

# The Edinburgh Investment Trust plc

Annual Financial Report for the  
Year ended 31 March 2018

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If you have any queries about the Edinburgh Investment Trust plc, or any of the other specialist funds managed by Invesco, please contact our Client Services Team on

☎ 0800 085 8677

🌐 Website - [www.invescoinvestments.co.uk/investmenttrusts](http://www.invescoinvestments.co.uk/investmenttrusts)

The Edinburgh ICA  
Member of

**aic**

The Association of  
Investment Companies

**Cover Description: Edinburgh cityscape viewed from Calton Hill,  
looking across at Edinburgh Castle.**

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**The Company's ordinary shares and debenture qualify to be considered as mainstream investment products suitable for promotion to retail investors. The Company's ordinary shares are eligible for investment in an ISA.**

### Investment Objective

The Edinburgh Investment Trust plc is an investment trust whose investment objective is to invest primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

The Company will generally invest in companies quoted on a recognised stock exchange in the UK. The Company may also invest up to 20% of the portfolio in securities listed on stock exchanges outside the UK. The portfolio is selected on the basis of assessment of fundamental value of individual securities and is not structured on the basis of industry weightings.

### Nature of the Company

The Company is a public listed Investment Company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 12), with the aim of spreading investment risk and generating a return for shareholders.

The Company uses borrowing to enhance returns to shareholders. This increases the risk to shareholders should the value of investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited (the 'Manager'), to manage its investments and to provide the Company's general administration. Other administrative functions are contracted to other external service providers. The Company has a Board of non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment objective and policy is adhered to. The Company has no employees.

## Strategy

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### Overview

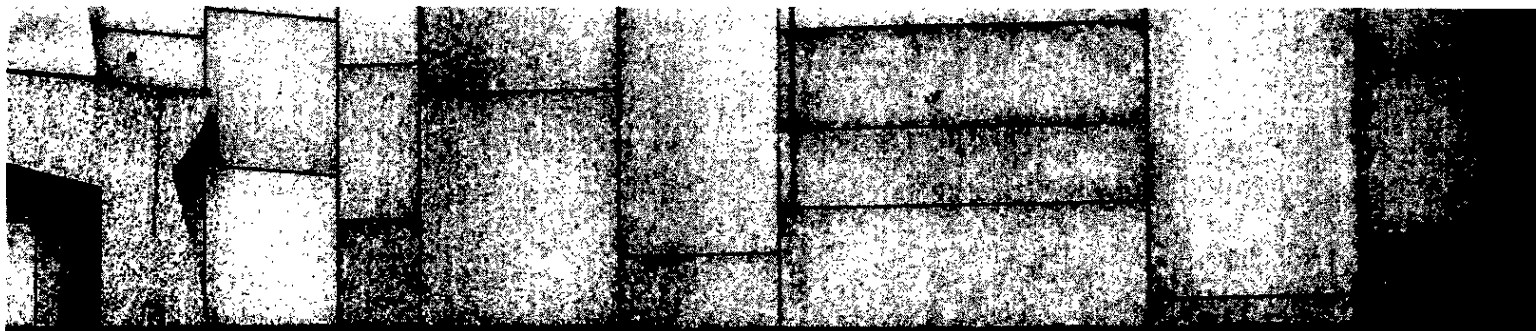
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### Strategic Report

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### Investments

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**Scottish Parliament Building, Edinburgh**

Strategy  
**Financial Information and  
 Performance Statistics**

	Year Ended 31 March 2018	Year Ended 31 March 2017	
<b>Total Return<sup>(1)(3)</sup></b> (capital growth with income reinvested)			
Net asset value <sup>(1)</sup> (NAV) - debt at market value <sup>(2)</sup>	-5.9%	+14.7%	
Share price total return <sup>(2)</sup>	-6.7%	+11.2%	
FTSE All-Share Index total return <sup>(2)</sup>	+1.2%	+22.0%	
The Company's benchmark is the FTSE All-Share Index.			
	At 31 March 2018	At 31 March 2017	Change %
<b>Capital Return<sup>(1)</sup></b>			
Net asset value - debt at market value	703.34p	768.81p	-8.5
Share price <sup>(2)</sup>	642.0p	713.5p	-10.0
FTSE All-Share Index <sup>(2)</sup>	3894.17	3990.00	-2.4
<b>Discount<sup>(1)(3)</sup></b> - debt at market value	8.7%	7.2%	
<b>Gearing (debt at market value)<sup>(1)(3)</sup></b> - gross gearing	12.1%	15.9%	
- net gearing	11.8%	15.7%	
	Year Ended 31 March 2018	Year Ended 31 March 2017	Change %
<b>Revenue and Dividends<sup>(3)</sup></b>			
Revenue return per share <sup>(3)</sup>	29.3p	27.9p	+5.0
Dividends - first interim	5.80p	5.40p	
- second interim	5.80p	5.40p	
- third interim	5.80p	5.40p	
- final proposed	9.20p	9.15p	
- total dividends <sup>(3)</sup>	26.60p	25.35p	+4.9
<b>Retail Price Index<sup>(2)</sup></b>	3.3%	3.1%	
<b>Dividend Yield<sup>(3)(4)</sup></b>	4.1%	3.5%	
<b>Ongoing charges ratio<sup>(1)(3)</sup></b>	0.57%	0.60%	

**Notes:**

(1) Defined in the Glossary of Terms on page 75. NAV with debt at market value is widely used by the investment company sector for the reporting of performance or premium, discount, gearing and ongoing charges.

(2) Source: Thomson Reuters.

(3) Key Performance Indicator.

(4) Based on year end figures.

Capital Returns

Share Price Performance



Dividend Performance

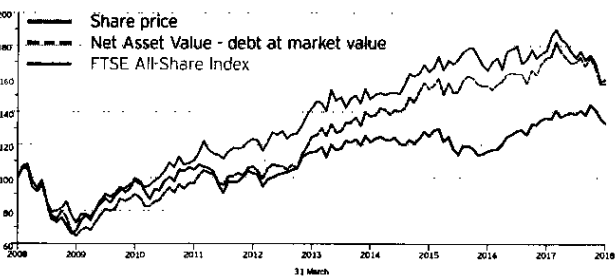
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

	3yr	5yr	10yr
Dividend (excl. special)	13.3	50.7	144.7
Inflation (RPI)	7.9	34.9	147.5
FTSE All-Share	18.6	37.6	90.6

Shareholder Returns

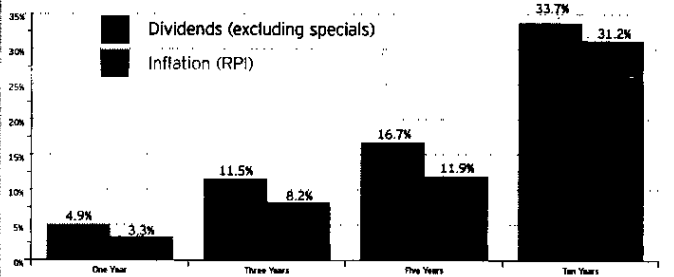
Capital Returns Over Ten Years

Rebased to 100 at 31 March 2008



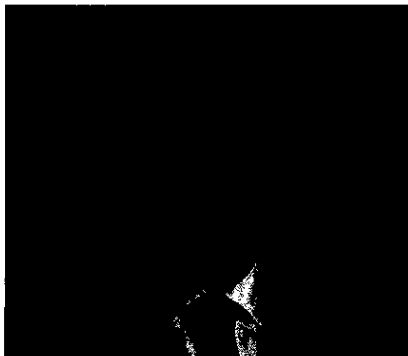
Cumulative Real Dividend Growth

To 31 March 2018



Source: Thomson Reuters.

## Strategy Chairman's Statement



**Glen Suarez**  
Chairman

31 May 2018

### Dear Shareholder

After almost twelve years on the Board and six of these as Chairman, Jim Pettigrew stood down in November 2017 and I was honoured to accept the Board's invitation to become Chairman. Under Jim's leadership the Company successfully emerged as a flagship holding in the sector, with a top class Manager, a strong Board and an attractive cost structure. I am sure you will wish to all join me in thanking Jim for his years of service. Following Jim's departure the Company reviewed the composition of the Board and is currently in the process of recruiting a new director.

As you will read in the Performance section below, the Company had a disappointing year as profit warnings at a number of companies and a widening of the discount depressed the share price. Mark Barnett, the portfolio manager has reported on these in detail in his Portfolio Manager's Report which follows, but I would like to make a few observations here.

As stated on page 12, the Company has two objectives for the medium to long term: the first is to outperform the FTSE All-Share Index over the long term on a net asset value (NAV) basis and, second, to produce dividend growth in excess of UK inflation, by investing primarily in a portfolio of UK listed shares. The Board has delegated discretion to Mark to manage the portfolio (subject to certain prudential restrictions) and we meet regularly with him to discuss, challenge and oversee his actions. Over the past five years, both these objectives have been met: in that period, the Company's NAV with debt at market value returned 25.8% cumulatively, whilst the Company's benchmark over the same period returned 15.2%. In addition, annualised dividend growth of 3.1% over the past five years compares favourably with

annualised inflation measured in term of the Retail Prices Index of 2.3%.

One of the attractions of Mark's approach to investment, as Jim Pettigrew noted last year, is that it is based on fundamental research and Mark builds his portfolios using the convictions that result from his analysis. As a result, the portfolio tends to be concentrated in a number of holdings and sectors. This approach has the potential to deliver significant outperformance over the medium to long term but, inevitably, a concentrated portfolio of this kind may also result in periods of underperformance as has been the case in the past two years. The Board continues to believe that Mark's approach, accompanied by appropriate Board support, oversight and challenge, is the right one.

### Performance

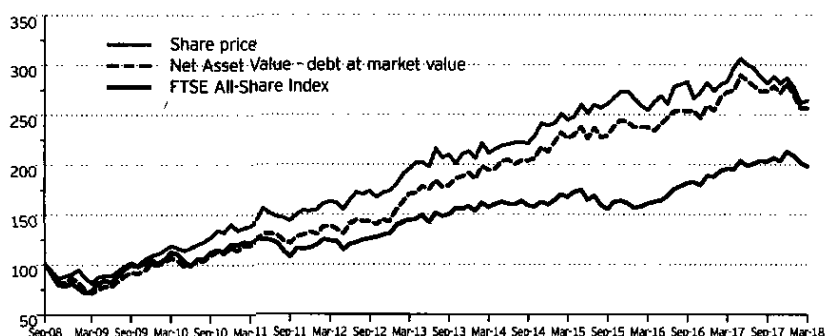
For the year ended 31 March 2018, the Company's net asset value total return was -5.9% with debt at market whilst the Company's benchmark index returned +1.2%. The portfolio was adversely affected by profit warnings at Provident Financial, Capita and BT and by a sell-off in tobacco stocks. A more detailed explanation is set out in the Portfolio Manager's Report.

The Company's share price ended the year at 642p, a decline of 10% from the previous year's closing price of 713.5p. This reflected the fall in NAV but was exacerbated by a modest widening of the discount: with debt at market the discount widened to 8.7% from 7.2% at the end of the previous year.

At 30 May 2018, the latest practical date before the signing of this report, the NAV and share price had risen and were respectively 758.45p and 686p and the resultant discount has narrowed to 9.6% with debt at market.

### Total Returns Since Appointment of Invesco on 15 September 2008

Figures rebased to 100 at 15 September 2008.



Source: Thomson Reuters.

#### Dividend

In line with our policy of recent years to rebalance the interim and final dividend towards the interim dividend, in the year to 31 March 2018, the Board has declared three interim dividends of 5.8p (2017: 5.4p) and is proposing a final dividend of 9.2p (2017: 9.15p) per share. This would produce a total dividend of 26.60p for the year (2017: 25.35p), an increase of 1.25p. This would represent an increase of 4.9% in the total dividend over the previous year, which is in excess of the

3.3% annual increase in the Retail Prices Index and reflects the Board's commitment to providing income growth which exceeds the rate of inflation. The final dividend, which is subject to approval by shareholders, will be paid on 24 July 2018 to shareholders on the register on 22 June 2018.

#### Borrowings and Gearing

The Company has in place a mixture of fixed and floating rate borrowings. These comprise the Company's

7¾% 2022 debenture and a £150 million, 364 day revolving bank credit facility. By this means, Mark has the ability to vary the gearing level of the portfolio depending on his view of the market. Borrowings at the start of the year were £209.7 million (equivalent to gross gearing with debt at market value of 15.9%), aggregate borrowings during the year ranged between £122.3 million and £231.8 million and ended the year at £143.9 million, equivalent to gross gearing with debt at market value of 12.1%, reflecting Mark's more cautious outlook.

#### Costs

The on-going charges ratio fell from 0.60% to 0.57%. A significant proportion of these charges are paid to Invesco for a variety of services including portfolio management, administration, regulation and compliance, shareholder communication and support services and supervision of the arrangements with other key service providers.

#### Outlook

In the short term, stock market performance tends to be influenced by liquidity conditions but over the longer term, both liquidity conditions and stock markets are driven by market fundamentals. The UK markets, in particular, given the large number of global and emerging as well as domestic stocks listed here, are affected by a range of global and local fundamentals.

Today, these fundamentals are harder to assess than they have been for a long time. The UK faces considerable uncertainty relating to Brexit which is holding back domestic investment, and GDP growth has slowed: in the first quarter of 2018 GDP growth was just 0.1%, falling short of the estimate of 0.4% and implying that GDP growth may struggle to reach 1.5% for 2018. The Office for Budget Responsibility, which makes official forecasts for the Government, believes that annual UK GDP growth will remain under 2.0% in each of the next five years: if anything like this occurs, it will be the worst five-year period for UK GDP growth since 1875-1879. Even so the portfolio manager believes that there is considerable value in the UK as the market has oversold some good quality UK companies; you should note that the portfolio also contains significant

### Recent Dividend History



Source: Thomson Reuters.

positions that are geared to global growth. On the other hand, the market believes that the US is approaching full capacity - reported unemployment levels there have reached lows not previously seen since the 1970s - and is now expecting higher inflation and higher interest rates. The Federal Reserve expects US GDP growth to remain strong in 2018 and 2019 and the IMF expects global GDP growth to accelerate to 3.9% in 2018 and remain strong in 2019. These developments have led investors to switch funds from the UK to the international markets, substantially de-rating UK domestic companies.

Longer term, there are a number of important issues that may also affect growth and the performance of markets.

Over the past 30 years, three important developments have enabled the return on financial assets to be higher than GDP growth almost everywhere, despite the crises we have had to endure: first, the growth in the size of labour force in relation to population as the baby boomer generation entered the workforce. This has led to falling dependency ratios throughout the developed world and has allowed Governments to cut corporate taxes sharply and firms to reduce pension payments; second, integration of global markets, and of China in particular, has enabled global trade to grow faster than global GDP. This in turn has enabled more profitable reallocation of capital globally and higher returns to corporate investment, especially for those companies able to globalise their operations; and third, (and almost certainly related to the above two factors) a long term fall in inflation and interest rates has prompted a hunt for yield which made some kinds of financial assets very attractive to investors.

These trends are now abating: with a few exceptions, labour forces are expected to grow more slowly (or even decline) relative to the overall population, raising dependency costs and increasing pressure for higher taxes to pay for pensions, health and social care; global trade growth is under pressure as the US - the lynchpin of the global trading system - seeks to limit its trade deficits through tariffs, renegotiation of the North American Free Trade Agreement and a shift to

operating through bilateral as opposed to multilateral institutions like the World Trade Organisation; and finally, markets have begun to price long term rises in interest rates, with the US 10 year Treasury bond now yielding almost 3%. It is of course possible that technology in the form of robots and artificial intelligence and new trading patterns will increase productivity, but these will come with social and political disruption.

The Board believes that this environment is best navigated through focused, fundamental research and careful stock picking and portfolio construction. This is the kind of approach that Mark has long adopted and, despite the disappointing performance of the last two years, it has produced good long-term results.

**Glen Suarez**

# Strategy Strategic Report Portfolio Manager's Report

For the year ended  
31 March 2018



**Mark Barnett**  
Portfolio Manager



**James Goldstone**  
Deputy Portfolio Manager

31 May 2018

## Market Review

The UK stock market delivered flat performance over the 12 month period under review. This outcome masked some price volatility as the FTSE All-Share index reached an all-time high at the end of 2017. However this strength proved to be temporary as the market weakened in the early months of 2018. The period was dominated by the countervailing forces of better global economic growth, with associated increases in anticipated interest rates, and ongoing political concerns, especially domestically focused around the Brexit negotiations. The combination of these two opposing factors, alongside significant foreign exchange movements, led to increased polarisation of sector performance in the UK stock market.

