | 1,490,000         | 149          |
| Issued                           | 1,435,000         | 144          | –           | –     | 1,435,000         | 144          |
| Balance at 31 May 2015           | <b>28,839,843</b> | <b>2,884</b> | –           | –     | <b>28,839,843</b> | <b>2,884</b> |
| <b>Total</b>                     | <b>63,529,779</b> | <b>6,353</b> | –           | –     | <b>63,529,779</b> | <b>6,353</b> |

During the year the Company bought back nil (2014: 270,000) Growth shares at a cost of £nil (2014: £325,000) to be held in treasury and resold out of treasury 1,490,000 (2014: 1,175,000) Growth shares, receiving net proceeds of £2,158,000 (2014: £1,597,000). At 31 May 2015 the Company held nil (2014: 1,490,000) Growth shares in treasury. A further 1,435,000 Growth shares were issued for net proceeds of £2,115,000.

#### Shareholder entitlements

The Company has two classes of shares: Income shares and Growth shares.

The entitlements of the Income shares and the Growth shares are set out in the “Capital Structure” section on pages 35 and 36 of this report.

# Notes to the Accounts (continued)

## 14. Reserves

|  | Share premium account | Special reserve | Capital reserve – investments sold | Capital reserve – investments held | Revenue reserve |
|--|-----------------------|-----------------|------------------------------------|------------------------------------|-----------------|
|  | £'000                 | £'000           | £'000                              | £'000                              | £'000           |
| <b>Income Shares</b>                                   |                       |                 |                                    |                                    |                 |
| At 1 June 2014   | 5,312                 | 19,380          | (3,698)                            | 8,258                              | 975             |
| (Losses)/gains on investments                          | -                     | -               | (486)                              | 2,801                              | -               |
| Issuance of Income shares                              | 8,145                 | -               | -                                  | -                                  | -               |
| Expenses of share issue                                | (111)                 | -               | -                                  | -                                  | -               |
| Management and performance fees charged to capital     | -                     | -               | (144)                              | -                                  | -               |
| Interest charged to capital                            | -                     | -               | (14)                               | -                                  | -               |
| Foreign exchange losses                                | -                     | -               | (4)                                | -                                  | -               |
| Transfer of net income from Growth to Income Portfolio | -                     | -               | -                                  | -                                  | 393             |
| Transfer of capital from Income to Growth Portfolio    | -                     | -               | (393)                              | -                                  | -               |
| Net revenue for the year                               | -                     | -               | -                                  | -                                  | 1,344           |
| Dividends paid   | -                     | -               | -                                  | -                                  | (1,388)         |
| At 31 May 2015   | 13,346                | 19,380          | (4,739)                            | 11,059                             | 1,324           |

|  | Share premium account | Capital redemption reserve | Special reserve | Capital reserve – investments sold | Capital reserve – investments held | Revenue reserve |
|--|-----------------------|----------------------------|-----------------|------------------------------------|------------------------------------|-----------------|
|  | £'000                 | £'000                      | £'000           | £'000                              | £'000                              | £'000           |
| <b>Growth Shares</b>                                   |                       |                            |                 |                                    |                                    |                 |
| At 1 June 2014   | 8,295                 | 182                        | 15,700          | (1,593)                            | 10,026                             | -               |
| Gains on investments                                   | -                     | -                          | -               | 239                                | 4,354                              | -               |
| Growth shares resold from treasury                     | 661                   | -                          | 1,497           | -                                  | -                                  | -               |
| Issuance of Growth shares                              | 2,024                 | -                          | -               | -                                  | -                                  | -               |
| Expenses of share issue                                | (53)                  | -                          | -               | -                                  | -                                  | -               |
| Management fees charged to capital                     | -                     | -                          | -               | (205)                              | -                                  | -               |
| Interest charged to capital                            | -                     | -                          | -               | (13)                               | -                                  | -               |
| Transfer of net income from Growth to Income Portfolio | -                     | -                          | -               | -                                  | -                                  | (393)           |
| Transfer of capital from Income to Growth Portfolio    | -                     | -                          | -               | 393                                | -                                  | -               |
| Net revenue for the year                               | -                     | -                          | -               | -                                  | -                                  | 393             |
| At 31 May 2015   | 10,927                | 182                        | 17,197          | (1,179)                            | 14,380                             | -               |

### Capital management

The Company's capital is represented by the issued share capital, share premium account, capital redemption reserve, special reserve, capital reserve – investments sold, capital reserve – investments held and revenue reserve. Details of the movement through each reserve are shown above. The Company is not subject to any externally imposed capital requirements. The nature of the reserves are explained in note 1(i) on page 46.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors.

## 15. Net asset value per share

The net asset value per share and the net asset value attributable to the shares at the year end are calculated as follows:

### Year ended 31 May 2015

|       | Net asset value<br>per share |                           | Net asset value<br>attributable |                           |
|-------|------------------------------|---------------------------|---------------------------------|---------------------------|
|       | Income<br>Shares<br>pence    | Growth<br>Shares<br>pence | Income<br>Shares<br>£'000       | Growth<br>Shares<br>£'000 |
| Basic | 126.37p                      | 153.92p                   | 43,839                          | 44,391                    |

### Year ended 31 May 2014

|       | Net asset value<br>per share |                           | Net asset value<br>attributable |                           |
|-------|------------------------------|---------------------------|---------------------------------|---------------------------|
|       | Income<br>Shares<br>pence    | Growth<br>Shares<br>pence | Income<br>Shares<br>£'000       | Growth<br>Shares<br>£'000 |
| Basic | 119.85p                      | 136.41p                   | 32,978                          | 35,350                    |

The net asset value per Income share is calculated on net assets of £43,839,000 (2014: £32,978,000), divided by 34,689,936 (2014: 27,514,936) Income shares, being the number of Income shares in issue at the year end.

The net asset value per Growth share is calculated on net assets of £44,391,000 (2014: £35,350,000), divided by 28,839,843 (2014: 25,914,843) Growth shares, being the number of Growth shares in issue at the year end (excluding shares held in treasury).

