

# F&C UK High Income Trust plc

(formerly Investors Capital Trust plc)

Report and Accounts 31 March 2017

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# Contents

## OVERVIEW

Company Overview	1
Financial Highlights 2017	2
Summary of Performance	4

## STRATEGIC REPORT

Chairman's Statement	6
Business Model, Strategy and Policies	9
Key Performance Indicators	12
Manager's Review	13
Classification of Investments	15
Equities Portfolio	16
Principal Risks and Viability Statement	18

## GOVERNANCE REPORT

Board of Directors	22
Report of the Directors	23
Corporate Governance Statement	29
Report of the Audit Committee	31
Directors' Remuneration Report	34
Statement of Directors' Responsibilities	37

## AUDITOR'S REPORT

Independent Auditor's Report	40
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## FINANCIAL REPORT

Accounts	44
Notes to the Accounts	48
AIFM Disclosures	64

## NOTICE OF MEETING

Notice of Annual General Meeting	65
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## OTHER INFORMATION

Capital Structure	70
Shareholder Information	71
How to Invest	73
Historic Record	74
Alternative Performance Measures ("APMs")	75
Glossary of Terms	75
Corporate Information	78

## Financial Calendar 2017/2018

Annual General Meeting	29 June 2017
First quarter's distribution paid (XD Date 6 July 2017)	4 August 2017
Second quarter's distribution paid (XD Date 5 October 2017)	3 November 2017
Announcement of Interim Results	December 2017
Third quarter's distribution paid (XD Date 4 January 2018)	2 February 2018
Fourth quarter's distribution paid (XD Date 5 April 2018)	4 May 2018
Announcement of Annual Results and Posting of Annual Report	May 2018
Annual General Meeting	July 2018

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Shares in F&C UK High Income Trust plc please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of shares, you should retain these documents.

# Company Overview

F&C UK High Income Trust plc (the "Company") (formerly Investors Capital Trust plc) 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').

Net assets attributable to shareholders at 31 March 2017 were £131.6 million (2016: £116.5 million).

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.

The Company's portfolio is managed in two parts. The predominant part comprises investments in UK equities and equity-related securities of large and mid-sized companies (the Equities Portfolio) and the lesser part comprises investments in fixed interest and other higher yielding stocks and securities (the Higher Yield Portfolio).

The Company has two classes of shares: A 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 A 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 A shares. Shares may be held and traded within units, each unit comprises three A shares and one B share.

In addition, the Company has a fixed rate bank loan of £18 million for a term to 28 September 2017.

Visit our website at [www.fandcukhit.co.uk](http://www.fandcukhit.co.uk)

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# Financial Highlights 2017

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21.8%

## **A Share price total return<sup>(1)</sup>**

A share price total return per share for the year was 21.8 per cent, compared to the FTSE All-Share Capped 5% Index total return of 21.8 per cent.

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19.7%

## **B Share price total return<sup>(1)</sup>**

B share price total return per share for the year was 19.7 per cent, compared to the FTSE All-Share Capped 5% Index total return of 21.8 per cent.

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4.5%

## **Yield<sup>(2)</sup> on A Shares and B Shares**

Distribution yield of 4.5 per cent on A shares and B shares at 31 March 2017, based on total distributions for the financial year of 4.72p per share, compared to the yield on the FTSE All-Share Capped 5% Index of 3.4 per cent. Total distributions increased by 2.6% compared to the prior year.

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20.8%

## **Strong performance with 20.8% NAV total return<sup>(1)</sup>**

Net asset value total return per share for the year was 20.8 per cent, compared to the FTSE All-Share Capped 5% Index total return of 21.8 per cent.

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<sup>(1)</sup> Total return – see Alternative Performance Measures on page 75.

<sup>(2)</sup> Yield – Based on a total distribution of 4.72p and the A share and B share price at 31 March 2017.

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.

### F&C UK High Income Trust plc Net Asset Value Total Return and Share Price Total Return since launch



rebased to 100 at 1 March 2007, date of launch

- Net Asset Value Total Return (with dividends reinvested)
- FTSE All-Share Capped 5% Index Total Return
- A Share Price Total Return (with dividends reinvested)
- B Share Price Total Return (with dividends reinvested)

Source: F&C

# Summary of Performance

	Year to 31 March 2017	Five years to 31 March 2017	Period from launch on 1 March 2007 to 31 March 2017
<b>Total Return<sup>(1)</sup></b>			
Net asset value total return per A share, B share and unit (debt at fair value)**	20.8%	62.1%	93.8%
FTSE All-Share Capped 5% Index	21.8%	60.2%	84.2%
	Year to 31 March 2017	Year to 31 March 2016	% change
<b>Revenue and Distributions</b>			
Distributions per A share and B share	4.72p	4.60p	+2.6
Distributions per unit*	18.88p	18.40p	+2.6
	31 March 2017	31 March 2016	% change
<b>Capital</b>			
Net Assets	£131.6m	£116.5m	+13.0
Net asset value per A share and B share (debt at fair value)†	111.12p	96.29p	+15.4
Net asset value per unit (debt at fair value)**	444.48p	385.16p	+15.4
FTSE All-Share Capped 5% Index	4,218.67	3,591.10	+17.5
A share price	104.0p	89.8p	+15.8
B share price	104.3p	91.5p	+14.0
Unit price	409.5p	354.0p	+15.7
<b>Discount</b> (% difference between net asset value and price)			
A shares	(6.4)%	(6.7)%	
B shares	(6.1)%	(5.0)%	
Unit*	(7.9)%	(8.1)%	
<b>Gearing<sup>†</sup></b>			
Net gearing	3.5%	9.7%	
<b>Ongoing Charges<sup>§</sup></b>			
as percentage of average shareholders' funds	1.11%	1.06%	

Highs/Lows for the Year	A shares		B shares		Units	
	2016/17 High	2016/17 Low	2016/17 High	2016/17 Low	2016/17 High	2016/17 Low
Net asset value per share	112.3p	92.6p	112.3p	92.6p	449.2p	370.4p
Share price	104.5p	87.5p	104.3p	86.5p	409.5p	336.5p
Discount	(3.4)%	(10.7)%	(3.4)%	(11.1)%	(3.9)%	(13.2)%

<sup>(1)</sup> Total return – see Alternative Performance measures on page 75.

\* A unit consists of three A 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 accounts.

† 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.

§ In line with AIC recommendations.

Sources: F&C Investment Business Limited and Datastream

‘Since launch on 1 March 2007, the NAV total return is 93.8% and has outperformed the 84.2% total return from the Company’s benchmark’.



# Chairman's Statement

I A McLaren Chairman



## Performance

For the Company's financial year ended 31 March 2017, the share price total return for the A shares and the B shares was 21.8% and 19.7% respectively.

The past year has been a good one for financial markets despite a background of political upheaval across many developed economies. In the UK, it quickly became evident that fears of a post-Brexit economic rout were unfounded. After some early weakness, the UK Equity market regained its composure and went on to end the financial year close to all-time record high levels, supported by improving economic news, the beneficial impact of a weak pound and the pro-business rhetoric of the incoming US administration. The Company's net asset value total return for both the A shares and B shares, over the financial year was 20.8%, marginally behind the 21.8% total return from the Company's benchmark, the FTSE All-Share Capped 5% Index.

The principal contributors to the performance and additional information is covered in more detail in the Manager's Review on pages 13 and 14.

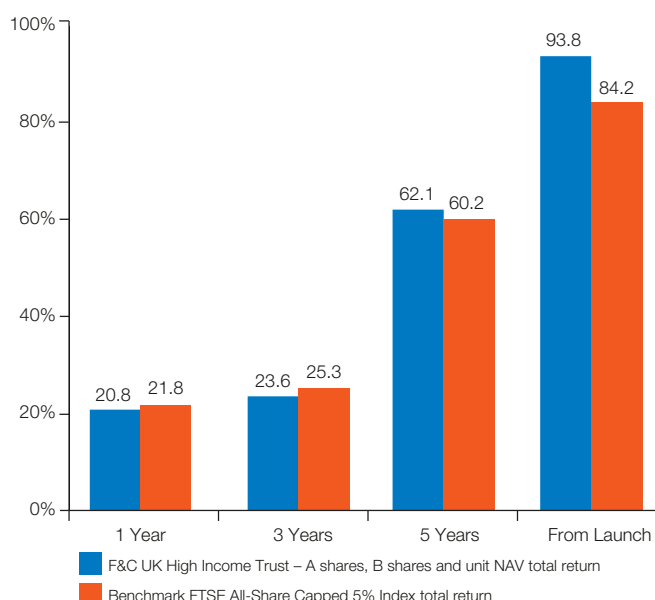
As the Company is intended as a long-term investment vehicle, it does not have a fixed life. However, in the event that the net asset value total return performance of the Company is less than that of the benchmark index over the relevant five year period, shareholders are given the opportunity to vote on whether the Company should continue, by ordinary resolution, at the Company's Annual General Meeting.

The latest five year period for this purpose ran from 1 April 2012 to 31 March 2017. Over this period, the Company outperformed its benchmark index. The NAV per share total return was 62.1% which compares favourably with the 60.2% total return from the benchmark. Under the Company's constitution, this outperformance means that there will not be a vote at the 2017 annual general meeting on whether the Company should continue.

The next such performance period will run for the five years from 1 April 2017 to 31 March 2022.

The Company's longer-term performance is illustrated graphically below and on page 3 and shown within the Key Performance Indicators on page 12. The NAV total return has outperformed the benchmark index over 5 years to 31 March 2017 and from launch to 31 March 2017.

## Cumulative Performance to 31 March 2017



## Earnings, Dividends and Capital Repayments

The Company achieved net income of £4.6m for the year which was in line with the previous year.