The market's rise of 2017 was led by a rally in the oil and mining sectors, on the back of an improving outlook for global growth, while sterling fell in response to the surprise outcome of the UK general election. However, in the final quarter of the period, rising geopolitical uncertainty, including the possible impact of trade wars, and strength in sterling on the back of better news on Brexit negotiations, resulted in a more difficult backdrop for the market. The most high profile underperformers were a range of global businesses, which saw double digit falls. The reality of rising interest rates and bond yields in the US, with the expectation of more to follow, also impacted the valuation of these companies which have a significant influence on the performance of the market.

The other dominant theme of the stock market throughout the past 12 months, which has gone largely unnoticed, has been the continued poor sentiment towards UK domestic sectors. This can be attributed to the combination of a pessimistic outlook towards the Brexit negotiations and the weak government elected last June alongside an improvement in the global backdrop. The result has been a collapse in valuations for domestically focused companies, leaving them at multi year lows.

## Portfolio Strategy and Review

The Company's net asset value, including reinvested dividends, returned -5.9% during the period under review, compared with a return of +1.2% (total return) by the FTSE All-Share Index.

The portfolio remains heavily weighted in the tobacco sector, with investments in Altria, British American Tobacco (BAT), Imperial Brands and Reynolds American (now merged with BAT). These companies have delivered exceptional returns for shareholders over the long term. However, over the past year the sector was impacted by headwinds which resulted in a negative performance. In 2017, the stock market focused on plans announced by the US Food and Drug Administration to launch a consultation on lowering nicotine levels in cigarettes (regulation which may be expected to take some time to come to fruition). Subsequent underperformance resulted from the weakness of the US dollar and the profit impact on translation into sterling, as well as the shift in market sentiment towards more economically sensitive sectors in a period of rising bond yields.

This negative performance came despite the successful completion last year by BAT of the acquisition of Reynolds American - creating an entity which is well positioned to exploit both traditional cigarettes and next generation products, particularly in the key US market. The headwinds described above overshadowed news of underlying growth across the business and a 15% increase in the dividend.

The holding in Provident Financial delivered negative returns over the period as a whole, despite rallying sharply in the final quarter. The company issued a profit warning last August, downgrading forecasts for its consumer credit division from a profit of £115 million to a loss of between £80-120 million for the year. Additionally, the business announced that its subsidiary Vanquis Bank was subject to, and co-operating with, a Financial Conduct Authority ('FCA') investigation into its repayment option plan ancillary product, along with the resignation of its chief executive and the cancellation of its dividend.

In February of this year, earlier than expected by the market, Provident Financial announced that it had reached resolution in respect of the FCA investigation and was raising a total of £300 million to strengthen the balance sheet - maintaining its investment grade status - and that it will return to paying dividends this year before resuming a "progressive" dividend policy in 2019.

# Strategy Strategic Report Portfolio Manager's Report

For the year ended  
31 March 2018

Capita also endured a challenging year. Following the news of the bankruptcy of fellow government outsourcer Carillion (which is not held in the portfolio), the company's board revised its view of an appropriate balance sheet structure for the business. As a result, Capita announced the cancellation of its dividend and the outline of a fund raising, without the details - creating significant pressure on the shares. The company also announced a major re-structuring - which I believe will create a leaner, more focused, financially stronger and more efficient business. Subsequent to the period end, Capita announced a 3 for 2 rights issue raising £701 million which has been well received by the stock market.

The list of small but significant positions outlined above outweighed and overshadowed strong performances from elsewhere in the portfolio. Noteworthy amongst these again was Burford Capital - as the litigation financier confirmed that full year profits had more than doubled from the previous year and announced a 20% increase in its dividend. The outstanding success of this investment has affirmed my view of the value of non-correlated stocks within the portfolio, as I seek to find diversified sources of income growth. The positive contributions from non-life insurers Hiscox and Beazley were further confirmation of this strategy.

Some of the portfolio's 'Brexit hit' stocks showed a significant turnaround in share price performance, with the holding in easyJet seeing its share price rise by over 50% over the period. The company maintained its impressive growth record, as it reported rising sales and revenues on the back of market share gains, with the bankruptcies of Monarch, Air Berlin and Alitalia providing opportunities for the company in a highly competitive market.

Sentiment towards the real estate sector - notably those exposed to the London office market - was also negatively impacted in the aftermath of the 2016 Referendum. Derwent London saw its share price recover some lost ground, as it confirmed strong growth in earnings on the back of a record lettings year. Tenant demand for Derwent's differentiated buildings in near prime locations remains robust, with Brexit having 'no impact so far'. Derwent further pleased investors with a special dividend of 75p a share.

The woes of the UK retail sector have been well publicised. However, Next confirmed

that its multi channel offering allows it to see the growth of on-line shopping as an opportunity not a threat, while it can flex its leasehold property base to take best advantage of future trends in apparel retailing. Meanwhile, its focus on shareholder returns - through special dividends and further share buy backs - underpinned earnings growth despite a challenging retail back drop and increased investment in logistics to improve the efficiency of its on-line business.

In terms of portfolio activity during the period, new investments were made in real estate businesses Assura, British Land and Secure Income REIT, along with Eddie Stobart Logistics, Royal Dutch Shell 'A' and Tesco. As mentioned above, the holding in Reynolds American was taken over by BAT, with the portfolio receiving a mix of BAT shares and cash. The holdings in Centrica, Compass, Game Digital, London Stock Exchange, N Brown and SSE were sold.

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## Outlook

The performance of the UK stock market will remain heavily influenced in the near term by the combination of two key variables. The movements in sterling relative to the US dollar being a reflection of the Brexit negotiations in Brussels and the continued vacillations in sentiment to both the domestic economy and the fragile political scene.

The UK stock market is not expensively valued on an historical basis as demonstrated by a price earnings multiple of circa 14 times for the current year. This represents a significant discount to other major stock markets and is clearly indicative of the Brexit discount applied indiscriminately to UK quoted companies.

There is substantial opportunity in a number of high quality companies - global leaders in their field - which have been de-rated by the market as a mood of pessimism has overwhelmed the still-strong business fundamentals. As a prime example, the tobacco sector's focus on pricing power, cash conversion and product innovation should continue to provide a reliable source of income, underpinning longer term returns to shareholders, while the next generation products have the potential to deliver a significant new revenue stream. Furthermore, the steep decline in the valuations given to this sector over recent months leaves the shares looking increasingly attractive long term investments.

However, perhaps the most significant area of opportunity - and the main focus of recent portfolio activity - is within the sectors that offer direct exposure to the UK economy, notably financials, consumer cyclicals and real estate. Whilst there has been plenty of negative commentary about the UK economy, in particular regarding the spike in headline inflation post the EU referendum and the impact on real wage growth, the underlying economic trends have started to reverse. Given the tightness in the labour market, there is likely to be an acceleration of real wages over the coming quarters, which in turn is likely to engender a greater sense of optimism than the consensus entrenched pessimism. Structural challenges and worrying newsflow will continue to affect those domestic legacy businesses that lack a sustainable competitive advantage, however there are now compelling opportunities for selective investment in a number of well managed domestically focused names, with substantial uncorrelated income and growth potential, that have been neglected by the market. It is noteworthy on that front that there has been a pick-up in corporate activity and take over proposals to UK companies. For example, the widening discounts of the real estate sector have prompted approaches, including a recently unsuccessful bid proposal to Hammerson by French competitor Klepierre. Activist investors have taken advantage of depressed share prices to take stakes in large cap

companies to encourage changes in corporate strategy.

Recent market swings have favoured momentum style investing, with an ever-increasing disparity between valuation and fundamentals becoming clear. It is frustrating that in periods of extreme momentum - as we have experienced over the past year - fund performance will predictably struggle to keep pace. The current environment is supporting premium valuations for growth or highly disruptive companies.

My outlook and positioning has changed very little over the past few months. I am convinced that in a changing global environment the interests of investors are best served by employing a well-tested investment process, which is based on fundamental company analysis and a prudent approach to valuation. I continue to evaluate and to re-evaluate the holdings in the portfolio and to seek the best opportunities to create a sustainable flow of dividend income for investors. In times of extreme momentum and somewhat irrational market pricing it is vital that I remain rooted in the fundamental investment thesis which has served me well historically - and continues to do so.

**Mark Barnett**

#### **The Portfolio Manager**

The portfolio manager, Mark Barnett, is based in Henley-on-Thames. Mark is Head of UK Equities at Invesco, specialising in UK equity income investing. Mark started his investment career in 1992 at Mercury Asset Management and joined the Manager in 1996. He graduated in French and Politics from Reading University in 1992 and has passed the associate examinations of the Association for Investment Management and Research (AIMR (now CFA Institute)).

#### **The Deputy Portfolio Manager**

James Goldstone is a fund manager at Invesco. Based in Henley-on-Thames, James was appointed Deputy Manager of The Edinburgh Investment Trust plc in July 2016 and manages UK equity pension and pan-European equity mandates including Invesco Perpetual Select Trust plc and Keystone Investment Trust plc. Prior to joining Invesco in August 2012, James was co-head of pan-European sales at Banco Espirito Santo in London. James began his career in pan-European equity sales at Credit Lyonnais in 2001 and went on, via HSBC and Dresdner Kleinwort, to specialise in UK equity sales. James graduated with a First Class Honours Degree in French from Manchester University.

### Strategy and Business Model

The Edinburgh Investment Trust plc is an investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its investment objective has been to contract the services of Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The portfolio manager with individual responsibility for the day-to-day management of the portfolio is Mark Barnett and the deputy portfolio manager is James Goldstone.

In addition, the Company has contractual arrangements with Link Asset Services (formerly known as Capita Asset Services) to act as registrar and the Bank of New York Mellon (International) Limited (BNYMIL) as depositary and custodian. BNYMIL became the depositary following novation of the depositary agreement from BNY Mellon Trust & Depositary (UK) Limited, on 1 December 2017. This transfer has had no substantive effect on the services received by the Company.

#### Investment Objective and Policy Investment Objective

The Company invests primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

#### Investment Policy

The Company will generally invest in companies quoted on a recognised stock exchange in the UK. The Company may also invest up to 20% of the market value of the Company's investment portfolio, measured at the time of any acquisition, in securities listed on stock exchanges outside the UK. The portfolio is selected by the Manager on the basis of its assessment of the fundamental value available in individual securities. Whilst the Company's overall exposure to individual

securities is monitored carefully by the Board, the portfolio is not primarily structured on the basis of industry weightings. No acquisition may be made which would result in a holding being greater than 10% of the market value of the Company's investment portfolio. Similarly, the Company may not hold more than 5% of the issued share capital (or voting shares) in any one company. Investment in convertibles is subject to normal security limits. Should these or any other limit be exceeded by subsequent market movement, each resulting position is specifically reviewed by the Board.

The Company may borrow money to provide gearing to the equity portfolio of up to 25% of net assets.

Use of derivative instruments is monitored carefully by the Board and permitted within the following constraints: the writing of covered calls against securities which in aggregate amount to no more than 10% of the value of the portfolio and the investment in FTSE 100 futures which when exercised would equate to no more than 15% of the value of the portfolio. Other derivative instruments may be employed, subject to prior Board approval, provided that the cost (and potential liability) of exercise of all outstanding derivative positions at any time should not exceed 25% of the value of the portfolio at that time. The Company may hedge exposure to changes in foreign currency rates in respect of its overseas investments.

#### Results and Dividends

At the year end the share price was 642.0p per ordinary share (2017: 713.5p). The net asset value (debt at market value) per ordinary share was 703.34p (2017: 768.81p).

Subject to approval at the AGM, the final proposed dividend for the year ended 31 March 2018 of 9.2p (2017: 9.15p) per ordinary share will be payable on 24 July 2018 to shareholders on the register on 22 June 2018. The shares will be quoted ex-dividend on 21 June 2018. This will give total dividends for the year of 26.6p per share, an increase of 4.9% on the previous year's dividends of 25.35p. The revenue return per share for the year was 29.3p, a 5.0% increase on the 2017 return of 27.9p.

**Performance**

The Board reviews the Company's performance by reference to a number of key performance indicators (KPIs) which are shown on page 4. Notwithstanding that some KPIs are beyond its control, they are measures of the Company's absolute and relative performance. The KPIs assist in managing performance and compliance and are reviewed by the Board at each meeting.

The Chairman's Statement on pages 6 to 8 gives a commentary on the performance of the Company during the year, the gearing and the dividend.

Expenses are reviewed at each Board meeting enabling the Board, amongst other things, to review costs and consider any expenditure outside that of its normal operations. For the year being reported, all KPIs are considered satisfactory.

The Board also regularly reviews the performance of the Company in relation to the 24 investment trusts in the UK Equity Income sector. As at 31 March 2018, the Company was ranked 23<sup>rd</sup> by NAV performance in this sector over one year and 20<sup>th</sup> over three and 8<sup>th</sup> over five years (source: JPMorgan Cazenove).

**Analysis of Performance**

	for year ended 31 March 2018 %
<b>Total Return Basis</b>	
NAV (debt at market value)	(5.9)
Benchmark	1.2
Relative underperformance	(7.1)
<b>Analysis of Relative Performance</b>	
Portfolio total return	(3.2)
Less Benchmark total return	1.2
Portfolio underperformance	(4.4)
<b>Borrowings:</b>	
Net gearing effect	(1.7)
Interest	(0.6)
Market value movement	0.3
Management fee	(0.5)
Other expenses	(0.1)
Tax	(0.1)
<b>Total</b>	<b>(7.1)</b>

**Financial Position and Borrowings**

The Company's balance sheet on page 51 shows the assets and liabilities at the year end. Borrowings at the year end comprised the £100 million 7<sup>3/4</sup>% debenture which matures in 2022 and £43.9 million (2017: £109.7 million) drawn down on the Company's £150 million bank revolving credit facility. Details of this facility are contained in note 11.

The Company also has a bank overdraft facility of up to 10% of assets held by the custodian, which is available to facilitate settlement of short-term cash timing differences. As at 31 March 2018, this was not drawn down (2017: nil).

**Outlook, including the Future of the Company**

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Manager's Report. Details of the principal risks affecting the Company follow.

**Analysis of Performance** - analyses the performance of the Company relative to its benchmark index.

**Relative performance** - represents the arithmetic difference between the NAV and the benchmark.

**Net gearing effect** - measures the impact of the debenture stock, bank loan and cash on the Company's relative performance. This will be positive if the portfolio has positive performance.

**Interest** - arising from the debenture stock and bank loan interest paid has a negative impact on performance.

**Management fee** - the base fee reduces the Company's net assets and decreases performance.

**Other expenses and tax** - reduce the level of assets and therefore result in a negative effect on relative performance.

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#### Principal Risks and Uncertainties

The Company's key long-term investment objectives are an increase in the net asset value per share in excess of the growth in the FTSE All-Share Index (the 'benchmark') and an increase in dividends in excess of the growth in RPI. The principal risks and uncertainties facing the Company are an integral consideration when assessing the operations in place to meet these objectives, including the performance of the portfolio, share price and dividends. The Board is ultimately responsible for the risk control systems but the day-to-day operation and monitoring is delegated to the Manager. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity and the following sets out a description of those risks and how they are being managed or mitigated.

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#### Market Risk

A great majority of the Company's investments are traded on recognised stock exchanges. The principal risk for investors in the Company is a significant fall, and/or a prolonged period of decline in those markets. The Company's investments, and the income derived from them, are influenced by many factors such as general economic conditions, interest rates, inflation, political events, and government policies as well as by supply and demand reflecting investor sentiment. Such factors are outside the control of the Board and Manager and may give rise to high levels of volatility in the prices of investments held by the Company. The asset value and price of the Company's shares and its earnings and dividends may consequently also experience volatility and may decline.

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#### Investment Performance Risk

The Board sets performance objectives and delegates the investment management process to the Manager. The achievement of the Company's performance objectives relative to the market requires active management of the portfolio of assets and securities. The Manager's approach is to construct a portfolio which should benefit from expected future trends in the UK and global economies. The Manager is a long term investor, prepared to take substantial positions in securities and sectors which may well be out of fashion, but which the Manager believes will have potential for material increases in

earnings and, in due course, dividends and share prices. Strategy, asset allocation and stock selection decisions by the Manager can lead to underperformance of the benchmark and/or income targets. The Manager's style may result in a concentrated portfolio with significant overweight or underweight positions in individual stocks or sectors compared to the index and consequently the Company's performance may deviate significantly, possibly for extended periods, from that of the benchmark. In a similar way, the Manager manages other portfolios holding many of the same stocks as the Company which reflects the Manager's high conviction style of investment management. This could significantly increase the liquidity and price risk of certain stocks under certain scenarios and market conditions. However, the Board and Manager believe that the investment process and policy outlined above should, over the long term, meet the Company's objectives of capital growth in excess of the benchmark and real dividend growth.