## 16. Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

|  | 2015                      |                           |                | 2014                      |                           |                |
|--|---------------------------|---------------------------|----------------|---------------------------|---------------------------|----------------|
|  | Income<br>Shares<br>£'000 | Growth<br>Shares<br>£'000 | Total<br>£'000 | Income<br>Shares<br>£'000 | Growth<br>Shares<br>£'000 | Total<br>£'000 |
| Net return before finance costs and taxation         | 3,527                     | 4,786                     | 8,313          | 1,857                     | 2,879                     | 4,736          |
| Withholding tax suffered                             | (6)                       | (2)                       | (8)            | (3)                       | (1)                       | (4)            |
| Foreign exchange losses                              | 4                         | –                         | 4              | 9                         | –                         | 9              |
| Gains on investments                                 | (2,315)                   | (4,593)                   | (6,908)        | (845)                     | (2,683)                   | (3,528)        |
| (Increase)/decrease in accrued income                | (68)                      | 6                         | (62)           | 12                        | (17)                      | (5)            |
| (Increase)/decrease in prepayments and other debtors | (1)                       | (1)                       | (2)            | 1                         | (1)                       | –              |
| Increase/(decrease) in creditors                     | 13                        | 6                         | 19             | (119)                     | (9)                       | (128)          |
| Net cash inflow from operating activities            | 1,154                     | 202                       | 1,356          | 912                       | 168                       | 1,080          |

# Notes to the Accounts (continued)

## 17. Analysis of change in net (debt)/cash

| Income shares                     | At     | Cash<br>flow<br>£'000 | At             |
|-----------------------------------|--------|-----------------------|----------------|
|                                   | 1 June |                       | 31 May         |
|                                   | 2014   |                       | 2015           |
|                                   | £'000  |                       | £'000          |
| Cash at bank and or deposit       | –      | 1,388                 | <b>1,388</b>   |
| Bank borrowing                    | (467)  | 467                   | –              |
|                                   | (467)  | 1,855                 | <b>1,388</b>   |
| Loans (Revolving credit facility) | –      | (1,500)               | <b>(1,500)</b> |
|                                   | (467)  | 355                   | <b>(112)</b>   |

| Growth shares                     | At     | Cash<br>flow<br>£'000 | At             |
|-----------------------------------|--------|-----------------------|----------------|
|                                   | 1 June |                       | 31 May         |
|                                   | 2014   |                       | 2015           |
|                                   | £'000  |                       | £'000          |
| Cash at bank and on deposit       | 341    | 722                   | <b>1,063</b>   |
| Loans (Revolving credit facility) | –      | (1,400)               | <b>(1,400)</b> |
|                                   | 341    | (678)                 | <b>(337)</b>   |

## Total

| Total                             | At     | Cash<br>flow<br>£'000 | At             |
|-----------------------------------|--------|-----------------------|----------------|
|                                   | 1 June |                       | 31 May         |
|                                   | 2014   |                       | 2015           |
|                                   | £'000  |                       | £'000          |
| Cash at bank and on deposit       | 341    | 2,110                 | <b>2,451</b>   |
| Bank borrowing                    | (467)  | 467                   | –              |
|                                   | (126)  | 2,577                 | <b>2,451</b>   |
| Loans (Revolving credit facility) | –      | (2,900)               | <b>(2,900)</b> |
|                                   | (126)  | (323)                 | <b>(449)</b>   |

## 18. Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank borrowings and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective.

Listed and quoted fixed asset investments held (see note 10) are valued at fair value. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 42.

The fair value of the financial assets and liabilities of the Company at 31 May 2015 and 31 May 2014 is not materially different from their carrying value in the financial statements.

## 18. Financial instruments (continued)

The main risks that the Company faces arising from its financial instruments are:

- (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;
- (ii) interest rate risk, being the risk that the future cash flows of a financial instrument or the fair value of the listed debt will fluctuate because of changes in market interest rates;
- (iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates;
- (iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and
- (v) liquidity risk, being the risk that the Company may not be able to liquidate its investments quickly or otherwise raise funds to meet financial commitments.

The Company held the following categories of financial instruments as at 31 May:

|  | 2015                   |                        |                | 2014                   |                        |                |
|--|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|  | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| <b>Financial instruments</b>                   |                        |                        |                |                        |                        |                |
| Investment portfolio – Level 1 (refer note 10) | 43,964                 | 45,012                 | 88,976         | 33,514                 | 35,218                 | 68,732         |
| Cash at bank and on deposit                    | 1,388                  | 1,063                  | 2,451          | –                      | 341                    | 341            |
| Accrued income                                 | 99                     | 32                     | 131            | 31                     | 38                     | 69             |
| Prepayments                                    | 11                     | 12                     | 23             | 10                     | 11                     | 21             |
| <b>Financial liabilities</b>                   |                        |                        |                |                        |                        |                |
| Revolving credit facility                      | 1,500                  | 1,400                  | 2,900          | –                      | –                      | –              |
| Bank borrowing                                 | –                      | –                      | –              | 467                    | –                      | 467            |
| Other creditors and accruals                   | 123                    | 328                    | 451            | 110                    | 258                    | 368            |

## 19. Market price risk

The management of market price risk is part of the fund management process and is typical of equity and debt investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolios is set out on pages 16 and 17.

If the investment portfolio valuation fell by 10 per cent at 31 May 2015, the impact on the profit or loss and the net asset value would have been negative £4.4 million (Income shares) (2014: negative £3.4 million (Income shares)) and negative £4.5 million (Growth shares) (2014: negative £3.5 million (Growth shares)). If the investment portfolio valuation rose by 10 per cent at 31 May 2015, the effect would have been equal and opposite (2014: equal and opposite). The calculations are based on the portfolio valuation as at the respective balance sheet dates, are not representative of the period as a whole and may not be reflective of future market conditions.

