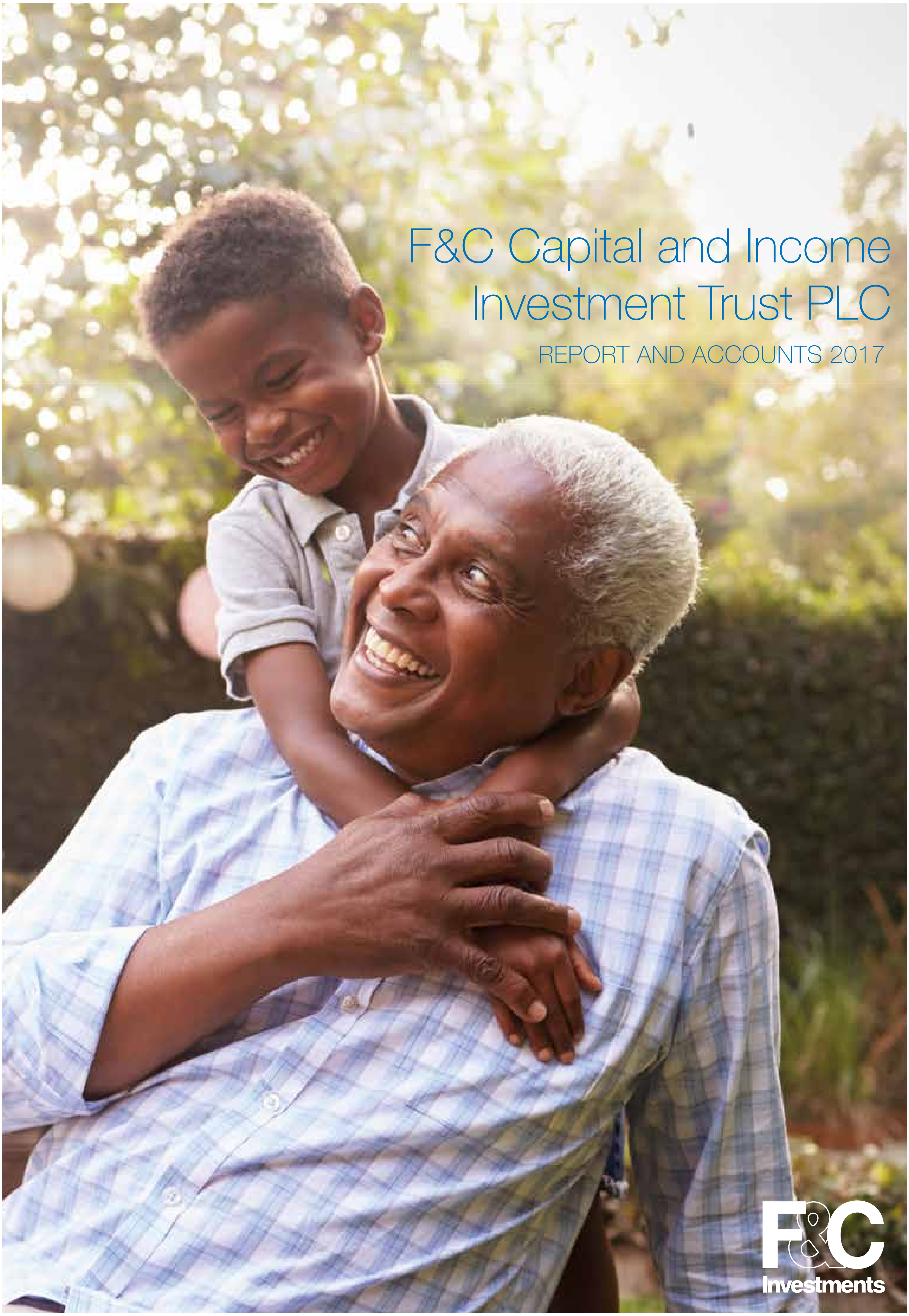
F&C Capital and Income Investment Trust PLC

REPORT AND ACCOUNTS 2017



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Financial Calendar	
Fourth interim dividend for 2017	27 December 2017
Annual General Meeting	13 February 2018
First interim dividend for 2018	March 2018
Interim Results for 2018 announced	May 2018
Second interim dividend for 2018	June 2018
Third interim dividend for 2018	September 2018
Final Results for 2018 announced	December 2018
Fourth interim dividend for 2018	December 2018

aic DIVIDEND HERO

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in F&C Capital and Income Investment Trust PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Registered in England and Wales with company registration number 02732011.

Legal Entity Identifier: 21380052ETTRKV2A6Y19

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, perhaps 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

15.8%

Share price total return* of 15.8%
The share price ended the year at 321p and over five years the total return has been 71.7%, the equivalent of 11.4% compound per year.

16.6%

Net Asset Value per share total return* of 16.6%
The total return outperformed the benchmark FTSE All-Share Index, which returned 11.9%. Over five years the return was 72.7% while the benchmark index returned 61.2%.

10.65 pence

Ordinary dividends of 10.65 pence – 24th consecutive annual increase
The dividends for the year are fully covered by earnings and represent an increase of 3.4% over the previous year.

1.2%

Shares ended the year at a premium of 1.2%
The shares continued to trade at a premium to NAV, an average of 1.6% over the year.

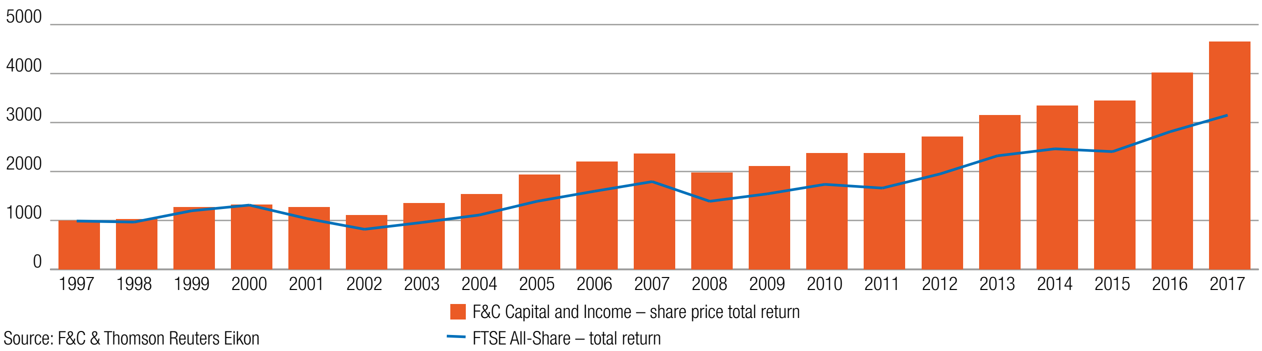
*Total return: see Glossary of Terms, page 79, for explanation

Forward-looking statements
This document may contain forward-looking statements with respect to the financial condition, results of operations and business of F&C Capital and Income Investment Trust PLC. 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 PLC has turned a £1,000 investment, with dividends reinvested (and net of expenses), into £4,650 compared with £3,163 from its benchmark, the FTSE All-Share Index.

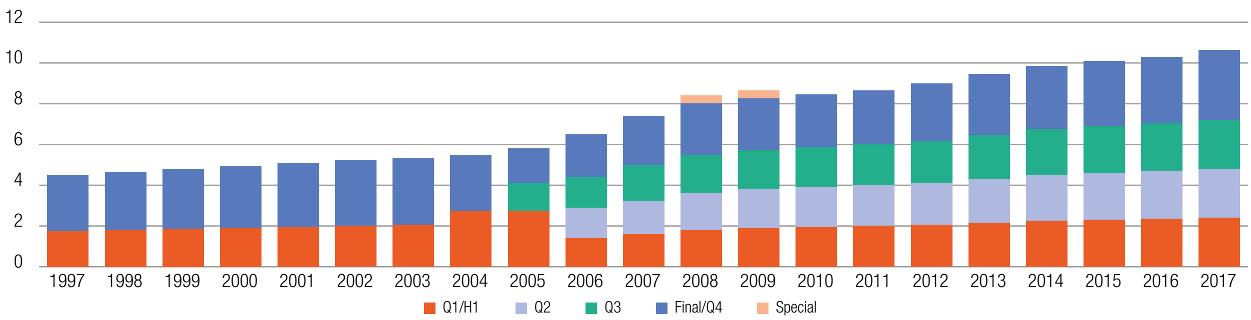
£1000 INVESTMENT, WITH DIVIDENDS REINVESTED AT 30 SEPTEMBER



Source: F&C & Thomson Reuters Eikon

The ordinary dividend has increased every year since launch and over the last twenty years is up 136.7% or 4.4% compound per year, compared with inflation of 47.6% or 2.0% compound per year.

DIVIDENDS PER SHARE – PENCE



Source: F&C

Chairman's Statement

Steven Bates, Chairman

We seem to have been stuck in a similar investing environment for ten years now. Investors have spent a lot of time and energy attempting to understand when and how circumstances might change, and have largely ended up concluding that they would not.

With the benefit of hindsight, the correct strategy for an investor to follow would simply have been to allow the monetary stimulus to do its work and then invest in the riskiest assets. This has proven a good outcome for equities at the expense of fixed income assets. There have, of course, been periods where this has seemed to be the wrong strategy, either because of geopolitical events or because the economy looked like it might tip over into recession or trigger runaway inflation. These moments added piquancy to the investment decision, but it was usually right to ignore the siren call of doing something different.

Today, things are in the process of shifting, but not by much. In the US, the Federal Reserve (Fed), led by Janet Yellen, believes that the current low level of inflation is a temporary phenomenon which will soon rise as unemployment continues to fall and wages increase in response to tighter labour market conditions. The Fed has declared that it will begin a process of quantitative tightening which is likely to lead to modest rises in interest rates and the removal of elements of monetary stimulus. This is all being executed quite cautiously, however.

In the UK, inflation has picked up, but largely as a result of the decline in sterling following the Brexit vote. It is likely that this is a step change adjustment to prices which will not follow through into excessive wage demands. The language of the Bank of England, though, has turned more hawkish because it believes that a very low unemployment rate, combined with a weariness about austerity holds a risk of increasing inflationary expectations. The UK is a global outlier on the inflation spectrum because of Brexit related risk.

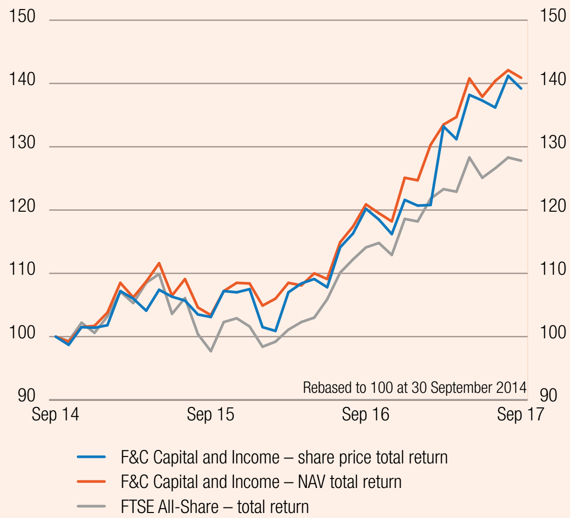
Against this background – Groundhog Day, as it were, the UK market has performed quite respectably, rising by 11.9%, although most of the action took place in the first half of your Company's fiscal year. Smaller companies generated slightly higher returns than their larger brethren, but in general, the rising tide lifted all ships.

Performance

This year, our Net Asset Value per share on a total return basis was 16.6%. The FTSE All-Share Index, our benchmark, rose by 11.9% as mentioned earlier. This is an excellent return, coming as it does on the heels of a coincidentally identical outcome in the prior year, and it is very pleasing that Julian Cane, your fund manager, has shown the index a clean pair of heels. As an investor, you would probably be unwise to rely on the results of any given year. Experience shows that this can lead to a bumpy ride, given market volatility and the fact that Julian's investment horizon extends well beyond one year. To this end, your Board spends time focusing on longer term numbers, and I am pleased to report that these too are excellent. Over three years the Net Asset Value per share total return was 40.9%, with the benchmark up 27.8%; over five years it was 72.7% vs. 61.2%; over 10 years the return was 82.7% vs 75.2%; and over 20 years, it was 265.6% vs 216.3%.

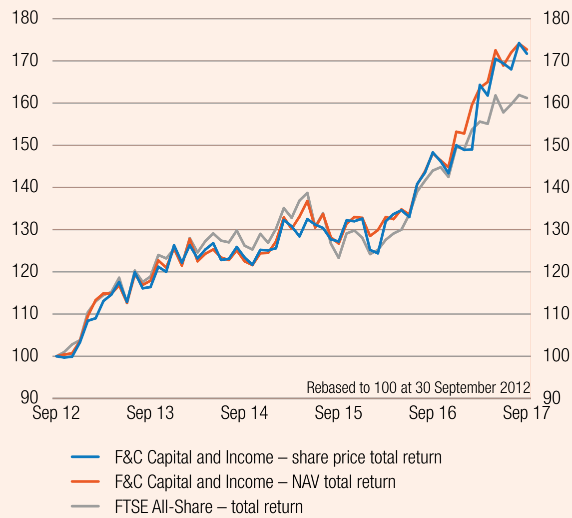
The share price has more or less kept pace with the Net Asset Value returns throughout these periods, except over 20 years where the effect of the shares initially trading at a material discount to net asset value has led to an even stronger return. It lagged slightly in the current year (+15.8%) as the premium slipped marginally. Julian has managed the portfolio throughout this era, and as I have pointed

Total returns over three years



Source: F&C & Thomson Reuters Eikon

Total returns over five years



Source: F&C & Thomson Reuters Eikon

out before, the length of his tenure and his level-headed stewardship of your Company's assets are to be highly prized.