Investment selection is delegated to the Manager. The Board does not specify asset allocations. Information on the Company's performance against the benchmark and peer group is provided to the Board at each Board meeting. The Board uses this to review the performance of the Company, taking into account how performance relates to the Company's objectives. The Manager is responsible for monitoring the portfolio selected and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

As shown in the investment policy, derivatives may be used provided that the market exposure arising is less than 25% of the value of the portfolio. During the year, no forward currency contracts or derivatives were used for hedging or market exposure respectively.

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#### Gearing and Borrowing Risk

The Company may borrow to provide gearing to the equity portfolio of up to 25% of net assets. Borrowing is a mix of the Company's £100 million debenture stock and the Company's £150 million facility. Details of all borrowings are given in Notes 11 and 12. The principal gearing risk is that the level of gearing may have an adverse impact on performance. Secondary risks include whether the cost of borrowing is too high and whether the facility can be renewed on terms acceptable to the Company.

The Manager has full discretion over the amount of the borrowing it uses to gear its portfolio, whilst the issuance, repurchase, or restructuring of borrowing are for the Board to decide. Information related to borrowing and gearing is provided to the Directors as part of the Board papers. Additionally, the Board keeps under review the cost of buying back the debt.

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**Income/Dividend Risk**

The Company is subject to the risk that income generation from its investments fails to reach the level of income required to meet its objectives.

The Board monitors this risk through the review of detailed income forecasts and comparison against budget. These are contained within the Board papers. The Board considers the level of income at each meeting.

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**Share Price Risk**

There is a risk that the Company's prospects and NAV may not be fully reflected in the share price from time-to-time.

The share price is monitored on a daily basis. The Board is empowered to repurchase shares within agreed parameters. The discount at which the shares trade to NAV can be influenced by share repurchases. The Company has not repurchased any shares in the year.

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**Control Systems Risk**

The Board delegates a number of specific risk control activities to the Manager including:

- good practice industry standards in fund management operations;
- financial controls;
- meeting regulatory requirements;
- the management of the relationship with the depositary;
- via the depositary, the management of the custody and security of the Company's assets; and
- the management of the relationship with the registrar.

Consequently in respect of these activities the Company is dependent on the Manager's control systems and those of its depositary and registrar, both of which are monitored by the Manager in the context of safeguarding the Company's assets and interests. There is a risk that the Manager fails to ensure that these controls are operated in a satisfactory manner. In addition, the Company relies

on the soundness and efficiency of the custodian for good title and timeliness of receipt and delivery of securities.

A risk-based programme of internal audits is carried out by the Manager regularly to test the controls environment. An internal controls report providing an assessment of these risks and operation of the controls is prepared by the Manager and considered by the Audit Committee, and is formally reported to and considered by the Board.

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**Reliance on the Manager and other Third Party Providers**

The Company has no employees and the Directors are all appointed on a non-executive basis. The Company is reliant upon the performance of third party providers for its executive function and other service provisions. The Company's most significant contract is with the Manager, to whom responsibility both for the Company's portfolio and for the provision of company secretarial and administrative services is delegated. The Company has other contractual arrangements with third parties to act as auditor, registrar, depositary and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to pursue successfully its investment policy and expose the Company to risk of loss or to reputational risk.

In particular, the Manager performs services which are integral to the operation of the Company. The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks in a number of ways:

- The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns are dealt with promptly and reported to the Board. The Manager formally reviews the

performance of all third party providers and reports to the Board on an annual basis.

- The Board reviews the performance of the Manager at every Board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.
- The day-to-day management of the portfolio is the responsibility of the named portfolio manager, Mark Barnett, Head of UK Equities at Invesco. He has worked in equity markets since 1992 and has been part of the UK equities team at Invesco for over 20 years.
- The risk that the portfolio manager might be incapacitated or otherwise unavailable is mitigated by the fact that he works within, and is supported by, the wider Invesco UK Equity team. Moreover James Goldstone, as deputy portfolio manager, would be able to manage the portfolio if Mark Barnett was unable to for any reason.
- The Board has set guidelines within which the portfolio manager is permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and compliance with the guidelines and the guidelines themselves are reviewed at every Board meeting.

#### Other Risks

The Company may be exposed to other business, strategic and political risks in the future, as well as regulatory risks (such as an adverse change in the tax treatment of investment companies), and the perceived impact of the Manager ceasing to be involved with the Company.

The instruments in which the Company's cash positions are invested are reviewed by the Board to ensure credit, liquidity and concentration risks are adequately managed. Where an Invesco Group vehicle is utilised, it is assessed for suitability against other similar investment options.

The Company is subject to laws and regulations by virtue of its status as an investment trust and is required to comply with certain regulatory requirements that are applicable to listed closed-ended investment companies. The Company is subject to the continuing obligations

imposed by the UK Listing Authority on all companies whose shares are listed on the Official List. A breach of the conditions for approval as an investment trust could lead to the Company being subject to capital gains tax on the sale of the investments in the Company's portfolio. A serious breach of other regulatory rules may lead to suspension from listing on the Stock Exchange.

The Manager is regulated by the Financial Conduct Authority and failure to comply with the relevant regulations could harm the Manager's reputation with a potential detrimental effect on the Company.

The Manager reviews compliance with investment trust tax conditions and other financial and regulatory requirements on a daily basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from the service providers. The Manager's compliance and internal audit officers produce regular reports for review by the Company's Audit Committee.

Additionally, the depositary monitors stock, cash, borrowings and investment restrictions throughout the year. The depositary reports formally once a year and also has access to the Company Chairman and the Audit Committee Chairman if needed during the year.

There is an ongoing process for the Board to consider these other risks. In addition, the composition of the Board is regularly reviewed to ensure the membership offers sufficient knowledge and experience to assess, anticipate and mitigate these risks, as far as possible.

#### Viability Statement

The Company is a collective investment vehicle rather than a commercial business venture and is designed and managed for long term investment. The Company's investment objective clearly sets this out. Long term for this purpose is considered by the Directors to be at least five years and accordingly they have assessed the Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

In assessing the viability of the Company, the Directors considered the

principal risks to which it is exposed, as set out on pages 14 to 16, together with mitigating factors. The risks of failure to meet the Company's investment objective, and contributory market and investment risks, were considered to be of particular importance. The Directors also took into account: the investment capabilities of the portfolio manager; the business model of the Company, which has effectively been stress tested for many years through different and difficult market cycles; the liquidity of the portfolio, with nearly all investments being listed and readily realisable; the Company's borrowings - both long and short term - and the ability of the Company to meet its liabilities as they fall due; and the Company's annual operating costs.

Based on the above, and assuming there is no significant adverse change to the regulatory environment and tax treatment of UK investment trusts, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

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#### **Board Diversity**

The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. As a norm the Board comprises either five or six non-executive directors of which, at present, one is female. Summary biographical details of the Directors are set out on page 24. The Company has no employees.

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#### **Social and Environmental Matters**

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Manager applies the United Nations Principles for Responsible Investment.

The Company is an investment vehicle and does not provide goods or services in the normal course of its business, or have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

  
This Strategic Report was approved by the Board on 31 May 2018

Invesco Asset Management Limited  
Company Secretary



# Strategy

## Investments in Order of Valuation

At 31 March 2018

UK listed ordinary shares unless otherwise stated

Investment	Sector	Value £'000	% of Portfolio
British American Tobacco	Tobacco	106,650	6.9
BP	Oil & Gas Producers	84,532	5.5
Legal & General	Life Insurance	59,990	3.9
AstraZeneca	Pharmaceuticals & Biotechnology	58,974	3.8
Burford Capital <sup>AM</sup>	Financial Services	57,398	3.7
Altria - <i>US common stock</i>	Tobacco	53,489	3.5
BAE Systems	Aerospace & Defence	53,248	3.5
Royal Dutch Shell - A shares	Oil & Gas Producers	48,112	3.1
Hiscox	Non-life Insurance	47,232	3.1
Imperial Brands	Tobacco	46,629	3.0
<b>Ten Top Holdings</b>		<b>616,254</b>	<b>40.0</b>
easyJet	Travel & Leisure	45,812	3.0
Aviva	Life Insurance	44,458	2.9
RELX	Media	42,144	2.8
Next	General Retailers	41,772	2.7
Derwent London	Real Estate Investment Trusts	41,445	2.7
BTG	Pharmaceuticals & Biotechnology	38,618	2.5
BT	Fixed Line Telecommunications	37,674	2.5
Beazley	Non-life Insurance	35,579	2.3
Roche - <i>Swiss common stock</i>	Pharmaceuticals & Biotechnology	35,305	2.3
Rentokil Initial	Support Services	33,614	2.2
<b>Twenty Top Holdings</b>		<b>1,012,675</b>	<b>65.9</b>
Novartis - <i>Swiss common stock</i>	Pharmaceuticals & Biotechnology	33,589	2.2
G4S	Support Services	33,052	2.2
NewRiver REIT	Real Estate Investment Trusts	32,210	2.1
British Land	Real Estate Investment Trusts	31,498	2.1
Babcock International	Support Services	29,199	1.9
HomeServe	Support Services	29,160	1.9
Provident Financial - <i>Ordinary</i> - <i>Rights 9 Apr 2018</i>	Financial Services	20,965	
		7,408	
		28,373	1.8
BCA Marketplace	Financial Services	26,514	1.7
Drax	Electricity	21,844	1.4
Thomas Cook	Travel & Leisure	21,764	1.4
<b>Thirty Top Holdings</b>		<b>1,299,878</b>	<b>84.6</b>

Investment	Sector	Value £'000	% of Portfolio
Lancashire	Non-life Insurance	18,878	1.2
CLS	Real Estate Investment & Services	18,119	1.2
Assura	Real Estate Investment Trusts	17,531	1.1
Secure Trust Bank	Banks	16,251	1.1
IP Group	Financial Services	14,267	0.9
Honeycomb Investment Trust	Equity Investment Instruments	13,953	0.9
KCOM	Fixed Line Telecommunications	13,743	0.9
Redde <sup>AIM</sup>	Financial Services	13,447	0.9
P2P Global Investments	Equity Investment Instruments	12,207	0.8
TalkTalk Telecom	Fixed Line Telecommunications	12,201	0.8
<b>Forty Top Holdings</b>		<b>1,450,475</b>	<b>94.4</b>
Secure Income REIT <sup>TM</sup>	Real Estate Investment Trusts	12,197	0.8
Eddie Stobart Logistics <sup>AIM</sup>	Industrial Transportation	10,762	0.7
Raven Russia - <i>Ordinary</i>	Real Estate Investment & Services	6,192	
- <i>Preference</i>		3,842	
		10,034	0.7
Tesco	Food & Drug Retailers	9,252	0.6
Capita	Support Services	7,227	0.5
Vectura	Pharmaceuticals & Biotechnology	6,373	0.4
Funding Circle SME	Equity Investment Instruments	6,372	0.4
Hadrian's Wall Secured Investments - <i>Ordinary</i>	Equity Investment Instruments	5,299	
- <i>C shares</i>		1,002	
		6,301	0.4
Zegona Communications	Non-Equity Investment Instruments	6,183	0.4
VPC Specialty Lending Investments	Financial Services	6,170	0.4
<b>Fifty Top Holdings</b>		<b>1,531,346</b>	<b>99.7</b>
Circassia Pharmaceuticals	Pharmaceuticals & Biotechnology	4,167	0.3
Eurovestech - <i>Unquoted</i>	Financial Services	322	0.0
Barclays Bank - <i>Nuclear Power Notes 28 Feb 2019</i>	Electricity	94	0.0
<b>Total Holdings (53)</b>		<b>1,535,929</b>	<b>100.0</b>

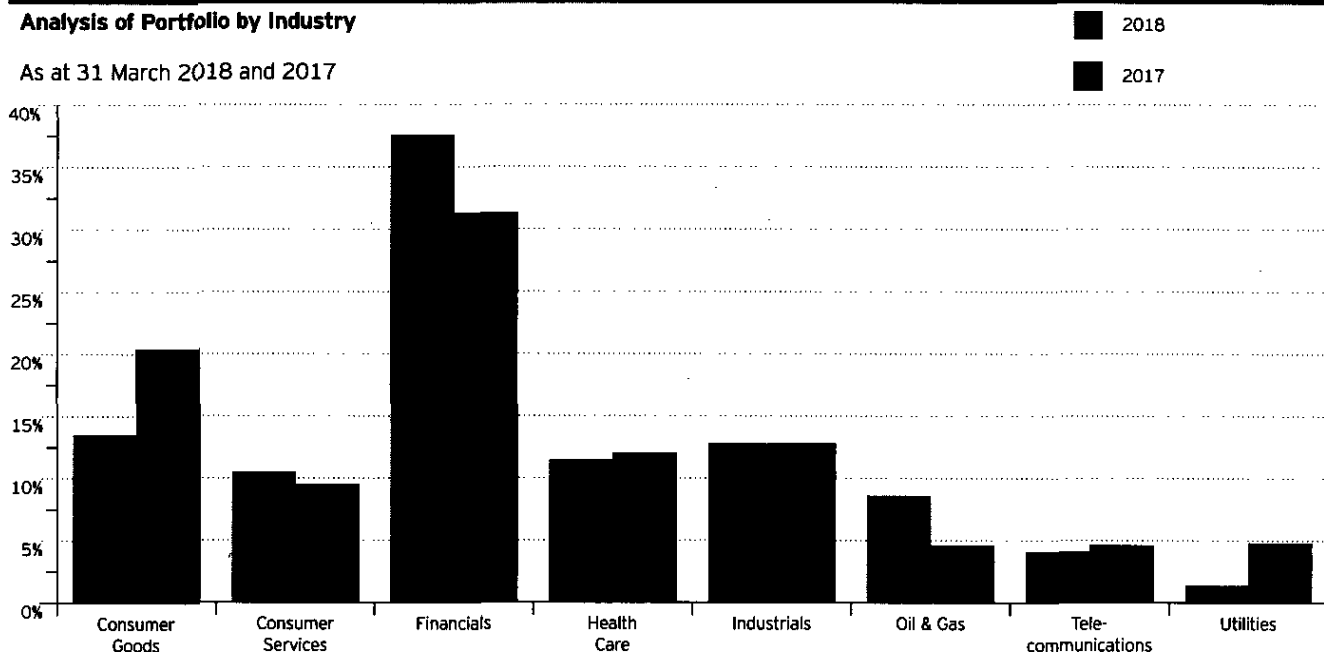
<sup>AIM</sup> Investments quoted on AIM

