F&C UK High Income Trust plc

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 MARCH 2018

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Financial Calendar 2018/2019	
Annual General Meeting	5 July 2018
First quarter's distribution paid (XD Date 5 July 2018)	3 August 2018
Second quarter's distribution paid (XD Date 4 October 2018)	2 November 2018
Announcement of Interim Results	November 2018
Third quarter's distribution paid (XD Date 3 January 2019)	1 February 2019
Fourth quarter's distribution paid (XD Date 4 April 2019)	3 May 2019
Announcement of Annual Results and Posting of Annual Report	May 2019
Annual General Meeting	July 2019

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Company Overview

F&C UK High Income Trust plc (the "Company") is an investment trust and its shares are listed on the London Stock Exchange. It is a member of the Association of Investment Companies ('AIC').

Investment Objective

The investment objective of the Company is to provide an attractive return to shareholders each year in the form of dividends and/or capital repayments, together with prospects for capital growth.

In pursuit of its objective, the Company invests predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

Capital Structure

The Company has two classes of shares: Ordinary shares and B shares. The rights of each class are identical, save in respect of the right to participate in distributions of dividends and capital. The net asset value attributable to each class of shares is the same. Only Ordinary shares are entitled to dividends paid by the Company. B shares, instead of receiving dividends, receive a capital repayment at the same time as, and in an amount equal to, each dividend paid on the Ordinary shares. Shares may be held and traded within units, each unit comprises three Ordinary shares and one B share.

Visit our website at **www.fandcukhit.co.uk**

The Company is registered in Scotland with company registration number SC314671 Legal Entity Identifier: 213800B7D5D7RVZZPV45

Financial Highlights 2018

5.1%

Yield[1] on Ordinary Shares and B Shares

Distribution yield of 5.1 per cent on Ordinary shares and B shares at 31 March 2018, based on total distributions for the financial year of 4.88p per share, compared to the yield on the FTSE All-Share Capped 5% Index of 3.8 per cent. Total distributions increased by 3.4% compared to the prior year.

-2.8%

Ordinary Share price total return[2]

Ordinary share price total return per share for the year was -2.8 per cent, compared to the FTSE All-Share Capped 5% Index total return of 0.9 per cent.

-3.8%

B Share price total return[2]

B share price total return per share for the year was -3.8 per cent, compared to the FTSE All-Share Capped 5% Index total return of 0.9 per cent.

-2.5%

NAV total return[2]

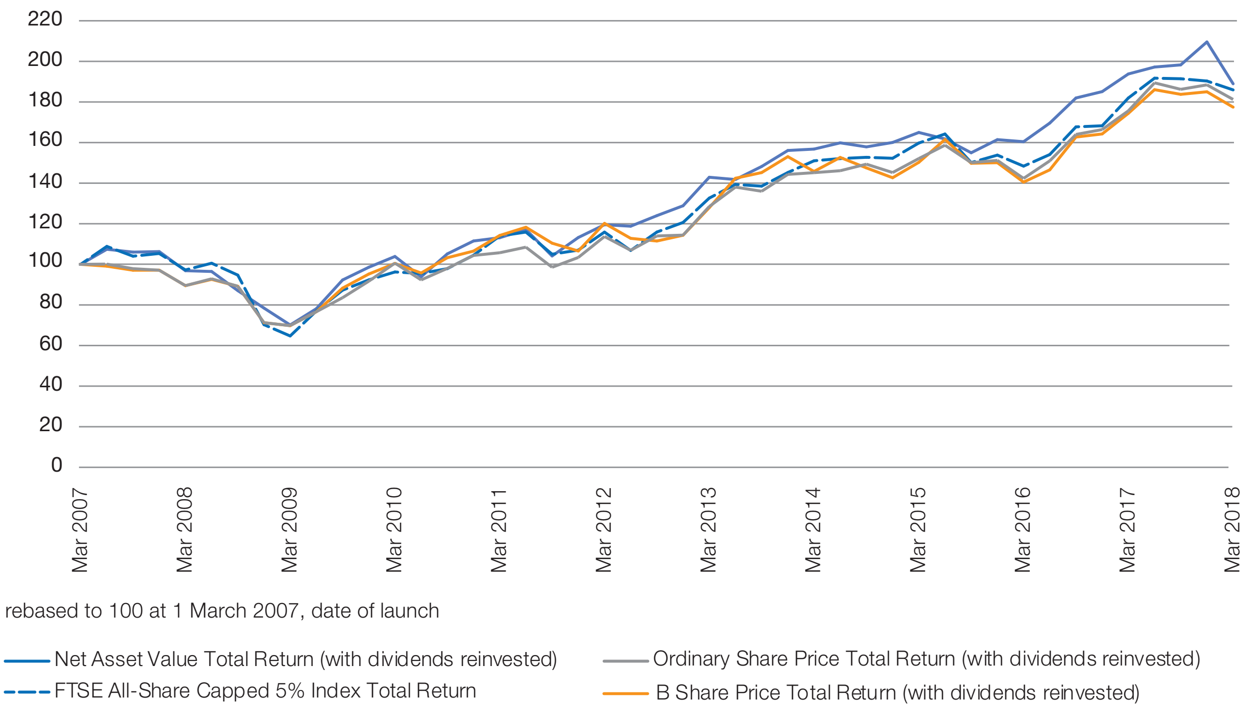
Net asset value total return per share for the year was -2.5 per cent, compared to the FTSE All-Share Capped 5% Index total return of 0.9 per cent.

(1) Yield – See Alternative Performance Measures on page 77. Based on a total distribution of 4.88p per share and the Ordinary share price and B share price at 31 March 2018.

(2) Total return – see Alternative Performance Measures on page 77.

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.

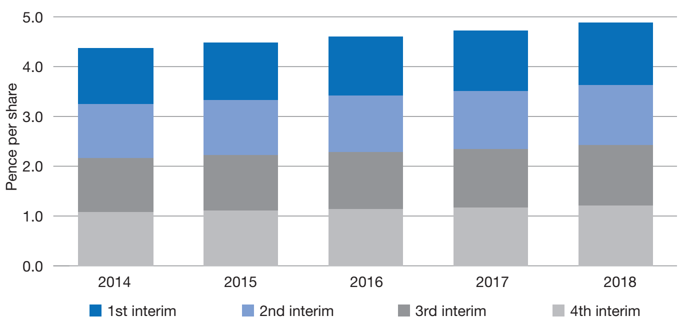
Net Asset Value Total Return and Share Price Total Return since launch



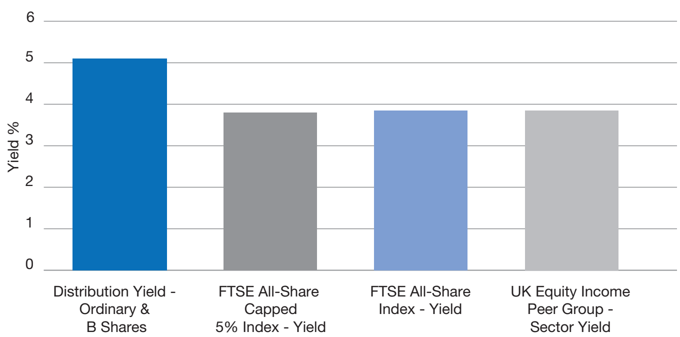
Source: F&C

Dividends and Capital repayments

Growth in payments to shareholders over last five financial years



Distribution yield compared to the Index and Sector at 31 March 2018



Summary of Performance

	Year to 31 March 2018	Year to 31 March 2017
Total Return[(1)]		
Net asset value total return per Ordinary share, B share and unit (debt at fair value)*‡	–2.5%	20.8%
Ordinary share price	–2.8%	21.8%
B share price	–3.8%	19.7%
Unit price*	1.3%	20.1%
FTSE All-Share Capped 5% Index	0.9%	21.8%

	Year to 31 March 2018	Year to 31 March 2017	% change
Revenue and Distributions			
Distributions per Ordinary share and B share	4.88p	4.72p	+3.4
Distributions per unit*	19.52p	18.88p	+3.4
Yield[(2)]	5.1%	4.5%	

	31 March 2018	31 March 2017	% change
Capital			
Net Assets	£122.3m	£131.6m	-7.1
Net asset value per Ordinary share and B share (debt at fair value)‡	103.75p	111.12p	-6.6
Net asset value per unit (debt at fair value)*‡	415.00p	444.48p	-6.6
FTSE All-Share Capped 5% Index	4,107.66	4,218.67	-2.6
Gearing†			
Net gearing	4.4%	3.5%	
Ongoing Charges$			
as percentage of average shareholders' funds	0.93%	1.11%	

(1) Total return – see Alternative Performance Measures on page 77.

(2) Yield on Ordinary shares and B Shares at year end – see Alternative Performance Measures on page 77. Based on a total distribution of 4.88p (2017: 4.72p) per share and the Ordinary share price and B Share price at 31 March 2018 and 2017 respectively.

* A unit consists of three Ordinary shares and one B share.

‡ A reconciliation between the net asset value (debt at fair value) and the net asset value per the Balance Sheet is shown in note 3 to the financial statements.

† The gearing figure indicates the extra amount by which shareholders' funds would rise or fall if total assets were to rise or fall. A figure of zero per cent means that the Company has a nil geared position.

Net gearing = the percentage figure of investments held divided by net assets attributable to shareholders.

$ Ongoing charges – see Alternative Performance Measures on page 77. In line with AIC recommendations.

Sources: F&C Investment Business Limited and Datastream

At the Company's Annual General Meeting held on 29 June 2017 Shareholders approved the proposal to change the name of the Company's A Shares to Ordinary shares.

‘Since launch on 1 March 2007, the NAV total return is 89.0% and has outperformed the 85.9% total return from the Company’s benchmark’.

Chairman's Statement

I A McLaren Chairman

Over the financial year a number of changes have been made to simplify the Company's overall structure and message. We are pleased with the positive feedback we have received from shareholders as we enter a new phase for the Company.

Performance

For the Company's financial year ended 31 March 2018, the NAV total return for the Ordinary shares and the B shares was -2.5% compared to the total return of the Company's benchmark of 0.9%. At the year end the discount on the Company's shares had widened slightly resulting in a share price total return for the Ordinary shares and B shares of -2.8% and -3.8% respectively for the financial year.

The 2018 financial year has been one of significant change for the Company following the appointment of a new Fund Manager (Philip Webster) in April 2017. As a Board we have made great strides in simplifying the message to current and prospective shareholders in tandem with transitioning to a pure equity portfolio. The ethos of the Company remains the same, to pay a high and growing dividend, but we felt the investment portfolio needed a clearer strategy which we have now put in place. The Manager has delivered a concentrated, differentiated strategy that we feel offers shareholders something unique in the 'high income' landscape. Whilst the one-year performance is behind the benchmark the Manager has articulated a clear strategy and as a Board we understand that this can take time to come to fruition.

Investment portfolio

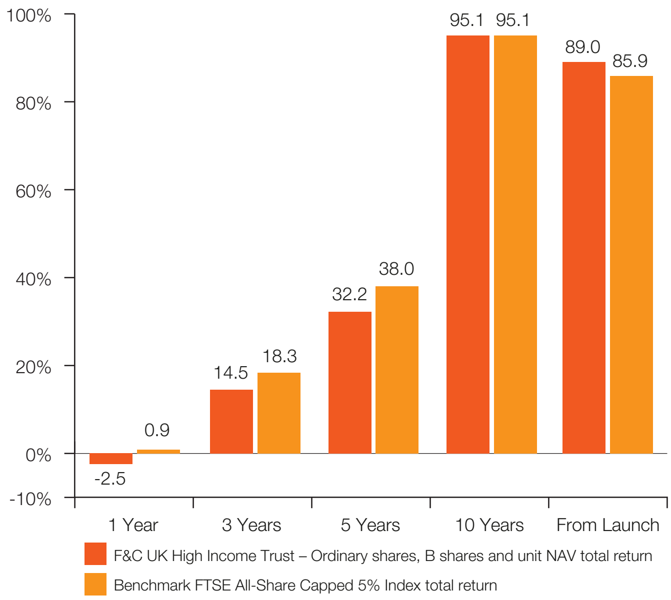
As part of the changes referenced above, at the Company's Annual General Meeting in June 2017, shareholders approved the proposed changes to the Company's investment policy, which included the removal of the Higher Yield Portfolio ('corporate bonds'). There had been a continued reduction in assets allocated to this portfolio and the remaining holdings have now been sold.

There has been a lot of discussion around bond yields rising and the financial system returning to a more normalised interest rate. Whilst this will happen over the medium-term, valuations on bonds remain expensive and the yields on offer made allocating capital to this asset class no longer tenable.

The principal contributors to the performance and additional information is covered in more detail in the Manager's Review on pages 17 and 18.

The Company's longer-term performance is illustrated graphically below and shown within the Key Performance Indicators on page 13.

Cumulative Performance to 31 March 2018



Earnings, Dividends and Capital Repayments

The Company's revenue earnings per share increased over the year to 4.03p per share (2017: 3.82p per share) and reflected continued growth in underlying dividends. The Manager has changed the emphasis of the portfolio moving away from some of the mega-caps, where the dividend cover and growth is low, towards dividend growth. This is again a medium-term strategy and in line with the Board's commitment to a progressive dividend policy.

Movements in the Sterling exchange rate, most notably against the US dollar, have an important influence on the Company's revenue as broadly a quarter of the Company's income comes from UK-listed companies that declare dividends in US dollars. Following a period of weakness in Sterling, over the past year it has strengthened against the US dollar by approximately 11% which will have tempered the rate of growth in dividend income.

Turning to the wider UK market, the 2017 calendar year was a record for dividend payments, surpassing the 2014 high, with dividends rising 10.7% year-on-year to £94bn. While at face value this looks an impressive increase nearly half of the upside came from a resurgent mining sector and a further quarter came from the weakness in Sterling and a number of large special dividends. The underlying dividend growth was therefore less impressive and in the quarter to 31 December 2017 growth was a more moderate 1.1% as currency gains in the previous quarters swung into losses.

For each of the Company's first three quarters, the dividends paid on the Ordinary shares and capital repayments on the B shares were 1.21p per share. A fourth quarter dividend and a capital repayment of 1.25p per share was paid to Ordinary shareholders and B shareholders respectively, after the year end, on 4 May 2018.

The total dividend/capital repayment in respect of the year ended 31 March 2018 amounted to 4.88p per share, an increase of 3.4% on the previous year and ahead of the 2.4% increase in the Consumer Price Index.

The total dividend/capital repayment for the year represents a yield of 5.1% on both the Ordinary share and B share year end prices, a premium of around 34% to the 3.8% yield from the Company's benchmark at that date.

We have now steadily increased the annual total dividend/capital repayment in each of the last five years while adding to the revenue reserve. After deducting the fourth quarter dividend, (which was paid after the year-end), the Company has a revenue reserve of £5.2m equivalent to approximately 124% of the current annual dividend cost. This revenue reserve affords the Company the ability to sustain the level of dividend payments if a more difficult environment develops.

Proposed benchmark index change

The Board measures and assesses the performance of the Company against a number of comparators and since launch performance has primarily been measured against the FTSE All-Share Capped 5% Index. Within the Company's investment policy the objective is to achieve a total return in excess of that of the FTSE All-Share Capped 5% Index. It is proposed that this benchmark index be changed to the FTSE All-Share Index in order to simplify the measurement of the Company's performance. It was clear that the FTSE All-Share Capped 5% Index (in which constituents are capped to avoid over-concentration in any one stock) was not that well understood by our shareholders or the market. I would like to state that the two indices have performed in tandem (less than 0.5% difference over 5 years) which should comfort shareholders that this is very much about clarity of message.

Shareholders will be aware that while the Company does not have a fixed life, in the event that the net asset value total return performance of the Company is less than that of the FTSE All-Share Capped 5% index over the relevant five-year period, shareholders are given the opportunity to vote on whether the Company should continue, by ordinary resolution, at the Company's Annual General Meeting every five years.

The current five-year period for this purpose runs from 1 April 2017 to 31 March 2022. Accordingly it is proposed that the index used to measure this be changed to the FTSE All-Share Index with effect from 1 April 2017. A resolution to amend the Company's Articles to implement this change will be proposed at the Annual General Meeting. By way of illustration the returns from this index over 1 year, 3 years, 5 years, 10 years and from launch have been included within the performance table within Key Performance Indicators on page 13.

In the event that shareholders approve this change, the Investment Policy as set out on page 11 would also be amended to reflect that the objective is to achieve a total return in excess of that of the FTSE All-Share Index.

Borrowing

The Company refinanced its borrowings at the end of September 2017 and reduced the fixed level of debt from £18 million at a cost of 3.15% per annum to £7.5 million at a lower rate of annual interest of 2.58%, fixed for five years. In addition the Company also entered into a five year unsecured multicurrency revolving credit facility for £7.5 million.

The Company's gearing policy and related limits are set out on page 11 and at the time of writing, borrowings total 5.3 per cent of gross assets.

This dual structure gives us both fixed structural gearing and flexibility to use the revolving facility when we feel it is appropriate.

Management fees

As set out in the Director's Report the Remuneration Committee regularly reviews the Manager's appointment and the terms of its contract. I am pleased to report that with effect from 1 April 2018 it has been agreed with the Manager that the investment management fee be reduced from 0.75 per cent per annum on the net asset value to 0.65 per cent per annum on the net asset value of the Company. The Board strives to ensure that the ongoing charges of running the Company are as competitive as possible.

Discount and buy backs

At the financial year end, the Company's Ordinary share price and B share price stood at a discount to net asset value of 7.0% and 7.7% respectively. The average discount level at which the Company's Ordinary shares and B shares traded relative to net asset value in the year was 6.6%.

During the year, the Company bought back 500,000 Ordinary shares, representing 0.6% of the Ordinary shares, in issue at the previous year end. The shares were bought back in line with the Company's stated policy, which is to repurchase shares of either class, at the Directors' discretion, when there are net sellers and the market price stands at a discount to net asset value of 5 per cent or more. The price paid for these Ordinary shares represented a discount of approximately 7.6% to the prevailing net asset value at the time of purchase.

Board Changes

As explained in my Interim Report, Mr Kenneth Shand retired as a Director of the Company following the conclusion of the Annual General Meeting on 29 June 2017. Following his retirement, James Williams became Senior Independent Director and chairman of the Remuneration Committee.

Following the AGM, the Board was pleased to announce the appointment of Mr Andrew Watkins as a non-executive Director of the Company, which took immediate effect. Andrew has worked in the financial services industry for over 40 years and was Head of Client Relations for Investment Trusts at Invesco Perpetual from 2004 until his recent retirement. We believe that his experience of investment trusts and his extensive knowledge of the industry will contribute significantly to the Board.

Annual General Meeting ("AGM")

The AGM will be held at 12 noon on Thursday 5 July 2018 in the offices of BMO Global Asset Management, Quartermile 4, 7a Nightingale Way, Edinburgh. It will be followed by a presentation from our Fund Manager Philip Webster. This is a good opportunity for shareholders to meet the Board and the Fund Manager and I would encourage you to attend.