Over the past year, Sterling has fallen in value against the US dollar which benefits the Company's revenue as over a third of the Company's equity income comes from UK-listed companies that declare dividends in US dollars. The majority of investee companies have continued to generate good growth in dividends during the year. However, against a backdrop of anaemic global economic growth and weak commodity prices, several of the higher yielding more mature businesses, such as HSBC and Royal Dutch Shell have seen profitability come under pressure, dividend cover erode and have therefore chosen to maintain, rather than increase their dividends. A number of these higher-yielding holdings have been reduced during the year, the overall impact of which is to maintain income at broadly the same level as the previous year.



For each of the Company's first three quarters, the dividends paid on the A shares and capital repayments on the B shares were 1.17p per share. A fourth quarter dividend and a capital repayment of 1.21p per share was paid to A shareholders and B shareholders respectively, after the year end, on 5 May 2017.

The total dividend/capital repayment in respect of the year ended 31 March 2017 amounted to 4.72p per share, an increase of 2.6% on the previous year and ahead of the 2.3% increase in the Consumer Price Index.

The total dividend/capital repayment for the year represents a yield of 4.5% on both the A and B year end share prices, a premium of around 30% to the 3.4% yield from the Company's benchmark at that date.

After deducting the fourth quarter dividend, (which was paid after the year-end), the Company has a revenue reserve of £4.7m equivalent to approximately 115% 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.

### Borrowing

The Company currently has a £18 million loan facility for a term to 28 September 2017 at a fixed rate of interest of 3.15% per annum. The Board intends to secure further borrowing at an appropriate level.

### Discount and buy backs

The share price of the Company's A shares and B shares ended the year at a discount to net asset value of 6.4% and 6.1% respectively. The average discount level at which the Company's A and B shares traded relative to net asset value in the year was 7.4% and 7.1% respectively.

During the year, the Company bought back 2,000,000 A shares and 450,000 B shares, representing 2.2% and 1.4% of the A shares and B shares respectively, 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 A shares and B shares represented discounts of approximately 8.3% and 7.7% respectively, to the prevailing net asset value at the time of purchase.

### Investment Policy

In order to meet the Company's investment objective, since launch, its investment portfolio has been managed in two parts. The first part comprises investments in UK equities and equity related securities (the Equities Portfolio) and the second

part comprises investments in fixed interest and other higher yielding securities (the Higher Yield Portfolio). As referred to in my interim statement there has been a continued reduction in assets allocated to the Higher Yield Portfolio in light of the low level of yields available on corporate bonds, particularly higher quality, investment grade corporate bonds.

At 31 March 2017, 89.0% of total assets was allocated to the Equities Portfolio and 1.9% to the Higher Yield Portfolio. The remaining 9.1% was held in cash or cash equivalents.

Following a strategic review, the Board has concluded that it would be beneficial to remove the Higher Yield Portfolio from the Company's Investment Policy thereby simplifying the Company's overall structure. The Board is proposing at the Annual General Meeting that shareholders approve the requisite amendment to the Investment Policy.

The Board believes that this change will enhance the attractiveness of the Company by simplifying the Company's structure and focusing your Manager on an all equity offering for the benefit of all shareholders.

### New Fund Manager

Shortly after the year end we announced, that having successfully achieved the five year performance hurdle, noted earlier, Rodger McNair, the Company's Fund Manager had indicated his intention to step down from this role and that Philip Webster would succeed Rodger as your Fund Manager. Philip has worked closely with Rodger since joining F&C from Aberdeen Asset Management in May 2016 and is a senior member of the F&C investment team with 11 years' experience in managing investment companies. The Board believes that he is very well suited to the role and therefore to continue the delivery of strong investment performance for the Company. I would like to take this opportunity to thank Rodger for his careful stewardship of the Company's investments since launch, which included some difficult and turbulent markets.

I look forward to introducing Philip to Shareholders at the forthcoming Annual General Meeting.

### Name changes

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

As such, with effect from 31 January 2017, the Board resolved to change the name of the Company to F&C UK High Income Trust plc. The Board considers that this name more clearly reflects the Company's investment objective, enabling both current and prospective shareholders to identify more easily with the Company.

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The Board is also proposing to change the name of the Company's A shares to Ordinary shares to clarify their nature and a resolution to amend the Company's Articles to implement this change will be proposed at the Annual General Meeting.

### **Board changes**

Mr Kenneth Shand will retire as a Director of the Company following the conclusion of the Annual General Meeting on Thursday 29 June 2017. He has served as a Director since the Company's launch in 2007 and was a Director of the predecessor company, the original Investors Capital Trust plc. I would like to thank Kenneth for the contribution he has provided as a Director over many years.

The Board has begun the process of recruiting a new Director to replace Kenneth and an announcement in this regard will be made in due course.

Following the retirement of Kenneth Shand, James Williams will become Senior Independent Director and chairman of the Remuneration Committee.

### **Annual General Meeting ("AGM")**

The AGM will be held at 2 pm on Thursday 29 June 2017 in the offices of BMO Global Asset Management, Exchange House, Primrose Street, London. It will be followed by a presentation from our new 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 past year has been witness to some profound political developments. The surge in populist, nationalist and anti-establishment sentiment has disrupted the political order across many western developed economies. Despite a series of shocks, not least Brexit and a Donald Trump presidency, the health of the global economy appears to be improving, possibly signaling that the era of unconventional central bank policy stimulus may be drawing to a close. Against a background of elevated political and policy uncertainty, it is encouraging that corporate sector fundamentals remain reasonably sound. Stock selection will remain especially important in the year ahead.

### **Iain McLaren**

Chairman

19 May 2017

# Business Model, Strategy and Policies

The investment objective of F&C UK High Income Trust 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.

## 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. 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 10. An important responsibility is also the annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager. 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 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 accounts. The Manager also acts as the Alternative Investment Fund Manager ('AIF Manager') under the Alternative Investment Fund Managers Directive ('AIFMD').

Subsequent to the year end, Philip Webster replaced Rodger McNair as the Fund Manager appointed by F&C Investment Business Limited. Philip is a senior member of the F&C investment team with 11 years' experience in managing investment companies.

## Investment strategy and policy

The Company's current investment policy is set out on page 11, however as set out in the chairman's statement, following a strategic review the Board in conjunction with the Manager has concluded that it would be beneficial to amend this.

The proposed new policy is also set out in full on page 11.

## 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 spread through holding a wide range of securities in different sectors. As at 31 March 2017, the portfolio was made up of 78 investments comprising 53 in the Equities Portfolio and 25 in the Higher Yield Portfolio. The Manager makes use of third party risk systems to monitor investment risk. An analysis of the portfolio is contained on the page entitled 'Classification of Investments' and the largest investments are shown on the pages entitled 'Equities Portfolio'.

## Investment Process

The Company's investment portfolio is currently split into an Equities Portfolio and a Higher Yield Portfolio.

## Equities Portfolio

The Equities Portfolio is a portfolio of predominantly large and mid-sized capitalisation UK equities selected from the FTSE All-Share Index.

The investment philosophy is based on the knowledge that equity investment is one of the most reliable methods of preserving and growing capital over time.

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.

### Higher Yield Portfolio

Day-to-day management of the fixed interest investments in the Higher Yield Portfolio is undertaken by the Manager's specialist fixed interest team. The Higher Yield Portfolio is invested predominantly in corporate bonds. A disciplined in-house credit analysis process is adopted.

As referenced overleaf, the Board is proposing to remove the Higher Yield Portfolio from the Company's investment policy at the forthcoming AGM.

### 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 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 73. In addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment trust sector.

### Responsible Ownership

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

### Gearing

The Board has set a gearing limit as explained in the Investment Policy statement. The Company's borrowings consist of a bank loan of £18 million, on which the interest rate has been fixed and which is described in more detail in the notes to the accounts. 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.

### 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 A shareholders, capital repayments of the same amount are made to B Shareholders from the special capital reserve.

### Buy-backs

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 A : 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 page 27.

### Principal Risks

The Company's Principal Risks are set out in detail on pages 18 and 19.

### 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 12. 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 13 and 14, both of which form part of this Strategic Report.

## Current Investment Policy

In pursuit of its objective, the Company's investment policy is to manage the Company's investment portfolio in two distinct parts. The first part of the Company's portfolio presently comprises investments in UK equities (the Equities Portfolio) and the second part comprises investments in fixed interest and other higher yielding stocks and securities (the Higher Yield Portfolio). The proportion of the Company's portfolio represented by the Equities Portfolio and the Higher Yield Portfolio will vary as a result of market movements and the proportion may also be varied by the Board and Manager over time, depending upon market circumstances, in pursuit of the Company's investment objective.

The Equities Portfolio is invested predominantly in UK equities and equity-related securities of large and mid-sized companies. The Manager's objective for the Equities Portfolio will be to achieve a total return in excess of that of the FTSE All-Share Capped 5% Index. In managing the Equities Portfolio, the Manager will approach portfolio construction with the aim of selecting stocks which are expected to be core long-term holdings. This entails having relatively low turnover in the Equities Portfolio with approximately 50 holdings at any given time. The Manager expects few individual holdings to exceed five per cent. of the Equities Portfolio, and intends to spread stock weightings across the Equities Portfolio; the effect of this should be to spread investment risk.

The Higher Yield Portfolio is invested predominantly in corporate bonds (both investment grade and non-investment grade) but may also be invested, from time to time, in other higher yielding securities where the Manager believes performance could be enhanced and/or portfolio risk reduced without prejudicing the

target yield. The Higher Yield Portfolio is diversified by stock, sector and credit risk and is expected to comprise over 50 holdings. A majority of the fixed interest securities within the Higher Yield Portfolio is expected to be Sterling denominated but securities with denominations other than Sterling will also be held to provide portfolio diversification, with overseas currency exposure being hedged.

