F&C Capital and Income Investment Trust PLC

REPORT AND ACCOUNTS 2016

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Registered in England and Wales with company registration number 02732011.

Introducing F&C Capital and Income Investment Trust PLC

Our objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies.

So we:

- Hold a diversified portfolio focusing on well-established UK companies
- Make quarterly dividend payments
- Target long-term capital and income growth

We invest in companies which have good long-term prospects with attractive returns on invested capital. Their share prices may not fully reflect this, maybe because of adverse sentiment from short-term difficulties or simply because they have become unfashionable. Many of the stocks we purchase have a higher than average dividend yield.

F&C Capital and Income Investment Trust is suitable for retail investors in the UK, professionally advised private clients and institutional investors who seek growth over the longer term in capital and income and who understand and are willing to accept the risks, and rewards, of exposure to equities.

Visit our website at www.fandccit.com

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Financial highlights

16.6%

Net Asset Value total return of 16.6%
The total return marginally underperformed the benchmark index, which returned 16.8%.

16.6%

Share price total return of 16.6%
The share price ended the year at 287p and over five years the total return has been 69%, the equivalent of 11.1% compound per year.

10.30
pence

Dividend of 10.30 pence – 23rd consecutive annual increase
The total dividend for the year is fully covered by earnings and is an increase of 2.0% over the previous year.

2%

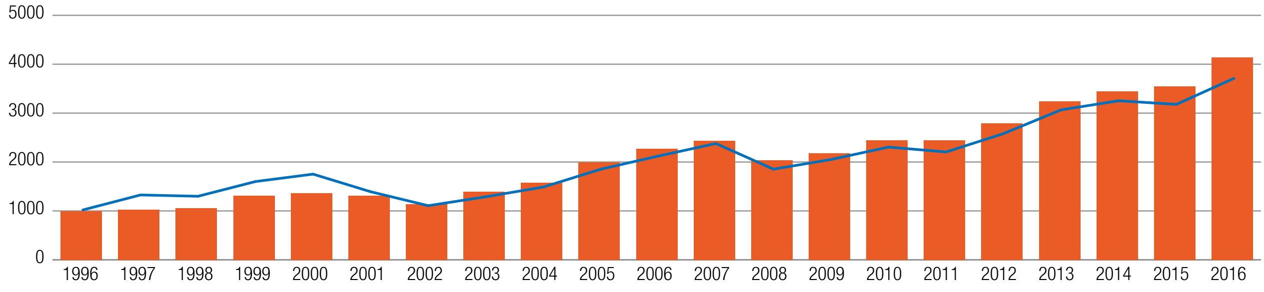
Shares ended the year at a premium of 2%
The shares continued to trade at a premium to NAV, an average of 2.2% over the year.

Forward-looking statements
This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Long-term summary

In the last twenty years F&C Capital and Income Investment Trust has turned a £1,000 investment, with dividends reinvested (and net of expenses), into £4,137 compared with £3,690 from the Company's benchmark, the FTSE All-Share Index.

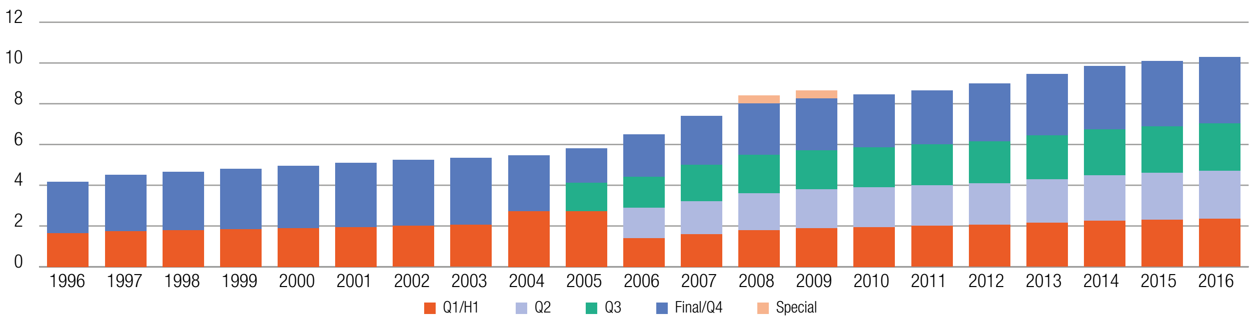
£1000 INVESTMENT, WITH DIVIDENDS REINVESTED AT 30 SEPTEMBER



Source: F&C & Thomson Reuters Eikon

The dividend has increased every year since launch and over the last twenty years is up 148.2% or 4.7% compound per year, compared with inflation of 58.0% or 2.3% compound per year.

DIVIDENDS PER SHARE – PENCE



Source: F&C

‘Not many managers stick to the last in the way Julian Cane has…

Over 20 years, the net asset value per share has risen by 299.1% against a benchmark return of 269.0%.’


Julian Cane (left)
Fund Manager

Chairman's statement

Steven Bates, Chairman

'May you live in interesting times' is supposed to be a Chinese curse. It is apocryphal, but its nearest analogue translates as 'Better to be a dog in a peaceful time, than to be a human in a chaotic period'. 2016 has certainly been chaotic, but whether you view living through it as a curse or not rather depends on your point of view.

As we looked ahead to the year just finished, it seemed likely to offer more of the same – ultra low interest rates, but with quantitative easing ("**QE**") waning in impact on markets, greater correlation between assets, lowish growth and relatively benign inflation. We posited that this was mildly encouraging for equity markets. For the first several months of the year, this is how it played out. There was a wobble at the beginning of 2016 triggered by the start of "tapering" – the jargon used to explain that interest rates were beginning to rise in the US. This spooked markets a little, despite having been long forecast, but things soon settled. Indeed, there has still been no further "taper", despite lots of speculation, and QE has been rampant in Japan, the EU and the UK. Things then jogged along until 24 June, when the Brexit vote threw a spanner in the works.

Several months on, we still have no clear idea of what Brexit actually means or how it can be achieved in such a way as not to damage the UK economy. The inevitable uncertainty which flows from this has been most visible in the collapse of sterling, which has fallen around 16% against the US Dollar and 11% against the Euro since the referendum and will lead to a spike in inflation next year as the prices of imported goods rise. Whether this will be enough to tip the UK economy into recession remains to be seen, but the relatively healthy economic data which we have seen since June are beginning to fade, and it is likely that there will be some unpleasant shocks in our near future.

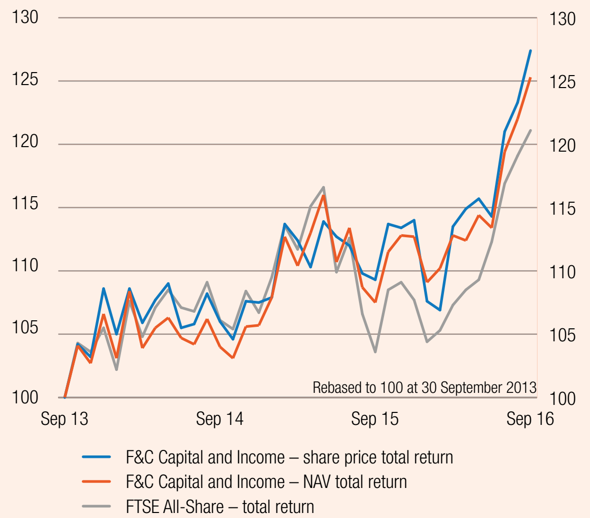
As an investor in equities, of course, your experience has been relatively benign. Up to the end of June, your Company's Net Asset Value ("**NAV**") per share had risen by 5.5%, compared with 8.4% for our primary benchmark, the FTSE All-Share Index. After the vote, in the last quarter of your Company's fiscal year, the NAV per share rose by 10.5% while the benchmark rose 7.8%. The rise in the market compensated by and large for the decline in Sterling – cushioning investors from the loss of purchasing power.

Of course, much of the UK stock market is made up of multinational businesses which are not especially sensitive to the currency (or indeed to the risks of Brexit) and it is notable that these have fared better in the "new" world than those companies, often at the smaller end of the scale, which are exposed mostly to the domestic economy. Julian Cane, your portfolio manager, explains this in greater detail in his Manager's Review which begins on page 15.

Performance

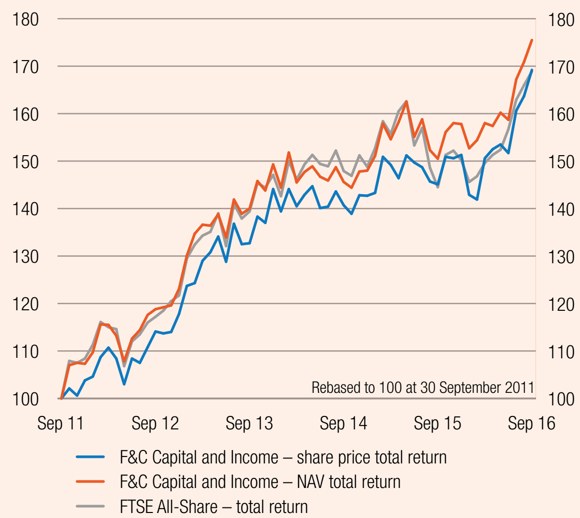
This year, the NAV per share on a total return basis rose by 16.6%. Our primary benchmark rose by 16.8%. This is a handsome absolute return in an uncertain time, even if marginally shy of the benchmark. It is important to point out, though, that as a shareholder, you are more likely to be interested in the longer term numbers, and here I am pleased to report that the news is good. Over three years, the NAV per share is up by 25.3%, compared with 21.1% for the

Total returns over three years



Source: F&C & Thomson Reuters Eikon

Total returns over five years



Source: F&C & Thomson Reuters Eikon

benchmark; over five years, it is up 75.5% compared with 68.9%; and over 20 years, it has risen by 299.1% against a benchmark return of 269.0%. Over all these periods the share price has more or less kept pace with the NAV although, over the longest run period, the share price total return was 313.7%. This is what you will have made had you held the shares and reinvested your dividends throughout.

The Manager's Review has a more detailed commentary on market movements and where our returns have come from, but although a good number of our investments reported strong results and impressive increases in their share prices, these weren't sufficient to beat the benchmark overall. In summary, some of the decisions that were good in the previous year, proved less good this year. For example, the Oil and Mining sectors had been very weak in the year to September 2015 and this had been positive for us as we had fairly little exposure to those areas. However, their subsequent rebound has been painful for our returns relative to the benchmark in this latest year. It wasn't that our investments did poorly, just that we didn't have enough of them.

Your Company has been geared throughout the year, with the debt level varying between £20m and £25m. The returns generated on the assets bought with the borrowed money have been far in excess of the cost of the borrowing, so the gearing has been positive for shareholder returns over the year.

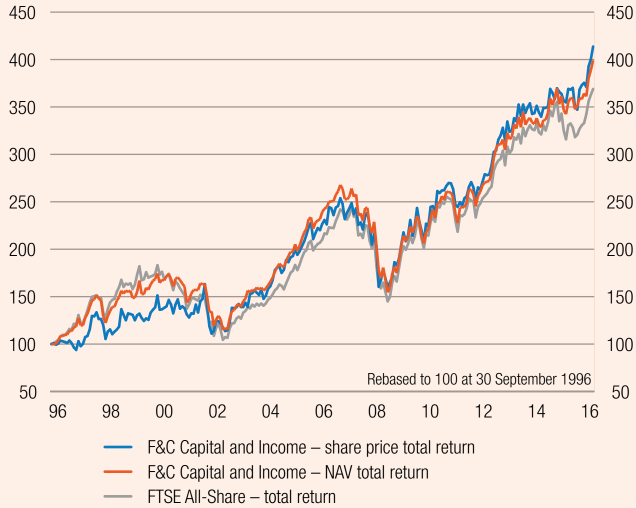
I would like to digress here for a moment to explain that I have used the 20 year data as the start of that period corresponds closely to the point at which Julian Cane took over as your portfolio manager. Investment is a peculiar business and that stretch of time encompasses booms, busts, crises and various manifestations of market insanity. Not many managers stick to the last in the way Julian has, and even fewer can point to a record of adding value to what is a notorious task master of a benchmark. Directors have come and gone as have the owners of the F&C business. Julian has been a constant steward of the assets throughout and it seems to me that sometimes long tenure does not generate the respect it deserves. On the occasion of his twentieth anniversary, therefore, I would like to record formally the gratitude of the Board (and, I hope, the Shareholders) for a job well done.

Income account

The Company's revenue return per share was 11.26 pence, up by 11.5% from last year. Downward pressure on corporate profits has been a feature of the last year and has been the case for a while now. Earnings from the FTSE All-Share Index have fallen 38.6% over the year to September 2016, with much of this driven by the Oil and Mining sectors. Despite this unhelpful backdrop, dividends have remained quite robust, perhaps surprisingly, and payout ratios have risen. Julian's analysis and forecasts take account of potential cuts in dividend at a number of major UK companies, but

Total returns over twenty years

Julian Cane 1997



Source: F&C & Thomson Reuters Eikon

Julian Cane 2016

the effect on our portfolio is not significant. Brexit is a further complicating factor, as many UK businesses earn their profits in US Dollars or Euros and so have benefited from Sterling's devaluation when reporting earnings and dividends. We expect that this will be a rather welcome support for dividends in the year ahead. Nevertheless, I will repeat last year's mantra, which is that many high yielding stocks are fully valued because income is in such short supply, and the search for sustainable and growing dividends has become more difficult.

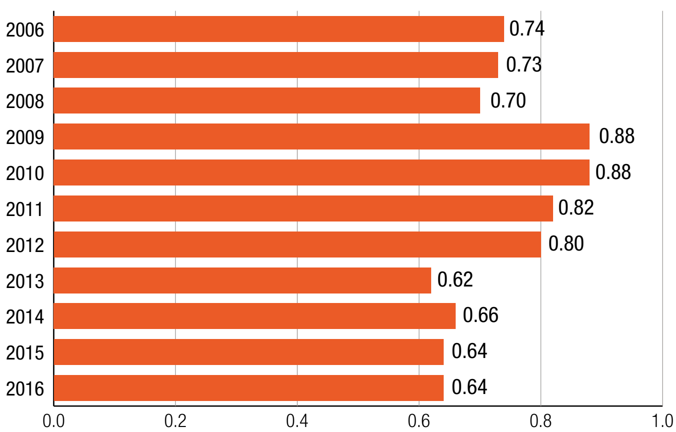
You might have thought that all the "events" of the past year would lead to spikes in market volatility, but in fact that has not been the case. This is relevant for us because elevated volatility has in the past allowed us to generate income from our option writing strategy. Low volatility makes this an uphill battle as options are cheap, meaning that writing them rarely justifies the risks of so doing.

So far this year, your Company has paid three interim dividends to Shareholders of 2.35 pence each, amounting to a total of 7.05 pence per share. We are proposing to pay a fourth dividend of 3.25 pence per share to bring the total for the year to 10.30 pence, an increase of 2.0% on the previous year, and the 23rd consecutive dividend increase. This dividend is fully covered by the revenue earnings of 11.26 pence per share.

I would emphasise the intention of the Board to offer Shareholders a stable and growing dividend over time and that we will use our revenue reserve, which currently stands at £11 million or 11.4 pence per share, to ensure that we continue to meet this objective in circumstances where the revenue account comes under pressure. In the year ahead, our preliminary expectations are that our revenue account will show a similar outcome to the year just completed.

As to costs, we have achieved an ongoing charges ratio of 0.64%, the same as last year. We keep a very close eye

Cost of running the Company as a % of average net assets



Source: F&C

on expenses as we are conscious that for many of you, the alternative to an investment in your Company might well be a purchase of a unit trust, and that our charges must remain competitive with such other forms of investment vehicle. I hope that you share the Board's view that your Company remains a competitively priced, well managed investment product.

Discount/Premium

Over the fiscal year, the shares have traded at an average premium to NAV of 2.2%, in a range of +7.5% to -2.8%. This is very similar to the relationship which has characterised the last five years, with an average of a 2.3% premium within a range of +8.6% to -2.8%. In order to control the level of the premium, we have issued 2,225,000 shares this year, and taken in £5.8 million of new capital as a result. It is worth reiterating why this is positive for all Shareholders: first, issuing shares at a premium is mildly accretive for existing Shareholders (or at the very least not dilutive); and, second, it allows the fixed costs to be spread over a larger base and, finally, it gives the shares greater liquidity. It also ensures those buying the shares don't pay too great a premium to invest in your Company.

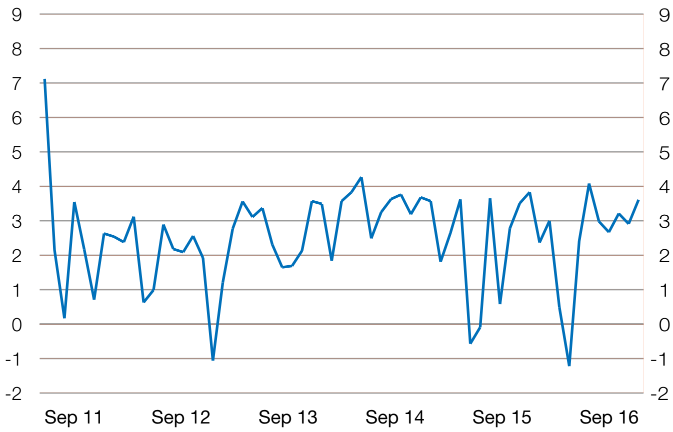
In an environment where banks offer zero interest and gilt markets look a little threadbare, equities have increasingly been seen by investors as a reliable source of income. Companies like ours have benefited from this trend and the shares have traded consistently at a premium for several years now. Nevertheless, should this happy state end and the shares trade at a discount, we would of course adopt the alternative policy of buying them back so as to try to limit this.

At the Annual General Meeting in February, we will as usual be asking for authority to issue further shares without pre-emption rights equal to 10% of the shares in issue at the date of this report. These can only be issued at a premium which takes into account the need not to dilute existing Shareholders. We will also be seeking authority to renew our authorities to buy back shares. The Board believes these resolutions are in your interests and urges you to support them.

Governance Matters

In recent years, this has been a long section. I am pleased to report that this year it is short. We have not faced any significant new regulatory developments (although there are some in the pipeline), we haven't changed the Board and your Company's even keel has been in contrast to the seismic political developments we have been suffering.

Share price premium/(discount) to NAV (%)



Source: F&C

The Annual General Meeting will take place on 14 February 2017 in Exchange House at 11:30 a.m. Julian will be making his customary presentation on the investment scene, and all the Directors will be present to answer any questions you may have.

Outlook

Normally, it is quite amusing to speculate about what might happen in the year ahead. This year, I have to confess that I have no idea how the economic and political chips will fall not least given the recent election result in the US. In the world of stock market prognostication, the gurus who hit the headlines are invariably those who take extreme positions, while the outcome is almost always a form of "muddling through". Today we face a series of political choices which might affect the economic outlook for the UK for many years to come. I hope that what we end up with is a "muddle through" but it is hard to hold that view with great confidence.

Equity markets in this country, though, will continue to benefit from low real interest rates and a devalued currency, even as they struggle to adjust to the likelihood of temporarily higher inflation. It is likely to be a better environment for an investor than for a consumer and as Julian embarks on his 21st year at the helm, I wish him a fair wind and a firm hand on the tiller.

Steven Bates
Chairman
28 November 2016

Business model

As an investment trust and closed-ended listed investment company, F&C Capital and Income Investment Trust (the "**Company**") is well suited to investors seeking longer-term returns. With structural benefits including the governance advantages of a fully independent Board of Directors and without the constraints of meeting investor redemptions, we are able to take a genuinely long-term view for our Shareholders.