Outlook

The Board has taken a number of positive steps over the last 12 months to position the Company for the next five-year performance cycle. The Income sector is a competitive space and we feel the changes we have made, along with the portfolio changes made by the Manager, give us a clear and differentiated position in the market. We have managed to deliver this whilst maintaining the above market yield and despite performance lagging over the last financial year we remain comfortable with the Company's investment portfolio. The market has become very short-term with a focus on quarterly results. This has caused a disconnect with the medium-term fundamentals which plays into the hands of stock pickers, although this will take time. It is early days but we are encouraged by the response we have had from our shareholders to the changes we have made and feel well placed for the future.

Iain McLaren
Chairman
29 May 2018

Business Model and Strategy

F&C UK High Income Trust is a closed-end listed investment company and carries on business as an investment trust. The investment objective is to provide an attractive return to shareholders each year in the form of dividends and/or capital repayments, together with prospects for capital growth. We do this by investing predominantly in UK equities and equity related securities of companies across the market capitalisation spectrum.

Board of Directors

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 22. The Board consists of four male Directors and one female Director. The Company has no executive Directors or employees.

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. This includes duties towards responsible ownership, which are explained on page 12. An important responsibility is also the annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager ('**AIFM**'). The outcome of the evaluation in the current year is set out on pages 24 to 25.

The Manager

The Board has contractually delegated the management of the investment portfolio, and other services, to F&C Investment Business Limited ('**FCIB**' or the '**Manager**'), a wholly owned subsidiary of F&C Asset Management plc (**F&C**). F&C is wholly owned by Bank of Montreal ('**BMO**') and is part of BMO Global Asset Management.

A summary of the terms of the management agreement is contained in note 4 to the financial statements. The Manager also acts as the AIFM under the Alternative Investment Fund Managers Directive ('**AIFMD**').

Towards the start of the financial year, Philip Webster replaced Rodger McNair as the Fund Manager appointed by FCIB. Philip is a senior member of the F&C investment team with 12 years' experience in managing investment companies.

Investment policy

The Company's investment policy is set out on page 11, and was approved by shareholders at the Company's Annual General Meeting on 29 June 2017.

Any material change to the Investment policy of the Company will only be made with Shareholder approval.

As explained in the Chairman's Statement on page 7 and the Report of the Directors on page 28, the Company is proposing to amend the articles of association to change the benchmark index against which the Company's performance is measured. In the event that shareholders approve this change, the investment policy on page 11 would also be amended to reflect that the objective is to achieve a total return in excess of that of the FTSE All-Share Index.

Our approach

The Company invests in companies which the Manager believes will generate a combination of long-term growth in capital and income for shareholders. The selection of investments is based on analysis of, amongst other things, market positioning and competitive advantage, financial strength, credit risk and cashflow characteristics.

Investment risks are mitigated through holding a wide range of securities in different sectors. As at 31 March 2018, the portfolio was made up of 35 investments. The Manager makes use of third party risk measurement systems to monitor investment risk. An analysis of the portfolio is contained on pages 19 to 21.

Investment Portfolio

Investments are predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

Favoured companies are those which have the ability to sustain above-average growth in earnings and dividends over the longer term, have strong balance sheets and interest cover, are inherently cash-generative and have a stable and proven management team.

The style of management is to make long-term strategic investments; however the basic approach does not preclude the taking of a more pragmatic view of the valuation of companies through the business cycle.

The Company has a relatively concentrated portfolio and typically has modest portfolio turnover.

Investment of Assets

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

Marketing

F&C continues to promote investment in the Company's shares, which are suitable for retail distribution in the UK as well as professionally advised private clients and institutional investors. The Board works closely with F&C to ensure optimal delivery of the Company's investment proposition through all available channels.

The Manager offers a range of private investor savings schemes which are a convenient and flexible way to invest in the Company, details of which can be found in the 'How to Invest' section of this report on page 75. In addition, meetings are held regularly with current and prospective shareholders and analysts covering the investment trust sector.

Principal Risks

The Company's Principal Risks are set out in detail on pages 14 and 15.

Review of Performance and Outlook

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on page 13. Reviews of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year are contained in the Chairman's Statement on pages 6 to 8 and the Manager's Review on pages 17 and 18, both of which form part of this Strategic Report.

The Strategic Report, contained on pages 6 to 21, has been approved by the Board of Directors.

By order of the Board
For F&C Investment Business Limited
Company Secretary
6th Floor
Quartermile 4
7a Nightingale Way
Edinburgh EH3 9EG
29 May 2018

Policy Summary

Investment Policy

In pursuit of its objective, the Company invests predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

The objective will be to achieve a total return in excess of that of the FTSE All-Share Capped 5% Index. The Manager will approach investment portfolio construction with the aim of maintaining a diversified portfolio with approximately 40 holdings at any given time. No single investment in the portfolio may exceed 10 per cent of the Company's gross assets at the time of purchase. In addition, the Manager expects few individual holdings to exceed five per cent of the Company's gross assets at the time of purchase. There are no maximum levels set for exposures to sectors.

Income may be enhanced from the investment portfolio by writing call options, but only where the portfolio has an existing holding and the holding is greater than the amount of stock subject to the call option. The percentage of the portfolio that may be used to generate call premium is limited to 5 per cent by value at any one time. The Company may use derivatives for efficient portfolio management from time to time.

The Company has the power under its Articles of Association to borrow an amount up to 100 per cent of the Company's Adjusted Capital and Reserves. The Directors currently intend that the aggregate borrowings of the Company will be limited to approximately 20 per cent of the Company's gross assets immediately following drawdown of any new borrowings. The Directors will however retain flexibility to increase or decrease the level of gearing to take account of changing market circumstances and in pursuit of the Company's investment objectives.

As required by the Listing Rules, the Company has a policy to invest no more than 15 per cent of gross assets in other listed investment companies.

Proposed change to the Company's Benchmark

In order to simplify the measurement of the Company's performance, the Board is proposing to change the Company's benchmark from the FTSE All-Share Capped 5% Index to the FTSE All-Share Index. The difference between these two indices is now expected to be minimal as is shown by the performance figures included within the Key Performance Indicators on page 13. The FTSE All-Share Capped 5% Index is the index referred to in the Company's Articles of Association (the "Articles") as the index against which the Company's performance is measured over the relevant five year period. The Board is therefore proposing Resolution 16 at the annual general meeting of the Company in order to amend the Company's Articles in this regard and, in the event that the Company's shareholders approve Resolution 16, the reference to the FTSE All-Share Capped 5% Index in the Company's investment policy (in the facing column) will also be replaced with the FTSE All-Share Index. No other changes are being made to the Company's investment policy. Any material change to the Investment Policy of the Company will only be made with the prior consent of the Company's shareholders. Further details of this proposal are set out on page 28.

Gearing Policy

As explained in the Investment Policy statement above, the Company has the flexibility to borrow and the Board has set a gearing limit. The Board receives recommendations on gearing levels from the Manager and it is responsible for setting the gearing range within which the Manager may operate. The Company's borrowing facilities are described in more detail in the notes to the financial statements.

Dividend/Capital Repayment Policy

Within the Company's investment objective is the aim to provide an attractive return to shareholders in the form of dividends and/or capital repayments.

In determining dividend payments, the Board takes account of income forecasts, brought forward revenue reserves, the Company's dividend payment record and the Corporation Tax rules governing investment trust status. Dividends can also be paid from capital reserves although the Board has no current need or intention of doing so. At the same time as dividend payments are made to Ordinary shareholders, capital repayments of the same amount are made to B Shareholders from the special capital reserve.

Dividends/capital repayments are currently paid quarterly in August, November, February and May.

Buy-backs/Discount Policy

Share buy-backs help reduce the volatility of the discount and enhance the net asset value per share for continuing shareholders.

While the Directors will at all times retain discretion over whether or not to repurchase Shares, it will be the Company's policy, in the absence of unforeseen or extreme circumstances and subject to its policy of maintaining the Ordinary : B share ratio within the range (72.5 : 27.5 and 77.5 : 22.5), to repurchase Shares of either class when there are net sellers and the market price stands at a discount to net asset value of 5 per cent or more. Shares will not be bought back at a premium to net asset value. Shares which are bought back by the Company may be cancelled or may be held in treasury. There is no limit on the amount of shares the Company can hold in treasury. Shares held in treasury may be resold, subject to conditions on dilution to net asset value. For further details see the 'Treasury Shares' section on pages 27 and 28.

Taxation Policy

The Board is fully committed to complying with applicable legislation and statutory guidelines, including the UK's Criminal Finances Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates. The policy is based upon a risk assessment undertaken by the Board and professional advice is sought as and when deemed necessary.

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("**Section 1158**") such that it does not suffer UK Corporation Tax on capital gains; and ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due.

Responsible Ownership

The Board supports F&C in its belief that good governance creates value. F&C takes a particular interest in corporate governance and sustainable business practices, and continues to work on systematically incorporating environmental, social and governance factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term.

Engagement with companies on significant regulatory and ESG matters, so 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 an investee company management on any resolution. Information on where to find the statement of compliance with The UK Stewardship Code can be found on page 30.

The Company has no employees and the Board is composed entirely of non-executive Directors. As an investment trust, the Company has no significant direct social, human rights, community or environmental responsibilities.

Board diversity

The Board is composed solely of non-executive Directors and has 20% female representation. The Board's approach to the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including gender. The Board complies with the UK Corporate Governance Code in appointing appropriately diverse, independent non-executive directors who set the operational and moral standards of the Company. The Board will always appoint the best person for the job and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

Key Performance Indicators

The Board recognises that it is the distribution level of the Ordinary shares and B shares together with the longer term share price performance that is most important to the Company's investors. Underlying share price performance is driven by the performance of the net asset value. The Board assesses its performance in meeting the Company's objective against the key performance indicators ("KPIs") (also referred to as Alternative Performance Measures) set out below.

Commentary on these measures can be found in the Chairman's Statement on pages 6 to 8 and the Manager's Review on pages 17 and 18. A description of these Alternative Performance Measures can be found on page 77.

Total return performance* – 31 March 2018

	1 Year %	3 Years %	5 Years %	10 Years %	Since launch‡
Ordinary share price†	(2.8)	10.8	31.0	101.2	81.3
B share price†	(3.8)	9.8	28.2	96.9	77.4
Unit price†	1.3	13.8	36.6	110.7	87.2
Net asset value per Ordinary share, B share and per unit†	(2.5)	14.5	32.2	95.1	89.0
FTSE All-Share Capped 5% Index†	0.9	18.3	38.0	95.1	85.9
FTSE All-Share Index†	1.3	18.6	37.6	95.1	81.7

This measures the Company's share/unit price and NAV total return, which assumes distributions paid by the Company have been reinvested, relative to the benchmark.

†Total return. Source: F&C and Datastream.
‡The Company was launched on 1 March 2007.
*See Alternative Performance Measures on page 77 for explanation.

The Directors are, subject to shareholder approval at the annual general meeting, proposing to change the Company's benchmark to the FTSE All-Share Index. The above performance figures have been provided to show that the impact of this change is expected to be minimal.

Distribution Yield* % – 31 March

	2018 %	2017 %
Ordinary shares	5.1	4.5
B shares	5.1	4.5
Yield-FTSE All-Share Capped 5% Index	3.8	3.4
Yield-FTSE All-Share Index	3.9	3.5

This shows the Company's distribution yield at the year-end relative to the benchmark.

Source: F&C and Datastream
*See Alternative Performance Measures on page 77 for explanation

Discount*

As at 31 March	Ordinary shares %	B shares %	Units %
2018	(7.0)	(7.7)	(4.3)
2017	(6.4)	(6.1)	(7.9)
2016	(6.7)	(5.0)	(8.1)
2015	(2.7)	(2.7)	(2.9)
2014	(7.6)	(0.5)	(8.8)

This is the difference between the share/unit price and the NAV per share/unit.

Source: F&C
* See Alternative Performance Measures on page 77 for explanation

Ongoing charges ratio – 31 March*

	%
2018	0.93
2017	1.11
2016	1.06
2015	1.05
2014	1.06

This data shows whether the Company is being run efficiently. It measures the running costs as a percentage of average net assets.

*Calculated with reference to the basis recommended by the AIC. See Alternative Performance Measures on page 77 for explanation

Source: F&C

Principal Risks and Viability Statement

Most of the Company's principal risks that could threaten its objective, strategy, future performance, liquidity and solvency are market related and comparable to those of other investment trusts investing primarily in listed securities.

A summary of the Company's internal controls and risk management arrangements is included within the Report of the Audit Committee on pages 31 and 32. By means of the procedures set out in that summary, and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, issued by the Financial Reporting Council, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. It has also regularly reviewed the effectiveness of the Company's risk management and internal control systems for the period.

The principal risks and uncertainties faced by the Company, and the Board's mitigation approach are described below.

Note 21 to the financial statements provides detailed explanations of the risks associated with the Company's financial instruments and their management.

Principal Risks	Mitigation
Financial Risk The Company's assets consist mainly of listed equity securities and its principal financial risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. **No change in overall risk**	The Board regularly considers the composition and diversification of the Investment Portfolio and considers individual stock performance together with purchases and sales of investments. Investments and markets are discussed with the Manager and a Strategy meeting is held annually. An explanation of these risks and the way in which they are managed are contained in note 21 to the financial statements.
Investment and strategic risk Incorrect strategy, asset allocation, stock selection, inappropriate capital structure, insufficient monitoring of costs, failure to maintain an appropriate level of discount/premium and the use of gearing could all lead to poor returns for shareholders. **No change in overall risk**	The Company's objective and investment policy and performance against peers and benchmark are considered by the Board at each meeting. A separate Board meeting is also held each year to consider strategic issues. The Investment Portfolio is diversified and comprises listed securities and its composition is reviewed regularly with the Board. F&C's Investment Risk team provides oversight on investment risk management. Market intelligence is maintained via the Company's Broker and the effectiveness of the marketing strategy is also reviewed at each meeting. The Manager also meets with major shareholders. The Board regularly considers operating costs combined with underlying dividend income from portfolio companies and the consequent dividend paying capacity of the Company.

Principal Risks	Mitigation
Regulatory Breach of regulatory rules could lead to the suspension of the Company's Stock exchange listing, financial penalties, or a qualified audit report. Breach of section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. Changes to tax regulations could alter the market competitiveness of the Company's B shares. **No change in overall risk**	The Board liaises with advisors to ensure compliance with laws or regulations. The Manager and its Business Risk department provide regular reports to the Board and Audit Committee on their monitoring and oversight of such rules and are reviewed by the Board. This includes the conditions to maintain investment trust status including the income distribution requirement. The Board has access to F&C's Head of Business Risk and requires any significant issues directly relevant to the Company to be reported immediately.
Operational Failure of the Manager's systems or disruption to its business, or that of an outsourced or third party service provider, could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets leading to a potential breach of the Company's investment mandate or loss of shareholders' confidence. External cyber attacks could cause such failure or could lead to the loss or sabotage of data. **Risk of cyber attacks increased in the year under review**	The Board meets regularly with the management of F&C and its Risk team to review internal control and risk reports which includes oversight of third party service providers. The Manager's appointment is reviewed annually. The contract can be terminated with six months' notice. A business continuity plan is in place. The Manager continues to benefit from the long-term financial strength and policies of its parent company, Bank of Montreal ("BMO"). Supervision of third party service providers has been maintained by F&C and includes the review of IT security and cyber threat. The Board received a presentation during the year from the Custodian on its own cyber-security controls.
Custody risk Safe custody of the Company's assets may be compromised through control failures by the custodian. **No change in overall risk**	The Board receives quarterly reports from the Depositary confirming safe custody of the Company's assets and cash and holdings are reconciled to the Custodian's records. The Custodian's internal controls reports are also reviewed by the Manager and key points reported to the Audit Committee. The Depositary is specifically liable for loss of any of the Company's securities and cash held in custody.

Viability assessment and statement

In accordance with the UK Corporate Governance Code, the Board is required to assess the future prospects for the Company, and has considered that a number of characteristics of its business model and strategy were relevant to this assessment:

- The Board looks to long-term outperformance rather than short-term opportunities.
- The Company's investment objective, strategy and policy, which are subject to regular Board monitoring, mean that the Company is invested mainly in liquid listed securities and that the level of borrowing is restricted.
- The Company is a closed-end investment trust, whose shares are not subject to redemptions by shareholders.
- Subject to shareholder continuation votes, in the event that the net asset value total return performance of the Company is less than that of the FTSE All-Share Capped 5% Index over the relevant five year period, the Company's business model and strategy is not time limited.

Also relevant were a number of aspects of the Company's operational arrangements:

- The Company retains title to all assets held by the Custodian under the terms of a formal agreement with the Custodian and Depositary.
- The borrowing facilities, which remain available until September 2022, are also subject to formal agreements, including financial covenants with which the Company complied in full during the year.
- Revenue and expenditure forecasts are reviewed by the Directors at each Board Meeting.
- Cash is held with banks approved and regularly reviewed by the Manager.

In considering the viability of the Company, the Directors carried out a robust assessment of the principal risks and uncertainties which could threaten the Company's objective and strategy, future performance, liquidity and solvency. These risks, their mitigations and the processes for monitoring them are set out on pages 14 and 15 on Principal Risks, pages 31 and 32 in the Report of the Audit Committee and in Note 21 of the financial statements.

The Directors have also considered:

- the level of ongoing charges incurred by the Company which are modest and predictable and total 0.93% of average net assets,
- future revenue and expenditure projections,
- the Company's borrowing and liquidity in the context of the fixed rate loan which is due to mature in September 2022,
- its ability to meet liquidity requirements given the Company's investment portfolio consists mainly of readily realisable listed equity securities which can be realised to meet liquidity requirements if required,
- the ability to undertake share buybacks if required,
- the effect of significant future falls in investment values and the ability to maintain dividends and capital repayments.

These matters were assessed over a five year period to May 2023, and the Board will continue to assess viability over five year rolling periods, taking account of severe but plausible scenarios. A rolling five year period represents the horizon over which the Directors believe they can form a reasonable expectation of the Company's prospects, balancing the Company's financial flexibility and scope with the current outlook for longer-term economic conditions affecting the Company and its shareholders.

Based on their assessment, and in the context of the Company's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to May 2023.

Manager's Review

Philip Webster

The financial year was a tough one for the income sector, but we feel the investment portfolio is now well positioned and valuations remain attractive.

This has been a year of significant change for the Company and our shareholders. The Board and Manager have worked hard over the last year to enhance the profile of the Company, simplify the message and make sure we have communicated this clearly to the wider market. We very much see this as the beginning of a five-year journey for the Company and we are aware it will take time to gain traction as we look to position the product as a differentiated strategy in the income landscape.

Message

From our perspective, it is important to start with the message as this is fundamental to what we are trying to deliver. It is easy to look at performance, covered in detail later, in isolation but this needs to be coupled with a strategy that shareholders want to own. Today, more than ever, 'copy-cat' products are going to struggle to compete unless they have a strong brand name in the sector.