## 20. Interest rate risk

The exposure of the financial assets and liabilities to interest rate movements as at 31 May was:

|                                      | 2015                   |                        |                | 2014                   |                        |                |
|--------------------------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|                                      | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| Exposure to floating rates:          |                        |                        |                |                        |                        |                |
| Cash                                 | 1,388                  | 1,063                  | 2,451          | –                      | 341                    | 341            |
| Bank borrowing                       | –                      | –                      | –              | (467)                  | –                      | (467)          |
| Revolving credit facility            | (1,500)                | (1,400)                | (2,900)        | –                      | –                      | –              |
| Net exposure                         | (112)                  | (337)                  | (449)          | (467)                  | 341                    | (126)          |
| Maximum net exposure during the year | 1,682                  | 707                    |                | (257)                  | 415                    |                |
| Minimum net exposure during the year | (473)                  | (882)                  |                | (1,690)                | (643)                  |                |

# Notes to the Accounts (continued)

## 20. Interest rate risk (continued)

Exposures vary throughout the year as a consequence of changes in the composition of the net assets of the Company arising from the investment and risk management processes. If interest rates rose by 0.5%, the impact on the profit and loss and the net asset value would have been on the Income shares a decrease of £1,000 (2014: decrease of £2,000) and on the Growth shares, a decrease of £2,000 (2014: increase of £2,000). If interest rates fell by 0.5%, the effect would have been equal and opposite. The calculations are based on the financial assets and liabilities held and the interest rates ruling at each Balance Sheet date and are not representative of the year as a whole.

### Floating rate

When the Company retains cash balances the majority of the cash is held in variable rate bank accounts yielding rates of interest linked to the UK base rate which was 0.5 per cent at 31 May 2015 (2014: 0.5 per cent). There are no other assets which are directly exposed to floating interest rate risk. The cost of the Company's borrowing facility from The Royal Bank of Scotland is linked to LIBOR which was 0.51 per cent at 31 May 2015.

### Fixed rate

The Income portfolio holds fixed interest investments. Movements in market interest rates will affect the market value of fixed interest investments. Refer to the Market price risk note 19.

The weighted average interest rate and average duration until maturity is detailed below:

|                            | 2015  |                                |                                 | 2014  |                                |                                 |
|----------------------------|-------|--------------------------------|---------------------------------|-------|--------------------------------|---------------------------------|
|                            | £'000 | Weighted average interest rate | Average duration until maturity | £'000 | Weighted average interest rate | Average duration until maturity |
| Fixed interest investments | 875   | 3.5%                           | 3.5 years                       | 581   | 3.5%                           | 4.2 years                       |

The Growth Portfolio does not hold any fixed interest investments and accordingly no sensitivity analysis has been presented.

The Company does not have any liabilities which are exposed to fixed interest rate risk.

### Non-interest bearing investments

The Company's non-interest bearing investments are its equity investments which had a value of £43,089,000 (2014: £32,933,000) for the Income portfolio and £45,012,000 (2014: £35,218,000) for the Growth portfolio.

## 21. Foreign currency risk

The Company may invest in overseas securities which give rise to currency risks. At 31 May, direct foreign currency exposure was:

|             | 2015                            |                                 |             | 2014                            |                                 |             |
|-------------|---------------------------------|---------------------------------|-------------|---------------------------------|---------------------------------|-------------|
|             | Income Shares Investments £'000 | Growth Shares Investments £'000 | Total £'000 | Income Shares Investments £'000 | Growth Shares Investments £'000 | Total £'000 |
| US dollar   | 1,372                           | –                               | 1,372       | 504                             | –                               | 504         |
| Swiss Franc | 1,430                           | –                               | 1,430       | 596                             | –                               | 596         |
| Euro        | 963                             | –                               | 963         | –                               | –                               | –           |
|             | 3,765                           | –                               | 3,765       | 1,100                           | –                               | 1,100       |

If the value of sterling had weakened against the US dollar by 10 per cent, the impact on the profit or loss and the net asset value would have been an increase of £137,000 (Income shares) (2014: £50,000 (Income shares)). If the value of sterling had strengthened against the US dollar by 10 per cent the effect would have been equal and opposite.

## 21. Foreign currency risk (continued)

If the value of sterling had weakened against the Swiss Franc by 10 per cent, the impact on the profit or loss and the net asset value would have been an increase of £143,000 (Income shares) (2014: £60,000). If the value of Sterling had strengthened against the Swiss Franc by 10 per cent the effect would have been equal and opposite.

If the value of sterling had weakened against the Euro by 10 per cent, the impact on the profit or loss and the net asset value would have been an increase of £96,000 (Income shares). If the value of sterling had strengthened against the Euro by 10 per cent the effect would have been equal and opposite.

As the remainder of the Company's investments and all other assets and liabilities are denominated in sterling there is no other direct foreign currency risk. However, although the Company's performance is measured in sterling and the Company's investments (other than the above) are denominated in sterling, a proportion of their underlying assets are quoted in currencies other than sterling. Therefore movements in the rates of exchange between sterling and other currencies may affect the market price of the Company's investment portfolios and therefore the market price risk note 19 includes an element of currency exposure.

## 22. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The investment manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

|                             | 2015                   |                        |                | 2014                   |                        |                |
|-----------------------------|------------------------|------------------------|----------------|------------------------|------------------------|----------------|
|                             | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 | Income Shares<br>£'000 | Growth Shares<br>£'000 | Total<br>£'000 |
| Cash at bank and on deposit | 1,388                  | 1,063                  | 2,451          | –                      | 341                    | 341            |
| Accrued income              | 99                     | 32                     | 131            | 31                     | 38                     | 69             |
|                             | 1,487                  | 1,095                  | 2,582          | 31                     | 379                    | 410            |

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the acceptable credit quality of the brokers used. The Manager monitors the quality of service provided by the brokers used to further mitigate this risk.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Directors.

The credit risk on liquid funds is controlled because the counterparties are banks with acceptable credit ratings, normally rated A or higher, assigned by international credit rating agencies. Bankruptcy or insolvency of such financial institutions may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

## 23. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given that the Company's listed and quoted securities are considered to be readily realisable.

The Company's liquidity risk is managed on an ongoing basis by the investment manager in accordance with policies and procedures in place as described in the Report of the Directors. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses which are settled in accordance with suppliers stated terms. At 31 May 2015, the Company had a £5 million unsecured revolving credit facility with The Royal Bank of Scotland plc of which £2.9 million had been drawn down. All liabilities are considered to be repayable on demand for a consideration equal to the carrying value of the liabilities as disclosed in note 12.