Our approach

Our objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. We seek to achieve this objective by investing in companies which have good long-term prospects with attractive returns on invested capital. Their share prices may not fully reflect this, maybe because of adverse sentiment from short-term difficulties or simply because they have become unfashionable. Many of the stocks we purchase have a higher than average dividend yield.

We reduce investment risk by mainly investing in well-established UK companies. Our diversified portfolio of around 80 holdings is largely invested in large and mid-capitalisation companies. We also have holdings in smaller companies and, from time to time, invest in leading overseas companies.

The Board and manager appointment

The Board is responsible for the overall stewardship of your Company and has appointed an investment manager, F&C Investment Business Limited ("**FCIB**" or the "**Manager**") to manage the investment portfolio. The Board's responsibilities include corporate strategy; investment and dividend payment policies; gearing; corporate governance; and risk management. A formal evaluation of our investment manager's appointment, which also includes the role of Alternative Investment Fund Manager ("**AIFM**"), is carried out each year. The wholly non-executive Board comprises three female and two male Directors.

The Fund Manager and management of the assets

Julian Cane acts as Fund Manager on behalf of the Manager which is a subsidiary of F&C Asset Management PLC ("**F&C**"). He is responsible for developing and implementing the investment strategy with the Board and for the day to day management of the portfolio. He is supported in carrying out research and in the selection of stocks by a team of investment professionals.

Share prices tend to be much more volatile than changes in the underlying worth of companies creating investment opportunities but, over the longer term, share prices will reflect the intrinsic worth as the value of company cash flows, earnings, dividends or assets are realised. Identifying these opportunities and investing in these companies can result in periods of relative underperformance of your Company when market values are substantially out of line with underlying worth.

Nevertheless, this approach has demonstrated that it will generate superior results over the longer term. Information on investment strategy can be found in the Manager's Review. The Company's holdings can be found on page 24.

Marketing

Your Company's shares are suitable for retail distribution in the UK as well as to professionally advised private clients and institutional investors. Promotion has traditionally been through the F&C savings plans, which remain a cost effective and flexible way to invest. In recent years there has been a notable increase in the number of shares held through investment platforms. The Board hopes to see access to the shares on as many platforms as possible as more and more investors look to make their own investment decisions in the wake of the Retail Distribution Review. The Board will continue to work closely with F&C to ensure optimal delivery of the Company's investment proposition through all available channels.

Policies

Responsible ownership

The Board supports F&C in its belief that good governance creates value. F&C takes a particular interest in corporate governance and sustainable business practices, and continues to work on systematically incorporating environmental, social and governance factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term. Engagement with companies on significant matters, such as to reduce risk, improve performance, encourage best practice and underpin long-term investor value forms an important part of F&C's approach towards responsible investment. The Board periodically receives a report on instances where F&C has voted against the recommendation of the management on any resolution. Information on F&C's engagement and voting at company meetings in relation to your Company and where to find the statement of compliance with The UK Stewardship Code can be found on page 28.

Gearing

The Company uses borrowings by way of loans and has the ability to use its capital to fund long-term opportunities to enhance returns. The gearing level remains well within the limit stipulated within the Investment Policy Statement, as set out opposite.

Share issue and buyback policy

In recent years, your Company has issued new shares in order to provide liquidity to the market and to moderate the premium at which the shares trade in relation to the NAV per share. In the event that the shares revert to trading at a price lower than the NAV per share, the Board will consider buying back shares in accordance with the authority given by Shareholders. Shares bought back will either be cancelled or held in treasury for potential resale at a premium. This policy has the benefit of enhancing NAV per share for continuing Shareholders.

Investment policy statement

The Company invests mainly in FTSE All-Share companies. There are no maximum limits across sectors. It can invest in securities listed on the Alternative Investment Market ("**AIM**") up to a limit of 10% at the time of investment. No single investment in the portfolio may exceed 10% of the Company's total assets at the time of purchase and no unquoted securities may be purchased without the prior approval of the Board. The total value of investments held outside the UK will not exceed 10% of the Company's gross assets at the time of investment but no individual country limits are imposed. The proportion of the portfolio held in FTSE All-Share and AIM listed companies as at 30 September 2016 was 94.4% and 2.6% respectively. 3% of the total portfolio was held outside the UK, all in Irish or continental European stocks.

No more than 10% of the total assets of the Company will be invested in other UK listed investment companies (including investment trusts) except in such other UK listed investment companies which themselves have stated they will invest no more than 15% of their total assets in other UK listed investment companies, in which case the limit is 15%.

Borrowings can be used to enhance shareholder returns and would normally fall within a range of 0 to 20% of net assets. As at 30 September 2016 the Company had borrowings of £25 million representing 9.3% gearing. Under the Alternative Investment Fund Manager Directive ("**AIFMD**"), the Company is obliged to publish maximum permissible leverage exposures. Details can be found in note 25 on the accounts.

The Company may use derivatives principally for the purpose of income enhancement and efficient portfolio management. Options may only be written on quoted stocks and the total nominal exposure is limited to a maximum of 5% of gross assets at the time of investment for each of put and call options.

Principal Risks and Future Prospects

During the year the Board carried out a robust assessment of the principal risks and uncertainties that could threaten the Company's objective, future performance, liquidity and solvency. Its future prospects and viability were also considered as an integral part of this assessment.

The principal risks and their mitigations are set out below and the processes for monitoring them are set out on pages 39 and 40. Note 23 on the accounts reports on the Financial Risk Management of the Company. The risks that affect the Company's ongoing operations may vary in significance from time to time.

The principal risks identified as most relevant to the assessment of the Company's future prospects and viability were those relating to potential investment portfolio under-performance and its effect on the share price; discount movement; dividends; and threats to security over the Company's assets.

Principal Risks	Mitigation
Inappropriate business or marketing strategy particularly in relation to investor needs giving rise to a share price discount to NAV per share. **Unchanged throughout the year under review**	The Board holds a separate meeting each year to consider strategic issues. Market intelligence is maintained via the Company's Broker. The effectiveness of the marketing strategy is reviewed at each Board meeting. Shareholder satisfaction surveys are conducted at least every five years ahead of the Company's continuation vote. A share buyback policy would be employed in the event of extensive discount volatility.
Unfavourable markets or asset allocation, sector and stock selection and use of gearing and derivatives are inappropriate giving rise to investment underperformance as well as impacting capacity to pay dividends. **Unchanged throughout the year under review**	The portfolio of quoted securities is diversified and the Company's structure enables it to take a long-term view. Investment policy, performance, revenue and gearing are reviewed at each Board meeting. F&C's Performance and Risk Oversight team provides independent oversight on investment risk management. The Board regularly considers operating costs along with underlying dividend income and the implications for the dividend payment capacity of the Company.
Failure of F&C as the Company's main service provider to continue to operate effectively including the loss of key staff. **Unchanged throughout the year under review**	The Board meets regularly with the management of F&C and meets their risk management team to review Internal Control and Risk Reports. F&C's appointment is reviewed annually and can be terminated on six months' notice. They structure their recruitment and remuneration packages in order to retain key staff and work closely with the Board on any significant management changes.
Errors, fraud or control failures at service providers or loss of data through increasing cyber threats or business continuity failure could damage reputation or investors' interests or result in losses. **Risk of cyber attacks increased in the year under review**	The Board receives regular control reports from F&C covering risk and compliance including oversight of third party service providers. The Board has access to their Head of Business Risk and requires any significant issues directly relevant to the Company to be reported immediately. The Depositary is specifically liable for loss of any of the Company's securities and cash held in custody.

When considering the risk of under-performance, the Board assessed and evaluated the following areas through a series of stress tests:

- potential illiquidity of the Company's portfolio;
- the effects of any substantial future falls in investment values and income receipts on the ability to repay and re-negotiate borrowings;
- potential breaches of loan covenants, the maintenance of dividend payments and retention of investors; and
- the potential need for extensive share buybacks in the event of share price volatility and a move to a wide discount.

The Board's conclusions are set out under the Rolling Three Year Viability Horizon opposite.

Actions taken on Principal Risks in the year
The shares traded at an average premium to NAV of 2.2% in a range of +7.5% to -2.8%. 2,225,000 shares were issued in the year to satisfy Shareholder demand and help contain the premium. The number of shares held in the F&C savings plans increased by 2.3%. The Company's Broker presented an update on the sector at the Board's annual strategy meeting.
Borrowings of between £20m and £25m were maintained throughout the year enhancing performance. Around 80 listed securities were held in the portfolio throughout the year. The total dividend for the year increased by 2.0% and is fully covered by earnings. Over £11m was held in Revenue Reserve at the year end.
The Board has reviewed F&C's controls and risk management structure as part of its annual assessment. F&C now benefits from the long-term financial strength and policies of its parent company, Bank of Montreal ("**BMO**").
F&C continues to strengthen and develop its Risk, Compliance and Internal Control functions as part of the integration of its operations with BMO including IT security. Supervision of third party service providers has been maintained by F&C and includes assurances regarding IT security and cyber threat. The Depositary oversees custody of investments and cash and reports to the Company in accordance with the AIFMD.

Rolling three year viability horizon

Based on its assessment and evaluation of the Company's future prospects, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the coming three years; the Company's business model, strategy and the embedded characteristics listed below have helped define and maintain the stability of the Company since inception. The Board expects this to continue and will assess viability over subsequent three year rolling periods.

- The Company has a long-term investment strategy under which it invests mainly in readily realisable, UK publicly listed securities and which restricts the level of borrowings.
- Subject to the outcome of five-yearly Shareholder continuation votes, the Company's business model and strategy are not time limited.
- The Company is inherently structured to generate long-term returns, with a three year period as a reasonable time frame for measuring and assessing medium to longer term investment performance.
- The Company is able to take advantage of its closed-end investment trust structure. including the ability to use short-term borrowings by way of loans and overdrafts and the capacity to secure additional finance well in excess of three years.
- There is rigid monitoring of the headroom under the Company's bank borrowing covenants.
- Regular and robust review of revenue and expenditure forecasts is undertaken throughout the year against a backdrop of large revenue and capital reserves.
- The Company retains title to all assets held by JPMorgan Chase Bank (the "**Custodian**") which are subject to further safeguards imposed on the Depositary.

Key Performance Indicators

The Board assesses its performance in meeting the Company's objective against the following key measures. Commentary can be found in the Chairman's Statement and Manager's Review.

Total return performance

	1 Year %	3 Years %	5 Years %	
NAV Total Return	16.6	25.3	75.5	This measures the performance of the Manager in terms of capital and income growth by comparison to the returns of relevant indices.
Benchmark index: FTSE All-Share	16.8	21.1	68.9	
FTSE 350 High Yield Index	22.8	18.4	61.0	
Share Price Total Return	16.6	27.4	69.2	This shows the real return to Shareholders in terms of the dividends they have received and capital growth compared to the returns of the same indices.

Source: F&C and Thomson Reuters Eikon

Compound annual dividend growth

	3 Years %	5 Years %	
Company's dividend	2.9	3.6	This shows the Company's dividend growth and compares it to the changes in the UK Consumer Price Index ("**CPI**") and the rate of change of implied dividend from the FTSE All-Share Index.
Benchmark index: FTSE All-Share	3.4	6.0	
Inflation (CPI)	0.7	1.5	

Source: F&C and Thomson Reuters Eikon

Share price premium to NAV per share

	As at 30 Sep 2016 %	As at 30 Sep 2015 %	As at 30 Sep 2014 %	
Premium	2.1	2.2	2.5	This is the difference between the share price and the NAV per share. It is an indicator of the need for shares to be issued or, in the event of a discount to NAV per share, bought back.

Source: F&C

Ongoing charges as at 30 September (as a percentage of average net assets)

	2016 %	2015 %	2014 %	
Ongoing charges	0.64	0.64	0.66	This shows whether the Company is being run efficiently. It measures the running costs as a percentage of the average net assets.

Source: F&C

Manager's Review

Julian Cane, Fund Manager

Review of UK stock market

The FTSE All-Share Index was strong in absolute terms over the year to 30 September 2016 with a total return (including dividends reinvested) of 16.8%. However, as noted in the Chairman's Statement, the rise was not matched by underlying earnings, which fell last year. This disjoint between a rising market and falling earnings has been a feature not just over one year, but also over the much more significant period of the last five years.

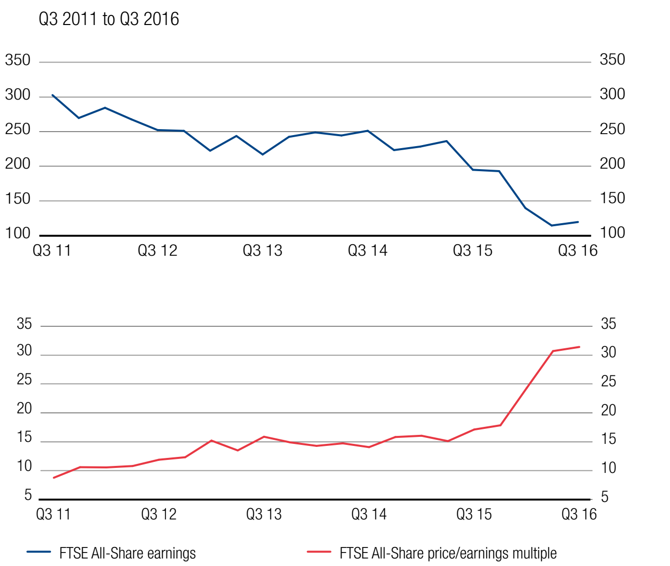
The rise in the market at the aggregate level is entirely the result of a higher and higher multiple being applied to a falling sum of earnings. This is not to suggest that all companies have been producing falling earnings, but a number of the largest companies in the Index have seen sharp falls in profits and this has had a disproportionate effect on the aggregate statistics. Looking at the same charts for the FTSE 250 Index (the next largest 250 companies in the UK Index after the FTSE 100) clearly shows that companies within the FTSE 250 Index have delivered good levels of growth throughout nearly all the last five years. The price/earnings multiple for these medium-sized companies has generally been higher for much of the period, but over the last three years it has been declining on balance.

Put side by side and rebased to 100, the growth in earnings over the last five years from the FTSE 250 Index contrasts starkly with the continued slump in earnings from the FTSE 100 Index.

It is for this reason that in the portfolio we have a relatively high weighting outside the FTSE 100, which makes up more than 80% of the FTSE All-Share Index.

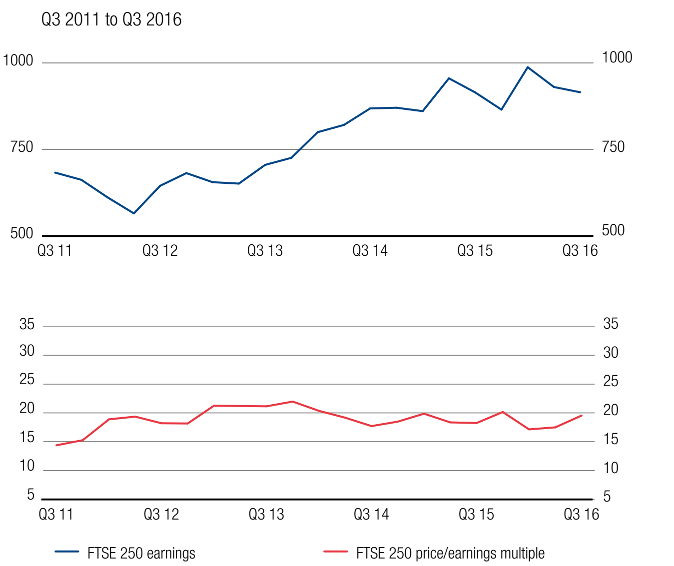
However, a share's value is determined not so much by the profits made in the past, which as we've seen for the

FTSE All-Share Index – earnings and price/earnings multiple



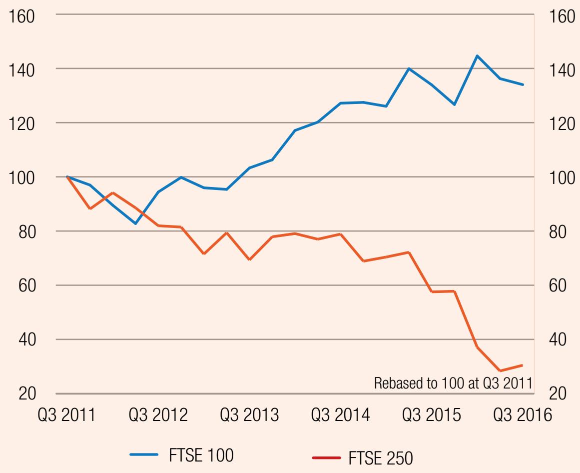
Source: Thomson Reuters Eikon

FTSE 250 Index – earnings and price/earnings multiple



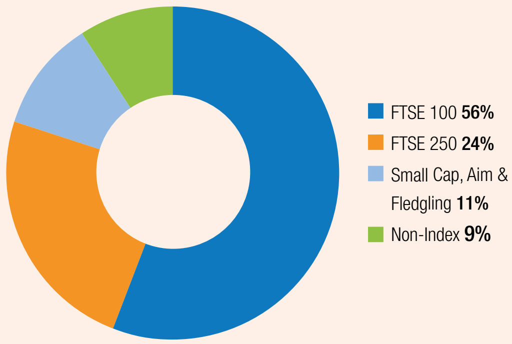
Source: Thomson Reuters Eikon

FTSE 100 and FTSE 250 Earnings



Source: Thomson Reuters Eikon

Portfolio as at 30 September 2016



Source: F&C

larger companies has been disappointing, but by what profits might be earned in future. Each and every year, consensus expectations have been for earnings to rise, but the outcomes have continually been disappointing. How have markets managed to make such good progress against this background? There are three factors that have kept share prices moving upwards:

First, most investors cling to the optimistic belief that earnings will improve in the future. In particular, and of greatest relevance recently, there have been a number of exceptional factors depressing profits. It is generally believed these will fall away, allowing earnings to rebound strongly in the near term. The most obvious of these are low commodity prices which have had an adverse impact in depressing profits at the Oil and Mining majors (although it is notable when these are strong, the exceptional gains are rarely recognised as such). In the banking sector, fines and regulation have had a large negative impact; the Payment Protection Insurance scandal alone has cost £35bn since 2011. In Mobile Telecoms, Vodafone has been loss making as it invests heavily for future growth.

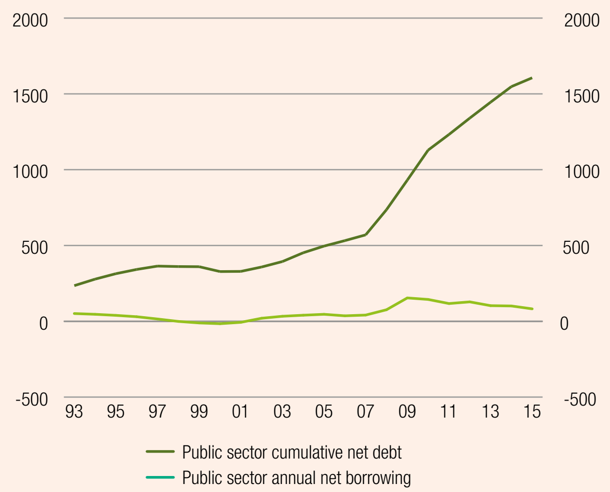
Secondly, equities have benefited from being an attractive harbour for investors when returns available elsewhere are so low. The Central Banks in the major developed economies have continued with their policies of keeping interest rates at extraordinarily low levels and driving government bond yields down through large purchase programmes. In Japan, the QE programme has gone yet further with direct purchases of equities, but, whether directly or indirectly, QE has helped equity markets to rise.