Differentiation is therefore key as clients seek diversification and stock picking, which they would never undertake directly, unless the portfolios are of sufficient scale. A comment from a recent shareholder meeting explains this better: "if you're not doing something that we can't do ourselves why would I own you?". This is going to be one of the defining factors for all funds as the days of charging clients active fees for pseudo-tracker products will come under significant pressure. For those Trusts yielding 4.5-5% (unless it's being delivered from capital) the concentration of names is so high that being different will be a powerful tool.

Your Company

We have therefore, post the policy change last year, concentrated the portfolio considerably, removed the correlated names and in tandem changed the emphasis of the yields we are seeking. The stock count has reduced to around 35 names with an increased exposure to those names we deem to be the most attractive.

We believed that the previous portfolio had become mega-cap heavy. These names will always garner strong opinions but we felt a number of these were of average quality and probably owned because they are arguably 'cheap'. An added concern was the weak dividend cover/low dividend growth, which can be a toxic combination when coupled with high levels of debt. As an example, we exited BT, Vodafone, Centrica and Severn Trent. We either had similar exposure, preferred other businesses, or in the case of the two telecom holdings, saw structural challenges. From a performance perspective, it has been the right decision as we have seen Severn Trent sell-off with other bond-proxies (and we already held Pennon and National Grid), and Centrica issue a profit warning. For Centrica, there remains ongoing concerns around the dividend and balance sheet, which is exactly the threat we were trying to avoid by reshaping the portfolio.

In terms of themes, we have exited all of our UK consumer stocks: Next, Dunelm and Howden. There were a couple of reasons for this, the first of which is the rise of online competitors and the disruptive influence this is having on bricks-and-mortar retailers. This will not come as any surprise as every week we hear of another retailer in trouble. Next, to be fair, has a great online business with plenty of expertise, our issue remains the retail estate and the fact that management want to continue to open new stores. We cannot predict what shape this sector will have in 3-5 years' time but we can be fairly confident that niche online players with unique propositions are likely to continue to take market share. We therefore initiated a position in ASOS, as this ticks all the boxes as a unique proposition that has the potential for success over the medium-term.

'Disruption' is a theme we like and believe is appropriate as we look to construct a differentiated portfolio. Companies like Just Eat, ASOS and Sophos are core holdings and unlikely to be found in most income portfolios, due in part to the fact that none of them currently have a yield, or in the case of Sophos, is negligible.

Dividend

Whilst we have talked a lot about the message and the shape of the portfolio, we also want to be clear that a progressive dividend has always been at the core of our strategy. The dividend yield of the Trust remains high and at a significant premium to the index but we feel today that there is a better balance to the portfolio. This balance should give shareholders the potential for an improved capital return over the medium-term whilst also maintaining the dividend policy set by the Board.

Performance

In terms of performance, the last year has been disappointing. We have only had the current portfolio in place from around calendar year-end so it is way too short a period of time for us to draw any conclusions. That being said, we are now much more comfortable with the quality of the current portfolio.

What is worth discussing is volatility. A more focused portfolio will start differing from the index depending on what sector is currently in or out of favour. Overall, we want to move away from talking about sectors, and instead focus on building the best quality portfolio to deliver on our strategy.

Over the last year, the Company has been hit by sector-wide sell-offs, despite the fundamentals, including stable dividend yield, remaining intact for individual names. Specific examples held in the portfolio include Pennon, National Grid, British American Tobacco and Imperial Brands. There have also been some stock-specific detractors from performance. The largest of these was Greencore, which we introduced post a couple of disappointing updates. They have continued to disappoint in their communication with the market, which has caused a sharp sell-off in March. It has bounced back from the lows, post the financial year-end, but there is still a lot of work needed to convince the market that they are back on track. Neinor, our Spanish housebuilder, has also been weak and we have been selectively adding to our position. Both of these stocks' poor performance have not been due to fundamental issues, but through the portfolio's transitional period they have not been helpful.

Outlook

It is not our ethos to make any big macro calls for the year ahead. Markets are volatile and are becoming very short-sighted, which makes this a stock-pickers market, and so with the improved quality of the portfolio and focus on valuations, we should see this transfer to improved performance. We therefore feel, despite the short-term underperformance, that we are well placed to deliver over the five-year performance period.

Philip Webster
Fund Manager
F&C Investment Business Limited
29 May 2018

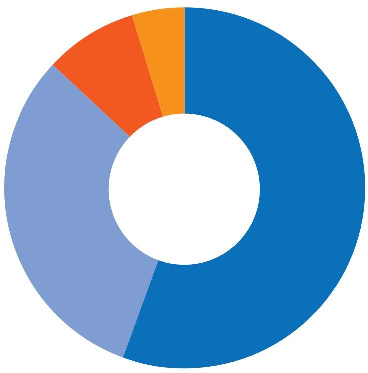
Classification of Investments

The following table shows the percentage weightings by sector of the investment portfolio in comparison to the FTSE All-Share Capped 5% Index.

Investment Portfolio by Sector

Sector	2018 % Total investments	2018 FTSE All–Share Capped 5% Index
Financials	30.4	27.1
Consumer Goods	24.5	15.5
Consumer Services	13.9	11.9
Oil & Gas	7.6	9.9
Healthcare	5.5	9.0
Utilities	5.4	2.8
Industrials	5.0	11.3
Basic Materials	4.2	8.1
Technology	3.5	1.0
Telecommunications	–	3.4
Total	100.0	100.0

Investment Portfolio analysis by Index as at 31 March 2018



	% of Investment Portfolio
FTSE 100	55.7%
FTSE 250	31.4%
Non-Index	8.2%
Overseas	4.7%
	100%

Source: F&C

Investment Portfolio

At 31 March 2018 Company	Market Value 31 March 2018 £'000	% of total Investments
British American Tobacco British American Tobacco is involved in the manufacture, marketing and selling of cigarettes and other tobacco products.	9,208	7.2
GlaxoSmithKline GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products.	6,988	5.5
HSBC Holdings HSBC provides a comprehensive range of banking and related financial services on a global basis.	6,451	5.1
Royal Dutch Shell Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	6,007	4.7
RELX RELX is a multinational information and analytics company.	5,536	4.4
Rio Tinto Rio Tinto is a diversified international mining company.	5,288	4.1
Prudential Prudential is an international financial services group.	5,285	4.1
Close Brothers Group Close Brothers Group is a niche UK merchant banking group providing lending, wealth management services and securities lending.	4,480	3.5
National Grid National Grid is a multinational electricity and gas utility company.	4,475	3.5
Diageo Diageo is a global leader in beverage alcohol with iconic brands in spirits, beer and wine.	4,378	3.4
Ten largest investments	**58,096**	**45.5**

At 31 March 2018

Company	Sector	Market Value 31 March 2018 £'000	% of total Investments
Just Eat	General Retailers	4,032	3.2
Kerry Group	Food Producers	3,948	3.1
Compass Group	Travel & Leisure	3,723	2.9
BP	Oil & Gas Producers	3,721	2.9
Beazley	Non-Life Insurance	3,554	2.8
Neinor Homes	Real Estate Investment & Services	3,549	2.8
Melrose Industries	Industrial Engineering	3,311	2.6
Sophos Group	Software & Computer Services	3,127	2.4
Imperial Brands	Tobacco	3,104	2.4
BBA Aviation	Industrial Transportation	3,024	2.4
Twenty largest investments		93,189	73.0
Intermediate Capital Group	Financial Services	2,992	2.3
Berkeley Group Holdings	Household Goods & Home Construction	2,927	2.3
Brewin Dolphin	Financial Services	2,880	2.3
Phoenix Group Holdings	Life Insurance	2,853	2.2
Greencore Group	Food Producers	2,679	2.1
LondonMetric Property	Real Estate Investment Trusts	2,574	2.0
Bovis Homes Group	Household Goods & Home Construction	2,544	2.0
Daily Mail & General Trust	Media	2,482	2.0
Pennon Group	Gas,Water & Multiutilities	2,466	1.9
Cairn Homes	Household Goods & Home Construction	2,452	1.9
Thirty largest investments		120,038	94.0
Legal & General Group	Life Insurance	2,187	1.7
ASOS	General Retailers	1,948	1.5
Burford Capital	Financial Services	1,861	1.5
Sage Group	Software & Computer Services	1,380	1.1
Investors Securities Company	Investment Dealing	250	0.2
Total investments		127,664	100.0

Board of Directors

Iain McLaren
Chairman
was appointed in 2009. He is currently a non-executive director and chairman of the audit committee of Cairn Energy plc and a non-executive director of Baillie Gifford Shin Nippon plc, Ecofin Global Utilities and Infrastructure Trust plc and Edinburgh Dragon Trust plc. He was previously senior partner in Scotland of KPMG.

Julia Le Blan
Audit Committee Chairman
was appointed in 2011. She has worked in the financial services industry for over 30 years. She retired from Deloitte in 2009, where she had been a tax partner since 1990. She is currently a non-executive director of Aberforth Smaller Companies Trust plc, Impax Environmental Markets plc, JPMorgan US Smaller Companies Investment Trust plc and The Biotech Growth Trust plc.

John Evans
was appointed in 2013. He has worked in the investment management industry for over 30 years. He retired from Aberforth Partners, a specialist investment management firm, in 2011 having been one of its founding partners in 1990. He is Chairman of Drum Income Plus REIT plc and a non-executive director of JPMorgan Mid Cap Investment Trust plc and Securities Trust of Scotland plc.

Andrew Watkins
was appointed in 2017. He has worked in the financial services industry for over 40 years and was head of Client Relations for Investment Trusts at Invesco Perpetual from 2004 until his retirement in June 2017.

James Williams
Senior Independent Director
was appointed in 2009. He has been involved with the investment management industry for over 40 years. He retired from Baring Asset Management in 2002, where he was chief investment officer and head of global investment strategy. He is a non-executive director of Pacific Assets Trust plc and was previously a non-executive director of JPMorgan American Investment Trust plc, Prosperity Russian Domestic Fund, Royal London Growth and Income Trust plc and of Close Brothers Group plc.

Report of the Directors

The Directors submit the Annual Report and Financial Statements of the Company for the year to 31 March 2018.

Statement Regarding Annual Report and Financial Statements

The Directors consider that, following advice from the Audit Committee, the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular. The outlook for the Company can be found on pages 8 and 18. Principal risks can be found on pages 14 and 15 with further information in note 21 to the financial statements.

Changes during the year

At the Company's Annual General Meeting on 29 June 2017 shareholders approved the changes which had been proposed in relation to the Company's investment policy and the change in name of the Company's A shares to Ordinary shares.

Results and Dividends

The results for the year are set out in the Statement of Comprehensive Income of the following financial statements.

The Company has paid quarterly interim dividends in the year ended 31 March 2018 as follows:

Interim Dividend payments	Payment date	Rate per share
Fourth interim for 2017	5 May 2017	1.21p
First interim for 2018	4 August 2017	1.21p
Second interim for 2018	3 November 2017	1.21p
Third interim for 2018	2 February 2018	1.21p

Dividend payments in the year ended 31 March 2017 are set out in note 9 to the financial statements.

A fourth quarter interim dividend of 1.25p per Ordinary share was paid on 4 May 2018 to Ordinary shareholders on the register at close of business on 6 April 2018. This total (for the current financial year to 31 March 2018) of 4.88p per Ordinary share represents an increase of 3.4% over the 4.72p per Ordinary share paid in respect of the previous financial year.

As set out in the Company's dividend/capital repayment policy on page 11, payments are made quarterly and the Company does not currently pay a final dividend that would require formal shareholder approval of the AGM. As an alternative, the Board proposes to seek formal shareholder approval at the AGM, and in future years, to continue quarterly payments (Resolution 9).

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 (number: SC314671) and is an investment company under section 833 of the Companies Act 2006.

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

The Company is required to comply with company law, the rules of the UK Listing Authority, International Financial Reporting Standards and its Articles of Association.

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

Subsidiary Company

The Company has a 100 per cent interest in Investors Securities Company Limited (number: SC140578), a company which deals in investments. In the year to 31 March 2018, Investors Securities Company Limited made a profit before taxation of £nil (2017: £nil).

Investors Securities Company Limited did not trade during the year to 31 March 2018 and it has not been consolidated in the financial statements in accordance with section 405 of the Companies Act 2006 on grounds of materiality.

Statement of Disclosure of Information to Auditor

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

Re-appointment of Auditor

Deloitte LLP was first appointed as the Company's auditor at the Annual General Meeting on 29 June 2017 and it has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its re-appointment and authorising the Directors to determine its remuneration will be submitted at the Annual General Meeting (Resolution 8).

Further information in relation to the re-appointment can be found on page 33.

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 22 and are incorporated into this report by reference.

Mr K D Shand retired as a Director at the conclusion of the Annual General Meeting on 29 June 2017. All of the Directors held office throughout the year under review, apart from Mr A K Watkins, who was appointed to the Board following the AGM on 29 June 2017. Mr A K Watkins will stand for election at the Annual General Meeting (Resolution 6) in accordance with the Company's Articles of Association.

As explained in more detail under the Corporate Governance Statement on page 29, the Board has agreed that all Directors will retire annually. Accordingly, Mr I A McLaren, Mrs J Le Blan, Mr J M Evans and Mr J P Williams will retire at the Annual General Meeting and, being eligible, offer themselves for re-election (Resolutions 3 to 5 and 7).

Mr I A McLaren has served on the Board for more than nine years. As explained above and in line with the recommendations of the UK Corporate Governance Code and the AIC Code of Corporate Governance, he will seek re-election annually. The Board believes that longer serving Directors should not be prevented from forming part of an independent majority, which is consistent with the view expressed within the AIC Code. The Board does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, the Board believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Board believes that continuity and experience add significantly to the strength of the Board and therefore no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. The term of any Director beyond six years is subject to review by the Board.

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

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

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

Directors' Deeds of Indemnity

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

Management and Management Fees

Details of the contract between the Company and F&C Investment Business Limited in respect of management services provided are given in the notes to the financial statements. F&C Investment Business Limited is the Company's AIFM, for which it does not receive any additional remuneration.

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

As set out in the Chairman's statement on pages 7 and 8, a change to the investment management fee has been agreed between the Board and the Investment Manager. With effect from 1 April 2018 the investment management fee will be reduced to 0.65 per cent. per annum on the net asset value of the Company.

Safe custody of assets

The Company's listed investments are held in safe custody by JPMorgan Chase Bank (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager in accordance with the provisions of the investment management agreement.

Depositary

JPMorgan Europe Limited (the '**Depositary**') acts as the Company's depositary in accordance with the AIFM Directive. 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 investments limits and leverage requirements.

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.

Capital Structure

The Company's capital structure is explained in the 'Capital Structure' section on page 72 of this Annual Report and details of the share capital, including voting rights, are set out in note 17 to the financial statements. Details of voting rights are also set out in the Notes to the Notice of Annual General Meeting. At 31 March 2018, the total listed share capital of the Company was represented 76.1 per cent by Ordinary shares and 23.9 per cent by B shares.

Substantial Interests in Share Capital

At 31 March 2018 the Company had received notification of the following holdings of voting rights (under the FCA's Disclosure Guidance and Transparency Rules):

	Ordinary Shares	
	Number held	Percentage held*
1607 Capital Partners, LLC	8,670,000	10.0
D. C. Thomson & Company Limited	7,944,869	9.1
Jupiter Asset Management Limited	6,470,000	7.4
Thomson Leng Provident Fund	3,800,000	4.4

	B Shares	
	Number held	Percentage held*
D. C. Thomson & Company Limited	2,241,623	7.2

* Based on 86,928,144 Ordinary Shares and 30,976,703 B Shares in issue as at 31 March 2018.

The Company has not received notification of any changes in these voting rights and no new holdings have been notified since 31 March 2018 up to the date of this report.

F&C Savings Plans

Approximately 34% of the Company's share capital is held through the F&C savings plans. The Manager does not have discretion to exercise any voting rights in respect of the shares held through the F&C Savings Plans. Instead the nominee company holding these shares votes in line with any voting directions received from the underlying planholders. Where no instruction is received from any underlying planholder, the voting rights attached to their shares will not be exercised.

Conflicts of Interest

Under the Companies Act 2006 a Director must avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve such situations.

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

Other Companies Act 2006 Disclosures

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

Accounting and Going Concern

The financial statements start on page 46 and the unqualified Independent Auditor's Report on the financial statements is on pages 40 to 45.

Shareholders will be asked to approve the adoption of the Annual Report and Financial Statements at the AGM (Resolution 1).

In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council and have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's investment objective and policy, which is described on pages 9 and 11 and which is subject to regular Board monitoring processes, is designed to ensure that the Company is invested mainly in liquid, listed securities. The Company retains title to all assets held by its custodian, and has agreements relating to its borrowing facilities with which it has complied during the year. Cash is held only with banks approved and regularly reviewed by the Manager.

As part of the going concern review, the Directors noted that borrowing facilities of a £7.5 million fixed term loan and a £7.5 million revolving credit facility are committed to the Company until 28 September 2022. Further details are set out in note 16 to the financial statements.

Note 21 to the financial statements sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of falls (and rises) in the value of securities and market rates of interest.

The Directors believe, in the light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets, that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Company's longer term viability is considered in the 'Viability assessment and statement' on page 16.

The Company does not have a fixed life. However, in the event that the net asset value total return performance of the Company is less than that of the FTSE All-Share Capped 5% Index over the relevant five year period, in accordance with the Company's articles of association, shareholders will be given the opportunity to vote on whether the Company should continue, by ordinary resolution at the Company's Annual General Meeting. The current five year period for this purpose runs from 1 April 2017 to 31 March 2022.

The Board is proposing to make an amendment to the articles of association in order that the benchmark index to which the Company's performance is measured is changed from the FTSE All-Share Capped 5% Index to the FTSE All-Share Index with effect from 1 April 2017. This change to the Company's benchmark index is not expected to have any material impact on the Company's performance figures. Further details of this amendment are set out on page 28.

Future Developments of the Company

The outlook for the Company is set out in the Chairman's Statement on page 8 and the Manager's Report on page 18.

Environment

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

Greenhouse Gas Emissions

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

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt, foreign exchange currency contracts, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in the notes to the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG on Thursday 5 July 2018 at 12 noon. The Notice of Annual General Meeting is set out on pages 66 to 69.

Directors' Authority to Allot Shares (Resolutions 10 and 11)

The Directors are seeking authority to allot Ordinary shares and B shares. Resolution 10 will, if passed, authorise the Directors to allot new Ordinary shares up to an aggregate nominal amount of £4,346 consisting of 4,346,407 Ordinary shares and new B shares up to an aggregate nominal amount of £1,548 consisting of 1,548,835 B shares, being 5 per cent of the total issued Ordinary shares and B shares (excluding treasury shares) as at 29 May 2018. This authority therefore authorises the Directors to allot up to 5,895,242 shares in aggregate representing 5 per cent of the total share capital in issue (excluding treasury shares).