Gearing and Attribution

Average gearing over the course of the year was around 7% and our analysis shows that the contribution to total return from gearing was approximately one percentage point. We are considering how best to replace our fixed term borrowing facility which expires in March.

The biggest positive contributors to performance were in the Financial Services sector, especially OneSavings Bank (+64%), Intermediate Capital (+64%) and Arrow Global (+49%). All have strong niche operations, high returns and good growth. They are preferred to the larger "me-too" financials, which may have higher yields, but less attractive long-term prospects.

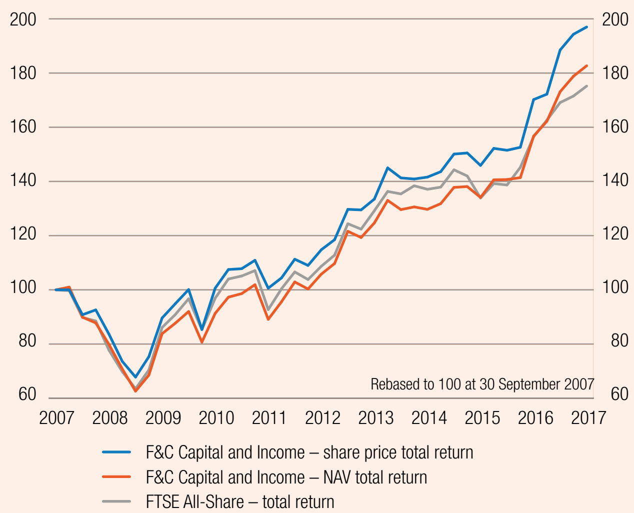
The biggest detractors from performance were our underweight positions in some of the largest sectors – Banks, Mining and Oil & Gas Producers. Stock selection within these sectors was in line with the sector performance, but the relative lack of exposure had costs in relative terms because of their strong performance (Banks +29%, Mining +40%, Oil & Gas Producers +19%).

Income Account

The revenue return per share was 11.71 pence, representing an increase of 4.0% over the previous year. There have been some high profile profits warnings amongst large UK companies and the portfolio has been peripherally affected by some of these. Nevertheless, profits have remained quite robust and the dividend flow into the portfolio has held up, despite the fact that pay-out ratios are high. In determining the annual dividend payment, we take into account not just the health of the income account but also the rising level of inflation currently seen in the UK economy. The policy of the Board has always been to offer Shareholders a stable and growing dividend over time, and we recognise that from time to time it will be appropriate to dip into our revenue reserve to meet this objective. You will see from the accounts that our revenue reserve stands at £12.3 million or 12.5 pence per share, which is clearly robust enough to support dividend payments for many years ahead, should that prove necessary.

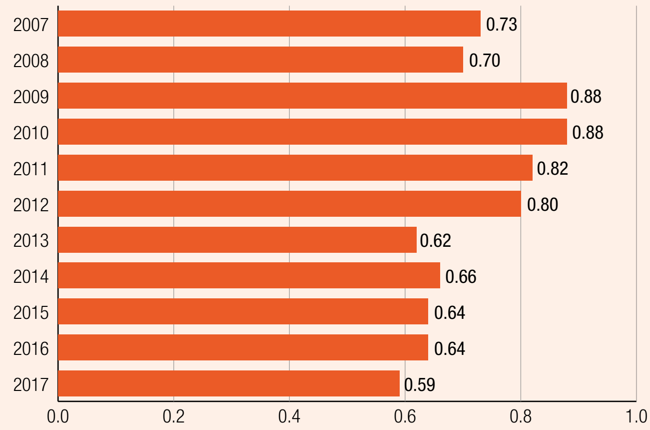
This year so far, we have paid three interim dividends of 2.4 pence per share, amounting to a total of 7.2 pence per share. We will be paying a fourth interim dividend of 3.45 pence, bringing the total for the year to 10.65 pence fully covered by earnings. This equates to an increase of 3.4% over the last year and compares with the latest UK inflation (CPI) rate of 3.0%. This is the 24th consecutive year of increased ordinary dividends, a record which we very much hope to be able to continue. Over the longer term our dividend growth has been more than twice the rate of inflation.

Total returns over ten years



Source: F&C & Thomson Reuters Eikon

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



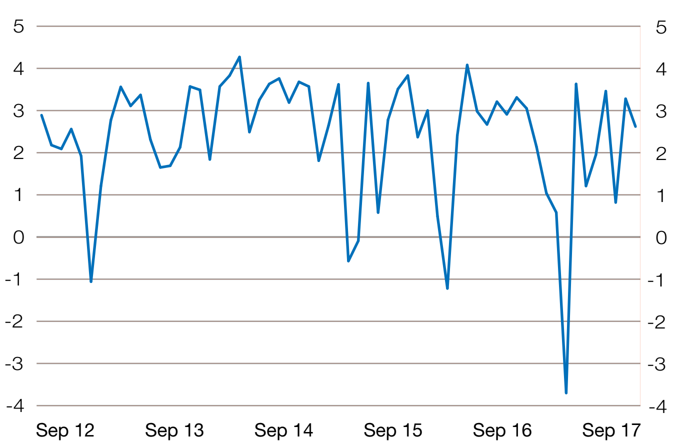
Source: F&C

To meet the needs of Shareholders we pay quarterly dividends in March, June, September and December, but this does mean you are unable to formerly approve a final dividend each year. As an alternative the Board will seek approval of this aspect of the Company's dividend policy by way of a resolution at the AGM and in future years.

Costs

On the cost side of the income account, our ongoing charges ratio (OCR) sits at 0.59%, compared with 0.64% last year. The overall cost of holding an asset eats into returns, of course, and although the returns in this statement are net of all those costs, it is a ratio which needs to be transparent to Shareholders. We try to ensure that our OCR is competitive with other savings vehicles, but we do acknowledge that passive structures may cost less than we do. It is therefore gratifying to note that your Company has provided you with a better return than an equivalent passive vehicle would have done both this year and over longer time periods, despite that extra cost.

Share price premium/(discount) to NAV over five years (%)



Source: F&C

Discount/Premium

Over the fiscal year, the shares have traded at an average premium to Net Asset Value of 1.6%. This pattern has persisted for several years now as investors have bid up the shares of investment trusts offering relatively high and growing income in an environment where interest rates are almost zero. The premium has allowed us to issue 1,750,000 new shares this year, for an additional capital contribution of £5.3 million. These shares are always issued at a premium large enough to avoid the risk of diluting the Net Asset Value for existing Shareholders and the new capital contributes to a larger asset base over which to spread our fixed costs. To this end, your Board believes that the continuing issuance of shares in this manner is in your interests.

There is no guarantee that the existence of a premium will continue indefinitely, but if it comes to an end, we will be as assiduous in buying shares back as we have been in issuing them.

Governance Matters

This year, the investment management industry has been wrestling with a new piece of regulation called MiFID II which comes into effect in January 2018. This expands on the earlier Markets in Financial Instruments Directive (MiFID) and, while its purpose is to improve the functioning of financial markets and increase customer protection, it is also causing large parts of the industry to tear its hair out. Many of our Shareholders who hold their shares through the F&C Savings Plans will have been asked by F&C to provide information, such as their National Insurance Number or date of birth if this hasn't already been supplied. Tiresome though this is, we would urge those of you who haven't responded to do so as the rules as they currently stand mean that restrictions will be placed on your savings plan account; monthly investments, dividend reinvestments and the ability to make one-off purchases will, reluctantly, have to be put on hold in January until the information has been provided.

Another aspect of the directive affecting investment managers is the requirement to produce a Key Information Document, without which an investment product cannot be sold to retail investors. The way the information in the document has to be presented is highly complicated and prescriptive resulting in what might politely be described as a somewhat perverse outcome, given its intended use of informing and protecting investors. This is an industry wide matter not limited to your Company and it is to be hoped in time that any issues arising from it will be quickly resolved.

Continuation vote and Shareholder satisfaction

Shareholders have the opportunity to vote every five years on whether the Company should continue as an investment trust. This will next arise at the forthcoming AGM. In the past, we have canvassed opinion ahead of continuation votes and this year we have again conducted a survey amongst our Shareholders to solicit a broad range of your views and opinions.

We achieved an overall response rate of 10% and good feedback. The most important elements of the survey concerned your views about the performance of the trust and the various characteristics of our mandate which most appealed. On the first point, 85% of participants felt that the performance of the trust was satisfactory or very satisfactory, which compares favourably to the 60% rating we received in 2012. As to the appeal of the characteristics, 15% of participants considered it to be dividend growth while another 15% saw it as being growth in capital. That is perhaps not surprising given our dual mandate, but a notable 22% regarded a feeling of relative safety as most important and, in a similar vein, another 18% felt that the reputation and security offered by F&C was the most attractive feature. Strong performance and the yield largely took up the balance between them. There was also detailed feedback on the content and usefulness of the website and some other areas, which the Board will also take into account.

This is helpful and supportive feedback and I would like to thank all of you who took the time to participate. The survey was taken from a sample of the Shareholder base, so if you were not included and wish to express an opinion good or bad, please let us know directly. We will take all views into account as we move forward.

Annual General Meeting

The AGM will take place on 13 February 2018. Julian will be giving a presentation on the investment scene and the Directors will be available to answer any questions you may have. As I have mentioned, one important matter is the continuation vote. In view of the support we have received from the Shareholder survey and strong performance we have no hesitation in recommending that you vote in favour of continuation. The Directors intend to vote their own Shareholdings the same way.

Outlook

The expansion in the global economy has been underway now for several years, albeit at rather a muted pace. The monetary authorities around the world are gradually attempting to bring some semblance of normality back to interest rates, but caution remains the watchword, as debt levels are elevated and economies are still fragile. This is arguably a slightly less benign environment than that which has reigned in the last couple of years, but it is also not a harbinger of doom and gloom. Most stock market analysts would not be surprised if markets trod water for a while. Valuations (in general) are somewhat elevated and investors seem complacent about risks in both economic and political spheres.

In the UK, things are quite difficult, largely because of the uncertainty surrounding Brexit and the fact that economic activity seems to be suffering as a result. Again, the UK is not an island (metaphorically, anyway) and many of the businesses here will prosper regardless of the Brexit outturn. It is not easy, but with Julian you have a trusty skipper at the wheel.

Steven Bates
Chairman
6 December 2017

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 is largely invested in large and mid-capitalisation companies. We also have holdings in smaller companies and, from time to time, may 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 Directors have considered their duties under section 172 of the Companies Act 2006 in promoting the success of the Company for the benefit of stakeholders who are, in the main, retail Shareholders. This includes duties towards responsible ownership, which are explained on page 9. An important responsibility is the formal annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager ("**AIFM**"). The responsibilities of the wholly non-executive Board, which comprises three female and two male Directors, are set out on page 31.

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 22.

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. 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 focused 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 27.

Dividend

The Company pays dividends in March, June, September and December. In determining dividend payments, the Board takes account of timely income forecasts, brought forward distributable reserves, prevailing inflation rates, the Company's dividend payment record and Corporation Tax rules governing investment trust status. Liquidity is not considered an issue as the Company has sufficient liquid resources to fund any envisaged level of dividend payment. Risks to the dividend policy include: worldwide financial and political instability leading to significant deterioration in the level of income received by the Company; and unforeseen and significant changes to the Company's regulatory environment.

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.

Investment Policy Statement

The Company invests mainly in FTSE All-Share companies in a diversified portfolio of around 80 holdings. 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 2017 was 94.8% and 2.6% respectively. 2.6% 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 2017 the Company had borrowings of £20 million representing 4.8% net 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 24 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.

Share issues and buybacks

Your Company issues new shares in order to satisfy Shareholder demand and to moderate the premium at which the shares trade in relation to the Net Asset Value ("**NAV**") per share. In the event that the shares revert to trading at a price lower than the NAV per share, the Board has the flexibility to buy back shares in accordance with the authority given by Shareholders. Shares bought back can 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.

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 37 and 38. Note 22 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 (including the F&C savings plan administrator) 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.

Status and actions taken on Principal Risks in the year
1,750,000 shares were issued in the year to satisfy Shareholder demand and help moderate the premium. The shares traded at an average premium to NAV of 1.6% in a range of +5.3% to -3.7%. This and the results of the five yearly Shareholder satisfaction survey indicates continued strong support for the Company and its investment proposition.
Investment performance has remained strong and the total dividend for the year increased by 3.4% and is fully covered by earnings. Over £12m was held in the revenue account. The £15m revolving credit facility was cancelled leaving £20m fixed term facility in place at the year end.
The Board has reviewed F&C's controls and risk management structure as part of its annual assessment. F&C continues to benefit from the long-term financial strength and policies of its parent company, Bank of Montreal ("**BMO**").
The Board continuously reviews its risk management framework with the assistance of the Manager which reports on all third party administrators and service issues including external threats. Supervision has been maintained by the Manager and includes assurances regarding IT security and increasing cyber-threats. The Board received a presentation during the year from the Custodian on its own cyber-security controls. The Depositary maintained oversight of custody of investments and cash and its regular reports to the Board indicated no matters of concern.

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 per share Total Return*	16.6	40.9	72.7	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	11.9	27.8	61.2	
Share Price Total Return*	15.8	39.2	71.7	This shows the return to Shareholders in terms of capital growth and the dividends they have received compared to the returns of the main comparator indices.