Thirdly, currency moves have had a major impact. Immediately following the Brexit referendum, most shares fell sharply, particularly those of companies with more UK domestic exposure. The sharp fall in Sterling then led to an equally rapid gain for the most international companies as their overseas earnings became more valuable when translated back into Sterling. As the largest companies quoted in the UK tend to have the largest international exposure, this effect was most marked for the FTSE 100.

Review of the UK economy

Although there has been considerable political upheaval during the year, most obviously the referendum vote for the UK to leave the EU and the subsequent change of Prime Minister, the economy seems to be doing its best to carry on regardless. The latest economic statistics estimate that Gross Domestic Product rose 0.5% in the third quarter of 2016, leaving activity 2.3% higher than at the end of September 2015. This is hardly a rapid level of growth to be sure, but one of the best amongst the developed nations. Although inflation has increased a little, at 1.0% Consumer Price Inflation is still below the Bank of England's target rate. The sharp fall in Sterling relative to the US Dollar and Euro since the referendum will almost certainly introduce more inflation over the course of the next year as imports become more expensive, witness the spat between Unilever and Tesco over

UK Public Sector Debt and Deficit 1993 to 2015 (£ billions)



Source: Public Sector Finances, ONS

FTSE All-Share Dividend Yield (%)

Source: Thomson Reuters Eikon

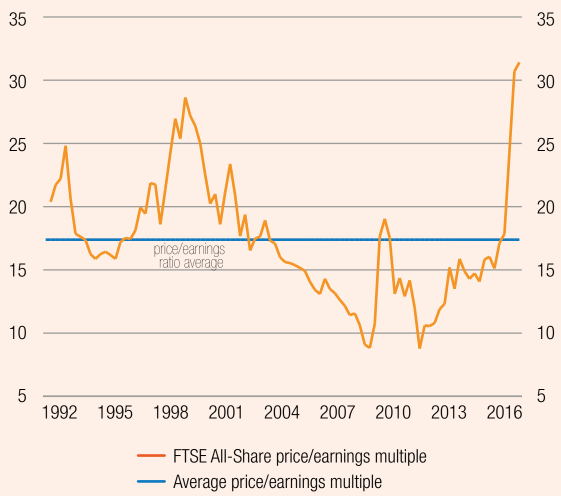
Marmite prices, but it should also make our exports cheaper to international buyers. This, in turn, should help to improve the UK's large current account deficit.

On many other fronts, the UK economy is also performing well: unemployment is only 4.9%, the lowest level in a decade, while a record 74.5% of the adult population is employed. There is no doubt though that the economic situation faced by the UK, even without the uncertainties caused by Brexit, is unprecedented as it is for most other developed nations. Bank of England Base Rates at 0.25% and a trough yield in August on the 10 year UK Government bond of almost 0.5% have never before been seen. The economy, obviously helped by such supportive rates, has continued onwards, yet it seems incongruous that rates are lower than during the most existential crises in our history. It appears a still large Government deficit and ever higher levels of Government debt are necessary to maintain the status quo and keep the economy on its uneasy flight path. It doesn't appear that the current period of moderate growth and low interest rates will change dramatically any time soon.

When in completely uncharted waters it is perhaps not surprising that more traditional economic models, fit for previous periods, may be less useful than before. The description of economics as the "dismal science" may have been coined in the 19th century, but it seems as though many of its present followers feel they need to live up to at least half of this description. The misplaced conviction with

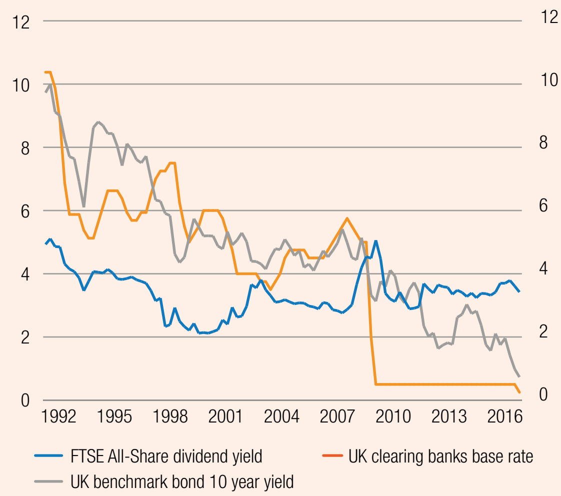
'…the economic situation faced by the UK, even without the uncertainties caused by Brexit, is unprecedented, as it is for most other developed nations.'

FTSE All-Share Price/Earnings Multiple



Source: Thomson Reuters Eikon

Yields from competing investment assets (%)



Source: Thomson Reuters Eikon

which most economic and financial predictions are delivered surely reflects badly on any forecaster, while economics as a field of study is probably further away from being judged a science than ever.

Attribution of portfolio returns

In a year when our benchmark index reported strong returns, it is not so surprising that a number of our individual holdings performed very well, with the share prices of six companies rising by more than 50%. The stand-out performer was Melrose Industries with a total return of 234%. It achieved this by applying its simple mantra of "Buy, Improve, Sell" to good manufacturing businesses which have been underperforming under previous owners and managers. This strategy has proved to be very successful in the past and the market is now expecting the success to be repeated with the latest acquisition.

When comparing our performance to the Index, the defining feature was not so much what we owned, more what we didn't (either at all or held as an underweight position relative to the Index). In this respect, only investing in Rio Tinto (with a total return of 23%) in the Mining sector (which rose by 52%) and not holding any Glencore (which rose by 132%), BHP Billiton (up 19%) or Anglo American (up 76%) were adverse for our relative return. The outcome in the Oil & Gas Producers sector (up 41%) was similar. Although we had invested in both Royal Dutch Shell (up 35%) and BP (up 45%), our second and ninth largest holdings respectively, both of these were below their index weights and hence a negative for relative performance.

It is also noteworthy that the stock which caused the single largest negative contribution, OneSavings Bank (down 33%), had been responsible for the strongest return the previous year (up 98%). This company's progress has, if anything, been better than we had anticipated and we took advantage of the share price weakness to add to our holding during the year.

There is more detail on the portfolio's investments in the descriptions of the twenty largest holdings on pages 20 and 21 and the summary of the investment portfolio by sector on pages 22 and 23.

Gearing

Your Company has an unsecured credit facility comprised of a five year fixed rate element of £20m and a floating rate element of up to £15m. Throughout the year the fixed rate loan was fully drawn down and, early in the financial year, we drew down £5m of the floating rate loan as we saw a number of interesting investment opportunities. Returns from the portfolio were strong in absolute terms and were well in excess of the interest cost of the loans so added extra value to Shareholders.

Valuation of the stock market

Reasonably convincing arguments can be made on both sides of the view as to whether UK equities are good value or expensive. When looked at as a stand-alone investment, the price/earnings multiple for the FTSE All-Share Index appears very expensive in absolute terms, even more so than at the previous peak of the market in 1999/2000. At least then we had the excitement of the Technology, Media and Telecommunication companies to drive the multiple up; this time the multiple just reflects losses in a number of the largest companies in the Index. If these losses reverse, as is widely forecast, then the multiple for next year comes down to a much lower figure of around 16 times earnings. On this measure, the Index would appear to be not too expensive, but not particularly cheap either.

The valuation of the Index on a dividend yield basis looks fair, with the yield being a little above the average level of the last 23 years. This is at least partly explained by the importance that many companies have now put on dividends, with such payments taking an ever larger share of earnings and cash flow. So although the dividend level of the Index may appear attractive, we are cautious about the sustainability of payments for a number of companies. Of course, looking at the long-term affordability of dividends forms an important part of our stock selection and portfolio construction process as we aim to receive enough income to ensure our dividend payments to you, our Shareholders, continue to progress far out into the future.

No investments exist in isolation and so it is only natural to compare the attractiveness of equities with other major liquid asset classes. In this sense, equities continue to appear very reasonably valued with a dividend yield of around 3.5% which is many multiples of that available from 10 year UK Government bonds (c.1.4%) or the bank base rate (0.25%). Of course, equities are riskier than either of these two alternatives, but this works both ways – as well as having the possibility of falling in value, so equities can rise as well, producing a capital return in addition to the dividend income. For those with a reasonably long-term investment horizon, it would still appear that equities have the potential to perform better than either government bonds or cash.

'…we aim to receive enough income to ensure our dividend payments to you, our Shareholders, continue to progress far out into the future.'

Julian Cane
Fund Manager
28 November 2016

Twenty largest holdings

30 September 2016	30 September 2015		% of total investments	Value £m
1	2	**GlaxoSmithKline** *(Healthcare)* One of the world's leading pharmaceutical companies with valuable healthcare and vaccines businesses. New management has scope to address costs and review the company structure. The Group has publicly committed to maintain the dividend through to 2017.	4.6	13,633
2	3	**Royal Dutch Shell** *(Oil and gas)* A leading international oil exploration, production and marketing group. Since the sharp fall in the oil price, Shell has increased its focus on improving returns. The acquisition of BG should improve the overall quality of its portfolio and the company is committed to maintaining its dividend.	3.7	10,984
3	4	**Diageo** *(Consumer goods)* The largest producer of premium branded spirits in the world and also a major producer of beer. The returns and growth potential from a combination of the brands and exposure to faster growing markets should be attractive.	3.4	10,166
4	5	**Unilever** *(Consumer goods)* A leading manufacturer of branded fast moving consumer goods with more than half of its sales in faster growing emerging markets.	3.3	9,866
5	8	**British American Tobacco** *(Consumer goods)* A leading international manufacturer and distributor of cigarettes. It has proven to be a very consistent performer and in a mature industry is able to pay an attractive dividend. It has recently approached Reynolds American in a takeover bid.	3.0	8,874
6	1	**HSBC** *(Financials)* HSBC is one of the world's leading banks by size, but it has not recently been able to use this to its advantage and its returns have been poor. The size and shape and cost structure of the bank need to be tackled to improve growth prospects and returns.	2.9	8,681
7	6	**AstraZeneca** *(Healthcare)* A major international pharmaceutical company. The pipeline of new drugs is disappointing in the very short term but shows more potential further out.	2.8	8,391
8	9	**WPP** *(Consumer services)* One of the largest marketing communications businesses in the world. It owns many of the leading advertising agencies and should benefit from any improvement in economic growth.	2.8	8,335
9	11	**BP** *(Oil and gas)* A leading international oil exploration, production and marketing group. The fall in the oil price has led BP to a renewed focus on improving returns. Maintenance of the dividend is seen as a priority by the management.	2.4	7,199
10	13	**Beazley** *(Financials)* A specialist insurer with a diverse underwriting portfolio that has generated strong, consistent returns. The capital base been actively managed to keep underlying returns attractive.	2.3	6,674

30 September 2016	30 September 2015		% of total investments	Value £m
11	14	**BAE Systems** *(Industrials)* A leading international developer and manufacturer of advanced defence and aerospace systems. Defence spending has clearly been under pressure in developed economies for a time, but this is partly offset by its geographic diversification.	2.2	6,655
12	7	**Prudential** *(Financials)* International life assurer with a balanced portfolio of businesses. It is growing rapidly in the Far East, together with attractive returns from its operations in the UK and US.	2.2	6,489
13	15	**Rio Tinto** *(Basic materials)* One of the world's foremost mining companies. It has a diversified asset base, but its most significant interests are in low cost, high quality iron ore. It is our principal exposure to the mining sector.	2.2	6,436
14	16	**Glanbia** *(Consumer goods)* International dairy, consumer foods and nutritional company, experiencing strong growth with its sports nutrition brands.	2.1	6,314
15	65	**Legal and General** *(Financials)* A focus on generating a strong and growing cashflow allows this UK life assurer to pay a very attractive dividend to shareholders.	2.1	6,233
16	10	**OneSavings Bank** *(Financials)* This challenger bank is experiencing very rapid growth in new mortgage lending at carefully controlled risk levels. Its low cost base helps to drive very attractive returns.	2.1	6,089
17	20	**Informa** *(Consumer Services)* A worldwide provider of information to a variety of end users (businesses, academics, individuals) across a range of sectors through a number of media (books and journals, internet, exhibitions and events). The acquisition of Penton in the US will further diversify and strengthen the group.	2.0	5,803
18	21	**Lloyds Banking** *(Financials)* Lloyds now believes it is fully provided for PPI mis-selling which will be the focus to move to the underlying operations, which continue to generate reasonable returns. The capital position is strong and should allow attractive dividends to be paid.	1.9	5,673
19	24	**Compass** *(Consumer Services)* The company provides catering and support services to a wide range of clients throughout the world. Strong management has driven good growth and attractive returns.	1.9	5,624
20	26	**Phoenix** *(Financials)* A UK domestic life assurer actively taking part in consolidation of the sector, particularly those companies no longer writing new business. The synergies available from the consolidation drive an attractive dividend.	1.8	5,450

The value of the twenty largest equity holdings represents 51.7% (30 September 2015: 50.7%) of the Company's total investments.

Investment Portfolio by Sector

	% of total investments*	% of FTSE All-Share Index
Oil & gas The price of a barrel of Brent crude oil had halved during our previous year from US$97 to US$48. In the year under review, it almost halved again, hitting a trough level below US$28, before recovering to finish the year above US$46 within a couple of percent of its starting point. The key dynamics are that suppliers are reluctant to pull back production and at the same time demand is constrained, partly by subdued growth in developed economies, but also because of the growth of alternative, renewable energy sources. The share prices of the oil producers were firm over the year as the earlier fall in the price of oil forced them to renew attention to their cost bases and the recovery in the oil price later in the year was taken positively. Royal Dutch Shell acquired BG which will give it some synergies to drive out as well as improving the balance of its energy portfolio. The holding in BP (which generated a total return of 45% in the year) was reduced a little, while the holding in Shell (+38%) was unchanged. Although these are the ninth and second largest investments in the portfolio respectively, their percentage weightings within the portfolio are less than their weightings within the FTSE All-Share Index. As a result, although the holdings generated a substantial absolute gain in value, there was a reasonably substantial negative impact on our performance relative to the Index.	**6.1**	**11.6**
Basic materials The major commodity prices ended the year close to where they started, but iron ore in particular had fallen around 30% before recovering. Our only holding in the sector is Rio Tinto, which was unchanged during the year. Although it performed very well with a total return of +23%, not owning any of the other mining companies was painful for performance relative to the Index. It is true, of course, that companies whose share prices have fallen furthest have the greatest scope to rebound, and this was true last year in this sector. By concentrating our investment in the company we believe to the highest quality in the sector, we will tend to avoid the worst when the commodity market is most challenged, but also won't rebound as far or fast in a recovery.	**2.6**	**6.1**
Industrials Our single largest contributor to performance across the whole portfolio was Melrose (+234%), which again found success buying underperforming businesses, turning around performance and then selling. There were a number of other strong performers in this sector, BAe (+22%), BBA Aviation (+39%), Berendsen (+27%), CRH (+51%) and Intertek (+47%). It is encouraging each of the sub-sectors recorded positive returns over the year despite a background of continued cost cutting that would not have been favourable to many of the companies.	**16.9**	**10.6**
Consumer goods There were substantial gains in this sector from our investments in British American Tobacco (+40%), Diageo (+28%) and Unilever (+40%), the last two of these we had added to significantly the previous year. These three companies are prime examples of consumer-facing companies that have well-diversified businesses, achieving reasonable rates of growth and good returns on capital often through exposure to faster-growing emerging markets. In general, over the year this type of relatively predictable business has been rewarded by the stock market with a higher rating; that their earnings are predominately generated overseas has been an additional benefit with the weakness of Sterling.	**13.8**	**17.4**
Healthcare GlaxoSmithKline, our largest holding, and AstraZeneca, our seventh largest holding, are the only two investments in this sector. After lacklustre performance during the previous year, their returns this year were much stronger (+39% and +25% respectively). This was partly in response to underlying improvements in their businesses, as well as the translation effect brought about by weaker Sterling making their overseas earnings more valuable.	**7.5**	**9.9**

*Note 14 on the Accounts further analyses investments, by geographical and industrial sector, as a proportion of net assets

	% of total investments*	% of FTSE All-Share Index
Consumer services There were a number of successes in this sector, with the Media companies Informa (+31%) and WPP (+36%) and Travel & Leisure companies Compass Group (+46%) and InterContinental Hotels (+42%) leading the way. Our investment in Daily Mail & General Trust (+2%) again was lacklustre, but we continue to believe it should be more highly valued given its broad portfolio of interests. National Express (+25%) performed well, but was countered by disappointment at Stagecoach (-34%). In the Retail sectors, we have no exposure to the largest companies, either food or general retailers, many of which have been disappointing, not really because of any weakness in consumer spending, more because of the continued incursion of the internet, dragging away sales and keeping prices and margins low. Our main exposure to food retail is via Booker (+1%), which operates in a very different market to the main food retailers, while Dunelm (-2%) and Halfords (-20%) are the main exposures to general retail.	16.4	11.5
Telecommunications The strongest price move in the sector sadly came following the profit warning from Alternative Networks (-41%); we subsequently sold the holding. The investments in BT (-4%), Manx Telecom (+17%) and Vodafone (+12%) were not changed over the year.	2.4	4.4
Utilities Our holdings in this sector were unchanged over the year and generally performed well with National Grid +24%, Severn Trent +19%, and Centrica +5%. Valuations appear reasonably demanding by historic standards, but this mostly reflects the fact that valuations have been driven upwards by very low bond yields.	2.8	3.9
Financials Within the mainstream Bank sector, HSBC (+25%) was our largest holding and strongest performer, although, arguably this was entirely due to factors outside of its control – an expectation that US interest rates will rise and the sharp fall in Sterling. We reduced the holding in HSBC and sold entirely the investment in Standard Chartered. The proceeds were invested in OneSavings Bank and Legal & General. Further additions were also made to the investments in Arrow Global, Jupiter Fund Management and Lloyds Banking. The holding in Raven Russia was sold as operating conditions in and sentiment towards Russia are not expected to improve anytime soon. A new investment in Secure Income REIT (+20% from purchase to the financial year end) has been started. Over time, we expect this to generate a very attractive income which is largely inflation protected for shareholders. In General Insurance, Beazley continued to perform well (+17%), while we sold the holding in Lancashire as the valuation seemed demanding amidst concerns about the rating environment and management change. The emerging market fund manager Ashmore (+53%) was amongst our strongest performers having previously gone through a much more difficult period.	28.6	23.7
Technology As a sector, this might not be an obvious area to search for companies with a higher than average dividend, but nonetheless the total return generated by our investments here was very attractive. In particular, SAP, a multinational software company, (+67%) and Sage, a software publisher, (+51%) performed well.	2.9	0.9

*Note 14 on the Accounts further analyses investments, by geographical and industrial sector, as a proportion of net assets

List of Investments

Quoted investments	Holding (30 September 2016)	Value £'000s (30 September 2016)
UNITED KINGDOM – EQUITIES		
Arrow Global	1,640,000	4,813
Ashmore	750,000	2,651
AstraZeneca	167,716	8,391
Babcock International	242,307	2,508
BAE Systems	1,270,000	6,655
Barclays	2,400,000	4,026
BBA Aviation	1,500,000	3,746
Beazley	1,725,000	6,674
Berendsen	295,000	3,670
Booker	2,500,000	4,450
BP	1,600,000	7,199
Braemar Shipping Services	403,000	1,382
British American Tobacco	180,000	8,874
BT	550,000	2,140
Burberry	200,000	2,756
Centrica	620,000	1,415
Cineworld	270,981	1,572
Compass	376,470	5,624
Connect	801,922	1,213
Conviviality*	518,050	1,119
CRH	190,000	4,868
Daily Mail & General Trust	550,000	4,092
Diageo	460,000	10,166
DS Smith	850,000	3,267
Dunelm	400,000	3,402
Epwin*	1,233,771	1,357
FDM	264,082	1,616
GlaxoSmithKline	830,000	13,633
Halfords	850,000	2,978
Headlam	316,246	1,541
Howden Joinery	980,000	4,237
HSBC	1,500,000	8,681
IG	400,000	3,484
Informa	815,000	5,803
Intercontinental Hotels	95,833	3,047
Intermediate Capital	622,222	3,671
Intertek	100,000	3,489
Jupiter Fund Management	700,000	2,977
Laird	521,384	1,653
Legal & General	2,850,000	6,233
Lloyds Banking	10,400,000	5,673
LondonMetric Property	3,000,000	4,800
Manx Telecom*	487,061	1,008
McKay Securities	590,633	1,193
Melrose Industries	2,904,681	5,054
Midwich*	432,692	1,090
Morgan Sindall	54,602	398
Morses Club*	1,811,833	1,902
NAHL*	327,159	823
National Express	472,338	1,626
National Grid	370,000	4,040
Novae	223,627	1,707
OneSavings Bank	2,400,000	6,089
Phoenix	620,000	5,450
Photo Me International	889,386	1,376
Prudential	475,000	6,489
Rio Tinto	250,000	6,436
RM*	253,753	363
Royal Dutch Shell	550,000	10,984
Sage	332,716	2,454
Sanne	308,858	1,411
Secure Income REIT	1,800,000	5,400
Severn Trent	115,000	2,880
Sirius Real Estate*	6,242,273	2,808
Spectris	90,000	1,771
Stagecoach	850,000	1,796
Tarsus	830,309	2,275
Treatt	699,805	1,456
Ultra Electronics	120,000	2,128
Unilever	270,000	9,866
Vodafone	1,850,000	4,101
Wilmington	637,844	1,627
WPP	460,000	8,335
XP Power	109,290	1,809
UNITED KINGDOM TOTAL EQUITY		287,691
EUROPE (EX UK) – EQUITIES		
Glanbia (Republic of Ireland)	429,093	6,314
SAP (Germany)	36,964	2,589
EUROPE (EX UK) TOTAL EQUITY		**8,903**
TOTAL INVESTMENTS		**296,594**

The number of investments in the portfolio is 76 (2015:80).
*Quoted on the Alternative Investment Market in the UK.