Resolution 11 will, if passed, authorise the Directors to allot new Ordinary shares up to an aggregate nominal amount of £4,346 and new B shares up to an aggregate nominal amount of £1,548, being 4.3 per cent and 4.8 per cent of the total issued Ordinary shares and B shares respectively (including treasury shares) as at 29 May 2018, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. This authority therefore authorises the Directors to allot up to 5,895,242 shares in aggregate for cash on a non pre-emptive basis representing 4.4 per cent of the total share capital in issue (including treasury shares). These authorities will continue until the earlier of 30 September 2019 and the conclusion of the Company's next Annual General Meeting.

The Directors have no current intention to exercise these authorities and will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and will not result in a dilution of net asset value per share. The Directors consider that the authorisations proposed in Resolutions 10 and 11 are necessary to retain flexibility, although they do not intend to exercise the powers conferred by these authorisations at the present time.

Directors' Authority to Buy Back Shares (Resolution 12)

During the year to 31 March 2018 the Company purchased for treasury 500,000 Ordinary shares of 0.1p each, representing 0.6 per cent of the Ordinary shares in issue at the previous year end, for a total consideration of £521,000 in accordance with the Company's discount management policy. The Company did not purchase any B shares during the year to 31 March 2018.

The current authority of the Company to make market purchases of up to 14.99 per cent of each of the issued Ordinary shares and the B shares (in each case, excluding shares held in treasury) expires at the end of the Annual General Meeting and Resolution 12, as set out in the notice of the Annual General Meeting, seeks renewal of that authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of each of the issued Ordinary shares and issued B shares of the Company on the date of the passing of the resolution. The price paid for shares will not be less than the nominal value of 0.1p per share nor more than the higher of (a) 5 per cent above the average of the middle market values (as derived from the Daily Official List of the London Stock Exchange) of those shares for the five business days before the shares are purchased and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. This power will only be exercised if, in the opinion of the Directors, a purchase will result in an increase in net asset value per share and is in the interests of the shareholders. Any shares purchased under this authority will be purchased with cash and will either be held in treasury or cancelled. This authority will expire on the earlier of 30 September 2019 and the conclusion of the next Annual General Meeting of the Company.

There were 117,904,847 Ordinary shares and B shares in issue (excluding treasury shares) as at 29 May 2018; of which 73.7 per cent represents Ordinary shares and 26.3 per cent represents B shares. At that date, the Company held 14.8 per cent of the total Ordinary share capital in treasury and 3.4 per cent of the total B share capital in treasury.

The Company therefore in aggregate holds 16,239,000 shares in treasury representing 13.8 per cent of the total share capital in issue (excluding treasury shares).

Treasury Shares (Resolutions 13 and 14)

The Board continues to believe that the effective use of treasury shares assists the liquidity in the Company's securities and management of the discount by addressing imbalances between demand and supply for the Company's securities. The discount management policy that was adopted at the time of the Company's launch in 2007 included the ability of the Company to resell treasury shares at a discount to net asset value, subject to certain conditions (see Resolution 13 below). The Directors retain discretion over the resell price. Subject to unforeseen circumstances, it is their intention only to resell treasury shares at a price at, or above net asset value. This is consistent with the practice followed in recent years.

Resolution 13, if passed, will continue to allow the Company to sell shares from treasury at a discount to net asset value. Shares would only be resold from treasury when market demand is identified and, pursuant to the authority conferred by this resolution, at a price representing a discount of not more than 5 per cent to net asset value at the time of resale, subject to the conditions that, first, the discount at which shares are to be resold must be less than the average discount at which shares held in treasury have been repurchased and, second, the net asset value dilution in any one financial year must not exceed 0.5 per cent of net assets. Resolution 13 is conditional on the passing of Resolution 14.

Resolution 14, if passed, will enable the Company to sell shares from treasury without having first to make a pro rata offer to existing shareholders. This authority will be limited to shares representing approximately 8.5 per cent and 9.7 per cent of the Company's issued Ordinary share capital and B share capital respectively (including treasury shares) as at the date of passing of the resolution. Resolution 14 is not conditional on the passing of Resolution 13.

Notice Period for General Meetings (Resolution 15)

Resolution 15 is being proposed to reflect the provisions of the Companies Act 2006 relating to meetings and the minimum notice period for listed company general meetings being increased to 21 clear days, but with an ability for companies to reduce this period back to 14 clear days (other than for annual general meetings), provided that the company offers facilities for shareholders to vote by electronic means and that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of general meetings (other than for annual general meetings) from 21 clear days to 14 clear days. The Board is therefore proposing Resolution 15 as a special resolution to ensure that the minimum required period for notice of general meetings of the Company (other than for annual general meetings) is 14 clear days. The approval will be effective until the earlier of 30 September 2019 and the Company's next annual general meeting when it is intended that a similar resolution will be proposed. The Board intends that this flexibility of a shorter notice period to be available to the Company will be used only for non routine business and only where needed in the interests of shareholders as a whole.

Amendment to Articles (Resolution 16)

The Company is proposing to change the benchmark index against which the Company's performance is measured from the FTSE All-Share Capped 5% Index to the FTSE All-Share Index. This change is subject to Shareholder approval as it requires the Company to amend its articles of association. Resolution 16, relating to this change to the articles of association, will be proposed as a special resolution and will require to be approved by at least 75 per cent of the votes cast in respect of it. If shareholders approve of this change, the Company's articles of association will provide that in the event that the net asset value total return performance of the Company is less than that of the FTSE All-Share Index (as opposed to the FTSE All-Share Capped 5% Index, with effect from 1 April 2017) over the relevant 5 year period, shareholders will be given the opportunity to vote on whether the Company should continue.

The Board believes that the Company's benchmark should be changed to the FTSE All-Share Index as this is more widely understood by our shareholders and the market. The difference between the FTSE All-Share Index and the FTSE All-Share Capped 5% Index has reduced in recent years and, as a result, this change is expected to have minimal impact on the Company's performance figures. The performance figures of both of these Indices are set out in the Key Performance Indicators on page 13.

The Board is also taking the opportunity to propose some additional amendments to the articles of association to reflect other recent regulatory changes. These amendments include providing the Company with the ability to require shareholders to co-operate in respect of the exchange of information to comply with the Company's international tax reporting obligations.

A copy of the existing Articles and the new Articles marked to show the changes being made by Resolution 16 is available for inspection at the registered address of the Company and at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW during normal business hours (Saturdays, Sundays and public holidays excepted) up to and including close of business on 5 July 2018 and at the venue of the AGM for at least 15 minutes prior to the start of the Meeting and up to the close of the Meeting.

Recommendation

The Directors consider that the passing of the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. Accordingly, they unanimously recommend that all shareholders vote in favour of those resolutions. The Directors intend to vote in favour of each of the resolutions in respect of their own beneficial holdings of 41,238 Ordinary shares and 85,000 B shares, representing approximately 0.1 per cent. of the issued share capital of the Company as at the date of this document. Information on shareholder voting rights is set out in the Notes to the Annual General Meeting.

Individual Savings Accounts

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

By order of the Board
For F&C Investment Business Limited
Company Secretary
Quartermile 4
7a Nightingale Way
Edinburgh EH3 9EG

29 May 2018

Corporate Governance Statement

Introduction

Arrangements in respect of corporate governance, appropriate to an investment trust, have been made by the Board. Except as disclosed in the paragraph below, the Company complied throughout the year with the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council ('**UK Code**'), which can be found at www.frc.org.uk. The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance ('**AIC Code**') by reference to the AIC Corporate Governance Guide for Investment Companies ('**AIC Guide**'), both of which can be found at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues which are of specific relevance to investment companies.

Since all the Directors are non-executive, and in accordance with the AIC Code and the preamble to the UK Code, the provisions of the UK Code in respect of the role of the chief executive and, except in so far as apply to non-executive Directors, on Directors' remuneration are not relevant to the Company and are not reported on further.

In view of its non-executive nature and the requirements of the Articles of Association, that all Directors are subject to retirement by rotation, the Board does not consider it appropriate for the Directors to be appointed for a specified term as recommended by provision B.2.3 of the UK Code. The Articles of Association require the Directors to retire by rotation at least every three years. However, in accordance with the recommendations of the UK Code and the AIC Code, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

The Board

The Board consists solely of non-executive Directors. Mr I A McLaren is Chairman and following Mr K D Shand's retirement on 29 June 2017, Mr J P Williams became the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. Full details of the duties of Directors are provided at the time of appointment. Under the requirements of the Articles of Association, Directors are subject to election at the first Annual General Meeting after their appointment. New Directors receive an induction from the Manager on joining the Board, and all Directors are encouraged to attend relevant training courses and seminars and receive regular updates on the industry and changes to regulations from the Company Secretary and other parties, including the AIC.

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

The basis on which the Company aims to generate value over the longer term is set out within the Business Model and Strategy as contained on pages 9 to 10.

The Company has no executive Directors or employees. A management agreement between the Company and its Manager, F&C Investment Business Limited, sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets at least five times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

Directors' attendance during the year ended 31 March 2018

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
No. of meetings	5	2	1	1
I A McLaren	5	2	1	1
J Le Blan	5	2	1	1
J M Evans	5	2	1	1
K D Shand[(1)]	1	1	1	1
A K Watkins[(2)]	4	1	–	–
J P Williams	5	2	1	1

(1) Retired as a director on 29 June 2017

(2) Appointed as a Director on 29 June 2017

All Directors attended the Annual General Meeting in June 2017.

Board effectiveness

During the year the performance of the Board and Committees, including the performance of each individual Director, was evaluated through a formal assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director. This process involved discussions with individual Directors, individual feedback from the Chairman to each of the Directors and discussion of the points arising amongst the Directors.

Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and each Director and the Chairman remain committed to the Company.

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 where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

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 on F&C's website at http://www.bmogam.com/corporate/about-us/responsible/.

Committees

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees operate within clearly defined terms of reference which are available on the website www.fandcukhit.co.uk and for inspection on request at the Company's registered office. Each of the committees comprises all of the Directors. The Board considers that, given its size, it would be unnecessarily burdensome to establish separate committees which did not include the entire Board and believes that this enables all Directors to be kept fully informed of any issues that arise.

Audit Committee

Details of the Audit Committee are contained in the Report of the Audit Committee on pages 31 to 33.

Remuneration Committee

The Remuneration Committee comprises the full Board and was chaired by Mr K D Shand until his retirement on 29 June 2017. Since this date Mr J P Williams has chaired the Remuneration Committee. The Remuneration Committee reviews the remuneration of Directors and the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis. The Directors' Remuneration Report on pages 34 to 36 provides information on the remuneration arrangements for the Directors of the Company.

Nomination Committee

The Nomination Committee comprises the full Board and is chaired by Mr I A McLaren. The Nomination Committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board these are based on merit. The Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, diversity, including gender, independence and knowledge of the Company within the Board. The Company's Board diversity policy is shown on page 12. The Directors have not set any measurable objectives in relation to the diversity of the Board.

During the year a new non-executive Director, Mr Andrew Watkins was appointed to the Board. An independent external search agency, Trust Associates, was used and Mr Watkins was appointed following the AGM on 29 June 2017. He replaced Mr Kenneth Shand who retired immediately following the AGM.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. The Fund Manager will give a short presentation on the Company at the Annual General Meeting.

Risk Management and Internal Controls

Details of the principal risks and internal controls applied by the Board are set out on pages 14 and 15 and pages 31 and 32 respectively.

Share Capital and Companies Act 2006 Disclosures

Details of the Company's share capital structure is set out on page 25 and details of substantial interests in the Company's share capital and other Companies Act 2006 Disclosures are included on pages 25 to 26.

By order of the Board
For F&C Investment Business Limited
Company Secretary
Quartermile 4
7a Nightingale Way
Edinburgh EH3 9EG

29 May 2018

Report of the Audit Committee

Composition of the Committee

The Board recognises the requirement for the Audit Committee as a whole to have competence relevant to the sector in which the Company operates and at least one member with recent and relevant experience.

The Audit Committee, chaired by Mrs J Le Blan who has recent and relevant financial experience, operates within clearly defined terms of reference and comprises the full Board. These directors have a combination of financial, investment and business experience and specifically with respect to the investment trust sector.

Role of the Committee

The duties of the Audit Committee include reviewing the Annual and Interim financial statements, the system of internal controls, and the terms of appointment and remuneration of the Auditor, Deloitte LLP ('**Deloitte**'), including its independence and objectivity. It also provides a forum through which the Auditor reports to the Board of Directors and meets twice yearly including at least one meeting with Deloitte. This was Deloitte's first year as the Company's auditor.

The Audit Committee met on two occasions during the year and the attendance of each of the members is set out on page 29. In the due course of its duties, the committee had direct access to Deloitte and senior members of F&C's Fund Management, Investment Trust and Business Risk teams. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The annual results announcement and annual and half-yearly reports and financial statements;
- The accounting policies of the Company and the allocation of management expenses and interest costs between capital and revenue;
- 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 statement on viability;
- The effectiveness of the external audit process and related non-audit services and the independence and objectivity of Deloitte, their re-appointment, remuneration and terms of engagement;
- The policy on the engagement of Deloitte to supply non-audit services and approval of any such services;
- The implications of proposed new accounting standards and regulatory changes;
- The need for the Company to have its own internal audit function;
- The receipt of AAF (01/06) and SSAE16 reports or their equivalent from F&C, the Custodian and the Company's registrar; and
- Whether the Annual Report and Financial Statements is fair, balanced and understandable.

Risk Management

The Board has established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the related guidance issued by the Financial Reporting Council.

F&C's Business Risk department provide regular control report updates to the Audit Committee and the Board covering risk and compliance and any significant issues identified by internal audit that might be relevant to the Company.

A key risk summary is produced 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 reasons for any changes.

The Company's principal risks and their mitigations are set out on pages 14 and 15 with additional information provided in note 21 to the financial statements.

The integration of these risks into the consideration of the Viability Statement on page 16 was also fully considered.

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 daily operations, which are managed by F&C.

The Audit Committee has reviewed and reported to the Board on these controls which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable.

Control of the risks identified, including financial, operational, compliance and overall risk management is exercised by the Audit 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 issues.

These procedures are designed to manage, rather than eliminate, risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement, loss, or fraud. Further to the review by the Audit 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 Internal Controls in accordance with ISAE 3402 and AAF 01/06 for the year to 31 October 2017 (the 'ISAE/AAF Report') that has been prepared for their investment trust clients. The Audit Committee also received confirmation from F&C that subsequent to this date, there had been no material changes to the control environment. Containing an unqualified opinion from independent reporting accountants KPMG LLP, it sets out F&C's control environment 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 identified and which would be reported to the Board. Any errors or breaches relating to the Company are reported at each Board Meeting by the Manager. No failings or weaknesses material to the overall control environment and financial statements in respect of the Company were identified in the year under review nor to the date of this report.

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

The review procedures have been in place throughout the full financial year and up to the date of approval of the financial statements, and the Board is satisfied with their effectiveness.

Based on review, observation and enquiry, the Audit Committee has concluded that the systems and procedures employed by the Manager, including its internal audit, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained and the Board has concurred. An internal audit function, specific to the Company, is therefore considered unnecessary but this decision will be kept under review.

Significant Matters Considered by the Audit Committee in Relation to the Financial Statements	
Matter	**Action**
Valuation of Investment Portfolio	
Possibility of incorrect valuation of the investment portfolio, including failure to assess stock liquidity appropriately.	The Company's accounting policy is stated in note 1 to the financial statements. 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 2017, 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-existance of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Manager's AAF Report, as referred to above, which is reported on by independent external accountants and which details the controls around the reconciliation of the Manager's records to those of the custodian. The Audit Committee also reviewed the custodian's semi-annual internal control report, which is reported on by independent external accountants, and which provides details regarding its control environment. The Depositary has issued reports confirming, amongst other matters, the safe custody of the Company's assets for the periods since implementation of AIFMD to 31 March 2018.
Going Concern	
The Company's financial statements have been prepared on a going concern basis. Under guidance issued by the Financial Reporting Council, the Directors are required to conduct a rigorous assessment of this basis of preparation.	The Audit Committee reviewed the basis for concluding that the Company remains a going concern, including consideration of the liquidity of investments, the quantum of cash holdings, revenue and expense forecasts, the due date for repayment of the Company's borrowing facilities and continued compliance with applicable banking covenants, and satisfied itself that the going concern basis of preparation remained appropriate.

Matter	Action
Income Recognition	
Incomplete or inaccurate income recognition, including allocation between revenue and capital, could have an adverse effect on the Company's net asset value and earnings per share and its level of dividend cover.	The Audit Committee reviewed the Manager's AAF Report, as previously referred to, which details the systems, processes and controls around the recording of investment income. It also compared the final level of income received for the year to the budget which was set at the start of the year and discussed the accounting treatment of all special dividends received with the Manager.
Calculation of Management Fee	
Inaccurate calculation of the management fee payable to the investment manager, including the allocation of such fee between revenue and capital in line with the Company's accounting policy, could result in a misstatement of the Company's net asset value per share and/or Statement of Comprehensive Income and could lead to a loss for the Company.	The Audit Committee reviewed the calculation of the management fee, set out in line with the methodology prescribed in the investment management agreement, noting this had also been reviewed by the Remuneration Committee.
Investment Trust Tax Status	
As an investment trust company, the Company is exempt from taxation arising on capital gains. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains.	The Audit Committee reviewed the Company's ongoing compliance with the investment trust conditions set out in section 1158 of the Corporation Tax Act 2010. In particular, the Audit Committee ensured that the retained revenue after tax for the year was less than 15 per cent of the Company's total income.

The Audit Committee read and discussed this Annual Report and Financial Statements and concluded that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance objective and strategy.

External audit process and significant matters considered by the Audit Committee

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved Deloitte's plan for the audit of the financial statements for the year ended 31 March 2018. At the conclusion of the audit Deloitte did not report any audit differences in excess of their reporting threshold of £61,000, nor any differences below that level which would warrant disclosure on qualitative grounds. In addition Deloitte did not highlight any other issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. Deloitte issued an unqualified audit report which is included on pages 40 to 45. The significant issues considered by the Audit Committee, are discussed in preceding table.

Non-audit services

In relation to the provision of non-audit services by the Auditor it has been agreed that all non-audit work to be carried out by the Auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. In addition to statutory audit fees, Deloitte received fees, excluding VAT, for non-audit services of £nil for the year (2017: £7,650-EY). The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit as these services are provided by teams wholly independent from that of the audit.

In particular, the Committee has a policy, with effect from 1 April 2017 that the accumulated costs of all non-audit services sought from the auditors in any one year should not exceed 30% of the likely audit fees for that year and by year four, not exceed 70% of the average audit fee for the previous three years.

Auditor assessment, independence and appointment

The Audit Committee reviews the re-appointment of the auditor every year. As part of the review of auditor independence and effectiveness, Deloitte has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating Deloitte, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit Committee, from direct observation and enquiry of the Manager, remains satisfied that Deloitte continues to provide effective independent challenge in carrying out its responsibilities. Following professional guidelines, the audit partner rotates after five years. The current senior statutory auditor was engaged for the first time during the year ended 31 March 2018. The Audit Committee also considered the evaluation of Deloitte's audit performance through the Audit Quality Review performed by the Financial Reporting Council. Their fee for the audit was £21,000 (2017: £22,000 – EY). On the basis of this assessment, the Audit Committee has recommended the re-appointment of Deloitte to the Board.

