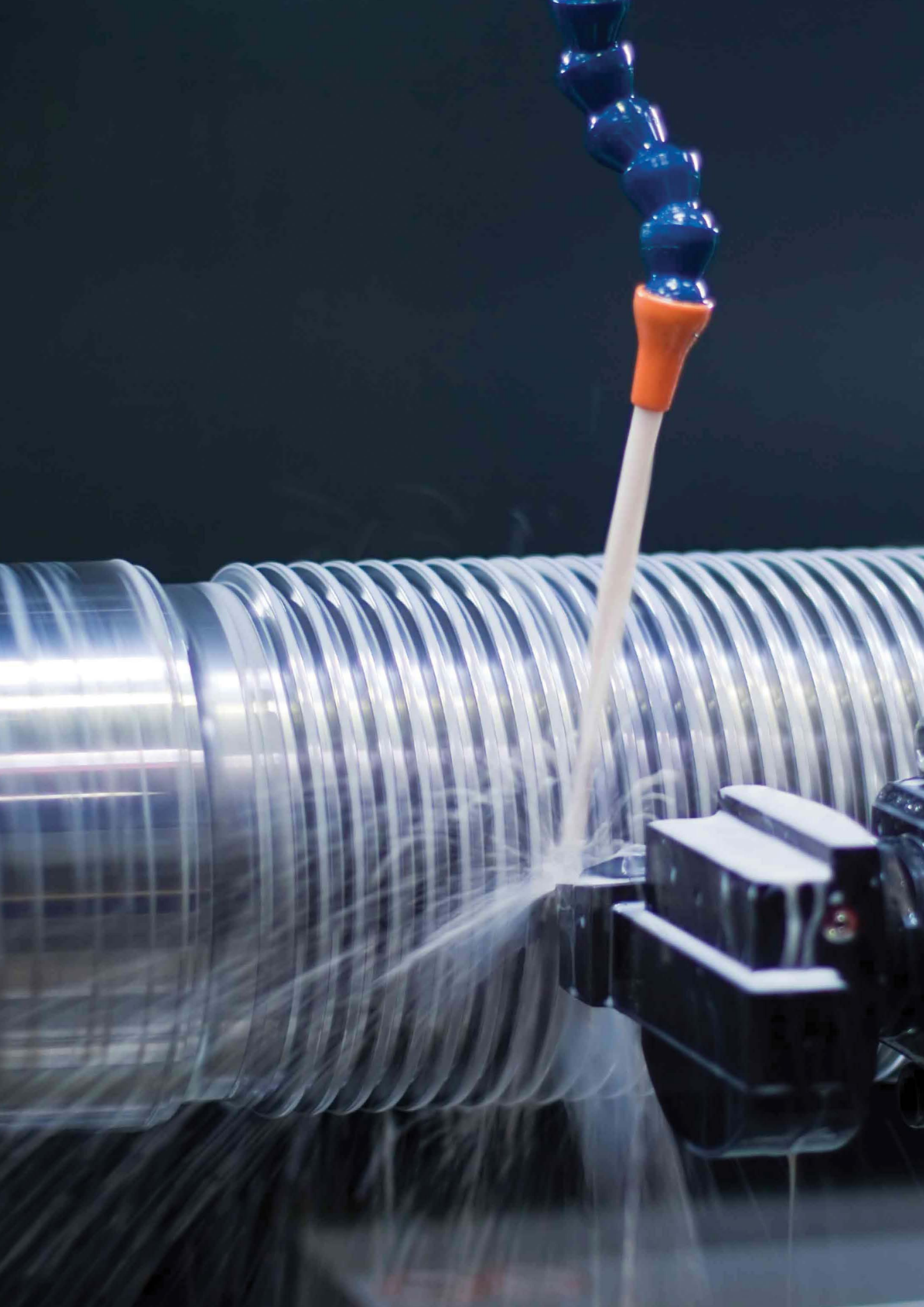




# **MANCHESTER AND LONDON INVESTMENT TRUST PLC**

Annual Report & Financial Statements for the year ended 31 July 2017





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# STRATEGIC REPORT

## Financial summary

	Year to 31 July 2017	Year to 31 July 2016	Percentage increase/ (decrease)
<b>Total Return</b>			
Total return (£'000)	<b>20,055</b>	13,424	49.40%
Return per Ordinary Share	<b>92.43p</b>	62.50p	47.89%
Total revenue return per Ordinary Share	<b>7.90p</b>	13.45p	(41.26%)
Dividend per Ordinary Share	<b>9.00p</b>	13.36p	(32.63%)

	As at 31 July 2017	As at 31 July 2016	Percentage increase/ (decrease)
<b>Capital</b>			
Net assets attributable to equity Shareholders* (£'000)	<b>94,661</b>	75,546	25.30%
Net asset value ("NAV") per Ordinary Share	<b>429.05p</b>	350.81p	22.30%
NAV total return**†	<b>26.91%</b>	21.54%	5.37%
Benchmark performance – Total return basis***	<b>14.71%</b>	3.91%	10.80%
Share price	<b>381.00p</b>	277.75p	37.17%
Share price discount to NAV†	<b>11.20%</b>	20.83%	(9.63%)

\* NAV as at 31 July 2017 includes a net £1,879,000 increase in respect of own Shares bought back and resold during the year (2016: £102,000 increase).

\*\* Total return including dividends reinvested, as sourced from Bloomberg.

\*\*\* MSCI UK Investable Market Index (MXGBIM).

	Year to 31 July 2017	Year to 31 July 2016
<b>Ongoing Charges</b>		
Ongoing charges as a percentage of average net assets*†	<b>0.95%</b>	0.85%

\* Calculated in accordance with the guidelines issued by the Association of Investment Companies (the "AIC").

† See Glossary on page 81.

# STRATEGIC REPORT continued

## Chairman's statement

### Results for the year ended 31 July 2017

The portfolio remains focused on larger capitalisation stocks listed in developed markets which are seeking global growth.

The Company's portfolio performance for the financial year has been acceptable with an increase in NAV per Share of 22.3%. The new strategy adopted by M&L Capital Management Limited (the "Manager") has meant that the outperformance of the Company against our benchmark for the three years to 31 July 2017 on a total return basis now stands at 36.6%\*.

The discount the Shares trade at to their NAV per Share has narrowed during the year and was just over 11% at the year end.

It is also worth noting that the Company's underlying modelled volatility† for the year was 14.2%\* which was also a reduction from the last year end of 15.3%\*.

### Dividends

The Directors are proposing a final ordinary dividend per Share of 1.76 pence and a final special dividend per Share of 4.24 pence for the financial year 2017. This means that, on a per Share basis, the dividends proposed or paid out in respect of the 2017 financial year total 3.58 pence as ordinary dividends and 5.42 pence as special dividends. On a total ordinary and special basis, these dividends represent a yield of over 2.4% on the Share price as at the year end.

### Annual General Meeting

I look forward to welcoming Shareholders to our forty-fifth Annual General Meeting, to be held in The Dalton & Joule Room, Manchester Museum of Science and Industry, Liverpool Road, Manchester M3 4FP at 12.30 p.m. on Monday, 27 November 2017.

### P H A Stanley

Chairman

12 October 2017

\* Source: Bloomberg.

† See Glossary on page 81.

## Manager's review

### Portfolio management

The portfolio delivered a low double-digit outperformance against the benchmark driven by our sector positioning.

The portfolio segments can be broken down in contribution to base currency performance terms over the year as follows:

Total return of underlying sector holdings  
in local currency (excluding costs and foreign exchange)

Technology investments	21.5%
Consumer investments	6.3%
Healthcare investments	1.9%
Other (including costs and foreign exchange)	(2.8%)
Total NAV per Share return	26.9%

Source: Bloomberg.

### Technology investments

Technology (under which we include the Information Technology GICS (Global Industry Classification Standard) sector and technology/disruption orientated investments) delivered around 80% of NAV total return per Share.

The five largest holdings in this sector, Alphabet Inc, Facebook Inc, Microsoft Corporation, Alibaba Group Holding Ltd and Tencent Holdings Ltd, accounted for around 50% of the sector return.

Other material positive performers included NVIDIA Corporation, salesforce.com Inc, Polar Capital Technology Trust plc, Scottish Mortgage Investment Trust PLC, PayPal Holdings Inc, Alibaba Inc, Apple Inc, Adobe Systems Inc, ROBO Global Robotics and Automation GO UCITS ETF and Electronic Arts Inc. There were no material negative contributors.

We increased our exposure to technology this year. The portfolio's delta-adjusted exposure to the sector is now just under 60% of net assets.

### Consumer investments

Consumer (under which we include both the Consumer Staples and the Consumer Discretionary GICS sectors) delivered around 23% of NAV total return per Share.

More than 50% of this performance was driven by e-commerce stocks Amazon.com Inc, JD.Com Inc and Priceline Group Inc.

Other material positive contributors included Beiersdorf AG, Pernod Ricard SA and Davide Campari-Milano SpA.

The only material negative performer was Amplify Snack Brands Inc, which we disposed of during the year.

Consumer Staples holdings were trimmed due to a relatively poor performance. Overall, the portfolio's delta-adjusted exposure to the sector is around 20% of net assets.



# STRATEGIC REPORT continued

## Healthcare and pharmaceutical investments

Healthcare (under which we include the Healthcare GICS sector and Healthcare orientated investments) delivered around 7% of NAV total return per Share.

Material positive contributors included Align Technology Inc, Worldwide Healthcare Trust PLC, Smith & Nephew plc, Zoetis Inc and Spire Healthcare Group plc (which we sold during the year). There were no material negative contributors.

The portfolio's delta-adjusted exposure to this sector now represents just under 20% of net assets.

## Risk management

The Manager monitors, measures, manages and mitigates risk for the Company on an ongoing basis, including the sensitivity of the Company's investment portfolio to the most relevant risks to which it is or may be exposed. As the Company invests primarily in equities, its principal risks are market-related and include counterparty and market risks (such as currency, interest rate and other price risks).

The Manager will periodically disclose the current risk profile of the Company to investors. The Company will make this disclosure on its website at the same time as it makes its Annual Report and Financial Statements available to investors or more frequently at its discretion.

A number of methodologies are adopted to manage risk such as:

- i. The Company's investments are not limited to any one industry sector and its current investment portfolio is spread across a range of sectors. However, it should be noted that the exposure of the portfolio is heavily weighted to the Technology sector.
- ii. The Company intends to maintain a relatively focused portfolio, but has nonetheless diversified risk in the portfolio across approximately 45 securities.
- iii. The Company hedges its positions using derivatives to reduce delta-adjusted exposures to positions. These positions represented approximately 8% of the portfolio's value as at the year end.

The Manager employs various risk management systems and processes to manage the risks to which the Company is or may be exposed. These include the production of regular risk analysis of the Company's investment portfolio and regular stress testing against relevant scenarios.

The Manager undertakes a daily portfolio attribution analysis, which looks at the drivers of portfolio performance to identify stocks that may be underperforming. Risk management processes and procedures are laid out in full in the Manager's Risk Management Policy which is overseen by the Manager's Risk Management Committee which meets on a monthly basis. Key risk indicators on operational risks are reported to the Senior Management Committee on a monthly basis. Risk management systems and controls are updated at least on an annual basis.



**Liquidity risk management**

Liquidity risk is the risk that the Company could encounter difficulty in meeting its obligations associated with financial liabilities, due to an inability to realise assets when needed.

The Manager has a liquidity management policy which is intended to ensure that the Company's investment portfolio maintains a level of liquidity which is appropriate to the Company's obligations.

However, the majority of the Company's investment portfolio comprises quoted equities, which are readily realisable. Liquidity is not therefore considered to be a significant risk for the Company. The liquidity of the equity portfolio is reviewed regularly and subjected to regular stress tests to verify that liquidity risk remains low. The Manager's regular analysis calculates the percentage of the portfolio that could be liquidated within various timeframes, the overall time to liquidate the portfolio and the price impact of liquidating the portfolio. This analysis is stress tested using various alternative assumptions with regards to percentage of average daily volume that the Company would be able to capture.

The Manager also considers Prime Broker\* margin requirements and potential obligations relating to the sale of options within their liquidity analysis.

The Manager will notify investors, by way of a disclosure on the Company's website, where it makes any material changes to its liquidity management systems and procedures or introduces any new arrangements for managing the Company's liquidity.

The Company does not currently hold any assets which are subject to special arrangements arising from their illiquid nature. The Company would disclose the percentage of its assets subject to such arrangements, if applicable, on its website at the same time as it makes its Annual Report and Financial Statements available to investors, or more frequently at its discretion.

**Professional negligence liability risks**

The Manager maintains professional indemnity insurance to cover the potential liability risks arising from professional negligence. The Manager does not hold specific additional funds of the Manager against liability arising from its own professional negligence.

**Valuation**

The Manager has overall responsibility and oversight on how the Company's assets are priced and valued. In addition, the Manager consults with the Board of the Company in determining the various methodologies and procedures applied when pricing and valuing the securities of the Company.

The Manager's valuation policy sets out its approach to the valuation of the Company's portfolio of assets. Oversight of the policy, and determination of the valuation of assets which are unlisted or for which published prices are not available, is the responsibility of the Manager's Valuation Committee, which operates independently of the Manager's portfolio management function.

\* See Glossary on page 80.

## STRATEGIC REPORT continued

The Valuation Committee meets at least on a monthly basis and reports to the Company's Board on all issues relating to the valuation of the Company.

The valuation policy has been prepared to clarify the methodology used in valuing all of the securities that constitute the portfolio of the Company and explains the generic methodology or protocol used for valuing different types of securities, valuation methodologies and procedures for each security that is part of the portfolio of the Company. The values of those securities are an integral part of the Company's NAV and NAV per Share calculation. The NAV of the portfolio is calculated by the Administrator to the nearest two decimal places in Sterling, which is the base currency of the portfolio, as at the valuation point. The NAV is calculated weekly.

The vast majority of the portfolio consists of quoted equities, whose prices are published by independent sources.

The valuation policy specifies how the Company's securities will be priced. It should, however, be noted that financial reporting requirements oblige the Board to ensure that the audited financial statements of the Company are prepared such that all securities are measured at 'Fair Value'.

Quoted equities, forming the vast majority of the Company's investment portfolio, are valued daily. The valuation intervals of other assets vary according to their nature but all assets are re-valued at least annually.

### **M&L Capital Management Limited**

Manager

12 October 2017

## Equity exposures and portfolio sector analysis

### Equity exposures (longs)

As at 31 July 2017

Company	Sector*	Valuation £'000	% of net assets
Amazon.com, Inc.	Consumer Discretionary	9,036	9.55
Alphabet Inc.	Information Technology	8,759	9.25
Facebook Inc.	Information Technology	8,428	8.90
Microsoft Corporation	Information Technology	6,546	6.92
Tencent Holdings Ltd**	Information Technology	6,148	6.49
Alibaba Group Holding Ltd**	Information Technology	5,571	5.89
Polar Capital Technology Trust plc	Funds	3,914	4.13
Apple Inc.	Information Technology	3,858	4.08
Scottish Mortgage Investment Trust PLC	Funds	3,444	3.64
salesforce.com, Inc.	Information Technology	3,203	3.38
Altaba Inc.**	Information Technology	3,189	3.37
GlaxoSmithKline plc**	Health Care	2,949	3.12
Worldwide Healthcare Trust PLC	Funds	2,888	3.05
Smith & Nephew plc**	Health Care	2,798	2.96
Davide Campari Milano SpA**	Consumer Staples	2,797	2.95
JD.Com, Inc.**	Consumer Discretionary	2,703	2.86
Bayer AG**	Health Care	2,568	2.71
ROBO Global Robotics and Automation	Funds	2,519	2.66
NVIDIA Corporation	Information Technology	2,404	2.54
PayPal Holdings Inc.	Information Technology	2,110	2.23
Heineken NV**	Consumer Staples	2,066	2.18
Pernod Ricard SA**	Consumer Staples	2,048	2.16
Beiersdorf AG**	Consumer Staples	1,990	2.10
Zoetis Inc.	Health Care	1,738	1.84
AstraZeneca Plc**	Health Care	1,042	1.10
Actvision Blizzard.com	Information Technology	1,008	1.06
		<b>95,724</b>	<b>101.12</b>
Balance held in 16 other positions		8,377	8.85
<b>Total long equities exposure</b>		<b>104,101</b>	<b>109.97</b>
Unlisted Debentures		229	0.24
<b>Total long positions</b>		<b>104,330</b>	<b>110.21</b>
Other net assets		(9,669)	(10.21)
<b>Net assets</b>		<b>94,661</b>	<b>100.00</b>

\* GICS – Global Industry Classification Standard.