By order of the Board
Steven Bates
Chairman
28 November 2016

'The Directors consider that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's position and performance, business model and strategy.'

Directors

Steven Bates, **Chairman**.
Appointed to the Board on 3 May 2011. Steven is Chairman of Vietnam Opportunities Fund Ltd and Baring Emerging Europe PLC and a director of The Biotech Growth Trust PLC, British Empire Securities & General Investment Trust PLC and Magna Umbrella Fund PLC. He is also a director of GuardCap Asset Management, a specialist investment management company. He sits on, or is advisor to, various committees in the wealth management and pension fund areas. He was head of global emerging markets at JP Morgan Asset Management until 2002.
Shared directorships with other Directors:
None

Sharon Brown, Chairman of the Audit and Management Engagement Committee.
Appointed to the Board on 16 September 2013. She is a non-executive director and Chairman of the audit committees of Fidelity Special Values PLC and McColls Retail Group PLC. She is a fellow of the Institute of Chartered Management Accountants and was, between 1998 and 2013, Finance Director and Company Secretary of Dobbies Garden Centres PLC.
Shared directorships with other Directors:
None

Clare Dobie Appointed to the Board on 16 July 2012. She is a non-executive director of Schroder UK Mid Cap Fund PLC, Aberdeen New Thai Investment Trust PLC and Alliance Trust PLC. She is also a trustee of Essex and Herts Air Ambulance Trust and until 2015 she also ran her own marketing consultancy. She began her career as a financial journalist, working at the BBC, The Times and The Independent, where she was City Editor. She was then Head of Clients at Barclays Global Investors and Head of Marketing at GAM.
Shared directorships with other Directors:
None

Jane Lewis was appointed on 24 November 2015. She is a non-executive director of BlackRock World Mining Trust PLC, Invesco Perpetual UK Smaller Companies Investment Trust PLC, the Scottish Investment Trust PLC and Phaunos Timber Fund Limited and was a Director of Corporate Finance and Broking at Winterflood Investment Trusts until August 2013. Prior to this she worked at Henderson Global Investors and Gartmore Investment Management Limited in investment trust business development and at WestLB Panmure as an investment trust broker.
Shared directorships with other Directors:
None

Tim Scholefield was appointed to the Board on 25 November 2014. He is a non-executive director of Fidelity Asian Values PLC. He has had over 25 years' experience in investment management, latterly as Head of Equities at Baring Asset Management until April 2014.
Shared directorships with other Directors:
None

All Directors are members of the Audit and Management Engagement Committee

Directors' Report

The Directors submit the Report and Accounts of the Company for the year ended 30 September 2016. The Corporate Governance Statement; the Report of the Audit and Management Engagement Committee; and the Remuneration Report form part of this Directors' report.

Statement regarding Report and Accounts

The Directors consider that following advice from the Audit and Management Engagement Committee, the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy. The Audit and Management Engagement Committee has reviewed the draft Report and Accounts for the purposes of this assessment. The outlook for the Company can be found on page 9. Note 23 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and the liabilities of fluctuations in the value of securities, and exchange and interest rates. There are no instances where the Company is required to make disclosures in respect of Listing Rule 9.8.4R, other than in respect of Listing Rule 9.8.4(7)R concerning the allotment of shares which is on page 29.

Company status

The Company is a public limited company and an investment company as defined by section 833 of the Companies Act 2006.

The Company is registered in England and Wales with company registration number 02732011 and is subject to the UK Listing Authority's listing rules, UK and European legislation and regulations including company law, financial reporting standards, taxation law and its own articles of association.

Results and dividends

The results for the year are set out in the attached accounts. Net assets of the Company as at 30 September 2016 were £272,027,000 (2015: £236,876,000). The Company's dividend payments are set out below.

Dividends for 2015 and 2016

Dividend paid	£'000s
4th interim for the year ended 30 September 2015 of 3.20p per share paid on 31 December 2015	3,038
1st interim for 2016 of 2.35 pence per share paid on 31 March 2016	2,246
2nd interim for 2016 of 2.35 pence per share paid on 30 June 2016	2,261
3rd interim for 2016 of 2.35 pence per share paid on 30 September 2016	2,271
	9,816

As explained in the Chairman's Statement, the Board has declared a fourth interim dividend of 3.25 pence per share. This will be paid on 30 December 2016 to Shareholders on the register of members on 9 December 2016. This dividend, together with the other three interim dividends paid during the year (of 2.35 pence per share each), makes a total dividend of 10.30 pence per share. This represents an increase of 2% over the 10.10 pence per share paid in respect of the previous year.

Continuation vote

In accordance with the articles of association, a continuation vote is proposed at every fifth annual general meeting. The next such vote will take place at the annual general meeting in 2018.

Investment trust taxation status

The Company is liable to UK corporation tax on its net revenue profits but is exempt from corporation tax on capital gains provided it complies with section 1158 of the Corporation Tax Act 2010. The Company has been approved by HM Revenue and Customs ("**HMRC**") as an Investment Trust, subject to it continuing to meet the relevant eligibility conditions and the ongoing requirements.

Accounting and going concern

Shareholders will be asked to approve the adoption of the Report and Accounts at the Annual General Meeting (Resolution 1). The financial statements, starting on page 52, comply with current UK financial reporting standards, supplemented by the Statement of Recommended Practice ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified Independent Auditors' Report on the financial statements appears on pages 46 to 50. As discussed in note 22 on the Accounts, the Directors believe that, in light of the controls and monitoring processes that are in place, the Company has adequate resources to continue in operational existence for at least twelve months from the date of the approval of the financial statements. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. Accordingly, it is reasonable for the financial statements to continue to be prepared on a going concern basis. The Company's longer term viability is considered in the Future Prospects "Rolling Three Year Viability Horizon" Statement on page 13.

Statement as to disclosure of information to the auditors

Each of the Directors confirms that, to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which PricewaterhouseCoopers ("**PwC**" or the "**auditors**") is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that PwC is aware of that information.

PwC have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their reappointment and authorising the Audit and Management Engagement Committee to determine their remuneration for the ensuing year will be put to Shareholders at the Annual General Meeting (Resolutions 5 and 6). Further information in relation to the appointment can be found on pages 40 and 41.

> 'Our Manager engaged with 48 companies held by your Company over five countries and voted in respect of 90 company meetings on issues including business ethics, the alignment of pay with business strategy and risk, environmental and labour standards'

Voting policy on portfolio investments

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with F&C's own corporate governance policy, which is to seek to maximise Shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. In the year ended 30 September 2016, F&C had engaged with 48 companies held by the Company over five countries and had voted in respect of its holdings at 90 company meetings on a range of issues. Key engagement themes in 2016 included the risks associated with business ethics, the alignment of pay with business strategy and risk, environmental and labour standards.

F&C's statement of compliance with The UK Stewardship Code has been reviewed and endorsed by the Board, which encourages and supports F&C on its voting policy and its stance towards environmental, social and governance issues. The statement is available at http://www.bmogam.com/corporate/about-us/responsible/.

At each meeting, the Board receives a report on instances where F&C has voted against the recommendation of the management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments.

Greenhouse Gas Emissions

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

Capital structure

As at 30 September 2016 there were 96,784,268 ordinary shares of 25 pence each in issue. As at 23 November 2016 (being the latest practicable date before publication of this report) the number of ordinary shares was 97,184,268.

All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that effects its control following a takeover bid. Details of the capital structure can be found in note 15 on the accounts. The revenue profits of the Company (including accumulated revenue reserves), together with the realised capital profits, are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to Shareholders pro rata to their holdings of ordinary shares. Full details are set out in the Company's articles of association.

Issue and buyback of shares

The Board closely monitors the prevailing share price premium or discount to the NAV per share. The Board's policy is for the Company to issue shares at a premium to the NAV per share helping to prevent the excessive build-up of demand for shares and to reduce premium volatility. Such issues are only made when the Company's shares are trading at a premium and they are therefore accretive to the NAV.

At the annual general meeting held on 9 February 2016 Shareholders renewed the Board's authority to issue further ordinary shares up to 10% of the number then in issue. In order to satisfy demand for the Company's shares, mainly from holders through the F&C savings plans, the Company issued shares on seven separate occasions. A total of 2,225,000 shares with a nominal value of £556,000 were issued to Cenkos Securities plc at an average price of 260 pence per share for a total consideration of £5,779,000 before the deduction of issue costs. A further 400,000 have been issued since the year end.

Subject to annual Shareholder approval, the Company may also purchase up to 14.99% of its own issued ordinary shares at a discount to NAV per share. The shares bought back can either be cancelled or held in treasury to be sold as and when the share price returns to a premium to NAV. At the annual general meeting held on 9 February 2016 Shareholders gave the Board authority to buy back ordinary shares up to 14.99% of the number then in issue. No shares were bought back either during the year under review or since the year end to the date of this report. No shares are currently held in treasury.

Voting rights and proportional voting

At 23 November 2016 the Company had 97,184,268 ordinary shares in issue with a total of 97,184,268 voting rights. As at that date no notifications of significant voting rights have been received under the Financial Conduct Authority's Disclosure and Transparency Rules.

Approximately 78% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. The nominee company holding these shares votes the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 10% of the shares held in the F&C savings plans being voted. A maximum limit of 381,000 shares that any one individual investor can vote, being approximately 5% of the relevant minimum threshold, also applies. Any individual voting directions received in excess of the maximum limit will remain valid, but will not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

The Company has the flexibility to borrow over the longer term and to use short-term borrowings by way of loans and overdrafts, subject to the limit set out on page 11 in the Company's investment policy statement. The Company entered into a five year £35 million credit facility with State Street Bank and Trust Company in March 2013. This facility is made up of a £20 million sterling term credit facility, fully drawn at year end, and a £15 million multi-currency revolving credit facility of which £5m was drawn. The Custodian also provides an overdraft facility equal to 10% of the value of the Company's assets. Further reference is made on page 18 and in notes 12 and 13 on the accounts.

Directors' remuneration

The Directors' remuneration policy and annual remuneration report, which can be found on pages 36 and 37, provide detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' remuneration policy, which has no material changes. Remuneration is set at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. It is intended that this policy will continue for the three year period ending 30 September 2019. Shareholders will also be asked to approve the Annual Report on Remuneration (Resolutions 2 and 3).

Director re-elections

The names of the current Directors, along with their biographical details, are set out on page 26 and are incorporated into this report by reference. All the Directors held office throughout the year under review apart from Ms Jane Lewis who was appointed to the Board on 24 November 2015 and was elected by Shareholders at the last annual general meeting. All Directors are required to stand for re-election for a fixed term of no more than three years and therefore Mrs Sharon Brown will stand for re-election. Following a review of their performance, the Board believes that each of the Directors has made a valuable and effective contribution to your Company. The Board recommends that Shareholders vote in favour of the re-election resolution for Mrs Brown. Mr John Emly retired from the Board on 9 February 2016.

Directors' interests and indemnification

There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The Company has granted a deed of indemnity to the Directors in respect of liabilities that may attach to them in the capacity as Directors of the Company. This covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. This deed of indemnity is a qualifying third-party provision (as defined by section 234 of the Companies Act 2006) and has been in force throughout the period under review and remains in place as at the date of this report. It is available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company also maintains directors' and officers' liability insurance.

Safe custody of assets

The Company's listed investments are held in safe custody by the Custodian, JP Morgan Chase Bank. Operational matters with the Custodian are carried out on the Company's behalf by the Manager in accordance with the provisions of the management agreement. The Custodian is paid a variable fee dependent on the number of trades transacted and location of the securities held.

Depositary

JPMorgan Europe Limited acts as the Company's Depositary (the "**Depositary**") in accordance with the AIFMD. The Depositary's responsibilities, which are set out in an Investor Disclosure Document on the Company's website, include: cash monitoring; ensuring the proper segregation and safe keeping of the Company's financial instruments that are held by the Custodian; and monitoring the Company's compliance with investment and leverage limits requirements. The Depositary receives for its services a fee of one basis point per annum on the value of the Company's net assets, payable monthly in arrears.

Although the Depositary has delegated the safekeeping of all assets held within the Company's investment portfolio to the Custodian, in the event of loss of those assets that constitute financial instruments under the AIFMD, the Depositary will be obliged to return to the Company financial instruments of an identical type, or the corresponding amount of money, unless it can demonstrate that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

The Manager's fee

A quarterly fee of 0.1% of funds under management is payable in arrears to the Manager in respect of the management, administration and ancillary services provided to the Company (see note 4 on the accounts).

Manager evaluation and re-appointment

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting, with a formal evaluation taking place in November each year. In evaluating the performance of the Manager, the Audit and Management Engagement Committee considers a range of factors including the investment performance of the portfolio and the skills, experience and depth of the team involved in managing the Company's assets.

It also considers the resources and commitment of the Manager in all areas of its responsibility, including the marketing and administrative services provided to the Company.

In light of the longer term investment performance of the Manager against the benchmark and the quality of the overall service provided, it is the opinion of the Board that the continuing appointment of the Manager on the terms agreed is in the interests of Shareholders as a whole.

Annual General Meeting

The Annual General Meeting will be held on Tuesday 14 February 2017 at 11.30 a.m. at Exchange House, Primrose Street, London EC2. The Notice of Annual General Meeting appears on page 75 and includes a map of the venue. Julian Cane will give a presentation on the year under review, progress in the year to date and his views on the market outlook. There will be an opportunity to ask questions during the meeting and afterwards Shareholders will be able to meet the Directors and Mr Cane informally. Resolutions numbered 7 to 9 are explained below.

Authority to allot shares and sell shares from treasury (Resolutions 7 and 8)

Resolutions 7 and 8 are similar in content to the authorities and power given to the Directors at previous annual general meetings. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by Shareholders. In addition, directors require specific authority from Shareholders before allotting new shares (or granting rights over shares) for cash or selling shares out of treasury without first offering them to existing Shareholders in proportion to their holdings.

Resolution 7 gives the Directors, for the period until the conclusion of the annual general meeting in 2018 or, if earlier, 15 months from the passing of the resolution, the necessary authority to allot securities up to an aggregate nominal amount of £2,429,000 (9,716,000 ordinary shares). This is equivalent to approximately 10% of the issued share capital of the Company (excluding treasury shares) at 23 November 2016. As at 23 November 2016 no shares were held by the Company in treasury.

Resolution 8 empowers the Directors to allot such securities for cash, other than to existing Shareholders on a pro-rata basis and also to sell treasury shares without first offering them to existing Shareholders in proportion to their holdings up to an aggregate nominal amount also of £2,429,000 (representing approximately 10% of the issued ordinary share capital of the Company at 23 November 2016). These authorities and powers will provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares or the sale of treasury shares, in accordance with the policies set out on page 11 or should any other favourable opportunities arise to the advantage of Shareholders. The Directors anticipate that they will mainly use them to satisfy demand from participants in the F&C savings plans when they believe it is advantageous to plan participants and the Company's Shareholders to do so. In no circumstances would the Directors use them to issue or sell any shares from treasury unless the existing shares in issue are trading at a premium to NAV.

Authority for the Company to purchase its own shares (Resolution 9)

Resolution 9 authorises the Company to purchase up to a maximum of 14,567,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital) at a minimum price of 25 pence per share and a maximum price per share (exclusive of expenses) of 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase. The Directors intend to use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing net asset value per ordinary share which would have the effect of enhancing it for remaining Shareholders. Any ordinary shares that are purchased would either be placed into treasury or cancelled.

The authority will continue until the expiry of 15 months from the date of the passing of the resolution unless it is varied, revoked or renewed prior to that by the Company in a general meeting by special resolution. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Form of proxy

Registered Shareholders will find enclosed a form of proxy for use at the Annual General Meeting. Shareholders also have the option of lodging their proxy votes using the internet. For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Votes should be lodged as soon as possible in accordance with the instructions whether or not Shareholders intend to be present at the Annual General Meeting. This will not preclude Shareholders from attending and voting in person.

All proxy appointments should be submitted so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

Form of direction

If you are an investor in any of the F&C savings plans you will have received a form of direction for use at the Annual General Meeting and you will also have the option of lodging your voting directions using the internet. The Manager operates a proportional voting arrangement, which is explained on page 29.

All voting directions should be submitted as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 11:30 am on 7 February 2017, so that the nominee company can submit a form of proxy before the 48 hour period begins.

Recommendation

The Board considers that the resolutions to be proposed at the meeting are in the best interests of the Company and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors recommend that Shareholders vote in favour of each resolution, as they intend to do in respect of their own beneficial holdings.

By order of the Board
For and on behalf of
F&C Investment Business Limited, Secretary
28 November 2016

Corporate Governance Statement

Introduction

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("**AIC Code**") and believes that the Company has complied with its recommendations applicable to smaller companies during the year under review and up to the date of this report. The Company has thereby complied with the relevant provisions of the UK Corporate Governance Code ("**UK Code**") except as set out below.

The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Corporate Governance Guide for Investment Companies the Board considers these provisions as not being relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day to day management and administrative functions have been delegated to the Manager. As a result, the Company has no executive directors, employees or internal operations. Therefore, with the exception of the need for an internal audit function, which is addressed on page 40, the Company has not reported further in respect of these provisions.