# Strategy

## Portfolio Analysis

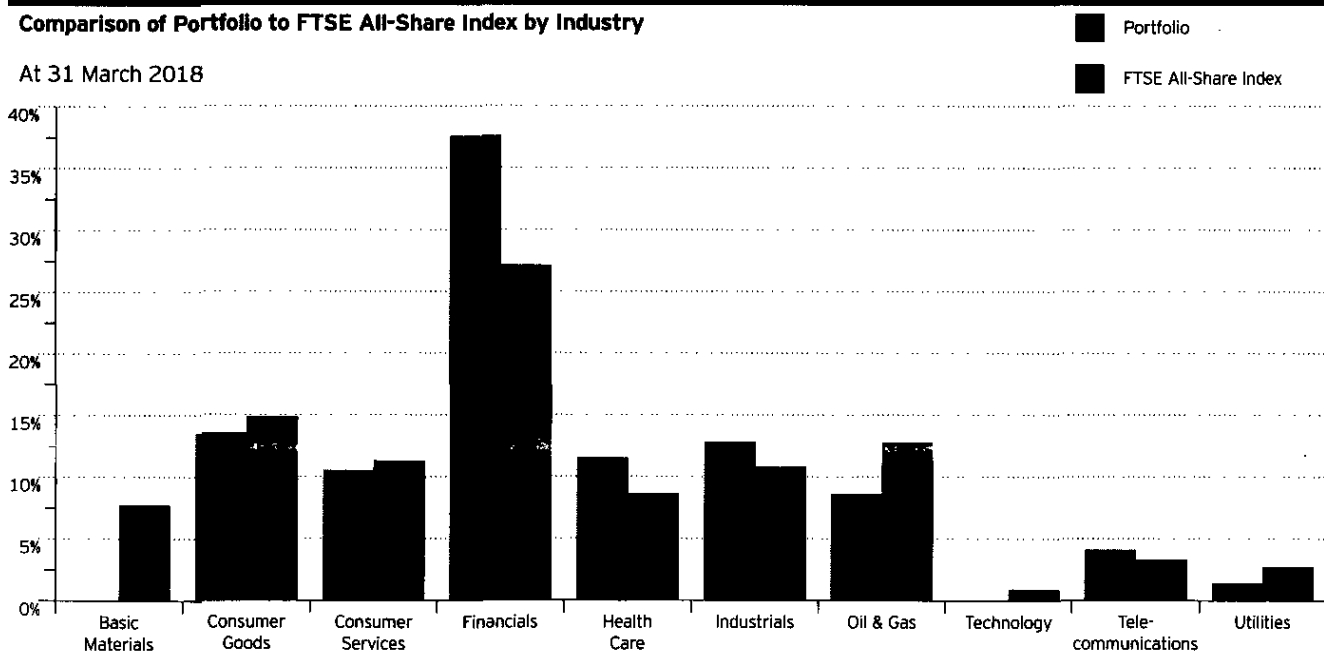
### Analysis of Portfolio by Industry

As at 31 March 2018 and 2017



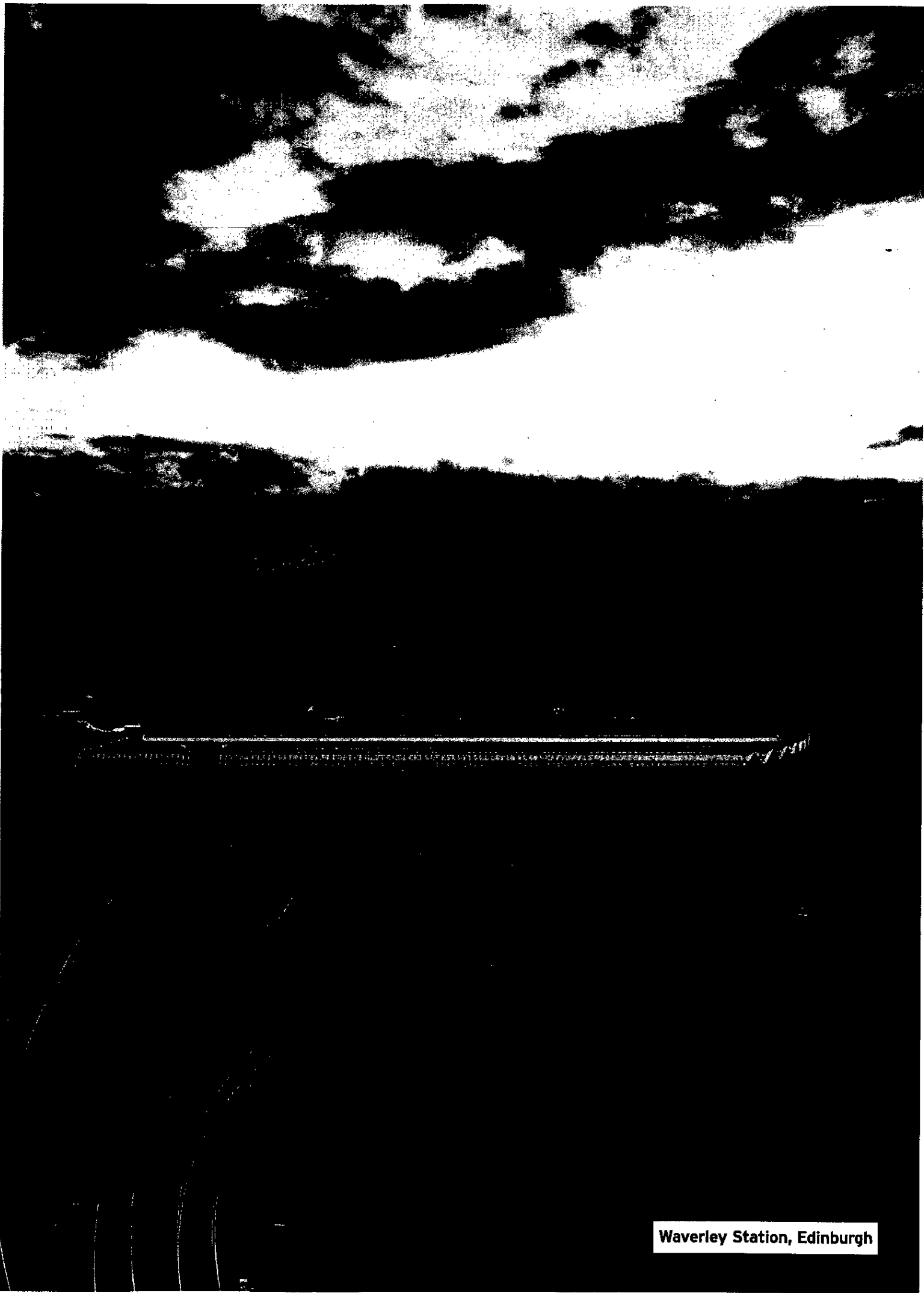
### Comparison of Portfolio to FTSE All-Share Index by Industry

At 31 March 2018



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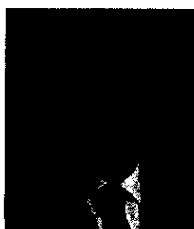


Waverley Station, Edinburgh

## Governance

### The Directors

#### Glen Suarez



Glen Suarez was appointed to the Board on 24 May 2013 and became Chairman on 22 November 2017. Glen is Chairman of Knight Vinke Asset Management. Prior

to joining Knight Vinke, he was a Partner in Soditic Limited and before that he was Head of European Utilities at Morgan Stanley. He is a specialist in the banking and energy sectors, and is a Fellow of the Institute of Chartered Accountants in England and Wales, Royal Society of Arts and a member of the Capital Markets Advisory Committee.

#### Victoria Hastings<sup>†</sup>



Victoria Hastings was appointed to the Board on 23 May 2013. She has over 25 years' experience in the investment management industry and is a non-executive

director of Impax Environmental Markets plc and both JPMorgan Asset Management (UK) Ltd and JPMorgan Asset Management International Ltd. Her roles have included investment director at JO Hambro Capital Management; chief investment officer, private clients at Merrill Lynch Investment Managers (London); a fund manager in the Merrill Lynch European Equity team; non-executive director of Charter European Trust and Henderson Global Trust plc. She is also a trustee of Moorfields Eye Charity.

#### Sir Nigel Wicks<sup>†</sup>



Sir Nigel Wicks, GCB, CVO, CBE was appointed to the Board on 24 May 2005 and is the Senior Independent Director. After working for The British Petroleum

Company, Sir Nigel joined HM Treasury in 1968. He worked for Prime Ministers Harold Wilson, James Callaghan and Margaret Thatcher. He was the UK's Executive Director at the International Monetary Fund and World Bank, the Prime Minister's representative ('Sherpa') for the Economic Summits of the Group of Seven Industrialised Nations and he was the Treasury's Second Permanent Secretary responsible for international financial matters. He was past Chair of the Committee on Standards in Public Life and formerly the Chairman of Euroclear plc, The British Bankers Association and a Commissioner of the Jersey Financial Services Commission.

#### Gordon McQueen<sup>†</sup>



Gordon McQueen was appointed to the Board on 31 May 2011 and is Chairman of the Audit Committee. He is a Chartered Accountant and a Fellow of the Chartered Institute

of Bankers of Scotland. He is a former Finance Director of Bank of Scotland and until 2003, he was an Executive Director of HBOS plc, where his main role was Chief Executive, Treasury. He is a former non-executive director and audit committee Chairman of Scottish Mortgage Investment Trust plc, Shaftesbury plc and JPMorgan Midcap Investment Trust Plc.

#### Maxwell Ward<sup>†</sup>



Maxwell Ward was appointed to the Board on 8 August 2011. Mr Ward joined Baillie Gifford in 1971 becoming a partner in the firm in 1975 and was head of the UK

Equity Department from 1981 until his retirement in April 2000. He was also a member of the firm's Management and Investment Policy Committees and Chairman of Baillie Gifford Overseas. From 1989 until 2000 he was manager of Scottish Mortgage and Trust plc. Following his retirement from Baillie Gifford, he floated The Independent Investment Trust plc and has been its managing director since. He is a former non-executive director of Aegon UK plc and Foreign and Colonial Investment Trust plc.

**All Directors are non-executive and considered independent.**

All Directors are members of the Management Engagement and Nomination Committees.

<sup>†</sup> Member of the Audit Committee

# Governance

## The Company's Corporate Governance Framework

### The Board and Committees

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that it is an Investment Company with no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.

The Board	Chairman
<p>Responsible for the overall strategic direction of the Company.</p> <p>Three additional non-executive directors (including the Chairman) are appointed by shareholders.</p>	<p>Responsible for the overall strategic direction of the Company.</p> <p>Responsible for the overall strategic direction of the Company.</p>

Audit Committee
<p>Responsible for the overall strategic direction of the Company.</p> <p>Responsible for the overall strategic direction of the Company.</p>

Management Expenses Committee
<p>Responsible for the overall strategic direction of the Company.</p> <p>Responsible for the overall strategic direction of the Company.</p>

Remuneration Committee
<p>Responsible for the overall strategic direction of the Company.</p> <p>Responsible for the overall strategic direction of the Company.</p>

Investment Committee
<p>Responsible for the overall strategic direction of the Company.</p> <p>Responsible for the overall strategic direction of the Company.</p>

**Governance  
Corporate Governance  
Statement**

For the year ended  
31 March 2018

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Board has considered the principles and recommendations of the latest AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (UK Code), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The AIC Code is available from the Association of Investment Companies ([www.theaic.co.uk](http://www.theaic.co.uk)). The UK Code is available from the Financial Reporting Council website ([www.frc.org.uk](http://www.frc.org.uk)).

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of The Edinburgh Investment Trust plc, being an externally managed investment company with no executive employees. It considers an internal audit function unnecessary as the relevant issues are covered by the Manager's internal audit function. The Company has therefore not reported further in respect of these provisions.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

- the composition and operation of the Board and its committees are summarised on pages 30 to 32, and page 27 in respect of the Audit Committee;
- the Company's approach to internal control and risk management is summarised on page 34;
- the contractual arrangements with, and assessment of, the Manager are summarised on page 35;
- the Company's capital structure and voting rights are summarised on page 36;
- the most substantial shareholders in the Company are listed on page 37;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 32. There are no agreements between the Company and its directors concerning compensation for loss of office; and
- powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a resolution to be passed by shareholders.

**By order of the Board**

  
Invesco Asset Management Limited  
Company Secretary

31 May 2018

## Governance

### Audit Committee Report

For the year ended  
31 March 2018

#### Committee Composition and Role

The Audit Committee comprises all the Directors with the exception of Glen Suarez, under my chairmanship.

The Committee has written terms of reference which clearly define its authority, meetings, duties and reporting. These were updated during the year, to ensure good practice and compliance with the latest AIC Code. They will be available for inspection at the AGM and can be inspected at the registered office of the Company or viewed on the Manager's website.

#### Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

- consideration of the integrity of the annual and half-yearly financial reports prepared by the Manager, the appropriateness of the accounting policies applied and any financial judgements and key assumptions, together with ensuring compliance with relevant statutory and listing requirements;
- at the Board's request, advising it on whether the Committee believes the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy;
- evaluation of the effectiveness of the internal control systems and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;
- consideration of the scope of work undertaken by the Manager's internal audit and compliance departments, monitoring and reviewing the effectiveness of the Manager's internal audit and reviewing the Company's procedures for detecting fraud; and
- management of the relationship with the external auditor, including evaluation of their reports and the scope, effectiveness, independence and objectivity of their audit, as well as making recommendations to the Board in respect of their appointment, reappointment and removal and for the terms of their audit engagement.

#### Audit Committee Activities

The Committee meets three times a year to review the internal financial and non-financial controls and, when applicable, the contents of the half-yearly and annual financial reports, including accounting policies. In addition, the Committee reviews the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Compliance and Internal Audit Departments attend at least two meetings each year. Representatives of the auditor, KPMG LLP, attend the Committee meetings at which the draft half-yearly and annual financial reports are reviewed and are given the opportunity to speak to Committee members in the absence of representatives of the Manager.

The external audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period and matters for audit focus are discussed and agreed. The auditor ensures that these matters are given particular attention during the audit process and reports on them, and other matters as required, in its report to the Committee. In addition, the Committee reviews any material issues raised by the auditor. There have been no such issue raised during the year. The auditor's report, together with reports from the Manager, the Manager's Internal Audit and Compliance Departments and the depositary, form the basis of the Committee's consideration and discussions with the various parties and any recommendations to the Board, including the Committee's recommendation to sign the 2018 financial statements.

## Governance

### Audit Committee Report

For the year ended  
31 March 2018

#### Accounting Matters and Significant Areas

For the year end, the accounting matters that were identified for specific consideration by the Committee follow:

<b>Significant area</b>	<b>How addressed</b>
Accuracy of the portfolio valuation, with emphasis on any investments held at Directors' valuation.	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value. This is set out in accounting policies note 1C(v). Any such valuations are carefully considered by the Manager's pricing committee and the Committee.
Proof of existence of portfolio holdings.	The Manager, the auditor and the depositary confirmed that the holdings shown in the accounting records agreed with the custodian records.
Recognition of investment income, with emphasis on special dividend income.	Investment income is recognised in accordance with accounting policies note 1F. The Manager provides detailed revenue estimates for the Board's review, and income is assessed to ensure it is complete and accounted for correctly. Careful consideration is given to special dividends. These are allocated to revenue or capital according to the nature of the payment by the underlying company and the allocation is also reviewed by the auditor.
The allocation of management fees and finance costs.	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; yield; the objective of the Company; and the latest market practice of peers.

These matters were discussed with the Manager and the auditor in pre year end audit planning, and were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor at the conclusion of the audit process.

Consequently, and following a thorough review process of the 2018 annual financial report, the Audit Committee advised the Board that the report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to answer questions relating to the annual financial report.

#### Review of the External Auditor, Including Non-Audit Services and Reappointment

The Committee evaluated the performance and effectiveness of the external auditor and their audit process. This included a review of the audit planning, execution and reporting and the quality of the audit work, results and audit team. This review sought the view of the Manager in their dealings with the auditor. The Committee also considered the independence of KPMG LLP (KPMG) and the objectivity of the audit process. No modifications were required to the external audit approach. Combining the output of all the above, and the Audit Committee Chairman's and the Committee's direct interaction with KPMG, the Committee concluded that it continued to be satisfied with the performance of KPMG and that the auditor continued to display the necessary attributes of objectivity and independence.

Prior to any engagement for non-audit services, the Audit Committee consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensures there is no threat to objectivity and independence in the conduct of the audit as a result. Excluding VAT and any expenses, the annual audit fee was £21,095 (2017: £20,550) and the non-audit fee was £6,750 (2017: £6,750); this latter item covered the review of the half-yearly financial report and the annual certificate of compliance to the trustees of the debenture stock. The Committee does not believe that this has impaired the auditor's independence and objectivity. Non-audit services up to £5,000 do not require approval in advance of the Audit Committee; amounts in excess of this require the approval of the Audit Committee.

The Company was incorporated in 1889 and the tenure of KPMG (including its predecessor firms) is at least fifty years. Catherine Burnet has been the Company's audit partner since the 2015 year end audit and both the audit partner and manager have rotated in accordance with prevailing guidance. Under auditor rotation regulations, KPMG LLP will not be able to continue as the Company's auditor after the year ended 31 March 2020, having undertaken an audit tender in 2013. However, in order to coincide with the audit partner rotation requirements, an audit tender process will be undertaken in early 2019, with the new auditor in place for the financial year ending 31 March 2020.

Resolutions proposing the reappointment of KPMG LLP as the Company's auditor for the year to 31 March 2019 and authorising the Audit Committee to determine its remuneration will be put to shareholders at the forthcoming AGM.

#### **Internal Controls and Risk Management**

The Committee undertakes a robust assessment of the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place and relevant information reported to the Directors, throughout the year. The resultant ratings of the mitigated risks allow the Directors to concentrate on those risks that are most significant and also form the basis of the list of principal risks and uncertainties set out in the Strategic Report on pages 14 to 16.

The Committee, on behalf of the Board, is responsible for ensuring that the Company maintains a sound system of internal control to mitigate risk and safeguard the Company's assets. The effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems, is reviewed at least annually. Appropriate action is taken to remedy any significant failings or weaknesses identified from these reviews. No significant items were identified in the year. As part of this, the Committee receives and considers, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian, company secretary and registrar. These reviews identified no issues of significance during the year.

#### **Internal Audit**

The Company, being an externally managed investment company with no executive employees and in view of the Manager having an internal audit function, does not have its own internal audit function.

#### **Committee Evaluation**

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on page 33.

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**Gordon McQueen**  
Chairman of the Audit Committee

31 May 2018

## Governance Directors' Report

For the year ended  
31 March 2018

### Business and Status

The Company was incorporated and registered in Scotland on 1 March 1889 as a public limited company, registered number SC1836. It is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

### Corporate Governance

The Corporate Governance Statement set out on page 26 is included in this Directors' Report by reference.

### The Board

At the year end the Board comprised five non-executive Directors. Brief biographical details of the Directors are shown on page 24. The Company's Corporate Governance Framework is set out on page 25. This shows the key objectives of the Board and also the membership and key objectives of the Board's supporting committees which deal with specific aspects of the Company's affairs: the Audit, Management Engagement and Nomination Committees.