*See page 79, for explanation
Source: F&C and Thomson Reuters Eikon

Compound annual dividend growth

	3 Years %	5 Years %	
Company's dividend	2.6	3.4	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	8.1	6.4	
Inflation (CPI)	1.2	1.5	

Source: F&C and Thomson Reuters Eikon

Share price premium to NAV per share

	As at 30 Sep 2017 %	As at 30 Sep 2016 %	As at 30 Sep 2015 %	
Premium	1.2	2.1	2.2	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)

	2017 %	2016 %	2015 %	
Ongoing charges*	0.59	0.64	0.64	This shows whether the Company is being run efficiently. It measures the running costs as a percentage of the average net assets.

*See page 78, for explanation
Source: F&C

Manager's Review

Julian Cane, Fund Manager

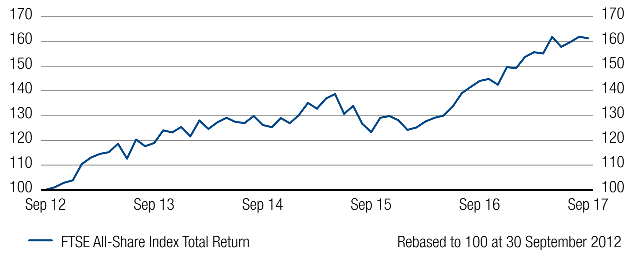
Review of UK stock market

Looking at a chart of the performance of the UK stock market in recent years it wouldn't be a surprising conclusion to reach that both companies and the economy more generally were in fine fettle. One would probably assume companies were reporting growth in revenues, earnings and dividends while economic growth and consumer expenditure were motoring ahead. The reality, though, has been somewhat different, with reported earnings for the FTSE All-Share Index being lower this year than five years ago and economic growth and consumer expenditure both increasing at rates below historic averages. Even despite unanticipated shocks such as the vote to leave the EU in June 2016, the market has made progress and this event is now not even a blip in the long-term chart. How then can we explain the rise in the market overall?

As you'd expect there's more than one reason. The first observation is that share prices are determined not just by what has happened in the past, but by expectations for the future. So, although past results in aggregate may have been pretty disappointing, if the future is expected to be better, then a rise in the share price may be justified. This is clearly a part of the explanation, as the multiple that investors have been willing to pay for the UK stock market has increased over five years from under 12 times earnings to more than 24 times over the same period as reported earnings have decreased. A strong rebound in earnings over the last year has therefore helped to explain the rise in multiple in 2016 and its fall in 2017.

FTSE All-Share Index – Total Return

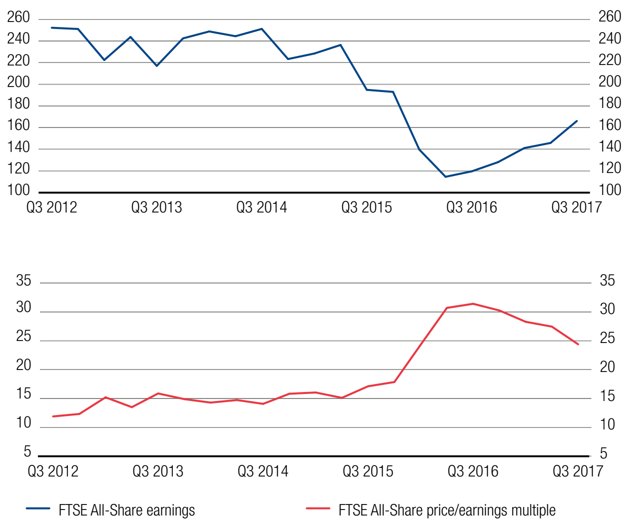
September 2012 to September 2017



The earnings figures as used in these statistics are a reflection not just of underlying or core earnings from companies, but are also impacted by exceptional events, such as one-off losses, a sharp fall in the oil price or banking fines. The extent to which these are an element of business as usual is debateable, but almost by definition these negatives are not contained in forecasts, but are recorded in the historic figures.

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

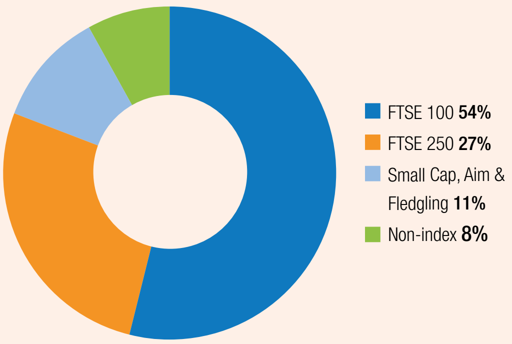
Q3 2012 to Q3 2017



Source: Thomson Reuters Eikon

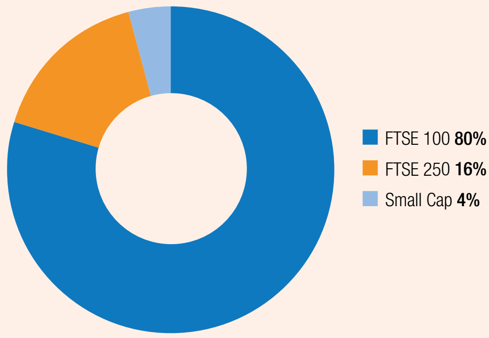
The third observation is that as the stock market indices are weighted by the market capitalisation of their constituents, the very largest companies have a vastly disproportionate impact on all the statistics of the main indices. For example, within the All-Share Index the combined weight of Royal Dutch Shell (7.8%), HSBC (6.2%) and BP (3.9%) is around 17.9%, more than all the 250 medium-sized companies in the FTSE 250 Index (16.5%) and over four times the weight of the FTSE Small Cap Index (3.8%). The impact of lower oil prices on the profits of Royal Dutch Shell and BP, and bank sector problems for HSBC have held earnings for these companies

Portfolio weightings as at 30 September 2017



Source: F&C

Index weightings as at 30 September 2017



Source: Thomson Reuters Eikon

back; this has had a disproportionate impact on the statistics for the Index. Whilst having exposure to some of these very largest companies, our portfolio is much more evenly spread than the Index, giving us much greater exposure to medium and smaller companies where we believe valuations and growth characteristics are more attractive.

As an additional influence, currency has had a big impact. With many companies, particularly the larger ones, having a substantial amount of their assets, sales and/or profits outside of the UK, swings in the value of our currency directly impact on their operations and valuation. As sterling weakens, so the worth of the overseas assets and profit increases in sterling terms. This powerful effect has been behind a large part of the rise in profits over the last 12 months as the impact of the devaluation post the Brexit vote filters through.

Finally, equities have benefited from being an attractive investment compared to many other assets where returns are so low. Ever since the Global Financial Crisis, Central Banks have kept short-term interest rates at extraordinarily low levels and the yield on longer term bonds has been driven down by Quantitative Easing programmes.

Review of the UK Economy

When managing the portfolio and choosing individual shares, we don't try to forecast what will happen to the economy as the ability to do this seems beyond even those that dedicate substantial resource to it. Furthermore, even if the economic crystal ball had perfect clarity, it's not clear how this would help in our stock selection or portfolio construction. However, of course, companies don't operate in a vacuum and it is sensible to keep a weather eye open, particularly if there's a risk of a major disruption.

For most companies, stability and a sense of confidence in future direction is probably more important than any specific macro or micro economic details. The evolving talks on the UK's departure from the European Union will clearly be important for a large number of companies, so it will become increasingly important to get a sense of how any future trading arrangements will develop post Brexit.

Within the UK, it is clearly positive that UK unemployment at 4.3% is at its lowest level since 1975, and that the number of people in employment is at record levels. The slow rate of wage growth is less desirable and with inflation, as measured by the CPI, hitting 3.0%, real wages have declined over the last year. For most companies, these numbers are not really as relevant as whether their goods and services are selling well and their cost bases and financial structures are appropriate.

Attribution of Portfolio Returns

The share price returns of some of our holdings help to illustrate the benefits of investing in equities. In the year under review, eight companies generated total share price returns of over 60%, an even stronger result than the previous year in which six companies had returns of more than 50%. Within these it is notable the strongest individual contributor to relative performance was OneSavings Bank. Over the last three years, this has twice been the strongest contributor to performance and once the largest detractor. Whilst we might have wished for smoother progress in the share price, the underlying results have been very much as anticipated and the volatility entirely a function of stock market sentiment. We make no claims to be able to assess sentiment, but do aim to identify companies with attractive returns, earnings and dividend growth. This has certainly been evidenced by this share.

The biggest detractor to our performance was Berendsen. We sold the shares after a profit warning, believing we had made a mistake in our assessment of the company's fundamentals. What we had overlooked, however, was the strategic value of the business to a competitor and we missed the subsequent rise in share price when it was bid for. When considering performance relative to the Index we also need to consider what we didn't own and in this respect, no holding in Glencore (+64%), a position in HSBC (+35%) less than the Index weight (3.0% vs 5.9%) and an underweight position (3.8% vs. 7.6%) in Royal Dutch Shell (+25%) were adverse for relative performance.

There is more detail on the portfolio's investments in the descriptions of the twenty largest holdings on pages 18 and 19 and the summary of the investment portfolio by sector on pages 20 and 21.

Gearing

At the start of the year, your Company had two loan facilities, a five year, fixed rate facility of £20m and a floating rate multi-currency facility of up to £15m. The fixed rate facility was fully drawn down throughout the year, as it has been since it was first set up, while the floating rate facility was used more opportunistically. £5m was drawn down from this facility temporarily to take advantage of specific investment opportunities and it was repaid in November 2016. The facility was subsequently cancelled as it was not expected to be utilised again before its expiry date in March 2018. We are currently in the process of assessing our needs for future gearing and the best way to achieve this.

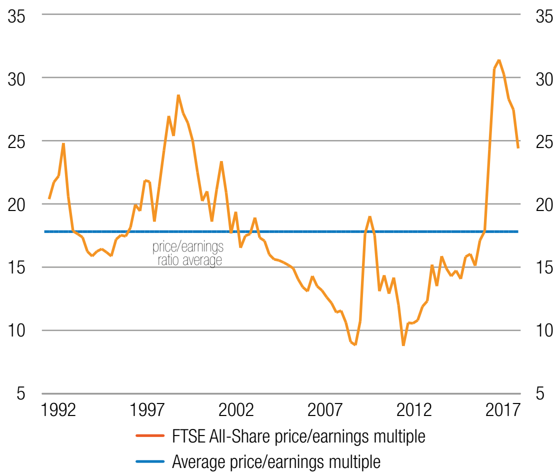
As noted in the Chairman's Statement returns from the portfolio were strong in absolute terms so the use of cheap debt to make additional investments was positive and added extra value to Shareholders.

Valuation of the Stock Market

After such a long period of strong share price returns, it's especially important to consider the valuation of the stock market. As noted above though, any examination of the metrics of the Index tends to be distorted by the very largest companies as the collective importance of the mid-cap and small-cap indices is outweighed by the mega-caps.

The picture for valuation is somewhat mixed at the headline level. The price/earnings ratio shows valuations on this measure to be less expensive than the most recent past, but still a long way above average.

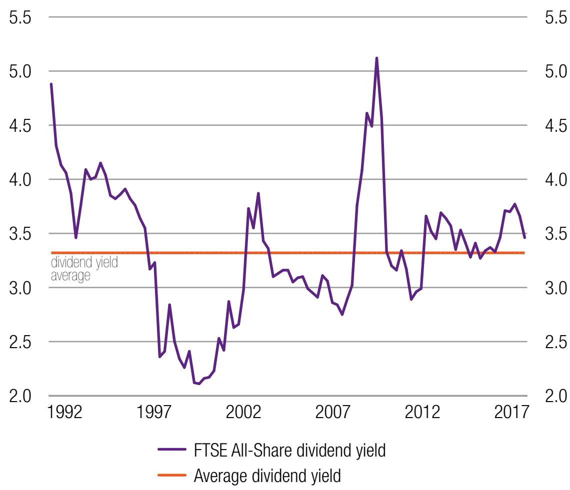
FTSE All-Share Price/Earnings Multiple



Source: Thomson Reuters Eikon

By contrast, the yield on the Index is somewhat above its long-term average and this would tend to indicate that stocks were reasonably good value.

FTSE All-Share Dividend Yield (%)

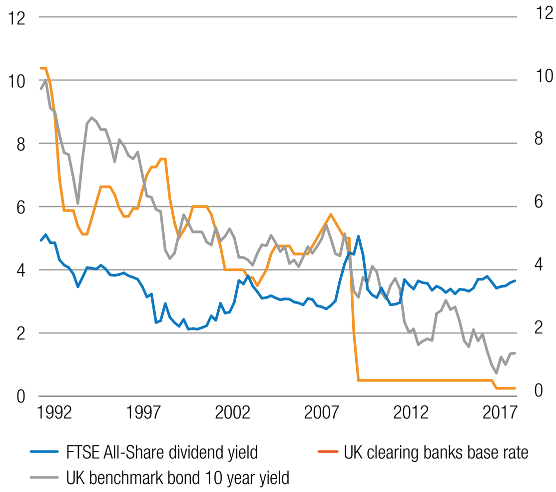


Source: Thomson Reuters Eikon

Both of these valuation measures are by necessity fairly crude and they are absolute measures. Although we can assess value relative to their own past history, there is no comparison against other possible investments. When the yield on equities is compared to the interest rate on cash or the yield on government bonds, it is clear that equities continue to offer an attractive return.