Income may be enhanced from the Equities 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 Manager will limit the percentage of the Equities Portfolio used to generate call premium 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.

Any material change to the investment policy of the Company will only be made with shareholders' approval.

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

## Proposed 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.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU

19 May 2017

# Key Performance Indicators

The Board recognises that it is the distribution level of the A 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 overriding priority is to continue to strive for the consistent achievement of relative outperformance; adding value for shareholders through net asset value and share price total return; dividend yield and competitive ongoing charges. The Board assesses its performance in meeting the Company's objective against the key performance indicators ("KPIs") set out below.

Commentary can be found in the Chairman's Statement on pages 6 to 8 and the Manager's Review on pages 13 and 14.

Total return performance* – 31 March 2017					
	1 Year %	3 Years %	5 Years %	Since launch <sup>‡</sup>	
A share price <sup>†</sup>	21.8	26.7	62.0	82.0	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.
B share price <sup>†</sup>	19.7	17.8	53.2	80.0	
Unit price <sup>†</sup>	20.1	25.0	60.8	78.1	
Net asset value per A and B share and per unit <sup>†</sup>	20.8	23.6	62.1	93.8	
FTSE All-Share Capped 5% Index <sup>†</sup>	21.8	25.3	60.2	84.2	

<sup>†</sup>Total return. Source: F&C and Datastream.

<sup>‡</sup>The Company was launched on 1 March 2007.

\*See Alternative Performance Measures on page 75 for explanation.

Distribution Yield % – 31 March			
	2017 %	2016 %	
A shares	4.5	5.1	This shows the Company's distribution yield at the year-end relative to the benchmark.
B shares	4.5	5.0	
Yield-FTSE All-Share Capped 5% Index	3.4	3.7	

Source: F&C and Datastream

Discount*				
As at 31 March	A shares %	B shares %	Units %	
2017	(6.4)	(6.1)	(7.9)	This is the difference between the share/unit price and the NAV per share/unit.
2016	(6.7)	(5.0)	(8.1)	
2015	(2.7)	(2.7)	(2.9)	
2014	(7.6)	(0.5)	(8.8)	
2013	(4.5)	(3.4)	(5.7)	

Source: F&C

\* See Alternative Performance Measures on page 75 for explanation

Ongoing charges ratio – 31 March*		
	%	
2017	1.11	This data shows whether the Company is being run efficiently. It measures the running costs as a percentage of average net assets.
2016	1.06	
2015	1.05	
2014	1.06	
2013	1.15	

\*Calculated with reference to the basis recommended by the AIC. See Alternative Performance Measures on page 75 for explanation

Source: F&C

# Manager's Review



Rodger McNair



Philip Webster

## Economic and Market Review

The past year has been good for financial markets, despite some extraordinary and unexpected political developments. The year will be remembered for Brexit, Donald Trump and the seismic shift in the global political landscape as disillusionment with the political establishment, together with a backlash against globalisation, has fuelled a rising tide of nationalist and populist tendencies across many western democracies. Despite this volatile political and social backdrop, the post-crisis global economic recovery, which began almost eight years ago, has proven to be relatively stable and enduring, if somewhat lacklustre. It is encouraging that in recent months there is some evidence to suggest that the pace of the global economic recovery may be gaining momentum, led by the United States, the world's largest economy.

In June last year, the decision of the UK to vote in favour of leaving the European Union was a result that few commentators expected. The vote for Brexit left political leaders across the European Union in a state of shock and disbelief and dealt a huge blow to the European Project. Within a matter of hours, David Cameron, the UK Prime Minister, announced his intention to step down bringing to an end his six year premiership. The UK equity market and Sterling fell sharply in the aftermath of the news, while gilt markets and the price of gold rallied as investors sought safe-haven assets. The equity market weakness proved to be very short-lived as investors began to consider the beneficial impact of the devaluation of Sterling on the predominantly international earnings base of the UK equity market. Indeed, within a matter of months the UK equity market went on to reach new record high levels as it became evident that the Brexit vote had not done the damage to the UK economy many, including the Bank of England, expected. By September, UK consumer confidence had recovered to pre-Brexit levels helped by better than expected economic news and a Bank of England interest rate cut. Political uncertainty also receded with the appointment of Theresa May as Prime Minister. Over the past year, the UK economy has proven resilient, supported by strong consumer spending and a surge in exports.

Against a background of improving economic data and a weak pound, the UK equity market made steady progress throughout the year with the more internationally exposed large-cap shares outpacing their more domestically focused mid-cap counterparts. Over the year as a whole, the FTSE 100 index rose 23.3 per cent in total return terms, which compared with a 15.3 per cent increase for the FTSE 250 index.

As the dust settled following the European referendum, an even greater political upset was in the making. When Donald Trump, declared his intention to run for the US presidency in 2015 his candidacy was mocked by many political commentators and the US media. However, he steadily gained in popularity throughout his controversial campaign as voters were drawn to his anti-establishment rhetoric and nationalist policy agenda. In November last year it was confirmed he would become the 45th President of the United States in one of the biggest upsets in American political history.

Recent evidence suggests that the pace of economic growth in the United States, the world's largest economy, is gaining momentum. The US recovery has been supported by falling unemployment and rising business and consumer confidence. With the incoming US administration having pledged to boost growth through lower taxes and increased government spending, it was perhaps unsurprising that in March this year the Federal Reserve announced an increase in interest rates, the second such move in three months. Buoyed by the improvement in the economic backdrop and the expansionary pro-business rhetoric from the new US administration, the US equity market also registered new highs during the year.

The pace of economic recovery in the Eurozone has lagged that of other developed economies with the region beset by structural as well as political challenges including those related to the results of upcoming elections. More recently, deflationary pressures appear to have eased and employment growth has picked up, giving cause for optimism that economic prospects are also improving across that region.

## Portfolio Review

Returns from the Company's Equities Portfolio and the Higher Yield Portfolio, combined with the effect of gearing, resulted in a Net Asset Value total return of 20.8 per cent over the year to 31 March 2017. This compares with a total return of 21.8 per cent for the FTSE-All Share Capped 5% Index, the Company's benchmark.

The Equities Portfolio has a bias towards companies which have strong balance sheets, generate surplus cash flow beyond the reinvestment requirements of the business and have a proven management team with a commitment to dividend growth. This approach has been central to delivering outperformance against the Company's benchmark over the longer term. Since the Company's launch in March 2007, the

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Equities Portfolio has returned 98.4 per cent in total return terms while the FTSE All-Share Capped 5% Index has returned 84.2 per cent, as measured on the same basis.

Over the past year, the Equities Portfolio returned 18.7 per cent in total return terms. A number of individual holdings made a notable positive contribution to performance including Melrose Industries, the manufacturing turnaround specialist and BBA Aviation, the aviation services business. Both companies benefited from transformational developments within their businesses. The shares of Rio Tinto and Royal Dutch Shell also had an exceptionally good year having been among the portfolio's worst performers in the prior period. Both companies benefited from corporate restructuring together with an improvement in their respective commodity markets. Notwithstanding these significant positions, the Equity Portfolio's underweight exposure to the resources sectors of the market made the largest negative contribution to performance during the year. BT Group, the telecoms giant and Berendsen, the textile cleaning and supply business were particularly poor individual performers. In January, BT unveiled an accounting scandal at its Italian business while new management at Berendsen cited legacy issues as the reason for a disappointing performance at its UK business.

The majority of investee companies have continued to generate good dividend growth. The level of dividends for the UK market as a whole has been under pressure in recent years due to the weakness of commodity prices but also more generally as a result of the anaemic economic growth backdrop. Dividend cover, the extent to which dividends are covered by earnings, for the UK market is relatively low by historical standards. However, the improvement in the economic outlook together with the stabilisation in commodity prices and the fall in Sterling should all provide a welcome boost to UK corporate earnings and dividends in the year ahead. Movements in the Sterling exchange rate against the US dollar have an important influence on the Company's revenue, as over a third of the revenue comes from UK-listed companies that declare dividends in US dollars.

Many businesses, which are perceived to have good long-term prospects and dependable well-covered dividends, now offer only modest dividend yields. In contrast, where shares offer above average yields, many of those businesses face structural headwinds. This creates a challenge for an investment portfolio which is looking to generate an attractive level of income while at the same time offering scope for capital growth. Stock selection will be especially important in the year ahead.

The Company's Higher Yield Portfolio is comprised of a diversified portfolio of predominantly Sterling denominated, investment grade bonds. The Higher Yield Portfolio has benefitted from falling UK interest rates and a narrowing of credit spreads. It returned 5.2 per cent in total return terms over the year to 31 March 2017. Over the past year, there has been a substantial reduction in assets allocated to the Higher Yield Portfolio in light of the low level of yields available on corporate bonds, particularly on higher quality, investment grade corporate bonds. As at 31 March 2017, the Higher Yield Portfolio accounted for 1.9 per cent of the Company's total assets.

### Outlook

As the Company's year drew to an end, Theresa May triggered Article 50 of The Treaty of Lisbon which started the lengthy and uncertain process of Britain exiting the European Union after 44 years of membership. The announcement a few weeks later of a snap general election on June 8th was completely unexpected. It would appear that the Prime Minister's aim is to increase the government's majority and therefore secure a firm mandate to deliver Brexit, an outcome which would ease domestic political uncertainty. In contrast, the rising geopolitical tensions, most notably in the Middle East and the Korean Peninsula are deeply concerning and have the potential to be destabilising for financial markets.