Julia Le Blan
Chairman of the Audit Committee

29 May 2018

Directors' Remuneration Report

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 March 2018, are shown below. This shows all major decisions on Directors' remuneration, and any substantial changes made during the year relating to Directors' remuneration, including the context in which any changes occurred.

Under company law, the Auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on pages 40 to 45.

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

Remuneration Committee

The Remuneration Committee consists of all five non-executive Directors and until his retirement on 29 June 2017 was chaired by Mr Shand. Following Mr Shand's retirement, Mr Williams was appointed chairman of the Remuneration Committee. The Remuneration Committee meets at least annually to review the remuneration of Directors and the remuneration and terms of appointment of the Manager. The Board has appointed the Company Secretary, F&C Investment Business Limited, to provide information on comparative levels of Directors' fees in advance of the Remuneration Committee considering the level of Directors' fees.

Directors' Remuneration Policy

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

The Company has not received any direct communications from its Shareholders in respect of the levels of Directors' remuneration. It is intended that the policy will continue for the three year period ending at the AGM in 2020.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £150,000 per annum in aggregate and may not be changed without seeking shareholder approval at a general meeting. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The non-executive Directors are engaged under letters of appointment and do not have service contracts. Each Director has a letter of appointment setting out the terms and conditions of his or her appointment and such letters are available for inspection at the Company's registered office during business hours. The terms of appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after his or her appointment. Directors are thereafter obliged to retire by rotation and, if they wish, to offer themselves for re-election, at least every three years after that. However, in accordance with the recommendations of the UK Code and the AIC Code the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. There is no notice period and no provision for compensation upon termination of appointment.

Voting at Annual General Meeting

The Directors' Remuneration Policy was last approved by shareholders at the Company's Annual General Meeting, held on 29 June 2017. 97.6 per cent of votes were in favour of the resolution and 2.4 per cent of votes were against.

Annual Statement

As Chairman of the Remuneration Committee, I confirm that effective 1 April 2017 Directors fees increased by £1,500 per annum for the Chairman, £2,500 per annum for the Audit Committee Chairman and £1,000 per annum for other Directors.

Future Policy Table

Following a review of the level of Directors' fees for the forthcoming year, in comparison to comparable investment trusts, the Remuneration Committee concluded that effective 1 April 2018 the amount paid to all Directors should increase by £1,000 per annum.

Based on this, Directors' fees for the forthcoming financial year would be as follows:

	31 March 2019 £	31 March 2018* £
Chairman	34,000	33,000
Audit Committee Chairman	27,000	26,000
Director	23,000	22,000

* Actual Directors' fees for the year ended 31 March 2018

Annual Report on Directors' Remuneration

Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following amounts for services as non-executive Directors for the years ended 31 March 2018 and 2017 and can expect to receive the fees indicated for 2019 as well as reimbursement for expenses necessarily incurred. No other forms of remuneration were paid during the year.

Fees for services to the Company (audited)

	Fees (audited)		Taxable Benefits[1] (audited)		Total (audited)		Anticipated Fees[2]
Director	31 March 2018 £	31 March 2017[5] £	31 March 2018 £	31 March 2017[5] £	31 March 2018 £	31 March 2017[5] £	31 March 2019 £
I A McLaren (Chairman)	33,000	31,500	2,226	52	35,226	31,552	34,000
J Le Blan	26,000	23,500	–	1,516	26,000	25,016	27,000
J M Evans	22,000	21,000	614	57	22,614	21,057	23,000
K D Shand[3]	5,425	21,000	628	81	6,053	21,081	n/a
A K Watkins[4]	16,620	n/a	–	n/a	16,620	n/a	23,000
J P Williams	22,000	21,000	179	2,455	22,179	23,455	23,000
Total	125,045	118,000	3,647	4,161	128,692	122,161	130,000

(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 year ended 31 March 2019. Taxable benefits are also anticipated but are not currently quantifiable.

(3) Retired 29 June 2017

(4) Appointed 29 June 2017

(5) Audited by the Company's previous auditor Ernst and Young

Relative Importance of Spend on Pay

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

	31 March 2018 £	31 March 2017 £	Change %
Aggregate Directors' Remuneration	125,045	118,000	+6.0
Management fee and other expenses	1,404,000	1,354,000	+3.7
Distributions paid to Shareholders	5,720,000	5,637,000	+1.5

Directors' Shareholdings (audited)

The Directors who held office at the year end and their interests in the shares of the Company at 31 March 2018 (all of which were beneficially held) were as follows:

	31 March 2018		1 April 2017	
Director	Ordinary Shares	B Shares	A Shares	B Shares
I A McLaren (Chairman)	10,116	30,000	10,000	30,000
J Le Blan	6,000	–	6,000	–
J M Evans	15,000	5,000	15,000	5,000
A K Watkins[1]	10,000	–	n/a	n/a
J P Williams	–	38,590	–	39,801

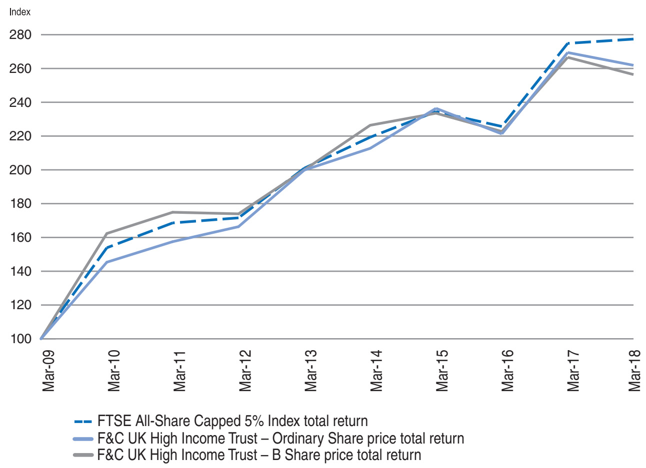
(1) Appointed 29 June 2017.

Since the year end, I A McLaren has acquired a further 122 Ordinary shares and J P Williams has acquired a further 11,410 B shares. There have been no changes in any of the other Directors' interests in the shares of the Company between 31 March 2018 and 29 May 2018.

Company Performance

The graph below compares, for the nine financial years ended 31 March 2018, the total return (assuming all dividends are reinvested) to Ordinary shareholders and B shareholders compared to the total return on the FTSE All-Share Capped 5% Index. This index was chosen for comparison purposes, as it represents a comparable broad equity market index; however it should be noted that up to 25 per cent. of the Company's assets were held in higher yielding securities during this period. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price Total Return and the FTSE All-Share Capped 5% Index Total Return Performance Graph (rebased to 100 at 31 March 2009)



Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 29 June 2017, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 March 2017. 97.3 per cent of votes were in favour of the resolution and 2.7 per cent were against.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting (Resolution 2).

On behalf of the Board

James Williams
Director

29 May 2018

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Relation to the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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 for that period. In preparing these financial statements the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the website maintained for F&C UK High Income Trust plc is the responsibility of the Directors; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts 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.

Responsibility statements under the Disclosure Guidance and Transparency Rules

Each of the Directors listed on page 22 confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Strategic Report (comprising the Chairman's Statement, Business Model and Strategy, Policy Summary, Key Performance Indicators, Principal Risks and Viability Statement, Manager's Review, Classification of Investments and Investment Portfolio) and the Report of the Directors include 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 that they face;
- taken as a whole, the annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy of the Company;

- the financial statements include details on related party transactions; and
- having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Iain McLaren
Chairman

29 May 2018

'Within our investment portfolio we favour companies which have strong balance sheets, generate surplus cash flow beyond the needs of the business and have a proven management team with a commitment to dividend growth'.

Independent Auditor's Report
to the members of F&C UK High Income Trust plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of F&C UK High Income Trust plc (the 'Company') which comprise:

- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Cash Flow Statement;
- the Statement of Changes in Equity; and
- the related notes 1 to 22.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation and ownership of listed investments • Revenue recognition – completeness of dividend income
Materiality	The materiality that we used in the current year was £1.22m which was determined on the basis of 1% of net assets at 31 March 2018.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

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

- the disclosures on pages 14-15 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 16 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 16 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 are also required to report whether the directors' statement relating to the prospects of the company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Valuation and Ownership of investments		
Key audit matter description	**How the scope of our audit responded to the key audit matter**	**Key observations**
The listed investments of the Company £127.4m (2017: £136.0m) make up 104% (2017: 103%) of total net assets £122.3m (2017: £131.6m). Please see Accounting Policy 1(Investments) and note 11. Investments listed on recognised exchanges are valued at the closing bid price at the year end. There is a risk of material misstatement that the listed investments may not be valued correctly or may not represent the property of the Company. The description of the key audit matter above should be read in conjunction with the significant matters considered by the Audit Committee in relation to the Financial Statements discussed on page 32.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of controls at the administrator State Street over the valuation and ownership of investments by reviewing the service auditor report, to identify the key controls relevant to the key audit matter, reviewed the procedures performed and identified and assessed any exceptions; • reviewed the internal controls report over JP Morgan, as it applies to custody and attended the Audit Committee meeting at which this report is evaluated to assess the adequacy of the design and implementation of controls at the custodian; • agreed 100% of the valuation of the listed investments to an independent pricing source; and • agreed 100% of the investment portfolio at the year end to confirmations received directly from the custodian and depositary.	No misstatements were identified which required reporting to those charged with governance.

Revenue recognition – completeness of dividend income		
Key audit matter description	**How the scope of our audit responded to the key audit matter**	**Key observations**
Dividends from equity shares totalling £5.5m (2017: £5.0m) are accounted for on an ex-dividend date as revenue, and are brought into account when the Company's right to receive payment is established where the ex-dividend date is not quoted. Please see Accounting Policy 1(Income) and note 2. The investment objective of the Company is to provide an attractive return to shareholders each year in the form of dividends and/or capital repayments, together with prospects for capital growth. As dividend income is the key driver of the dividend paid to shareholders, we consider that there is a risk that dividend income is incomplete and consequently the revenue recognised in the financial statements is misstated. We have also considered the potential for fraud in this balance. The description of the key audit matter above should be read in conjunction with the significant matters considered by the Audit Committee in relation to the Financial Statements discussed on page 33.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of controls at the administrator State Street over completeness of revenue by reviewing the service auditor report, to identify the key controls relevant to the key audit matter, reviewed the procedures performed and identified and assessed any exceptions; • for 100% investments held during the year, obtained ex-dividend dates and rates for dividends declared during the year and agreed the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • agreed a sample of dividend income receipts to bank statements.	No misstatements were identified which required reporting to those charged with governance. Accounting policies in relation to revenue recognition were found to be in line with IFRS, the SORP and industry peers.

Our application of materiality

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

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

Materiality	£1.22m (2017: £1.3m)
Basis for determining materiality	1% of net assets. In prior year the previous auditors determined materiality based on 1% of equity shareholder's funds.
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is the key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £61,000 (2017:£70,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement.

As described in note 1, the Company no longer prepares group accounts and as such our audit was scoped for the Company only. The financial reporting process is outsourced to F&C Investment Business Limited ("the Manager"), who have delegated certain accounting responsibilities to State Street (Global Fund Accounting).

As part of our audit we assessed the key controls in place at the Manager and State Street.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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

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

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors’ remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders at the Annual General Meeting on 29 June 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The year ending 31 March 2018 is the first year of our audit tenure.

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

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

Andrew Partridge (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

29 May 2018

Statement of Comprehensive Income

Notes	For the year to 31 March	Revenue Year to 31 March 2018 £'000	Capital Year to 31 March 2018 £'000	Total Year to 31 March 2018 £'000	Revenue Year to 31 March 2017 £'000	Capital Year to 31 March 2017 £'000	Total Year to 31 March 2017 £'000
	Capital losses/(gains) on investments						
11	(Losses)/gains on investments held at fair value through profit or loss	–	(6,867)	(6,867)	–	20,184	20,184
21	Exchange differences	–	(17)	(17)	–	(545)	(545)
	Revenue						
2	Investment income	5,601	–	5,601	5,447	–	5,447
	Total income	5,601	(6,884)	(1,283)	5,447	19,639	25,086
	Expenditure						
4	Investment management fee	(294)	(686)	(980)	(287)	(670)	(957)
5	Other expenses	(424)	–	(424)	(397)	–	(397)
	Total expenditure	(718)	(686)	(1,404)	(684)	(670)	(1,354)
	Profit/(loss) before finance costs and tax	4,883	(7,570)	(2,687)	4,763	18,969	23,732
	Finance costs						
7	Interest on bank loan	(119)	(277)	(396)	(178)	(415)	(593)
	Total finance costs	(119)	(277)	(396)	(178)	(415)	(593)
	Profit/(loss) before tax	4,764	(7,847)	(3,083)	4,585	18,554	23,139
8	Tax	–	–	–	–	–	–
	Profit/(loss) for the year	4,764	(7,847)	(3,083)	4,585	18,554	23,139
	Total comprehensive income/(expense) for the year	4,764	(7,847)	(3,083)	4,585	18,554	23,139
10	Earnings per share	4.03p	(6.64)p	(2.61)p	3.82p	15.48p	19.30p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were acquired or discontinued in the year.

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

Balance Sheet

Notes	As at 31 March	2018 £'000	2017 £'000
	Non–current assets		
11	Investments held at fair value through profit or loss	127,664	136,291
	Current assets		
13	Receivables	1,179	979
14	Cash and cash equivalents	1,563	12,982
		2,742	13,961
	Total assets	130,406	150,252
	Current liabilities		
15	Payables	(581)	(603)
16	Bank loan	–	(18,000)
		(581)	(18,603)
	Non–current liabilities		
16	Bank loan	(7,500)	–
		(7,500)	–
	Total liabilities	(8,081)	(18,603)
	Net assets	122,325	131,649
17	Share capital	134	134
18	Share premium	153	153
	Capital redemption reserve	5	5
	Buy back reserve	82,190	82,711
	Special capital reserve	18,089	19,589
	Capital reserves	15,426	23,273
	Revenue reserve	6,328	5,784
	Equity shareholders' funds	122,325	131,649
19	**Net asset value per Ordinary/A share**†	103.75p	111.19p
19	**Net asset value per B share**	103.75p	111.19p

The Company's loss for 2018 was £3,083,000 (2017: profit £23,139,000).

Company Number: SC314671

Approved by the Board and authorised for issue on 29 May 2018 and signed on its behalf by:

Iain McLaren, Director

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

† At the Company's Annual General Meeting held on 29 June 2017 shareholders approved the proposal to change the name of the Company's A shares to Ordinary shares.

Cash Flow Statement

Notes	For the year to 31 March	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
	Cash flows from operating activities		
	(Loss)/profit before tax	(3,083)	23,139
	Adjustments for:		
11	Losses/(gains) on investments held at fair value through profit or loss	6,867	(20,184)
21	Exchange differences	17	545
	Interest income	(11)	(21)
	Interest received	11	21
2	Investment interest	(63)	(426)
	Investment interest received	125	587
2	Dividend income	(5,522)	(5,000)
	Dividend income received	5,292	4,958
	Decrease/(increase) in receivables	4	(10)
	(Decrease)/increase in payables	(22)	15
11	Purchases of investments	(69,296)	(25,097)
11	Sales of investments	71,056	36,456
	Finance costs	396	593
	Net cash inflow from operating activities	5,771	15,576
	Cash flows from financing activities		
	Bank loan repaid	(10,500)	–
9	Dividends paid on Ordinary shares†	(4,220)	(4,168)
9	Capital returns paid on B shares	(1,500)	(1,469)
	Interest on bank loan	(436)	(593)
17	Shares purchased for treasury	(521)	(3,056)
	Net cash outflow from financing activities	(17,177)	(9,286)
20	**Net (decrease)/increase in cash and cash equivalents**	(11,406)	6,290
20	Currency losses	(13)	(572)
20	Opening net cash and cash equivalents	12,982	7,264
20	**Closing net cash and cash equivalents**	1,563	12,982

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

† At the Company's Annual General Meeting held on 29 June 2017 shareholders approved the proposal to change the name of the Company's A shares to Ordinary shares.

Statement of Changes in Equity

For the year to 31 March 2018

Notes		Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Buy back Reserve £'000	Special Capital Reserve £'000	Capital Reserve – investments sold £'000	Capital Reserve – investments held £'000	Revenue Reserve £'000	Total £'000
	Balance as at 1 April 2017	134	153	5	82,711	19,589	(9,910)	33,183	5,784	131,649
	Total comprehensive income for the year									
	Profit/(loss) for the year	–	–	–	–	–	7,074	(14,921)	4,764	(3,083)
	Total comprehensive income for the year	–	–	–	–	–	7,074	(14,921)	4,764	(3,083)
	Transactions with owners of the Company recognised directly in equity									
17	Shares bought back for treasury	–	–	–	(521)	–	–	–	–	(521)
9	Dividends paid on Ordinary† shares	–	–	–	–	–	–	–	(4,220)	(4,220)
9	Capital returns paid on B shares	–	–	–	–	(1,500)	–	–	–	(1,500)
	Balance as at 31 March 2018	134	153	5	82,190	18,089	(2,836)	18,262	6,328	122,325

†At the Company's Annual General Meeting held on 29 June 2017 shareholders approved the proposal to change the name of the Company's A shares to Ordinary shares.

For the year to 31 March 2017

Notes		Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Buy back Reserve £'000	Special Capital Reserve £'000	Capital Reserve – investments sold £'000	Capital Reserve – investments held £'000	Revenue Reserve £'000	Total £'000
	Balance as at 1 April 2016	134	153	5	85,092	21,058	(14,777)	19,496	5,367	116,528
	Total comprehensive income for the year									
	Profit for the year	–	–	–	–	–	4,867	13,687	4,585	23,139
	Total comprehensive income for the year	–	–	–	–	–	4,867	13,687	4,585	23,139
	Transactions with owners of the Company recognised directly in equity									
17	Shares bought back for treasury	–	–	–	(2,381)	–	–	–	–	(2,381)
9	Dividends paid on A shares	–	–	–	–	–	–	–	(4,168)	(4,168)
9	Capital returns paid on B shares	–	–	–	–	(1,469)	–	–	–	(1,469)
	Balance as at 31 March 2017	134	153	5	82,711	19,589	(9,910)	33,183	5,784	131,649

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

Notes to the Financial Statements

1. Accounting policies

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

Basis of Preparation

The financial statements of the Company have been prepared on a going concern basis under the historical cost convertion modified to include fixed asset investments and derivatives at fair value, and in accordance with the Companies Act 2006, International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

The Company's subsidiary undertaking Investors Securities Company Limited has not been consolidated in the financial statements as it is exempt in accordance with section 405(2) of the Companies Act 2006 on grounds of materiality. Investors Securities Company Limited has been classified at fair value through profit or loss in the Balance Sheet.

Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (functional and presentational currency) because that is the currency of the primary economic environment in which the Company operates. They are rounded to the nearest thousand except where otherwise indicated.

The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further detail is included in the Report of the Directors on page 26.