The Board regards all of the Directors to be wholly independent of the Company's Manager. The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company.

#### Chairman

The Chairman of the Company is Glen Suarez. He has been a member of the Board since 2013 and was appointed Chairman on 22 November 2017 following the retirement of Jim Pettigrew.

#### Senior Independent Director

The Company's Senior Independent Director is Sir Nigel Wicks.

#### Board Balance

The Directors have a range of business, financial or asset management skills and experience relevant to the direction and control of the Company.

### Board Responsibilities

The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that their policies and operations are in the interest of all of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly considered. The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures for and on behalf of the Company that the Board considers adequate to prevent persons associated with it from engaging in bribery and has a zero tolerance approach towards the criminal facilitation of tax evasion.

The Board has a schedule of matters reserved for its consideration, which clearly define the Directors' responsibilities. The main responsibilities include: setting long-term strategy; setting the Company's objectives, policies and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; selecting an appropriate Manager; approving accounting policies and dividend policy; determining dividends payable; managing the capital structure; reviewing investment performance; assessing risk; approving borrowing; and reviewing, and, if agreed, approving recommendations made by the Board's committees. The schedule of matters reserved for the Board will be available for inspection at the AGM and is otherwise available at the registered office of the Company and on the Company's page on the Manager's website.

The Board ensures that shareholders are provided with sufficient information in order to understand the risk:reward balance to which they are exposed by holding their shares, through the portfolio details given in the half-yearly and annual financial reports, factsheets and daily NAV disclosures.

The Board meets on a regular basis at least four times each year. Additional meetings are arranged as necessary. Regular contact is maintained by the Manager with the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook, strategic direction, performance against stock market indices and the Company's peer group, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, investment policy guidelines, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

There is an agreed procedure for the Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted with the Chairman.

Finally, the Board as a whole undertakes the responsibilities which would otherwise be assumed by a remuneration committee, determining the Company's remuneration policy. The Board takes into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report.

#### **Audit Information**

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **The Committees**

The Board has three committees: the Audit Committee, the Management Engagement Committee and the Nomination Committee. Each committee has written terms of reference, which clearly define each committees' responsibilities and duties. The terms of reference of each committee are available for inspection at the AGM, at the registered office of the Company and also available on the Company's page of the Manager's website.

##### **The Audit Committee**

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on page 27, which is included in this Directors' Report by reference.

##### **The Management Engagement Committee**

The Management Engagement Committee comprises all directors under the chairmanship of Glen Suarez. The Committee meets at least annually to review the investment management agreement and to review the services provided by the Manager.

## Governance Directors' Report

For the year ended  
31 March 2018

### **The Nomination Committee**

All Directors are members of the Nomination Committee which is chaired by Glen Suarez. The Committee meets at least once a year to review the composition of the Board and its committees and evaluating whether they have the appropriate balance of skills, experience, independence and knowledge of the Company; and making recommendations to the Board for the re-election of directors at AGMs.

The Committee is also responsible for identifying and nominating to the Board suitable candidates taking into consideration the above requirements; the ability of any new director to devote sufficient time to the Company to carry out his or her duties effectively; and with due regard for the benefits of diversity (including gender). The Board has not set any measurable objectives in respect of the latter.

During the year the Committee reviewed succession planning. Taking into consideration Jim Pettigrew's retirement, during the year the Committee commenced recruitment for a new director. An external independent recruitment consultancy, Odgers Berndtson, is being used for this search and the Committee provided a detailed description of the role and the skills required.

The Board has noted the implication of the provisions in the UK Corporate Governance Code that non-executive directors who have served for more than nine years should be presumed not to be independent. The AIC does not believe that this presumption is appropriate for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority of an investment trust board. Accordingly the Board considers that the independence of Sir Nigel Wicks, who has served on the Board over nine years, is not compromised by his length of service, but to the contrary, is strengthened by his experience.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and will also be available at the AGM. A Director can be removed from office without notice or compensation upon being served with a written notice signed by all the other Directors.

### **Appointment, Re-election and Tenure**

New Directors are appointed by the Board following recommendation by the Nominations Committee. The Articles of Association require that a Director shall be subject to election at the first AGM after appointment and re-election at least every three years thereafter. However, in accordance with the UK Code of Corporate Governance, the Board has resolved that all Directors shall stand for annual re-election at the AGM.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are continually updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with new legislation and the changing risk environment.



## Governance Directors' Report

For the year ended  
31 March 2018

### **Disclosable Interests**

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end.

### **Director's Indemnities and Insurance**

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, deeds of indemnity have been executed on behalf of the Company for each of the Directors under the Company's Articles of Association.

Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

### **Conflicts of Interest**

A Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or has the potential to conflict with the company's interests. The Articles of Association of the Company give the Directors authority to authorise potential conflicts of interest and there are safeguards which apply when Directors decide whether to do so. First, only Directors who have no interest in the matter being considered are able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors can impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. The Register of Potential Conflicts of Interests is kept at the registered office of the Company. It is reviewed regularly by the Board and Directors know to advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

### **Internal Controls and Risk Management**

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls (the 'internal controls') which are designed to safeguard the Company's assets and which have been in place throughout the year and up to the date of this report.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal controls is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. This system can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that necessary actions would be taken to remedy any significant failings or weaknesses identified from their review and that no significant failings or weaknesses occurred throughout the year ended 31 March 2018 and up to the date of this annual financial report.

The Board reviews financial reports and performance against forecasts, relevant stock market criteria and the Company's peer group. In addition, the Manager and custodian maintain their own systems of internal controls and risk management and the Board and the Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also produced annually on the internal controls and procedures in place for the operation of secretarial and administrative, custodial, investment management and accounting activities. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

### **Going Concern**

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet, for the same reasons as set out in the Viability Statement. In considering this, the Directors took into account both ongoing expenses and any obligations under the Company's borrowing (both the debenture and the bank facility). The Directors also considered revenue forecasts and future dividend payments in determining the going concern basis.

### **The Manager**

The Manager is Invesco Fund Managers Limited (IFML). The Manager is an associated company of Invesco Asset Management Limited (IAML). IAML continues to manage the Company's investments under delegated authority from the Manager. The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company.

The Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the Manager prepares half-yearly and annual financial reports on behalf of the Company.

#### **Investment Management Agreement (IMA)**

The Manager provides investment and administration services to the Company under an investment management agreement dated 22 July 2014. The agreement is terminable by either party by giving not less than three months' notice. Prior to this, IAML provided these services.

The management fee is calculated on 0.0458333% of the market capitalisation of the Company's ordinary shares at each month end and paid monthly in arrears. There is no performance fee.

#### **Assessment of the Manager**

The Management Engagement Committee has carried out a review following the Company's 2018 financial year end and, following recommendation from the Committee, the Board considers that the continuing appointment of IFML as Manager is in the best interests of the Company and its shareholders.

### **Company Secretary**

The Board has direct access to the advice and services of the corporate company secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The company secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. Finally, the company secretary is responsible for advising the Board through the Chairman on all governance matters.

### **Stewardship**

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards

## Governance Directors' Report

For the year ended  
31 March 2018

are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. The Manager's approach to corporate governance and the UK Stewardship Code can be found on the Manager's website at [www.invescoperpetual.co.uk](http://www.invescoperpetual.co.uk) together with a copy of the Manager's Stewardship Policy and Manager's global proxy voting policy.

### Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and results. Shareholders can also visit the Company's page of the Manager's website in order to access copies of the annual and half-yearly financial reports, pre-investment information, Key Information Documents (KIDs), proxy voting results, factsheets and stock exchange announcements. At each AGM, a presentation is made by the Manager following the formal business of the meeting and shareholders have the opportunity to attend, vote and most importantly to communicate directly with the Board.

There is a regular dialogue between the Manager and major institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

The Company Secretary ensures that all non-spam correspondence addressed to the Company is reported to the Board and dealt with in a timely matter.

### Greenhouse Gas Emissions

The Company has no employees or premises and does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes.

### Share Capital

#### Capital Structure

At the year end, the Company's allotted and fully paid share capital consisted of 195,666,734 ordinary shares of 25p each. To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares. No shares were bought back or issued in the year.

#### Restrictions

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, no restrictions on the distribution of dividends and the repayment of capital, and no agreements to which the Company is party that might affect its control following a successful takeover bid.



Governance  
**Directors' Report**

For the year ended  
31 March 2018

**Resolutions 5 to 9** are to re-elect Directors. Biographies of the Directors can be found on page 24.

**Resolutions 10 and 11** are to reappoint the auditor and to authorise the Audit Committee to determine their remuneration. KPMG LLP have expressed their willingness to hold office until the conclusion of the next AGM of the Company.

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**Special Business**

**Resolution 12: Authority to Allot Shares** is an Ordinary Resolution seeking renewal of the current authority for the Directors' to allot up to 10% of the issued ordinary share capital, this being an aggregate nominal amount of £4,891,668 as at 31 May 2018.

**Resolution 13: Authority to Allot Shares** is a Special Resolution which seeks renewal of the current authority to allot equity securities pursuant to a rights issue or to issue up to 10% of the issued ordinary share capital otherwise than in connection with a rights issue, dis-applying preemption rights. This will allow shares to be issued to new shareholders, within the prescribed limits, without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. The Directors will not dilute the interests of existing shareholders by using the authority to issue shares at a price which is less than the Net Asset Value (calculated with debt at market value) of the existing shares in issue at that time. These authorities will expire at the next AGM of the Company or fifteen months after the passing of the resolutions, whichever is the earlier.

**Special Resolution 14: Authority to Buy Back Shares**

This resolution seeks to renew the Directors' authority to purchase up to 14.99% of the Company's issued share capital, this being 29,330,443 ordinary shares as at 31 May 2018. The authority will expire at the Company's next AGM or 15 months following the passing of this resolution, if earlier. The principal purpose of share buy backs is to enhance the net asset value for remaining shareholders and purchases will only be made if they do so.

In accordance with the UK Listing Rules, the maximum price which may be paid for a share must not be more than the higher of: (i) 5% above the average of the mid-market values of the shares for the five business days before the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation from time to time. The minimum price which may be paid will be 25p per share, this being the nominal value of a share. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using its existing cash balance or by selling securities in the Company's portfolio.

The Directors might consider holding repurchased shares as treasury shares with a view to possible resale.

**Special Resolution 15: Notice Period for General Meetings**

The EU Shareholder Rights Directive increased the notice period for general meetings of companies to 21 days unless certain conditions are met in which case it may be 14 days' notice. A shareholders' resolution is required to ensure that the Company's general meetings (other than Annual General Meetings) may be held on 14 days' notice. Accordingly, Special Resolution 16 will propose that the period of notice for general meetings of the Company (other than AGMs) shall not be less than 14 days' notice. It is intended that this flexibility will be used only where the Board believes it is in the best interests of shareholders as a whole, and an explanation will be provided.

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

By order of the Board

  
Invesco Asset Management Limited  
Company Secretary

31 May 2018

## Governance Statement of Directors' Responsibilities

in respect of the  
preparation of the Annual  
Financial Report

The Directors are responsible for preparing the annual financial 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 that law the Directors have elected to prepare financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the 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 a Corporate Governance Statement that complies with that law and those regulations.

The Directors of the Company each confirm to the best of their knowledge, that:

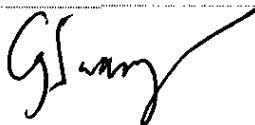
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company taken as a whole; and
- this annual financial report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that this annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board of  
Directors

Glen Suarez  
Chairman

31 May 2018



### Electronic Publication

The annual financial report is published on [www.invescoperpetual.co.uk/edinburgh](http://www.invescoperpetual.co.uk/edinburgh) which is the Company's page of the Manager's website maintained by the Company's Manager. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

# Governance

## Directors' Remuneration Report

For the year ended  
31 March 2018

This report has been prepared under the requirements of The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 46 to 49.

### Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

### Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 20 July 2017 and became effective on that date.

The policy is that the remuneration of Directors: be fair and reasonable in relation to that of other investment trusts and to the time commitment and responsibilities undertaken; be reviewed relative to movements in the Retail Price Index; be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board but not be more than necessary for the purpose; and take into consideration any committee memberships and chairmanship duties.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association (Articles). The maximum currently is £250,000 in aggregate per annum.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in the performance of their duties. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

Notwithstanding the above, the Company's Articles also provide that additional discretionary payments can be made for services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director.

The level of Directors' remuneration is normally reviewed annually, although such review will not automatically result in any changes. This Directors' Remuneration Policy will apply to any new directors, who will be paid the appropriate fee based on the Directors' fees level in place at the date of appointment. The Board will consider, where raised, shareholders' views on Directors' remuneration.

The Board may amend the level of remuneration paid to Directors within the parameters of the Directors' Remuneration Policy.

This Directors' Remuneration Policy is the same as that currently followed by the Board as disclosed in last year's Directors' Remuneration Report.

The Company has no employees and consequently has no policy on the remuneration of employees.

### Annual Statement on Directors' Remuneration

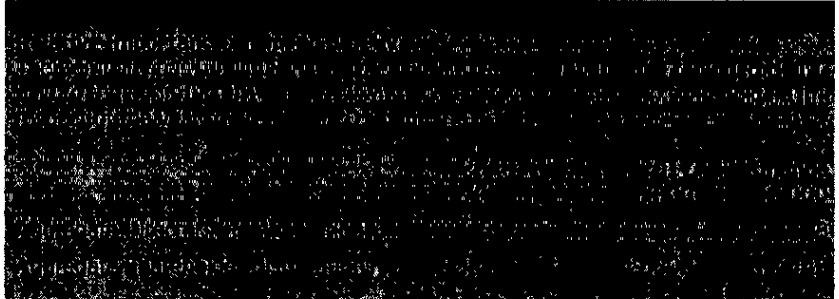
for the year ended 31 March 2018. Fees paid to the Directors per annum were:  
Chairman £44,000; Senior Independent Director £27,500; Audit Committee Chairman £40,000; other Directors £24,000

Directors' fees have remained unchanged since 1 April 2007, with the exception of the Audit Committee Chairman's fee which increased from £27,000 with effect from 1 April 2015. During the year under review the Board reviewed Directors' fees and considered that the current level of remuneration remained appropriate. No discretionary payments were made in the year, or the previous year, in relation to their decision. The Board considered information supplied by the Manager at their request. This included the fee rates of comparable investment companies. No external consultant was used.



**Governance  
Directors'  
Remuneration Report**

For the year ended  
31 March 2018



**Approval**  
This Directors' Remuneration Report was  
approved by the Board of Directors on  
31 May 2018.

**Glen Suarez**  
Chairman

Signed on behalf of the Board of  
Directors



## Financial

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Forth Railway Bridge

# Financial Independent Auditor's Report

To the Members of  
The Edinburgh Investment  
Trust plc only

## Overview

**Materiality:** financial statements as a whole

£15.5 million (2017: £17.4 million)  
1% (2017: 1%) of Total Assets

## Lower Materiality

income from investments excluding  
unrealised gains and losses, investment  
management fees and finance cost of  
borrowings

£1.9 million (2017: £1.9 million)  
3% (2017: 3%) of income from investments

## Risks of material misstatement vs 2017

### Recurring risks

Carrying amount of quoted investments ◀▶

## Opinions and conclusions arising from our audit

### 1. Our opinion is unmodified

We have audited the financial statements of The Edinburgh Investment Trust plc ("the Company") for the year ended 31 March 2018 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the company before 31 March 1980. The period of total uninterrupted engagement is for more than the 38 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

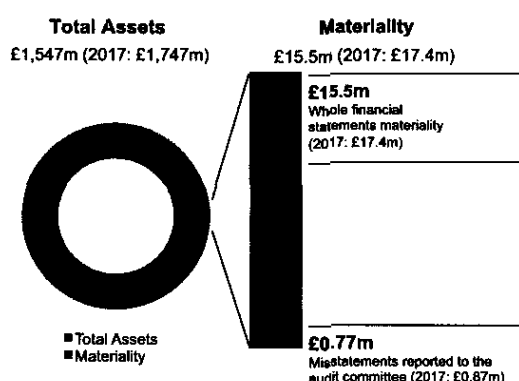
### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017), in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**Carrying amount of Quoted Investments** (£1,536 million; 2017: £1,731 million)  
Refer to page 28 (Audit Committee Report), page 52 (accounting policy) and page 57 (Note 9 Investments).

#### - The risk: Low risk, high value

The Company's portfolio of quoted investments makes up 99.3% of the Company's total assets by value and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to requiring a significant level of judgement because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing the audit.



- **Our response:** Our procedures included:
  - **Tests of detail:** Agreeing the valuation of 100% of quoted investments in the portfolio to externally quoted prices; and
  - **Enquiry of custodians:** Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodian.
  - **Our Results:** We found the carrying value of quoted investments to be acceptable (2017: acceptable).