\*\* Including equity swap exposures as detailed in note 13.



# STRATEGIC REPORT continued

## Portfolio sector analysis

As at 31 July 2017

Sector	% of net assets
A Information Technology	55.9
B Health Care	16.9
C Funds	15.0
D Consumer Staples	11.2
E Consumer Discretionary	11.0
F Unlisted Debentures	0.2
G Cash and net current assets and liabilities	(10.2)
<b>Net assets</b>	<b>100.0</b>

**Principal portfolio holdings (based on net delta-adjusted exposure)****Alphabet Inc. ("Alphabet")**

Alphabet is a global technology company that is at the forefront of innovation of internet-based services and future technologies. Current areas of Alphabet's portfolio include online advertising, Google search, YouTube, cloud computing, Nest and Android operating systems. Future areas of growth for Alphabet may also include Internet of Things, driverless vehicles, healthcare and artificial intelligence.

**Amazon.com Inc. ("Amazon")**

Amazon is best known as one of the world's largest e-commerce companies and is a major disruptive force in the retail market. Amazon is also increasingly becoming a much broader content and services platform for both consumers and businesses. In particular, Amazon Web Services is a leading provider of public cloud computing.

**Facebook Inc. ("Facebook")**

Facebook is a social media platform with around two billion monthly active users which dominates the online global advertising spend. The company is building an interesting portfolio of other social media platforms and technologies, such as WhatsApp, Messenger and Oculus Rift VR to strengthen the Facebook ecosystem.

**Microsoft Corporation ("Microsoft")**

Microsoft is best known for the Windows operating system and Office products. Longer-term focus for Microsoft lies in the public cloud market where it is building a strong platform to compete against Amazon and Alphabet.

**Alibaba Group Holding Ltd ("Alibaba")**

Alibaba is China's largest e-commerce platform. We expect e-commerce to drive further share gains from traditional retail channels. Like Amazon, Alibaba is also extending its platform in new directions, with payments, media, entertainment and cloud offerings.

**Tencent Holdings Ltd ("Tencent")**

Tencent is a Chinese internet company, well known for its ubiquitous WeChat social media platform. Tencent is expected to take an increasing share of the Chinese advertising pie as marketing budgets continue to move from traditional to digital channels. Tencent is also exposed to the high growth online gaming and digital entertainment markets.

**Polar Capital Technology Trust plc ("Polar Capital")**

Polar Capital is a technology-focused investment trust. They share a similar outlook and philosophy on the sector to us, allowing us to leverage on their more extensive research resources.

**JD.Com, Inc. ("JD.Com")**

JD.Com is China's number two e-commerce company. Its business model is different to Alibaba's and is more similar to Amazon's. We expect JD.Com to be a key beneficiary of the shift of retail consumption to online.

**Scottish Mortgage Investment Trust PLC ("Scottish Mortgage")**

Scottish Mortgage is a disruption orientated investment trust managed by Baillie Gifford. They share a similar philosophy to us and allow us to get exposure to a number of non-listed fast growth companies such as Uber and Airbnb.

# STRATEGIC REPORT continued

## Worldwide Healthcare Trust PLC ("Worldwide Healthcare Trust")

Worldwide Healthcare Trust is a global healthcare focused investment trust managed by OrbiMed Capital. The fund has an excellent track record and provides exposure to many niche emerging themes such as Immuno-Oncology & Genomics. Although these are themes we understand at a high level, we recognise the benefit of the specialist knowledge that OrbiMed has accumulated in these nascent fields.

Percentage of portfolio by holding at the year end\*:

Alphabet	9.3
Amazon	8.6
Facebook	7.6
Microsoft	7.6
Alibaba	6.1
Tencent	5.9
Polar Capital	5.6
JD.Com	4.1
Scottish Mortgage	3.6
Worldwide Healthcare Trust	3.1

\* Based on net delta-adjusted exposure.

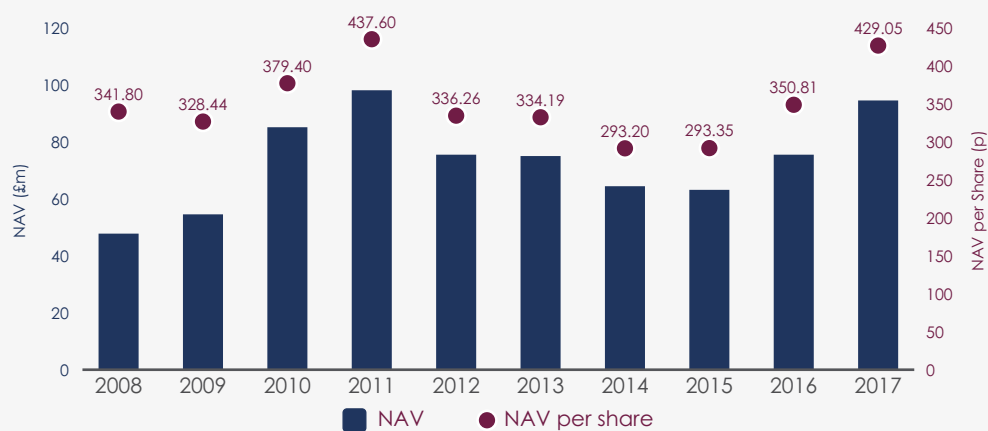


### Investment record of the last ten years

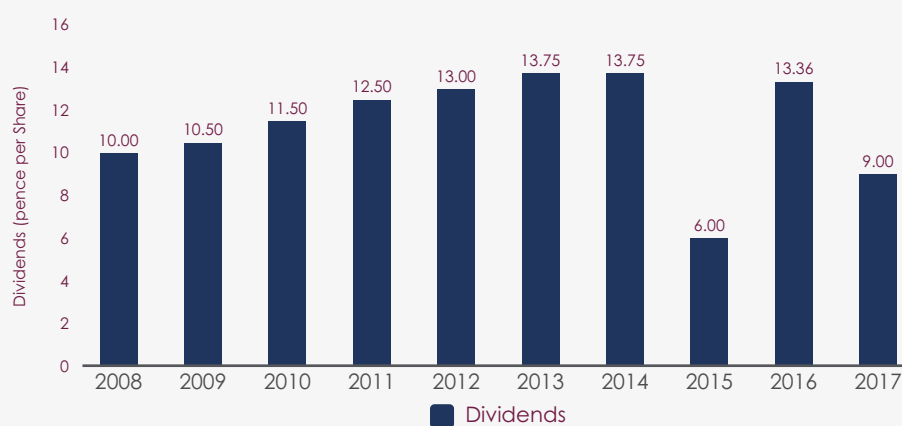
Year ended	Total return £'000	Return per Ordinary Share* (p)	Dividend per Ordinary Share (p)	Total assets less liabilities £'000	NAV per Share* (p)
31 July 2008	(3,490)	(25.02)	10.00	47,669	341.80
31 July 2009	645	4.43	10.50	57,495	328.44
31 July 2010	13,151	71.75	11.50	85,203	379.40
31 July 2011	15,691	69.87	12.50	98,267	437.60
31 July 2012	(19,945)	(88.81)	13.00	75,515	336.26
31 July 2013	2,522	11.23	13.75	75,050	334.19
31 July 2014	(6,295)	(28.08)	13.75	64,361	293.20
31 July 2015	2,483	11.47	6.00	63,074	293.35
31 July 2016	13,424	62.50	13.36	75,546	350.81
<b>31 July 2017</b>	<b>20,055</b>	<b>92.43</b>	<b>9.00</b>	<b>94,661</b>	<b>429.05</b>

\* Basic and fully diluted.

#### To 31 July



#### To 31 July



# STRATEGIC REPORT continued

## Business model

The Company is an investment company as defined by Section 833 of the Companies Act 2006 and operated as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010.

The Company is also governed by the Listing Rules and Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the "FCA") and is premium listed on the Main Market of the London Stock Exchange under the EPIC code "MNL".

A review of investment activities for the year ended 31 July 2017 and the outlook for the coming year is detailed in the Manager's Review on pages 5 to 8.

## Investment objective

The investment objective of the Company is to achieve capital appreciation together with a reasonable level of income.

## Investment policy

### Asset allocation

The Company's investment objective is sought to be achieved through a policy of actively investing in a diversified portfolio, comprising UK and overseas equities and fixed interest securities. The Company seeks to invest in companies whose shares are admitted to trading on a regulated market. However, it may invest in a small number of equities and fixed interest securities of companies whose capital is not admitted to trading on a regulated market. Investment in overseas equities is utilised by the Company to increase the risk diversification of the Company's portfolio and to reduce dependence on the UK economy in addressing the growth and income elements of the Company's investment objective.

The Company may invest in derivatives, money market instruments, currency instruments, contracts for differences ("CFDs"), futures, forwards and options for the purposes of (i) holding investments and (ii) hedging positions against movements in, for example, equity markets, currencies and interest rates.

There are no maximum exposure limits to any one particular classification of equity or fixed interest security. The Company's investments are not limited to any one industry sector and its current investment portfolio is spread across a range of sectors. The Company has no specific criteria regarding market capitalisation or credit ratings in respect of investee companies.

### Risk diversification

The Company intends to maintain a relatively focused portfolio, seeking capital growth by investing in approximately 20 to 40 securities. The Company will not invest more than 15% of the gross assets of the Company at the time of investment in any one security. However, the Company may invest up to 50% of the gross assets of the Company at the time of investment in an investment company subsidiary, subject always to other restrictions set out in this investment policy and the Listing Rules.

The Company intends to be fully invested whenever possible. However, during periods in which changes in economic conditions or other factors so warrant, the Manager may reduce the Company's exposure to one or more asset classes and increase the Company's position in cash and/or money market instruments.

**Gearing**

The Company may borrow to gear the Company's returns when the Manager believes it is in Shareholders' interests to do so. The Company's investment policy and the Articles permit the Company to incur borrowing up to a sum equal to two times the adjusted total of capital and reserves. Any change to the Company's borrowing policy will only be made with the approval of Shareholders by special resolution.

The effect of gearing may be achieved without borrowing by investing in a range of different types of investments including derivatives. The Company will not enter into any investments which have the effect of increasing the Company's net gearing beyond the above limit.

**General**

In addition to the above, the Company will observe the investment restrictions imposed from time to time by the Listing Rules which are applicable to investment companies with shares listed on the Official List of the UKLA under Chapter 15.

In accordance with the Listing Rules, the Company will manage and invest its assets in accordance with the Company's investment policy. Any material changes in the principal investment policies and restrictions (as set out above) of the Company will only be made with the approval of Shareholders by ordinary resolution.

In the event of any breach of the investment restrictions applicable to the Company, Shareholders will be informed of the remedial actions to be taken by the Board and the Manager by an announcement issued through a regulatory information service approved by the FCA.

**Dividend policy**

The Company may declare dividends as justified by funds available for distribution. The Company will not retain in respect of any accounting period an amount which is greater than 15% of revenue profit in that period.

The dividend payments are split in order to better reflect the sources of the Company's income. Recurring income from dividends on underlying holdings is paid out as ordinary dividends, whilst non-recurring (other investment) income is paid out as special dividends.

**Results and dividends**

The results for the year are set out in the Income Statement on page 56 and in the Statement of Changes in Equity on page 57.

For the year ended 31 July 2017, the net revenue return attributable to Shareholders was £1,714,000 (2016: £2,889,000) and the net capital return attributable to Shareholders was £18,341,000 (2016: £10,535,000). Total Shareholders' funds increased by 25.3% to £94,661,000 (2016: £75,546,000).



# STRATEGIC REPORT continued

The dividends paid/proposed by the Board for 2016 and 2017 are set out below:

	<b>Year ended 31 July 2017 pence per Share</b>	Year ended 31 July 2016 pence per Share
Interim ordinary dividend	<b>1.82</b>	0.40
First special dividend	<b>1.18</b>	0.46
Second special dividend	–	2.10
First final special dividend	–	7.50
Proposed final ordinary dividend	<b>1.76</b>	1.85
Proposed final special dividend	<b>4.24</b>	1.05
	<b>9.00</b>	13.36

Subject to the approval of Shareholders at the forthcoming Annual General Meeting, the proposed final ordinary and final special dividends will be payable on 4 December 2017 to Shareholders on the register at the close of business on 10 November 2017. The ex-dividend date will be 9 November 2017.

Further details of the dividends paid in respect of the years ended 31 July 2017 and 31 July 2016 are set out in note 7 on page 69.

## Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. A robust assessment of the principal risks of the Company has been carried out, including those that would threaten its business model, future performance, solvency and liquidity.

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the risks and merits of such an investment, or other investors who have been professionally advised with regard to investment and who have sufficient resources to bear any loss which might result from such an investment. There can be no guarantee that investors will recover their initial investment. The Company may employ gearing and may be subject to sudden and large falls in value. Investors should be aware that movements in the price of the Company may be more volatile than movements in the price of the underlying investments and that there is a risk that investors may lose all their invested money. Investors considering an investment should consult their stockbroker, bank manager, solicitor, accountant and/or other independent financial adviser.

Investment in the Company should be regarded as long term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment. There can be no guarantee that the investment objective of the Company will be met.

In respect of some of the companies in which the Company may invest: the company may be undergoing significant change, or be exposed to the volatility of emerging or developing markets; they may have less mature businesses, a more restricted depth of management and accordingly a higher risk profile; the quality of the investments' management may have been overestimated; the market value of, and income derived from, such shares can fluctuate; and there may not be a liquid market for their shares. The fact that a share is traded on a market does not guarantee its liquidity. Accordingly, such shares may be difficult to realise at quoted market prices.

The Company is exposed to a range of economic and market risks, liquidity, interest rates, exchange rates and general financial risks.

The market capitalisation of the Company will make the market of the Ordinary Shares less liquid than would be the case for a larger company.

Any change in the tax treatment of dividends paid, or income received by the Company, may reduce the level of yield received by Shareholders. Any change in the Company's tax status, or in legislation, could affect the value of the investments held by the Company and its performance.

Whilst the use of borrowings by the Company should enhance the NAV of the Ordinary Shares when the value of the Company's underlying assets is rising, it will have the opposite effect when the underlying asset value is falling. Furthermore, should any fall in the valuation of the underlying assets result in the Company breaching the financial covenants applicable to borrowings, the Company may be required to repay such borrowing in whole or in part together with any attendant costs. In order to repay such borrowings, the Company may have to sell assets at less than their quoted market values. A positive NAV for the Ordinary Shares will be dependent upon the Company's assets being sufficient to meet any debt.

On a winding-up of the Company, the Ordinary Shares rank for repayment of capital after repayment of all other creditors of the Company. Ordinary Shares are only appropriate for investors who understand that they may receive an amount less than their original investment.

#### **Risk management**

The risks with regards to financial instruments and the Company's policies for the management of these risks are detailed in note 17 to the financial statements.

Further details regarding the Board's risk management procedures are detailed in the Manager's Review on pages 6 and 7 and in the "Internal Control Review" section of the Statement of Corporate Governance on page 34.

#### **Year-end gearing**

At the year end, gross long equity exposure represented 109.97% (2016: 97.50%) of net assets.

#### **Key performance indicators**

The Board considers the most important key performance indicator to be the comparison with its benchmark index. This is referred to in the Financial Summary on page 3.

The other key measures by which the Board judges the success of the Company are the Share price, the NAV per Share and the ongoing charges measure.