Over the long-term, it is also worth remembering a bond can never give you a higher return than that forecast at purchase – the investor can only receive back the coupons and face value of the bond, nothing else. This makes any bond investment vulnerable to inflation while equities as a real asset should be able to offer at least a degree of protection, adding a further attraction to their investment case.

Yields from competing investment assets (%)



Source: Thomson Reuters Eikon

Julian Cane
6 December 2017

'Over the longer term our dividend growth has been more than twice the rate of inflation'

Twenty Largest Holdings

30 September 2017	30 September 2016		% of total investments	Value £'000s
1	2	**Royal Dutch Shell** *(Oil and gas)* A leading international oil exploration, production and marketing group. Shell is restructuring its cost base in response to the lower oil price, which will improve returns for shareholders. The company is committed to maintaining its dividend.	3.8	12,617
2	1	**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 during 2017.	3.6	11,908
3	4	**Unilever** *(Consumer goods)* A leading manufacturer of branded fast moving consumer goods with more than half of its sales in faster growing emerging markets.	3.5	11,791
4	3	**Diageo** *(Consumer goods)* The largest producer of premium branded spirits in the world and also a major producer of beer. The strength of the brands and substantial exposure to faster growing markets should lead to attractive returns for shareholders.	3.2	10,671
5	6	**HSBC** *(Financials)* HSBC is one of the world's leading banks by size operating in some areas with very attractive returns and growth prospects, but its recent group returns have been poor. The bank has been through a substantial restructuring which should help to improve future results.	3.1	10,319
6	13	**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.	2.6	8,683
7	12	**Prudential** *(Financials)* International life assurer with a balanced portfolio of businesses, which trade independently of one another. It is growing rapidly in the Far East, and also generates returns from its operations in the UK and US.	2.5	8,481
8	5	**British American Tobacco** *(Consumer goods)* A leading international manufacturer and distributor of cigarettes. In a mature industry, it is able to pay an attractive dividend but is also at the forefront of developing alternatives to traditional tobacco products.	2.5	8,410
9	10	**Beazley** *(Financials)* A specialist insurer with a diverse underwriting portfolio that has generated strong returns, helped by active management of the capital base. The recent spate of natural catastrophes will impact this year's results, but should result in better pricing for future years.	2.5	8,270
10	21	**Secure Income REIT** *(Financials)* The highly successful Prestbury property management team has brought together a group of assets (hospitals, leisure parks and hotels) let to strong tenants with leases that should provide a steadily rising stream of income.	2.4	7,854

30 September 2017	30 September 2016		% of total investments	Value £'000s
11	7	**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.	2.3	7,778
12	9	**BP** *(Oil and gas)* A leading international oil exploration, production and marketing group. BP has had to improve its focus on cost cutting to counter the fall in the oil price. Maintenance of the dividend is seen as a priority by the management.	2.3	7,637
13	22	**Melrose Industries** *(Industrials)* Melrose aims to buy good, but underperforming manufacturing businesses, to improve their operations, then to crystallise the results by selling the company. The signs from its latest acquisition are positive.	2.2	7,448
14	20	**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.	2.2	7,416
15	15	**Legal and General** *(Financials)* A focus on generating a strong and growing cash flow allows this UK life assurer to pay a very attractive dividend to shareholders.	2.2	7,399
16	16	**OneSavings Bank** *(Financials)* This challenger bank is experiencing rapid growth in new mortgage lending at carefully controlled risk levels. Its low cost base helps to drive very attractive returns.	2.2	7,256
17	18	**Lloyds Banking** *(Financials)* As the final deadline for PPI claims moves closer, the focus for Lloyds should move to the core operations which continue to generate reasonable returns. The capital position is strong and should allow attractive dividends to be paid.	2.1	7,042
18	24	**Arrow Global** *(Financials)* Arrow is a debt purchase and management business that has considerable strength in its data analytics and an increasingly diversified business. The return and growth profile are both attractive.	2.1	6,982
19	17	**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).	2.1	6,846
20	11	**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 some time, but this is partly offset by its geographic diversification.	1.8	5,995

The value of the twenty largest equity holdings represents 51.2% (30 September 2016: 51.7%) of the Company's total investments.

Investment Portfolio by Sector

	% of total investments	% of FTSE All-Share Index
Oil & gas The share prices of the oil majors performed well over the year for two reasons. First, from the start to the finish of our financial year, the price of a barrel of Brent crude rose 5% from US$54 to US$56.8. This was far from a steady progression though as the price was volatile, trading as low as US$46 and almost as high as US$59 during the year. Secondly, and more significantly, oil companies have been busy cutting their costs so they can generate better returns while the oil price is low. Their costs had become bloated while the oil price was above US$90 / barrel for a number of years and the current lower price has forced a dramatic reshaping of the cost base. The total return from the share price of Royal Dutch Shell was 25%, while BP was rather less at 14%, but both were ahead of the FTSE All-Share Index. Although these are large investments for us, their weightings in the portfolio are less than their weightings within the Index and so their strong performance, whilst good for absolute returns, was negative for our performance relative to the Index. Our reluctance to invest more in the sector stems from the observation that it seems pretty well impossible to forecast the oil price with any accuracy and so it is difficult to be overly optimistic on companies that have so little control over their own revenues. The dangers and difficulties of environmental and operational issues do not help either.	6.2	12.2
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 be 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.	3.7	7.2
Industrials There were a number of strong performers in this sector over the last year, amongst them BAe (+25%), BBA Aviation (+23%), Ibstock (+16%), Intertek (+45%), Melrose (+24%), Midwich (+65%), Morgan Sindall (+42%), Polypipe (+39%), Sanne (+77%) and DS Smith (+30%). There's no particular common theme to link them, except to note that strong financial performance often drives an improvement in the rating, thus creating a double benefit. While many companies in the contracting sector have suffered severe problems, we have successfully avoided most of them, but did suffer disappointing performance from Babcock (-18%) even though we believe the share price fall is too steep. The most negative single stock contribution in the whole portfolio came from Berendsen (-35%) where we suffered the share price fall after a profit warning and then made the mistake of selling before the take-over bid.	18.4	11.3
Consumer goods Our best performing share in this sector was Bovis (+40%), the housebuilder. We bought it after its high profile operational problems in the belief the business could be returned to health; so it is proving to be. We also saw strong performance from Burberry (+31%), Diageo (+14%) and Unilever (+22%) on the strength of their brands and exposure to faster growing emerging markets. Unlike many income-oriented funds and compared to the Index, we have a relatively small investment in tobacco shares, having reduced this in recent years. As both British American Tobacco (-2%) and Imperial Brands (-16%) performed poorly this gave us a relative benefit.	14.5	15.7
Healthcare Returns from the two largest pharmaceutical companies in the UK were lacklustre, AstraZeneca (+3.9%) and GlaxoSmithKline (-5%), which was perhaps understandable after stronger performance in the previous year (+25% and +39% respectively). Our real success in the sector came from avoiding the sharp fall in the share prices of Shire (-24%) and Hikma Pharmaceuticals (-39%) in neither of which we have invested.	6.0	8.5

	% of total investments	% of FTSE All-Share Index
Consumer services Although we had a number of successes in this sector over the year, there were also some disappointments. The strongest performer was Conviviality (+98%), the leading specialist wholesaler and distributor to the on and off licence trade and we also benefited from the bid from Tesco (not held) for Booker (+20%). Against a difficult backdrop for consumers and the continued encroachment of the internet, many retailers struggled, including Dunelm (-14%), but we avoided others which fared far worse and even made a small return from Halfords (+6%) before selling it. The share price performance of WPP (-21%) was weak as current trading has been uninspiring and there are longer-term concerns about the evolution of the advertising market. Intercontinental Hotels (+26%) again performed well and in keeping with its strategy of retaining relatively little capital, it paid a special dividend.	13.1	11.0
Telecommunications This was a disappointing sector in which to invest last year, a long-term lack of service differentiation and price deflation being somewhat endemic. After a stronger year previously, Manx Telecom (-1%) and Vodafone (no change) both marked time while BT (-23%) was unfortunately hit by a series of problems, most notably their Italian accounting scandal.	2.1	3.6
Utilities This sector again showed its sensitivity to bond yields. As yields started to increase this year, so the share prices of many of the utilities fell, thus increasing their dividend yield. National Grid (-12%) and Severn Trent (-10%) both showed this effect as did Centrica, which fell 8% before we sold the investment on renewed concerns of ongoing political interference.	2.1	3.0
Financials OneSavings Bank (+64%), Intermediate Capital (+64%) and Arrow Global (+49%) are the three companies that had the greatest impact on portfolio returns relative to the Index. Individually, they are attractive businesses generating high returns on equity in reasonably niche areas with good growth prospects, and, despite their strong share price performance they still do not appear overly expensive and are preferred to more mainstream financial investments. Our decision to reduce HSBC (+35%) and Standard Chartered (+18% and we no longer had a holding) last year was clearly too early, but as the proceeds were invested in OneSavings Bank and Legal & General (+26%) it was far from the worst decision. Our investments in the Insurance and Life Assurance sectors also generally performed well with Beazley (+30%), Legal & General (+26%) and Prudential (+34%) leading the way. The performance from Beazley was even more surprising given the spate of hurricanes in September which will hit its earnings this year. One of our more recent additions, Secure Income REIT, having already risen 20% from its IPO, gained a further 29% last year. This was a well-deserved re-rating for an attractive property portfolio that will provide us with a yield growing ahead of inflation.	30.9	26.4
Technology Our investments in Software continued to perform well, led by FDM (+61%), but the profit warning from Laird (-40%) in the Hardware sub-sector neutralised the impact. SAP, the multinational software company, having generated a total return of 67% the previous year was up a further 18% in the 12 months under review.	3.0	1.1

List of Investments

Quoted investments	Holding	30 September 2017 Value £'000s
UNITED KINGDOM – EQUITIES		
Acal	516,116	1,574
Anglo Pacific	675,868	907
Arrow Global	1,640,000	6,982
Ascential	900,000	3,084
Astrazeneca	157,000	7,778
Babcock International	242,307	2,005
BAE Systems	950,000	5,995
Barclays	2,400,000	4,639
BBA Aviation	1,500,000	4,476
Beazley	1,725,000	8,270
Bovis Homes	325,000	3,555
BP	1,600,000	7,637
British American Tobacco	180,000	8,410
BT	725,000	2,058
Burberry	200,000	3,514
Cineworld	270,981	1,832
Compass	361,990	5,730
Connect	394,808	397
Convivality*	518,050	2,128
CRH	190,000	5,386
Daily Mail & General Trust	550,000	3,567
De la Rue	191,579	1,241
Diageo	435,000	10,671
DS Smith	850,000	4,190
Dunelm	480,000	3,391
FDM	226,881	2,179
GlaxoSmithKline	800,000	11,908
Headlam	316,246	1,853
Hollywood Bowl	643,164	1,177
Howden Joinery	980,000	4,222
HSBC	1,400,000	10,319
IbStock	2,154,817	4,904
IG	475,000	3,045
Informa	1,018,750	6,846
Intercontinental Hotels	91,755	3,622
Intermediate Capital	622,222	5,818
Intertek	100,000	4,982
Jupiter Fund Management	700,000	3,860
Kier	91,912	1,069
Laird	938,491	1,337
Legal and General	2,850,000	7,399
Lloyds Banking Group	10,400,000	7,042
LondonMetric Property	3,000,000	4,983
Manx Telecom*	487,061	935
McKay Securities	629,661	1,373
Melrose Industries	3,500,000	7,448
Midwich*	432,692	1,709
National Express	472,338	1,672
National Grid	465,000	4,295
OneSavings Bank	1,800,000	7,256
Phoenix	981,666	7,416
Photo Me International	889,386	1,543
Polypipe	352,679	1,486
Premier Asset Management*	965,000	1,708
PRS REIT	1,546,360	1,585
Prudential	475,000	8,481
Rio Tinto	250,000	8,683
RM*	525,891	815
Royal Dutch Shell	550,000	12,617
Sage	332,716	2,322
Sanne	178,370	1,419
Secure Income REIT	2,100,000	7,854
Severn Trent	115,000	2,499
Sirius Real Estate*	4,702,273	2,892
Strix	541,607	731
Tarsus	830,309	2,371
Treatt	574,823	2,637
Ultra Electronics	139,213	2,495
Unilver	273,000	11,791
UP Global Sourcing	582,248	533
Vodafone	1,850,000	3,861
Wilmington	637,844	1,467
WPP	430,000	5,951
XP Power	109,290	3,034
Xpediator	4,871,800	1,352
UNITED KINGDOM TOTAL EQUITY		318,213
EUROPE (EX UK) – EQUITIES		
Glanbia (Republic of Ireland)	390,000	5,493
SAP (Germany)	36,964	3,013
EUROPE (EX UK) TOTAL EQUITY		**8,506**
TOTAL INVESTMENTS		**326,719**

The number of investments in the portfolio is 77 (2016:76).
*Quoted on the Alternative Investment Market in the UK.

Steven Bates
Chairman
6 December 2017

'Our ongoing charges ratio is 0.59%, down from 0.64% last year.'

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, Celtic PLC and McColls Retail Group PLC. She is also a director of a number of limited companies in the retail sector. 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, **Senior Independent Director.**
Appointed to the Board on 16 July 2012. She is a non-executive director of Aberdeen New Thai Investment Trust PLC, Alliance Trust PLC and Schroder UK Mid Cap Fund 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 and The Scottish Investment Trust PLC. She 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 chairman of City Merchants High Yield Ltd and a non-executive director of Fidelity Asian Values PLC and Standard Life UK Smaller Companies Trust PLC. He has 29 years of investment experience, including his role 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 2017. The Corporate Governance Statement; the Report of the Audit and Management Engagement Committee; and the Directors' 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 7 and the principal risks and uncertainties can be found on pages 10 and 11. Note 22 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 issue of shares which is on page 27.