# Notes to the Accounts (continued)

## 23. Liquidity risk (continued)

The maturities of the financial liabilities at each balance sheet date, based on the earliest date on which payment can be required, were as follows:

| 2015                                       | One month<br>or less<br>£'000s | More than one<br>month but less<br>than one year<br>£'000s | More than<br>one year<br>£'000s | Total<br>£'000s |
|--|--------------------------------|--|---------------------------------|-----------------|
| <b>Income shares</b>                       |                                |  |                                 |                 |
| Current liabilities                        |                                |  |                                 |                 |
| Bank borrowing (Revolving credit facility) | 1,500                          | –  | –                               | 1,500           |
| Other creditors                            | 123                            | –  | –                               | 123             |
|  | <b>1,623</b>                   | <b>–</b>   | <b>–</b>                        | <b>1,623</b>    |
| <b>Growth shares</b>                       |                                |  |                                 |                 |
| Current liabilities                        |                                |  |                                 |                 |
| Bank borrowing (Revolving credit facility) | 1,400                          | –  | –                               | 1,400           |
| Other creditors                            | 328                            | –  | –                               | 328             |
|  | <b>1,728</b>                   | <b>–</b>   | <b>–</b>                        | <b>1,728</b>    |
|  | <b>3,351</b>                   | <b>–</b>   | <b>–</b>                        | <b>3,351</b>    |
| 2014                                       | One month<br>or less<br>£'000s | More than one<br>month but less<br>than one year<br>£'000s | More than<br>one year<br>£'000s | Total<br>£'000s |
| <b>Income shares</b>                       |                                |  |                                 |                 |
| Current liabilities                        |                                |  |                                 |                 |
| Bank borrowing                             | 467                            | –  | –                               | 467             |
| Other creditors                            | 110                            | –  | –                               | 110             |
|  | 577                            | –  | –                               | 577             |
| <b>Growth shares</b>                       |                                |  |                                 |                 |
| Current liabilities                        |                                |  |                                 |                 |
| Bank borrowing                             | –                              | –  | –                               | –               |
| Other creditors                            | 258                            | –  | –                               | 258             |
|  | 258                            | –  | –                               | 258             |
|  | <b>835</b>                     | <b>–</b>   | <b>–</b>                        | <b>835</b>      |



## 24. Related parties

The Board of Directors (the "Board") is considered a related party.

Mr Martin (the chairman of the Company) is also a non-executive director of Montanaro European Smaller Companies Trust ('MESCT'). The Growth Portfolio had a holding of 150,000 shares in MESCT which was valued at £788,000 at 31 May 2014 but was sold during the year.

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 33 and 34 and as set out in note 5 to the accounts. The beneficial interests of the Directors in the Income and Growth shares of the Company are disclosed on page 34. There are no outstanding balances with the Board at the year end.

## 25. Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy is available from F&C Investment Business Limited on request and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course.

The Company's maximum and average actual leverage levels at 31 May 2015 are shown below:

| <b>Leverage exposure</b> | <b>Gross method</b> | <b>Commitment method</b> |
|--------------------------|---------------------|--------------------------|
| Maximum limit            | 200%                | 200%                     |
| Actual                   | 101%                | 104%                     |

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Detailed regulatory disclosures to investors in accordance with the AIFM Directive are contained on the Company's website under Key Documents.

# Shareholder Information

## Share Prices and Daily Net Asset Value

The Company's Income shares and Growth shares are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in the *Financial Times* and other newspapers. The net asset value of the Company's shares are released to the market daily, on the working day following the calculation date. They are available, with other regulatory information, through the National Storage Mechanism at [www.morningstar.co.uk/uk/nsm](http://www.morningstar.co.uk/uk/nsm) or can be obtained by contacting F&C Investment Business Limited Investment Services on 0345 600 3030.

## Dividends

Dividends on Income shares are paid quarterly in July, October, January and April each year.

Shareholders on the main register, who wish to have dividends paid directly into a bank account rather than by cheque to their registered address, can complete a mandate form for the purpose. Mandates may be obtained from the Company's Registrars, Equiniti Limited (see Corporate Information page for contact details), on request.

## Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment for main register holders this should be notified to Equiniti Limited, under the signature of the registered holder.

| Profile of the Company's Ownership          |        |   |        |
|---|--------|---|--------|
| % of Income Shares held at 31 May 2015      |        | % of Growth Shares held at 31 May 2015      |        |
| F&C Management Limited Retail Savings Plans | 85.9%  | F&C Management Limited Retail Savings Plans | 93.6%  |
| Individuals and Private Client Stockbrokers | 14.1%  | Individuals and Private Client Stockbrokers | 6.4%   |
|   | 100.0% |   | 100.0% |

| Financial Calendar 2015/2016 |  |
|------------------------------|--|
| 14 September 2015            | Annual General Meeting   |
| 21 & 25 September 2015       | Deadlines for submitting Conversion Instructions                   |
| 2 October 2015               | First interim dividend paid (XD Date 17 September 2015)            |
| 22 October 2015              | Share Conversion Facility date                                     |
| 4 January 2016               | Second interim dividend paid (XD Date 17 December 2015)            |
| January 2016                 | Announcement of Interim Results for six months to 30 November 2015 |
| 6 April 2016                 | Third interim dividend paid (XD Date March 2016)                   |
| July 2016                    | Fourth interim dividend paid (XD Date June 2016)                   |
| July 2016                    | Announcement of Annual Results and Posting of Annual Report        |
| September 2016               | Annual General Meeting   |

### Warning to shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FCA before getting involved by visiting [www.fca.org.uk](http://www.fca.org.uk)
- Report the matter to the FCA by calling 0800 111 6768
- If the calls persist, hang up.

More detailed information on this can be found on the FCA website [www.fca.org.uk/consumers/scams](http://www.fca.org.uk/consumers/scams)

## Conversion Facility

Subject to certain minimum and maximum thresholds which may be set by the Board of F&C Managed Portfolio Trust plc (the "Board") from time to time, shareholders have the right to convert their Income shares into Growth shares and/or their Growth shares into Income shares upon certain dates, the next of which will be 22 October 2015 and then annually or close to annually thereafter (subject to the articles of association of the Company). Under current law, such conversions will not be treated as disposals for UK capital gains tax purposes.