Articles of association

The Company's articles of association may only be amended by special resolution at general meetings of Shareholders.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has adopted a formal schedule of matters reserved for its decision. It has responsibility for all corporate strategic issues, corporate governance matters, dividend policy, share issue and buyback policy, risk and control assessment, investment performance monitoring and budget approval. It is responsible for the review and approval of annual and half-yearly reports and other public documents.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. Including an annual strategy meeting, the Board meets at least five times a year and at each meeting reviews the Company's management information, which includes reports on investment performance and strategic matters and financial analyses. Income forecasts and costs are reviewed within set budgets. The Board monitors compliance with the Company's objectives and is responsible for setting the asset allocation, investment and gearing ranges within which the Manager has discretion to act. Key representatives of the Manager attend each Board meeting. Board meetings are also held on an *ad hoc* basis to consider particular issues as they arise. The table below sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director. All Directors in office at the time attended the annual general meeting in February 2016 and a closed session strategy meeting in September 2016.

Meeting attendance

	Board	Audit and Management Engagement Committee
No. of meetings	5	3
Steven Bates	5	3
Sharon Brown	5	3
Clare Dobie	5	3
Jane Lewis(1)	5	3
Tim Scholefield	5	3
John Emly(2)	2	1

(1) Appointed 24 November 2015.
(2) Retired 9 February 2016.

Committees of the Board met during the year to undertake business such as the approval of the Company's results and dividends.

Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director, copies of which are available on request and at each annual general meeting.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such professional advice was taken by Directors during the year under review. The Board has direct access to the company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Secretary in accordance with the terms of the management agreement. The powers of the Board relating to the buying back or issuance of the Company's shares are explained on page 31.

Appointments, diversity and succession planning

Under the articles of association of the Company, the number of Directors on the Board may be no more than ten. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by Shareholders at the following annual general meeting.

The Board favours diversity and welcomes appointments that contribute to it, but its first objective is to select Directors on merit with relevant and complementary skills. The Board does not believe it is appropriate to commit to numerical diversity targets.

The Board keeps under review its structure, size, composition, experience, diversity and skill ranges. Appointments of all new Directors are made on a formal basis, normally using professional search consultants, with the Board agreeing the selection criteria and the method of selection, recruitment and appointment.

An induction process takes place for new appointees and all Directors are encouraged to attend relevant training courses. All Directors are required to stand for re-election for a fixed term of no more than three years and those Directors serving more than six years are subject to more rigorous review before being proposed for re-election. Each Director's appointment is reviewed prior to submission for re-election, which includes consideration of independence.

Board effectiveness

During the year, in order to review the effectiveness of the Board, its Committees and the individual Directors, the Board carried out a process of formal annual self appraisal. This was facilitated by the completion of a questionnaire and confidential interviews between the Chairman and each Director. Key representatives of the Manager also participated in the process and provided feedback to the Board. The appraisal of the Chairman was carried out by the Board under the leadership of the Senior Independent Director. The Board considers that the appraisal process is a constructive means of evaluating the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and its committees and building on and improving collective strengths, including assessing any training needs. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so will be kept under review.

The Directors are encouraged to attend relevant training courses and seminars and receive regular updates on the industry and changes to regulations from the Secretary and other parties, including the Association of Investment Companies ("**AIC**").

Board independence and tenure

The Board believes that all of its Directors are independent in character and judgement, with no relationships or circumstances relating to the Company or the Manager that are likely to alter this position and regularly reviews their independent status. In line with the AIC Code, the Board believes that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies, where experience and continuity can be a significant strength. As such, no limit on the overall length of service has been imposed, although any Director who has served for more than nine years is subject to annual re-election.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Company's Directors.

Other than the formal authorisation of the Directors' other directorships and appointments, no authorisations have been sought. They are reviewed throughout the year at each Board meeting and the authorisation of each individual Director's conflicts or potential conflicts annually. These authorisations were reviewed in November 2016 when it was concluded that in each case these situational conflicts had not affected any individual in his/her role as a Director of the Company.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

In the year under review there have been no instances of a Director being required to absent himself from a discussion or abstain from voting because of a conflict of interest.

Board committees

As the Board is formed entirely of independent non-executive Directors and is small in size, it operates without a Nomination Committee. Neither does it have a Remuneration Committee as it has no executive Directors nor employees. The Directors' Remuneration Report on pages 36 and 37 provides information on the remuneration arrangements for the Directors of the Company.

The Report of the Audit and Management Engagement Committee is contained on pages 38 to 41.

Relations with Shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to Shareholders, monthly fact sheets and general information are also available on the Company's website at www.fandccit.com.

At annual general meetings, all investors have the opportunity to question and meet the Chairman, the Board and the Fund Manager.

Regular reports are made to the Board on any contact with the Company's institutional Shareholders and private client asset managers and the views and attitudes of Shareholders and the level and nature of any complaints received from investors. The Chairman and the Senior Independent Director are available to meet with major Shareholders, although no meetings were held in the year under review.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Secretary at the registered office address as detailed on page 43.

By order of the Board
for and on behalf of
F&C Investment Business Limited
Secretary
28 November 2016

Remuneration Report

Directors' Remuneration Policy

The Board's current policy is to set the remuneration of the Directors to reflect the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. This policy was approved by Shareholders in 2014 and the Board will ask Shareholders to approve a slightly modified policy at the Annual General Meeting. The modified policy will enable the Directors' to set remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. It will aim to remain fair and reasonable in relation to comparable investment trusts and other similar sized financial companies. The modification will also make express provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings, including those treated as a benefit in kind subject to tax and national insurance. The Board has not received any views from Shareholders in respect of the levels of Directors' remuneration.

The Company's articles of association limit the aggregate fees payable to the Board to a total of £180,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director. The fees are fixed and are payable in cash, half yearly in arrears. The fees are reviewed every two years, most recently in September 2015.

The Board is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. Each new Director is provided with a letter of appointment. There is no provision for compensation upon early termination of appointment. The Company's policy in respect of this element of remuneration is that all reasonable costs of this nature will be reimbursed as they are incurred.

The letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes before and during the forthcoming Annual General Meeting.

The fees for specific responsibilities are set out in the table below.

Annual fees for Board Responsibilities

	2017 £'000s	2016 £'000s
Board		
Chairman	33.0	33.0
Director	22.0	22.0
Audit Committee Chairman*	27.0	27.0

*Director fee plus £5,000 as committee chairman

An ordinary resolution for the approval of the Remuneration Policy will be put to Shareholders at the forthcoming Annual General Meeting

Directors' shareholdings

Directors' share interests (audited)

At 30 September	2016	2015
Steven Bates	nil	nil
Sharon Brown	1,500	1,500
Clare Dobie	2,469	2,378
Jane Lewis*	nil	n/a
Tim Scholefield	8,000	6,000

The Company's register of Directors' interests contains full details of Directors' shareholdings.
*Appointed 24 November 2015

Since the year end, Clare Dobie has acquired a further 19 ordinary shares. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stock or shares of the Company other than as stated above. There is no requirement for the Directors to hold shares in the Company.

Implementation Report

An ordinary resolution for the approval of the Remuneration Report will be put to Shareholders at the forthcoming Annual General Meeting. At the Company's last annual general meeting, Shareholders approved the Directors' Remuneration Report in respect of the year ended 30 September 2015. 91.1% of votes were cast in favour of the resolution.

Directors' remuneration for the year

The Directors who served during the year received the following amounts for services as non-executive Directors for the years ended 30 September 2016 and 2015 and can expect to receive the fees indicated for 2017 as well as reimbursement for expenses necessarily incurred.

Fees for services to the Company (audited)

	Fees £'000s (audited)		Taxable Benefits(1) £'000s (audited)		Total £'000s (audited)		Anticipated Fees(2) £'000s
Director	2016	2015	2016	2015	2016	2015	2017
Steven Bates(3)	33.0	30.0	0.3	0.2	33.3	30.2	33.0
Sharon Brown	27.0	25.0	3.3	4.1	30.3	29.1	27.0
Clare Dobie	22.0	20.0	0.7	0.2	22.7	20.2	22.0
Jane Lewis(4)	18.8	0.0	0.3	0.0	19.1	0.0	22.0
Tim Scholefield	22.0	17.0	0.3	0.2	22.3	17.2	22.0
John Emly(5)	7.9	20.0	0.1	0.2	8.0	20.2	n/a
Neil Dunford(6)	0.0	7.3	0.0	0.0	0.0	7.3	n/a
Total	130.7	119.3	5.0	4.9	135.6	124.2	126.0

Comparative amounts for 2015 have been restated on a consistent basis.
(1) Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI contributions.
(2) Fees expected to be payable to the Directors during the course of the year ending 30 September 2017. Taxable benefits are also anticipated but are not currently quantifiable.
(3) Highest paid Director
(4) Appointed 24 November 2015
(5) Retired 9 February 2016
(6) Retired 11 February 2015

The information in the above table for the years 2015 and 2016 have been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

The table below shows the actual expenditure during the year in relation to Directors' remuneration and Shareholder distributions:

Actual expenditure

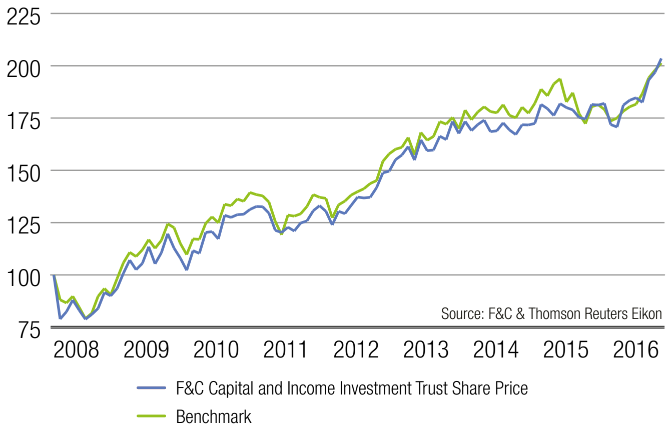
Year ended 30 September	2016 £'000s	2015 £'000s	% Change
Aggregate Directors' fees	130.7	119.3	9.6
Management and other expenses	1,628	1,628	0.0
Dividends paid to Shareholders	9,816	9,381	4.6

Company Performance

The Board is responsible for the Company's investment strategy and performance. The management of the investment portfolio is delegated to the Manager. An explanation of the performance of the Company for the year ended 30 September 2016 is given in the Chairman's Statement and Manager's Review.

A comparison of the Company's performance over the required eight year period is set out in the following graph. This shows the total return (assuming all dividends are re-invested) to ordinary Shareholders against the Company's benchmark.

Shareholder total return vs Benchmark total return over eight years (%)



On behalf of the Board
Steven Bates
Chairman
28 November 2016

Report of the Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee (the "**Committee**") are to monitor the integrity of the financial reporting of the Company and the internal control and risk management processes.

Role of the Committee

The committee met on three occasions during the year, and the attendance of each of the members is set out on page 33. F&C's Head of Trust Accounting, the Fund Manager and F&C's Head of Business Risk were invited to attend certain meetings to report on relevant matters. The external auditor, PwC, attended two of the committee meetings and also met in private session with the committee chairman.

Specifically, the committee considered, monitored and reviewed the following matters:

- The audited annual results statement and report and accounts and the unaudited half-yearly report and accounts;
- The accounting policies of the Company including the first time application of FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and the SORP issued in November 2014;
- The principal risks faced by the Company (including the increasing risk of cyber attack) and the effectiveness of the Company's internal control and risk management environment, including consideration of the appropriateness of the Company's viability statement;
- The effectiveness of the audit process and the independence and objectivity of PwC, their reappointment, remuneration and terms of engagement;
- The policy on the engagement of PwC to supply non-audit services;
- The need for the Company to have its own internal audit function;
- The receipt of AAF and SSAE16 reports or their equivalent from F&C, the Custodian and a due diligence report from the Company's share registrars;
- The performance of the Manager and their fees; and
- The committee's terms of reference, which can be found on the website at www.fandccit.com.

Comprehensive papers and reports relating to each of these matters were prepared for discussion. These were debated by the committee and recommendations were then made to the Board as appropriate.

The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information as is noted in the Statement of Directors' Responsibilities on page 42. On broader control policy issues, the committee has reviewed, and is satisfied with, F&C's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by F&C under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for communication to this committee where matters might impact the Company with appropriate follow up action. In the year under review, there were no such concerns raised with the committee.

Composition of the Committee

All Directors are members of the committee, appointed on their date of appointment to the Board. All the committee members are independent non-executive Directors. Sharon Brown, chairman of the committee, is a Chartered Management Accountant and has been a finance director and is chairman of the audit committees of other companies, including another investment trust company. The other members of the committee have a combination of financial, investment and business experience through the senior posts held during their careers. The performance of the committee was evaluated as part of the Board appraisal process.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations, which are managed by F&C. The committee has reviewed and reported to the Board on these controls, which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the committee and the Board through regular reports provided by F&C. The reports cover investment performance, compliance with agreed and regulatory investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans and on other relevant management issues. F&C's Business Risk department also provide regular control report updates to the committee covering risk and compliance with any significant issues of direct relevance to the Company required to be reported to the Board immediately. The significant issues considered by the committee, and F&C's control report to the committees on policies and procedures in operation in during the year are discussed in the table below.

A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place and actions being taken to mitigate them. The Board discusses the resulting risk matrix at each of its meetings and reviews the significance of the risks and the reasons for any changes. The Company's principal risks are set out on page 12 with additional information given in note 23 of the accounts.

Significant Issues considered by the Committee for the year ended 30 September 2016

Matter	Action
Investment Portfolio Valuation	
The Company's portfolio is invested in listed securities. Although the vast majority of the securities are highly liquid and listed on recognised stock exchanges, errors in the valuation could have a material impact on the Company's net asset value per share.	The Board reviews the full portfolio valuation at each Board meeting and, since the implementation of the AIFMD in July 2014, receives quarterly reports from the AIFM and Depositary. The committee reviewed F&C's AAF Report for the year ended 31 October 2015, which is reported on by independent external accountants and which details the systems, processes and controls around the daily pricing of equity and fixed interest securities. F&C has provided further assurance of controls operating satisfactorily since that date.
Misappropriation of Assets	
Misappropriation or non-existence of the Company's investments or cash balances could have a material impact on its net asset value per share.	The committee reviewed F&C's AAF Report for the year ended 31 October 2015, which details the controls around the reconciliation of the Manager's records to those of the Custodian. The committee also reviewed the Custodian's annual internal control report to 31 March 2016, which is reported on by independent external accountants and which provides details regarding its control environment. Regular updates from the Manager, Depositary and Custodian, in respect of controls operating in subsequent periods up to 30 September 2016, were also reviewed.
Income Recognition	
Incomplete or inaccurate recognition could have an adverse effect on the Company's net asset value and earnings per share and its level of dividend cover.	The committee reviewed F&C's AAF Report and subsequent confirmation referred to above. It also compared the final level of income received for the year to the budget which was set at the start of the year and discussed the accounting treatment of special dividends with the Manager.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, or loss or fraud. Further to the review by the committee, the Board has assessed the effectiveness of the internal control systems. This included a review of the F&C risk management infrastructure and the report on policies and procedures in operation and tests for the year to 31 October 2015 (the "**AAF Report**") and subsequent confirmation from F&C that there had been no material changes to the control environment. This has been prepared by F&C for all its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06).

Containing a report and an unqualified opinion from independent external accountants, KPMG, the AAF Report sets out F&C's control policies and procedures with respect to the management of its clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by F&C's Group Audit and Compliance Committee, which receives regular reports from its Internal Audit department. Procedures are also in place to capture and evaluate any failings and weaknesses within F&C's control environment and those extending to any outsourced service providers to ensure that action would be taken to remedy any significant issues. Any errors or breaches relating to the Company are reported at each Board meeting by F&C. No failings or weaknesses material to the overall control environment and financial statements were identified in the Company's year under review. The committee also reviewed the control reports of the Custodian, the Depositary and the Registrar and were satisfied that there were no material exceptions.

Through the reviews and reporting arrangements set out above and by direct enquiry of F&C and other relevant parties, the committee and the Board have satisfied themselves that there were no material control failures or exceptions affecting the Company's operations during the year or to the date of this report.

Based on review, observation and enquiry by the committee and Board of the processes and controls in place within F&C, including the unqualified opinion of a reputable independent accounting firm that those controls operated satisfactorily, the committee has concluded that there is no current need for the Company to have an internal audit function and the Board has concurred.

External audit process – significant issues

In carrying out its responsibilities, the committee has considered the planning arrangements, scope, materiality levels and conclusions of the 2016 external audit.

The committee met in November 2016 to discuss the draft Report and Accounts, with representatives of the auditor and F&C in attendance.

The table on page 39 describes the significant issues considered by the committee in relation to the financial statements for the year ended 30 September 2016 and how these issues were addressed.

PwC submitted their report to the committee at this meeting and confirmed that they had no reason not to issue an unqualified audit report in respect of the Report and Accounts. The committee established and agreed that there were no material issues or findings arising which needed to be brought to the attention of the Board. Consequently the committee recommended to the Board that the Report and Accounts were in their view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice. The unqualified audit report, which sets out the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 46 to 50.

Auditor assessment, independence and appointment

The Company reviews the reappointment of the auditor every year. PwC have been auditor to the Company since its inception in 1992. The audit was put out to tender during the year ended 30 September 2012 and the Board concluded that PwC's appointment should continue. As part of this year's review of auditor independence and effectiveness, PwC have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating PwC, the committee has taken into consideration the standing, skills and experience of the firm and the audit team. From direct observation and indirect enquiry of management, the committee remains satisfied that PwC provide appropriate challenge in carrying out their responsibilities. The committee has been satisfied with the effectiveness of PwC's performance on the audit just completed. The fee for the audit was £30,150, inclusive of a one-off fee of £1,750 for review of the Company's adoption of new UK GAAP compared with £28,000 last year as shown in Note 5 on the accounts.

Under mandatory audit rotation rules, the Company will be required to put the external audit out to tender at least every ten years. Given the EU regulations and transition rules on firm rotation, PwC will not be available for appointment as auditors beyond the annual general meeting following 17 June 2020. In the meantime, the committee will continue to consider their appointment annually and the need for any change for reasons of quality or independence. At the Annual General Meeting in 2017 Shareholders will of course vote on the reappointment of PwC for the 2017 audit.

The committee regards the continued independence of the auditor to be a matter of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditors are not considered to be expert providers of the non-audit services; and
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; the services are considered to be likely to inhibit the auditor's independence or objectivity as auditors.

In particular, the Committee has a policy that the costs of all non-audit services sought from the auditors in any one year should not normally exceed 30% of the likely audit fees for that year and not exceed 70% cumulatively over three years.

Non-audit services for the year ended 30 September 2016 totalled £13,000, including £5,000 in relation to general tax compliance, £3,000 in relation to a tax claim from the French authorities and £5,000 in connection with the ongoing liquidation of the subsidiary company, F&C Income Growth Investment Trust PLC. The committee considers the services to have been cost effective and not to have compromised the independence of PwC.

Sharon Brown
Chairman of the Audit and
Management Engagement Committee
28 November 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. 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.

The Report and Accounts is published on the www.fandccit.com website, which is maintained by F&C. The Directors are responsible for the maintenance and integrity of the Company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

Each of the Directors listed on page 26 confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; and
- 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, business model and strategy; and
- the financial statements and the Directors' Report include details on related party transactions.

On behalf of the Board
Steven Bates
Chairman
28 November 2016

Management and Advisers

The Manager
F&C Capital and Income Investment Trust PLC is managed by F&C Investment Business Limited, a wholly-owned subsidiary of F&C Asset Management PLC which is ultimately owned by Bank of Montreal. F&C Investment Business Limited is authorised and regulated in the UK by the Financial Conduct Authority and is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

The Manager also acts as the Alternative Investment Fund Manager.

Julian Cane
Fund Manager and director of UK equities at F&C, has managed the Company's investments since March 1997. He joined F&C in 1993.

Marrack Tonkin
Head of Investment Trusts at F&C. He has responsibility for F&C's relationship with the Company. He joined F&C in 1989.