It is encouraging that the global economy appears to be in better health than it has been for some time although it remains difficult to gauge whether the transition to a more stable, secure and established phase of economic recovery has been fully achieved. Financial markets have proven to be remarkably resilient over the past year and they should continue to benefit from improving economic conditions, reasonable corporate sector fundamentals and a continued upturn in merger and acquisition activity.

The Manager believes the Company is well positioned for the future, offering an attractive dividend yield with a well-covered dividend and a strong revenue reserve. In light of the low level of yields available on corporate bonds, it is proposed, subject to shareholder approval, that the Company will move to an all equity offering. This has the added benefit of simplifying the investment proposition. Following the year end, Philip Webster succeeded his colleague Rodger McNair as Fund Manager. He looks forward to meeting shareholders at the forthcoming AGM.

### Rodger McNair/Philip Webster

Fund Manager  
F&C Investment Business Limited

19 May 2017



# Classification of Investments

## Total Portfolio Summary (at 31 March 2017)

	2017 Market Value £'000	% of Total Assets	% of Total Portfolio Income	% Yield
Equities Portfolio	133,189	89.0	96.2	3.8
Higher Yield Portfolio	2,852	1.9	2.6	4.7*
Current Assets (less payables)	13,608	9.1	1.2	
Total Assets (less payables)	149,649	100.0	100.0	
Bank Loan	(18,000)	(12.0)		
Net Assets Attributable to Shareholders	131,649	88.0		

## Equities Portfolio

Sector	2017 % Equities Portfolio	2017 FTSE All- Share Capped 5% Index
Oil & Gas	7.0	9.5
Basic Materials	2.8	7.3
Industrials	14.0	11.3
Consumer Goods	19.0	16.1
Healthcare	9.5	9.7
Consumer Services	15.1	11.8
Telecommunications	4.9	4.0
Utilities	5.8	3.7
Financials	19.8	25.7
Technology	2.1	0.9
Total	100.0	100.0

## Higher Yield Portfolio

Security Ratings	2017 Higher Yield Portfolio Weighting %
A	16.0
BBB	51.1
BB	18.1
B	11.2
Not rated	3.6
	100.0

\* The yield quoted on the Higher Yield Portfolio is the average weighted yield of all holdings calculated to their respective call dates. If the holdings in the portfolio are not called on those dates, then the yield will differ from that stated. The average duration until maturity on the Higher Yield Portfolio was 2.4 years at 31 March 2017.

# Equities Portfolio

At 31 March 2017		
Company	Market Value 31 March 2017 £'000	% of Equities Portfolio
<b>British American Tobacco</b> British American Tobacco is involved in the manufacture, marketing and selling of cigarettes and other tobacco products.	9,349	7.0
<b>GlaxoSmithKline</b> GlaxoSmithKline is a global manufacturer and marketer of pharmaceutical products.	7,001	5.3
<b>HSBC Holdings</b> HSBC provides a comprehensive range of banking and related financial services on a global basis.	6,311	4.7
<b>Royal Dutch Shell</b> Royal Dutch Shell is one of the world's largest integrated oil and gas companies.	5,763	4.3
<b>Diageo</b> Diageo is a global leader in beverage alcohol with iconic brands in spirits, beer and wine.	4,145	3.1
<b>AstraZeneca</b> AstraZeneca is involved in the research, manufacture and sale of pharmaceuticals.	4,055	3.1
<b>Unilever</b> Unilever is one of the world's largest manufacturers of branded and packed consumer goods.	4,008	3.0
<b>Compass Group</b> Compass Group is a world leading food service and support services organisation.	4,003	3.0
<b>Rio Tinto</b> Rio Tinto is a diversified international mining company.	3,730	2.8
<b>BP</b> BP is one of the world's leading integrated oil and gas companies.	3,555	2.7
<b>Ten largest equity investments</b>	<b>51,920</b>	<b>39.0</b>

<b>At 31 March 2017</b>			
<b>Company</b>	<b>Sector</b>	<b>Market Value 31 March 2017 £'000</b>	<b>% of Equities Portfolio</b>
Prudential	Life Insurance	3,500	2.6
Vodafone Group	Mobile Telecoms	3,445	2.6
Imperial Brands	Tobacco	3,163	2.4
BT Group	Fixed Line Telecom	3,044	2.3
BAE Systems	Aerospace & Defence	2,981	2.2
BBA Aviation	Industrial Transport	2,873	2.2
National Grid	Gas, Water & Multi-Utilities	2,815	2.1
Barclays	Banks	2,693	2.0
Relx	Media	2,417	1.8
LondonMetric Property	Real Estate Investment Trusts	2,305	1.7
<b>Twenty largest equity investments</b>		<b>81,156</b>	<b>60.9</b>
Reckitt Benckiser Group	Household Goods	2,296	1.7
Smiths Group	General Industrial	2,125	1.6
WPP	Media	2,122	1.6
Legal & General Group	Life Insurance	2,098	1.6
Ibstock	Construction & Materials	2,052	1.5
Lloyds Banking Group	Banks	2,044	1.5
Intercontinental Hotels Group	Travel & Leisure	2,005	1.5
Daily Mail & General Trust	Media	1,960	1.5
UBM	Media	1,868	1.4
Severn Trent	Gas, Water & Multi-Utilities	1,817	1.4
<b>Thirty largest equity investments</b>		<b>101,543</b>	<b>76.2</b>
Howden Joinery Group	Support Services	1,774	1.3
Halfords Group	General Retailers	1,770	1.3
Pennon Group	Gas, Water & Multi-Utilities	1,720	1.3
Aviva	Life Insurance	1,712	1.3
Phoenix Group Holdings	Life Insurance	1,688	1.3
Dunelm Group	General Retailers	1,661	1.3
Land Securities Group	Real Estate Investment Trusts	1,623	1.2
Smith & Nephew	Healthcare	1,592	1.2
Melrose Industries	Industrial Engineering	1,581	1.2
Intermediate Capital Group	Financial Services	1,527	1.1
<b>Forty largest equity investments</b>		<b>118,191</b>	<b>88.7</b>
CRH	Construction & Materials	1,466	1.1
Ultra Electronics Holdings	Aerospace & Defence	1,447	1.1
Micro Focus International	Software & Computer Services	1,439	1.1
Bodycote	Industrial Engineering	1,369	1.0
Centrica	Gas, Water & Multi-Utilities	1,363	1.0
Sage Group	Software & Computer Services	1,362	1.0
Berkeley Group Holdings	Home Construction	1,303	1.0
Dignity	General Retailers	1,286	1.0
Origin Enterprises	Food Producers	1,071	0.8
Bunzl	Support Services	994	0.8
<b>Fifty largest equity investments</b>		<b>131,291</b>	<b>98.6</b>
<b>Other equity investments (3)</b>		<b>1,898</b>	<b>1.4</b>
<b>Total equity investments</b>		<b>133,189</b>	<b>100.0</b>

# 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 32 and 33. 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 accounts provide detailed explanations of the risks associated with the Company's financial instruments and their management.

Principal Risks	Mitigation
<p><b>Financial Risk</b> The Company's assets consist mainly of listed equity and fixed interest securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk.</p> <p> <b>No change in overall risk</b></p>	<p>An explanation of these risks and the way in which they are managed are contained in note 21 to the accounts.</p> <p>The Board regularly considers the composition and diversification of the Equity and Higher Yield Portfolios together with purchases and sales of investments. Investments and markets are discussed with the Manager and a Strategy meeting is held annually.</p>
<p><b>Investment and strategic risk</b> 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.</p> <p> <b>No change in overall risk</b></p>	<p>The Equity and Higher Yield Portfolios are diversified and comprise listed securities and their composition are reviewed regularly with the Board. The 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.</p> <p>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.</p> <p>The Board regularly considers operating costs combined with underlying dividend income from portfolio companies and the consequent dividend paying capacity of the Company.</p>

Principal Risks	Mitigation
<p><b>Regulatory</b> 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.</p> <p> <b>No change in overall risk</b></p>	<p>The Board liaises with advisors to ensure compliance with laws or regulations.</p> <p>F&amp;C's Business Risk department provide regular reports to the Board and Audit Committee on their monitoring and oversight.</p> <p>The Board has access to F&amp;C's Head of Business Risk and requires any significant issues directly relevant to the Company to be reported immediately.</p>
<p><b>Operational</b> Failure of 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.</p> <p>External cyber attacks could cause such failure or could lead to the loss or sabotage of data.</p> <p> <b>Risk of cyber attacks increased in the year under review</b></p>	<p>The Board meets regularly with the management of F&amp;C and meets their Risk Management 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.</p> <p>The Manager now benefits from the long-term financial strength and policies of its new owner, Bank of Montreal, and through its stated commitment to the future of F&amp;C's investment trust management business.</p> <p>The Manager continues to strengthen and develop its Risk, Compliance and Internal Control functions as part of the integration of its operations with Bank of Montreal including IT security. Supervision of third party service providers has been maintained by F&amp;C and includes the review of IT security and cyber threat.</p>
<p><b>Custody risk</b> Safe custody of the Company's assets may be compromised through control failures by the custodian.</p> <p> <b>No change in overall risk</b></p>	<p>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.</p> <p>The Depositary is specifically liable for loss of any of the Company's securities and cash held in custody.</p>

## 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 Depository.
- The borrowing facility, which remains available until September 2017, is also subject to a formal agreement, 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 18 and 19 on Principal Risks, pages 32 and 33 in the Report of the Audit Committee and in Note 21 on the accounts.

The Directors have also considered:

- the level of ongoing charges incurred by the Company which are modest and predictable and total 1.11% 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 2017 and that the Board does not anticipate any difficulty either extending or replacing this with an appropriate level of borrowing,
- its ability to meet liquidity requirements given the Company's investment portfolio consists mainly of listed equity and fixed interest 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 2022, 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 2022.**

‘Over the five years to 31 March 2017, the Company’s NAV total return of 62.1% outperformed the 60.2% total return from its benchmark’.