# STRATEGIC REPORT continued

Total net assets at 31 July 2017 amounted to £94,661,000 compared with £75,546,000 at 31 July 2016, an increase of 25.3% (net of own Share buybacks as disclosed in note 15 on page 74), whilst the fully diluted NAV per Ordinary Share increased to 429.1p from 350.8p.

Net revenue return after taxation for the year was £1,714,000 (2016: £2,889,000), a decrease of 40.7%.

The Share price during the period under review has been quoted at discounts to NAV ranging from 8.8% to 25.1%.

Ongoing charges set out on page 3 is a measure of the total expenses (including those charged to capital) expressed as a percentage of the average net assets over the year. The Board regularly reviews the ongoing charges measure and monitors Company expenses.

## **Future development**

The Board and the Manager do not currently foresee any material changes to the business of the Company in the near future.

## **Management arrangements**

Under the terms of the management agreement, the Manager will manage the Company's portfolio in accordance with the investment policy determined by the Board. The management agreement has a termination period of three months. The Manager shall be entitled to receive from the Company an amount equal to 0.5% of the Company's NAV, calculated and payable quarterly in arrears. Further details of the fee paid to the Manager during the year are disclosed in note 3 to the financial statements. The Manager is authorised and regulated by the FCA.

M&M Investment Company plc, which is controlled by Mr M Sheppard who forms part of the Manager's investment management team, is the controlling Shareholder of the Company. Further details regarding this are set out in the Directors' Report on page 23.

## **Alternative Investment Fund Managers' Directive (the "AIFMD")**

The AIFMD is applicable to all Alternative Investment Funds including the Company. The Company's Sub-Threshold Manager, M&L Capital Management Limited, submitted a notice to the FCA that their assets under management from managing the Company had permanently exceeded the sub-threshold limit under the AIFMD on 26 July 2017. In the forthcoming months, if the Company wishes to continue to be able to use leverage in its investment strategy, then both a full scope approved Alternative Investment Fund Manager and a Depositary will need to be appointed. Any such appointments, if made, will be notified via a regulatory information service.

The AIFMD requires certain information to be made available to investors before they invest and requires that material changes to this information be disclosed in the Annual Report.

In the year to 31 July 2017, the total remuneration paid to the entire staff of the Manager was £327,000 (2016: £189,000), payable to an average staff number throughout the year of 2 (2016: 2).

The management of the Company is solely undertaken by Mr M Sheppard and Mr R Morgan, to whom a combined total of £325,000 (2016: £189,000) was paid by the Manager during the year.

The remuneration policy of the Manager is to pay fixed annual salaries, with non-guaranteed bonuses, dependent upon performance only. These bonuses are generally paid in the Company's Shares, released over a three-year period.

**Continuing appointment of the Manager**

The Board noted the good long-term performance record and commitment, quality and continuity of the team employed by the Manager. As a result, the Board concluded that it was in the best interests of the Shareholders as a whole that the appointment of the Manager on the agreed terms should continue.

**Human rights, employee, social and community Issues**

The Board consists entirely of non-executive Directors. The Company has no employees and day-to-day management of the business is delegated to the Manager and other service providers. As an investment trust, the Company has no direct impact on the community or the environment, and as such has no human rights, social or community policies. In carrying out its investment activities and in relationships with suppliers, the Company aims to conduct itself responsibly, ethically and fairly. Further details of the Environmental, Social and Governance policy can be found in the Directors' Report on page 25. Details of the Company's Board composition and related gender diversity considerations can be found in the Statement of Corporate Governance on page 33.

**Gender diversity**

At 31 July 2017, the Board comprised three male Directors. As stated in the Statement of Corporate Governance, the appointment of any new Director is made on the basis of merit.

This Strategic Report has been approved by the Board and signed on its behalf by

**P H A Stanley**

Chairman

12 October 2017



ENTER VALUES OR ARM TVOL

Rise/Fall

2s

1

Flow Rate

8 ml/min

Set Actual

2

3

Volume

1.2 ml

Set Actual

4

Injection Duration

2.5

Set Actual

5

Pressure Limit

1100

Set Actual

6

Level

of

Level

Level

ABC 7

DEF 8

GHI 9

JKL 4

MNO 5

PQR 6

STU 1

VWX 2

YZ/ 3

Shift

0

Program

Arming

Single

Multi

Single

Multi



# DIRECTORS

All the Directors are non-executive. Mr Stanley and Mr Harris are independent of the Company's Manager.

**Peter Stanley**

Mr Stanley was appointed to the Board on 25 November 1997 and appointed as Chairman on 25 November 2000. He was previously a director at Williams de Broë plc (until 1993) and chairman of BWD Securities plc (1995-2000). Mr Stanley was also chairman of the Firms Accounts Committee and the Capital Committee of the London Stock Exchange.

Mr Stanley is the Chairman of the Board and is a member of the Audit Committee.

**David Harris**

Mr Harris was appointed to the Board on 29 May 2009 following the acquisition of OSP Limited (formerly Osprey Smaller Companies Income Fund Limited). He is a non-executive director of The Character Group plc, Chelverton Small Companies Dividend Trust PLC, Chelverton Small Companies ZDP PLC, F&C Managed Portfolio Trust PLC and Aseana Properties Limited. He is also the chief executive of InvaTrust Limited.

Mr Harris is the Chairman of the Audit Committee and the Senior Independent Director of the Company.

**Brett Miller**

Mr Miller was appointed to the Board on 30 August 2013. He is an executive director of Damille Investments II Limited. Mr Miller is also a non-executive director of The Local Shopping REIT PLC, EIH plc and M&L Property and Assets plc. Mr Miller is also a director of M&L Capital Management Global Fund ICAV. He graduated from the University of the Witwatersrand (South Africa) with a bachelors degree majoring in law and economics and additionally holds a law degree from the London School of Economics (after having relocated to the United Kingdom in 1988). He qualified as a solicitor and practised until December 1997. Mr Miller is head of governance and risk oversight and also sits on both the investment committee and risk management committee at M&L Capital Management Limited, the Company's Manager; he is therefore not deemed to be independent.

Mr Miller is a member of the Audit Committee.

# DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 July 2017.

## Directors

The Directors in office during the year and at the date of this report are detailed on page 21.

## Share capital

At 31 July 2017, the Company's issued Share capital comprised 22,457,042 Ordinary Shares of 25 pence each, of which 394,254 were held in Treasury.

At general meetings of the Company, Ordinary Shareholders are entitled to one vote on a show of hands and on a poll, to one vote for every Ordinary Share held. Shares held in Treasury do not carry voting rights. At 31 July 2017, the total voting rights of the Company were 22,062,788 and as at the date of this report, are 22,162,788.

In circumstances where Chapter 11 of the Listing Rules would require a proposed transaction to be approved by Shareholders, the controlling Shareholder (see page 23 for further details) shall not vote its Shares on that resolution. In addition, any Director of the Company appointed by M&M Investment Company plc, the controlling Shareholder, shall not vote on any matter where conflicted and they will act independently from M&M Investment Company plc and have due regard to their fiduciary duties.

## Issue of Shares

At the 2016 Annual General Meeting, Shareholders approved the Board's proposal to authorise the Company to allot Ordinary Shares up to a maximum nominal amount of £1,616,395.

No Shares were issued during the year or since the year end.

## Purchase of Shares

At the Annual General Meeting held on 28 November 2016, Shareholders approved the Board's proposal to authorise the Company to acquire up to 14.99% of its issued Share capital (excluding Treasury Shares) amounting to 3,228,009 Shares.

The Company did not purchase any of its own Shares during the year or since the year end.

## Sale of Shares from Treasury

At the Annual General Meeting held on 28 November 2016, Shareholders approved the Board's proposal to authorise the Company to waive pre-emption rights in respect of up to 1,076,721 Treasury Shares and to permit the allotment or sale of Shares from Treasury at a discount to NAV.

During the year, the Company sold 528,368 (with a nominal value of £132,092) of its Ordinary Shares from Treasury for a net consideration (after costs) of £1,879,000, generating a surplus of £548,000 which is recognised in the Share Premium account. The number of Shares sold out of Treasury during the year represented 2.5% of the issued Share capital at 31 July 2016.

Subsequent to the year end and up to the date of signing this report, the Company sold 100,000 Ordinary Shares from Treasury for a net consideration (after costs) of £384,000, generating a surplus of £133,000.

### Substantial shareholdings

The Company has been informed of the following notifiable interests in the Company's Ordinary Share capital carrying voting rights as at 31 July 2017:

	Number of Shares held	% of total voting rights
M&M Investment Company plc	11,244,643	50.97
1607 Capital Partners LLC	1,052,397	4.77

Following the year end, the Company has been informed of the following as at the date of this Report:

	Number of Shares held	% of total voting rights
M&M Investment Company plc	11,261,021	50.81
Canaccord Genuity Group Inc.	932,280	4.21

### Controlling Shareholder

M&M Investment Company plc, which is controlled by Mr M Sheppard who forms part of the investment management team at M&L Capital Management Limited, is the controlling Shareholder of the Company.

The Company has in place a continuing, written and legally binding relationship agreement with M&M Investment Company plc and its associates, ensuring compliance with the independence provisions set out in Listing Rule 6.1.4D. Since entering the relationship agreement, the Company has fully complied with the independence provisions included within this agreement and, so far as the Company is aware, the independence provisions included in this agreement have also been complied with during the period under review by the controlling Shareholder and its associates. The relationship agreement is available on the Company's website.

As at the date of this report, M&M Investment Company plc holds 50.81% of the issued share capital of the Company.

### Information about securities carrying voting rights

The following information is disclosed in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6 of the FCA's Disclosure Guidance and Transparency Rules.

- The Company's capital structure and voting rights are summarised on page 22.
- Details of the substantial Shareholders of the Company are detailed above.
- An amendment to the Company's Articles of Association and the giving of powers to issue or buy back the Company's Shares requires an appropriate resolution to be passed by Shareholders. Proposals to grant powers to the Board to issue and buy back Shares are set out in the Notice of the Annual General Meeting.

# DIRECTORS' REPORT continued

- There are no restrictions concerning the transfer of securities in the Company; no restrictions on voting rights (with the exception of those disclosed on page 22); no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

## Dividends

Details of the dividends paid by the Company during the year and the final dividends recommended by the Board are set out in the Strategic Report on pages 4 and 16.

## Events after the reporting period

Events since the end of the reporting period are detailed in note 20 on page 78.

## Financial risk management

The principal financial risks and the Company's policies for managing these risks are set out in note 17 to the financial statements.

## Corporate Governance

The Statement of Corporate Governance on pages 29 to 35 forms part of the Directors' Report.

## Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these financial statements were approved.

Cashflow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the dividend policy.

## Viability statement

The Directors have assessed the prospects of the Company over the three-year period to the Annual General Meeting in 2020. The Directors consider three years to be a reasonable time horizon to consider the continuing viability of the Company, although they do consider viability for the longer-term foreseeable future also.

In their assessment of the viability of the Company, the Directors have considered each of the Company's principal risks and uncertainties as set out in the Strategic Report on pages 16 and 17 and in particular, have considered the potential impact of a significant fall in global equity markets on the value of the Company's investment portfolio overall. The Directors have also considered the Company's income and expenditure projections and the fact that the Company's investments mainly comprise readily realisable securities which could be sold to meet funding requirements if necessary, and on that basis consider that three years is an appropriate time period to assess continuing viability.

In forming their assessment of viability, the Directors have also considered:

- internal processes for monitoring costs;
- expected levels of investment income;
- performance of the Manager;
- portfolio risk profile;
- liquidity risk;
- gearing limits;
- counterparty exposure; and
- financial controls and procedures operated by the Company.

Based upon these considerations, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to the Annual General Meeting in 2020.

### **Environmental, social and governance policy**

As an investment trust, the Company has adopted the environmental, social and governance policy ("ESG") of its Manager. This ESG policy can be found at our Manager's website at [www.mlcapman.com/esg](http://www.mlcapman.com/esg).

In addition, the Company's ethical policy is focused on ensuring that the Company's resources are properly managed and invested within the guidelines approved by the Board.

The Company's Manager ensures that investments are made in companies that it considers to be well managed and subject to appropriate corporate governance. A well-managed company is considered to be one which complies with all the relevant legislation and which meets the environmental, social, community and ethical requirements of the country in which it operates. It is important to recognise that local laws and requirements of some markets do not necessarily equate with those of developed countries.

The Manager performs extensive investment analysis, in assessing both the risk and the return of targeted investments for the Company. The depth of its research provides comprehensive insights into the many factors that affect the value of an investment, which also include environmental, social and governance issues. This analysis is monitored by the Manager and reported to the Board.

The Company's ultimate objective, however, is to maximise investment return for its Shareholders. Accordingly, the Board and the Manager will seek to favour companies that pursue best practice in governance.

### **Exercise of voting powers**

The Board has agreed that there is no need to set a formal policy regarding voting in investee companies. It has given the Manager discretionary voting powers to vote in accordance with best practice whilst maintaining a primary focus on financial returns. The Manager utilised the votes of the Company on seven different occasions during the year.



# DIRECTORS' REPORT continued

## ESG in practice

We have detailed some examples of our ESG policy in practice below:

- We are committed to caring for our environment and ensuring that our carbon footprint is minimised. One of our main policies to achieve this is the encouragement of the use of electronic communication with Shareholders, in order to save paper, printing consumables and energy.
- The portfolio holds no exposure to mining or oil & gas exploration companies.
- The Manager's team only owns cars which are electric vehicles.
- The Manager's team travels to work on public transport and maximise their use of public transport.

## Greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying portfolio.

## Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out.

Other than the disclosure made on page 23 regarding the controlling Shareholder, the Directors confirm that no additional disclosures are required in relation to Listing Rule 9.8.4.

## Auditor information

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

## Auditor

Deloitte LLP replaced CLB Coopers as the Company's Auditor on 28 November 2016. It has expressed its willingness to continue in office as Auditor of the Company and a resolution for its appointment and for the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

**Annual General Meeting**

The Annual General Meeting of the Company will be held in The Dalton & Joule Room, Manchester Museum of Science and Industry, Liverpool Road, Manchester M3 4FP at 12.30 pm on Monday, 27 November 2017.

A separate notice convening the Annual General Meeting has been distributed to Shareholders, which includes an explanation of the items of business to be considered at the meeting. This notice can also be found on the Company's website.

By Order of the Board

**Capita Company Secretarial Services Limited**

Company Secretary

12 October 2017



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# STATEMENT OF CORPORATE GOVERNANCE

## Statement of Corporate Governance

This corporate governance statement forms part of the Directors' Report.

### Introduction

The Board is accountable to Shareholders for the governance of the Company's affairs and is committed to maintaining high standards of corporate governance and the principles of good governance as set out in the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council in April 2016, a copy of which can be found at [www.frc.org.uk](http://www.frc.org.uk).

### Statement of compliance with the UK Code

Pursuant to the Listing Rules of the United Kingdom Listing Authority, the Company is required to provide shareholders with a statement on how the main and supporting principles set out in the UK Code have been applied and whether the Company has complied with the provisions of the UK Code. The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate to the business of the Company as an investment trust.

The Board has reviewed the principles and recommendations of the UK Code and considers that it has complied throughout the year, except as disclosed below:

- Directors are not appointed for a specified term as all Directors are non-executive and the Company's Articles of Association require that one-third of the Directors eligible to retire by rotation retire from office at each annual general meeting of the Company. In addition, the Company has adopted the policy of all Directors standing for re-election annually;
- in light of the responsibilities retained by the Board and its committees and the responsibilities delegated to the Company's third party service providers, including the Manager, the Company has not appointed a chief executive officer;
- given the structure and size of the Board, the Board does not consider it necessary to appoint separate management engagement, remuneration or nomination committees, and the roles and responsibilities normally reserved for these committees are a matter for the full Board (details regarding changes in the Committee structure post year end are set out on page 33); and
- the Company does not have an internal audit function as all of the Company's management functions are performed by third parties whose internal controls are reviewed by the Board. However, the need for an internal audit function will be reviewed annually.