Hugh Potter
Represents the Manager as Company Secretary and is responsible for the Company's statutory compliance. He joined F&C in 1982.

Secretary and Company's registered office
F&C Investment Business Limited,
Exchange House, Primrose Street,
London EC2A 2NY
Telephone: 020 7628 8000
Facsimile: 020 7628 8188
Website: www.fandc.com
Email: info@fandc.com

Independent Auditor
PricewaterhouseCoopers LLP
7 More London Riverside,
London SE1 2RT

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

State Street Bank and Trust Company
20 Churchill Place, Canary Wharf,
London E14 5HJ

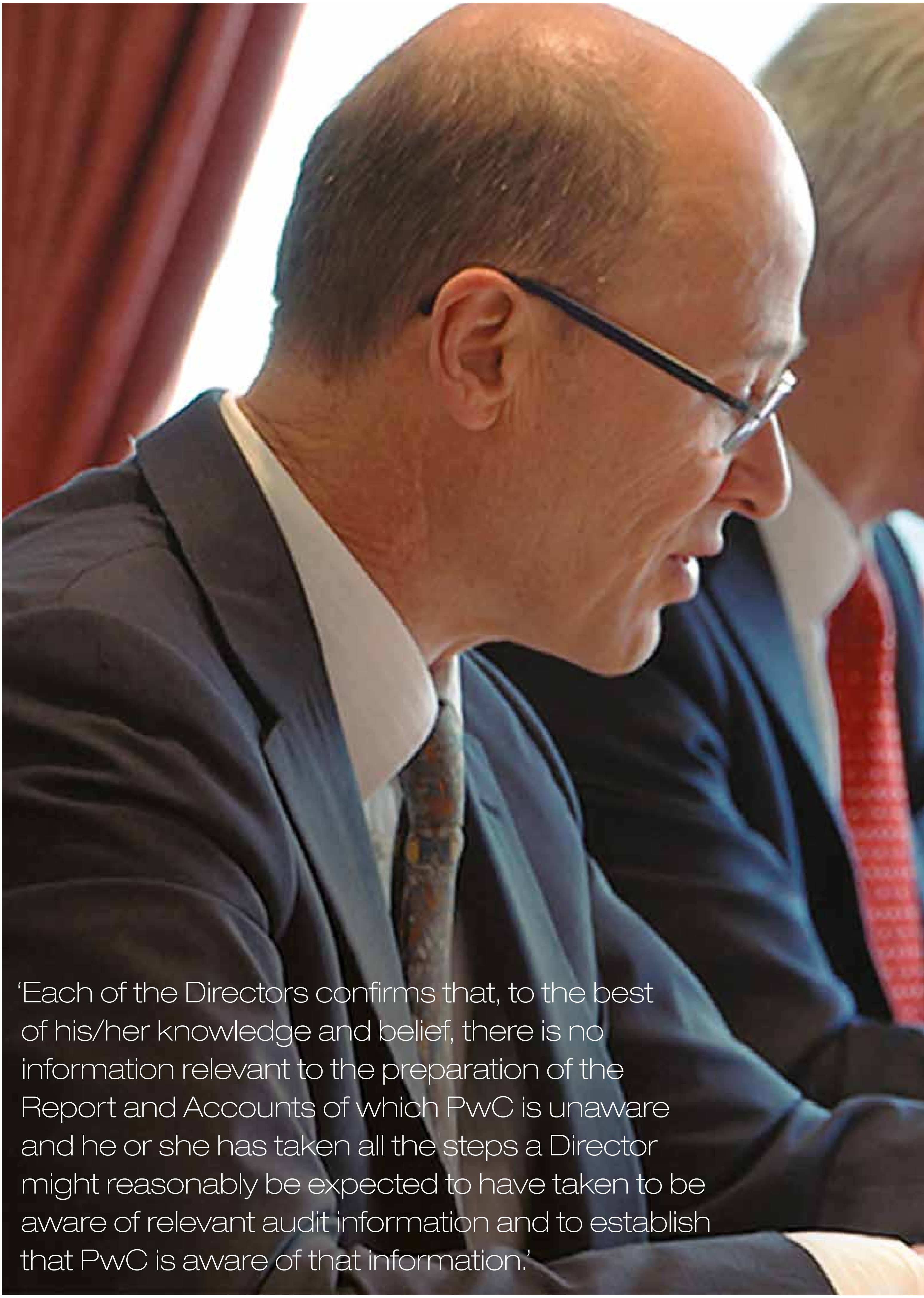
Custodian
JPMorgan Chase Bank
25 Bank Street, Canary Wharf, London
E14 5JP

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

Share Registrars
Computershare Investor Services PLC (the "**Registrar**"), The Pavilions,
Bridgwater Road, Bristol BS99 6ZZ
Telephone: 0370 889 4094
Authorised and regulated in the UK by the Financial Conduct Authority.

Solicitors
Dickson Minto W.S.
Broadgate Tower, 20 Primrose Street,
London EC2A 2EW

Stockbrokers
Cenkos Securities plc
6–8 Tokenhouse Yard, London EC2R 7AS



‘Each of the Directors confirms that, to the best of his/her knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which PwC is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that PwC is aware of that information.’

Independent Auditors' Report

Report on the financial statements

Our opinion

In our opinion, F&C Capital and Income Investment Trust PLC's financial statements (the "**financial statements**"):

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Accounts (the "**Annual Report**"), comprise:

- the Balance Sheet as at 30 September 2016;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("**ISAs (UK & Ireland)**").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently

Our audit approach

Overview

- Overall materiality: £2.7 million which represents 1% of Net assets.

- The Company is a standalone Investment Trust Company and engages F&C Investment Business Limited (the "**Manager**") to manage its assets.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Dividend income.
- Valuation and existence of investments.

uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Area of focus	How our audit addressed the area of focus
Dividend income	
Refer to page 39 (Report of the Audit and Management Engagement Committee), page 58 (Accounting Policies) and page 59 (notes). We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "**AIC SORP**"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy as set out in note 2(v) on page 58 of the financial statements. We understood and assessed the design and implementation of key controls surrounding revenue recognition. In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. Our testing covered 50% of dividend income from the investments. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. We tested the allocation and presentation of dividend income between the income and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested a sample of the validity of income and capital special dividends to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.
Valuation and existence of investments	
Refer to page 39 (Report of the Audit and Management Engagement Committee), page 57 (Accounting Policies) and page 63 (notes). The investment portfolio at the year-end comprised listed equity investments valued at £297m. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. We also tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JP Morgan Chase Bank, N.A. No differences were identified. No misstatements were identified by our testing which required reporting to those charged with governance.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall materiality
£2.7 million (2015: £2.4 million).
How we determined it
1% of net assets.
Rationale for benchmark applied
We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £272,000 (2015: £237,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 28, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

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

  We have no exceptions to report.

- the statement given by the Directors on page 48, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "**Code**"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.
  We have no exceptions to report.

- the section of the Annual Report on page 38, as required by provision C.3.8 of the Code, describing the work of the Audit and Management Engagement Committee does not appropriately address matters communicated by us to the Audit and Management Engagement Committee.
  We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 12 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.
  We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
  We have nothing material to add or to draw attention to.

- the Directors' explanation on page 29 of the Annual Report, in accordance with provision C.2.2 of the Code, 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.
  We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' Statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 November 2016

'We have achieved an ongoing charges ratio of 0.64%, the same as last year.'

Income Statement

Revenue notes	Capital notes	for the year ended 30 September	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s	2015 Revenue £'000s	2015 Capital £'000s	2015 Total £'000s
	10	Gains/(losses) on investments	–	29,310	29,310	–	(586)	(586)
	19	Foreign exchange gains/(losses)	31	(4)	27	(4)	(48)	(52)
3		Income	12,155	–	12,155	10,848	–	10,848
4	19	Management fee	(555)	(555)	(1,110)	(520)	(520)	(1,040)
5	19	Other expenses	(511)	(7)	(518)	(576)	(12)	(588)
		Net return before finance costs and taxation	11,120	28,744	39,864	9,748	(1,166)	8,582
6	19	Finance costs	(330)	(330)	(660)	(272)	(272)	(544)
		Net return on ordinary activities before taxation	10,790	28,414	39,204	9,476	(1,438)	8,038
7		Taxation on ordinary activities	(5)	–	(5)	(1)	–	(1)
19	19	Net return attributable to Shareholders	10,785	28,414	39,199	9,475	(1,438)	8,037
8	8	Return per share – pence	11.26	29.66	40.92	10.10	(1.53)	8.57

The total column of this statement is the profit and loss account of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

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

The notes on pages 56 to 72 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 30 September 2016

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserves £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total Shareholders' funds £'000s
	Balance at 30 September 2015	23,640	107,785	4,146	4,434	86,791	10,080	236,876
	Movements during the year ended 30 September 2016							
9	Dividends paid	–	–	–	–	–	(9,816)	(9,816)
	Ordinary shares issued	556	5,212	–	–	–		5,768
	Net return attributable to Shareholders	–	–	–	–	28,414	10,785	39,199
	Balance at 30 September 2016	24,196	112,997	4,146	4,434	115,205	11,049	272,027

for the year ended 30 September 2015

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserves £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total Shareholders' funds £'000s
	Balance at 30 September 2014	22,977	101,615	4,146	4,434	88,229	9,986	231,387
	Movements during the year ended 30 September 2015							
9	Dividends paid	–	–	–	–	–	(9,381)	(9,381)
	Ordinary shares issued	663	6,170	–	–	–	–	6,833
	Net return attributable to Shareholders	–	–	–	–	(1,438)	9,475	8,037
	Balance at 30 September 2015	23,640	107,785	4,146	4,434	86,791	10,080	236,876

The notes on pages 56 to 72 form an integral part of the financial statements.

Balance Sheet

Notes	at 30 September	2016 £'000s	2015 £'000s
	Fixed assets		
10	Investments	**296,594**	260,898
	Current assets		
11	Debtors	**1,193**	1,704
12	**Creditors: amounts falling due within one year**	**(760)**	(5,726)
	Net current assets/(liabilities)	**433**	(4,022)
	Total assets less current liabilities	**297,027**	256,876
	Creditors: amounts falling due after more than one year		
13	Loans	**(25,000)**	(20,000)
	Net assets	**272,027**	236,876
	Capital and reserves		
15	Share capital	**24,196**	23,640
16	Share premium account	**112,997**	107,785
17	Capital redemption reserve	**4,146**	4,146
18	Special reserve	**4,434**	4,434
19	Capital reserves	**115,205**	86,791
19	Revenue reserve	**11,049**	10,080
	Total Shareholders' funds	**272,027**	236,876
20	**Net asset value per ordinary share – pence**	**281.06**	250.51

The notes on pages 56 to 72 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 28 November 2016 and signed on its behalf by

Steven Bates, Chairman

Statement of Cash Flows

Notes	for the year ended 30 September	2016 £'000s	2015 £'000s
21	**Net cash inflow from operating activities**	10,295	9,283
	Investing activities		
	Purchase of investments	(47,272)	(51,056)
	Sales of investments	34,720	32,958
	Other capital charges	(2)	(17)
	Cash flows from investing activities	(7,554)	(18,115)
	Cash flows before financing activities	2,741	(8,832)
	Financing activities		
9	Equity dividends paid	(9,816)	(9,381)
	Net proceeds from issuance of new shares	5,768	6,833
	Interest paid	(784)	(409)
13	Increase in loans	5,000	–
	Cash flows from financing activities	168	(2,957)
	Net movement in cash and cash equivalents	2,909	(11,789)
	Cash and cash equivalents at the beginning of the year	(3,276)	8,561
	Effect of movement in foreign exchange	27	(48)
	Cash and cash equivalents at the end of the year	(340)	(3,276)
	Represented by:		
	Bank overdraft	(340)	(3,276)

The notes on pages 56 to 72 form an integral part of the financial statements.

Notes on the Accounts

1. General information

F&C Capital and Income Investment Trust PLC is an investment company incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company registration number is 02732011 and the registered office is Exchange House, Primrose Street, London, EC2A 2NY, England.

The Company conducts its affairs so as to qualify as an investment trust under the provisions of section 1158 of the Corporation Tax Act 2010 ("**CTA**"). The Company has complied at all times with the conditions set out in section 1159 of the CTA and intends to continue to do so. Such qualification exempts the Company from UK corporation tax on gains realised on its portfolio of fixed asset investments and derivatives.

There have been no significant changes to the accounting policies during the year ended 30 September 2016, as set out in note 2 below.

2. Significant accounting policies

(a) Going concern

As referred to in the Directors' Report on page 28 and note 22 on the accounts, the Directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

(b) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivative financial instruments at fair value, and in accordance with the Companies Act 2006, Accounting Standards applicable in the United Kingdom and with the SORP issued in November 2014. The Company is applying for the first time Financial Reporting Standard ("**FRS 102**") applicable in the UK and Republic of Ireland, which forms part of the revised Generally Accepted Accounting Practice ("**New UK GAAP**") issued by the Financial Reporting Council ("**FRC**") in 2012 and 2013. As a result of the first time adoption of New UK GAAP, presentation formats have been amended where required. The prior year net return attributable to ordinary Shareholders and total Shareholders' funds remain unchanged from under the old UK GAAP basis. The prior year Statement of Cash Flows has been restated to reflect presentational changes required under FRS 102 and does not include any other material changes.

The functional and reporting currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The key assumptions and estimates used in preparing the financial statements are reviewed on an ongoing basis. The only estimates and assumptions that may cause material adjustment to the carrying values of assets and liabilities relate to Level 3, unquoted investments, which are valued as per note 2(c)(i).

In accordance with the SORP, the Income Statement has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2(c) below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which four interim dividend payments are made. Capital returns include, but are not limited to, profits and losses on fixed asset investments and derivatives and currency profits and losses on cash and borrowings. Net capital returns are allocated via the capital account to the capital reserves. Dividends paid to equity Shareholders are shown in the Reconciliation of Movements in Shareholders' Funds.

2. Significant accounting policies (continued)

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Financial instruments

Financial instruments include fixed asset investments, derivative assets and liabilities, cash and short-term deposits, debtors and creditors. Accounting standards recognise a hierarchy of fair value measurements for financial instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on AIM in the UK.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments. The Company held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are unquoted investments.

(ii) Fixed asset investments and derivative financial instruments.

As an investment trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales.

Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar instruments. Where no reliable fair value can be estimated, investments are carried at cost or, where subsequently revalued, at their previous carrying amount less any provision for impairment.

Derivative financial instruments comprising forward exchange contracts and options are classified as held for trading and are accounted for as financial assets or liabilities. Where it can be demonstrated that the derivative is connected to the maintenance or enhancement of the Company's investments, the change in fair value is recognised as capital and shown in the Capital column of the Income Statement. Where an option is written in the expectation that it will not be exercised, or that any losses on exercise will be outweighed by the value of premiums received, the premiums are recognised in the Revenue column of the Income Statement. The value of the premium is usually the option's initial fair value and is recognised evenly over the life of the option. Subsequent changes to fair value are adjusted in the Capital column of the Income Statement such that the total amounts recognised within Revenue and Capital represent the change in fair value of the option.

(iii) Debt instruments

Loans and overdrafts are recorded initially at fair value, being the at the proceeds received, net of issue costs. They are subsequently measured at amortised cost using the effective interest method.

Finance charges, including interest, are accrued using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (vi) below for allocation of finance charges within the Income Statement.

(iv) Foreign currency

Monetary assets, monetary liabilities and equity investments denominated in a foreign currency are expressed in sterling at rates of exchange ruling at the Balance Sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions.

Foreign exchange profits and losses on fixed asset investments are included within the changes in fair value in the capital account. Foreign exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items when they are credited or charged to the revenue account.

2. Significant accounting policies (continued)

(v) Income

Income from equity shares is brought into the revenue account (except where, in the opinion of the Directors, its nature indicates it should be recognised within the capital account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Dividends are accounted for in accordance with FRS 102 on the basis of income actually receivable. Dividends from overseas companies are shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital account.

Underwriting commission is recognised when the Company's right to receive payment is established. Deposit interest is accounted for on an accruals basis.

(vi) Expenses, including finance charges

Expenses, including finance charges, are charged to the revenue account of the Income Statement, except as noted below:

– expenses incidental to the acquisition or disposal of fixed asset investments which are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve – arising on investments sold via the capital account; and

– 50% of management fees and 50% of finance costs are allocated to capital reserve – arising on investments sold via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company.

All expenses are accounted for on an accruals basis.

(vii) Taxation

Deferred tax is provided for in accordance with FRS102 on all timing differences that have been enacted at the Balance Sheet date and are expected to apply in the period when the liability is settled or the asset is realised. 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 the recommendations of the 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.

(viii) Share premium account (non-distributable reserve)

The following is accounted for in this reserve:

– proceeds of shares issued, net of the 25p nominal value of the shares and after deducting any associated costs of issuance.

(ix) Capital redemption reserve (non-distributable reserve)

The nominal value of ordinary share capital purchased and cancelled is transferred out of called-up share capital and into the capital redemption reserve on the trade date.

(x) Special reserve (distributable reserve)

The following are accounted for in this reserve:

– costs of purchasing share capital for cancellation; and
– costs of purchasing or selling share capital to be held in, or sold out of, treasury.

(xi) Capital reserves (distributable reserves)

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

– gains and losses on the disposal of fixed asset investments and derivatives;
– settled foreign exchange differences of a capital nature;
– costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company; and
– other capital charges and credits charged or credited to this account in accordance with the above policies.

2. Significant accounting policies (continued)

Capital reserve – arising on investments held

The following are accounted for in this reserve:

– increases and decreases in the valuation of fixed asset investments and derivatives held at the year end; and
– unsettled foreign exchange valuation differences of a capital nature.

3. Income

	2016 £'000s	2015 £'000s
Income from investments		
UK dividends	11,959	10,593
Overseas dividends	155	236
	12,114	10,829
Other income		
Interest on cash and short-term deposits	3	19
Underwriting commission	38	–
	41	19
Total income	12,155	10,848
Total income comprises:		
Dividends	12,114	10,829
Other income	41	19
	12,155	10,848
Income from investments:		
Quoted UK	11,959	10,593
Quoted overseas	155	236
	12,114	10,829

As at 30 September 2016 there were no outstanding sub-underwriting contracts (2015: one outstanding).

4. Management fee

	2016 £'000s	2015 £'000s
Allocated to revenue account	555	520
Allocated to capital account (see note 19)	555	520
Total management fee	1,110	1,040

The Manager provides investment management and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.1% of the funds under management. The management agreement may be terminated upon six months' notice given by either party. The Company may terminate this agreement upon 60 days' written notice to the Manager if there is a change of control of the Manager, provided such notice is served within six months of the said change of control.

5. Other expenses

	2016 £'000s	2015 £'000s
Auditors' remuneration:		
– for audit services(1)	36	33
– for other services(2)	10	40
Directors' fees for services to the Company(3)	131	119
Directors' and Officers' liability insurance	7	7
Loan commitment fee	41	60
Marketing	91	126
Professional fees	29	45
Printing and postage	50	46
Registrars' fees	27	23
Subscriptions and listing fees	48	48
Sundry expenses	41	29
Total other expenses	511	576

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

(1) Total Auditors' remuneration for audit services, exclusive of VAT amounts to £28,400 (2015: £28,000) plus £1,750 for New UK GAAP which is non-recurring.

(2) Total Auditors' remuneration for other services exclusive of VAT amounts to £13,000 (2015: £40,000) of which £8,000 is recognised in the revenue account, for taxation compliance services (2015: £33,000), and £5,000 in the capital account for other services in connection with the liquidation of F&C Income Growth Investment Trust plc ("**FIGIT**") (2015: £7,000). Taxation compliance services of £8,000 exclusive of VAT include £3,000 relating to reclamation of French withholding taxes (2015: £28,000).