Results and dividends

The results for the year are set out in the attached accounts. Net assets of the Company as at 30 September 2017 were £312,463,000 (2016: £272,027,000). The Company's dividend payments are set out below.

Dividends paid in the year ended 30 September 2017	
	£'000s
4th interim for the year ended 30 September 2016 of 3.25 pence per share paid on 30 December 2016	3,158
1st interim for 2017 of 2.40 pence per share paid on 31 March 2017	2,347
2nd interim for 2017 of 2.40 pence per share paid on 30 June 2017	2,351
3rd interim for 2017 of 2.40 pence per share paid on 29 September 2017	2,365
	10,221

As explained in the Chairman's Statement, the Board has declared a fourth interim dividend of 3.45 pence per share. This will be paid on 27 December 2017 to Shareholders on the register of members on 15 December 2017. This dividend, together with the other three interim dividends paid during the year (of 2.40 pence per share each), makes a total dividend of 10.65 pence per share. This represents an increase of 3.4% over the 10.30 pence per share paid in respect of the previous year.

As dividends are paid quarterly at the end of March, June, September and December the Company does not pay a final dividend in February that would otherwise receive formal Shareholder approval at the AGM. Formal approval will therefore be sought at the AGM, and in future years, to continue quarterly payments. (Resolution 7).

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.

Taxation

As set out in note 7 on the Accounts, the Company is exempt from UK Corporation Tax on its worldwide dividend income and from UK Corporation Tax on any capital gains arising from the portfolio of investments, provided it complies at all times with section 1158 of the Corporation Tax Act 2010 ("**section 1158**"). Dividends received from investee companies domiciled outside the UK are subject to taxation in those countries in accordance with relevant double taxation treaties.

The Company's taxation policy is: to comply at all times with section 1158, such that it does not suffer UK taxation on capital gains; to ensure that it submits correct taxation returns annually to HMRC and settles promptly any taxation due; and to ensure that it claims back in a timely manner, where possible, all taxes suffered in excess of taxation treaty rates on non-UK dividend receipts.

The Company has received approval from HMRC as an investment trust under section 1158 and has since continued to comply with the eligibility conditions and ongoing requirements of that section.

The Company is subject to the Criminal Finances Act 2017 and follows a zero tolerance policy to tax evasion and its facilitation. The Directors are fully committed to complying with all legislation and appropriate guidelines designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Company, its service providers, counterparties and business partners operate.

'Our manager engaged with 26 companies held by your Company and voted in respect of 90 company meetings on issues including environmental standards, business ethics and remuneration.'

Accounting and going concern

Shareholders will be asked to approve the adoption of the Report and Accounts at the AGM (Resolution 1). The financial statements, starting on page 50, 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 44 to 48. As discussed in note 21 on the Accounts, the Directors believe that 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 and subject to the approval of the continuation vote referred to on page 30. 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 11.

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 LLP ("**PwC**" or the "**auditors**") are unaware and they have 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 AGM (Resolutions 5 and 6). Further information in relation to the appointment can be found on pages 38 and 39.

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 2017, F&C had engaged with 26 companies held by the Company and had voted in respect of its holdings at 90 company meetings on a range of issues. Key engagement themes in 2017 included the risks associated with environmental standards, business ethics and remuneration.

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

Modern Slavery Act 2015

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

Capital structure

As at 30 September 2017 there were 98,534,268 ordinary shares of 25 pence each in issue. As at 1 December 2017 (being the latest practicable date before publication of this report) the number of ordinary shares was 98,934,268.

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 affects its control following a takeover bid. Details of the capital structure can be found in note 14 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 per share.

At the AGM held on 14 February 2017 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 four separate occasions in the year under review. A total of 1,750,000 shares with a nominal value of £437,500 were issued to Cenkos Securities plc in a range between 289.0 pence and 318.5 pence and at an average price of 301.4 pence for a total consideration of £5,263,000 before the deduction of issue costs. A further 400,000 have been issued since the year end, up to 1 December 2017.

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. At the AGM held on 14 February 2017 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 1 December 2017 the Company had 98,934,268 ordinary shares in issue with a total of 98,934,268 voting rights. As at that date no notifications of significant voting rights have been received under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Approximately 79% 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 388,000 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 9 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 was made up of a £20 million sterling term credit facility, fully drawn at year end, and a £15 million multi-currency revolving credit facility which was cancelled on 25 May 2017. An overdraft facility is made available to the Company by the Custodian for settlement of investment trades. Further reference is made on page 15 and in note 13 on the accounts.

Directors' remuneration

The Directors' Remuneration Report, which can be found on page 34, provides detailed information on the remuneration arrangements for Directors of the Company. At the AGM held on 14 February 2017, Shareholders approved the Directors' Remuneration Policy as set out on that page. It is intended that it will next be put to Shareholders at the AGM in 2020. Shareholders will be asked to approve the Directors' Remuneration Report at the AGM on 13 February 2018. (Resolution 2).

Director re-elections

The names of the current Directors, along with their biographical details, are set out on page 24 and are incorporated into this report by reference. All the Directors held office throughout the year under review. All are required to stand for re-election for a fixed term of no more than three years and therefore Steven Bates and Tim Scholefield 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 resolutions for Mr Bates and Mr Scholefield.

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 their 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 AGM. The Company also maintains directors' and officers' liability insurance.

Safe custody of assets

The Company's listed investments are held in safe custody by JP Morgan Chase Bank (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager via F&C 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 strong 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 AGM will be held on Tuesday 13 February 2018 at 11.30 a.m. at Exchange House, Primrose Street, London EC2. The Notice of AGM appears on pages 71 and 72 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 8 to 11 are explained below.

Authority to allot shares and sell shares from treasury (Resolutions 8 and 9)

Resolutions 8 and 9 are similar in content to the authorities and power given to the Directors at previous AGMs. 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 8 gives the Directors, for the period until the conclusion of the AGM in 2019 or, if earlier, 15 months from the passing of the resolution, the necessary authority to allot securities up to an aggregate nominal amount of £2,473,000 (9,892,000 ordinary shares). This is equivalent to approximately 10% of the issued share capital of the Company at 1 December 2017.

Resolution 9 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 £2,473,000 (representing approximately 10% of the issued ordinary share capital of the Company at 1 December 2017) and amounting to 9,892,000 ordinary shares. 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 9 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. As at 1 December 2017 no shares were held by the Company in treasury.

Authority for the Company to purchase its own shares (Resolution 10)

Resolution 10 authorises the Company to purchase up to a maximum of 14,830,000 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 AGMs.

Continuation vote (Resolution 11)

The continuation of the Company is proposed at every fifth AGM in accordance with the Company's articles of association. The last such vote took place in 2013 and therefore an ordinary resolution for the continuation of the Company will be proposed at the forthcoming AGM. If the resolution is not passed, the Directors will be required to formulate proposals to reorganise, reconstruct or wind up the Company to be put to Shareholders within four months of the date on which the resolution was considered. The Board believes that it is in the best interests of Shareholders for the Company to continue and encourages Shareholders to vote in favour of the resolution, as they intend to do in respect of their own beneficial holdings.

Form of proxy

Registered Shareholders will find enclosed a form of proxy for use at the AGM. 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 AGM. 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 AGM (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 AGM 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 27.

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 6 February 2018, 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
F&C Investment Business Limited, Secretary
6 December 2017

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 investment trust 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 38, the Company has not reported further in respect of these provisions.

Copies of both codes may be found on the respective websites: www.theaic.co.uk and www.frc.org.uk

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 following table sets out the Directors' meeting attendance in the year under review. All Directors attended the AGM in February 2017 and a strategy meeting in September 2017.

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	5	3
Tim Scholefield	5	3

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 AGM.

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 pages 29 and 30.

Appointments, diversity and succession planning

Under the articles of association of the Company, the number of Directors on the Board cannot exceed 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 AGM.

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 reference to 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 2017 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 34 and 35 provides information on the remuneration arrangements for the Directors of the Company.

The Report of the Audit and Management Engagement Committee can be found on pages 36 to 39.

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 AGMs, 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 41.

By order of the Board
F&C Investment Business Limited
Secretary
6 December 2017

Directors' Remuneration Report

Directors' Remuneration Policy

The Board's policy is to set Directors' 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. The policy aims to be fair and reasonable in relation to comparable investment trusts and other similar sized financial companies. Time committed to the Company's affairs and the role that individual Directors fulfil in respect of Board and Committee responsibilities are taken into account. The policy also provides 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 Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. This policy was approved by Shareholders in February 2017 with 89.7% voting in favour. It is intended to continue the policy for the three year period ending at the AGM in 2020. 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 each year. Towards the end of the year the Chairman carried out a review of fee rates in accordance with the policy. The Board agreed his recommendation that commencing 1 October 2017 the basic fee should be £23,500 representing an increase of 6.8% since the last increase on 1 October 2015. The Board also agreed to the Senior Independent Director's recommendation that an increase be made to the Chairman's fee commensurate with the increase in the basic fee; an increase to £35,000.

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 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 AGM.

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

Annual fees for Board Responsibilities

	2018 £'000s	2017 £'000s
Board		
Chairman	35.0	33.0
Director	23.5	22.0
Audit Committee Chairman*	28.5	27.0

*Director fee plus £5,000 as committee chairman

Directors' shareholdings

Directors' share interests (audited)

At 30 September	2017	2016
Steven Bates	nil	nil
Sharon Brown	1,500	1,500
Clare Dobie	2,570	2,469
Jane Lewis	1,534	nil
Tim Scholefield	8,000	8,000

The Company's register of Directors' interests contains full details of Directors' shareholdings.

There have been no changes in any of the Directors' shareholdings detailed above between 30 September 2017 and the date of this report. 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.

Policy Implementation

The Directors' Remuneration Report is subject to an annual advisory vote and therefore an ordinary resolution for its approval will be put to Shareholders at the forthcoming AGM. At the Company's last AGM, Shareholders approved the Directors' Remuneration Report in respect of the year ended 30 September 2016. 92.4% 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 2017 and 2016 and can expect to receive the fees indicated for 2018 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	2017	2016	2017	2016	2017	2016	2018
Steven Bates[3]	33.0	33.0	–	0.3	33.0	33.3	35.0
Sharon Brown	27.0	27.0	4.5	3.3	31.5	30.3	28.5
Clare Dobie	22.0	22.0	0.3	0.7	22.3	22.7	23.5
Jane Lewis[4]	22.0	18.8	1.0	0.3	23.0	19.1	23.5
Tim Scholefield	22.0	22.0	–	0.3	22.0	22.3	23.5
John Emly[5]	–	7.9	–	0.1	–	8.0	n/a
Total	126.0	130.7	5.8	5.0	131.8	135.6	134.0

(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 2018. Taxable benefits are also anticipated but are not currently quantifiable.
(3) Highest paid Director
(4) Appointed 24 November 2015
(5) Retired 9 February 2016

The information in the above table for the years 2016 and 2017 has been audited.

The table below shows the actual expenditure during the year in relation to Directors' remuneration (excluding taxable benefits) and Shareholder distributions:

Actual expenditure

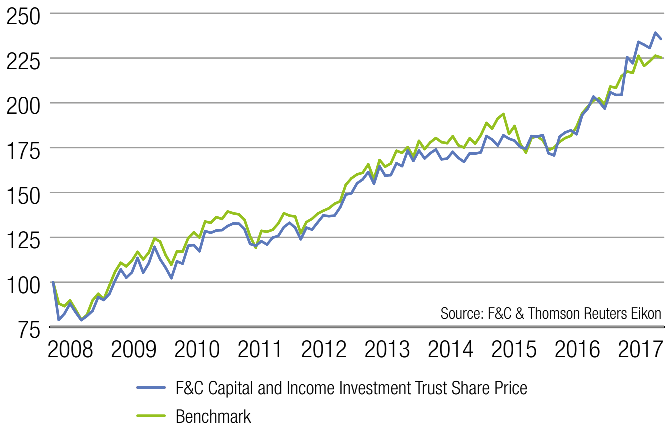
Year ended 30 September	2017 £'000s	2016 £'000s	% Change
Aggregate Directors' fees	126.0	130.7	(3.6)
Management and other expenses	1,792	1,628	10.1
Dividends paid to Shareholders	10,221	9,816	4.1

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 2017 is given in the Chairman's Statement and Manager's Review.

A comparison of the Company's performance over the required nine 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 nine years (rebased to 100 at 30 September 2008)



Steven Bates
Chairman
6 December 2017

Report of the Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee (the "**Committee**") are to ensure the integrity of the financial reporting of the Company and the appropriateness of the internal controls 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 31. 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;
- The principal risks faced by the Company and the effectiveness of the Company's internal control and risk management environment, including consideration of the assumptions underlying the Board's future prospects statement on viability;
- The effectiveness of the external audit process and the current independence and objectivity of PwC as auditors, their reappointment, remuneration and terms of engagement;
- The policy on the engagement of PwC to supply non-audit services and approval of any such services;
- The need for the Company to have its own internal audit function;
- The AAF and SSAE16 reports or their equivalent from F&C, the Custodian, Depositary and a due diligence report from the Company's share registrar;
- The performance of the Manager and its 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 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 40. 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 the Directors of the Company are independent and are members of the Committee. Sharon Brown, chairman of the

Committee, is a Chartered Management Accountant with experience as 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 relevant financial, investment and business experience through the senior posts held throughout their careers. The Committee considers that collectively the members have sufficient recent and relevant sector and financial experience to discharge their responsibilities. The performance of the Committee was evaluated as part of the Board appraisal process.