**3. Our application of materiality and an overview of the scope of our audit**  
 Materiality for the financial statements as a whole was set at £15.5 million (2017: £17.4 million), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

In addition, we applied a materiality of £1.92 million (2017: £1.86 million) to income from investments excluding unrealised gains and losses; investment management fees and finance cost of borrowings for which we believe misstatements of lesser amounts than materiality for the financial statement as a whole could reasonably be expected to influence the Company's members assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.77 million (2017: £0.87 million); any corrected or uncorrected identified misstatements exceeding £96,000 (2017: £93,000) to income from investments excluding unrealised gains and losses; investment management fees, and finance cost of borrowings; and in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the offices of The Bank of New York London Branch.

**4. We have nothing to report on going concern**

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements, or
- the related statement under the Listing Rules set out on page 35 is materially inconsistent with our audit knowledge

We have nothing to report in these respects.

**5. We have nothing to report on the other information in the Annual Report**

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

**Strategic Report and Directors' Report**

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

# Financial Independent Auditor's Report

To the Members of  
The Edinburgh Investment  
Trust plc only

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Directors' Remuneration Report**

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### **Disclosures of principal risks and longer-term viability**

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 17 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

#### **Corporate governance disclosures**

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

#### **6. We have nothing to report on the other matters on which we are required to report by exception**

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.

We have nothing to report in these respects.

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## **7. Respective responsibilities**

### **Respective responsibilities**

As explained more fully in their statement set out on page 39, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

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

### **Irregularities - ability to detect**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors, the investment manager and the administrator (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the Company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team which included individuals with experience relevant to those laws and regulations, and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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.



**Catherine Burnet**  
Senior Statutory Auditor  
for and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

31 May 2018

## Financial

for the year ended  
31 March

## Income Statement

	Notes	Revenue £'000	2018 Capital £'000	Total £'000	Revenue £'000	2017 Capital £'000	Total £'000
(Losses)/gains on investments	9(c)	-	(129,918)	(129,918)	-	147,966	147,966
Foreign exchange losses		-	(393)	(393)	-	(108)	(108)
Income	2	64,154	492	64,646	61,938	522	62,460
Investment management fee	3	(2,276)	(5,312)	(7,588)	(2,262)	(5,278)	(7,540)
Other expenses	4	(888)	(1)	(889)	(893)	(1)	(894)
<b>Net return before finance costs and taxation</b>		<b>60,990</b>	<b>(135,132)</b>	<b>(74,142)</b>	<b>58,783</b>	<b>143,101</b>	<b>201,884</b>
Finance costs	5	(2,679)	(6,252)	(8,931)	(2,773)	(6,473)	(9,246)
<b>Return on ordinary activities before taxation</b>		<b>58,311</b>	<b>(141,384)</b>	<b>(83,073)</b>	<b>56,010</b>	<b>136,628</b>	<b>192,638</b>
Tax on ordinary activities	6	(1,071)	-	(1,071)	(1,346)	-	(1,346)
<b>Return on ordinary activities after taxation for the financial year</b>		<b>57,240</b>	<b>(141,384)</b>	<b>(84,144)</b>	<b>54,664</b>	<b>136,628</b>	<b>191,292</b>
<b>Return per ordinary share:</b>							
Basic	7	29.3p	(72.3)p	(43.0)p	27.9p	69.9p	97.8p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The return on ordinary activities after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

## Reconciliation of Movements in Shareholders' Funds

	Notes	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>Balance at 31 March 2016</b>		<b>48,917</b>	<b>10,394</b>	<b>24,676</b>	<b>1,239,847</b>	<b>68,483</b>	<b>1,392,317</b>
Dividends paid	8	-	-	-	-	(48,428)	(48,428)
Net return on ordinary activities		-	-	-	136,628	54,664	191,292
<b>Balance at 31 March 2017</b>		<b>48,917</b>	<b>10,394</b>	<b>24,676</b>	<b>1,376,475</b>	<b>74,719</b>	<b>1,535,181</b>
Dividends paid	8	-	-	-	-	(51,168)	(51,168)
Net return on ordinary activities		-	-	-	(141,384)	57,240	(84,144)
<b>Balance at 31 March 2018</b>		<b>48,917</b>	<b>10,394</b>	<b>24,676</b>	<b>1,235,091</b>	<b>80,791</b>	<b>1,399,869</b>

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

Notes		2018 £'000	2017 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	9(a)	1,535,929	1,731,265
<b>Current assets</b>			
Debtors	10	6,372	12,897
Cash and cash equivalents		4,320	3,230
		10,692	16,127
<b>Creditors: amounts falling due within one year</b>			
Bank facility	11	(43,900)	(109,700)
Other payables	11	(3,982)	(3,892)
		(47,882)	(113,592)
<b>Net current liabilities</b>			
		(37,190)	(97,465)
<b>Total assets less current liabilities</b>			
		1,498,739	1,633,800
<b>Creditors: amounts falling due after more than one year</b>			
	12	(98,870)	(98,619)
<b>Net assets</b>			
		1,399,869	1,535,181
<b>Capital and reserves</b>			
Share capital	13	48,917	48,917
Share premium	14	10,394	10,394
Capital redemption reserve	14	24,676	24,676
Capital reserve	14	1,235,091	1,376,475
Revenue reserve	14	80,791	74,719
<b>Shareholders' funds</b>			
		1,399,869	1,535,181
<b>Net asset value per ordinary share</b>			
Basic - debt at par	15	714.85p	783.88p
- debt at market value	15	703.34p	768.81p

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

# Financial Notes to the Financial Statements

## 1. Principal Accounting Policies

**Accounting policies** describe the Company's approach to recognition and measurement transactions during the year and the position of the company at the year end.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the year and the preceding year.

### A. Basis of Preparation

#### Accounting Standards Applied

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable UK Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice (SOP) for financial statements of limited liability companies and venture capital trusts issued by the Association of Investment Companies in November 2007 (AIC SOP) and updated in January 2007 which financial statements are issued on a going concern basis.

As an investment vehicle the company uses the word "which" rather than "which are" in its financial statements. Cash flow statements are not required when an investment vehicle meets all the following conditions: (i) substantially all investments are financial and (ii) the company is not a provider of services to other companies or individuals. The financial statements of the company are prepared on a going concern basis.

### B. Foreign Currency and Segment Reporting

#### (i) Functional and presentation currency

The financial statements are prepared in sterling which is the company's functional and presentation currency and the currency in which the company's share capital and expenses, assets, liabilities and liabilities are denominated.

#### (ii) Transactions and balances

Transactions in foreign currencies, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling at the dates of the transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to the consolidated profit or loss or revenue account depending on whether the gain or loss is capital or revenue nature. All gains and losses are recognised in the income statement.

#### (iii) Segment reporting

The Directors are of the opinion that the Company is engaged in a single segment of business or investing in equity and debt securities, issued by companies quoted mainly on the UK or other recognised stock exchanges.

## C. Financial Instruments

The Company has chosen to apply Section 11 and 12 of FRS 102 in full in respect of the financial instruments.

#### (i) Recognition of financial assets and financial liabilities

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

#### (ii) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the asset and receives and contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred and the Company has transferred financial assets and the associated risks to the Company's transferee as follows:

#### (i) Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations of the instrument are either extinguished or have expired.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company is committed to purchase or sell the assets.

#### (ii) Classification and measurement of financial assets and financial liabilities

##### Financial Assets

The Company's investments are classified as held at fair value through profit or loss or held at fair value through other comprehensive income.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is often to be their cost, with transaction costs excluded. The measurement of these investments is subsequently valued at fair value.

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. Fair value for investments that are actively traded but where active stock exchange quoted bid prices are not available is determined by reference to a variety of valuation techniques, including market multiples and price modelling. Unquoted, unlisted or illiquid investments are valued by the Directors at fair value using a variety of valuation techniques including earnings multiples, recent transactions and other market indicators, cash flows and net assets.

of the company's assets, including its cash and investments, and the company's ability to meet its obligations.

The company's assets are held in trust for the benefit of the shareholders and are managed by the trustees.

The company's investments are held in trust for the benefit of the shareholders and are managed by the trustees.

The company's cash and investments are held in trust for the benefit of the shareholders and are managed by the trustees.

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## 2. Income

*This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.*

	2018 £'000	2017 £'000
Income from listed investments		
UK dividends		
- Ordinary dividends	48,604	48,237
- Special dividends	3,335	1,784
Overseas dividends		
- Ordinary dividends	9,903	10,205
Unfranked investment income	2,299	1,707
Income from money market funds	9	4
	<b>64,150</b>	<b>61,937</b>
Other income		
Deposit interest	4	1
<b>Total Income</b>	<b>64,154</b>	<b>61,938</b>

Special dividends of £492,000 were recognised in capital during the year (2017: £522,000).

## 3. Investment Management Fee

*This note shows the fee due to the Manager. This is calculated and paid monthly.*

	Revenue £'000	2018 Capital £'000	Total £'000	Revenue £'000	2017 Capital £'000	Total £'000
Investment management fee	2,276	5,312	7,588	2,262	5,278	7,540

Details of the investment management agreement are disclosed on page 35 in the Directors' Report. At 31 March 2018 investment management fees of £576,000 (2017: £640,000) were accrued.

#### 4. Other Expenses

The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.

	Revenue £'000	2018 Capital £'000	Total £'000	Revenue £'000	2017 Capital £'000	Total £'000
<b>Other expenses</b>	<b>888</b>	<b>1</b>	<b>889</b>	<b>893</b>	<b>1</b>	<b>894</b>
Other expenses include the following:						
Directors' remuneration	169	-	169	177	-	177
Fees payable to the Company's auditor in relation to:						
- the audit of the Company's annual accounts (including expenses)	23	-	23	22	-	22
- audit related assurance services	7	-	7	7	-	7

Further information on Directors' remuneration can be found in the Directors Remuneration Report. Included within other expenses is £16,000 (2017: £17,000) of employer's National Insurance payable on Directors' remuneration. As at 31 March 2018, the amount outstanding on Directors' remuneration and employer's National Insurance was £14,751 (2017: £17,620).

Fees payable to the Company's auditor for audit related assurance services fees are for their review in connection with the half-yearly financial statements and the annual certificate to the trustee of the debenture stock, which are recognised in revenue. Fees payable to the Company's auditor are shown excluding VAT, which is included in other expenses.

#### 5. Finance costs

Finance costs arise on any borrowing facilities the Company has used. Borrowing facilities are the £100 million debenture stock and a £150 million bank revolving credit facility.

	Revenue £'000	2018 Capital £'000	Total £'000	Revenue £'000	2017 Capital £'000	Total £'000
Interest payable on borrowings repayable not by instalments:						
- interest on bank facility	279	651	930	373	872	1,245
- debenture stock repayable in 3-5 years	2,325	5,425	7,750	-	-	-
- debenture stock repayable after 5 years	-	-	-	2,325	5,425	7,750
Amortised debenture stock discount and issue costs	75	176	251	75	176	251
	<b>2,679</b>	<b>6,252</b>	<b>8,931</b>	<b>2,773</b>	<b>6,473</b>	<b>9,246</b>

## Financial Notes to the Financial Statements

### 6. Tax on Ordinary Activities

*As an investment trust the Company pays no tax on capital gains. As the Company invests principally in UK equities, it has little overseas tax and the overseas tax charge is the result of withholding tax deducted at source. This note also clarifies the basis for the Company having no deferred tax asset or liability.*

(a) Tax charge	2018 £'000	2017 £'000
Overseas tax	1,071	1,346
<b>(b) Reconciliation of tax charge</b>		
	2018 £'000	2017 £'000
Total return on ordinary activities before taxation	(83,073)	192,638
UK Corporation Tax rate of 19% (2017: 20%)	(15,784)	38,527
Effect of:		
- non-taxable losses/(gains) on investments	24,684	(29,593)
- non-taxable losses on foreign exchange movements	75	22
- non-taxable UK dividends and scrip dividends	(8,551)	(9,135)
- non-taxable overseas dividends	(1,882)	(2,020)
- non-taxable special dividends	(666)	(461)
- expenses and finance costs in excess of taxable income for the year carried forward	2,124	2,660
- overseas tax	1,071	1,346
<b>Tax charge for the year</b>	<b>1,071</b>	<b>1,346</b>

#### (c) Deferred tax

Owing to the Company's status as an investment company, and the Directors' intention that it continues to meet the conditions required to maintain that approval in the foreseeable future, no deferred tax has been provided on any capital gains and losses arising on the revaluation or disposal of investments.

#### (d) Factors that may affect future tax changes

The Company has surplus management expenses and losses on loan relationships of £447,424,000 (2017: £436,223,000) that are available to offset future taxable revenue. A deferred tax asset of £76,062,000 (2017: £74,158,000), measured at the prospective rate of corporation tax of 17% (2017: 17%), has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

### 7. Return Per Ordinary Share

*Return per share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.*

The basic, capital and total returns per ordinary share are based on each return on ordinary shares after tax and on 145,686,704 (2017: 145,686,704) ordinary shares, being the weighted average number of shares in issue during the year.

## 8. Dividends on Ordinary Shares

*Dividends represent the distribution of income to shareholders. The Company pays four dividends a year - three interims and one final dividend.*

Dividends paid and recognised in the year:	2018		2017	
	pence	£'000	pence	£'000
- third interim paid in respect of previous year	5.40	10,566	5.20	10,175
- final paid in respect of previous year	9.15	17,904	8.75	17,121
- first interim paid	5.80	11,349	5.40	10,566
- second interim paid	5.80	11,349	5.40	10,566
	<b>26.15</b>	<b>51,168</b>	<b>24.75</b>	<b>48,428</b>

Dividends on shares payable in respect of the year:	2018		2017	
	pence	£'000	pence	£'000
- first interim	5.80	11,349	5.40	10,566
- second interim	5.80	11,349	5.40	10,566
- third interim	5.80	11,349	5.40	10,566
- proposed final	9.20	18,000	9.15	17,904
	<b>26.60</b>	<b>52,047</b>	<b>25.35</b>	<b>49,602</b>

The proposed final dividend is subject to approval by ordinary shareholders at the AGM.

## 9. Investments

*The portfolio comprises investments which are principally listed on a regulated stock exchange or traded on AIM. A very small proportion of investments are valued by the Directors as they are unlisted or not regularly traded.*

Gains or losses are either:

- realised, usually arising when investments are sold; or
- unrealised, being the difference from cost on those investments still held at the year end.

### (a) Analysis of investments by listing status

	2018 £'000	2017 £'000
- investments listed on a regulated stock exchange	1,441,803	1,687,525
- AIM quoted investments	93,804	43,344
- unlisted or not regularly traded investments at Directors' valuation	322	396
	<b>1,535,929</b>	<b>1,731,265</b>

**(b) Analysis of investments gains**

	2018 £'000	2017 £'000
<b>Opening valuation</b>	<b>1,731,265</b>	<b>1,563,534</b>
Movements in year:		
- purchases at cost	249,793	188,021
- sales - proceeds	(315,211)	(168,256)
- sales - net realised gains	100,887	74,684
Movement in investment holding gains	(230,805)	73,282
<b>Closing valuation</b>	<b>1,535,929</b>	<b>1,731,265</b>
Closing book cost	1,305,093	1,269,624
Closing investment holding gains	230,836	461,641
<b>Closing valuation</b>	<b>1,535,929</b>	<b>1,731,265</b>

There were no purchases or sales of unlisted investments during the year (2017: £nil).

**(c) (Losses)/gains on investments**

	2018 £'000	2017 £'000
Realised gains on sales	100,887	74,684
Movement in investment holding gains	(230,805)	73,282
<b>(Losses)/gains on investments</b>	<b>(129,918)</b>	<b>147,966</b>

**(d) Transaction costs**

Transaction costs on purchases of £1,157,000 (2017: £1,026,000) and on sales of £316,000 (2017: £314,000) are included within gains and losses on investments.