The accounting policies adopted are consistent with those of the previous financial year, except that the following annual improvements to IFRSs have been adopted in the current year:

- The IASB issued amendments to IAS 7 '*Statement of Cash Flows*' as part of its Disclosure Initiative and these require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. On initial application of the amendments, entities are not required to provide comparative information for preceding periods. The adoption of these amendments did not have any impact on the current period or any prior periods.

1. Accounting policies (continued)

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In July 2014, the IASB issued the final version of IFRS 9 *'Financial Instruments'* which reflects all phases of the financial instruments project and replaces IAS 39 *'Financial Instruments: Recognition and Measurements'*. The standard introduces new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required with some exceptions. The adoption of IFRS 9 is unlikely to have a material effect on the classification and measurement of the Company's financial assets or financial liabilities.

- IASB has issued a new standard for the recognition of revenue, IFRS 15 *'Revenue from Contracts with Customers'*. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 April 2018), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

  The standard will be effective for annual periods beginning on or after 1 January 2018. It is not currently anticipated that this standard will have any material impact on the Company's financial statements as presented for the current year.

The Company does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented.

Presentation of Statement of Comprehensive Income

In order to reflect better the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 Corporation Tax Act 2010.

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

Investments are classified as fair value through profit or loss. As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition.

Financial assets designated as at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Unlisted investments, including the subsidiary, are valued at fair value by the Directors on the basis of all information available to them at the time of valuation.

Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item. On derecognition any gain or loss arising is transferred from the Capital reserve – Investments Held to Capital reserve – Investments Sold.

1. Accounting policies (continued)

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 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data. The Company's investment in its dealing subsidiary is included in Level 3 and is valued at its equity value.

Receivables
Receivables do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash in banks and short term deposits that are held to maturity are carried at cost. Cash and cash equivalents consist of cash in hand and short term deposits in banks with an original maturity of three months or less.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Financial liabilities and equity instruments are initially recorded at the proceeds received, net of issue costs.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income 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 in which they arise.

Derivative financial instruments
Derivatives are classified as fair value through profit or loss – held for trading and are held at fair value and changes in fair value are recognised in the capital return column of the Statement of Comprehensive Income.

Payables
Payables are not interest bearing and are stated at their nominal value.

Reserves
(a) Share premium – the surplus of net proceeds received from the issue of new shares over the par value of such shares is credited to this account. The majority of the balance of this account which arose as a result of the issue of new shares at launch was subsequently cancelled by the Court of Session to create the Buyback reserve and Special capital reserve. These reserves are explained below. To the extent that the consideration received exceeds the value at which the shares were initially bought into treasury, the gain arising on the resale of shares from treasury will be credited to the share premium account. The share premium account is non-distributable.

(b) Capital redemption reserve – the nominal value of any of the shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

(c) Buyback reserve – created from the Court cancellation of the share premium account which had arisen from premiums paid on the A Shares. Available as distributable profits to be used for the buy back of Shares. The cost of any shares bought back is deducted from this reserve. The cost of any Shares resold from treasury is added back to this reserve.

(d) Special capital reserve – created from the Court cancellation of the share premium account which had arisen from premiums paid on the B Shares. Available for paying capital returns on the B Shares.

(e) Capital reserve – investments sold – gains and losses on realisation of investments are dealt with in this reserve together with the proportion of management fees, interest and taxation allocated to capital. This reserve also includes dividends of a capital nature.

1. Accounting policies (continued)

In addition, the Company's Articles of Association allow distributions to be made from realised capital reserves where the balance on this reserve is positive.

(f) Capital reserve – investments held – increases and decreases in the valuation of investments held are accounted for in this reserve, together with unrealised exchange differences on forward foreign currency contracts.

(g) Revenue reserve – the net profit/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve. Available for paying dividends on the Ordinary shares.

Income

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

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Special dividends of a non-capital nature are recognised through the revenue column of the Statement of Comprehensive Income. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

Interest income from fixed interest securities is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Other investment income and deposit interest are included on an accruals basis.

Taxation

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

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

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts which have approval under section 1158 Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Expenses and interest

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Statement of Comprehensive Income except where incurred in connection with the maintenance or enhancement of the value of the Company's investment portfolio taking account of the expected long term split of returns as follows:

- Interest payable on the bank term loan is recognised on an effective yield basis and allocated 30 per cent to revenue and 70 per cent to capital.

- Management fees have been allocated 30 per cent to revenue and 70 per cent to capital.

1. Accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are expressed in pounds sterling at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Non-monetary non current assets held at fair value through profit and loss and denominated in foreign currencies are reported at the rates of exchange prevailing when the fair value was assessed. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in either the capital or revenue column of the Statement of Comprehensive Income depending on whether the gain or loss is of a capital or revenue nature respectively.

Rates of exchange at 31 March	2018	2017
Euro	1.1406	1.1691
US Dollar	1.4028	1.2505

2. Income

	2018 £'000	2017 £'000
Income from investments		
UK dividend income	5,034	4,767
Overseas dividend income	488	233
UK listed fixed interest	52	302
Overseas listed fixed interest	11	124
	5,585	5,426
Other income		
Deposit interest	11	21
Other income	5	–
Total income	5,601	5,447
Total income comprises:		
Dividends	5,522	5,000
Interest on fixed interest securities	63	426
Deposit interest	11	21
Other income	5	–
Total income	5,601	5,447
Income from investments:		
Listed	5,585	5,426

No income in the current or prior year arose on securities sold ex-dividend within one month of purchase cum-dividend.

3. Operating segments

The Board has considered the requirements of IFRS 8 ‘Operating Segments’. The Board is of the view that the Company is engaged in a single segment of business, of investing in equity and that therefore the Company has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company’s performance is the total return on the Company’s net asset value measuring debt at fair value. The reconciliation between the measure of profit or loss used by the Board and that contained in the financial statements is as follows:

	2018		2017	
	2018 £’000	Net Asset Value per share pence	2017 £’000	Net Asset Value per share pence
Shareholders’ funds per financial statements	122,325	103.75	131,649	111.19
Closing fair value adjustment on fixed-rate term loan*	–	–	(78)	(0.07)
Shareholders’ funds with debt at fair value	122,325	103.75	131,571	111.12

	£’000	Earnings per share pence	£’000	Earnings per share pence
(Loss)/profit for the year per financial statements	(3,083)	(2.61)	23,139	19.30
Movement in fair value on fixed-rate term loan*	78	0.07	78	0.07
(Loss)/profit for the year with debt at fair value	(3,005)	(2.54)	23,217	19.37

*Refer to note 16 for further details on the fixed-rate term loan.

4. Investment management fee

	2018			2017		
	Revenue £’000	Capital £’000	Total £’000	Revenue £’000	Capital £’000	Total £’000
Investment management fee	294	686	980	287	670	957

The Company’s investment manager is F&C Investment Business Limited. The contract between the Company and F&C Investment Business Limited may be terminated at any date by either party giving six months’ notice of termination. In the event of the Company terminating the contract by giving less than six months’ notice, F&C Investment Business Limited is entitled to compensation calculated as a proportion of the fees payable by the Company in respect of the previous financial year.

Until 31 March 2018 the investment management fee was 0.75 per cent per annum (2017: 0.75 per cent) of the net asset value of the Company payable quarterly in arrears. As set out in the Report of the Directors, with effect from 1 April 2018 the investment management fee will be reduced to 0.65 per cent per annum on the net asset value of the Company.

The investment management fee for the quarter ended 31 March 2018 of £229,000 (2017: £248,000) is due to the Company’s investment manager at the year end.

5. Other expenses (including irrecoverable VAT thereon)

	2018 £’000	2017 £’000
Directors’ fees (Note 6)	125	118
Auditor’s remuneration for:		
– statutory audit	25	26
– taxation compliance (non-audit)	–	9
Custody and depository	21	23
Marketing	29	26
Printing and postage	31	44
Registrar’s fees	34	27
Credit facility committment fee	21	–
Other	138	124
	424	397

6. Directors' fees

The emoluments of the Chairman, the highest paid Director, were at the rate of £33,000 per annum (2017: £31,500).

Other Directors' emoluments amounted to £22,000 (2017: £21,000) each per annum, with the chairman of the Audit Committee receiving an additional £4,000 (2017: £2,500) per annum. Full details are provided in the Directors' Remuneration Report on pages 34 to 36.

7. Finance costs

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Finance costs attributable to term loan	119	277	396	178	415	593

8a. Tax on ordinary activities

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Corporation tax	–	–	–	–	–	–
Total tax charge	–	–	–	–	–	–

8b. Factors affecting tax charge for current year

A reconciliation of the current tax charge for the current year is set out below:	2018 £'000	2017 £'000
(Loss)/profit before tax	(3,083)	23,139
Taxation on ordinary activities at the UK standard rate of corporation tax of 19% (2017: 20%)	(586)	4,628
Effects of:		
– Non taxable dividend income	(1,049)	(1,000)
– Non taxable capital losses/(gains)	1,307	(3,927)
– Excess management expenses	328	299
Total tax charge for the year	–	–

The main rate of corporation tax was reduced from 20 per cent to 19 per cent with effect from 1 April 2017.

The deferred tax asset of £1,557,000 (2017: £1,135,000) in respect of unutilised expenses at 31 March 2018 has not been recognised as it is uncertain that there will be taxable profits from which the future reversal of the deferred tax asset could be deducted.

9. Dividends and capital repayments

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Amounts recognised as distributions to shareholders in the year:						
For the year ended 31 March 2017						
Fourth interim dividend paid at 1.21p (2017: 1.18p) per Ordinary share	1,058	–	1,058	1,055	–	1,055
Fourth capital repayment paid at 1.21p (2017: 1.18p) per B share	–	375	375	–	371	371
For the year ended 31 March 2018						
First interim dividend paid at 1.21p (2017: 1.17p) per Ordinary share	1,058	–	1,058	1,040	–	1,040
First capital repayment paid at 1.21p (2017: 1.17p) per B share	–	375	375	–	368	368
Second interim dividend paid at 1.21p (2017: 1.17p) per Ordinary share	1,052	–	1,052	1,038	–	1,038
Second capital repayment paid at 1.21p (2017: 1.17p) per B share	–	375	375	–	365	365
Third interim dividend paid at 1.21p (2017: 1.17p) per Ordinary share	1,052	–	1,052	1,035	–	1,035
Third capital repayment paid at 1.21p (2017: 1.17p) per B share	–	375	375	–	365	365
	4,220	1,500	5,720	4,168	1,469	5,637
Amounts relating to the year but not paid at the year end:						
Fourth interim dividend payable at 1.25p (2017: 1.21p) per Ordinary share	1,087	–	1,087	1,058	–	1,058
Fourth capital repayment payable at 1.25p (2017: 1.21p) per B share	–	387	387	–	375	375
	1,087	387	1,474	1,058	375	1,433

9. Dividends and capital repayments (continued)

As shown in the preceding table, the Directors have declared a fourth interim dividend and capital repayment in respect of the year ended 31 March 2018 of 1.25p per share, which was paid on 4 May 2018 to Shareholders on the register on 6 April 2018. Although these payments relate to the year ended 31 March 2018, under IFRS they will be accounted for in the period during which they are paid.

At the Company's Annual General Meeting held on 29 June 2017 Shareholders approved the proposal to change the name of the Company's A Shares to Ordinary Shares. Accordingly 'Ordinary Shares' are referenced solely in the preceding table.

	2018 £'000
Revenue available for distribution by way of dividends for the year	4,764
First quarterly interim dividend of 1.21p per Ordinary share paid in respect of the year ended 31 March 2018	(1,058)
Second quarterly interim dividend of 1.21p per Ordinary share paid in respect of the year ended 31 March 2018	(1,052)
Third quarterly interim dividend of 1.21p per Ordinary share paid in respect of the year ended 31 March 2018	(1,052)
Fourth quarterly interim dividend of 1.25p per Ordinary share payable in respect of the year ended 31 March 2018*	(1,087)
Undistributed revenue for the purposes of Section 1158 of the Corporation Tax Act 2010	515

*based on 86,928,144 Ordinary shares in issue at the record date of 6 April 2018.

10. Earnings per share

The Company's earnings per share are based on the loss for the year of £3,083,000 (year to 31 March 2017 profit: £23,139,000) and on 87,138,309 Ordinary shares (2017: 88,644,856) and 30,976,703 B shares (2017: 31,262,045), being the weighted average number of shares in issue of each share class during the year.

The Company's revenue earnings per share are based on the revenue profit for the year of £4,764,000 (year to 31 March 2017: £4,585,000) and on the weighted average number of shares in issue as above.

The Company's capital earnings per share are based on the capital loss for the year of £7,847,000 (year to 31 March 2017 profit: £18,554,000) and on the weighted average number of shares in issue as above.

11. Investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Listed securities	127,414	136,041
Subsidiary undertaking	250	250
	127,664	136,291

	Listed/ Quoted (Level 1) £'000	Subsidiary/ Unlisted (Level 3)* £'000	Total £'000
Opening book cost	103,009	250	103,259
Opening unrealised appreciation	33,032	–	33,032
Opening valuation	136,041	250	136,291
Movements in the year:			
Purchases at cost	69,296	–	69,296
Sales – proceeds	(71,056)	–	(71,056)
– gains on sales	8,049	–	8,049
Decrease in unrealised appreciation	(14,916)	–	(14,916)
Closing valuation at 31 March 2018	127,414	250	127,664
Closing book cost at 31 March 2018	109,298	250	109,548
Closing unrealised appreciation	18,116	–	18,116
Closing valuation at 31 March 2018	127,414	250	127,664

* Level 3 is the investment in the subsidiary undertaking, Investors Securities Company Limited, which is valued at its net asset value and for which observable market data is not applicable.

11. Investments held at fair value through profit or loss (continued)

	2018 £'000	2017 £'000
Equity investments	127,664	133,439
Fixed interest – UK denominated	–	2,228
– Overseas denominated	–	624
	127,664	136,291
Net gains on realisation of investments	8,049	6,645
Movement in fair value	(14,916)	13,539
(Losses)/gains on investments	(6,867)	20,184

The Company incurred transaction costs of £349,000 (2017: £97,000) on the purchase of assets and £53,000 (2017: £23,000) on the sale of assets in the year.

Net gains on realisation of investments during the year represents the difference between the net proceeds of sale and the book cost of the investments sold.

Movement in fair value represents the increase in the difference between the book cost of investments held and their market value at 31 March 2018 compared with the difference between the book cost of investments held and their market value at 31 March 2017.

12. Significant interests

As at 31 March 2018, the Company's subsidiary undertaking which deals in investments is:

Name	Country of incorporation or Registration	Class of Capital	Share Capital and Reserves £'000	Profit for the year £'000	% of Class held	% of Equity held	Valuation at 31.03.18 and 31.03.17 £'000
Investors Securities Company Limited	Scotland	Ordinary	250	–	100	100	250

The registered office of Investors Securities Company Limited is 6th Floor, Quartermile 4, 7a Nightingale Way, Edinburgh EH3 9EG.

At 31 March 2018, no investments were held by the dealing subsidiary and it did not trade during the year. The accounts of this subsidiary have not been consolidated with those of the Company as, in the opinion of the Directors, it is not material.

13. Receivables

	2018 £'000	2017 £'000
Income receivable from shares and securities	1,068	940
Fair value of foreign exchange currency contracts	–	4
Withholding tax recoverable	44	9
Sundry debtors and prepayments	67	26
	1,179	979

14. Cash and cash equivalents

All cash balances in the current and prior year were held in cash, current accounts or in banks on short term deposits with an original maturity of three months or less at the year end.

15. Payables

	2018 £'000	2017 £'000
Loan from subsidiary undertaking repayable on demand	250	250
Accrued expenses	102	105
Investment management fee	229	248
	581	603

16. Bank loan

	2018 £'000	2017 £'000
£7.5 million term loan maturing 28 September 2022	7,500	–
£18 million term loan maturing 28 September 2017	–	18,000
	7,500	18,000

On 28 September 2017 the Company repaid its £18 million secured term loan with JPMorgan Chase Bank. On the same date the Company drew down a £7.5 million unsecured term loan from Scotiabank Europe plc. The new facility has a five year term to 28 September 2022 and has a fixed interest rate of 2.58 per cent per annum. The Company also entered into a five year unsecured multicurrency revolving credit facility with Scotiabank (Ireland) Designated Activity Company, for £7.5 million. £nil was drawn down at 31 March 2018. Arrangement and legal fees of £55,000 were incurred and are being amortised over the term of the facilities.

The loan agreements contain certain financial covenants with which the Company must comply. These include a financial covenant with respect to the ratio of the Adjusted Net Asset Value (as defined in the loan agreements) to the level of debt and also that the Net Asset Value does not fall below £65 million. The Company complied with the required financial covenants throughout the period since drawdown.

The fair value of the £7.5 million term loan is not materially different from the value reflected in the Balance Sheet. The fair value of the fixed rate £18 million term loan, on a marked to market basis, was £18,078,000 at 31 March 2017.

17. Share capital
Allotted, issued and fully paid

	Listed		Held in Treasury		In Issue	
	Number	£	Number	£	Number	£
Ordinary Shares† of 0.1p each						
Balance at 1 April 2017	102,067,144	102,067	(14,639,000)	(14,639)	87,428,144	87,428
Repurchased to be held in treasury	–	–	(500,000)	(500)	(500,000)	(500)
Balance at 31 March 2018	102,067,144	102,067	(15,139,000)	(15,139)	86,928,144	86,928
B Shares of 0.1p each						
Balance at 1 April 2017	32,076,703	32,077	(1,100,000)	(1,100)	30,976,703	30,977
Repurchased to be held in treasury	–	–	–	–	–	–
Balance at 31 March 2018	32,076,703	32,077	(1,100,000)	(1,100)	30,976,703	30,977
Total at 31 March 2018	134,143,847	134,144	(16,239,000)	(16,239)	117,904,847	117,905

† At the Company's Annual General Meeting held on 29 June 2017 Shareholders approved the proposal to change the name of the Company's A shares to Ordinary Shares.

During the year the Company bought back 500,000 Ordinary Shares (2017: 2,000,000 A shares) to hold in treasury at a cost of £521,000 (2017: £1,941,000) and nil (2017: 450,000) B Shares to hold in treasury (2017: at a cost of £440,000). The Company did not buy back any shares for cancellation during the year (2017: nil).

At 31 March 2018 the Company held 15,139,000 Ordinary Shares (2017: 14,639,000 A shares) and 1,100,000 (2017: 1,100,000) B Shares in treasury.

17. Share capital (continued)

Shareholder entitlements

The Company has two classes of shares: Ordinary Shares and B Shares. The rights of each class of shares are identical, save in respect of the right to participate in dividends and capital repayments. Ordinary Shares are entitled to all dividends paid by the Company and no dividends may be paid to B Shareholders. B Shareholders are entitled to capital repayments from the Company at an amount per share equal to, but not exceeding, any dividend paid per share to Ordinary Shareholders.

The net asset value attributable to each class of share is the same. Apart from voting rights entitlements at separate class meetings, every Ordinary Share and every B Share carries equal voting rights. Upon a winding up or reconstruction of the Company, each Ordinary Share and each B Share shall have an equal right to share in the residual assets of the Company.