(3) See the Directors' Remuneration Report on page 37.

6. Finance costs

	2016 £'000s	2015 £'000s
Allocated to revenue account	330	272
Allocated to capital account (see note 19)	330	272
Total finance cost	660	544

Note 13 provides further details on the Company's borrowings.

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s	2015 Revenue £'000s	2015 Capital £'000s	2015 Total £'000s
Overseas taxation	5	–	5	1	–	1
Current tax charge on ordinary activities (see note 7(b))	5	–	5	1	–	1

The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the UK (20%) (2015: 20.5%). Factors affecting the taxation change are set out below.

(b) Factors affecting tax charge for the year

	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s	2015 Revenue £'000s	2015 Capital £'000s	2015 Total £'000s
Return on ordinary activities before tax	10,790	28,414	39,204	9,476	(1,438)	8,038
Return on ordinary activities multiplied by the effective rate of corporation tax of 20% (2015: 20.5%)	2,158	5,683	7,841	1,943	(295)	1,648
Effects of:						
UK dividends*	(2,392)	–	(2,392)	(2,172)	–	(2,172)
Overseas dividends*	(31)	–	(31)	(48)	–	(48)
Expenses not utilised in the year	245	177	422	265	162	427
Expenses not deductible for tax purposes	20	2	22	22	3	15
Overseas taxation not relieved	5	–	5	1	–	1
Capital returns*	–	(5,862)	(5,862)	–	130	130
Total current taxation (see note 7(a))	5	–	5	1	–	1

* These items are not subject to corporation tax in an investment trust company.

The potential deferred tax asset of £3.2 million in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2016 (2015: £2.9 million) has not been recognised as it is unlikely that these expenses will be utilised.

8. Return per ordinary share

Revenue return

The revenue return per share of 11.26p (2015: 10.10p) is based on the revenue return attributable to Shareholders of £10,785,000 profit (2015: £9,475,000 profit).

Capital return

The capital return per share of 29.66p (2015: (1.53p)) is based on the capital return attributable to Shareholders of £28,414,000 profit (2015: £1,438,000 loss).

Total return

The total return per share of 40.92p (2015: 8.57p) is based on the capital return attributable to Shareholders of £39,199,000 profit (2015: £8,037,000 profit.)

Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on the weighted average of 95,807,560 (2015: 93,820,364) ordinary shares in issue during the year.

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2016 £'000s	2015 £'000s
Fourth interim for the year ended 30 September 2014 of 3.10p per share	12 Dec 14	31 Dec 14	–	2,872
First of four interims for the year ending 30 September 2015 of 2.3p per share	27 Feb 15	31 Mar 15	–	2,159
Second of four interims for the year ending 30 September 2015 of 2.3p per share	05 Jun 15	30 Jun 15	–	2,175
Third of four interims for the year ended 30 September 2015 of 2.3p per share	04 Sep 15	30 Sep 15	–	2,175
Fourth interim for the year ended 30 September 2015 of 3.20p per share	11 Dec 15	31 Dec 15	3,038	–
First of four interims for the year ending 30 September 2016 of 2.35p per share	26 Feb 16	31 Mar 16	2,246	–
Second of four interims for the year ending 30 September 2016 of 2.35p per share	03 Jun 16	30 Jun 16	2,261	–
Third of four interims for the year ended 30 September 2016 of 2.35p per share	02 Sep 16	30 Sep 16	2,271	–
			9,816	9,381

The Directors have declared a fourth interim dividend in respect of the year ended 30 September 2016 of 3.25 pence per share, payable on 30 December 2016 to all Shareholders on the register at close of business on 9 December 2016. The fourth interim dividend has not been included as a liability in these financial statements. The dividends paid and payable in respect of the financial year ended 30 September 2016, which form the basis of the retention test for section 1159 of the CTA, are set out below:

	2016 £'000s
Net revenue return attributable to Shareholders	10,785
First of four interims for the year ending 30 September 2016 of 2.35p per share	(2,246)
Second of four interims for the year ended 30 September 2016 of 2.35p per share	(2,261)
Third of four interims for the year ended 30 September 2016 of 2.35p per share	(2,272)
Fourth interim dividend for the year ended 30 September 2016 of 3.25 pence per share(1)	(3,145)
Transferred to revenue reserve	861

(1) Based on shares in issue and entitled to dividend at 23 November 2016.

10. Investments

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2016 Total £'000s	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2015 Total £'000s
Cost brought forward	217,008	–	1,795	218,803	196,983	–	1,795	198,778
Gains/(losses) brought forward	43,890	–	(1,795)	42,095	44,056	–	(1,795)	42,261
Valuation of investments brought forward	260,898	–	–	260,898	241,039	–	–	241,039
Purchases at cost	40,321	–	–	40,321	52,451	–	–	52,451
Sales proceeds	(33,935)	–	–	(33,935)	(32,006)	–	–	(32,006)
Losses on investments sold in year	(6,134)	–	–	(6,134)	(420)	–	–	(420)
Gains/(losses) on investments held at year end	35,444	–	–	35,444	(166)	–	–	(166)
Valuation of investments carried forward	296,594	–	–	296,594	260,898	–	–	260,898
Cost at 30 September	217,260	–	1,795	219,055	217,008	–	1,795	218,803
Gains/(losses) at 30 September	79,334	–	(1,795)	77,539	43,890	–	(1,795)	42,095
Valuation of investments at 30 September	296,594	–	–	296,594	260,898	–	–	260,898

*Level 1 includes investments listed on any recognised stock exchange or quoted on AIM in the UK.
Level 2 includes investments for which the quoted price has been suspended.
Level 3 includes any unquoted investments.

The investment portfolio is set out on page 24.

There were no derivative transactions undertaken in the year (2015: none).

Investment in subsidiary

The Company holds 100% of the issued share capital of FIGIT (in liquidation) valued at £nil (2015: £nil). The consolidation of the subsidiary undertaking is not material for the purpose of giving a true and fair view and hence, in accordance with section 405 of the Companies Act 2006, the Company has not prepared consolidated accounts. FIGIT is held in liquidation pending the resolution of a case brought against HMRC, seeking to recover VAT paid on management fees in the period 1997 to 2000. The timing and outcome of the case remain uncertain.

11. Debtors

	2016 £'000s	2015 £'000s
Prepayments and accrued income	1,152	811
Investment debtors	–	785
Overseas taxation recoverable	41	108
	1,193	1,704

12. Creditors: amounts falling due within one year

	2016 £'000s	2015 £'000s
Investment creditors	–	1,952
Management fee	297	257
Bank overdraft	340	3,276
Loan interest	11	136
Accruals	112	105
	760	5,726

13. Creditors: amounts falling due after more than one year

	2016 £'000s	2015 £'000s
Sterling loans	25,000	20,000

The Company has an unsecured credit facility available until March 2018. The facility has two elements: a £20 million fixed rate facility which is fully drawn paying interest at 2.725 per cent per annum and a £15 million floating rate facility of which £5 million was drawn paying interest at one month LIBOR plus margin and was repaid in full on 17 November 2016.

14. Geographical and industrial classification (total assets less current liabilities) excluding loans

Equity Investments	UK %	Continental Europe %	2016 Total %	2015 Total %
Financials	31.1	–	31.1	32.8
Oil & Gas	6.7	–	6.7	6.7
Industrials	18.4	–	18.4	18.0
Consumer Services	17.9	–	17.9	18.2
Consumer Goods	12.7	2.3	15.0	13.5
Healthcare	8.1	–	8.1	7.4
Telecommunications	2.7	–	2.7	3.6
Basic Materials	2.9	–	2.9	4.0
Utilities	3.1	–	3.1	3.1
Technology	2.2	1.0	3.2	2.9
Total investments	105.8	3.3	109.1	110.2
Net (liabilities)/assets	(9.1)	–	(9.1)	(10.2)
Net assets	96.7	3.3	100.0	
2015 totals	96.3	3.7		100.0

15. Share capital

Equity share capital	2016 Issued and fully paid Number	2016 Issued and fully paid £'000s	2015 Issued and fully paid Number	2015 Issued and fully paid £'000s
Ordinary shares of 25 pence each				
Balance brought forward	94,559,268	23,640	91,909,268	22,977
Ordinary shares issued	2,225,000	556	2,650,000	663
Balance at 30 September	96,784,268	24,196	94,559,268	23,640

Since 30 September 2016 a further 400,000 ordinary shares have been issued at a price of 289.0 pence per share.

16. Share premium account

	2016 £'000s	2015 £'000s
Balance brought forward	107,785	101,615
Premium on issue of shares	5,212	6,170
Balance carried forward	112,997	107,785

17. Capital redemption reserve

	2016 £'000s	2015 £'000s
Balance brought forward and carried forward	4,146	4,146

18. Special reserve

	2016 £'000s	2015 £'000s
Balance brought forward and carried forward	4,434	4,434

19. Other reserves

	Capital reserve realised £'000s	Capital reserve unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Losses on investments sold in year	(6,134)	–	(6,134)	–
Gains on investments held at year end	–	35,444	35,444	–
Foreign exchange losses	(4)	–	(4)	–
Management fee (see note 4)	(555)	–	(555)	–
Finance costs (see note 6)	(330)	–	(330)	–
Other expenses	(7)	–	(7)	–
Revenue return	–	–	–	10,785
Return attributable to Shareholders	(7,030)	35,444	28,414	10,785
Dividends paid	–	–	–	(9,816)
Balance at 30 September 2015	44,698	42,093	86,791	10,080
Balance at 30 September 2016	37,668	77,537	115,205	11,049

Included within the capital reserve movement for the year are £149,000 of transaction costs including stamp duty on purchase of investments (2015: £246,000) and £37,000 of transaction costs on sales of investments (2015: £25,000).

There were £4,419,000 of dividends recognised as capital (2015: £936,000).

20. NAV per ordinary share

NAV per ordinary share is based on total net assets of £272,027,000 (2015: £236,876,000) and on 96,784,268 (2015: 94,559,268) ordinary shares in issue at the year end.

21. Reconciliation of total return before finance costs and taxation to net cash flows from operating activities

	2016 £'000s	2015 £'000s
Net return before finance costs and taxation	39,864	8,582
Adjust for returns from non–operating activities:		
Gains/(losses) on investments	(29,310)	586
Exchange losses of a capital nature	4	48
Non-operating expenses of a capital nature	7	12
Return from operating activities	10,565	9,228
Adjust for non-cash flow items:		
Exchange (gains) and losses of a revenue nature	(31)	4
(Increase)/decrease in debtors	(275)	45
Increase in creditors	36	6
Net cash inflow from operating activities	10,295	9,283

22. Going concern

The Company's investment objective, strategy and policy are subject to a process of regular Board monitoring and are designed to ensure that the Company is invested mainly in readily realisable, listed securities and that the level of borrowing is restricted. The Company retains title to all assets held by the Custodian and agreements cover its borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager and the Board. The Directors believe that: the Company's objective and policy continue to be relevant to investors, the Company operates within robust regulatory environment and the Company has sufficient resources and arrangements to continue operating within its stated policy for the 12 month period commencing from the date of this report. Accordingly, the financial statements have been drawn up on the basis that the Company is a going concern.

23. Financial Risk Management

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the UK as an investment trust under the provisions of section 1158 of the CTA. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. The Company can also have exposure to leading overseas companies, with the value of the non-UK portfolio not exceeding 10% of the Company's gross assets. In pursuing this objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board, together with the Manager, is responsible for the Company's risk management, as set out in detail in the Strategic Report and Directors' Report. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK accounting standards and best practice. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities including derivatives held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board sets policies for managing these risks within the Company's objective and meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

As up to 10% of the Company's gross assets can be invested in non-UK assets, other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant cash balances. It is not the Board's general policy to borrow in currencies other than sterling and euros, any such borrowings would be limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in foreign exchange rates.

A description of derivative positions, which are also exposed to market price changes, together with the Manager's and Board's strategies for using these positions for efficient portfolio management, is contained in this note, under "Other market risk exposures", in the Manager's Report and in the Strategic Report. The exposure on the Company's positions at 30 September 2016 amounted to £nil (30 September 2015 – £nil).

Gearing may be short or long-term in foreign currencies and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

Income earned in foreign currencies is converted to sterling on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on gearing.

Currency Exposure

The principal foreign currency to which the Company was exposed during the year was the euro. As stated above, the exposure to investments listed in currencies other than sterling cannot exceed 10% of the Company's gross assets.

The exchange rates for the euro applying against sterling at 30 September and the average rates during the year ended 30 September were as follows:

	At 30 September 2016	2016 Average for the year	At 30 September 2015	2015 Average for the year
Euro	**1.156**	**1.285**	1.357	1.347

23. Financial Risk Management (continued)

Based on the financial assets and liabilities held and the exchange rates applying at the Balance Sheet date, a weakening or strengthening of sterling against the euro by 10% would have the following approximate effect on returns attributable to Shareholders and on the NAV per share.

Weakening of sterling by 10% against the euro	2016 £'000s	2015 £'000s
Net revenue return attributable to Shareholders	29	27
Net capital return attributable to Shareholders	1,000	971
Net total return attributable to Shareholders	1,029	998
NAV per share – pence	1.06	1.06

Strengthening of sterling by 10% against the euro	2016 £'000s	2015 £'000s
Net revenue return attributable to Shareholders	(6)	(23)
Net capital return attributable to Shareholders	(818)	(794)
Net total return attributable to Shareholders	(824)	(817)
NAV per share – pence	(0.85)	(0.86)

These effects are representative of the Company's activities although the level of the Company's exposure to the euro fluctuates in accordance with the investment and risk management processes. As this analysis only reflects financial assets and liabilities, it does not include the impact of currency exposures on the management fee.

The fair values of the Company's assets and liabilities at 30 September by currency are shown below:

2016	Short-term debtors £'000s	Bank overdraft £'000s	Short-term creditors other £'000s	Long-term creditors – loans £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,097	(340)	(420)	(25,000)	(24,663)	287,691	263,028
Other	96	–	–	–	96	8,903	8,999
Total	1,193	(340)	(420)	(25,000)	(24,567)	296,594	272,027

2015	Short-term debtors £'000s	Bank overdraft £'000s	Short-term creditor others £'000s	Long-term creditors – loans £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	989	(3,276)	(2,450)	(20,000)	(24,737)	252,874	228,137
Other	715	–	–	–	715	8,024	8,739
Total	1,704	(3,276)	(2,450)	(20,000)	(24,022)	260,898	236,876

23. Financial Risk Management (continued)

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate movements at 30 September was:

	Within one year £'000s	More than one year £'000s	2016 Net total £'000s	Within one year £'000s	More than one year £'000s	2015 Net total £'000s
Exposure to floating rates						
Bank overdrafts	(340)	–	(340)	(3,276)	–	(3,276)
Fixed interest securities	–	–	–	–	15	15
Loans	–	(25,000)	(25,000)	–	(20,000)	(20,000)
Net exposure	(340)	(25,000)	(25,340)	(3,276)	(19,985)	(23,261)
Minimum net exposure during the year			(21,773)			(7,472)
Maximum net exposure during the year			(28,240)			(23,262)

Exposures vary throughout the year as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management processes.

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates.

The Company holds fixed interest investments. The weighted average interest rate and average duration until maturity is detailed below:

	2016 £'000s	2016 Weighted average interest rate	2016 Average duration until maturity	2015 £'000s	2015 Weighted average interest rate	2015 Average duration until maturity
Fixed interest securities	–	–	–	15	–	0.25 years

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings.

Based on the financial assets and liabilities held and the interest rates ruling at each balance sheet date, a decrease or increase in interest rates of 2% would have the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV per share:

	2016 Increase in rate £'000s	2016 Decrease in rate £'000s	2015 Increase in rate £'000s	2015 Decrease in rate £'000s
Revenue return	(57)	57	(66)	66
Capital return	(50)	50	–	–
Total return	(107)	107	(66)	66
NAV per share – pence	(0.11)	0.11	(0.07)	0.07

23. Financial Risk Management (continued)

Other market risk exposures

The portfolio of investments, valued at £296,594,000 at 30 September 2016 (2015: £260,898,000) is exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 14 on the accounts.

Based on the portfolio of investments held at each Balance Sheet date, and assuming other factors, including the management charge, remain constant, a decrease or increase in the fair value of the portfolio in sterling terms by 20% would have had the following approximate effects on the net capital return attributable to Shareholders and on the NAV per share:

	2016 Increase in value £'000s	2016 Decrease in value £'000s	2015 Increase in value £'000s	2015 Decrease in value £'000s
Capital return	**59,319**	**(59,319)**	52,180	(52,180)
NAV per share – pence	**61.29**	**(61.29)**	55.18	(55.18)

This level of change is considered to be a reasonable illustration based on observation of current market conditions.

(b) Liquidity risk

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the number of quoted investments held in the Company's portfolio (76 at 30 September 2016 and 80 at 30 September 2015); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 14); and the existence of an ongoing loan and overdraft facility agreement. Cash balances are held with approved banks, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has a credit facility with State Street Bank and Trust Company of £35 million.

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

2016	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities – others	**760**	**–**	**–**	**760**
Long-term liabilities – loans	**–**	**–**	**25,000**	**25,000**
	760	**–**	**25,000**	**25,760**

2015	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities – other	5,726	–	–	5,726
Long-term liabilities – loans	–	–	20,000	20,000
	5,726	–	20,000	25,726

23. Financial Risk Management (continued)

(c) Credit risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. Such transactions must be settled on the basis of delivery against payment (except where local market conditions do not permit).

Responsibility for the approval, limit setting and monitoring of counterparties is delegated to the Manager and a list of approved counterparties is periodically reviewed by the Board. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Cash and deposits are held with approved banks.

The Company has an ongoing contract with its custodian for the provision of custody services. The contract is reviewed regularly. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The Depositary has regulatory responsibilities relating to segregation and safe keeping of the Company's financial assets, amongst other duties, as set out in the Directors' Report. The Board has direct access to the Depositary and receives regular reports from it via the Manager.

To the extent that the Manager carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk through regular meetings with the management of F&C (including the Fund Manager) and with F&C's Risk Management function. In reaching its conclusions, the Board also reviews the Manager's parent group's annual audit and assurance faculty report.

In summary, compared to the amounts included in the balance sheet, the maximum exposure to credit risk was as follows:

		2016		2015
Current liabilities	**Balance sheet £'000s**	**Maximum exposure £'000s**	**Balance sheet £'000s**	**Maximum exposure £'000s**
Derivative financial instruments	–	–	–	–

None of the Company's financial liabilities is past its due date or impaired.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value, or at a reasonable approximation thereof. Borrowings under loan and overdraft facilities do not have a value materially different from their capital repayment amount.

(e) Capital risk management

The objective of the Company is stated as being to secure long-term capital and income growth from a portfolio consisting mainly of FTSE All-Share companies. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the Shareholders in general meeting; borrow monies in the short and long term; and pay dividends to Shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to ordinary share capital are set out in note 15 on the accounts. Dividend payments are set out in note 9 on the accounts. Details of loans are set out in note 13 on the accounts.

24. Related party transactions

The following are considered related parties: the Board of Directors, including their spouses and dependents, and the Manager. There are no transactions with the Board other than: aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 37 and as set out in note 5 on the accounts; and the beneficial interests of the Directors in the ordinary shares of the Company as disclosed on page 36. There are no outstanding balances with the Board at the year end. Transactions between the Company and the Manager are detailed in note 4 on management fees and the outstanding balance is detailed in note 12.

25. AIFMD

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy and costs are available on the Company's website or from F&C on request.