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# Board of Directors

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**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.



**Kenneth Shand**  
**Senior Independent Director**

was appointed in 2007, having been a non-executive director of the predecessor company, the original Investors Capital Trust. He is a partner of Maclay Murray & Spens LLP, Solicitors. His practice focuses on corporate finance and mergers and acquisitions.

He will retire as a Director of the Company following the forthcoming Annual General Meeting.



**James Williams**

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 Accounts of the Company for the year to 31 March 2017. The name of the Company changed to F&C UK High Income Trust plc with effect from 31 January 2017.

## Statement Regarding Annual Report and Accounts

The Directors consider that, following advice from the Audit Committee, the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts 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 14. Principal risks can be found on pages 18 and 19 with further information in note 21 to the accounts.

## Results and Dividends

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

First, second and third quarter dividends, each of 1.17p per A share, were paid on 5 August 2016, 4 November 2016 and 3 February 2017 respectively. A fourth quarter dividend of 1.21p per A share was paid on 5 May 2017 to A shareholders on the register at close of business on 7 April 2017. This total of 4.72p per A share represents an increase of 2.6% over the 4.60p per A share paid in respect of the previous financial year.

## 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 2017, Investors Securities Company Limited made a profit before taxation of £nil (2016: £nil).

Investors Securities Company Limited did not trade during the year to 31 March 2017.

## 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.

## Auditor

As explained on page 32, it is proposed that Deloitte LLP be appointed as auditors to the Company following a tender process carried out during the year. Deloitte LLP has expressed its willingness to take office as the Company's auditor and a resolution proposing their appointment and authorising the Directors to determine their remuneration will be submitted at the Annual General Meeting. (Resolution 8)

The Board extend its appreciation to Ernst & Young LLP ('EY') for its services as Auditor and confirms that there are no matters in connection with EY's resignation as Auditor following the year end 31 March 2017 audit, which need to be brought to the attention of shareholders. As explained on page 32, EY will however continue to be retained as tax advisers to the Company.

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## Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 22.

Mr K D Shand is not standing for re-election and will therefore retire at the conclusion of the forthcoming Annual General Meeting.

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.

As explained in more detail under the Statement of Corporate Governance 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.

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 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 Board therefore believes that it is in the interests of shareholders that those Directors seeking re-election are 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 accounts. 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.

## Depositary

JPMorgan Europe Limited 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 and monitoring the Company's compliance with investments limits and leverage requirements.

### Substantial Interests in Share Capital

At 31 March 2017 the Company had received notification of the following holdings of voting rights (under the FCA's Disclosure and Transparency Rules):

	A Shares	
	Number held	Percentage held*
1607 Capital Partners, LLC	8,935,000	10.2
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	4.3

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

\* Based on 87,428,144 A Shares and 30,976,703 B Shares in issue as at 31 March 2017.

The Company has not received notification of any changes in these voting rights and no new holdings have been notified since 31 March 2017 up to the date of this report.

### F&C Savings Plans

Approximately 33% 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 Company's capital structure is explained in the 'Capital Structure' section of this Annual Report and details of the share capital, including voting rights, are set out in note 17 to the accounts. Details of voting rights are also set out in the Notes to the Notice of Annual General Meeting. At 31 March 2017, the total listed share capital of the Company was represented 76.1 per cent by A shares and 23.9 per cent by B shares.
- Details of the substantial shareholders in the Company are listed opposite.
- The rules for appointment and replacement of Directors are contained in the Articles of Association of the Company. In respect of retirement 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. Pursuant to the Company's bank facility, mandatory prepayment may be required in the event of a change of control of the Company; there are no other 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.

### Going Concern

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 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

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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 £18 million are committed to the Company until 28 September 2017 and that they do not anticipate any difficulty either extending or replacing this with an appropriate level of borrowing.

Note 21 to the accounts 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 accounts.

The Company's longer term viability is considered in the 'Viability assessment and statement' on page 20.

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, 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 second five year period for this purpose ran from 1 April 2012 to 31 March 2017 and as the Company outperformed its benchmark index over this period there will not be a vote at the 2017 Annual General Meeting on whether the Company should continue. The next such performance period will run for the five years from 1 April 2017 to 31 March 2022.

### **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 14.

### **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 accounts.

### **Annual General Meeting**

The Annual General Meeting will be held at Exchange House, Primrose Street, London, EC2A 2NY on Thursday 29 June 2017 at 2 pm. The Notice of Annual General Meeting is set out on pages 65 to 68.

### **Directors' Authority to Allot Shares (Resolutions 9 and 10)**

The Directors are seeking authority to allot A shares and B shares. Resolution 9 will, if passed, authorise the Directors to allot new A shares up to an aggregate nominal amount of £4,371 consisting of 4,371,407 A 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 A shares and B shares (excluding treasury shares) as at 19 May 2017. This authority therefore authorises the Directors to allot up to 5,920,242 shares in aggregate representing 5 per cent of the total share capital in issue (excluding treasury shares).

Resolution 10 will, if passed, authorise the Directors to allot new A shares up to an aggregate nominal amount of £4,371 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 A shares and B shares respectively (including treasury shares) as at 19 May 2017, 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 5,920,242 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 2018 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 9 and 10 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 11)

During the year to 31 March 2017 the Company purchased for treasury 2,000,000 A shares of 0.1p each, representing 2.2 per cent of the A shares in issue at the previous year end, for a total consideration of £1,941,000 and 450,000 B shares of 0.1p each, representing 1.4 per cent of the B shares in issue at the previous year end, for a total consideration of £440,000 in accordance with the Company's discount management policy.

The current authority of the Company to make market purchases of up to 14.99 per cent of each of the issued A shares and the B shares (in each case, excluding shares held in treasury) expires at the end of the Annual General Meeting and Resolution 11, 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 A 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 2018 and the conclusion of the next Annual General Meeting of the Company.

There were 118,404,847 A shares and B shares in issue (excluding treasury shares) as at 19 May 2017; of which 73.8 per cent represents A shares and 26.2 per cent represents B shares. At that date, the Company held 14.3 per cent of the total A share capital in treasury and 3.4 per cent of the total B share capital in treasury.

The Company therefore in aggregate holds 15,739,000 shares in treasury representing 13.3 per cent of the total share capital in issue (excluding treasury shares).

### Treasury Shares (Resolutions 12 and 13)

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 12 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 12, 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 12 is conditional on the passing of Resolution 13.

Resolution 13, 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 8.6 per cent and 9.7 per cent of the Company's issued A share capital and B share capital respectively (including treasury shares) as at the date of passing of the resolution. Resolution 13 is not conditional on the passing of Resolution 12.

### Notice Period for General Meetings (Resolution 14)

Resolution 14 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 14 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 2018 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 Investment Policy (Resolution 15)**

The Company's current investment policy is set out on page 11. The Board, in conjunction with the Manager, is proposing to change this policy in order to remove the Higher Yield Portfolio (in light of the low level of yields available on corporate bonds, particularly higher quality, investment grade bonds) and therefore move to a single Equities Portfolio. The aim is to simplify the Company's overall structure and allow an increased focus on investing in UK equities and equity related securities of companies across the market capitalisation spectrum.

These proposed changes are subject to Shareholder approval and, if they are approved, the Company is expected to have a more concentrated portfolio with approximately 40 holdings (as opposed to approximately 50 holdings in the Equities Portfolio and the holdings in the Higher Yield Portfolio). However, the Manager will aim to maintain a diversified portfolio across a range of sectors and 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.

The Board believes that these proposed changes to the Company's investment policy will enhance the attractiveness of the Company by simplifying the Company's structure and focusing on an all equity offering.

The Company's proposed investment policy is set out on page 11.

The proposed changes are considered to constitute a material change to the Company's published investment policy. Therefore, in accordance with Listing Rule 15.4.8R, the Company has obtained the prior approval of the Financial Conduct Authority. These changes are also subject to the prior approval by Shareholders of Resolution 15 at the Annual General Meeting. Resolution 15 will be proposed as an ordinary resolution and will require to be approved by a simple majority of those voting. Should the new investment policy be approved by Shareholders it is expected that the reshaping of the existing two investment portfolios into the new, single, equities investment portfolio will take place as soon as is practicably possible.

Any future material changes to the investment objective and policy will require the prior approval of Shareholders.

#### **Amendment to Articles (Resolution 16)**

As part of the proposals, the Company is also proposing to change the name of its A Shares to Ordinary Shares. This change is also subject to Shareholder approval as it requires the Company to amend its articles of association. For the avoidance of doubt the name of the B Shares will not change and the Company is not proposing to change its investment objective, capital structure or the rights attaching to either of its share classes. 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.

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 29 June 2017 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 31,000 A shares and 76,000 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  
80 George Street  
Edinburgh EH2 3BU**

19 May 2017

# 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](http://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](http://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 Mr K Shand is 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 11.

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.

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
I A McLaren	5	5	3	3	1	1	2	2
J Le Blan	5	5	3	3	1	1	2	2
J M Evans	5	5	3	3	1	1	2	2
K D Shand	5	5	3	2	1	1	2	1
J P Williams	5	5	3	2	1	1	2	2

The table above sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2017 and the number of meetings attended by each Director.

All Directors attended the Annual General Meeting in June 2016.

### **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 completing questionnaires designed to suit the nature of the Company, 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 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 is chaired by Mr Shand. 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.

### **Nomination Committee**

The Nomination Committee comprises the full Board and is chaired by Mr 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 Directors have not set any measurable objectives in relation to the diversity of the Board.