A full portfolio listing is not provided as, in the opinion of the Directors, it is not in the best commercial interests of the Company.

### Board of Directors

Under the leadership of the Chairman, the Board is responsible for the effective stewardship of the Company's affairs, including corporate strategy, corporate governance, risk assessment and overall investment policy. The Directors have overall responsibility for review of the Company's investment activity and performance and the control and supervision of the Manager and other service providers of the Company.

The Board consists of three non-executive Directors, two of whom are considered to be independent of the Company's Manager. The Board seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, it has substantial experience of investment trusts and public company management.



# STATEMENT OF CORPORATE GOVERNANCE continued

The terms and conditions of appointment of the Directors are formalised in letters of appointment, copies of which are available for inspection from the Company's registered office. None of the Directors has a contract of service with the Company nor has there been any other contract or arrangement between the Company and any Director at any time during the year.

The Board has ensured that all Directors continually update the skills and knowledge required to fulfil their role both on the Board and its Committees. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that established Board procedures and applicable rules and regulations are complied with.

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees will have the opportunity of meeting with the Chairman and relevant persons at the Manager.

The Board has formalised arrangements under which Directors, in the furtherance of their duties, may take independent professional advice. Under the Company's Articles of Association, the Directors are provided, subject to UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment. Apart from this, there were no third party indemnity provisions over the course of the year or since the year end.

## **Chairman and Senior Independent Director**

The Chairman, Mr Stanley, is deemed by his fellow independent Board member to be independent and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company.

Mr Harris is the Senior Independent Director of the Company. He provides a channel for any shareholder concerns regarding the Chairman and will take the lead in the annual evaluation of the Chairman by the Directors.

## **Independence of the Directors**

As part of the annual evaluation, the Board reviewed the independent status of each Director and the Board as a whole. In the Board's opinion, Mr Stanley and Mr Harris are considered to be independent of the Manager in both character and judgement.

The Board has considered the fact that Mr Stanley has served on the Board for more than nine years. The Board believes this to be of considerable benefit to the Company and is satisfied that this does not impact Mr Stanley's independent status. In the context of an investment company, long service need not compromise independence.

As set out on page 21, Mr Miller is a director of two other investment companies which have the same Manager as the Company. He is registered with the FCA as an employee of M&L Capital Management Limited. He is also head of governance and risk oversight and sits on both the investment committee and risk management committee at M&L Capital Management Limited, the Company's Manager. Therefore, Mr Miller is not deemed to be independent of the Manager.

Following completion of the Board's evaluation process, the other Directors are of the opinion that Mr Miller continues to provide effective contributions to the performance of the Board and is committed to his role. As regards his effectiveness, Mr Miller's biographical details set out on page 21 demonstrate the experience he brings to the Board, which is complementary to that of the other Directors.



None of the Directors or any persons connected with them had a material interest in the transactions and arrangements of, or the agreement with, the Manager during the year.

### **Re-election of Directors**

The Board does not have a specific policy on tenure. Under the Company's Articles of Association and in accordance with the UK Code, Directors are subject to election by shareholders at the first annual general meeting after their appointment. Thereafter, at each annual general meeting, any Director who has not stood for re-election at either of the two preceding annual general meetings shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each annual general meeting.

Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's annual general meetings. This is in line with the recommendations of the UK Code for FTSE 350 companies, albeit the Company currently does not fall into this category.

The Board has considered the re-election of each Director and recommends their re-election on the basis of their skills, knowledge and continued contribution.

### **Board responsibilities and relationship with the Manager**

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs and that the Company meets its obligations to shareholders. Strategic issues and all operational matters of a material nature are determined by the Board, and in order to enable them to discharge their responsibilities, Directors have full and timely access to relevant information. Board responsibilities include:

- changes to the Company's objective and investment policy;
- approval of annual and half-yearly reports and financial statements, circulars and other Shareholder communications;
- appointment and removal of Directors;
- changes to the Company's service providers; and
- use of gearing and derivative instruments for investment purposes.

The Board meets regularly and at each meeting reviews investment performance and financial results and monitors compliance with the Company's objectives.

The Board and Committee agenda are shaped to ensure that discussion is focused on the Company's strategic priorities, principal activities, reviews of significant issues and key elements of the portfolio.

The Company's day-to-day functions have been subcontracted to a number of service providers, each engaged under separate legal agreements. The management of the Company's assets has been delegated to M&L Capital Management Limited which has discretion to manage the assets in accordance with the Company's investment objective and policy.

At each Board meeting, the Directors follow a formal agenda, which is circulated in advance by the Company Secretary. The Secretary, Administrator and Manager regularly provide financial information, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice.

# STATEMENT OF CORPORATE GOVERNANCE

continued

At each Board meeting a representative from the Manager is in attendance to present verbal and written reports covering the Company's activities, portfolio and investment performance over the preceding period. Ongoing communication with the Board is maintained between formal meetings.

## Meetings

The Directors meet at regular Board meetings, at least once every quarter, with additional meetings arranged as necessary. The number of scheduled Board and Committee meetings held during the year ended 31 July 2017 and the attendance of the individual Directors is shown below:

	Board Meetings	Nomination Committee	Remuneration Committee	Management Engagement Committee	Audit Committee
Number of meetings during the year	5	1	1	1	4
P H A Stanley	5	1	1	1	4
D Harris	5	1	1	1	4
B Miller	5	1	1	n/a	4

## Performance evaluation

The Board has established a questionnaire-based process for the annual evaluation of the performance of the Board, its Committees and the individual Directors led by the Chairman. In addition, the other Directors, led by the Senior Independent Director, also carry out a performance evaluation of the Chairman. This evaluation process is carried out annually.

Following such evaluation, the Board concluded that it had the appropriate balance of skills, experience, length of service and knowledge; all the current Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company.

The Board does not consider the use of external consultants to conduct this evaluation as likely to provide any meaningful advantage over the process that has been adopted. However, the option of doing so will be regularly reviewed.

## Committees

During the year, the Board had four Committees to assist it in its operations: Audit Committee, Management Engagement Committee, Remuneration Committee and Nomination Committee. Each Committee's delegated responsibilities were clearly defined in formal terms of reference. All committees comprised the full Board with the exception of the Management Engagement Committee, of which Mr Miller was not a member.

## Audit Committee

The Audit Committee is chaired by Mr Harris who is deemed to have recent and relevant financial experience. The Committee as a whole has competence relevant to the investment trust sector.

The Board believes it is appropriate for Mr Miller to be a member of the Audit Committee as he provides a valuable contribution to the Committee and his membership enhances the operation of the Committee and its interaction with the Board.

A Report from the Audit Committee is set out on pages 36 to 38.

### **Management Engagement Committee**

During the year, the Management Engagement Committee was chaired by Mr Stanley. It was responsible for reviewing the performance and the continuing appointment of the Manager and the other service providers of the Company and making recommendations to the Board. The Committee also monitored compliance with the terms of the Management Agreement entered into with the Manager and reviewed whether the provisions of the Management Agreement follow industry practice and remain competitive and in the best interests of Shareholders.

### **Remuneration Committee**

The Company also had a Remuneration Committee during the year under review. It was chaired by Mr Harris and was responsible for considering all material elements of the Company's remuneration policy.

### **Nomination Committee**

The Company also had a Nomination Committee during the year, chaired by Mr Miller. It was responsible for considering the appointment and re-election of new Directors and evaluating the overall composition of the Board. The Committee also assessed the ongoing requirements of the Company and the need to have within the Board a balance of skills, experience, independence and diversity, including gender, and knowledge of the Company.

### **Changes to the Board and Committee Structure**

Following the year end, as part of the annual evaluation of the Company's Board and Committee structure, the Board decided that in view of its size and structure, it would be more efficient for the Board to resume the responsibilities of the Management Engagement, Remuneration and Nomination Committees. The functions currently performed by these Committees will now be a matter for decision by the Board. Mr Miller will abstain from discussions about the appointment of the Manager.

As a result, going forward, the Board will be assisted in its operations by only the Audit Committee, the terms of reference for which are available on the Company's website at [www.mlcapman.com/manchester-london-investment-trust-plc](http://www.mlcapman.com/manchester-london-investment-trust-plc).

### **Diversity**

The Board regularly reviews its composition and effectiveness with the objective of ensuring that it has an appropriate balance of skills and experience required to meet the future opportunities and challenges facing the Company. Whilst no specific diversity policy has been put into place, the Directors are committed to enhancing the diversity, including gender, on the Board.

Although diversity is one of the factors that would be taken into account when making a new appointment, any new appointment would be made on the basis of a candidate's merits and the skills and experience identified by the Board as being desirable to complement those of the existing Directors.

# STATEMENT OF CORPORATE GOVERNANCE continued

## Conflicts of interest

It is the responsibility of each individual Director to avoid an unauthorised conflict of interest situation arising. Directors must request authorisation from the Board as soon as they become aware of the possibility of an interest that conflicts or might possibly conflict with the interests of the Company (a "situational conflict"). The Company's Articles of Association authorise the Board to approve such situations, where deemed appropriate.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether or not the situational conflict should be authorised. The factors to be considered will include: whether the situational conflict could prevent the Director from properly performing his duties; whether it has, or could have, any impact on the Company; and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and 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 are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

A register of conflicts is maintained by the Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

## Internal control review

The Board is responsible for risk management and ensuring that the Company has in place an effective system of internal financial controls designed to ensure the maintenance of proper accounting records and the safeguarding of the Company's assets. These systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board recognises its responsibility for regular review of all aspects of internal financial control.

The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. This process is subject to regular review by the Board and is in accordance with the FRC guidance on Risk Management, Internal Control and Related Finance and Business Reporting. The process was fully in place throughout the year and up to the date of approval of the financial statements.

The Board has established a series of parameters which are designed to limit the inherent risk in managing a portfolio of investments and the Board receives regular reports from the Manager and Administrator which are reviewed in detail.

## Internal control assessment process

The Board has contractually delegated responsibility for management of the investment portfolio, risk management and the provision of accounting services to external service providers. This is after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation insofar as they relate to the affairs of the Company.

The key procedures, which have been established to provide effective internal control, are as follows:

- Investment management and risk management is provided by M&L Capital Management Limited. The Board is responsible for setting the overall investment strategy and monitors the activity of the Manager at regular Board meetings. The Manager provides reports at these meetings, which cover investment performance and compliance issues.

- Custody and safekeeping of assets is undertaken by Pershing Securities Limited, Morgan Stanley & Co. International plc and JP Morgan Chase & Co.
- The duties of investment management and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- Capita Company Secretarial Services Limited provides company secretarial services to the Company.
- With effect from 1 August 2016, the fund administration services are provided to the Company by its Administrator, Capita Sinclair Henderson Limited, who replaced M&M Investment Company plc.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their service providers and advisers in terms of their contracts. The appointment of service providers and advisers is conducted by the Board after consideration of the standing and reputation of the parties involved. The Directors regularly monitor their ongoing performance and contractual arrangements.
- For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business at the end of the reporting period. The Administrator produces valuation reports independently for the Board based on the Company's valuation policy.
- Liquidity risk is minimised by investing in a portfolio of quoted companies that are readily realisable. The Manager reports to the Board monthly on the liquidity profile of the Company.
- The Board reviews in detail the financial information produced by the Administrator and the Manager on a regular basis.

The Board has carried out a review of the effectiveness of the system of internal controls and how that system operated throughout the year. The Directors confirm that no significant failings or weaknesses were identified.

### **Relations with Shareholders**

Communications with Shareholders are given a high priority, with information provided regularly in half-yearly and annual financial statements. The information contained therein is supplemented by regular NAV announcements and a monthly fact sheet available on the Company's website. In addition, any issues of concern can be addressed to the Board by any Shareholder by emailing the Company Secretary at [mlitcosec@capita.co.uk](mailto:mlitcosec@capita.co.uk). The Manager can be contacted at [mark@mlcapman.com](mailto:mark@mlcapman.com).

Throughout the period, the Manager has also contacted Shareholders and private client investment managers who have holdings in the Company. These contacts and any subsequent meetings are reported to the Directors. After each meeting, contact with the Chairman is offered to Shareholders should any of their concerns remain unrectified in the meeting with the Manager.

All Shareholders are encouraged to attend the Annual General Meeting, where they are given an opportunity to question the Chairman, the Directors and the Manager. Separate resolutions are proposed on each issue including a resolution to adopt the Annual Report and Financial Statements. The Company ensures that all proxy votes are counted and announces the level of proxies lodged on each resolution.



# REPORT FROM THE AUDIT COMMITTEE

I am pleased to present the Audit Committee (the "Committee") report for the year ended 31 July 2017.

## Role of the Audit Committee

The primary responsibilities of the Committee are to:

- monitor the integrity of the financial statements of the Company, and review the financial reporting process and the accounting policies;
- keep under review the effectiveness of the Company's internal control environment and risk management systems;
- make recommendations to the Board in relation to the re-appointment or removal of the external Auditor and to approve its remuneration and terms of engagement; and
- oversee the relationship with the external Auditor, which includes reviewing the effectiveness of the audit process, developing and implementing a policy on the supply of non-audit services by the Auditor and reviewing and monitoring the Auditor's independence and objectivity.

The Committee has direct access to the external Auditor, who is also invited to attend the Committee meeting at which the Annual Report and Financial Statements are reviewed.

## Matters considered in the year

The Committee met four times during the financial year. Details of the composition of the Committee, attendance and how its performance evaluation has been conducted are detailed in the Statement of Corporate Governance on pages 32 and 33.

The Committee has:

- reviewed the internal controls and risk management systems of the Company and those of its third party service providers;
- reviewed and, where appropriate, updated the Company's principal risks and uncertainties;
- agreed the audit plan with the Auditor, including the principal areas of focus, and agreed the audit fee;
- received and discussed with the Auditor its report on the results of the audit; and
- reviewed the Company's half-yearly and annual financial statements and advised the Board accordingly.

## Significant issues

The significant issues considered by the Committee in relation to the Company's Annual Report and Financial Statements were:

- Valuation of investments: During the year, the Committee discussed the valuation process for the Company's investments and the systems in place to ensure the accuracy of these valuations and the criteria used by the Manager and the Company's Auditor.

- Completeness of dividend income: the Committee considered and discussed the accuracy and completeness of dividend income recognised in the financial statements.
- Internal control systems: the Committee considers the internal control systems by continually monitoring the services and controls of its third party service providers. It is considered that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties which are monitored by the Committee, and provide reports on their operations annually. There were no significant matters of concern identified in the Committee's review of the internal control of its third party service providers.
- Going concern and long-term viability: the Committee assesses every six months that it remains appropriate to prepare the Company's financial statements on a going concern basis, and makes its recommendations to the Board. The Board's conclusions are set out on page 24. The Committee also considered the longer-term viability statement within the Annual Report for the year ended 31 July 2017. This statement is set out on pages 24 and 25.

Following consideration of the above, and its detailed review, the Committee was of the opinion that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position and performance, business model and strategy and advised the Board accordingly.

### **Auditor**

In considering the Company's growth as well as rotation requirements under the EU Audit Regulation and Directive, the Audit Committee decided that it would be beneficial to rotate the auditor for the year to 31 July 2017. The Audit Committee was mindful to appoint a recognised firm of auditors. It considered Deloitte LLP's credentials, reputation and investment trust experience and, after detailed enquiry and discussion, proposed Deloitte LLP as the Company's Auditor for the 31 July 2017 year-end audit.

In accordance with audit tender requirements, the Company, being a Public Interest Entity, intends to carry out an audit tender by 1 August 2020.

### **Audit fees and non-audit services provided by the Auditor**

The Committee reviewed and approved the audit plan and fees presented by the Auditor and considered its report on the financial statements. Details of the audit fee for the year ended 31 July 2017 are set out in note 4 to the financial statements.