Management of risk

F&C's Business Risk department provide regular control report updates to the Committee covering risk and compliance while any significant issues of direct relevance to the Company are required to be reported to the Board immediately.

A key risk "radar" summary is produced by F&C in consultation with the Board to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix and reviews the significance of the risks and the reasons for any changes.

The Company's Principal Risks and their mitigations are set out on page 10 with additional information given in note 22 on the Accounts. The integration of these risks into the analyses underpinning the "Rolling Three Year Viability Horizon" Statement on page 11 was fully considered and the Committee concluded that the Board's statement was soundly based. The period of three years was also agreed as remaining appropriate for the reasons given in the statement.

Internal controls

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

Significant Judgements and Issues considered by the Committee for the year ended 30 September 2017

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 receives quarterly monitoring and control reports from the AIFM and Depositary. The Committee reviewed F&C's AAF Report for the year ended 31 October 2016, 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 that controls have operated 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 2016, 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 2017, 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 2017, were also reviewed and agreed as being satisfactory.
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 assessed the final level of income received for the year against the budget which was set at the start of the year and discussed the accounting treatment of special dividends with the Manager.

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 other relevant management issues.

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, loss or fraud. Further to the review by the Committee, the Board has assessed the effectiveness of the Company's internal control systems. The assessment 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 2016 (the "AAF Report") and subsequent confirmation from F&C that there had been no material changes to the control environment since this date. This had 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).

The AAF Report, containing an unqualified opinion from independent reporting accountants KPMG, 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 Share 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 and significant issues considered by the Committee

In carrying out its responsibilities, the Committee has considered the planning arrangements, scope, materiality levels and conclusions of the 2017 external audit. The table on page 37 describes the significant judgements and issues considered by the Committee in conjunction with PwC in relation to the financial statements for the year and how these issues were addressed. The Committee also included in their review the areas of judgements, estimates and assumptions referred to in note 2(c)(xiii) on the Accounts.

The Committee met in November 2017 to discuss the draft Report and Accounts, with representatives of PwC and F&C in attendance. PwC submitted their Year-End report to the Committee and confirmed that they had no reason not to issue an unqualified audit opinion in respect of the Report and Accounts. The Committee established that there were no material issues or findings arising which needed to be brought to the attention of the Board and confirmed that the Report and Accounts were in their view fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice. The Independent Auditor's Report, which sets out their unqualified audit opinion, the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 44 to 48.

Auditor assessment, independence and appointment

The Company reviews the reappointment of the auditor every year and the Committee has been satisfied with the effectiveness of PwC's performance on the audit just completed. PwC have confirmed their independence 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 will continue to provide effective independent challenge in carrying out their responsibilities. The Committee also considered the evaluation of PwC's audit performance through the Audit Quality Review.

Their fee for the audit was £29,110 (2016: £30,150 inclusive of a one-off fee of £1,750 for review of the Company's adoption of new UK GAAP) as shown in Note 5 on the accounts.

The audit was last put out to tender during the year ended 30 September 2012, at which time the Board concluded that PwC's appointment should continue. PwC have been auditor to the Company since its inception in 1992 and under mandatory audit rotation rules will not be available for appointment as auditors beyond the AGM 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. Jeremy Jensen's retirement by rotation as senior statutory auditor will coincide with PwC's final audit, which is currently expected to be for the year ended 30 September 2019. At the forthcoming AGM Shareholders will be asked to vote on the reappointment of PwC for the 2018 audit.

Non-audit services

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;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- 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 exceed 70% of the average paid over the last three consecutive years.

Non-audit services for the year ended 30 September 2017 totalled £12,460, which related to the ongoing liquidation of the subsidiary company, F&C Income Growth Investment Trust PLC and was therefore charged to capital. 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
6 December 2017

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. 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 Guidance and Transparency Rule 4.1.12

Each of the Directors listed on page 24 confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards 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.

On behalf of the Board
Steven Bates
Chairman
6 December 2017

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 Auditors
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 Registrar
Computershare Investor Services PLC, 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 or her knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which PwC are unaware and they have 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 are aware of that information.'

Independent Auditors' Report

Independent auditors' report to the members of F&C Capital and Income Investment Trust PLC

Report on the audit of the financial statements

Opinion

In our opinion, F&C Capital and Income Investment Trust PLC's Financial Statements:

- Give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its net return and cash flows for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements, included within the Report and Accounts (the 'Annual Report'), which comprise: the Balance Sheet as at 30 September 2017; the Income Statement, the Statement of Cash Flows, the statement of Changes in Equity for the year then ended; and the notes on the Accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the

Our audit approach

Overview

- Overall materiality: £3,124,630 (2016: £2,720,270), based on 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.

- Income.
- Valuation and existence of investments.

FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the company in the period from 1 October 2016 to 30 September 2017.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Income	
Refer to page 37 (Report of the Audit and Management Engagement Committee), page 55 (Accounting Policies) and page 57 (Notes to the Accounts). 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.	We assessed the accounting policy for 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(c)(v) on page 55 of the Financial Statements. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. 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. 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. Our testing did not identify any unrecorded dividends. We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings, and we traced a sample of dividends received to bank statements. We did not find any special dividends that were not treated in accordance with the AIC SORP. 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. We also checked that the gains or losses on investments held at fair value comprise realised and unrealised gains or losses. For realised gains or losses, we tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, and also tested the reconciliation of opening and closing investments. No material misstatements were identified by our testing which required reporting to those charged with governance.

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of investments	
Refer to page 37 (Report of the Audit and Management Engagement Committee), page 55 (Accounting Policies) and page 61 (Notes on the Accounts). The investment portfolio at the year-end comprised listed equity investments valued at £327m. 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. No misstatements were identified by our testing which required reporting to those charged with governance. We 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 material misstatements were identified by our testing which required reporting to those charged with governance.

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 structure of the Company, the accounting processes and controls, and the industry in which it operates.

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 in aggregate 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
£3.1 million (2016: £2.7 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, in the absence of indicators that an alternative benchmark would be appropriate and because we believe that this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £156k (2016: £136k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.
Outcome
We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
Reporting obligation
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
Outcome
We have nothing to report.

Reporting on other information

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and directors' report

In accordance with our responsibilities under the Companies Act 2006, we report the following:

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 10 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 11 of the Annual Report 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 to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and 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 UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

Other code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 40, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 36 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

■ **Directors' remuneration**
In accordance with our responsibilities under the Companies Act 2006, we report the following:

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

Responsibilities for the Financial Statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the 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.

Other required reporting

Companies Act 2006 exception reporting

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of Directors' remuneration specified by law are not made; 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.

Appointment

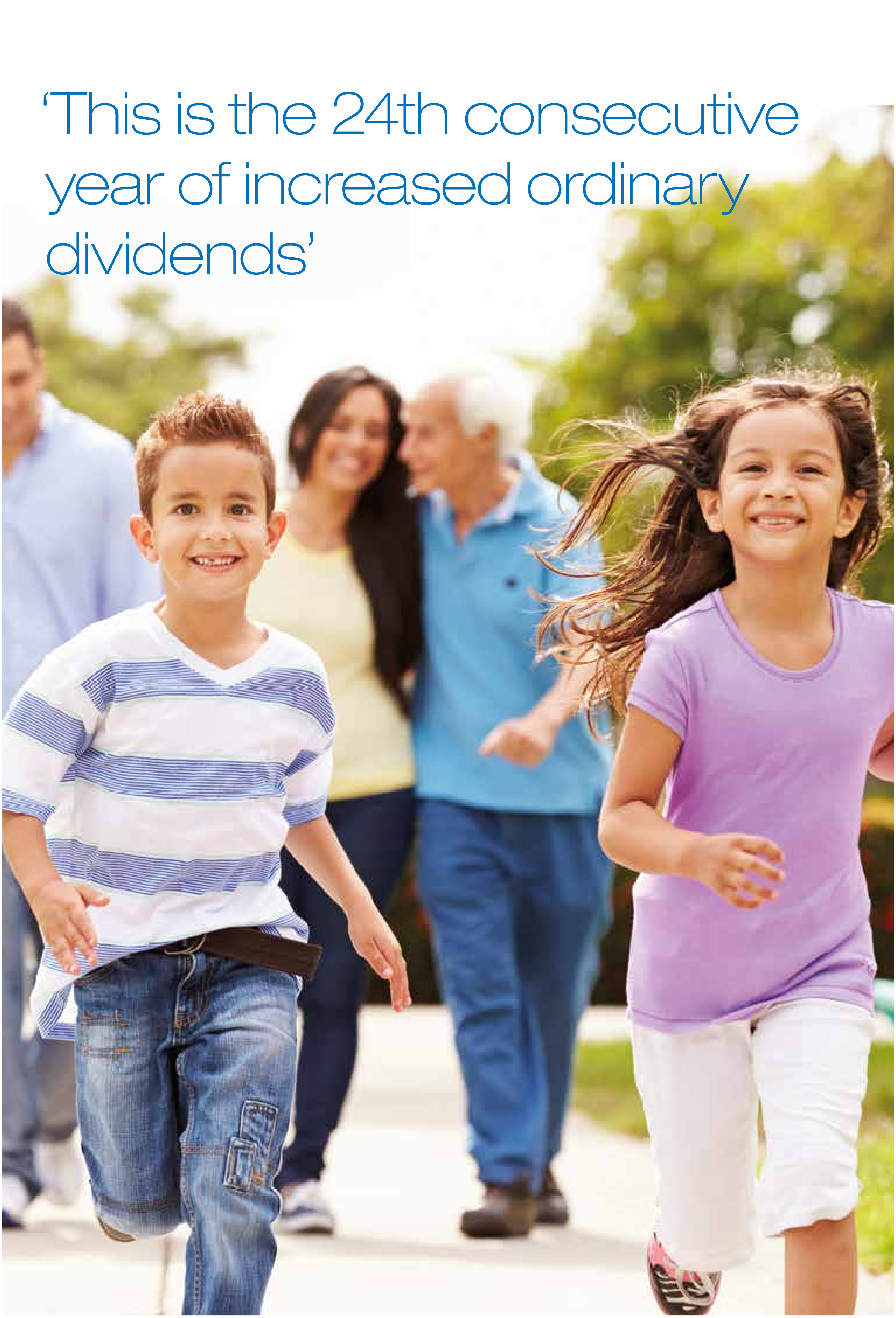
We were appointed on 29 October 1992 to audit the financial statements for the year ended 30 September 1993 and subsequent financial periods. The period of total uninterrupted engagement is 25 years, covering the years ended 30 September 1993 to 30 September 2017.

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 December 2017

The maintenance and integrity of the F&C Capital and Income Investment Trust PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

'This is the 24th consecutive year of increased ordinary dividends'



Income Statement

Revenue notes	Capital notes	for the year ended 30 September	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
	10	Gains on investments	–	34,881	34,881	–	29,310	29,310
	18	Foreign exchange gains/(losses)	8	(7)	1	31	(4)	27
3		Income	12,767	–	12,767	12,155	–	12,155
4	18	Management fee	(637)	(637)	(1,274)	(555)	(555)	(1,110)
5	18	Other expenses	(499)	(19)	(518)	(511)	(7)	(518)
		Net return before finance costs and taxation	11,639	34,218	45,857	11,120	28,744	39,864
6	18	Finance costs	(283)	(283)	(566)	(330)	(330)	(660)
		Net return on ordinary activities before taxation	11,356	33,935	45,291	10,790	28,414	39,204
7		Taxation on ordinary activities	103	–	103	(5)	–	(5)
18	18	**Net return attributable to Shareholders**	11,459	33,935	45,394	10,785	28,414	39,199
8	8	**Return per share – pence**	11.71	34.69	46.40	11.26	29.66	40.92

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 54 to 68 form an integral part of the financial statements.

Statement of Changes in Equity

Notes	for the year ended 30 September 2017	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total Shareholders' funds £'000s
	Balance at 30 September 2016	24,196	112,997	4,146	4,434	115,205	11,049	272,027
	Movements during the year ended 30 September 2017							
9	Dividends paid	–	–	–	–	–	(10,221)	(10,221)
	Ordinary shares issued	438	4,825	–	–	–	–	5,263
	Net return attributable to Shareholders	–	–	–	–	33,935	11,459	45,394
	Balance at 30 September 2017	24,634	117,822	4,146	4,434	149,140	12,287	312,463

Notes	for the year ended 30 September 2016	Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Special reserve £'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

The notes on pages 54 to 68 form an integral part of the financial statements.