As explained in the Chairman's Statement, the Board has begun the process of recruiting a new Director to replace Mr Shand and an external search agency is being used.

### **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 18 and 19 and pages 32 and 33 respectively.

### **Share Capital Structure**

Details of the Company's share capital structure is set out on page 70.

By order of the Board  
For F&C Investment Business Limited  
Company Secretary  
80 George Street  
Edinburgh EH2 3BU

19 May 2017



# Report of the Audit Committee

## Role 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. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment and remuneration of the Auditor, Ernst & Young LLP ('EY'), 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 EY.

The Audit Committee met on three 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 EY and senior members of F&C's fund management and investment trust 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 accounts;
- The accounting policies of the Group 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;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, their remuneration and terms of engagement;
- The appointment of an audit firm for the year ending 31 March 2018;
- The policy on the engagement of EY to supply non-audit 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 is fair, balanced and understandable.

## External audit process

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 31 March 2017. At the conclusion of the audit EY did not report any audit differences in excess of their reporting threshold of £0.07m, nor any differences below that level which would warrant disclosure on qualitative grounds. In addition EY 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. EY issued an unqualified audit report which is included on pages 40 to 43.

## 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 of £22,000 (2016: £21,500), EY received fees, excluding VAT, for non-audit services of £7,650 for the year (2016: £7,700) which related to the provision of tax services. 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.

As the Company is a Public Interest Entity listed on the London Stock Exchange, with effect from 1 April 2017, under new EU legislation, prohibitions and a cap on the level of fees for permissible non-audit services will apply. Consequently, the Committee now 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

As part of the review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, 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 EY continues to provide effective independent challenge in carrying out its responsibilities.

EY has been the Company's auditor since its launch in 2007. In accordance with the new EU audit rotation rules, the Audit Committee put this appointment out to tender in the current financial year. As the Board wished to retain EY as tax advisers to the Company, EY could not also provide audit services and did not participate in the tender. A number of firms were invited to tender and to submit a detailed document addressing key areas. The Audit Committee then met with these firms. After detailed discussions, the Committee recommends that Deloitte LLP be appointed as the Company's auditor for the 31 March 2018 year end audit and a resolution proposing this appointment will be submitted at the Annual General Meeting.

We would like to take this opportunity to thank EY for the audit work they have performed for the Company, which has always been of the highest standard.

### Internal Controls and risk management

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 Board has therefore 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. 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.

F&C's Business Risk department also 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. The significant issues considered by the Audit Committee, and F&C's control reports on policies and procedures in operation during the year are discussed in the table below.

### Significant Matters Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
<b>Valuation and Existence of Investment Portfolio</b> Possibility of incorrect valuation and existence of the investment portfolio, including failure to assess stock liquidity appropriately.	The Group's accounting policy is stated in note 1 to the accounts. The Audit Committee reviewed the valuation prepared by the Manager, satisfying itself as to the basis on which investments were valued. The Audit Committee also reviewed the liquidity of the stocks held, particularly with regard to the Higher Yield Portfolio.
<b>Misappropriation of Assets</b> Misappropriation 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 on page 33, 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 2017.
<b>Going Concern</b> The Group's accounts 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 Group 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 Group's borrowing facilities and continued compliance with applicable banking covenants, and satisfied itself that the going concern basis of preparation remained appropriate.

Matter	Action
<p><b>Income Recognition</b></p> <p>Incomplete or inaccurate income recognition, including allocation between revenue and capital, could have an adverse effect on the Group's net asset value and earnings per share and its level of dividend cover.</p>	<p>The Audit Committee reviewed the Manager's AAF Report, as referred to below, 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.</p>
<p><b>Calculation of Management Fee</b></p> <p>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 Group's accounting policy, could result in a misstatement of the Group and Company's net asset value per share and/or Consolidated Statement of Comprehensive Income and could lead to a loss for the Group.</p>	<p>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.</p>
<p><b>Investment Trust Tax Status</b></p> <p>As an investment trust company, the Company is exempt from taxation arising on capital gains.</p> <p>Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains.</p>	<p>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.</p>

A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place and actions taken to mitigate them. The Board discusses the resulting risk matrix and reviews the significance of the risks and reasons for any changes.

The Company's principal risks are set out on pages 18 and 19 with additional information provided in note 21 to the accounts.

A formal annual review of these procedures is carried out by the Audit Committee. The Audit Committee has also reviewed the Manager's "Report on Internal Controls in accordance with AAF (01/06)" for the year ended 31 October 2016 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 a report and an unqualified opinion from independent external accountants, the report sets out F&C's control policies and procedures with respect to the management of its clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by F&C's Group Audit and Compliance Committee, which receives regular reports from its Internal Audit department. Procedures are also in place to capture and evaluate any failings and weaknesses within F&C's control environment and those extending to any outsourced service provider 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 accounts, and the Board is satisfied with their effectiveness. 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 or loss.

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.

**Julia Le Blan**  
Chairman of the Audit Committee

19 May 2017

# Directors' Remuneration Report

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 March 2017, 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 43.

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 it is chaired by Mr Shand. 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.

This policy was first approved by Shareholders in 2014 and will be put to Shareholders for renewal at the Annual General Meeting with the express provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings. This will include those treated as a benefit in kind subject to tax and national insurance.

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.

## 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 the amount paid to Directors should increase by £1,500 for the Chairman, £2,500 for the Audit Committee chairman and £1,000 for other Directors.

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

	31 March 2018 £	31 March 2017* £
Chairman	33,000	31,500
Audit Committee chairman	26,000	23,500
Director	22,000	21,000

\* Actual Directors' fees for the year ended 31 March 2017

### Voting at Annual General Meeting

The Directors' Remuneration Policy was last approved by shareholders at the Company's Annual General Meeting, held on 27 June 2014. 98.3 per cent of votes were in favour of the resolution and 1.7 per cent of votes were against.

An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting.

### 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 2017 and 2016 and can expect to receive the fees indicated for 2018 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)							
Director	Fees (audited)		Taxable Benefits <sup>(1)</sup> (audited)		Total (audited)		Anticipated Fees <sup>(2)</sup>
	31 March 2017 £	31 March 2016 £	31 March 2017 £	31 March 2016 £	31 March 2017 £	31 March 2016 £	31 March 2018 £
I A McLaren (Chairman)	31,500	30,750	52	–	31,552	30,750	33,000
J Le Blan	23,500	23,000	1,516	1,434	25,016	24,434	26,000
J M Evans	21,000	20,500	57	–	21,057	20,500	22,000
K D Shand <sup>(3)</sup>	21,000	20,500	81	1,277	21,081	21,777	5,500
J P Williams	21,000	20,500	2,455	1,444	23,455	21,944	22,000
<b>Total</b>	<b>118,000</b>	<b>115,250</b>	<b>4,161</b>	<b>4,155</b>	<b>122,161</b>	<b>119,405</b>	<b>108,500</b>

<sup>(1)</sup> Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI contributions.

<sup>(2)</sup> Fees expected to be payable to the Directors during the year ended 31 March 2018. Taxable benefits are also anticipated but are not currently quantifiable.

<sup>(3)</sup> Retires 29 June 2017

#### 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 2017 £	31 March 2016 £	Change %
Aggregate Directors' Remuneration	118,000	115,250	+2.4
Management fee and other expenses	1,354,000	1,298,000	+4.3
Distributions paid to Shareholders*	5,637,000	5,592,000	+0.8

\* The aggregate distributions figure is only marginally higher than 2016 as buybacks reduce the number of Shares in issue that are entitled to payment. See note 17 to the accounts for further details.

#### Directors' Shareholdings (audited)

The Directors who held office at the year end and their interests in the shares of the Company at 31 March 2017 (all of which were beneficially held) were as follows:

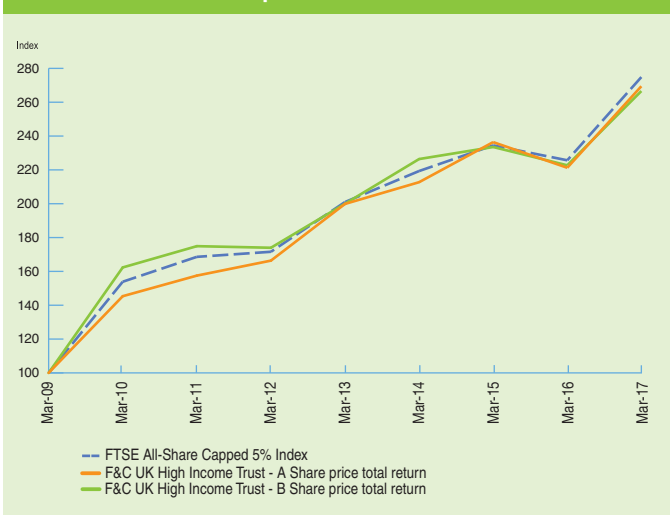
Director	31 March 2017		1 April 2016	
	A Shares	B Shares	A Shares	B Shares
I A McLaren (Chairman)	10,000	30,000	10,000	30,000
J Le Blan	6,000	–	6,000	–
J M Evans	15,000	5,000	15,000	5,000
K D Shand	–	–	–	–
J P Williams	–	41,000	–	41,000

There have been no changes in the Directors' interests in the shares of the Company between 31 March 2017 and 19 May 2017.

### Company Performance

The graph below compares, for the eight financial years ended 31 March 2017, the total return (assuming all dividends are reinvested) to A 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 between approximately 2 to 25 per cent. of the Company's assets were in higher yielding securities. 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 Performance Graph



### Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 27 June 2016, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 March 2016. 98.6 per cent of votes were in favour of the resolution and 1.4 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.