The Company's maximum and average actual leverage levels at 30 September 2016 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	109%	110%

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

26. Post balance sheet movement in net assets

The NAV per share as at close of business on 23 November 2016 was 278.16 pence.

27. Contingent Asset

The Company and its subsidiary in liquidation, FIGIT, have an interest in a case brought against HMRC seeking to recover VAT paid on management fees in the period 1997 to 2000. A final judgement on this case is expected within the foreseeable future. As the outcome remains uncertain, however, no VAT or related interest recovery has been accrued or recognised as a contingent asset.

Ten Year Record (unaudited)

All Company data are based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies and is unaudited but derived from the audited Accounts or specified third party data providers.

Assets
at 30 September

£'000s	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets	208,755	214,131	158,201	180,684	191,427	182,290	203,079	244,708	251,387	256,876	**297,027**
Loans	8,000	10,000	–	14,000	14,000	15,000	7,967	20,000	20,000	20,000	**25,000**
Net assets	200,755	204,131	158,201	166,684	177,427	167,290	195,112	224,708	231,387	236,876	**272,027**

NAV
at 30 September

pence	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV per share – pence	249.0	258.8	200.4	199.3	207.9	195.0	222.0	251.4	251.8	250.5	**281.1**
NAV total return on 100p – 5 years (per Thomson Reuters Eikon)											**175.5**
NAV total return on 100p – 10 years (per Thomson Reuters Eikon)											**166.8**

Share Price
at 30 September

pence	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Middle market price per share – pence	233.5	243.3	196.5	199.0	214.3	206.0	225.5	252.5	258.0	256.0	**287.0**
(Discount)/premium to NAV – %	(6.2)	(6.0)	(2.0)	(0.1)	3.1	5.2	1.6	0.4	2.5	2.2	**2.1**
Share price high – pence	240.0	258.0	249.0	202.5	221.3	232.0	227.0	269.0	271.8	277.0	**289.8**
Share price low – pence	196.0	222.5	188.5	140.0	181.0	199.0	195.0	222.8	248.0	233.8	**234.8**
Share price total return on 100p – 5 years (per Thomson Reuters Eikon)											**169.2**
Share price total return on 100p – 10 years (per Thomson Reuters Eikon)											**182.5**

Revenue
for the year ended 30 September

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Available for ordinary shares (£'000s)	5,879	6,604	7,608	7,210	6,755	8,341	8,715	9,941	9,575	9,475	**10,785**
Earnings per share – pence	7.25	8.25	9.69	8.85	8.02	9.75	10.01	11.26	10.56	10.10	**11.26**
Dividends per share – pence	6.50	7.40	8.40†	8.65†	8.45	8.65	9.00	9.45	9.85	10.10	**10.30**

† Includes special dividends of 0.40p in 2008 and 2009.

Ten Year Record (unaudited)

Performance

(rebased at 30 September 2006)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV per share	100	103.9	80.5	80.0	83.5	78.3	89.2	101.0	101.1	100.6	**112.9**
Middle market price per share	100	104.2	84.2	85.2	91.8	88.2	96.6	108.1	110.5	109.6	**122.9**
Earnings per share	100	113.8	133.7	122.1	110.6	134.5	138.1	155.3	145.7	139.3	**155.3**
Dividends per share	100	113.8	129.2	133.1	130.0	133.1	138.5	145.4	151.5	155.4	**158.5**
FTSE All-Share Index	100	108.7	84.6	85.5	94.7	86.1	113.7	115.0	116.2	110.2	**123.3**
RPI	100	103.9	108.8	107.9	112.2	118.9	122.0	125.9	128.7	129.7	**132.1**
CPI	100	101.8	106.7	108.2	111.6	116.9	119.6	122.9	124.7	124.7	**126.0**

Cost of running the Company (ongoing charges/TER)

for the year ended 30 September	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expressed as a percentage of average net assets:											
Ongoing charges#	0.74	0.73	0.70	0.88	0.88	0.82	0.80	0.62	0.66	0.64	**0.64**

Prior to 2011 calculated as TER

Gearing

at 30 September	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net gearing %	1.81	4.74	0.24	7.60	7.05	9.08	1.22	3.81	4.43	10.32	**9.32**

Analysis of ordinary Shareholders at 30 September 2016

Category	Holding %
F&C savings plans	78.5
Nominees	11.1
Institutions	6.3
Direct individuals	4.1
	100.0

Source: F&C

Notice of Annual General Meeting

Notice is hereby given that the twenty fourth Annual General Meeting of the Company will be held at Exchange House, Primrose Street, London EC2A 2NY on Tuesday 14 February 2017 at 11.30 a.m. for the following purposes:

Ordinary resolutions

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 30 September 2016.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration
4. To re-elect Sharon Brown as a Director.
5. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
6. To authorise the Audit and Management Engagement Committee to determine the remuneration of the auditors.
7. THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "**relevant securities**") up to an aggregate nominal amount of £2,429,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2018 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**"); save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

Special resolutions

To consider and, if thought fit, pass the following resolutions as special resolutions:

8. THAT, subject to the passing of Resolution 7 set out above and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the "**Act**"), to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority given by the said Resolution 7 above for cash, and/or to sell equity securities which are held by the Company in treasury, during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2018 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**") up to an aggregate nominal amount of £2,429,000, in each case as if Section 561(1) of the Act did not apply to any such allotment or transfer; save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.
9. THAT the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "**Act**"), to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("**ordinary shares**") on such terms and in such manner as the Directors may from time to time determine, provided that:
   (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 14,567,000;
   (b) the minimum price which may be paid for an ordinary share shall be 25 pence;
   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share

(as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority hereby conferred shall expire on the date which is 15 months after the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

By Order of the Board
F&C Investment Business Limited
Secretary
28 November 2016

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Meeting Location

Notes:

1. Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 (the "**Act**"), the Company has specified that only those members included on the register of members of the Company at 11 p.m. on 10 February 2017 (the "**specified time**") shall be entitled to attend and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the specified time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 p.m. on the day which is two days (excluding non-working days) before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.
2. A member entitled to attend, speak and vote at the meeting may appoint one or more proxies to exercise his/her rights instead of him/her. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A form of proxy is provided to members which includes details on how to appoint more than one proxy; you may not appoint more than one proxy to exercise rights attached to any one share.
3. To be valid, the form of proxy and any power of attorney or other authority under which it is signed, or a notarially certified copy of such authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Alternatively, the form of proxy may be returned by electronic means using the CREST service as detailed below or proxy votes can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of proxy. Proxy votes must be received not less than 48 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).
4. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the deadline stated above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. Instructions on how to vote through CREST can be found on the website www.euroclear.com/CREST.
5. Investors holding shares in the Company through the F&C Private Investor, or Children's Investment Plans, the F&C Child Trust Fund, Junior ISA or in an F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 11:30 am on 7 February 2017. Alternatively, voting directions can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN as printed on the form of direction. Voting directions must be submitted electronically no later than 11:30 am on 7 February 2017.
6. Completion and return of a form of proxy or form of direction or the submission of votes electronically will not preclude members/investors from attending and voting at the meeting should they wish to do so. On a vote on a show of hands every member attending in person (or by proxy or corporate representative) is entitled to one vote and, where a poll is called, every member attending in person or by proxy is entitled to have one vote for every share of which he is the holder.
7. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has

a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Conduct Authority. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his/her proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ("**Nominated Persons**"). Nominated Persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps, the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. This notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 23 November 2016, being the latest practicable date prior to publication of this document, and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.fandccit.com.

10. As at 23 November 2016, the latest practicable date prior to publication of this document, the Company had 97,184,268 ordinary shares in issue with a total of 97,184,268 voting rights. No shares are held in treasury.

11. In accordance with section 319A of the Act, the Company must answer any question that a member may ask relating to the business being dealt with at the meeting unless:
    (i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    (ii) the answer has already been given on a website in the form of an answer to a question; or
    (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

12. In accordance with section 527 of the Act, members of the Company meeting the qualification criteria set out below may require the Company to publish, on its website (without payment) a statement, which is also passed to the auditors, setting out any matter relating to the audit of the Company's accounts, including the Independent Auditors' Report and the conduct of the audit. The qualification criteria are that the Company has received such requests from either members representing at least 5% of the total voting rights of all the members who have a relevant right to vote or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the members' full names and addresses and be sent to the Company's registered office.

13. The fourth interim dividend in respect of the year ended 30 September 2016 will be paid on 30 December 2016 to holders of ordinary shares on the register at the close of business on 9 December 2016.

14. Copies of the register of Directors' holdings, Directors' terms of appointment letters and a deed poll in relation to Directors' indemnities are available for inspection at the registered office of the Company during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof. No Director has any contract of service with the Company.

15. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy or form of direction) to communicate with the Company for any purpose other than those expressly stated.

16. Information regarding the meeting, including the information required by section 311A of the Act, is available from www.fandccit.com

Information for Shareholders

Net asset value and share price

The Company's net asset value per share is released daily, on the working day following the calculation date, to the London Stock Exchange. The current share price of F&C Capital and Income Investment Trust PLC is shown in the investment trust section of the stock market page in most leading newspapers, usually under "F&C Capital and Income".

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to Shareholders in June and December respectively. More up-to-date performance information is available on the Internet at www.fandccit.com under "Investor Information". This website also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £11,100 in the tax year ended 5 April 2017 without incurring any tax liability.

A rate of CGT of 10% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£32,000 in 2016–17 tax year). A higher rate of 20% will apply to those whose income and gains exceed this figure.

Income tax

The fourth interim dividend of 3.25 pence per share is payable on 30 December 2016. From April 2016 dividend tax credits have been replaced by an annual £5,000 tax-free allowance to UK residents on dividend income received in their entire share portfolios. Dividend income received in excess of this amount will be taxed at rates of 7.5% (basic rate taxpayers), 32.5% (higher rate taxpayers) or 38.1% (additional rate taxpayers).

AIC

F&C Capital and Income Investment Trust PLC is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk

Electronic communications

Computershare provides a service to enable Shareholders to receive Shareholder correspondence electronically (including annual and half yearly financial reports) if they wish. If a Shareholder opts to receive documents in this way, paper documents will only be available on request. Shareholders who opt for this service will receive a Notice of Availability via e-mail from Computershare with a link to the relevant section of the Company's website where the documents can be viewed or printed. For more information, to view the terms and conditions and to register for this service, please visit Computershare's internet site at www.investorcentre.co.uk (you will need your Shareholder reference number which can be found on your share certificate or dividend confirmation).

Common reporting standards

New tax legislation was introduced on 1 January 2016. Investment trust companies are required to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated Shareholders, and corporate entities, who have purchased shares in investment trusts. Only a small number of our Shareholders fall into this category and only those Shareholders will receive a request from the registrar for personal information to comply with this legal obligation. If you have any queries on the validity of any document received from the registrar you can contact them directly on 0370 889 4094.

Registered in England and Wales with Company Registration No. 02732011

How to Invest

One of the most convenient ways to invest in F&C Capital and Income Investment Trust PLC is through one of the savings plans run by F&C Investments.

F&C Investment Trust ISA

You can use your ISA allowance to make an annual tax-efficient investment of up to £15,240 for the 2016/17 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. It's also easy to transfer any existing ISAs to us whilst maintaining all the tax benefits, and you can get more information on how to do this under "Savings Plans" at www.fandc.co.uk

F&C Junior ISA (JISA)

You can invest up to £4,080 for the tax year 2016/17 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA. You can get more information on how to do this under "Savings Plans" at www.fandc.co.uk

F&C Child Trust Fund (CTF)

If you already have a CTF you can invest up to £4,080 for the 2016/17 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. It's also easy to transfer a CTF from another provider to an F&C CTF – you can get more information on how to do this under "Savings Plans" at www.fandc.co.uk[1]

F&C Private Investor Plan (PIP)

This is a flexible way to invest in our range of Investment Trusts. There are no maximum contributions, and investments can be made from £500 lump sum or £50 a month per Trust. You can also make additional lump sum top-ups at any time from £250 per Trust.

F&C Children's Investment Plan (CIP)

This is a flexible way to save for a child in our range of Investment Trusts. There are no maximum contributions, and the plan can easily be set up under bare trust (where the child is noted as the beneficial owner) or kept in your name if you wish to retain control over the investment. Investments can be made from a £250 lump sum or £25 a month per Trust. You can also make additional lump sum top-ups at any time from £100 per Trust.

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

Annual management charges and other charges apply according to the type of plan.

ANNUAL ACCOUNT CHARGE

ISA: £60+VAT

PIP: £40+VAT

JISA/CIP/CTF: £25+VAT

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

Dealing charge per holding

ISA: 0.2%

PIP/CIP/JISA: postal instructions £12, online instruction £8 per Trust.

Dealing charges apply when shares are bought or sold but not on the reinvestment of dividends or the investment of monthly direct debits for the PIP, CIP and JISA.

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

Government stamp duty of 0.5% also applies on the purchase of shares (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan. For full details of charges, please read the Key Features and Terms and Conditions of the plan before investing – you can get more details on any of our Savings Plans by going to www.fandc.co.uk. F&C cannot give advice on the suitability of investing in our investment trust or savings plans. If you have any doubt as to the suitability of an investment, please contact a financial adviser.

HOW TO INVEST

If you're opening a new plan it's easy to apply online by going to www.fandc.com/apply[2]

New Customers:

Contact our Team

Call: 0800 136 420*

Email: info@fandc.com

Existing Plan Holders:

Contact our Team

Call: 0345 600 3030**

Email: investor.enquiries@fandc.com

By post: F&C Plan Administration Centre
PO Box 11114
Chelmsford CM99 2DG

1 Please note that this account is only available for investors who already hold a CTF, and no new accounts can be opened. 2 Please note that applying online is not available if you are transferring an existing plan with another provider to F&C, or if you are applying for a new plan in more than one name. *8:30am – 5:30pm, weekdays. **9:00am – 5:00pm, weekdays. All calls may be recorded or monitored for training and quality purposes.

A part of BMO Financial Group

Glossary of Terms

AAF Report – Report prepared in accordance with Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

Administrator – State Street Bank and Trust Company.

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

AIC Code – the principles set out in the Association of Investment Companies Code of Corporate Governance.

AIM – the Alternative Investment Market.

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles ("**AIFs**") in the European Union, including Investment Trusts, must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**"). The Board of Directors of an Investment Trust, nevertheless, will remain fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Company's AIFM is the Manager.

BMO – Bank of Montreal, which is the ultimate parent company of F&C.

Benchmark – the FTSE All-Share Index (the "**Index**") is the benchmark against which the increase or decrease in the Company's net asset value is measured. The Index averages the performance of a defined selection of companies on the London Stock Exchange and gives an indication of how those markets have performed in any period. As the investments within the Index are not identical to those held by the Company, the Index does not take account of operating costs and the Company's strategy does not include replicating (tracking) this index, there is likely to be some level of divergence between the performance of the Company and the Index.

Closed-end company – a company, including an Investment Company, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to its net asset value and the shares of which can only be issued or bought back by the company in certain circumstances.

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

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

Depositary – The Depositary is JPMorgan Europe Limited. Under AIFMD rules, the Company must appoint a depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The appointed depositary has strict liability for the loss of the financial assets in respect of which it has safe-keeping duties. The Depositary's oversight duties will include but are not limited to oversight of share buy backs, dividend payments and adherence to investment limits.

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

Discount/Premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to NAV per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. Shares trading at a price above NAV per share are deemed to be at a premium. The Board of the Company tries to ensure that the shares trade, in normal market conditions, at approximately the value of the net assets by means of issuing shares when the shares trade at a premium to the NAV per share or buying shares from sellers when the shares trade at a discount to NAV per share and cancelling them.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital (see note 2 on the accounts). Company Law requires that Share Capital, the Share Premium Account and the Capital Redemption Reserve may not be distributed. The Company's articles of association allow distributions by way of dividend out of Capital Reserves. Dividend payments are currently made out of Revenue Reserve. The cost of any share buybacks is deducted from Capital Reserves.

Dividend Dates – Reference is made in announcements of dividends to three dates. The "**record**" date is the date after which buyers of the shares will not be recorded on the register of Shareholders as qualifying for the pending dividend payment. The "**payment**" date is the date that dividends are credited to Shareholders' bank accounts. The "**ex-dividend**" date is normally the business day prior to the record date (most ex-dividend dates are on a Thursday).

F&C – F&C Asset Management plc and its subsidiaries (including the Manager).

F&C Capital and Income Investment Trust PLC – the "**Company**".

F&C savings plans – the F&C Private Investor Plan, F&C Children's Investment Plan, F&C Investment Trust ISA, F&C Junior ISA and F&C Child Trust Fund operated by F&C Management Limited, a company authorised and regulated by the Financial Conduct Authority.

Fund Manager – Julian Cane, an employee of the Manager with overall management responsibility for the total portfolio.

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

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

Investment Company (section 833) – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made Capital losses in any year (see note 2 (b) on the accounts), provided the Company's assets remaining after payment of the dividend exceed 150% of the liabilities. An Investment Company is defined as investing its funds in shares, land or other assets with the aim of spreading investment risk.

Investment Trust and taxation status (section 1158) – UK Corporation Tax law allows an Investment Company (referred to in tax law as an Investment Trust) to be exempted from tax on its profits realised on investment transactions, provided it complies with certain rules. These are similar to section 833 Company law rules but further require that the Company must be listed on a regulated stock exchange and that it cannot retain more than 15% of income received (set out in note 1 on the accounts). The Directors Report contains confirmation of the Company's compliance with this law and its consequent exemption from taxation on capital gains.

Leverage – as defined under AIFMD rules, leverage is any method by which the exposure of an AIF (being an investment vehicle under the AIFMD) is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to gearing, but is expressed as a ratio between the net assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Manager (AIFM) – F&C Investment Business Limited ("**FCIB**"), a subsidiary of F&C Asset Management PLC which in turn is wholly owned by Bank of Montreal ("**BMO**"). Its responsibilities and remuneration are set out in the Business Model, Directors' Report and note 4 on the accounts.

Net asset value (NAV) – the assets less liabilities of the Company, as set out in the Balance Sheet, all valued in accordance with the Company's Accounting Policies (see note 2 on the accounts) and UK Accounting Standards. The net assets correspond to Total Shareholders' Funds, which comprise the share capital account, capital redemption reserve, share premium account, special reserve and capital and revenue reserves.

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

Ongoing Charges – all operating costs expected to be incurred in future and that are payable by the Company or suffered within underlying investee funds, expressed as a proportion of the average net assets of the Company over the reporting year (see Ten Year Record). The costs of buying and selling investments and derivatives are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares.

Open-ended Fund – a collective investment scheme which issues shares or units directly to investors, and redeems directly from investors, at a price that is linked to the net asset value of the fund.

SSAE – Statement on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants.

SORP – Statement of Recommended Practice. The accounts of the Company are drawn up in accordance with the Investment Trust SORP, issued by the AIC, as described in note 2 on the accounts.

Total expense ratio (TER) – an alternative measure of expenses to Ongoing Charges. It comprises all operating costs incurred in the reporting period by the Company, calculated as a percentage of the average net assets in that year (see Ten

Year Record). Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments and derivatives, interest costs, taxation and the costs of buying back or issuing ordinary shares.

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

UK Code of Corporate Governance (UK Code) – the standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders that all companies with a Premium Listing on the London Stock Exchange are required to report on in their annual report and accounts.

Warning to Shareholders – Beware of Share Fraud.

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register from **www.fca.org.uk** to see if the person or firm contacting you is authorised by the FCA
- Call the Financial Conduct Authority ("**FCA**") on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

F&C Capital and Income Investment Trust PLC

REPORT AND ACCOUNTS 2016

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