## Conversion Process

### Minimum level

The Board may, in its sole and absolute discretion, specify a minimum number of converting shares which are to be converted by a shareholder in the case of either the Income shares or Growth shares.

The minimum amount for the 22 October 2015 Conversion is 1,000 shares per shareholder or the whole shareholding, whichever is lower.

The Board will specify a minimum net value of assets to be transferred from a Portfolio on any Conversion date, and may change any such minimum from time to time. If, on any Conversion date, the value of the assets to be so transferred is less than such specified minimum, then the Board may, in its sole and absolute discretion, cancel any such conversion.

The minimum net value of assets in total for each Portfolio for the 22 October 2015 Conversion is £500,000. In previous years, applications to convert shares have been lower than the minimum that was specified and to date, no share conversions have proceeded. A significant minimum has to be set in order to justify the costs of the exercise.

### Maximum level

The Board may set a maximum number of Growth shares or Income shares which may be converted on any Conversion Date and may change such maximum from time to time. If on a Conversion

date, the number of Growth shares or Income shares for which conversion notices have been delivered would exceed the limit, the shares will be reduced pro rata.

The maximum amount for the 22 October 2015 Conversion is 10% of the Income shares and 10% of the Growth shares in issue.

### Conversion ratio

Shares will be converted into the other share class by reference to the ratio of the relative underlying NAVs of the Growth shares and Income shares (as adjusted for realignment costs and related expenses and as set out in more detail in the Company's articles of association). Only the Income shareholders are entitled to receive dividends. The Company shall announce the Conversion Ratio applicable on the Conversion Date or Deferred Conversion Date and the number of resulting shares. The Board has discretion to defer the Conversion Date, inter alia, in the event that the level of conversions is above a certain materiality threshold in order to facilitate realignment of the Company's portfolios in order to effect the conversions in as effective a manner as possible. The Deferred Conversion Date will under normal circumstances not be more than one month later than the originally stated Conversion Date.

### Result

It is anticipated that, within 9 working days of the Conversion Date or the Deferred Conversion Date, the Company will send:

- to each holder of converting shares that are in certificated form a definitive certificate for the appropriate number of shares arising on conversion and a new certificate for any unconverted shares.
- to each holder of converting shares held in a F&C investment product, confirmation of the number of shares converted and the number of shares arising on conversion.

No share certificates will be issued in respect of any deferred shares arising as a result of the conversion.

# Shareholder Information (continued)

These deferred shares have no economic value and will be automatically transferred to a nominee holder or bought back for nil consideration by the Company in accordance with the Company's articles of association.

Income shares arising on Conversion will carry the right to receive all dividends declared by reference to a record date falling after the Conversion Date or Deferred Conversion Date. Income shares which are converted into Growth shares will carry the right to receive all dividends declared by reference to a record date falling prior to the Conversion Date or Deferred Conversion Date but not on or thereafter.

## **Market price of Income & Growth shares**

The mid market price for the Income shares and Growth shares on the first dealing day in each of the last six months, and 24 July 2015, being the latest practicable date before the approval of the Annual report and accounts were:

|                 | Income shares (p) | Growth shares (p) |
|-----------------|-------------------|-------------------|
| 1 January 2015  | 122.25            | 140.5             |
| 2 February 2015 | 122.5             | 143.5             |
| 2 March 2015    | 124.0             | 149.5             |
| 1 April 2015    | 126.0             | 151.5             |
| 1 May 2015      | 125.5             | 152.0             |
| 1 June 2015     | 128.5             | 155.0             |
| 24 July 2015    | 123.5             | 156.0             |

This is not a recommendation to convert, or not to convert, any of your shares.

## **Future conversions**

It is intended that, following the next conversion in October 2015, the conversion facility will be offered annually or close to annually thereafter.

## **How do I convert?**

If you hold your shares:

1. through an Investment Product managed or marketed by F&C Management Limited please download a "Plan" conversion instruction form from the website at [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk), which will be available from 27 July 2015.

This "Plan" Conversion instruction form must be received by **5pm on Monday 21 September 2015** in respect of the 22 October 2015 Conversion Date.

2. in certificated form, please download a "Certificated" conversion instruction form from the website at [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk), which will be available from 27 July 2015.

This "Certificated" Conversion instruction form must be received by **5pm on Friday 25 September 2015** in respect of the 22 October 2015 Conversion Date.

Information on what to do if you have lost any or all of your share certificates and how to obtain a letter of indemnity is also included on the form.

3. in uncertificated form (that is in CREST) then please follow the instructions on the website at [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk), which will be available from 27 July 2015.

This is not a recommendation to convert, or not to convert, any of your shares.

# How to Invest

One of the most convenient ways to invest in F&C Managed Portfolio Trust plc is through one of the savings plans run by F&C Investments.

## F&C Investment Trust ISA

Use your ISA allowance to make an annual tax-efficient investment of up to £15,240 for the 2015/16 tax year with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

## F&C Junior ISA (JISA)

This is a tax-efficient savings plan for children who did not qualify for a CTF. It allows you to invest up to £4,080 for the 2015/16 tax year with all the tax benefits of the CTF. You can invest from £30 a month, or £500 lump sum, or a combination of both. From 6 April 2015, CTF holders will be able to transfer a CTF to a JISA.

## F&C Child Trust Fund (CTF)

CTFs are closed to new investors; however, if your child has a CTF with another provider, it is easy to transfer it to F&C. From 6 April 2015, the Registered Contract on a CTF will be able to transfer a CTF to a Junior ISA. Additional contributions can be made to the shares account version of the CTF from as little as £25 per month or £100 lump sum – up to a maximum of £4,080 for the 2015/16 tax year.

## F&C Private Investor Plan (PIP)

A flexible way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250.

## F&C Children's Investment Plan (CIP)

A flexible way to save for a child. With no maximum contributions, the plan can easily be written under trust to help reduce inheritance tax liability or kept in your name if you may need access to the funds before the child is 18. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at any time from £100.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual. The CTF and JISA accounts are opened in the child's name. Money cannot be withdrawn until the child turns 18.