On behalf of the Board

Kenneth Shand  
Director

19 May 2017

# 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 Group 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 Group and the Company and of the profit or loss for that period. In preparing the Group 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 Group's financial position and financial performance;
- state that the Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable

them to ensure that the Group 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 Group 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 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 profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (comprising the Chairman's Statement, Business Model, Strategy and Policies, Key Performance Indicators, Manager's Review, Classification of Investments, Equities Portfolio and Principal Risks and Viability Statement) and the Report of the Directors include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole together with a description of the principal risks that they face;
- taken as a whole, the annual report and accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy of the Group;

- 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

19 May 2017



'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'.



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# Independent Auditor's Report

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## Our opinion on the financial statements

In our opinion:

- The Group financial statements and the parent company financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with the IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## What we have audited

The financial statements of F&C UK High Income Trust plc comprise:

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Consolidated Statement of Comprehensive Income for the year ended 31 March 2017

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Balance Sheets for the parent company and the Group as at 31 March 2017

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Consolidated and Company Cash Flow Statement for the year to 31 March 2017

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Consolidated and Company Statement of Changes in Equity for the year to 31 March 2017

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Related notes 1 to 22 of the financial statements

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The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Overview of our audit approach

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Risks of material misstatement	<ul style="list-style-type: none"><li>• Incomplete or inaccurate revenue recognition through incorrect allocation of special dividends between revenue and capital and inappropriate journal entries.</li><li>• Incorrect valuation and existence of the investment portfolio.</li></ul>
Audit scope	<ul style="list-style-type: none"><li>• We performed an audit of the financial statements of all components.</li><li>• All audit work has been performed directly by the audit engagement team.</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Materiality of £1.3m which represents 1% of equity shareholder's funds (2016: £1.2m).</li></ul>

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## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Incomplete or inaccurate revenue recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment (as described on page 33 in the Report of the Audit Committee).</b></p> <p>The investment income receivable by the Group during the year directly affects the Group's ability to make a dividend payment to shareholders. The income receivable for the year to 31 March 2017 was £5.45m (2016: £5.42m), with the majority being dividend payments and fixed interest payments from equity and fixed interest investments.</p> <p>Special dividends by their nature require the exercise of judgement as to whether the income receivable should be classified as 'revenue' or 'capital'.</p> <p>During the year, the Company received five special dividends with an aggregate value of £0.48m, of which three were treated as revenue and two as capital.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>We agreed a sample of dividends and fixed interest received from the income report to an independent pricing source.</li> <li>We agreed, on a sample basis, dividends paid on investments held from an independent pricing source to the income report.</li> <li>We agreed all accrued dividends to an independent pricing source.</li> <li>We recalculated the application of effective interest rates for a sample of debt instruments.</li> <li>We reviewed the bond portfolio for evidence of any distressed debt to ensure the effective interest rate applied to these securities was appropriate.</li> <li>We performed a review of special dividends to assess the appropriateness of the accounting treatment.</li> <li>We tested the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</li> </ul>	<p>The results of our procedures are:</p> <ul style="list-style-type: none"> <li>We noted no issues in agreeing a sample of dividends and fixed interest received from the income report to an independent pricing source.</li> <li>We noted no issues in agreeing a sample of dividends paid on investments held from an independent pricing source to the income report.</li> <li>We noted no issues in agreeing all accrued dividends to an independent pricing source.</li> <li>We noted no issues in recalculating application of effective interest rates for a sample of debt instruments.</li> <li>We noted no issues in our review of the bond portfolio for evidence of any distressed debt to ensure the effective interest rate applied to these securities is appropriate.</li> <li>We noted no issues in our review of special dividends.</li> <li>We noted no issues with respect to the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</li> </ul>
<p><b>Incorrect valuation and existence of the investment portfolio (as described on page 32 in the Report of the Audit Committee).</b></p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Group's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Group could have a significant impact on the portfolio valuation and, therefore, the return generated for shareholders.</p> <p>The valuation of the portfolio at 31 March 2017 was £136.04m (2016: £127.61m), consisting of listed equities and fixed interest investments.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>We agreed all investment valuations and exchange rates to a relevant independent source.</li> <li>We reviewed price exception and stale pricing reports.</li> <li>We obtained confirmation from the Custodian and Depositary of all securities held at the year end and agreed those to the Group's records.</li> </ul>	<p>The results of our procedures are:</p> <ul style="list-style-type: none"> <li>We noted no material differences when agreeing the investment valuations and exchange rates to a relevant independent source.</li> <li>We noted no issues from our review of price exception and stale pricing reports.</li> <li>We noted no differences between the Custodian and Depositary confirmations and the Group's records.</li> </ul>

In the prior year, our auditor's report included a risk of material misstatement in relation to management fees payable for investment management. In the current year, this has not been included as the calculation and allocation of management fees is considered to be straightforward, is governed by the investment management agreement and as such, is not deemed to be a key audit risk.

### The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity. All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £1.32m (2016: £1.16m), which is 1% (2016: 1%) of equity shareholders' funds. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Group.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality was 75% (2016: 75%) of planning materiality, namely £0.99m (2016: £0.87m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Group we also applied a separate testing threshold of £0.23m (2016: £0.23m) for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue return before taxation.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.07m (2016: £0.06m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 37 and 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Group'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 Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Opinion 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; and
- 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.

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

ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.</p> <p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or</li> <li>certain disclosures of directors' remuneration specified by law are not made; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>the Directors' statement in relation to going concern, set out on pages 25 and 26, and longer-term viability, set out on page 20; and</li> <li>the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.</li> </ul>	We have no exceptions to report.

### Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> <li>the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;</li> <li>the Directors' statement in 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and</li> <li>the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.</li> </ul>	We have nothing material to add or to draw attention to.
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Sue Dawe (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Edinburgh

19 May 2017

#### Notes:

- The maintenance and integrity of the F&C UK High Income Trust plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Balance Sheets

As at 31 March					
Notes	Company £'000	2017 Group £'000	Company £'000	2016 Group £'000	
<b>Non-current assets</b>					
11	Investments held at fair value through profit or loss	136,291	136,041	127,855	127,605
<b>Current assets</b>					
13	Receivables	979	979	1,690	1,690
14	Cash and cash equivalents	12,982	12,982	7,264	7,264
		13,961	13,961	8,954	8,954
	<b>Total assets</b>	<b>150,252</b>	<b>150,002</b>	<b>136,809</b>	<b>136,559</b>
<b>Current liabilities</b>					
15	Payables	(603)	(353)	(2,281)	(2,031)
16	Bank loan	(18,000)	(18,000)	–	–
		(18,603)	(18,353)	(2,281)	(2,031)
<b>Non-current liabilities</b>					
16	Bank loan	–	–	(18,000)	(18,000)
		–	–	(18,000)	(18,000)
	<b>Total liabilities</b>	<b>(18,603)</b>	<b>(18,353)</b>	<b>(20,281)</b>	<b>(20,031)</b>
	<b>Net assets</b>	<b>131,649</b>	<b>131,649</b>	<b>116,528</b>	<b>116,528</b>
17	Share capital	134	134	134	134
18	Share premium	153	153	153	153
	Capital redemption reserve	5	5	5	5
	Buy back reserve	82,711	82,711	85,092	85,092
	Special capital reserve	19,589	19,589	21,058	21,058
	Capital reserves	23,273	23,273	4,719	4,719
	Revenue reserve	5,784	5,784	5,367	5,367
	<b>Equity shareholders' funds</b>	<b>131,649</b>	<b>131,649</b>	<b>116,528</b>	<b>116,528</b>
19	<b>Net asset value per A share</b>	<b>111.19p</b>	<b>111.19p</b>	<b>96.42p</b>	<b>96.42p</b>
19	<b>Net asset value per B share</b>	<b>111.19p</b>	<b>111.19p</b>	<b>96.42p</b>	<b>96.42p</b>

The Company's profit for 2017 was £23,139,000 (2016: loss £3,433,000).

Approved by the Board and authorised for issue on 19 May 2017 and signed on its behalf by:

**Iain McLaren**, Director

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

# Consolidated and Company Cash Flow Statement

For the year to 31 March		
	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	23,139	(3,433)
Adjustments for:		
(Gains)/losses on investments held at fair value through profit or loss	(20,184)	6,640
Exchange differences	545	325
Interest income	(21)	(29)
Interest received	21	29
Investment interest	(426)	(761)
Investment interest received	587	806
Dividend income	(5,000)	(4,626)
Dividend income received	4,958	4,565
Increase in receivables	(10)	(2)
Increase in payables	15	1
Purchases of investments	(25,097)	(17,540)
Sales of investments	36,456	20,510
Finance costs	593	594
<b>Net cash inflow from operating activities</b>	<b>15,576</b>	<b>7,079</b>
<b>Cash flows from financing activities</b>		
Dividends paid on A shares	(4,168)	(4,126)
Capital returns paid on B shares	(1,469)	(1,466)
Interest on bank loan	(593)	(594)
Shares purchased for treasury	(3,056)	(658)
<b>Net cash outflow from financing activities</b>	<b>(9,286)</b>	<b>(6,844)</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,290</b>	<b>235</b>
Currency losses	(572)	(280)
Opening net cash and cash equivalents	7,264	7,309
<b>Closing net cash and cash equivalents</b>	<b>12,982</b>	<b>7,264</b>

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



# Consolidated and Company Statement of Changes in Equity

## 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
<b>Total comprehensive income for the year</b>									
Profit for the year	–	–	–	–	–	4,867	13,687	4,585	23,139
<b>Total comprehensive income for the year</b>	–	–	–	–	–	4,867	13,687	4,585	23,139
<b>Transactions with owners of the Company recognised directly in equity</b>									
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)
<b>Balance as at 31 March 2017</b>	<b>134</b>	<b>153</b>	<b>5</b>	<b>82,711</b>	<b>19,589</b>	<b>(9,910)</b>	<b>33,183</b>	<b>5,784</b>	<b>131,649</b>

## For the year to 31 March 2016

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 2015	134	153	5	86,425	22,524	(15,844)	28,567	4,922	126,886
<b>Total comprehensive income for the year</b>									
Profit/(loss) for the year	–	–	–	–	–	1,067	(9,071)	4,571	(3,433)
<b>Total comprehensive income for the year</b>	–	–	–	–	–	1,067	(9,071)	4,571	(3,433)
<b>Transactions with owners of the Company recognised directly in equity</b>									
17 Shares bought back for treasury	–	–	–	(1,333)	–	–	–	–	(1,333)
9 Dividends paid on A shares	–	–	–	–	–	–	–	(4,126)	(4,126)
9 Capital returns paid on B shares	–	–	–	–	(1,466)	–	–	–	(1,466)
<b>Balance as at 31 March 2016</b>	<b>134</b>	<b>153</b>	<b>5</b>	<b>85,092</b>	<b>21,058</b>	<b>(14,777)</b>	<b>19,496</b>	<b>5,367</b>	<b>116,528</b>

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

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# Notes to the Accounts

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## 1. Accounting policies

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

### Basis of Preparation

The financial statements of the Group have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("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.