Balance Sheet

Notes	at 30 September	2017 £'000s	2016 £'000s
	Fixed assets		
10	Investments	**326,719**	296,594
	Current assets		
11	Debtors	**1,215**	1,193
	Cash at bank and short-term deposits	**4,962**	–
	Total current assets	**6,177**	1,193
	Current liabilities		
12	Creditors: amounts falling due within one year	**(433)**	(760)
13	Loans	**(20,000)**	–
	Total current liabilities	**(20,433)**	(760)
	Net current (liabilities)/assets	**(14,256)**	433
	Total assets less current liabilities	**312,463**	297,027
	Creditors: amounts falling due after more than one year		
13	Loans	**–**	(25,000)
	Net assets	**312,463**	272,027
	Capital and reserves		
14	Share capital	**24,634**	24,196
15	Share premium account	**117,822**	112,997
16	Capital redemption reserve	**4,146**	4,146
17	Special reserve	**4,434**	4,434
18	Capital reserves	**149,140**	115,205
18	Revenue reserve	**12,287**	11,049
	Total Shareholders' funds	**312,463**	272,027
19	**Net asset value per ordinary share – pence**	**317.11**	281.06

The notes on pages 54 to 68 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 6 December 2017 and signed on its behalf by

Steven Bates, Chairman

Statement of Cash Flows

Notes	for the year ended 30 September	2017 £'000s	2016 £'000s
20	**Cash flows from operating activities before dividends received and interest paid**	**(1,583)**	(1,492)
	Dividends received	**12,674**	11,787
	Interest paid	**(569)**	(784)
	Cash flows from operating activities	**10,522**	9,511
	Investing activities		
	Purchase of investments	**(34,559)**	(42,272)
	Sales of investments	**39,315**	34,720
	Other capital charges	**(19)**	(2)
	Cash flows from investing activities	**4,737**	(7,554)
	Cash flows before financing activities	**15,259**	1,957
	Financing activities		
9	Equity dividends paid	**(10,221)**	(9,816)
	Net proceeds from issuance of new shares	**5,263**	5,768
	Drawdown of loans	**–**	5,000
13	Repayment of loans	**(5,000)**	–
	Cash flows from financing activities	**(9,958)**	952
	Net movement in cash and cash equivalents	**5,301**	2,909
	Cash and cash equivalents at the beginning of the year	**(340)**	(3,276)
	Effect of movement in foreign exchange	**1**	27
	Cash and cash equivalents at the end of the year	**4,962**	(340)
	Represented by:		
	Cash at bank and short-term deposit/(bank overdraft)	**4,962**	(340)

The notes on pages 54 to 68 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 1158 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 2017, as set out in note 2 below.

2. Significant accounting policies

(a) Going concern

As referred to in the Directors' Report on page 26 and note 21 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, Financial Reporting Standards (FRS) 102 applicable in the United Kingdom and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("SORP") issued in November 2014 and updated in January 2017.

All of the Company's operations are of a continuing nature. 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.

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 Shareholders are shown in the Statement of Changes in Equity.

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year ended 30 September 2017 and the prior 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.

2. Significant accounting policies (continued)

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 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 proceeds received, less direct issue costs, and subsequently measured at amortised cost using the effective interest method.

Finance charges, including interest, are accrued using the effective interest 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.

(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.

2. Significant accounting policies (continued)

(vi) Expenses, including finance charges

Expenses, inclusive of associated value added tax (VAT), 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) Dividends payable

Dividends are included in the financial statements on the date on which they are declared.

(ix) 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.

(x) 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.

(xi) 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.

(xii) 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.

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.

2. Significant accounting policies (continued)

(xiii) Use of judgements, estimates and assumptions

The presentation of the financial statements in accordance with accounting standards require the Board to make judgements, estimates and assumptions that effect the accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on perceived risks, historical experience, expectations of plausible future events and other factors. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in preparation of the financial statements are: recognising and classifying unusual or special dividends received as either revenue or capital in nature; and setting the level of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to Investment Trust status rules under Section 1158 of the Corporation Tax Act 2010.

Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine their allocation in accordance with the SORP to either the Revenue Account or Capital Reserves. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to Capital Reserves. Investee company dividends which appear to be paid in excess of current year profits may nevertheless still be considered to be wholly revenue in nature unless evidence suggests otherwise. The value of dividends received treated as capital in nature is disclosed in note 18 on the Accounts.

3. Income

	2017 £'000s	2016 £'000s
Income from investments		
Dividends	12,699	12,114
	12,699	12,114
Other income		
Interest on cash and short-term deposits	3	3
Interest on overseas taxation recovered	19	–
Underwriting commission	46	38
	68	41
Total income	12,767	12,155

As at 30 September 2017 there was none outstanding sub-underwriting contract (2016: none outstanding).

4. Management fee

	2017 £'000s	2016 £'000s
Allocated to revenue account	637	555
Allocated to capital account (see note 18)	637	555
Total management fee	1,274	1,110

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

Expenses charged to revenue account	2017 £'000s	2016 £'000s
Auditors' remuneration:		
– for audit services[(1)]	34	36
– for other services[(2)]	–	10
Directors' fees for services to the Company[(3)]	126	131
Directors' and Officers' liability insurance	7	7
Loan commitment fee	36	41
Marketing	93	91
Professional fees	42	29
Printing and postage	52	50
Registrars' fees	31	27
Subscriptions and listing fees	45	48
Sundry expenses	33	41
Total other expenses	499	511

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

(1) Total Auditors' remuneration for audit services, exclusive of VAT amounts to £29,110 (2016: £30,150).

(2) Total Auditors' remuneration for other services exclusive of VAT amounts to £12,460 (2016: £13,000) of which £nil (2016:£ 8,000) is recognised in the revenue account, for taxation compliance services, and £12,460 (2016: £5,000) in the capital account for other services in connection with the liquidation of F&C Income Growth Investment Trust plc ("FIGIT").

(3) See the Directors' Remuneration Report on page 35.

6. Finance costs

	2017 Revenue £'000s	2017 Capital £'000s	2017 Total £'000s	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s
Loan interest	277	277	554	322	322	644
Overdraft interest	6	6	12	8	8	16
Total finance cost	283	283	566	330	330	660

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

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
Overseas taxation	(103)	–	(103)	5	–	5
Total taxation (credit)/charge (see note 7(b))	(103)	–	(103)	5	–	5

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK (19.5%) (2016: 20%). Factors affecting the taxation change are set out below.

(b) Factors affecting tax charge for the year

	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
Net return on ordinary activities before taxation	11,356	33,935	45,291	10,790	28,414	39,204
Return on ordinary activities multiplied by the effective rate of corporation tax of 19.5% (2016: 20%)	2,214	6,617	8,831	2,158	5,683	7,841
Effects of:						
Dividends*	(2,476)	–	(2,476)	(2,423)	–	(2,423)
Expenses not utilised in the year	240	179	419	245	177	422
Expenses not deductible for tax purposes	22	4	26	20	2	22
Overseas taxation not relieved	6	–	6	5	–	5
Overseas taxation recovered	(109)	–	(109)	–	–	–
Capital returns*	–	(6,800)	(6,800)	–	(5,862)	(5,862)
Total taxation (see note 7(a))	(103)	–	(103)	5	–	5

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

The potential deferred tax asset of £3.5 million in respect of unutilised expenses and unrelieved overseas taxation at 30 September 2017 (2016: £3.2 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 11.71p (2016: 11.26p) is based on the revenue return attributable to Shareholders of £11,459,000 profit (2016: £10,785,000 profit).

Capital return

The capital return per share of 34.69p (2016: 29.66p) is based on the capital return attributable to Shareholders of £33,935,000 profit (2016: £28,414,000 profit).

Total return

The total return per share of 46.40p (2016: 40.92p) is based on the total return attributable to Shareholders of £45,394,000 profit (2016: £39,199,000 profit.)

Weighted average ordinary shares in issue

The returns per share are based on the weighted average of 97,835,501 (2016: 95,807,560) ordinary shares in issue during the year.

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2017 £'000s	2016 £'000s
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
Fourth interim for the year ended 30 September 2016 of 3.25p per share	09 Dec 16	30 Dec 16	3,158	–
First of four interims for the year ending 30 September 2017 of 2.40p per share	03 Mar 17	31 Mar 17	2,347	–
Second of four interims for the year ending 30 September 2017 of 2.40p per share	02 Jun 17	30 Jun 17	2,351	–
Third of four interims for the year ended 30 September 2017 of 2.40p per share	01 Sep 17	29 Sep 17	2,365	–
			10,221	9,816

The Directors have declared a fourth interim dividend in respect of the year ended 30 September 2017 of 3.45 pence per share, payable on 27 December 2017 to all Shareholders on the register at close of business on 15 December 2017. 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 2017, which form the basis of the retention test for section 1159 of the Corporation Tax Act 2010, are set out below:

	2017 £'000s
Net revenue return attributable to Shareholders	11,459
First of four interims for the year ending 30 September 2017 of 2.40 pence per share	(2,347)
Second of four interims for the year ended 30 September 2017 of 2.40 pence per share	(2,351)
Third of four interims for the year ended 30 September 2017 of 2.40 pence per share	(2,365)
Fourth interim dividend for the year ended 30 September 2017 of 3.45 pence per share(1)	(3,413)
Transferred to revenue reserve	983

1. Based on shares in issue and entitled to dividend at 1 December 2017.

10. Investments

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2017 Total £'000s	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2016 Total £'000s
Cost brought forward	217,260	–	1,795	219,055	217,008	–	1,795	218,803
Gains/(losses) brought forward	79,334	–	(1,795)	77,539	43,890	–	(1,795)	42,095
Valuation of investments brought forward	296,594	–	–	296,594	260,898	–	–	260,898
Purchases at cost	34,559	–	–	34,559	40,321	–	–	40,321
Sales proceeds	(39,315)	–	–	(39,315)	(33,935)	–	–	(33,935)
Gains/(losses) on investments sold in year	4,550	–	–	4,550	(6,134)	–	–	(6,134)
Gains on investments held at year end	30,331	–	–	30,331	35,444	–	–	35,444
Valuation of investments carried forward	326,719	–	–	326,719	296,594	–	–	296,594
Cost at 30 September	217,054	–	1,795	218,849	217,260	–	1,795	219,055
Gains/(losses) at 30 September	109,665	–	(1,795)	107,870	79,334	–	(1,795)	77,539
Valuation of investments at 30 September	326,719	–	–	326,719	296,594	–	–	296,594

*The hierarchy of investments is described in note 2(c)(i) and below
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 22.

Investment in subsidiary

The Company holds 100% of the issued share capital of F&C Income Growth Investment Trust plc (in liquidation) ("FIGIT") valued at £nil (2016: £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 has been held in liquidation pending the final resolution of a case brought against HM Revenue and Customs ("HMRC"), seeking to recover VAT paid on management fees in the period 1997 to 2000. On 11 April 2017, the Supreme Court issued a judgement upon that case in favour of HMRC. As a consequence, neither the Company nor FIGIT will be entitled to any recoveries from HMRC in relation to VAT paid in the relevant period.

11. Debtors

	2017 £'000s	2016 £'000s
Accrued income	1,152	1,133
Prepayments	30	19
Overseas taxation recoverable	33	41
	1,215	1,193

12. Creditors: amounts falling due within one year

	2017 £'000s	2016 £'000s
Management fee	333	297
Bank overdraft	–	340
Loan interest	8	11
Accruals	92	112
	433	760

13. Creditors: Loans

	2017 £'000s	2016 £'000s
Sterling loans: falling due within one year	20,000	–
Sterling loans: falling due after more than one year	–	25,000

The Company has an unsecured £20 million fixed rate credit facility available until March 2018 (2016: same). A £15 million floating rate facility available until March 2018 (2016: same) was cancelled on 25 May 2017. The fixed rate facility is fully drawn down, paying interest at commercial rates. £5m of the floating rate facility was drawn down until repaid on 17 November 2016, paying interest at commercial rates.

14. Share capital

	2017 Issued and fully paid		2016 Issued and fully paid	
Equity share capital	Number	£'000s	Number	£'000s
Ordinary shares of 25 pence each				
Balance brought forward	96,784,268	24,196	94,559,268	23,640
Ordinary shares issued	1,750,000	438	2,225,000	556
Balance at 30 September	98,534,268	24,634	96,784,268	24,196

Since 30 September 2017 a further 400,000 ordinary shares have been issued at a price of 324.0 pence per share.

15. Share premium account

	2017 £'000s	2016 £'000s
Balance brought forward	112,997	107,785
Premium on issue of shares	4,825	5,212
Balance carried forward	117,822	112,997

16. Capital redemption reserve

	2017 £'000s	2016 £'000s
Balance brought forward and carried forward	4,146	4,146

17. Special reserve

	2017 £'000s	2016 £'000s
Balance brought forward and carried forward	4,434	4,434

18. Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Gains on investments sold in year	4,550	–	4,550	–
Gains on investments held at year end	–	30,331	30,331	–
Foreign exchange losses	(9)	2	(7)	–
Management fee (see note 4)	(637)	–	(637)	–
Finance costs (see note 6)	(283)	–	(283)	–
Other capital charges	(19)	–	(19)	–
Revenue return	–	–	–	11,459
Return attributable to Shareholders	3,602	30,333	33,935	11,459
Dividends paid in year (see note 9)	–	–	–	(10,221)
Balance at 30 September 2016	37,668	77,537	115,205	11,049
Balance at 30 September 2017	41,270	107,870	149,140	12,287

Included within the capital reserve movement for the year are £147,000 of transaction costs including stamp duty on purchase of investments (2016: £149,000) and £41,000 of transaction costs on sales of investments (2016: £37,000).

There were £312,000 of dividends recognised as capital (2016: £4,419,000).