Annual management charges and certain transaction costs apply according to the type of plan.

### Annual account charge

**ISA:** £60+VAT

**PIP:** £40+VAT

**JISA/CIP/CTF:** £25+VAT

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits)

### Dealing charge per holding

**ISA:** 0.2%

**PIP/CIP/JISA:** postal instruction £12, online instruction £8

The dealing charge applies when shares are bought or sold but the fixed rate charge does not apply to the reinvestment of dividends for the PIP/CIP/JISA or the investment of regular monthly savings.

There is no dealing charge on a CTF but a switching charge of £25 applies if more than 2 switches are carried out in one year.

Government stamp duty of 0.5% also applies on purchases (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan. For full details of charges, please read the Key Features and Terms and Conditions of the plan before investing.

### How to Invest

You can invest in all our savings plans online.

### Prospective Investors:

Contact our Investor Services Team

Call: **0800 136 420** (8:30am – 5:30pm, weekdays, calls may be recorded)

Email: **info@fandc.com**

Investing online: **www.fandc.com**

### Existing Plan Holders

Contact our Investor Services Team

Call: **0345 600 3030** (\*9:00am – 5:00pm, weekdays, calls may be recorded)

Email: **investor.enquiries@fandc.com**

By post: F&C Plan Administration Centre

PO Box 11114

Chelmsford

CM99 2DG



# Glossary of Terms

**AAF** – Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

**AIC** – Association of Investment Companies, the trade body for Closed-end Investment Companies.

**AIFMD** – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive required that all investment vehicles in the European Union, including Investment Trusts, appoint a Depositary and an Alternative Investment Fund Manager before 22 July 2014. The Board of Directors of an Investment Trust, nevertheless, remain fully responsible for all aspects of the company's strategy, operations and compliance with regulations.

**Benchmark** – the FTSE All-Share Index is the benchmark against which the increase or decrease in the Company's net asset value is measured.

**Closed-end company** – a company, including an Investment Company, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the net asset value of the company and in which shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended company or Fund, which has units not traded on an exchange but issued or bought back from investors at a price directly related to net asset value.

**Cum-dividend** – shares are classified as cum-dividend when the buyer of a security is entitled to receive a dividend that has been declared, but not paid. Shares which are not cum-dividend are described as ex-dividend.

**Custodian** – A specialised financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is JP Morgan Chase Bank.

**Depositary** – under AIFMD rules which have applied from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary has strict liability for the loss of any investments or other assets in its custody and is obliged to maintain oversight of matters such as share buy backs, dividend payments and adherence to investment limits. The Company's Depositary is JPMorgan Europe Limited.

**Derivative** – a contract between two or more parties, the value of which fluctuates in accordance with the value of an underlying security. The contract is usually short-term (for less than one year). Examples of derivatives are Put and Call Options, Swap contracts, Futures and Contracts for Difference. A derivative can be an asset or a liability and is a form of gearing because the fluctuations in its value are usually greater than the fluctuations in the underlying security's value.

**Discount/Premium** – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the net asset value (NAV) per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers of shares than buyers. Shares trading at a price above NAV per share are deemed to be at a premium.

**Dividend Dates** – Reference is made in announcements of dividends to three dates. The “ex-dividend” date is the date up to which the shareholder need to hold the shares in order to be entitled to receive the next dividend. As it takes time for a stock purchase to be recorded on the register, dividends are actually paid to the holders of shares on the share register on the “record” date. If a share transfer prior to the ex-dividend date is not recorded on the register before the record date, the selling party will need to pass on the benefit or dividend to the buying party. The “ex-dividend” date is currently the business day prior to the record date. The “payment” date is the date that dividends are credited to shareholders’ bank accounts. This may be several weeks or even months after the record date.

**GAAP** – Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union).

**Gearing** – this is the ratio of the borrowings of the Company to its net assets. Borrowings have a “prior charge” over the assets of a company, ranking before shareholders in their entitlement to capital and/or income. They include: overdrafts and short and long-term loans from banks; and derivative contracts. If the Company has cash assets, these may be assumed either to net off against borrowings, giving a “net” or “effective” gearing percentage, or to be used to buy investments, giving a “gross” or “fully invested” gearing figure. Where cash assets exceed borrowings, the Company is described as having “net cash”. The Company’s maximum permitted level of gearing is set by the Board and is described within the Strategic Report.

**Growth Shares** – a security issued by the Company. The net asset value attributable to each Growth share is equal to the Net Asset Value of the Growth Portfolio divided by the total number of Growth shares in issue. The Growth shares are not entitled to dividends paid by the Company.

**Income Shares** – a security issued by the Company. The net asset value attributable to each Income share is equal to the Net Asset Value of the Income Portfolio divided by the total number of Income shares in issue. The Income shares are entitled to dividends paid by the Company.

**Investment Company (Section 833)** – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made capital losses in any year provided the Company’s assets remaining after payment of the dividend exceed 150% of the liabilities. An Investment Company is defined as investing its funds in shares, land or other assets with the aim of spreading investment risk.

**Investment Trust taxation status (Section 1158)** – UK Corporation Tax law allows an Investment Company (referred to in Tax law as an Investment Trust) to be exempted from tax on its profits realised on investment transactions, provided it complies with certain rules. These are similar to Section 833 Company law rules but further require that the Company must be listed on a regulated stock exchange and that it cannot retain more than 15% of income received (set out in note 8 to the accounts). The Report of the Directors contains confirmation of the Company’s compliance with this law and its consequent exemption from taxation on capital gains.

# Glossary of Terms (continued)

**Manager** – F&C Investment Business Limited (F&C), a part of BMO Financial Group. The responsibilities and remuneration of the Manager are set out in the Business Model and Strategy, Report of the Directors and note 4 to the accounts.

**Market capitalisation** – the stock market quoted price of the Company's shares, multiplied by the number of shares in issue. If the Company's shares trade at a discount to NAV, the market capitalisation will be lower than the Net asset value.