**(e) Significant holdings**

At 31 March 2018 the Company had holdings of 3% or more of the number in issue of the following investments:

Name of Undertaking	Country of Incorporation	Instrument	% held
Zegona Communications	England & Wales	Ordinary shares	4.9
Secure Trust Bank	England & Wales	Ordinary shares	4.9
Hadrian's Wall Secured Investments	Guernsey	Ordinary and C shares	4.4
Barclays Bank	England & Wales	Nuclear Power Notes 28 February 2019	4.4
Honeycomb Investment Trust	England & Wales	Ordinary shares	4.1
NewRiver REIT	England & Wales	Ordinary shares	3.7

**10. Debtors**

*Debtors are amounts which are due to the Company, such as monies due from brokers for investments sold and income which has been earned (accrued) but not yet received.*

	2018 £'000	2017 £'000
Amounts due from brokers	1,301	7,252
Prepayments and accrued income	3,371	4,159
Tax recoverable	1,700	1,486
	<b>6,372</b>	<b>12,897</b>

**11. Creditors: amounts falling due within one year**

*Creditors are amounts which must be paid by the Company and are split between those payable within 12 months of the balance sheet date and those payable after that time. The main creditors are the debenture and bank borrowings. The other creditors include any amounts due to brokers for the purchase of investments or amounts owed to suppliers (accruals) such as the Manager and auditor.*

	2018 £'000	2017 £'000
Bank facility	43,900	109,700
Other payables:		
Amounts due to brokers	3,131	3,004
Accruals	851	888
	3,982	3,892
	<b>47,882</b>	<b>113,592</b>

The Company has a 364 day committed revolving credit facility (the 'facility') of £150 million (2017: £150 million) with the lender, The Bank of New York Mellon. The facility is due for renewal on 30 June 2018. Interest is payable at 0.70% over LIBOR with a commitment fee for undrawn amounts. Under the facility's covenants, the Company's total indebtedness must not exceed 25% of total assets and total assets must not be less than £700 million (2017: £700 million).

**12. Creditors: amounts falling due after more than one year**

*These creditors are amounts that must be paid, as shown by note 11, but are due more than one year after the balance sheet date.*

	2018 £'000	2017 £'000
Debenture Stock 7¾% redeemable 30 September 2022	100,000	100,000
Unamortised discount and issue expenses on debenture stock	(1,130)	(1,381)
	<b>98,870</b>	<b>98,619</b>

The debenture is secured by a floating charge on the Company, under which borrowing must not exceed a sum equal to the Adjusted Total of Capital and Reserves. The interest on the 7¾% debenture is payable in half yearly instalments, in March and September, each year.

The effect on the net asset value of deducting the debenture stock at market value, rather than at par, is disclosed in note 15.

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**13. Share Capital**

*Share capital represents the total number of shares in issue.*

	2018		2017	
	number	£'000	number	£'000
Allotted 25p ordinary shares:				
Brought forward	195,666,734	48,917	195,666,734	48,917
<b>Carried forward</b>	<b>195,666,734</b>	<b>48,917</b>	<b>195,666,734</b>	<b>48,917</b>

Subsequent to the year end, and up to the date of this report, no shares were issued or bought back by the Company.

The Directors' Report on page 36 sets out the Company's share capital structure, restrictions and voting rights.

**14. Reserves**

*This note explains the different reserves attributable to shareholders. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.*

The share premium comprises the net proceeds received by the Company following the issue of shares, after deducting the amount of any finance charges and applicable issue costs. The capital redemption reserve maintains the equity share capital of the Company and those from the nominal value of any shares bought back and cancelled with the proceeds of the sale.

The capital reserve includes the dividend not paid, gains/losses being the difference between cost and market value of the shares held, and also includes cumulative realized gains/losses. Capital reserves should be disclosed separately in the balance sheet of the capital reserve.

The revenue reserve shows the net revenue retained after payment of any dividends. The capital and revenue reserves are available for use by way of dividend.

## 15. Net Asset Value per Ordinary Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into NAV per ordinary share by dividing by the number of shares in issue.

The NAV - debt at par is the NAV with the value of the £100 million debenture (the debt) at its nominal (equivalent to the par) value of £100 million. The NAV - debt at market value reflects the debenture stock at the value that a third party would be prepared to pay for the debt, and this amount fluctuates owing to various factors including changes in interest rates and the remaining life of the debt. The number of ordinary shares in issue at the year end was 195,666,734 (2017: 195,666,734).

### (a) NAV - debt at par

The shareholders' funds in the balance sheet are accounted for in accordance with accounting standards; however, this does not reflect the rights of shareholders on a return of assets under the Articles of Association. These rights are reflected in the net assets with debt at par and the corresponding NAV per share. A reconciliation between the two sets of figures follows:

	2018		2017	
	NAV per share pence	Shareholders' funds £'000	NAV per share pence	Shareholders' funds £'000
Shareholders' funds	715.43	1,399,869	784.59	1,535,181
Less:				
Unamortised discount and expenses arising from debenture issue	(0.58)	(1,130)	(0.71)	(1,381)
<b>NAV - debt at par</b>	<b>714.85</b>	<b>1,398,739</b>	<b>783.88</b>	<b>1,533,800</b>

### (b) NAV - debt at market value

The market value of the debenture stock is determined by reference to the daily closing price, and is subject to review against various data providers to ensure consistency between data providers and against the reference gilt.

The net asset value per share adjusted to include the debenture stock at market value rather than at par is as follows:

	2018		2017	
	NAV per share pence	Shareholders' funds £'000	NAV per share pence	Shareholders' funds £'000
NAV - debt at par	714.85	1,398,739	783.88	1,533,800
Debenture stock - debt at par	51.11	100,000	51.11	100,000
- debt at market value	(62.62)	(122,530)	(66.18)	(129,490)
<b>NAV - debt at market value</b>	<b>703.34</b>	<b>1,376,209</b>	<b>768.81</b>	<b>1,504,310</b>

## 16. Risk Management and Financial Instruments

Financial instruments comprise the Company's investments portfolio, derivative instruments (if any) as well as cash, debt and borrowing, debtors and creditors. This note sets out the Company's financial instruments and the risks associated with them.

### Financial Instruments

The Company's financial instruments mainly comprise: (i) investments portfolio (as shown in table 15 and 16); (ii) cash and cash equivalents as well as debtors and creditors that arise directly from operations such as sales and purchases of securities; (iii) interest and accrued income. For the purpose of this note, cash should be taken to comprise cash and cash equivalents. This note also sets out the accounting policies in more detail, the criteria for the recognition and the basis of measurement applied to financial instruments. Note also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main financial risks that the Company faces from its financial instruments are market risk, liquidity risk and credit risk. These are set out below:

**Market risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

**Currency risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates.

**Interest rate risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

## Financial Notes to the Financial Statements

the company's ability to generate cash flows from operations and to service its debt obligations. The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(b) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(c) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(d) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(e) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(f) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(g) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(h) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(i) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(j) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(k) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(l) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(m) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(n) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(o) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

(p) The company's ability to generate cash flows from operations and to service its debt obligations is subject to various risks, including:

	USD £'000	2018 CHF £'000	EUR £'000	USD £'000	2017 CHF £'000	EUR £'000
Foreign currency exposure on net						
monetary items	507	1,603	97	1,312	1,169	-
Investments at fair value through profit or						
loss that are equities	53,489	68,894	-	184,163	86,075	-
<b>Total net foreign currency exposure</b>	<b>53,996</b>	<b>70,497</b>	<b>97</b>	<b>185,475</b>	<b>87,244</b>	<b>-</b>

The above may not be representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year.

### Currency sensitivity

In respect of the company's direct foreign currency exposure to investments denominated in currencies other than sterling had, when measured by 1% for the US dollar, 2% for the Swiss franc and 2.0% for the Euro, a 1% increase in the value of the company's statement capital, return and net assets of the company would have increased by £2.6 million (2017: £0.5 million). Conversely, if sterling had strengthened by the same percentage for the currencies mentioned above, the capital, return and net assets of the company would have decreased by the same amount. The sensitivity here would not have been based on the market volatility in the year, using the standard deviation of sterling, which is the applicable currency. This sensitivity takes no account of any impact on the market values of the company's investments arising from the foreign currency mix of their respective revenues, expenses, assets and liabilities.

## 16 Interest rate risk

Interest rate movements will affect the level of income receivable on cash deposits and money market funds, and the interest payable on bank and other borrowings. When the Company has cash balances, they are held in sterling and accounts opening later of interest dependent on the base rate determined by the Bank of England (the Bank of England).

The Company has in place a revolving credit facility (the facility's details of which are shown in note 13). The Company uses the facility when required at levels monitored by the Board. At the maximum possible facility reached of £150 million, the effect of a 1% increase/decrease in the interest rate would result in a decrease/increase to the Company's income of £130,000 p.a.

The Company also has an uncommitted bank overdraft facility which it uses for settlement purposes and interest is dependent on the base rate determined by the Bank of England at the year end. The overdraft facility is £20 million.

The Company's debt of £100 million (2017: £100 million) of debenture stock is fixed which exposes the Company to changes in market value in the event that the debt is repaid before maturity. Details of the debenture stock interests are shown in note 12, with details of its market value and the effect on net asset value in note 15(b).

The Company can invest in fixed income securities although at the year end there were none (2017: £nil).

### Interest rate exposure

A summary of the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (including zero-flow interest rate risk) when the interest rate is due to be reset and
- fixed interest rates (including all-value interest rate risk) when the financial instrument is due for repayment.

	2018		2017			
	Within one year £'000	Between one and five years £'000	Total £'000	Within one year £'000	More than five years £'000	Total £'000
<b>Exposure to floating interest rates:</b>						
Cash and cash equivalents	4,320	-	4,320	3,230	-	3,230
Bank facility	(43,900)	-	(43,900)	(109,700)	-	(109,700)
<b>Exposure to fixed interest rates:</b>						
Debenture, excluding unamortised discount and issue expenses	-	(100,000)	(100,000)	-	(100,000)	(100,000)
<b>Total exposure to interest rates</b>	<b>(39,580)</b>	<b>(100,000)</b>	<b>(139,580)</b>	<b>(106,470)</b>	<b>(100,000)</b>	<b>(206,470)</b>

## 16.3 Other price risk

When the market value of an investment falls, the resulting loss from interest rate risk or currency risk may affect the value of the equity investments, but it is the business of the portfolio manager to manage the portfolio to achieve the best return that he can.

### Management of the other price risk

The Director manages the market price risks inherent in the investment portfolio by ensuring that the portfolio manager complies with the Company's stated objectives and policies and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and need not be highly correlated with the Company's own share price. The value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year and the net assets of the Company would decrease by £154 million (2017: £173 million). Conversely if the value of the portfolio rose by 10%, the profit after tax and the net assets of the Company would increase by the same amounts.

# Financial Notes to the Financial Statements

## 16.2 Liquidity risk

Liquidity risk is minimised as the majority of the Company's investments constitute a diversified portfolio of readily realisable securities which can be sold to meet ongoing commitments as they arise. In addition, the Company has an overdraft facility which can be used to provide short term funding flexibility.

### Liquidity risk exposure

The contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

2018	three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Debenture stock	-	-	100,000	100,000
Bank facility	43,900	-	-	43,900
Interest on debenture stock	-	7,750	27,125	34,875
Amounts due to brokers	3,131	-	-	3,131
Accruals	851	-	-	851
	<b>47,882</b>	<b>7,750</b>	<b>127,125</b>	<b>182,757</b>

2017	three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Debenture stock	-	-	100,000	100,000
Bank facility	109,700	-	-	109,700
Interest on debenture stock	-	7,750	34,875	42,625
Amounts due to brokers	3,004	-	-	3,004
Accruals	888	-	-	888
	<b>113,592</b>	<b>7,750</b>	<b>134,875</b>	<b>256,217</b>

## 16.3 Credit risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has purchased, or to deliver securities which the Company has delivered, and cash balances held at counterparties, is minimised by using only approved counterparties. The Company's ability to operate in the short term may be adversely affected if the company experiences liquidity or other financial difficulties. However, with the support of the depositary, a restriction obligation on the risk of non-payment on the investment portfolios is met. The Board reviews the custodian's annual controls report and the Manager's management of the fund in line with the credit limit cash balance, is limited to a maximum of 1% of the assets under management, will only approved deposit takers be used, and a maximum deposit of 5% of net assets with short term investments company (Global Series) plc, a fully A-rated money market fund. These limits are at the discretion of the Board and are reviewed on a regular basis.





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**Princes Street, Edinburgh**

## Other Information for Shareholders

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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in The Edinburgh Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.**

#### Notice Of Annual General Meeting

Notice is hereby given that the one hundred and twenty eighth Annual General Meeting of The Edinburgh Investment Trust plc will be held at The Weston Link, National Galleries of Scotland, Princes Street, Edinburgh EH2 2EL on 19 July 2018 at 11am, for the following purposes:

#### Ordinary Business

To consider and, if thought fit, to pass the following resolutions all of which will be proposed as Ordinary Resolutions.

1. To receive and consider the Annual Financial Report for the year ended 31 March 2018;
2. To approve the Directors' Remuneration Policy;
3. To approve the Annual Statement and Report on Remuneration for the year ended 31 March 2018;
4. To declare a final dividend on the ordinary shares;
5. To re-elect Glen Suarez as a Director of the Company;
6. To re-elect Gordon McQueen as a Director of the Company;
7. To re-elect Maxwell Ward as a Director of the Company;
8. To re-elect Victoria Hastings as a Director of the Company;
9. To re-elect Sir Nigel Wicks as a Director of the Company;
10. To reappoint KPMG LLP as auditor of the Company; and
11. To authorise the Audit Committee to determine the remuneration of the auditor.

#### Special Business

To consider and, if thought fit, to pass the following resolutions of which 12 will be proposed as an Ordinary Resolution and resolutions 13, 14 and 15 as Special Resolutions:

12. That:  
in substitution for any existing authority under section 551 of the Companies Act 2006 (the 'Act') but without prejudice to the exercise of any such authority prior to the date of this resolution the Directors of the Company be generally and unconditionally authorised in accordance with section 551 of the Act as amended from time to time prior to the date of the passing of this resolution, to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of

£4,891,668, this being 10% of the Company's issued ordinary share capital as at 31 May 2018, such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted, or rights to be granted, after such expiry as if the authority conferred by this resolution had not expired.

#### 13. That:

subject to the passing of resolution number 12 set out in the notice of this meeting (the 'Section 551 Resolution') and in substitution for any existing authority under sections 570 and 573 of the Companies Act 2006 (the 'Act') but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby empowered, in accordance with sections 570 and 573 of the Act as amended from time to time prior to the date of the passing of this resolution to allot equity securities (within the meaning of section 560(1), (2) and (3) of the Act) for cash, either pursuant to the authority given by the Section 551 Resolution or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal, regulatory or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and
- (b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £4,891,668, this being 10% of the Company's issued ordinary share capital as at 31 May 2018

and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

**14. That:**

the Company be generally and subject as hereinafter appears unconditionally authorised 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 the issued ordinary shares of 25p each in the capital of the Company ('Shares')

Provided always that:

- (a) the maximum number of Shares hereby authorised to be purchased shall be 29,330,443 ordinary shares (being 14.99% of the issued ordinary share capital of the Company as at 31 May 2018);
- (b) the minimum price which may be paid for a Share shall be 25p;
- (c) the maximum price which may be paid for a Share must not be more than the higher of: (i) 5 per cent. above the average of the mid-market values of the Shares for the five business days before the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation from time to time;
- (d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share (as determined by the Directors);
- (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked at any other general meeting prior to such time;
- (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
- (g) any shares so purchased shall be cancelled, or, if the Directors so determine and subject to the provisions of section 724 to 731 of the Companies Act 2006 and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with section 727 or 729 of the Companies Act 2006) as treasury shares.

**15. That:**

the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 days.

The resolutions are explained further in the Directors' Report on pages 37 and 38.

**By order of the Board**

  
Invesco Asset Management Limited  
Company Secretary

Dated this 31<sup>st</sup> May 2018

*Following the Annual General Meeting, shareholders will have the opportunity to meet the Board and representatives from the Manager informally. Refreshments will be served.*

**Notes**

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:
  - via Link Asset Services website [www.signalshares.com](http://www.signalshares.com); or
  - in hard copy form by post, by courier or by hand to the Company's Registrars, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or
  - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case, to be received by the Company not less than 48 hours before the time of the meeting. Any amended proxy appointment must be received by this time.

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. 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. In order for a proxy appointment 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 specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any changes of instructions to proxies through CREST should be communicated to the appointee through other means. 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. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as

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### Notice of Annual General Meeting

shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be reviewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST).

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction) does not prevent a member from attending and voting at this meeting.

To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's Registrars, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF by no later than 11am on 17 July 2018.

4. A person entered on the Register of Members at close of business on 17 July 2018 (a 'member') is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting. If the Meeting is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members 48 hours before the time fixed for the adjourned meeting.

5. The Terms of Reference of the Audit, Management Engagement and Nominations Committees and the Letters of Appointment for Directors will be available for inspection at the Company's AGM.

6. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior and during the meeting.

7. Any 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 have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.

The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

9. Any member attending the AGM has the right to ask questions. Under section 319A of the Companies Act 2006 the Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the AGM 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 AGM that the question be answered.

10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

11. As at 31 May 2018 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 195,666,734 ordinary shares of 25p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 195,666,734.

12. A copy of this notice (which is at the back of the annual financial report), and other information required by section 311A of the Companies Act 2006, can be found at [www.invescoperpetual.co.uk/edinburgh](http://www.invescoperpetual.co.uk/edinburgh).