18. Share premium account and reserves

In 2007, the Court of Session confirmed the cancellation of the entire amount originally standing to the credit of the share premium account and the creation of two distinct reserves, the first reserve relating to that part of the cancelled share premium account arising from premiums paid on the A Shares (the “buy back reserve”) and the second reserve relating to that part of the cancelled share premium account arising from premiums paid on the B Shares (the “special capital reserve”).

The Company will apply these two reserves as follows:

- the buy back reserve will be available as distributable profits to be used for the buy back of both Ordinary shares and B shares; and
- the special capital reserve will be used for the purpose of paying capital repayments on the B Shares.

Capital management

The Company’s capital is represented by the issued share capital, share premium account, capital redemption reserve, buy back reserve, special capital reserve, capital reserve – investments sold, capital reserve – investments held and revenue reserve. Details of the movement through each reserve are shown in the Statement of Changes in Equity. The Company is not subject to any externally imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy and Policy Summary and the Report of the Directors. In order to maintain an optimal capital structure through varying market conditions the Company has the ability to:

– issue and buyback share capital within limits set by the shareholders in general meeting;

– borrow money in the short and long term;

– pay dividends to Ordinary shareholders out of current year revenue earnings as well as out of the brought forward revenue reserve; and

– pay capital repayments to B shareholders out of the special capital reserve.

The Company has the power under its Articles to borrow an amount up to 100 per cent of the Company’s Adjusted Capital and Reserves. The Directors currently intend that the aggregate borrowings of the Company will be limited to approximately 20 per cent of the Company’s gross assets immediately following drawdown of any new borrowings. The Directors will, however, retain flexibility to increase or decrease the level of gearing to take account of changing market circumstances and in pursuit of the Company’s investment objectives.

19. Net asset value per share

The Company's basic net asset value per share of 103.75p (2017: 111.19p) is based on the equity shareholders' funds of £122,325,000 (2017: £131,649,000) and on 117,904,847 equity shares, consisting of 86,928,144 Ordinary Shares and 30,976,703 B Shares (2017: 118,404,847 equity shares, consisting of 87,428,144 A Shares and 30,976,703 B Shares), being the number of shares in issue at the year end.

	2018	2017
Net assets attributable	£122,325,000	£131,649,000
Equity shares in issue at the year end	117,904,847	118,404,847
Net asset value per Ordinary/B share	103.75p	111.19p

The Company's shares may also be traded as units, each unit consisting of three Ordinary Shares and one B Share. The basic net asset value per unit as at 31 March 2018 was therefore 415.00p (2017: 444.76p).

The Company's treasury net asset value per share, incorporating the 15,139,000 Ordinary shares and 1,100,000 B Shares held in treasury at the year end (2017: 14,639,000 A Shares and 1,100,000 B Shares), was 103.12p (2017: 110.54p). The Company's treasury net asset value per unit at the end of the year was 412.48p (2017: 442.16p). The Company's policy is to only re-sell shares held in treasury at a price representing a discount of not more than 5 per cent to net asset value at the time of sale, together with other conditions. Accordingly, for the purpose of the calculation, such treasury shares are valued at the higher of net asset value less 5 per cent and the mid market share price at each year end.

20. Analysis of changes in net debt

	At 1 April 2017 £'000	Cash flow £'000	Currency movements £'000	At 31 March 2018 £'000
Cash and cash equivalents	12,982	(11,406)	(13)	1,563
Bank loan	(18,000)	10,500	–	(7,500)
Net debt	(5,018)	(906)	(13)	(5,937)

21. Financial instruments

The Company's financial instruments comprise equity investments, cash balances, receivables and payables that arise directly from its operations and borrowings. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings to achieve enhanced returns. The downside risk of borrowings can be mitigated by raising the level of cash balances held.

The Company may use derivatives for efficient portfolio management from time to time. The only derivatives used in the year were forward foreign exchange currency contracts to hedge currency movements. These were also used in the prior year. The Company may also write call options over some investments held in the Investment Portfolio. There were no call options written during the current year or prior year.

The fair value of the financial assets and liabilities of the Company at 31 March 2018 is not materially different from their carrying value in the financial statements.

The Company is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, market price risk, liquidity risk, interest rate risk and foreign currency risk.

The Board reviews and agrees policies for managing its risk exposure. These policies are summarised overleaf and have remained unchanged for the year under review.

21. Financial instruments (continued)

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company.

The Company's principal financial assets are bank balances and cash and other receivables, whose carrying amounts in the balance sheet represent the Company's maximum exposure to credit risk in relation to financial assets. The Company did not have any exposure to any financial assets which were past due or impaired at the current or prior year end.

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. A list of pre-approved counterparties used in such transactions is maintained and regularly reviewed by the Manager, and transactions must be settled on a basis of delivery against payment. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the acceptable quality of the brokers used. The rate of default in the past has been insignificant.

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

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

The Company has no significant concentration of credit risk with exposure spread over a number of counterparties and financial institutions.

Market price risk

The fair value of equity and other financial securities 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. Other external events such as protectionism, inflation or deflation, economic recessions and terrorism could also affect share prices in particular markets. The Company's strategy for the management of market price risk is driven by the Company's investment policy as outlined within the Business Model and Strategy and Policy Summary on pages 9 to 12. The Board sets policies for managing this risk and meets regularly to review full, timely and relevant information on investment performance and financial results. The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment and portfolio performance are discussed in more detail in the Manager's Review and further information on the investment portfolio is set out in the sections of this report entitled 'Classification of Investments' and 'Investment Portfolio'.

Any changes in market conditions will directly affect the profit or loss reported through the Statement of Comprehensive Income. A 10 per cent increase in the value of the Investment Portfolio as at 31 March 2018 would have increased net assets and income for the year by £12,766,000 (2017: an increase of 10 per cent in the Equities Portfolio would have increased net assets and income by £13,319,000). A decrease of 10 per cent (2017: 10 per cent) would have had an equal but opposite effect.

The calculations above are based on investment valuations at the respective balance sheet dates and are not representative of the year as a whole, nor are they reflective of future market conditions.

Disclosure of the hierarchy of fair value measurements for financial instruments, as required by IFRS 13, is provided in notes 11 and 16 and in the accounting policies.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given the liquid nature of the portfolio of investments and the level of cash and cash equivalents ordinarily held. Cash balances are held with a spread of reputable banks with a credit rating of normally A or higher, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

In certain circumstances, the terms of the Company's bank loan entitle the lender to demand early repayment and, in such circumstances, the Company's ability to maintain dividend levels and the net asset value attributable to equity shareholders could be adversely affected. Such early repayment may be required on the occurrence of certain events of default which are customary for facilities of this type. These include events of non payment, breach of other obligations, misrepresentations, insolvency and insolvency proceedings, illegality and a material adverse change in the financial condition of the Company.

21. Financial instruments (continued)

The remaining contractual maturities of the financial liabilities at 31 March 2018, based on the earliest date on which payment can be required, were as follows:

	Three months or less £'000	More than three months but less than one year £'000	More than one year but less than two years £'000	More than two years but less than five years £'000	Total £'000
31 March 2018					
Current liabilities					
Payables	331	–	–	–	331
Non-current liabilities					
Bank loan	48	144	193	7,985	8,370
31 March 2017					
Current liabilities					
Payables	353	–	–	–	353
Bank loan	142	18,142	–	–	18,284

The figures in the above table are on a contractual maturity basis and therefore include interest payments where applicable.

Interest rate risk

Some of the Company's financial instruments are interest bearing. They are a mix of both fixed and variable rate instruments with differing maturities. As a consequence, the Company is exposed to interest rate risk due to fluctuations in the prevailing market rate. The Company's exposure to floating interest rates gives cashflow interest rate risk and its exposure to fixed interest rates gives fair value interest rate risk.

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate, which was 0.50 per cent at 31 March 2018 (2017: 0.25 per cent).

Fixed rate

At 31 March 2018 the Company's Investment Portfolio did not contain any fixed interest or floating rate interest assets. Details of the Company's Investment Portfolio are given in Note 11 and in the section of this report entitled 'Investment Portfolio'. At 31 March 2017 the Company held fixed interest investments. At 31 March 2018 and 31 March 2017 the Company had fixed interest liabilities.

	2018			2017		
	£'000	Weighted average interest rate	Average duration until maturity	£'000	Weighted average interest rate	Average duration until maturity
Higher Yield investments:						
Fixed interest investments	–	–	–	2,648	3.0%*	2.4 years
Floating rate notes	–	–	–	204	1.3%	2.7 years
Fixed interest liabilities:						
Term loan	7,500	2.58%	4.5 years	18,000	3.2%	0.5 years

*The weighted average interest rate on the Higher Yield Portfolio assumes that all fixed interest investments are held to redemption and that full redemption value is received.

The £7.5 million term loan carries a fixed interest rate of 2.58 per cent per annum. An interest rate sensitivity analysis has not been performed as the Company has borrowed at a fixed rate of interest.

21. Financial instruments (continued)

Considering the effect on cash balances, an increase of 100 basis points in interest rates would have increased net assets and income for the year by £16,000 (year to 31 March 2017: £130,000). A decrease of 100 basis points would have had an equal but opposite effect. The calculations are based on the net cash balances at the respective balance sheet date and are not representative of the year as a whole, nor are they reflective of future market conditions.

Foreign currency risk

In previous years and prior to the removal of the Higher Yield portfolio from the Investment Policy, in order to achieve a diversified portfolio of higher yielding interest bearing securities the Company invested partly in overseas securities which gives rise to currency risks. Historically, the Company entered into US Dollar and Euro foreign exchange currency contracts with a view to hedging these currency risks. At 31 March 2018, the Company's investment portfolio does not contain any overseas higher yielding interest bearing securities. It is however not the Company's policy to hedge any overseas currency exposure on equity investments. Foreign currency exposure (which includes Euro denominated equity investments) at 31 March 2018 was as follows:

	2018				2017			
	Investments £'000	Net Current Assets £'000	Cash £'000	Total £'000	Investments £'000	Net Current Assets £'000	Cash £'000	Total £'000
US Dollar	–	146	–	146	163	23	4	190
Euro	9,950	11	–	9,961	461	33	7	501
	9,950	157	–	10,107	624	56	11	691

As at 31 March 2018 the foreign exchange currency contracts not yet realised were as follows:

	2018 Hedged amount £'000	2018 Unrealised gain £'000	2017 Hedged amount £'000	2017 Unrealised gain/(loss) £'000
US Dollars for Sterling	–	–	163	–
Euro for Sterling	–	–	464	4
	–	–	627	4

Total losses in the year from foreign exchange currency contracts and balances held in cash were £17,000 (2017 – losses: £545,000). All foreign exchange currency contracts in place at 31 March 2017 were due to expire within 12 months of the balance sheet date.

Given the policy to hedge currency risk on non-sterling denominated assets in the Higher Yield Portfolio by entering into forward foreign exchange currency contracts, the weakening or strengthening of Sterling against either the US Dollar or Euro would not have had a significant net impact on the total column of the Statement of Comprehensive Income in the prior year nor the net asset value as at 31 March 2017. At 31 March 2018, if the value of sterling had weakened against the Euro by 10 per cent the impact on the profit or loss and the net asset value would have been an increase of £996,000. If the value of sterling had strengthened against the Euro by 10 per cent the effect would have been equal and opposite.

22. Related party and transactions with the Manager

The Directors of the Company are considered a related party. There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 34 to 36 and as set out in note 6 to the financial statements. There are no outstanding balances with the Board at year end.

The beneficial interests of the Directors in the Ordinary shares and B shares of the Company are disclosed on page 35.

Transactions between the Company and F&C Investment Business Limited are detailed in note 4 on management fees and in note 15 in relation to fees owed to F&C Investment Business Limited at the Balance Sheet date. The existence of an independent Board of Directors demonstrated that the Company is free to pursue its own financial and operating policies and therefore under the AIC SORP, the Manager is not considered a related party.

AIFM Disclosures

Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. 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 31 March 2018 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	260%	260%
Actual	104%	106%

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

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

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

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

Notice of Annual General Meeting

Notice is hereby given that the eleventh Annual General Meeting of F&C UK High Income Trust plc will be held at Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG, on Thursday 5 July 2018 at 12 noon for the following purposes. To consider and, if thought fit, pass the following Resolutions, of which Resolutions 1 to 10 and 13 will be proposed as Ordinary Resolutions and Resolutions 11, 12 and 14 to 16 as Special Resolutions:

Ordinary Business

Ordinary Resolutions

1. That the Annual Report and Financial Statements for the year to 31 March 2018 be received.

2. That the Annual Report on Directors' Remuneration for the year ended 31 March 2018 be approved.

3. That Mr I A McLaren, who retires annually, be re-elected as a Director.

4. That Mrs J Le Blan, who retires annually, be re-elected as a Director.

5. That Mr J M Evans, who retires annually, be re-elected as a Director.

6. That Mr A K Watkins, who was appointed as a Director in June 2017, be elected.

7. That Mr J P Williams, who retires annually, be re-elected as a Director.

8. That Deloitte LLP be re-appointed as Auditor and the Directors be authorised to determine its remuneration.

9. That the Company's dividend/capital repayment policy with regard to quarterly payments as set out in the Annual Report and Financial Statements be approved.

10. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £4,346 in respect of Ordinary shares of 0.1 pence each in the capital of the Company ("Ordinary Shares") and £1,548 in respect of B shares of 0.1 pence each in the capital of the Company ("B Shares"), such authority to expire at the conclusion of the Company's next Annual General Meeting or on 30 September 2019, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

Special Resolutions

11. That, subject to the passing of Resolution number 10 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act, provided that for the purposes of this resolution an allotment of equity securities shall be deemed not to include the sale of shares in the Company that immediately before the sale are held by the Company as treasury shares) for cash pursuant to the authority given by Resolution number 10 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:

    (a) expires at the conclusion of the Company's next Annual General Meeting or on 30 September 2019, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £4,346 in respect of Ordinary Shares and £1,548 in respect of B Shares (being approximately 4.4 per cent of the total nominal value of the issued share capital of the Company (including treasury shares), as at 29 May 2018) at a price of not less than the net asset value per share of the existing Ordinary Shares (in the case of an allotment of Ordinary Shares) or B Shares (in the case of an allotment of B Shares).

12. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 0.1 pence each in the capital of the Company and fully paid B Shares of 0.1p each in the capital of the Company ("Ordinary and/or B Shares") (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

    (a) the maximum aggregate number of Ordinary Shares and B Shares hereby authorised to be purchased is 14.99 per cent of the issued Ordinary Shares and 14.99 per cent of the issued B Shares (excluding Ordinary and B Shares held in treasury) immediately prior to the passing of this resolution (see note 13);

    (b) the minimum price (excluding expenses) which may be paid for an Ordinary Share or B Share is 0.1 pence;

    (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share or B Share shall not be more than the higher of:

        i. 5 per cent. above the average of the middle market values (as derived from the Daily Official List of the London Stock Exchange) of an Ordinary Share or B Share over the five business days immediately preceding the date of purchase; and

        ii. the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

    (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or on 30 September 2019 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares and/or B Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares and/or B Shares pursuant to any such contract.

Ordinary Resolution

13. That, subject to the passing of Resolution 14 to be proposed at the Annual General Meeting of the Company convened for 5 July 2018 ("Resolution 14'), the Directors of the Company be authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to sell Ordinary Shares and/or B Shares in the capital of the Company held in treasury for cash at a price below the net asset value per share of the existing Ordinary Shares and/or B Shares in issue pursuant to the authority conferred by Resolution 14, provided always that Ordinary Shares and/or B Shares will only be resold from treasury at a price representing a discount of not more than 5 per cent to net asset value at the time of resale, subject to the conditions that, first, the discount at which such Ordinary Shares and/or B Shares are to be resold must be less than the average discount at which Ordinary Shares and/or B Shares held in treasury have been repurchased and, second, the net asset value dilution associated with the sale of treasury shares in any one financial year must not exceed 0.5 per cent of net assets.

Special Resolutions

14. That, the Directors of the Company be and they are hereby empowered pursuant to section 573 of the Companies Act 2006 (as amended) (the "Act") to sell equity securities (within the meanings of sections 560(1) and 560(2) of the Act) wholly for cash as if section 561 of the Act did not apply to any such sale, provided that this power shall be limited to the sale of equity securities for cash out of treasury up to an aggregate nominal amount of £8,692 in respect of Ordinary Shares and £3,097 in respect of B Shares, representing approximately 8.5 per cent of the Company's Ordinary share capital in issue (including treasury shares) as at the date of the passing of this resolution and approximately 9.7 per cent of the Company's B share capital in issue (including treasury shares) as at the date of the passing of this resolution and shall expire on the earlier of 30 September 2019 or at the conclusion of the Company's next Annual General Meeting, unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

15. That, the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company or 30 September 2019, whichever is the earlier (all dates inclusive).

Special Business

Special Resolution

16. That, in order to change the benchmark index against which the Company's performance is measured from the FTSE All-Share Capped 5% Index to the FTSE All-Share Index, the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By order of the Board
For F&C Investment Business Limited
Company Secretary
Quartermile 4,
7a Nightingale Way
Edinburgh EH3 9EG

29 May 2018

Notes

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

   The statements of the rights of members in relation to the appointment of proxies in Notes 1 and 2 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of shares entered on the Register of Members of the Company as at 6.30 p.m. on 3 July 2018 or, in the event that the meeting is adjourned, on the Register of Members as at 6.30 pm on the day two days (excluding non-working days) prior to any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Shares registered in their names at that time. Changes to the entries on the Register of Members after 6.30 p.m. on 3 July 2018 or, in the event that the meeting is adjourned, in the Register of Members as at 6.30 pm on the day two days prior to any adjourned meeting (excluding non-working days), shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

7. As at 29 May 2018 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 86,928,144 Ordinary Shares carrying one vote each and 30,976,703 B Shares carrying one vote each. The Company holds 15,139,000 Ordinary Shares and 1,100,000 B shares in treasury which do not carry voting rights. Therefore the total voting rights in the Company as at 29 May 2018 were 117,904,847 votes. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as his/her proxy will need to ensure that both he/she and such third party complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.
8. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for inspection at the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and for 15 minutes prior to, and during, the Annual General Meeting.
9. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.fandcukhit.co.uk.
10. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
    (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    (b) the answer has already been given on a website in the form of an answer to a question; or
    (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
11. The members of the Company may require the Company to publish, on its website (without payment), a statement (which is also passed to the Company's auditor) setting out any matter relating to the audit of the Company's accounts including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG.
12. You may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.
13. Following Resolution 12 becoming effective, the maximum aggregate number of shares hereby authorised to be purchased shall be 13,030,528 Ordinary shares and 4,643,407 B shares (or, if less, 14.99 per cent. of the number of Ordinary shares and 14.99 per cent. of the number of B shares in issue (excluding treasury shares) immediately prior to the passing of the resolution).

‘Distribution yield of 5.1% for the Ordinary and B Shareholders based on the share prices for both classes of shares at 31 March 2018.’