**Net asset value (NAV)** – the assets less the liabilities of the Company, as set out on the Balance Sheet, all valued in accordance with the Company's Accounting Policies (see note 1 to the accounts) and United Kingdom Accounting Standards. The net assets correspond to Equity Shareholders' Funds, which comprise the share capital account, share premium, capital redemption reserve, buy back reserve, special capital reserve and capital and revenue reserves.

**Net asset value (NAV), Debt at par** – The Company's bank loan is valued in the Accounts at par (the actual amount borrowed) and this NAV including this number is referred to as "NAV, Debt at par".

**Non-executive Director** – a Director who has a contract for services, rather than a contract of employment, with the Company. The Company does not have any executive directors. Non-executive Directors' remuneration is described in detail in the Remuneration Report. The duties of the Directors, who govern the Company through the auspices of a Board and Committees of the Board, are set out in the Statement of Corporate Governance.

**Ongoing Charges** – all operating costs expected to be incurred in future and that are payable by the Company, expressed as a proportion of the average net assets of the Company over the reporting year. The costs of buying and selling investments are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing shares. Ongoing charges of the Company's underlying investments have not been included.

**SORP** – Statement of Recommended Practice. Where consistent with the requirements of UK Generally Accepted Accounting Practice, the accounts of the Company are drawn up in accordance with the Investment Trust SORP, issued by the AIC, as described in note 1 to the accounts.

**Total return** – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV in the period. The dividends are assumed to have been re-invested in the form of shares or net assets, respectively, on the date on which the shares were quoted ex-dividend.



# Notice of Annual General Meeting

Notice is hereby given that the seventh Annual General Meeting of F&C Managed Portfolio Trust plc will be held at Exchange House, Primrose Street, London EC2A 2NY, on Monday 14 September 2015 at 12.30pm for the following purposes. To consider and, if thought fit, pass the following Resolutions, of which Resolutions 1 to 6 and 9 will be proposed as Ordinary Resolutions and Resolutions 7, 8, 10 and 11 as Special Resolutions:

## Ordinary Resolutions

1. That the Report and Accounts for the year to 31 May 2015 be received.
2. That the Annual Report on Directors' Remuneration for the year to 31 May 2015 be approved.
3. That Colin S McGill, who retires by rotation, be re-elected as a Director.
4. That Alistair G Stewart, who retires by rotation, be re-elected as a Director.
5. That Ernst & Young LLP be re-appointed as Auditors and the Directors be authorised to determine their remuneration.
6. Authority to allot shares

That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £2,500,000 in respect of Income Shares and £2,500,000 in respect of Growth Shares, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of

this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

## Special Resolutions

7. Authority to allot shares without rights of pre-emption

That, subject to the passing of resolution number 6, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date of the passing of this resolution, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act, provided that for the purposes of this resolution an allotment of equity securities shall be deemed not to include the sale of shares in the Company that immediately before the sale are held by the Company as treasury shares) for cash pursuant to the authority given by resolution number 6 as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:

- (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
- (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £2,500,000 in respect of Income Shares and £2,500,000 in respect of Growth Shares (being approximately 71 per cent of the nominal value of the issued income share capital of the Company, and approximately 85 per cent of the nominal value of the issued growth share capital of the Company as at 27 July 2015) at a

# Notice of Annual General Meeting (continued)

price of not less than the net asset value per share of the existing Income Shares (in the case of an allotment of Income Shares) or Growth Shares (in the case of an allotment of Growth Shares).

## 8. Authority to buy back shares

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of fully paid Income shares of 10p each in the capital of the Company and Growth Shares of 10p each in the share capital of the Company ("Income Shares and/or Growth Shares") (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

- (a) the maximum aggregate number of Income Shares and Growth Shares hereby authorised to be purchased is 14.99 per cent of the issued Income Shares and 14.99 per cent of the issued Growth Shares (excluding Income Shares and Growth Shares held in treasury) immediately prior to the passing of this resolution<sup>1</sup>;
- (b) the minimum price (excluding expenses) which may be paid for an Income Share or Growth Share is 10 pence;
- (c) the maximum price (excluding expenses) which may be paid for an Income Share or Growth Share shall not be more than the higher of:
  - i. 5 per cent. above the average closing price on the London Stock Exchange of an Income Share or Growth Share over the five business days immediately preceding the date of purchase; and
  - ii. the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
- (d) unless previously varied, revoked or renewed by the Company in a general meeting, the

authority hereby conferred shall expire at the conclusion of the Company's next annual general meeting or on 14 December 2016 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Income Shares and/or Growth Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Income Shares and/or Growth Shares pursuant to any such contract.

## Ordinary Resolution

### 9. Authority to sell treasury shares

That, subject to the passing of Resolution 10 to be proposed at the Annual General Meeting of the Company convened for 14 September 2015, the Directors of the Company be authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to sell Income Shares and/or Growth Shares in the capital of the Company held in treasury for cash at a price below the net asset value per share of the existing Income Shares and/or Growth Shares in issue pursuant to the authority conferred by Resolution 10, provided always that Income Shares and/or Growth Shares will only be resold from treasury at a price representing a discount of not more than 5 per cent to net asset value at the time of resale, subject to the conditions that, first, the discount at which such Income Shares and/or Growth Shares are to be resold must be less than the average discount at which Income Shares and/or Growth Shares held in treasury have been repurchased and, second, the net asset value dilution associated with the sale of treasury shares in any one financial year must not exceed 0.5 per cent of net assets.