The Committee reviews the need for non-audit services and authorises such on a case-by-case basis, giving consideration to the cost-effectiveness of the services and the independence and objectivity of the Auditor, and taking into account relevant UK law, regulation, ethical standards and other professional and regulatory requirements. Non-audit work may be given to the external Auditor unless there is a conflict of interest or someone else is considered to have more relevant experience. Any non-audit work to be carried out by the Auditor, including any special projects, must be approved by the Committee in advance. No non-audit services were provided by the Auditor during the year.

# REPORT FROM THE AUDIT COMMITTEE

continued

## **Independence and objectivity of the Auditor**

As part of the review of Auditor's independence and objectivity, Deloitte LLP has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating Deloitte LLP, the Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Committee, from direct observation and enquiry of the Manager and the Secretary, is satisfied that Deloitte are both independent and effective at carrying out their responsibilities. Deloitte LLP's performance will continue to be reviewed annually taking into account all relevant governance guidance and best practice. If the Auditor becomes aware of any situation that might potentially compromise their independence, the Committee expects the Auditor to bring that situation to its attention at the earliest opportunity.

## **Effectiveness of external audit**

The Chairman of the Committee maintains regular contact with the Auditor and the Committee has considered the performance of the Auditor, the service provided during the year and reviewed its independence and objectivity.

The Committee also monitors and reviews the effectiveness of the external audit process for the Annual Report, including a detailed review of the audit plan and audit results report, and makes recommendations to the Board on the appointment/re-appointment, remuneration and terms of engagement of the Auditor. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year ended 31 July 2017.

Following completion of the external audit of the financial statements, a formal evaluation of the external Auditor's effectiveness will be undertaken and reported on in the 2018 Annual Report and Financial Statements.

## **Accountability and audit**

The Directors' Responsibilities Statement in respect of the financial statements is set out on pages 43 and 44. The Report of the Independent Auditor is on pages 46 to 54.

The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports and reports to regulators as well as information required to be presented by statutory requirements.

## **Appointment of the Auditor**

In determining whether to recommend the appointment of the Auditor, the Committee takes into account their effectiveness, relevant knowledge and value added service together with value for money. On the basis of this assessment, the Committee recommends that Shareholders approve the continuing appointment of Deloitte LLP as Auditor to the Company at the forthcoming Annual General Meeting.

## **D Harris**

Chairman of the Audit Committee

12 October 2017

# DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of the year ended 31 July 2017. Ordinary resolutions for the approval of this Report and the Remuneration Policy will be put to Shareholders at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 46 to 54.

## Annual statement from Chairman

I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2017.

The Remuneration Committee reviewed and set the level of remuneration payable to each Director during the year. As detailed in the Corporate Governance Statement, going forward, these responsibilities will be carried out by the Board. Each Director of the Company takes no part in discussions concerning his own remuneration. The Board consists entirely of non-executive Directors and the Company has no employees.

Directors' fees at the start of the year ended 31 July 2017 were £18,000 for the Chairman and £15,000 for the other non-executive Directors. Having reviewed this during the year, the Remuneration Committee decided not to increase Directors' fees.

The Directors' Remuneration Policy will be put to Shareholders for approval at the forthcoming Annual General Meeting. There are no changes proposed to be made to the existing remuneration policy and if approved, there will be no significant change in the way the remuneration policy is implemented during the course of the next financial year.

## Directors' emoluments for the year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	Fees		Expenses		Total	
	Year to 31 July 2017 £	Year to 31 July 2016 £	Year to 31 July 2017 £	Year to 31 July 2016 £	Year to 31 July 2017 £	Year to 31 July 2016 £
P H A Stanley (Chairman)	18,000	18,000	–	–	18,000	18,000
D Harris*	15,000	15,000	327**	–	15,327	15,000
B Miller	15,000	15,000	–	–	15,000	15,000
	48,000	48,000	327**	–	48,327	48,000

\* The emoluments payable to Mr Harris are invoiced and paid to InvaTrust Consultancy Limited and are subject to VAT.

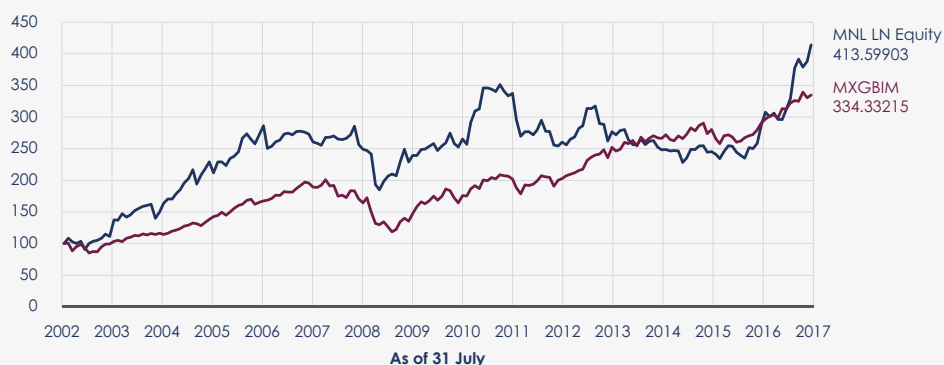
\*\* Travel expenses incurred in relation to attending the Board and Committee meetings of the Company.

# DIRECTORS' REMUNERATION REPORT

continued

## Company performance

The Company's previous benchmark, the Dow Jones U.K. Total Stock Market Total Return Index (DWGBT) was decommissioned on 31 July 2017. The Company's new benchmark is the MSCI UK Investable Market Index (MXGBIM) as it was considered the most comparable benchmark to the DWGBT. The graph below shows the Company's long-term total return performance (Share price return plus dividends paid) compared with the MXGBIM since 31 July 2002.



Source: Bloomberg.

## Relative importance of spend on pay

The table below shows the proportion of the Company's income spent on pay.

	2017 £'000	2016 £'000	% Change
Dividends payable to Ordinary Shareholders in respect of the financial year	1,989	2,874	(31)
Total remuneration paid to Directors	48	48	–

## Directors' interests (audited)

There is no requirement under the Company's Articles of Association for Directors to hold shares in the Company.

The interests of the current Directors and their connected persons in the voting rights of the Company are set out below:

	As at 31 July 2017 No. of Ordinary Shares	As at 31 July 2016 No. of Ordinary Shares
P H A Stanley (Chairman)	17,550	15,050
D Harris	3,655	–
B Miller	–	–

There have been no changes to Directors' Share interests between 31 July 2017 and the date of this Report.



### Voting at Annual General Meeting

The Directors' Remuneration Report for the year ended 31 July 2016 and the Directors' Remuneration Policy were approved by Shareholders at the Annual General Meetings held on 28 November 2016 and 24 November 2014 respectively. The votes cast were as follows:

#### Directors' remuneration report (2016 AGM)

	Number of votes	% of votes cast
For	14,262,493	100.0
Against	–	–
At Chairman's discretion	–	–
Total votes cast	14,262,493	100.0
Number of votes withheld	–	–

#### Directors' remuneration policy (2014 AGM)

	Number of votes	% of votes cast
For	14,736,751	99.9
Against	13,780	0.1
At Chairman's discretion	–	–
Total votes cast	14,750,531	100.0
Number of votes withheld	–	–

### Directors' Remuneration Policy

The Remuneration Policy was first approved by Shareholders at the Annual General Meeting held on 24 November 2014 and is therefore required to be submitted for Shareholder approval at the Annual General Meeting scheduled to be held on 27 November 2017. If passed, the policy provisions set out below will apply until they are next put to Shareholders for renewal of that approval, which must be at intervals of not more than three years, or the Remuneration Policy is varied, in which event Shareholder approval for the new Remuneration Policy will be sought. The Board is not proposing any substantial changes to the current, approved Remuneration Policy.

The Board reviews and sets the level of remuneration payable to each Director annually.

The Company's Articles of Association limit the aggregate fees payable to the Directors to a total of £200,000 per annum. Subject to this overall limit, it is the Board's policy that the remuneration of Directors should be set at a level that is commensurate with the duties and responsibilities of the role. Remuneration levels elsewhere in the investment trust industry and all other relevant information are taken in account when considering Directors' fees. The Board considers that the current policy to remunerate the Directors by way of fixed fees is appropriate to the Company's present circumstances and there are no plans to introduce any alternative remuneration schemes.

# DIRECTORS' REMUNERATION REPORT

continued

Non-executive Directors are not eligible for bonuses, pension benefits, Share options, long-term incentive schemes or other benefits. It is the Board's policy that Directors do not have service contracts but are provided with letters of appointment as a non-executive Director.

Component	Director	Rate at 1 August 2017	Purpose of Remuneration
Annual fee	Chairman	£18,000	Commitment as Chairman <sup>1</sup>
Annual fee	Non-executive Directors	£15,000	Commitment as a non-executive Director <sup>2</sup>
Expenses	All Directors	N/A	Reimbursement of expenses incurred in the performance of duties as a Director

1 The Company's policy is for the Chairman to be paid a higher fee than the other Directors to reflect the more onerous role.

2 The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £200,000 per annum.

Fees for any new Director appointed will be on the above basis. Fees payable in respect of subsequent periods will be determined by the Board following an annual review.

Any views expressed by Shareholders on the fees being paid to Directors would be taken into consideration by the Board. There are no performance conditions attaching to the remuneration of the Directors as the Board does not consider such arrangements or benefits necessary or appropriate for non-executive Directors. Under the Directors' letters of appointment, there is a notice period of six months and no compensation is payable to a Director on loss of office.

## Approval

The Directors' Remuneration Report was approved by the Board of Directors and signed on its behalf by:

**P H A Stanley**  
Chairman

12 October 2017

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Company's Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS"). 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 the financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

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 to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations, and ensuring that the Annual Report includes information required by the Listing Rules and Disclosure Guidance and Transparency Rules of the FCA.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

continued

The financial statements are published on the Company's website, **[www.mlcapman.com/manchester-london-investment-trust-plc](http://www.mlcapman.com/manchester-london-investment-trust-plc)**, which is maintained on behalf of the Company by the Manager. The Manager has agreed to maintain, host, manage and operate the Company's website and to ensure that it is accurate and up-to-date and operated in accordance with applicable law. 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 covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

We confirm that to the best of our knowledge:

- i. the financial statements, prepared in accordance with the IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- ii. the Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, strategy and business model.

On behalf of the Board of Directors

**P H A Stanley**

Chairman

12 October 2017



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER AND LONDON INVESTMENT TRUST PLC

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 July 2017 and of its return for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Manchester and London Investment Trust plc (the "Company") which comprise:

- the Statement of Comprehensive Income;
- the Statement of Changes in Equity;
- the Statement of Financial Position;
- the Statement of Cash Flows; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Valuation and ownership of listed investments; and</li> <li>• Completeness of dividend income.</li> </ul>
<b>Materiality</b>	<p>The materiality that we used in the current year was £947,000 which was determined on the basis of net assets.</p>
<b>Scoping</b>	<p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.</p>



## Conclusions relating to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the Directors' statement on the longer-term viability of the Company contained within the Directors' Report on pages 24 and 25.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 16 and 17 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 16 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 or liquidity;
- the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on pages 24 and 25 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider 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; or
- whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to add or draw attention to in respect of these matters.**

**We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER AND LONDON INVESTMENT TRUST PLC continued

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation and ownership of listed investments

### Key audit matter description



The listed investments of the Company of £75.9m make up 80% of the total net assets of the Company at 31 July 2017. See the accounting policy in note 1 of the financial statements and also see note 9 of the financial statements. This risk is also included in the Report from the Audit Committee within the Annual Report as a significant issue.

Listed investments are valued at the closing bid price at the year end.

There is a risk that listed investments within the portfolio may not be valued correctly or may not represent the property of the Company. Given the nature and size of the balance and its importance to the entity, we have considered that there is a potential risk of fraud in this area.

### How the scope of our audit responded to the key audit matter



We performed the following testing to address the risk identified:

- assessed the design and implementation of controls in place over the ownership and valuation of listed investments;
- agreed 100% of the Company's listed investment portfolio at the year end to confirmations received directly from the custodians; and
- agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source.

In addition we:

- tested the recording of a sample of purchases and sales of listed investments;
- assessed the liquidity of the portfolio by comparing a sample of listed investments to current trade volumes; and
- agreed 100% of exchange traded derivatives including equity options and contracts for difference to market prices published by an independent pricing source.

### Key observations



No material issues were noted with this testing.

### Completeness of dividend income

#### Key audit matter description



Dividends from equity shares totalling £996,000 are accounted for on ex-dividend date as revenue. See the accounting policy in note 1 of the financial statements and also see note 2 of the financial statements. This risk is also included in the Report from the Audit Committee in the Annual Report as a significant issue.

There is a risk that revenue is incomplete and consequently the revenue recognised in the financial statements is materially misstated.

#### How the scope of our audit responded to the key audit matter



We performed the following testing to address the risk identified:

- we assessed the design and implementation of controls in place for monitoring the completeness of dividend income;
- for a sample of investments held during the year and at the year end, we agreed the ex-dividend dates and rates for dividends declared and confirmed they were correctly recorded. We also traced income expected to be received to the bank statements; and
- reviewed the accounting policies for revenue recognition against the requirements of IFRS and the SORP and confirmed their application during the year.

In addition:

- for a sample of special dividends and corporate actions, confirmed the allocation between revenue and capital was appropriate by reviewing management's rationale for the allocation and performing independent research to determine if it was appropriate.

#### Key observations



No material issues were noted with this testing.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER AND LONDON INVESTMENT TRUST PLC continued

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£947,000
<b>Basis for determining materiality</b>	1% of net assets
<b>Rationale for the benchmark applied</b>	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is a key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £19,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. We note that the accounting and administration for the Company has been outsourced to Capita as Administrator. As part of our audit we evaluated the design and implementation of relevant controls in place at Capita.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including: the Strategic Report, the Directors' Report, Statement of Corporate Governance, Directors' Remuneration Report and the Statement of Directors' Responsibilities in Relation to the Annual Report and Financial Statements, other than the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

**We have nothing to report in respect of these matters.**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider 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 performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
  - *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
  - *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code
-



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER AND LONDON INVESTMENT TRUST PLC

continued

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

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.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

#### *Adequacy of explanations received and accounting records*

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER AND LONDON INVESTMENT TRUST PLC

continued

## Other matters

### **Auditor tenure**

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 28 November 2016 to audit the financial statements for the year ending 31 July 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, covering the initial audit period of year ending 31 July 2017.