13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM for the financial year beginning on 1 April 2017; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 April 2017 ceasing to hold office since the previous meeting at which the annual financial report was laid in accordance with section 437 of the Companies Act 2006 (in each case) that the members propose to raise at the relevant AGM.

The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

## Other Information for the Shareholders

### Shareholder Information

#### How to Invest in The Edinburgh Investment Trust plc (The Company)

The Company's shares are quoted on the London Stock Exchange. There are a variety of ways by which investors can buy the shares. Shares may be purchased through discretionary wealth managers, banks, independent financial advisers and via a large number of execution-only trading platforms. The Manager's website contains a list of some of the larger dealing platforms as well as a link to unbiased.co.uk, for those seeking financial advice, and to the AIC's website for detailed information on investment companies.

#### Share Price

The price of your ordinary shares can be found in the Financial Times, Daily Telegraph, The Scotsman and The Times.

In addition, share price information can be found using the EDIN ticker code and on the Company's page of the Manager's website of [www.invescoperpetual.co.uk/edinburgh](http://www.invescoperpetual.co.uk/edinburgh).

#### NAV Publication

The NAV of the Company's ordinary shares is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the next business day. It is published daily in the newspapers detailed above.

#### Manager's Website

Information relating to the Company can be found on the Company's page of the

Manager's website, which is located at [www.invescoperpetual.co.uk/edinburgh](http://www.invescoperpetual.co.uk/edinburgh).

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated in to, nor do they form part of this annual financial report.

#### Financial Calendar

In addition, the Company publishes information according to the following calendar:

##### Announcements

Annual financial report	May/June
Half-yearly financial report	November

##### Dividend Payable Timetable

1st interim	November
2nd interim	February
3rd interim	May
Final	July

##### Debenture Stock

Interest payable on 7 <sup>3</sup> / <sub>4</sub> % 2022	September and March
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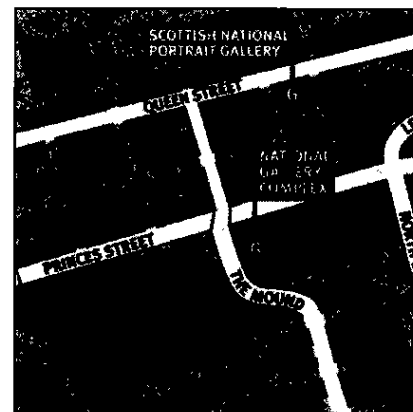
Annual General Meeting	July
------------------------	------

**Year End** 31 March

#### Location of AGM

The one hundred and twenty eighth Annual General Meeting of the Company will be held at the The Weston Link, National Galleries of Scotland, Princes Street, Edinburgh EH2 2EL on 19 July 2018 at 11am.

The portfolio manager, Mark Barnett, will make a presentation about the Company after the AGM.



#### General Data Protection Regulation (GDPR)

One of the biggest changes to UK data privacy law came into effect on 25 May 2018. GDPR is a positive step towards individuals knowing how their personal data is used and also having more control over how it is used. The Company has a privacy notice which sets out what personal data is collected, and how and why it is used. The latest privacy notice can be found at [www.invescoperpetual.co.uk/edinburgh](http://www.invescoperpetual.co.uk/edinburgh) under the 'Literature' section, or a copy can be obtained from the company secretary whose correspondence address is shown on the next page.

## Be ScamSmart

Investment scams are designed to look like genuine investments

#### Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

#### Avoid investment fraud

##### 1 Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

##### 2 Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

##### 3 Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

#### Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at [www.fca.org.uk/consumers/report-scam-unauthorised-firm](http://www.fca.org.uk/consumers/report-scam-unauthorised-firm). You can also call the FCA Consumer Helpline on 0800 111 6768

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

Find out more at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

Remember: If it sounds too good to be true, it probably is!



## Other Information for Shareholders

### Advisers and Principal Service Providers

#### Registered Office

Quartermile One  
15 Lauriston Place  
Edinburgh  
EH3 9EP

#### Company Number

Registered in Scotland.  
Number: SC1836

#### Manager

Invesco Fund Managers Limited

#### Company Secretary

Invesco Asset Management Limited  
Company Secretarial Contact: Kelly Nice

#### Correspondence Address

6th Floor  
125 London Wall  
London  
EC2Y 5AS  
☎ 020 3753 1000

#### Invesco Client Services

Invesco has a Client Services Team, available to you from 8.30am to 6.00pm, Monday to Friday (excluding Bank Holidays). Current valuations, statements and literature can be ordered, however, no investment advice can be given.

☎ 0800 085 8677  
[www.invescoetperpetual.co.uk/investmenttrusts](http://www.invescoetperpetual.co.uk/investmenttrusts)

#### Independent Auditor

KPMG LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

#### Depository and Custodian

The Bank of New York Mellon (International) Limited  
1 Canada Square  
London  
E14 5AL

#### Banker

The Bank of New York Mellon  
160 Queen Victoria Street  
London  
EC4V 4LA

#### Corporate Broker

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

#### The Association of Investment Companies

The Company is a member of the Association of Investment Companies. Contact details are as follows:

☎ 020 7282 5555  
Email: [enquiries@theaic.co.uk](mailto:enquiries@theaic.co.uk)  
Website: [www.theaic.co.uk](http://www.theaic.co.uk)

#### Lawyer

Dentons (UK) LLP  
(formerly Maclay Murray & Spens LLP)  
Quartermile One  
15 Lauriston Place  
Edinburgh  
EH3 9EP

#### Registrar

Link Asset Services Limited  
(formerly Capita Asset Services Limited)  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

If you hold your shares direct and not through a Savings Scheme or ISA and have queries relating to your shareholding, you should contact the Registrars on:  
☎ 0871 664 0300.

Calls cost 12p per minute plus your phone company's access charge.

From outside the UK: +44 371 664 0300. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open from 9.00am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Link's website: [www.signalshares.com](http://www.signalshares.com).

Link Asset Services provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at [www.linksharedeal.com](http://www.linksharedeal.com) or  
☎ 0371 664 0445.

Calls cost 12p per minute plus your phone company's access charge.

From outside the UK: +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open from 8.00am to 4.30pm, Monday to Friday (excluding Bank Holidays).

Link Asset Services is the business name of Link Market Services Limited.

## Other Information for Shareholders

### Glossary of Terms and Alternative Performance Measures

#### **Benchmark**

An index against which performance is compared. For the Company this is the FTSE All-Share Index.

#### **Discount/(Premium)**

The amount by which the share price of an investment trust is lower/(higher) than the net asset value per share. The discount/premium is normally expressed as a percentage of the net asset value of the share.

#### **Dividend Yield**

The annual dividend expressed as a percentage of the current share price.

#### **Gearing**

The gearing percentage reflects the amount of borrowings that a company has invested, with debt at par. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested.

There are several methods of calculating gearing and the following has been used in this report:

#### **Gross Gearing**

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

#### **Net Gearing**

This reflects the amount of net borrowings invested, ie borrowings less cash and investments in money market funds. It is based on net borrowings as a percentage of shareholders' funds.

#### **Leverage**

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value.

Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure.

#### **Net Asset Value (NAV)**

Also described as shareholders' funds, the NAV is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per share is calculated by dividing the net asset value by the number of ordinary shares in issue. For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment - often nominal - value). An alternative, NAV with debt at market value, values long term liabilities at their market (fair) value.

#### **Ongoing Charges Ratio**

This is calculated in accordance with guidance issued by the AIC as follows: the annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (at market value) reported in the period.

#### **Return**

The return generated in a period from the investments.

#### **Capital Return**

Reflects the return on capital, excluding any income returns.

#### **Total Return**

Total returns can be calculated in a number of ways. The total returns used in this annual financial report, and their basis, follow.

#### **Benchmark**

Total return on the benchmark, on a mid-market value basis, assuming all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

#### **Shareholders**

Total return to shareholders, on a mid-market price basis, assuming all dividends received were re-invested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

#### **Net Asset Value**

Total return on net asset value per share, on a bid value with debt at market value, assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Other Information for  
Shareholders  
**Alternative Investment  
Fund Managers Directive  
Disclosure**

**Alternative Investment Fund Manager (AIFM) and the Alternative Investment Fund Managers Directive (the 'AIFMD', the Directive)**

The Company falls within the definition of an Alternative Investment Fund (AIF) under the Directive and, as such, is required to have (or be) an authorised AIFM. Invesco Fund Managers Limited (IFML) was authorised as an AIFM, and appointed by the Company as such, with effect from 22 July 2014.

Amongst other things, regulations implementing AIFMD require certain information to be provided to prospective investors. This information can be found in the Company's page of the Manager's website ([www.invesco-perpetual.co.uk/edinburgh](http://www.invesco-perpetual.co.uk/edinburgh)) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this document since 31 March 2017. There have been two non-material changes: the Company's registrar changed its name to Link Asset Services from Capita Asset Services on a change of ownership in November 2017 and the legal entity appointed as depositary changed to The Bank of New York Mellon (International) Limited from BNY Mellon Trust & Depositary (UK) Limited with effect from 1 December 2017. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company's leverage (both 'gross' and 'commitment' - see Glossary on page 75) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:

- the leverage calculated for the Company at its year end was 110% for both gross and commitment (2017: both 113.0%). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;
- the AIFM summary remuneration policy is available from the corporate policies page of the Manager's website ([www.invesco-perpetual.co.uk](http://www.invesco-perpetual.co.uk)) and from the Company's company secretary, on request (see contact details on page 74); and
- the AIFM remuneration paid for the year to 31 December 2017 is set out below.

**AIFM Remuneration**

The AIFM remuneration paid is based on the latest financial year of the AIFM, which was to 31 December 2017.

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2017.

IFML does not employ any staff directly. All staff involved in the AIF related activities of IFML are employed and paid by Invesco UK Limited or other entities in the Invesco Limited Group. Remuneration for staff involved in AIF related activities has been apportioned based on the average assets under management of £3,632 million for the nine AIFs managed by IFML during the reporting period.

The aggregate total remuneration apportioned to IFML's AIF related activities for performance year 2017 is £8.64 million, of which £4.71 million is fixed remuneration and £3.93 million is variable remuneration. The number of beneficiaries is 35.

IFML has identified individuals considered to have a material impact on the risk profile of IFML or the AIFs it manages ('Identified Staff'), including board members of IFML, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers whose professional activities can exert material influence on IFML's risk profile or on an AIF it manages.

The aggregate total remuneration paid to the Identified Staff of IFML for AIF related activities is £1.63 million, of which £0.41 million is paid to senior management and £1.22 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates.



The Manager of The Edinburgh Investment Trust plc is Invesco Fund Managers Limited.

Invesco Fund Managers Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco is one of the largest independent global investment management firms, with assets under management of \$972.8 billion.\*

Invesco aims to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

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\* Assets under management as at 30 April 2018

## Other Information for Shareholders

### Investment Companies Managed by Invesco

#### Investing for Income, Income Growth and Capital Growth (from equities, fixed interest securities or property)

**The Edinburgh Investment Trust plc**  
Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of the Net Asset Value per share in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

The Company has a debenture stock in issue and, in addition, may use bank borrowings.

#### City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined. The Company may use bank borrowings.

#### Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grow at above the rate of inflation. The Company may use bank borrowings.

#### Invesco Perpetual Enhanced Income Limited

A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company uses repo financing to enhance returns.

#### Invesco Perpetual Select Trust plc - Managed Liquidity Portfolio

Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

#### Invesco Perpetual Select Trust plc - UK Equity Portfolio

Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

#### Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has two debenture stocks in issue.

#### Perpetual Income and Growth Investment Trust plc

Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity markets. The Company has secured loan stock in issue and, in addition, may use bank borrowings.

#### Investing in Smaller Companies

#### Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies. The Company may use bank borrowings.

#### Investing Internationally

#### Invesco Asia Trust plc

Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI AC Asia ex Japan Index, total return, in sterling terms. The Company may use bank borrowings.

#### Invesco Perpetual Select Trust plc - Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

#### Investing for Total Returns

#### Invesco Perpetual Select Trust plc - Balanced Risk Allocation Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

#### Investing in Multiple Asset Classes

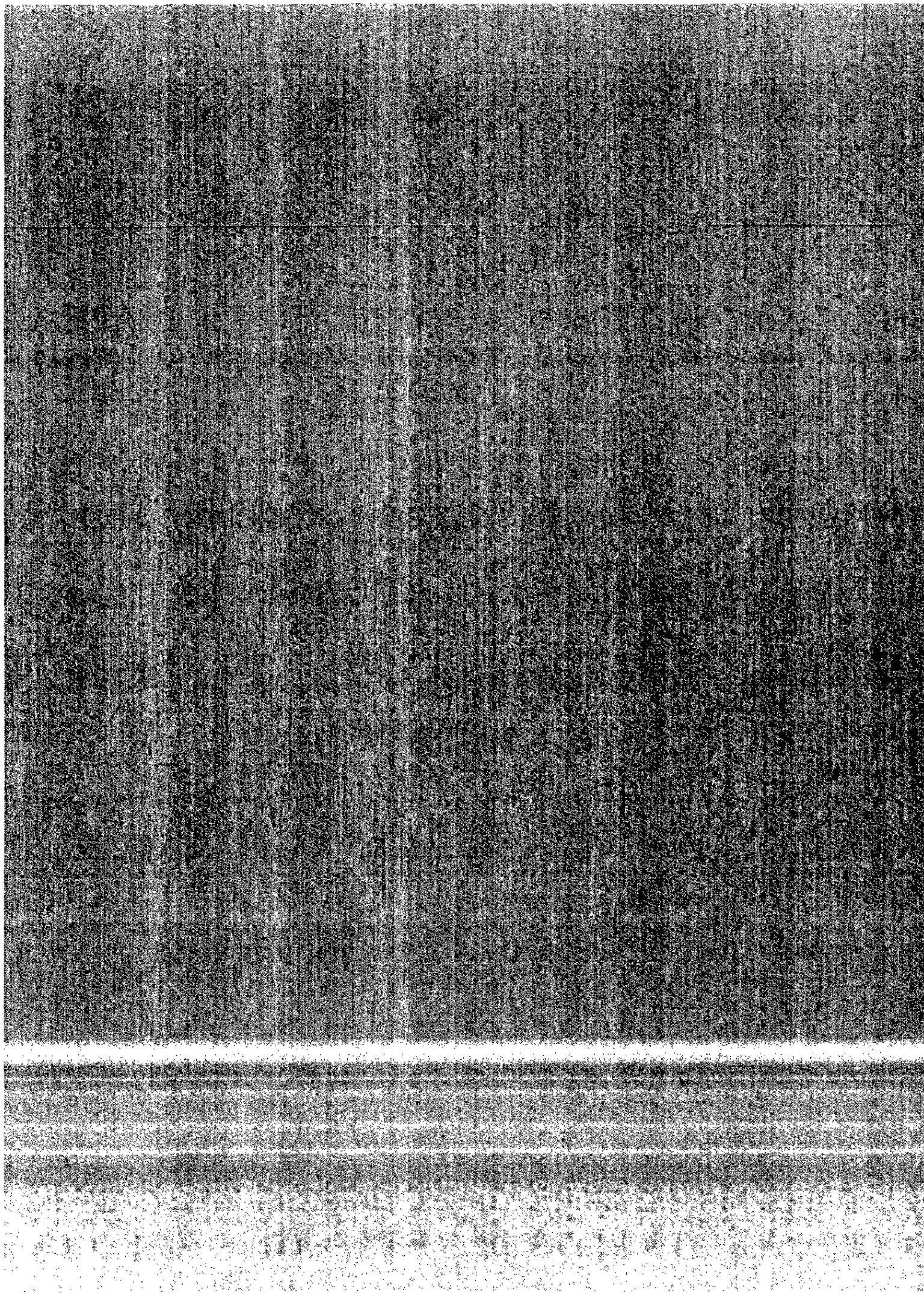
#### Invesco Perpetual Select Trust plc

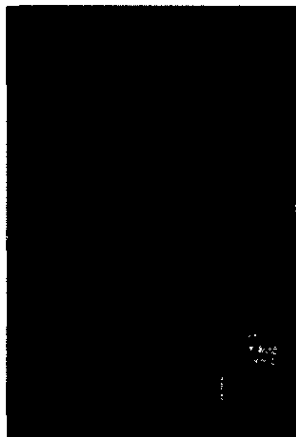
- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Allocation Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends are paid quarterly, apart from Balanced Risk which will not normally pay dividends.

#### For more information

Please contact Invesco's Client Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website:  
[www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)





[www.invescopetual.co.uk/investmenttrusts](http://www.invescopetual.co.uk/investmenttrusts)

Invesco Client Services Team  
Freephone 0800 085 8677

Telephone lines are open Monday to Friday 8.30am - 6.30pm.

Telephone calls may be recorded and monitored for security and training purposes.