## Special Resolutions

### 10. Authority to sell treasury shares without rights of pre-emption

That, the Directors of the Company be and they are hereby empowered pursuant to section 573 of the Companies Act 2006 (the "Act") to sell equity securities (within the meanings of section 560(1) and 560(2) of the Act) wholly for cash as if section 561 of the Act did not apply to any such sale, provided that this power shall be limited to the sale of equity securities for cash out of treasury up to an aggregate

<sup>1</sup>Following Resolution 8 becoming effective the maximum aggregate number of shares hereby authorised to be purchased shall be 5,263,720 Income shares and 4,428,020 Growth shares (or, if less, 14.99 per cent of the number of Income shares and 14.99 per cent of the Growth shares in issue (excluding Treasury shares) immediately prior to the passing of this resolution)

nominal amount of £351,100 in respect of Income Shares and £295,300 in respect of Growth Shares and shall expire on the earlier of 14 December 2016 and the conclusion of the Annual General Meeting of the Company to be held in 2016, unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

11. That the proposed Purchase Contract (as defined in the annual report and accounts published by the Company on 27 July 2015) to enable the Company to make off-market purchases of its own deferred shares pursuant

to sections 693 and 694 of the Companies Act 2006 in the form produced at the meeting and initialled by the Chairman, be and is hereby approved and the Company be and is hereby authorised to enter into, execute and perform such contract, but so that the approval and authority conferred by this resolution shall expire on the day immediately preceding the date which is 18 months after the passing of this resolution or, if earlier, the next Annual General Meeting of the Company.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU  
27 July 2015

# Notice of Annual General Meeting (continued)

## Notes

1. A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the duly executed enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the address shown on the proxy form not later than 48 hours (excluding non working days) before the time of the meeting or, in the case of an adjourned meeting, no later than 48 hours (excluding non working days) before the holding of that adjourned meeting (or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, no later than 24 hours (excluding non working days) before the time appointed for the taking of the poll). The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands. Any power of attorney or any other authority under which this proxy is signed (or a duly certified copy of such power or authority) must be included with the proxy form. On a poll each Income Shareholder and each Growth Shareholder is entitled to a weighted vote determined in accordance with the underlying NAV of the relevant shares as specified in the Articles of Association.
2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual and by logging on to [www.euroclear.com](http://www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
3. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID RA19) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
4. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
5. A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy

for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements of the rights of members in relation to the appointment of proxies in Note 1 and 2 above does not apply to a Nominated Person. The rights described in this Note can only be exercised by registered members of the Company.

6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of shares entered on the Register of Members of the Company as at 6.00 pm on 10 September 2015 or, in the event that the meeting is adjourned, on the Register of Members as at 6.00 pm on the day two business days prior to any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Shares registered in their names at that time. Changes to the entries on the Register of Members after 6.00 pm on 10 September 2015 or, in the event that the meeting is adjourned, in the Register of Members as at 6.00 pm on the day two business days prior to any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
7. As at 27 July 2015 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 35,114,936 Income Shares carrying one vote each and 29,539,843 Growth Shares carrying one vote each. The Company holds nil Income Shares and nil Growth Shares in treasury which do not carry voting rights. Therefore the total voting rights in the Company as at 27 July 2015 were 64,654,779 votes. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.
8. The Proposed Purchase Contract will be available for inspection at the Annual General Meeting. The Proposed Purchase Contract will also be available at the Company's registered office 15 days prior to the AGM.
9. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for inspection at the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and for 15 minutes prior to, and during, the Annual General Meeting.
10. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from [www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk).
11. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
  - (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

- (b) the answer has already been given on a website in the form of an answer to a question; or
  - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
12. The members of the Company may require the Company to publish, on its website (without payment), a statement (which is also passed to the Company's auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to 80 George Street, Edinburgh EH2 3BU.
  13. You may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.
  14. Under section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 16 below, may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at that meeting. The conditions are that: (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (ii) the resolution must not be defamatory of any person, frivolous or vexatious; and (iii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than 6 weeks before the Meeting to which the requests relate.
  15. Under section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out at note 16 below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that: (i) the matter of business must not be defamatory of any person, frivolous or vexatious; and (ii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; (c) must be accompanied by a statement setting out the grounds for the request; (d) must be authenticated by the person or persons making it; and (e) must be received by the Company not later than 6 weeks before the Meeting to which the requests relate.
  16. In order to be able to exercise the members' right to require: (i) circulation of a resolution to be proposed at the Meeting (see note 14); or (ii) a matter of business to be dealt with at the Meeting (see note 15), the relevant request must be made by: (a) a member or members having a right to vote at the Meeting and holding at least 5% of total voting rights of the Company; or (b) at least 100 members have a right to vote at the Meeting and holding, on average, at least £100 of paid up share capital.



# Corporate Information

## Directors

Richard M Martin (Chairman) \*\*  
David Harris‡‡  
Colin S McGill††  
Alistair G Stewart¶¶

## Registered Office

80 George Street  
Edinburgh EH2 3BU  
Tel No. 0207 628 8000  
Facsimile No. 0131 225 2375

## Alternative Investment Fund Manager ('AIFM'), Investment Managers and Company Secretary

F&C Investment Business Limited  
80 George Street  
Edinburgh EH2 3BU

## Registrars and Transfer Office

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Registrars' Shareholder Helpline  
Tel No. 0871 384 2923\*  
Registrars' Broker Helpline  
Tel No. 0871 384 2779†  
Registrars' Overseas Helpline  
Tel No. +44 121 415 7012

## F&C's Investor Services Team

For further information contact F&C's Investor Services Team  
Tel: 0800 136 420 (new enquiries)  
Tel: 0345 600 3030 (F&C customers)

\*\*Chairman of the Nomination Committee

‡‡Senior Independent Director

††Chairman of the Audit Committee

¶¶Chairman of the Remuneration Committee

\*Calls to this number are charged at 8p per minute plus network extras.

Lines open 8.30 am to 5.30 pm Monday to Friday.

†Calls to this number are charged at £1 per minute from a BT Landline. Other telephony providers costs may vary.

Lines open 8.30 am to 5.30 pm Monday to Friday.

## Auditors

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

## Depository

JPMorgan Europe Limited  
25 Bank Street  
Canary Wharf  
London E14 5JP

## Principal Bankers and Custodian

JPMorgan Chase Bank  
25 Bank Street  
Canary Wharf  
London E14 5JP

## Bankers

The Royal Bank of Scotland  
24-25 St Andrew Square  
Edinburgh EH2 1AF

## Solicitors

Dickson Minto W.S.  
16 Charlotte Square  
Edinburgh EH2 4DF

## Company Number

SC338196

## Website

[www.fcmanagedportfolio.co.uk](http://www.fcmanagedportfolio.co.uk)



### **Registered Office**

80 George Street  
Edinburgh EH2 3BU  
Tel: 0207 628 8000  
Fax: 0131 225 2375

### **Registrars**

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Aspect House  
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