### **Consistency of the audit report with the additional report to the Audit Committee**

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

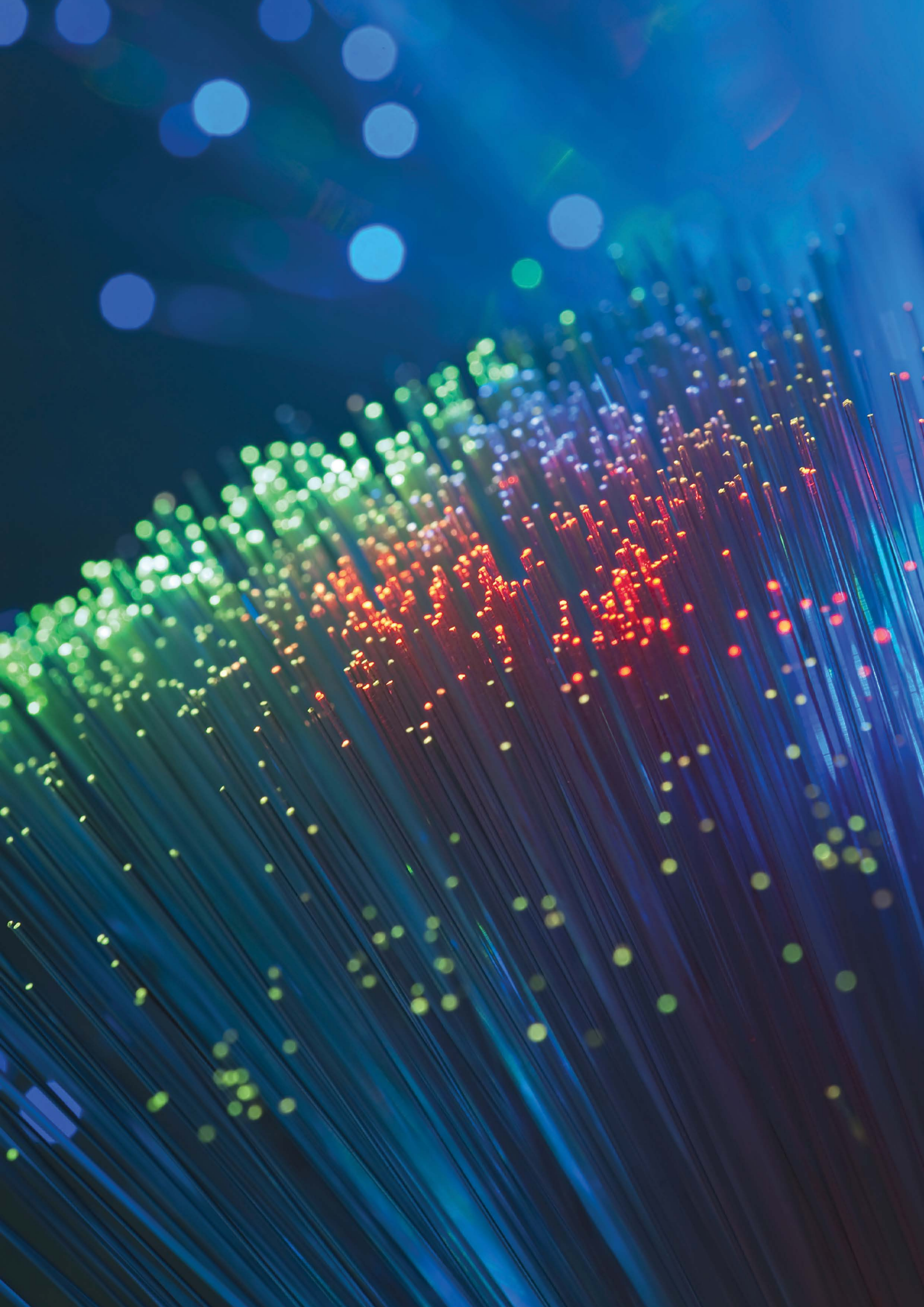
**Chris Hunter CA** (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

12 October 2017





# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2017

		2017			2016		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains</b>							
Gains on investments at fair value through profit or loss		–	18,532	18,532	–	10,712	10,712
Other investment income	2	1,532	–	1,532	2,808	–	2,808
Investment income	2	1,053	–	1,053	897	–	897
Gross return		2,585	18,532	21,117	3,705	10,712	14,417
<b>Expenses</b>							
Management fee	3	(424)	–	(424)	(334)	–	(334)
Other operating expenses	4	(365)	(89)	(454)	(447)	–	(447)
Total expenses		(789)	(89)	(878)	(781)	–	(781)
<b>Return before finance costs and tax</b>		<b>1,796</b>	<b>18,443</b>	<b>20,239</b>	<b>2,924</b>	<b>10,712</b>	<b>13,636</b>
Finance costs	5	(35)	(102)	(137)	(35)	(177)	(212)
<b>Return on ordinary activities before tax</b>		<b>1,761</b>	<b>18,341</b>	<b>20,102</b>	<b>2,889</b>	<b>10,535</b>	<b>13,424</b>
Taxation	6	(47)	–	(47)	–	–	–
<b>Return on ordinary activities after tax</b>		<b>1,714</b>	<b>18,341</b>	<b>20,055</b>	<b>2,889</b>	<b>10,535</b>	<b>13,424</b>
<b>Return per Ordinary Share:</b>							
Basic and fully diluted (pence)	8	7.90	84.53	92.43	13.45	49.05	62.50

The total column of this statement is the Income Statement of the Company prepared in accordance with IFRS, as adopted by the European Union. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the AIC in November 2014 ("AIC SORP").

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

There is no other comprehensive income, and therefore the profit for the year after tax is also the total comprehensive income.

The notes on pages 62 to 78 form part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2017

	Notes	Share capital £'000	Share premium £'000	Treasury Shares £'000	Capital reserve* £'000	Retained earnings** £'000	Total £'000
<b>Balance at 1 August 2016</b>		5,614	35,317	(2,315)	9,415	27,515	75,546
<b>Changes in equity for 2017</b>							
Total comprehensive income		–	–	–	18,341	1,714	20,055
Goodwill written back		–	–	–	79	–	79
Buybacks of Ordinary Shares	15	–	–	–	–	–	–
Sale of Ordinary Shares from Treasury	15	–	548	1,331	–	–	1,879
Transfer of capital		–	–	–	–	–	–
Equity dividends paid	7	–	–	–	–	(2,898)	(2,898)
<b>Balance at 31 July 2017</b>		<b>5,614</b>	<b>35,865</b>	<b>(984)</b>	<b>27,835</b>	<b>26,331</b>	<b>94,661</b>
<b>Balance at 1 August 2015</b>							
		5,614	35,295	(2,395)	(1,120)	25,680	63,074
<b>Changes in equity for 2016</b>							
Total comprehensive income		–	–	–	–	13,424	13,424
Buybacks of Ordinary Shares	15	–	–	(134)	–	–	(134)
Sale of Ordinary Shares from Treasury	15	–	22	214	–	–	236
Transfer of capital		–	–	–	10,535	(10,535)	–
Equity dividends paid	7	–	–	–	–	(1,054)	(1,054)
<b>Balance at 31 July 2016</b>		<b>5,614</b>	<b>35,317</b>	<b>(2,315)</b>	<b>9,415</b>	<b>27,515</b>	<b>75,546</b>

\* Within the balance of the Capital reserve, £867,000 relates to realised gains (2016: losses of £538,000) and are distributable by way of a dividend. The remaining £26,968,000 relates to unrealised gains and losses on financial instruments (2016: £10,032,000 relating to unrealised gains and losses on financial instruments and negative £79,000 relating to write-off of goodwill) and are non-distributable.

\*\* Fully distributable by way of a dividend.

The notes on pages 62 to 78 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 July 2017

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Investments at fair value through profit or loss	9	76,106	38,999
<b>Current assets</b>			
Unrealised derivative assets	13	5,173	3,269
Trade and other receivables	10	4,486	22
Cash and cash equivalents	11	11,205	35,252
		20,864	38,543
<b>Current liabilities</b>			
Unrealised derivative liabilities	13	(2,046)	(1,746)
Trade and other payables	12	(263)	(250)
		(2,309)	(1,996)
<b>Net current assets</b>		18,555	36,547
<b>Net assets</b>		94,661	75,546
<b>Capital and reserves</b>			
Ordinary Share Capital	14	5,614	5,614
Shares held in Treasury	15	(984)	(2,315)
Share premium		35,865	35,317
Capital reserve		27,835	9,415
Retained earnings		26,331	27,515
<b>Total equity</b>		94,661	75,546
Net asset value per Ordinary Share	16	429.05p	350.81p

The financial statements on pages 56 to 78 were approved by the Board of Directors and authorised for issue on 12 October 2017 and are signed on its behalf by:

**P H A Stanley**

Chairman

Manchester and London Investment Trust Public Limited Company  
Company Number: 01009550

The notes on pages 62 to 78 form part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 July 2017

	2017 £'000	2016 £'000
<b>Cash flow from operating activities</b>		
Return on operating activities before tax	20,102	13,424
Interest expense	137	383
Gains on investments held at fair value through profit or loss	(16,736)	(7,941)
(Increase)/decrease in receivables	(55)	2
(Decrease)/increase in payables	(75)	50
Increase in fair value of derivative financial instruments	(1,585)	(546)
Non-cash expenses	79	–
Taxation	(57)	–
Net cash generated from operating activities	1,810	5,372
<b>Cash flow from investing activities</b>		
Purchases of investments	(38,162)	(39,450)
Sales of investments	13,422	36,432
Net cash outflow from investing activities	(24,740)	(3,018)
<b>Cash flow from financing activities</b>		
Equity dividends paid	(2,898)	(1,054)
Resale of Ordinary Shares	1,879	236
Buybacks of Ordinary Shares	–	(134)
Interest paid	(98)	(383)
Net cash used in financing activities	(1,117)	(1,335)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(24,047)</b>	<b>1,019</b>
Cash and cash equivalents at beginning of the year	35,252	34,233
<b>Cash and cash equivalents at end of the year</b>	<b>11,205</b>	<b>35,252</b>

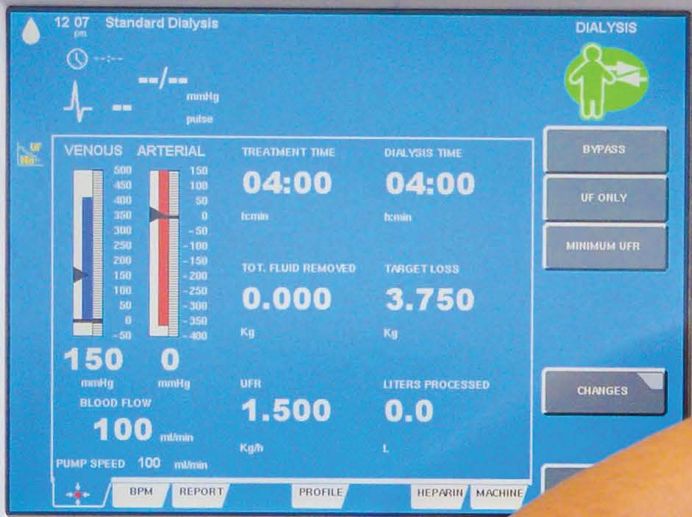
The notes on pages 62 to 78 form part of these financial statements.





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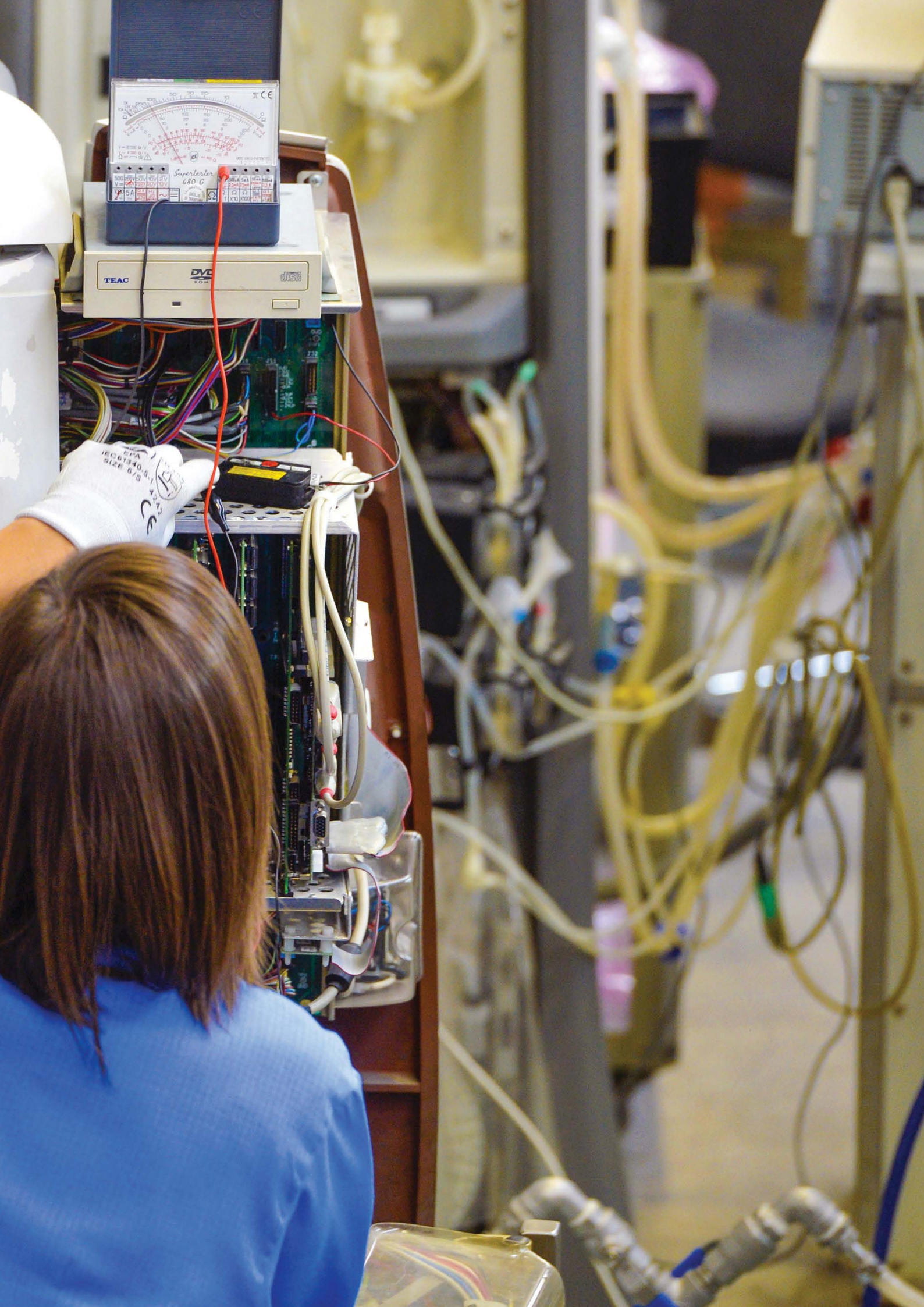
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# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

## 1. General information and accounting policies

Manchester and London Investment Trust plc is a public limited company incorporated in the UK and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010 and its investment approach is detailed in the Strategic Report.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have also been prepared in accordance with the AIC SORP for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS.

### Basis of preparation

In order to better reflect the activities of an investment trust company and in accordance with the AIC SORP, supplementary information which analyses the Statement of Comprehensive Income between items of revenue and capital nature has been prepared alongside the Statement of Comprehensive Income.

The financial statements are presented in Sterling, which is the Company's functional currency as the UK is the primary environment in which it operates, rounded to the nearest £'000s, except where otherwise indicated.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain investments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

### Going concern

The financial statements have been prepared on the going concern basis, being a period of at least 12 months from the date these financial statements were approved, and on the basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance).

### Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company primarily invests in companies listed in the UK and other recognised international exchanges.



## 1. Accounting policies *continued*

### Accounting developments

The accounting policies are consistent with those of the previous financial year. The following accounting standards and their amendments were in issue at the period end but will not be in effect until after this financial year end. The Company is still considering the impact these Accounting Standards will have on the financial statements.

International Financial Reporting Standards		Effective date
IFRS7	Financial Instruments (IFRS9 Disclosures amendments)	1 January 2018
IFRS9	Financial Instruments	1 January 2018
IFRS15	Revenue from Contracts with Customers	1 January 2018

### Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Statement of Financial Position, the Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

There were no significant accounting estimates or critical accounting judgements in the year.

### Investments

Investments are measured initially, and at subsequent reporting dates, at fair value, and derecognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time-frame of the relevant market. For listed investments, this is deemed to be bid market prices or closing prices for Stock Exchange Electronic Trading Service – quotes and crosses ("SETSqx").

Changes in fair value of investments are recognised in the Income Statement as a capital item. On disposal, realised gains and losses are also recognised in the Income Statement as capital or revenue dependent on their nature. A position is deemed to be revenue rather than capital if the position has been opened and closed and the duration that the position was open is less than twelve months. Changes to core holdings will not be classified as revenue regardless of their duration. Positions opened but not yet closed are deemed to be capital investments in nature until closed, at which point their duration determines if they are classified as revenue rather than capital.

All investments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in note 9.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For the year ended 31 July 2017

## 1. Accounting policies continued

### Financial instruments

The Company may use a variety of derivative instruments, including equity swaps, futures, forwards and options under master agreements with the Company's derivative counterparties to enable the Company to gain long and short exposure on individual securities.