Capital Structure At 31 March 2018

The Company has a capital structure comprising Ordinary shares and B shares. In addition, the Company has a bank loan.

The Company's capital structure offers shareholders the opportunity to receive quarterly returns in the form of either dividends, capital repayments, or both, to suit their own particular circumstances.

The Company has two classes of shares: Ordinary shares and B shares. The rights of each class of shares are identical, save in respect of the right to participate in dividends and capital repayments. Irrespective of these rights, the net asset value attributable to each class of shares is the same.

Only Ordinary shares carry a right to participate in dividends paid by the Company. B shares are not entitled to dividends but each B share instead carries the right to receive a capital repayment at the same time as, and in an amount equal to, each dividend paid in respect of Ordinary shares.

The tax treatment on distributions received from Ordinary shares will be different from that on distributions received from B shares. Dividends paid on the Ordinary shares will be taxed on receipt in the normal way for dividends. Capital repayments received on B shares will fall to be taxed in accordance with the rules relating to the taxation of chargeable gains (see further information below) for non-corporate holders (including individuals).

It is the Company's policy to maintain the ratio of Ordinary shares to B shares (excluding shares held in Treasury) within the range 72.5 : 27.5 and 77.5 : 22.5.

These two securities can be traded together in the form of a unit with each unit consisting of three Ordinary shares and one B share.

Bank Loan Facility

The Company has a sterling term bank loan in the amount of £7.5 million which matures on 28 September 2022. The rate of interest has been fixed at 2.58 per cent per annum. The returns of both the Ordinary shares and B shares are geared by this bank loan.

Further information on the B Shares

What is different about the B shares

The B shares are just like any other ordinary share except that, instead of dividends, B shareholders receive capital repayments, so B shareholders will receive the same amount of cash on a quarterly basis as Ordinary shareholders, but when it comes to the tax on these capital repayments the tax treatment will be different. Effectively, no UK tax is due on receipt of the capital repayments.

So a higher rate taxpayer, for example, will not be liable on receipt to the additional income tax that would normally be applicable on receipt of a dividend. This is because the capital repayment is taxed under UK Capital Gains Tax ('CGT') rules rather than Income Tax rules for non-corporate holders (including individuals). It is only when the B shares are disposed of that the capital repayments received need to be taken into account as part of the CGT disposal calculation. If the shares continue to be held until death, no CGT arises in respect of the capital repayments. The value of the holding will, however, be taken into account for Inheritance Tax purposes, if applicable.

Further details are available on the website:
www.fandcukhit.co.uk

A summary of the tax treatment.

The capital repayments paid on the B shares will be taxed for individuals under CGT rules rather than Income Tax rules. Holders of B shares therefore have more scope for tax planning (for example, by selling shares within the annual CGT exempt amount, or by offsetting gains against capital losses).

UK tax is not, in normal circumstances, due on receipt of the quarterly capital repayments and you do not need to include them on your tax return. Instead, when you dispose of B shares, an amount equivalent to the capital repayments you have received is deducted from the tax base cost as part of the CGT calculation. This treatment applies because the quarterly sums are treated as 'small capital receipts' under CGT rules; being either less than 5 per cent of the market value of the B shareholding at the date of receipt or less than £3,000.

An individual B shareholder's annual exempt amount for CGT purposes is not reduced or prejudiced by this treatment of capital repayments. Non-UK resident shareholders will not be subject to UK tax on capital repayments, although local tax could arise.

A detailed description of taxation of the B shares was contained in the Company's launch Prospectus, which is available on request.

The above is based on an understanding of legislation and HM Revenue and Customs' practice at the time of publication. Tax rates and reliefs depend on the circumstances of the individual investor, are subject to government legislation and may change in the future. You should consult your tax adviser on your own individual tax circumstances.

Shareholder Information

Dividends

Dividends on Ordinary shares and capital repayments on B shares are paid quarterly in August, November, February and May each year. Shareholders who wish to have distributions paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Equiniti Limited (see back cover page for contact details) on request. The Company operates the BACS system for the payment of distributions. Where distributions are paid directly into shareholders' bank accounts, dividend and capital repayment tax vouchers are sent directly to shareholders' registered addresses.

Reinvestment of Returns

If you hold B shares through one of the F&C savings plans, you can elect to have the quarterly repayments automatically reinvested to buy further shares; contact F&C for further information.

Share Prices and Daily Net Asset Value

The Company's securities are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in the Financial Times and other newspapers. The net asset value of the Company's shares can be obtained by contacting F&C Investor Services on 0345 600 3030.

Change of Address

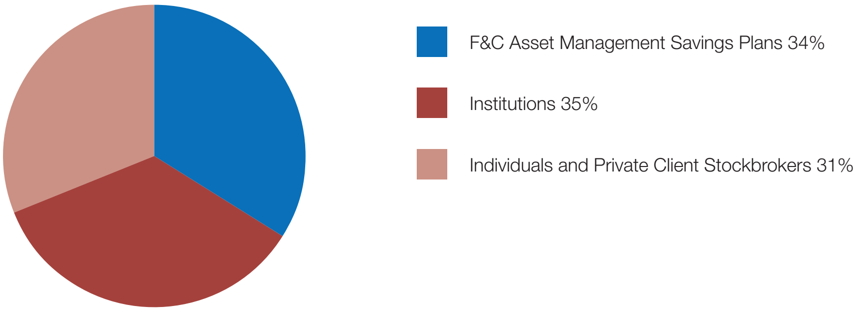
Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited, under the signature of the registered holder

Data protection

The Company is committed to protecting and respecting the confidentiality, integrity and security of the personal data it holds. For information on the processing of personal data, please see the privacy policy on the Company's website at www.fandcukhit.co.uk.

Profile of the Company's Ownership

% of Shares held at 31 March 2018



Warning to shareholders – Boiler Room Scams

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 Financial Conduct Authority ("FCA")
- Call the 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.

Capital Gains Tax

The information below is to assist shareholders of the Company and the predecessor Company with capital gains tax.
The undernoted values as at 31 March 1982 are to assist shareholders and debenture stockholders, with regard to capital gains tax.

Ordinary Shares	25⁷/₈p
4% Debenture Stock	23¹/₄p
3.675% Preference Stock	34¹/₂p
7¹/₄% Debenture Stock	55¹/₄p

The undernoted amounts are to assist shareholders and warrantholders with regard to capital gains tax, following the capital reorganisation in December 1994:

	First day of dealing value	Apportionment factor
Growth Shares	84¹/₄p	0.6844
Income Annuity Shares	36¹/₄p	0.2912
Warrants	15p	0.0244

The income annuity shares are not considered to be wasting assets for capital gains tax purposes.
The undernoted amounts are to assist shareholders and warrantholders with regard to capital gains tax, following the capital reorganisation in June 2001:

	First day of dealing value	Apportionment factor
Zero Dividend Preference Shares	35³/₄p	0.3488
Income Shares	53³/₄p	0.5244
Capital Shares	13p	0.1268

In respect of reo® UK Tracker Fund shares received, their base cost will represent the remaining base cost after the apportionment, if any, of the base cost to the other share classes.
The undernoted amounts are to assist shareholders with regard to capital gains tax, following the capital reorganisation in February 2007:

	First day of dealing value
A Shares†	95.875p
B Shares	95.875p

A Unit comprises of three Ordinary shares and one B share and capital gains tax calculations should be based on the separate Ordinary and B shareholdings. For a Unit holding, the base costs should be apportioned between the Ordinary shares and the B shares in the factors 0.75 and 0.25 respectively.

† At the Company's Annual General Meeting held on 29 June 2017 shareholders approved the proposal to change the name of the Company's A shares to Ordinary shares.

How to Invest

One of the most convenient ways to invest in F&C UK High Income 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 2018/19 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 £4,260 for the tax year 2018/19 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 £4,260 for the 2018/19 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.

*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.

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 instructions £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.com/literature**.

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 – 5.00pm, 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, 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.

BMO | A part of BMO Financial Group

Historic Record

Assets at 31 March												
£'000s	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total assets less current liabilities	167,141	149,468	112,974	142,685	144,369	143,158	139,498	144,552	144,886	134,528	149,649	129,825
Bank loan at fair value*	33,500	34,213	36,888	36,642	35,509	34,245	18,186	17,692	18,103	18,156	18,078	7,500
Net assets, debt at fair value	133,641	115,255	76,086	106,043	108,860	108,913	121,312	126,860	126,783	116,372	131,571	122,325

* includes interest rate swap, where applicable

Net Asset Value (NAV)* at 31 March	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV per A/Ordinary share and per B share	96.3p	89.6p	60.5p	83.1p	85.6p	85.9p	97.9p	102.8p	103.6p	96.3p	111.1p	103.7p
NAV High	–	103.8p	95.4p	83.4p	87.1p	88.7p	98.5p	105.8p	107.5p	107.3p	112.3p	116.3p
NAV Low	–	84.7p	58.5p	59.5p	72.3p	74.5p	78.9p	93.0p	95.0p	87.3p	92.6p	101.1p
NAV total return on 100p – 5 years												132.2p
NAV total return on 100p – since launch												189.0p

* includes debt at fair value

Share Price – A/Ordinary Shares at 31 March	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Middle market price per share	98.4p	83.0p	59.5p	80.0p	82.0p	82.0p	93.5p	95.0p	100.8p	89.8p	104.0p	96.5p
Premium/(discount) to NAV %	2.2%	(7.4)%	(1.7)%	(3.7)%	(4.2)%	(4.5)%	(4.5)%	(7.6)%	(2.7)%	(6.7)%	(6.4)%	(7.0)%
Share price High	–	98.5p	86.7p	82.0p	85.5p	83.5p	93.5p	97.5p	101.0p	100.0p	104.5p	108.0p
Share price Low	–	82.0p	58.0p	59.0p	74.0p	70.5p	76.5p	90.0p	87.5p	84.0p	87.5p	96.0p
Share price total return on 100p – 5 years												131.0p
Share price total return on 100p – since launch												181.3p

Share Price – B Shares at 31 March	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Middle market price per share	98.4p	83.0p	59.5p	89.5p	91.5p	86.5p	94.5p	102.3p	100.8p	91.5p	104.3p	95.8p
Premium/(discount) to NAV %	2.2%	(7.4)%	(1.6)%	7.7%	6.9%	0.7%	(3.5)%	(0.5)%	(2.7)%	(5.0)%	(6.1)%	(7.7)%
Share price High	–	98.5p	86.5p	89.5p	93.5p	91.5p	94.5p	103.5p	102.3p	102.0p	104.3p	107.0p
Share price Low	–	82.0p	58.0p	59.0p	77.0p	78.0p	79.0p	90.5p	88.5p	84.5p	86.5p	95.8p
Share price total return on 100p – 5 years												128.2p
Share price total return on 100p – since launch												177.4p

Share Price – Units at 31 March	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Middle market price per share	393.6p	327.0p	237.0p	317.0p	328.0p	322.5p	369.0p	375.0p	402.5p	354.0p	409.5p	397.0p
Premium/(discount) to NAV %	2.2%	(8.8)%	(2.0)%	(4.6)%	(4.2)%	(6.2)%	(5.7)%	(8.8)%	(2.9)%	(8.1)%	(7.9)%	(4.3)%
Share price High	–	393.5p	337.5p	317.0p	337.0p	334.5p	369.0p	375.0p	402.5p	400.5p	409.5p	425.0p
Share price Low	–	327.0p	233.0p	236.0p	317.0p	300.0p	300.0p	358.0p	349.5p	335.0p	336.5p	397.0p
Share price total return on 100p – 5 years												136.6p
Share price total return on 100p – since launch												187.2p

Revenue For the year ended 31 March		2008†	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Available for A/Ordinary shares – £'000s		6,255	5,154	4,811	4,906	4,704	4,391	4,598	4,848	4,571	4,585	4,762
Revenue earnings per share		4.68p	4.07p	3.79p	3.85p	3.70p	3.52p	3.73p	3.95p	3.74p	3.82p	4.03p
Dividends per A/Ordinary share		5.35p	5.35p	5.35p	4.28p	4.28p	4.28p	4.37p	4.48p	4.60p	4.72p	4.88p
Capital repayments per B share		5.35p	5.35p	5.35p	4.28p	4.28p	4.28p	4.37p	4.48p	4.60p	4.72p	4.88p

Performance (rebased at 100 at 1 March 2007)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV per A/Ordinary share, B share and Unit	100.0	93.1	62.8	86.3	88.9	89.2	101.7	106.8	107.6	100.0	115.4	107.7
Mid Market price per A/Ordinary share	100.0	84.3	60.5	81.3	83.3	83.3	95.0	96.5	102.4	91.3	105.7	98.1
Mid Market price per B share	100.0	84.3	60.5	91.0	93.0	87.9	96.0	104.0	102.4	93.0	106.0	97.4
Mid Market price per Unit	100.0	83.1	60.2	80.5	83.3	81.9	93.8	95.3	102.3	89.9	104.0	100.9
Dividends per A/Ordinary share		100.0	100.0	100.0	80.0	80.0	80.0	81.7	83.7	86.0	88.2	91.2
Capital repayments per B share		100.0	100.0	100.0	80.0	80.0	80.0	81.7	83.7	86.0	88.2	91.2

Ongoing Charges For the year ended 31 March		2008†	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expressed as a percentage of average net assets												
– excluding performance fees		1.17%	1.13%	1.25%	1.15%	1.14%	1.15%	1.06%	1.05%	1.06%	1.11%	0.93%
– including performance fees		1.17%	1.13%	1.25%	1.15%	1.14%	1.15%	1.51%	n/a	n/a	n/a	n/a

Gearing at 31 March	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Maximum potential ratio	25.1%	29.7%	48.5%	34.6%	32.6%	31.4%	15.0%	13.9%	14.3%	15.6%	13.7%	6.3%
Investment gearing	(2.8)%	3.6%	15.2%	24.6%	25.4%	20.1%	10.1%	10.0%	7.9%	9.7%	3.5%	4.4%
Equity gearing	(23.1)%	(24.9)%	(25.5)%	(12.3)%	(3.9)%	(0.3)%	(4.1)%	(5.3)%	(4.9)%	(1.5)%	1.2%	4.4%

† Balance sheet figures shown for 2007 are as at the Company's launch on 1 March 2007, performance figures shown for 2008 are for the 13 month period from launch on 1 March 2007 to 31 March 2008.

Alternative Performance Measures ("APMs")

The Company uses the following Alternative Performance Measures ("APMs"):

Discount/Premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the net asset value (NAV) per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers of shares than buyers. The discount is shown as a percentage of the NAV per share (see Historic Record on page 76). Shares trading at a price above NAV per share are deemed to be at a premium.

Ongoing Charges – all operating costs expected to be incurred in future and that are payable by the Company, expressed as a proportion of the average net assets of the Company over the reporting year (see Historic 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 shares.

Ongoing charges calculation

	Page	31 March 2018 £'000	31 March 2017 £'000
Total expenditure	46	1,404	1,354
Less management fee at rate of 0.75% of net asset value	46	(980)	–
Add management fee at revised rate of 0.65% of net asset value (see note 4)	55	795	–
Total	(a)	1,219	1,354
Average daily net assets	(b)	131,502	123,860
Ongoing charges (c = a/b)	(c)	0.93%	1.09%

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

The share price and NAV for the Ordinary shares, B shares and Units are set out on the Historic Record on page 76 and the dividends/capital repayments which went ex-dividend during the year (see note 9 on page 56) are set out below. The effect of reinvesting these dividends on the respective ex-dividend dates and the share price total returns and NAV total returns are shown below.

	Dividends/capital repayments	Effect of reinvestment	Share price total return
Ordinary shares	4.84p (2017: 4.69p)	4.59p (2017: 5.32p)	-2.8% (2017: 21.8%)
B shares	4.84p (2017: 4.69p)	4.54p (2017: 5.23p)	-3.8% (2017: 19.7%)
Units	19.36p (2017: 18.76p)	17.82p (2017: 15.65p)	1.3% (2017: 20.1%)

	Dividends/capital repayments	Effect of reinvestment	NAV total return
Ordinary shares/B shares/Units	4.84p (2017: 4.69p)	4.59p (2017: 5.20p)	-2.5% (2017: 20.8%)

Yield – The total annual dividend/capital repayment expressed as a percentage of the year end share price.

Glossary of Terms

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

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

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

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

Benchmark – the FTSE All-Share Capped 5% 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 98% of the market value of all eligible companies listed on London Stock Exchange's main market and gives an indication of how this market has performed in any period. Constituents of the Index are capped at 5% of the total index quarterly to avoid over-concentration in any one stock. As the investments within this Index are not identical to those of 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.

B Shares – a security issued by the Company. The net asset value attributable to each B share is equal to the Net Asset Value of the Company divided by the total number of Ordinary shares and B shares in issue. Therefore the net asset value attributable to each of the Ordinary shares and B shares is the same. The B shares are entitled to capital repayments paid by the Company. These capital repayments will be paid at the same time as, and in an amount equal to, each dividend paid on the Ordinary shares.

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

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

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

Depositary – under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under AIFMD regulations, the depositary has strict liability for the loss of the Company's 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. The Company's Depositary is JPMorgan Europe Limited.

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

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

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

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

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

Investment Trust taxation status (Section 1158) – UK Corporation Tax law allows an Investment Company (referred to in Tax law as an Investment Trust) to be exempted from tax on its profits realised on investment transactions, provided it complies with certain rules. These are similar to Section 833 Company law rules but further require that the Company must be listed on a regulated stock exchange and that it cannot retain more than 15% of income received (set out in note 9 to the financial statements). The Report of the Directors contains confirmation of the Company's compliance with this law and its consequent exemption from taxation on capital gains.

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

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

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

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

Net asset value (NAV), Debt at fair value – the fair value of the Company's debt is the price that would be paid to transfer the liability in an orderly transaction between market participants at the transaction date. As the Company's bank loan carries interest at a fixed rate, the fair value of its loan liability will increase as market interest rates fall or decrease as market rates increase. The NAV restated to include the loan liability at its fair value is referred to as "NAV, Debt at fair value". A reconciliation between the NAV, debt at par and NAV, debt at fair value is shown in note 3 to the financial statements.

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

Ongoing Charges – all operating costs expected to be incurred in future and that are payable by the Company, expressed as a proportion of the average net assets of the Company over the reporting year (see Historic 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 shares.

SORP – Statement of Recommended Practice. Where consistent with the requirements of International Financial Reporting Standards, the financial statements of the Company are drawn up in accordance with the Investment Trust SORP, issued by the AIC, as described in note 1 to the financial statements.

Units – a way of holding and trading in the Ordinary shares and B shares issued by the Company. Each unit consists of three Ordinary shares and one B share.

Corporate Information

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I A McLaren (Chairman)
J Le Blan
J M Evans
A K Watkins
J P Williams

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ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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* Lines open 8.30 am to 5.30 pm, Monday to Friday.

† Calls to this number cost £1 per minute from a BT Landline. Other telephony providers' costs may vary. Lines open 8.30 am to 5.30 pm, Monday to Friday.

** Local overseas call rates will apply.