19. Net asset value per ordinary share

	2017	2016
Net asset value per share – pence	317.11	281.06
Net assets attributable at the year end – (£'000s)	312,463	272,027
Number of ordinary shares in issue at the year end	98,534,268	96,784,268

20. Reconciliation of total return before taxation to net cash flows from operating activities

	2017 £'000s	2016 £'000s
Net return on ordinary activities before taxation	45,291	39,204
Adjustments for non-cash flow items, dividend income and interest expense:		
Gains on investments	(34,881)	(29,310)
Foreign exchange movements	(1)	(27)
Non-operating expenses of a capital nature	19	7
Dividend income receivable	(12,699)	(12,114)
Interest payable	566	660
(Increase)/decrease in other debtors	(3)	52
Increase in other creditors	16	36
	(46,983)	(40,696)
Adjustment for other cash flow items:		
Overseas taxation recovered	109	–
Net cash outflows from operating activities (before dividends received and interest paid)	(1,583)	(1,492)

21. 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. As referred to in the Chairman's Statement on page 7, and the Directors' Report review on page 30, resolution 11 proposing the continuation of the Company will be put to the Shareholders at the forthcoming Annual General Meeting on Tuesday, 13 February 2018. The Directors are recommending that shareholders vote "for" on this resolution. Accordingly, the financial statements have been drawn up on the basis that the Company is a going concern.

22. 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 United Kingdom ("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 2017 amounted to £nil (30 September 2016 – £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.

22. Financial Risk Management (continued)

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 2017	2017 Average for the year	At 30 September 2016	2016 Average for the year
Euro	1.135	1.150	1.156	1.285

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	2017 £'000s	2016 £'000s
Net revenue return attributable to Shareholders	32	29
Net capital return attributable to Shareholders	954	1,000
Net total return attributable to Shareholders	986	1,029
NAV per share – pence	1.00	1.06

Strengthening of sterling by 10% against the euro	2017 £'000s	2016 £'000s
Net revenue return attributable to Shareholders	(21)	(6)
Net capital return attributable to Shareholders	(780)	(818)
Net total return attributable to Shareholders	(801)	(824)
NAV per share – pence	(0.81)	(0.85)

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:

2017	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors other £'000s	Short-term creditors – loans £'000s	Net monetary (liabilities)/assets £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,139	4,962	(433)	(20,000)	(14,332)	318,213	303,881
Other	76	–	–	–	76	8,506	8,582
Total	1,215	4,962	(433)	(20,000)	(14,256)	326,719	312,463

2016	Short-term debtors £'000s	Bank overdraft £'000s	Short-term creditor others £'000s	Long-term creditors –loans £'000s	Net monetary (liabilities)/assets £'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

22. 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	2017 Net total £'000s	Within one year £'000s	More than one year £'000s	2016 Net total £'000s
Exposure to floating rates:						
Cash at bank and short-term deposits/(overdrafts)	4,962	–	4,962	(340)	–	(340)
Exposure to fixed rates:						
Loans	(20,000)	–	(20,000)	–	(25,000)	(25,000)
Net exposure	(15,038)	–	(15,038)	(340)	(25,000)	(25,340)
Minimum net exposure during the year			(13,694)			(21,773)
Maximum net exposure during the year			(23,772)			(28,240)

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'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:

	2017 Increase in rate £'000s	2017 Decrease in rate £'000s	2016 Increase in rate £'000s	2016 Decrease in rate £'000s
Revenue return	99	(99)	(57)	57
Capital return	–	–	(50)	50
Total return	99	(99)	(107)	107
NAV per share – pence	0.10	(0.10)	(0.11)	0.11

Other market risk exposures

The portfolio of investments, valued at £326,719,000 at 30 September 2017 (2016: £296,594,000) 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 the Investment Portfolio by Sector and List of Investments on pages 20 to 22.

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:

	2017 Increase in value £'000s	2017 Decrease in value £'000s	2016 Increase in value £'000s	2016 Decrease in value £'000s
Capital return	65,344	(65,344)	59,319	(59,319)
NAV per share – pence	66.3	(66.3)	61.29	(61.29)

22. Financial Risk Management (continued)

(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 (77 at 30 September 2017 and 76 at 30 September 2016); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see pages 20 to 22); 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 an unsecured £20 million fixed rate credit facility available until March 2018 (2016: same). A £15 million floating rate facility available until March 2018 (2016: same) was cancelled on 25 May 2017. The fixed rate facility is fully drawn down, paying interest at commercial rates. £5 million of the floating rate facility was drawn down until repaid on 17 November 2016, paying interest at commercial rates.

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:

2017	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	433	–	–	433
Short-term liabilities – loans	–	20,000	–	20,000
	433	20,000	–	20,433

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 – other	760	–	–	760
Long-term liabilities – loans	–	–	25,000	25,000
	760	–	25,000	25,760

(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 Company's Depositary, JP Morgan Europe Limited, 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.

22. Financial Risk Management (continued)

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

Current liabilities	2017 Balance sheet £'000s	2017 Maximum exposure £'000s	2016 Balance sheet £'000s	2016 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 14 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.

23. Related party transactions

The following are considered related parties: the Board of Directors (the "Board"), including their spouses and dependents, and the Manager (F&C Investment Business Limited). There are no transactions with the Board other than: aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 35 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 34. 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.

24. AIFMD

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. 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 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	105%	105%

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.

25. Securities financing transactions ("SFR")

The Company has not, in the year to 30 September 2017 (2016: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets	214,131	158,201	180,684	191,427	182,290	203,079	244,708	251,387	256,876	297,027	**332,463**
Loans	10,000	–	14,000	14,000	15,000	7,967	20,000	20,000	20,000	25,000	**20,000**
Net assets	204,131	158,201	166,684	177,427	167,290	195,112	224,708	231,387	236,876	272,027	**312,463**

NAV
at 30 September

pence	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per share – pence	258.8	200.4	199.3	207.9	195.0	222.0	251.4	251.8	250.5	281.1	**317.1**
NAV total return on 100p – 5 years (per Thomson Reuters Eikon)											**172.7**
NAV total return on 100p – 10 years (per Thomson Reuters Eikon)											**182.7**

Share Price
at 30 September

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Middle market price per share – pence	243.3	196.5	199.0	214.3	206.0	225.5	252.5	258.0	256.0	287.0	**321.0**
(Discount)/premium to NAV – %	(6.0)	(2.0)	(0.1)	3.1	5.2	1.6	0.4	2.5	2.2	2.1	**1.2**
Share price high – pence	258.0	249.0	202.5	221.3	232.0	227.0	269.0	271.8	277.0	289.8	**327.5**
Share price low – pence	222.5	188.5	140.0	181.0	199.0	195.0	222.8	248.0	233.8	234.8	**274.0**
Share price total return on 100p – 5 years (per Thomson Reuters Eikon)											**171.7**
Share price total return on 100p – 10 years (per Thomson Reuters Eikon)											**197.0**

Revenue
for the year ended 30 September

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Available for ordinary shares (£'000s)	6,604	7,608	7,210	6,755	8,341	8,715	9,941	9,575	9,475	10,785	**11,459**
Earnings per share – pence	8.25	9.69	8.85	8.02	9.75	10.01	11.26	10.56	10.10	11.26	**11.71**
Dividends per share – pence	7.40	8.40†	8.65†	8.45	8.65	9.00	9.45	9.85	10.10	10.30	**10.65**

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

Ten Year Record (unaudited)

Performance

(rebased at 30 September 2007)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per share	100.0	77.4	77.0	80.3	75.3	85.8	97.1	97.3	96.8	108.6	**122.5**
Middle market price per share	100.0	80.8	81.8	88.1	84.7	92.7	103.8	106.0	105.2	118.0	**131.9**
Earnings per share	100.0	117.5	107.3	97.2	118.2	121.3	136.5	128.0	122.4	136.5	**141.9**
Dividends per share	100.0	113.5	116.9	114.2	116.9	121.6	127.7	133.1	136.5	139.2	**141.9**
FTSE All-Share Index	100.0	77.8	78.6	87.1	80.0	90.4	104.5	106.9	101.3	113.2	**122.1**
CPI	100.0	106.4	109.7	114.8	117.5	120.8	122.5	122.6	123.4	125.7	**127.8**

Cost of running the Company (TER/ongoing charges)

for the year ended 30 September	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expressed as a percentage of average net assets:											
Ongoing charges*	0.73	0.70	0.88	0.88	0.82	0.80	0.62	0.66	0.64	0.64	**0.59**

* Prior to 2011 calculated as TER.

Gearing

at 30 September	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net gearing %	4.74	0.24	7.60	7.05	9.08	1.22	3.81	4.43	10.32	9.32	**4.81**

Analysis of ordinary Shareholders at 30 September 2017

Category	Holding %
F&C savings plans	78.8
Nominees	10.1
Institutions	5.8
Direct individuals	5.3
	100.0

Source: F&C

Notice of Annual General Meeting

Notice is hereby given that the twenty fifth Annual General Meeting of the Company will be held at Exchange House, Primrose Street, London EC2A 2NY on Tuesday 13 February 2018 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 2017 together with the Independent Auditor's report thereon.
2. To approve the Directors' Remuneration Report for the year ended 30 September 2017.
3. To re-elect Steven Bates as a Director.
4. To re-elect Tim Scholefield 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. To approve the Company's dividend policy with regard to quarterly payments as set out on page 25 of the Report and Accounts 2017.
8. 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 £2,473,000 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 2019 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:

9. THAT, subject to the passing of Resolution 8 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 8 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 2019 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 £2,473,000, 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.
10. 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 14,830,000;
    (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.

Special business

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

11. THAT the continuation of the Company be approved.

By Order of the Board
F&C Investment Business Limited, Secretary
6 December 2017

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Meeting Location

Notes:

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.
2. Any person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such person complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.
3. A Form of Proxy is provided with this notice for members. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Computershare Investor Services PLC on 0370 889 4094. 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 received by post or (during normal business hours only) by hand at the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof. Completion and return of a Form of Proxy will not preclude members from attending and voting at the meeting should they wish to do so. Amended instructions must also be received by the Company's Registrar by the deadline for receipt of Forms of Proxy.
4. Alternatively, members may register the appointment of a proxy for the meeting electronically, by accessing the website www.eproxyappointment.com where full instructions for the procedure are given. The Control Number, Shareholder Reference and PIN as printed on the Form of Proxy will be required in order to use the electronic proxy appointment system. This website is operated by Computershare Investor Services PLC. The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by Computershare Investor Services PLC not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. If you want to appoint more than one proxy electronically please contact Computershare Investor Services PLC on 0370 889 4094.
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 a.m. on 6 February 2018. 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 a.m. on 6 February 2018.
6. Any person receiving a copy of this notice as a person nominated by a member to enjoy information rights under section 146 of the Act (a "Nominated Person") should note that the provisions in notes 1, 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
7. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Act, the Company has specified that only those members registered on the register of members of the Company at 11 p.m. on 9 February 2018 (the "Specified Time") (or, if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 11 p.m. on the day which is two days prior to the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than

48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by the latest time(s) for receipt of proxy appointments specified in notes 4 and 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
13. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    (a) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the meeting; or
    (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act.
14. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.
15. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. However, members should note that no answer need be given in the following circumstances:
    (a) if to do so would interfere unduly with the preparation of the meeting or would involve a disclosure of confidential information;
    (b) if the answer has already been given on a website in the form of an answer to a question; or
    (c) if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
16. As at 1 December 2017, being the latest practicable date before the publication of this notice, the Company's issued capital consisted of 98,934,268 ordinary shares of 25 pence each carrying one vote each. Therefore, the total voting rights in the Company as at 1 December 2017 were 98,934,268. No shares are held in Treasury.
17. This notice, together with information about the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 1 December 2017 being the latest practicable date prior to the printing of this notice 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.
18. Copies of the letters of appointment between the Company and its Directors; a copy of the Articles of Association of the Company; the register of Directors' holdings; and a deed poll relating to Directors' indemnities will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Bank Holidays excluded) until the date of the meeting and also on the date and at the place of the meeting from 15 minutes prior to the commencement of the meeting to the conclusion thereof.
19. No Director has a service agreement with the Company.
20. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections have the right to require the Company:
    (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or
    (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.
21. Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 2 January 2018, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

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. Most UK resident individuals may realise net capital gains of up to £11,300 in the tax year ended 5 April 2018 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 (£33,500 in 2017–18 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 3.45 pence per share is payable on 27 December 2017. 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

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. The Company will have 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.

All new Shareholders, excluding those whose shares are held in CREST, will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders www.gov.uk/government/publications/exchange-of- information-account-holders.

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 £20,000 for the 2017/18 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits

F&C Junior ISA (JISA)*

You can invest up to £4,128 for the tax year 2017/18 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

F&C Child Trust Fund (CTF)*

If your child has a CTF you can invest up to £4,128 for the 2017/18 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

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.

CHARGES

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 charges

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 our savings plans and charges, please read the Key Features and Terms and Conditions of the plan – available on our website fandc.co.uk

HOW TO INVEST

To open a new F&C savings plan, apply online at fandc.com/apply

Note, this 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.

New Customers:

Call: **0800 136 420****
(8.30am – 5.30pm, weekdays)

Email: **info@fandc.com**

Existing Plan Holders:

Call: **0345 600 3030****
(9.00am – 5.30pm, weekdays)

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

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

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include: **Alliance Trust Savings, Barclays Stockbrokers, Halifax, Hargreaves Lansdown, HSBC, Interactive Investor, LLoyds Bank, Selftrade, TD Direct Investing, The Share Centre**

The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please read our Key Features Document before you invest and this can be found on our website 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 professional financial adviser.

* The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18.
**Calls may be recorded or monitored for training and quality purposes.

A part of BMO Financial Group

F&C Management Limited

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.

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 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 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.

Registrar – Computershare Investor Services PLC provide share registration services to the Company. They maintain the register of members and arrange the payment of dividends. Shares held by investors in the F&C Savings Plans are held on the register in one nominee account under the name of State Street Nominees Limited.

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 2017

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