The Company recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Listed options and futures contracts are recognised at fair value through profit or loss valued by reference to the underlying market value of the corresponding security, traded prices and/or third party information.

Notional dividend income arising on long positions is apportioned wholly to the revenue account.

Notional interest expense on long positions is initially allocated 100% to capital whilst the position is unrealised, however, upon realisation these costs are expensed through the Income Statement as revenue or capital in accordance with the Company's revenue recognition accounting policy.

Unrealised changes to the value of securities in relation to derivatives are allocated initially to capital, until realisation where they are allocated to either revenue or capital dependent upon their nature.

### Foreign currency

Transactions denominated in foreign currencies are converted to Sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities and non-monetary assets held at fair value denominated in foreign currencies at the year end are reported at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is capital or revenue nature.

### Cash and cash equivalents

Cash comprises cash in hand, overdrafts and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

### Trade receivables, trade payables and short-term borrowings

Trade receivables, trade payables and short-term borrowings are measured at amortised cost or approximate fair value.

### Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Company and the revenue can be reliably measured.

Dividends from overseas companies are shown gross of any non-recoverable withholding taxes which are disclosed separately in the Statement of Comprehensive Income.

Dividends receivable on quoted equity Shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity Shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity Shares are recognised on a time-apportioned basis using the effective interest method.

## 1. Accounting policies *continued*

### **Revenue recognition** *continued*

Special dividends are taken to revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case by case basis.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

Other investment income includes gains and losses on the trading of Shares, equity swaps and futures, net of commissions, interest and other costs.

All other income is accounted for on a time-apportioned basis and recognised in the Statement of Comprehensive Income.

### **Expenses and finance cost**

All expenses are accounted for on an accruals basis and with the exception of capital interest are charged to revenue. All other administrative expenses are charged through the revenue column in the Income Statement.

Expenses incurred in issuing or the buyback of Shares to be held in Treasury are charged to the capital reserve.

### **Taxation**

The charge for taxation is based on the net revenue for the year and any deferred tax.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with recommendations of the AIC SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

No taxation liability arises on gains from sales of fixed asset investments by the Company by virtue of its investment trust status. However, the net revenue (excluding investment income) accruing to the Company is liable to corporation tax at prevailing rates.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For the year ended 31 July 2017

## 1. Accounting policies continued

### Dividends payable to Shareholders

Dividends to Shareholders are recognised as a liability in the period in which they are approved and are taken to the Statement of Changes in Equity. Dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

### Ordinary Share capital

Nominal value of total Ordinary Shares issued.

### Shares held in Treasury

Consideration paid for the purchase of Shares held in Treasury.

### Share premium

The Share premium account represents the accumulated premium paid for Shares issued in previous periods above their normal value less issue expenses. This is a reserve forming part of the non-distributable reserves. The following items are taken to this reserve:

- costs associated with the issue of equity;
- premium on the issue of Shares; and
- premium on the sales of Shares held in Treasury over the market value.

### Capital reserve

The following are taken to capital reserve:

- gains and losses on the realisation of investments
- increases and decreases in the valuation of the investments held at the year end;
- write-off of goodwill;
- exchange differences of a capital nature; and
- expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies.

### Retained earnings

The revenue reserve represents accumulated profits and losses and any surplus profits. The surplus accumulated profits are distributable by way of dividends.

## 2. Income

	2017 £'000	2016 £'000
Other investment income	1,532	2,808
Dividends from listed investments	996	839
Interest	57	58
	<b>2,585</b>	<b>3,705</b>

## 3. Management fee

	2017 £'000	2016 £'000
Management fee	424	334

The Manager provides investment services to the Company under a management agreement with a termination period of three months. The annual fee is 0.5% of the NAV calculated and payable quarterly in arrears. The fee is not subject to Value Added Tax ("VAT"). Also payable to the Manager are expenses incurred on behalf of the Company. Transactions with the Manager during the year are disclosed in note 18.

The management fee is chargeable to revenue.

## 4. Other operating expenses

	2017		2016	
	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000
Directors' fees	48	–	48	–
Auditor's remuneration	33	–	25	–
Registrar fees	14	–	10	–
Goodwill written off	–	79	–	–
Other expenses	270	10	364	–
	<b>365</b>	<b>89</b>	<b>447</b>	<b>–</b>
Fees payable to the Company's Auditor for the audit of the Company financial statements	33	–	25	–
Fees payable to the Company's Auditor for other services*:				
Services relating to taxation	–	–	7	–
Other services	–	–	3	–
	<b>33</b>	<b>–</b>	<b>35</b>	<b>–</b>

Other operating expenses include irrecoverable VAT where appropriate.

\* No non-audit services were provided by Deloitte LLP in the year to 31 July 2017.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

continued

For the year ended 31 July 2017

## 5. Finance costs

	2017 £'000	2016 £'000
Charged to revenue	35	35
Charged to capital	102	177
	<b>137</b>	<b>212</b>

Finance costs include financing charged by the Prime Brokers on open long positions and are allocated to revenue or capital on the basis disclosed in note 1.

## 6. Taxation

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Current UK corporation tax	–	–	–	–	–	–
Overseas tax not recoverable	61	–	61	–	–	–
Overseas tax refunds	(14)	–	(14)	–	–	–
	<b>47</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>–</b>	<b>–</b>

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	1,761	18,341	20,102	2,889	10,535	13,424
Profit/(loss) before tax						
Tax at the UK corporation tax rate of 19.67% (2016: 20.00%)	346	3,608	3,954	578	2,107	2,685
Tax effect of non-taxable dividends/unrealised profits	(21)	–	(21)	(168)	–	(168)
Income not subject to UK corporation tax	(49)	–	(49)	(307)	–	(307)
Brought forward losses utilised during the period	(114)	–	(114)	(115)	–	(115)
Profits on investment appreciation not taxable	–	(3,588)	(3,588)	–	(2,142)	(2,142)
Current year losses utilised	(162)	(20)	(182)	–	–	–
Other non-taxable income less expenses not deductible for tax	–	–	–	7	35	42
Unrelieved tax losses and other deductions arising in the period	–	–	–	5	–	5
Overseas tax not recoverable	61	–	61	–	–	–
Overseas tax refunds	(14)	–	(14)	–	–	–
Current year tax charge	<b>47</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>–</b>	<b>–</b>



## 6. Taxation *continued*

At 31 July 2017, there was an unrecognised deferred tax asset, measured at the substantively enacted rate of 17%, of £243,000 (2016: £340,000). This deferred tax asset relates to surplus management expenses. It is unlikely that the Company will generate sufficient taxable profits in the foreseeable future to recover these amounts and therefore the asset has not been recognised in the year, or in prior years.

As at 31 July 2017, the Company had unrelieved capital losses of £9,330,000 (2016: £9,330,000). There is therefore, a related unrecognised deferred tax asset, measured at the substantively enacted rate of 17%, of £1,586,000 (2016: £1,679,000). These capital losses can only be utilised to the extent that the Company does not qualify as an investment trust in the future and, as such, the asset has not been recognised.

## 7. Dividends

Amounts recognised as distributions to equity holders in the period:	2017 £'000	2016 £'000
Final ordinary dividend for the year ended 31 July 2016 of 1.85p (2015: 1.70p) per Share	398	365
First final special dividend for the year ended 31 July 2016 of 7.5p (2015: nil) per Share	1,615	–
Final special dividend for the year ended 31 July 2016 of 1.05p (2015: 0.25p) per Share	226	54
Interim ordinary dividend for the year ended 31 July 2017 of 1.82p (2016: 0.40p) per Share	400	86
First special dividend for the year ended 31 July 2017 of 1.18p (2016: 0.46p) per Share	259	99
Second special dividend for the year ended 31 July 2017 of nil (2016: 2.10p) per Share	–	450
	<b>2,898</b>	<b>1,054</b>

The Directors are proposing a final ordinary dividend of 1.76p and a final special dividend of 4.24p for the financial year 2017. These proposed dividends have been excluded as a liability in these financial statements in accordance with IFRS.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

continued

For the year ended 31 July 2017

## 7. Dividends continued

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

	2017 £'000	2016 £'000
Interim ordinary dividend for the year ended 31 July 2017 of 1.82p (2016: 0.40p) per Share	400	86
Proposed final ordinary dividend for the year ended 31 July 2017 of 1.76p (2016: 1.85p) per Share*	390	398
First special dividend for the year ended 31 July 2017 of 1.18p (2016: 0.46p) per Share	259	99
Second special dividend for the year ended 31 July 2017 of nil (2016: 2.10p) per Share	–	450
First final special dividend for the year ended 31 July 2017 of nil (2016: 7.50p) per Share	–	1,615
Proposed final special dividend for the year ended 31 July 2017 of 4.24p (2016: 1.05p) per Share*	940	226
	<b>1,989</b>	<b>2,874</b>

\*Based on the total Shares eligible to receive dividend as at 12 October 2017.

## 8. Return per Ordinary Share

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Return:						
Basic and fully diluted	1,714	18,341	20,055	2,889	10,535	13,424

Basic revenue, capital and total return per Ordinary Share is based on the net revenue, capital and total return for the period and on the weighted average number of Ordinary Shares in issue (excluding those Shares held in Treasury per note 15) of 21,697,085 (2016: 21,477,042).

## 9. Investments at fair value through profit or loss

	2017 £'000	2016 £'000
Investments:		
Listed investments	75,877	38,753
Unlisted investments	229	246
	<b>76,106</b>	<b>38,999</b>

**9. Investments at fair value through profit or loss** *continued*

	Listed £'000	2017 Unlisted £'000	Total £'000	2016 Total £'000
Analysis of investment portfolio movements:				
Opening cost at 1 August	31,780	100	31,880	24,982
Opening unrealised appreciation at 1 August	6,973	146	7,119	3,058
Opening fair value at 1 August	38,753	246	38,999	28,040
Movements in the year:				
Purchases at cost	38,162	–	38,162	39,450
Sales proceeds	(17,792)	–	(17,792)	(36,432)
Realised profit on sales	1,410	–	1,410	3,880
Increase/(decrease) in unrealised appreciation	15,344	(17)	15,327	4,061
Closing fair value at 31 July	75,877	229	76,106	38,999
Closing cost at 31 July	53,560	100	53,660	31,880
Closing unrealised appreciation at 31 July	22,317	129	22,446	7,119
Closing fair value at 31 July	75,877	229	76,106	38,999

**Fair value hierarchy**

Financial assets of the Company are carried in the Statement of Financial Position at fair value. The fair value is the amount at which the asset could be sold or the liability transferred in an orderly transaction between market participants, at the measurement date, other than a forced or liquidation sale. The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in an active market.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For the year ended 31 July 2017

## 9. Investments at fair value through profit or loss continued

The tables below set out fair value measurements of financial instruments as at the year end, by their category in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 31 July 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	75,877	–	–	75,877
Debentures	–	229	–	229
Derivatives – assets	–	5,173	–	5,173
Total	75,877	5,402	–	81,279

Financial assets at fair value through profit or loss at 31 July 2016

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	38,753	–	–	38,753
Debentures	–	246	–	246
Derivatives – assets	–	3,269	–	3,269
Total	38,753	3,515	–	42,268

There have been no transfers during the period between level 1 and 2 fair value measurements and no transfers into or out of level 3 fair value measurement.

Financial liabilities at 31 July 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Derivatives – liabilities	–	2,046	–	2,046

Financial liabilities at 31 July 2016

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Derivatives – liabilities	–	1,746	–	1,746

### Transaction costs

During the year, the Company incurred transaction costs of £138,000 (2016: £223,000) on the purchase and disposal of investments.

## 10. Trade and other receivables

	2017 £'000	2016 £'000
Dividends receivable	92	7
Due from brokers	4,370	–
Other receivables	13	4
Prepayments	11	11
	<b>4,486</b>	<b>22</b>

## 11. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash and cash equivalents	11,205	32,252
	<b>11,205</b>	<b>32,252</b>

Details of what comprises cash and cash equivalents can be found in note 1.

## 12. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	88	198
Accruals	175	52
	<b>263</b>	<b>250</b>

## 13. Derivatives

The Company may use a variety of derivative contracts, including equity swaps, futures, forwards and options under master agreements with the Company's derivative counterparties to enable the Company to gain long and short exposure on individual securities. Derivatives are valued by reference to the underlying market value of the corresponding security.

The net fair value of derivatives at 31 July 2017 was a positive £3,127,000 (2016: positive £1,523,000). The corresponding gross exposure on equity swaps as at 31 July 2017 was £28,223,000 (2016: £34,660,000). The net marked to market futures and options total value as at 31 July 2017 was negative £1,807,000 (2016: negative £647,000).

	2017 £'000	2016 £'000
<b>Assets</b>		
Unrealised derivative assets	5,173	3,269
<b>Current liabilities</b>		
Unrealised derivative liabilities	2,046	1,746

The above liabilities are secured against assets held with the Prime Brokers.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For the year ended 31 July 2017

## 13. Derivatives continued

The current levels of collateral as at 31 July 2017 are:

- Morgan Stanley & Co. International plc £32.4m (2016: £29.4m)
- JP Morgan Chase & Co. £54.7m (2016: £47.3m)

## 14. Share capital

	2017		2016	
	Number ('000)	£'000	Number ('000)	£'000
<b>Ordinary Share capital</b>				
<b>Ordinary Shares of 25p each issued and fully paid</b>				
Balance as at 1 August	22,457	5,614	22,457	5,614
Balance as at 31 July	22,457	5,614	22,457	5,614

## 15. Shares held in Treasury

	2017		2016	
	Number ('000)	£'000	Number ('000)	£'000
Balance as at 1 August	923	2,315	956	2,395
Shares bought back during the year	–	–	52	134
Shares sold during the year	(529)	(1,331)	(85)	(214)
Balance as at 31 July	394	984	923	2,315

During the year, the Company bought back none of its Ordinary Shares (2016: 51,500 (0.2%) of its Ordinary Shares for a total purchase consideration of £134,000). The Company sold 528,368 (2.5%) (2016: 85,000 (0.4%)) of its Ordinary Shares from Treasury for a net consideration (after costs) of £1,879,000 (2016: £236,000), generating a surplus of £548,000 (2016: £22,000) which is recognised in the Share Premium account.

## 16. Net asset value per share

	Net asset value per Share		Net assets attributable	
	2017 (p)	2016 (p)	2017 £'000	2016 £'000
Ordinary Shares: basic and fully diluted	429.05	350.81	94,661	75,546

The basic NAV per Ordinary Share is based on net assets at the year end and 22,062,788 (2016: 21,534,420) Ordinary Shares in issue, adjusted for any Shares held in Treasury.



## 17. Risks – investments, financial instruments and other risks

### Investment objective and policy

The Company's investment objective and policy are detailed on pages 14 and 15.

The investing activities in pursuit of its investment objective involve certain inherent risks.

The Company's financial instruments can comprise:

- Shares and debt securities held in accordance with the Company's investment objective and policy;
- Derivative instruments for trading and investment purposes;
- Cash, liquid resources and short-term debtors and creditors that arise from its operations; and
- Current asset investments and trading.

### Risks

The risks identified arising from the Company's financial instruments are market risk (which comprises market price risk and interest rate risk), liquidity risk and credit and counterparty risk. The Company may enter into derivative contracts to manage risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

These policies remained unchanged since the beginning of the accounting period.

### Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Company assesses the exposure to market risk when making each investment decision and these risks are monitored by the Manager on a regular basis and the Board at quarterly meetings with the Manager.

Details of the long equity exposures held at 31 July 2017 are shown on page 9.

If the price of these investments and equity swaps had increased by 3% at the reporting date with all other variables remaining constant, the capital return in the Statement of Comprehensive Income and the net assets attributable to equity holders of the Company would increase by £3,130,000.

A 3% decrease in share prices would have resulted in an equal and opposite effect of £3,130,000, on the basis that all other variables remain constant. This level of change is considered to be reasonable based on observation of current market conditions.

At the year end, the Company's direct equity exposure to market risk was as follows:

	Company	
	2017 £'000	2016 £'000
<b>Equity long exposures</b>		
Investments held in equity form	76,106	38,999
Long exposure held in equity swaps	28,224	34,660
	<b>104,330</b>	<b>73,659</b>

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

continued

For the year ended 31 July 2017

## 17. Risks – Investments, financial instruments and other risks

continued

### Interest rate risk

Interest rate risk arises from uncertainty over the interest rates charged by financial institutions. It represents the potential increased costs of financing for the Company. The Manager actively monitors interest rates and the Company's ability to meet its financing requirements throughout the year and reports to the Board.

### Liquidity risk

Liquidity risk reflects the risk that the Company will have insufficient funds to meet its financial obligations as they fall due. The Directors have minimised liquidity risk by investing in a portfolio of quoted companies that are readily realisable.

The Company's uninvested funds are held almost entirely with the Prime Brokers or on interest-bearing deposits with UK banking institutions.

As at 31 July 2017, the financial liabilities comprised:

	Company	
	2017 £'000	2016 £'000
Unrealised derivative liabilities	2,046	1,746
Trade payables and accruals	263	250
	<b>2,309</b>	<b>1,996</b>

The above liabilities are stated at amortised cost or approximate fair value.

The Company manages liquidity risk through constant monitoring of the Company's gearing position to ensure the Company is able to satisfy any and all debts within the agreed credit terms.

### Currency rate risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. If Sterling had strengthened by 3% against all other currencies at the reporting date, with all other variables remaining constant, the total return in the Statement of Comprehensive Income and the net assets attributable to equity holders of the Company would have increased by £2,366,000. If the Sterling had weakened by 3% against all currencies, there would have been an equal and opposite effect. This level of change is considered to be reasonable based on observation of current market conditions.

The Company's material foreign currency exposures are laid out below.

	Sterling £'000	US Dollar £'000	Euro £'000	Hong Kong Dollar £'000	Other £'000	Total £'000
Equity exposure	12,942	63,164	–	–	–	76,106
Derivative assets	819	567	2,291	1,496	–	5,173
Derivative liabilities	(205)	(1,318)	(351)	(167)	(5)	(2,046)
Cash	2,387	8,229	226	65	298	11,205
Other net assets	(150)	4,353	10	(17)	27	4,223
	<b>15,793</b>	<b>74,995</b>	<b>2,176</b>	<b>1,377</b>	<b>320</b>	<b>94,661</b>

The Company constantly monitors currency rate risk to ensure balances, wherever possible, are translated at rates favourable to the Company.

## 17. Risks – Investments, financial instruments and other risks continued

### Credit and counterparty risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk as at 31 July 2017 was £20,864,000 (2016: £36,547,000). The calculation is based on the Company's credit risk exposure as at 31 July 2017 and this may not be representative for the whole year.

The Company's quoted investments are held on its behalf by the Prime Brokers. Bankruptcy or insolvency of the Prime Brokers may cause the Company's rights with respect to securities held by the Prime Brokers to be delayed.

Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default.

Investment transactions are carried out with a number of brokers where creditworthiness is reviewed by the Manager.

Cash is only held at banks that have been identified by the Board as reputable and of high credit quality.

### Capital management policies

The structure of the Company's capital is noted in the Statement of Changes in Equity and managed in accordance with the investment objective and policy set out in the Strategic Report.

The Company's capital management objectives are to maximise the return to Shareholders while maintaining a capital base to allow the Company to operate effectively and meet obligations as they fall due.

The Board, with the assistance of the Manager, monitors and reviews the capital on an ongoing basis.

The Company is subject to externally imposed capital requirements:

- As a public company, the Company is required to have a minimum Share capital of £50,000; and
- In accordance with the provisions of Sections 832 and 833 of the Companies Act 2006, the Company, as an investment company:
  - is only able to make a dividend distribution to the extent that the assets of the Company are equal to at least one and a half times its liabilities after the dividend payment has been made; and
  - is required to make a dividend distribution each year such that it does not retain more than 15% of the income that it derives from Shares and securities.

These requirements are unchanged since last year and the Company has complied with them at all times.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

continued

For the year ended 31 July 2017

## 18. Related party transactions

M&L Capital Management Limited has been the Manager of the Company since 17 September 2015 (the former Manager was Midas Investment Management Limited). Both companies are controlled by Mr M Sheppard.

The Manager receives a quarterly management fee for these services which in the year under review amounted to a total of £424,000 (2016: £334,000) excluding VAT. The balance owing to the Manager as at 31 July 2017 was £119,000 (2016: £175,000). Also payable to the Manager during the year were expenses incurred on behalf of the Company of £26,000 (of which £12,000 related to expenses incurred in 2016). The balance owing to M&L Capital Management Limited for the recharge of expenses incurred in the year was £3,000 (2016: £nil).

A corporate fee was payable in the year to Midas Investment Management Limited for acting as financial adviser amounting to £3,000 (2016: £5,000) excluding VAT and commission fees of £5,000 (2016: £5,000) excluding VAT to the Company. The balance owing to Midas Investment Management Limited at 31 July 2017 was £1,000 (2016: £1,000).

During the year, the Company paid service, administration and secretarial charges to its controlling Shareholder, M&M Investment Company plc, of £nil (2016: £19,000). The balance owing to M&M Investment Company plc as at 31 July 2017 was £nil (2016: £7,000).

Details relating to the Directors' emoluments are found in the Directors' Remuneration Report on page 39.

## 19. Ultimate control

The holding company and ultimate controlling Shareholder throughout the year and the previous year was M&M Investment Company plc, a company incorporated in the UK and registered in England and Wales. This company was controlled throughout the year and the previous year by Mr M Sheppard and his immediate family.

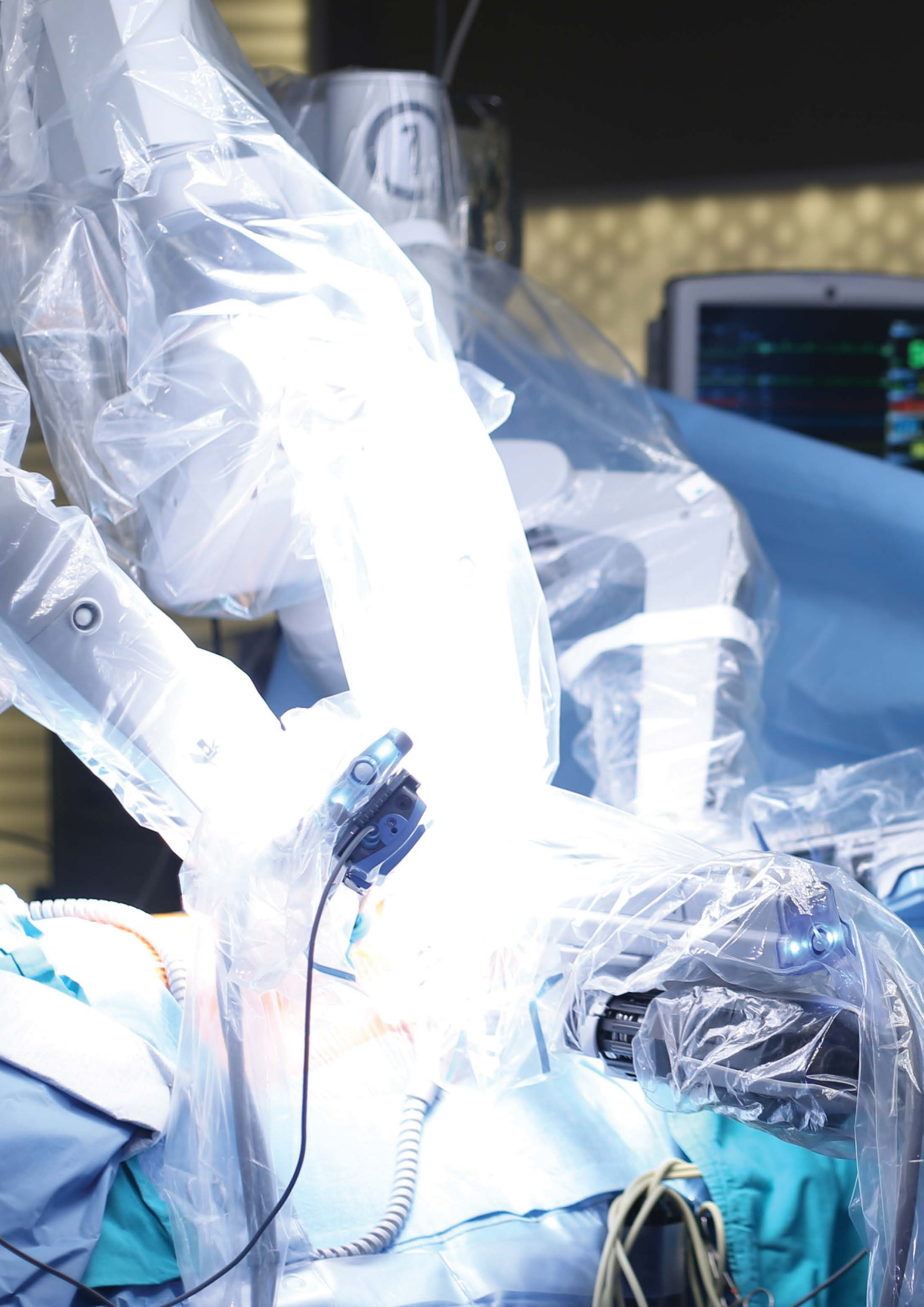
A copy of the financial statements of M&M Investment Company plc can be obtained by writing to its company secretary at 12a Princess Gate Mews, London SW7 2PS.

## 20. Post Balance Sheet events

As disclosed in the Directors' Report on page 22, subsequent to the year end and up to the date of signing this report, the Company sold 100,000 Ordinary Shares from Treasury for a net consideration (after costs) of £384,000, generating a surplus of £133,000.

There were no other significant events since the end of the reporting period.





# GLOSSARY

## Active share

Active share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the comparative benchmark index. It is calculated by summing the absolute differences between benchmark and portfolio holdings' weights, then dividing by two (to eliminate double counting). An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index (when using leverage, maximum active share levels can exceed 100%).

## Custodian and Prime Broker

The custodian is a financial institution that holds securities for safekeeping. Prime brokerage is the bundling of services by investment banks enabling the Company to borrow securities and cash in order to be able to invest on a netted basis and achieve an absolute return. The Prime Broker provides a centralised securities clearing facility for the Company so the Company's collateral requirements are netted across all deals handled by the Prime Broker.

## Gearing

Gearing refers to the level of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at par less cash and cash equivalents (including any outstanding trade or foreign exchange settlements) expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash and bonds expressed as a percentage of shareholders' funds.

## Leverage

For the purposes of the Alternative Investment Fund Managers ("AIFM") Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.



**Net asset value ("NAV")**

The NAV is shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all the Company's assets, at a current market value, having deducted all liabilities and prior charges at their par value (or at their asset value). The total NAV per share is calculated by dividing the NAV by the number of ordinary shares in issue excluding Treasury shares.

**Discount/premium**

If the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

**Ongoing charges ratio**

As recommended by the AIC in its guidance, ongoing charges are the Company's annualised expenses (excluding finance costs and certain non-recurring items) of £789,000 expressed as a percentage of the average monthly net assets of the Company during the year of £82,853,000.

**Total assets**

Total assets represents total assets less current liabilities (before deduction of all borrowings).

**Total return**

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between trusts with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares of the trust at the time the shares go ex-dividend (the share price total return) or in the assets of the trust at its NAV per share (the NAV total return).

**Underlying modelled volatility**

The underlying volatility is the variance of the returns that arise from the daily trading activities of the options. This shows the extent to which the return of the underlying asset will fluctuate between now and the option's expiration, expressed as a percentage.

## SHAREHOLDER BENEFITS

All Shareholders with 2,500 Shares (excluding the officers of the Company) are entitled to participate in a draw undertaken by the Directors before the Annual General Meeting in respect of The All England Lawn Tennis Ground Ltd Debentures listed below. Once a Shareholder's holding exceeds 2,500 Shares, the probability of success in this draw will increase for every additional Share held. In the event that holding these Debentures did not align with the investment strategy of the Company, the Debentures will be sold; in such case, the above benefit would cease.

### **Centre Court**

The Company owns two Debentures entitling it to two Centre Court seats (together with two badges admitting entry to the Debentures Holders' Lounge) for the thirteen days play of the Championships. There will be thirteen draws, each draw entitling the successful Shareholder to one pair of adjacent seats for one day's play.

The Sheppard family remove their Shares from the draw to manage conflicts of interest, hence your probability of success more than doubles.

# SHAREHOLDER INFORMATION

## ISA and Savings Schemes – a cost efficient way to invest in the Company

The Shares of the Company are listed on the Official List of the UKLA and traded on the London Stock Exchange. Private investors can buy or sell Shares by placing an order either directly with a stockbroker or through an independent financial adviser. Alternatively, investments can also be made through the Company's Share Savings Plan or the MLIT Individual Savings Account ("ISA") which is administered by Midas Investment Management Limited, who are contactable on 0161 228 1709 should you require further details on these savings plans and for the full terms and conditions.

- The MLIT Investment Plan: MLIT operates a zero-charge Savings Plan and all cash (whether from subscriptions or dividends) is reinvested in the Company's Shares. Investors have the option of making a lump sum payment to the Plan or regular payments on a monthly or quarterly basis, whichever is preferred. The Plan can be held jointly or set up for the benefit of children and there is no upper limit on the amount which can be invested.
- The MLIT ISA: Like the Savings Plan, the MLIT zero-charge ISA consists solely of MLIT Shares and all cash (whether from subscriptions or dividends) is reinvested in the Company's Shares. There are no commissions or annual administration charges on the ISA. Subscriptions may be made either by lump sum or by monthly payments. The current lump sum minimum payment is £2,000 with a maximum subscription per year of £20,000.
- Disposal of other shareholdings: MLIT offers a facility whereby holders may sell any of their existing Shares without incurring any commission costs as long as the full proceeds are reinvested into MLIT Shares. The purchase of the MLIT Shares will also be undertaken free of commission.

## Frequency of NAV publication

The Company's NAV is released to the London Stock Exchange on a weekly basis and also published in the Investment Companies sector of The Financial Times.

## Sources of further information

Copies of the Company's annual and half-yearly reports, factsheets and further information on the Company can be obtained from its website: [www.mlcapman.com/manchester-london-investment-trust-plc](http://www.mlcapman.com/manchester-london-investment-trust-plc)

## Key dates

Company's year end	31 July
Annual results announced	October
Annual General Meeting	November
Expected final dividend payment	December
Company's half-year end	31 January
Half-yearly results announced	April

# CORPORATE INFORMATION

## Directors and advisers

### Directors

P H A Stanley (Chairman)  
D Harris  
B Miller

### Manager and Sub-Threshold Manager

M&L Capital Management Limited  
12a Princes Gate Mews  
London SW7 2PS  
Tel: 0207 584 5733

### Company Secretary

Capita Company Secretarial Services Limited  
Beaufort House  
51 New North Road  
Exeter EX4 4EP  
Tel: 01392 477500

### Registrar

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham BR3 4TU  
Tel: 0871 664 0300  
Email: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)  
[www.capitaassetservices.com](http://www.capitaassetservices.com)

### Auditor

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2DB

### Administrator

Capita Sinclair Henderson Limited  
Beaufort House  
51 New North Road  
Exeter EX4 4EP

### Bank

National Westminster Bank plc  
11 Spring Gardens  
Manchester M60 2DB

## Company details

### Registered Office

12a Princes Gate Mews  
London SW7 2PS

### Company website


[www.mlcapman.com/manchester-london-investment-trust-plc](http://www.mlcapman.com/manchester-london-investment-trust-plc)

### Country of Incorporation

Registered in England and Wales  
Number: 01009550







Manchester and London  
Investment Trust plc

Registered in England & Wales  
Number: 01009550

**Registered Office**

12a Princes Gate Mews  
London SW7 2PS

**Company website**

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