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) and are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements in accordance with accounting standards requires management to make judgements, estimates and assumptions that affect the accounting policies and amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. The nature of the judgements and estimates means that actual outcomes could differ from those estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: recognising and classifying unusual or special dividends received as either revenue or capital in nature. Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine the allocation in accordance with the SORP to either the revenue account or capital account.

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 accounts. Further detail is included in the Report of the Directors on pages 25 and 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:

- *Annual Improvements to IFRSs 2012-2014 Cycle*: The adoption of these improvements did not have a material effect on the classification and measurement of the Company's financial position and performance.

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.

## 1. Accounting policies (continued)

- 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. The Company is yet to assess IFRS 15's full impact but 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 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. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

These standards will be adopted by the Company with effect from the accounting period commencing 1 April 2018.

The Group 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.

### Group accounts

The consolidated Financial Statements are made up to 31 March each year and incorporate the Financial Statements of the Company and its wholly-owned subsidiary, Investors Securities Company Limited. The Company has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present its own Statement of Comprehensive Income. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The Financial Statements of subsidiaries used in the preparation of the consolidated Financial Statements are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising therefrom, are eliminated from the consolidated financial statements.

The Company, which is an investment company and carries on business as an investment trust, has been assessed as being an investment entity under IFRS 10. As the Company's wholly owned subsidiary, Investors Securities Company Limited, is not an investment entity it is consolidated in the Group's financial statements. This company is dormant.

### 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 Group 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 Consolidated 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 A 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 Group'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	2017	2016
Euro	1.1691	1.2613
US Dollar	1.2505	1.4373

## 2. Income

	2017 £'000	2016 £'000
<b>Income from investments</b>		
UK dividend income	5,000	4,626
UK listed fixed interest	302	521
Overseas listed fixed interest	124	240
	5,426	5,387
<b>Other income</b>		
Deposit interest	21	29
Underwriting commission and other income	–	8
<b>Total income</b>	<b>5,447</b>	<b>5,424</b>
<b>Total income comprises:</b>		
Dividends	5,000	4,626
Interest on fixed interest securities	426	761
Deposit interest	21	29
Underwriting commission and other income	–	8
<b>Total income</b>	<b>5,447</b>	<b>5,424</b>
<b>Income from investments:</b>		
Listed	5,426	5,387

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 Group is engaged in a single segment of business, of investing in equity and higher yielding securities, and that therefore the Group 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 Group. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group'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:

	2017		2016	
	2017 £'000	Pence per share	2016 £'000	Pence per share
Shareholders' funds per financial statements	131,649	111.19	116,528	96.42
Closing fair value adjustment on fixed-rate term loan*	(78)	(0.07)	(156)	(0.13)
Shareholders' funds with debt at fair value	131,571	111.12	116,372	96.29
Profit/(loss) for the year per financial statements	23,139	19.30	(3,433)	(2.81)
Movement in fair value on fixed-rate term loan*	78	0.07	(53)	(0.04)
Profit/(loss) for the year with debt at fair value	23,217	19.37	(3,486)	(2.85)

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

### 4. Investment management fee

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	287	670	957	267	623	890

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.

The investment management fee is 0.75 per cent per annum of the net asset value of the Company payable quarterly in arrears.

The investment management fee for the quarter ended 31 March 2017 of £248,000 (2016: £219,000) is due to the Company's investment manager at the year end.

### 5. Other expenses (including irrecoverable VAT thereon)

	2017 £'000	2016 £'000
Directors' fees (Note 6)	118	115
Auditors' remuneration for:		
– statutory audit	26	25
– taxation compliance (non-audit)	9	9
Other	244	259
	397	408

### 6. Directors' fees

The emoluments of the Chairman, the highest paid Director, were at the rate of £31,500 per annum (2016: £30,750).

Other Directors' emoluments amounted to £21,000 (2016: £20,500) each per annum, with the chairman of the Audit Committee receiving an additional £2,500 (2016: £2,500) per annum. Full details are provided in the Directors' Remuneration Report on page 35.

## 7. Finance costs

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Finance costs attributable to term loan	178	415	593	178	416	594

## 8a. Tax on ordinary activities

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Corporation tax	–	–	–	–	–	–
<b>Total tax charge</b>	–	–	–	–	–	–

## 8b. Factors affecting tax charge for current year

A reconciliation of the current tax charge for the current year is set out below:

	2017 £'000	2016 £'000
Profit/(loss) before tax	23,139	(3,433)
Taxation on ordinary activities at the UK standard rate of corporation tax of 20% (2016: 20%)	4,628	(687)
Effects of:		
– Non taxable dividend income	(1,000)	(925)
– Non taxable capital (gains)/losses	(3,927)	1,393
– Excess management expenses	299	219
<b>Total tax charge for the year</b>	–	–

The deferred tax asset of £1,135,000 (2016: £1,045,000) in respect of unutilised expenses at 31 March 2017 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

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
<b>Amounts recognised as distributions to shareholders in the year:</b>						
Fourth interim dividend for the prior year paid at 1.18p (2016: 1.15p) per A share	1,055	–	1,055	1,039	–	1,039
Fourth capital repayment for the prior year paid at 1.18p (2016: 1.15p) per B share	–	371	371	–	368	368
First interim dividend paid at 1.17p (2016: 1.14p) per A share	1,040	–	1,040	1,029	–	1,029
First capital repayment paid at 1.17p (2016: 1.14p) per B share	–	368	368	–	366	366
Second interim dividend paid at 1.17p (2016: 1.14p) per A share	1,038	–	1,038	1,029	–	1,029
Second capital repayment paid at 1.17p (2016: 1.14p) per B share	–	365	365	–	366	366
Third interim dividend paid at 1.17p (2016: 1.14p) per A share	1,035	–	1,035	1,029	–	1,029
Third capital repayment paid at 1.17p (2016: 1.14p) per B share	–	365	365	–	366	366
	4,168	1,469	5,637	4,126	1,466	5,592
<b>Amounts relating to the year but not paid at the year end:</b>						
Fourth interim dividend payable at 1.21p (2016: 1.18p) per A share	1,058	–	1,058	1,055	–	1,055
Fourth capital repayment payable at 1.21p (2016: 1.18p) per B share	–	375	375	–	371	371
	1,058	375	1,433	1,055	371	1,426



## 9. Dividends and capital repayments (continued)

	2017 £'000
Revenue available for distribution by way of dividends for the year	4,585
First quarterly interim dividend of 1.17p per A share paid in respect of the year ended 31 March 2017	(1,040)
Second quarterly interim dividend of 1.17p per A share paid in respect of the year ended 31 March 2017	(1,038)
Third quarterly interim dividend of 1.17p per A share paid in respect of the year ended 31 March 2017	(1,035)
Fourth quarterly interim dividend of 1.21p per A share payable in respect of the year ended 31 March 2017*	(1,058)
Undistributed revenue for the purposes of Section 1158 of the Corporation Tax Act 2010	414

\*based on 87,428,144 A shares in issue at 6 April 2017.

## 10. Earnings per share

The Company's earnings per share are based on the profit for the year of £23,139,000 (year to 31 March 2016 loss: £3,443,000) and on 88,644,856 A shares (2016: 90,263,253) and 31,262,045 B shares (2016: 31,887,076), 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 £4,585,000 (year to 31 March 2016: £4,571,000) and on the weighted average number of shares in issue as above.

The Company's capital earnings per share are based on the capital profit for the year of £18,554,000 (year to 31 March 2016 loss: £8,004,000) and on the weighted average number of shares in issue as above.

## 11. Investments held at fair value through profit or loss

	Company 2017 £'000	Group 2017 £'000	Company 2016 £'000	Group 2016 £'000
Listed securities	136,041	136,041	127,605	127,605
Subsidiary undertaking	250	–	250	–
	136,291	136,041	127,855	127,605

	Company		Group	
	Listed/ Quoted (Level 1) £'000	Subsidiary/ Unlisted (Level 3) £'000	Total £'000	Listed/Quoted (Level 1) Total £'000
Opening book cost	108,112	250	108,362	108,112
Opening unrealised appreciation	19,493	–	19,493	19,493
Opening valuation	127,605	250	127,855	127,605
Movements in the year:				
Purchases at cost	24,102	–	24,102	24,102
Sales – proceeds	(35,850)	–	(35,850)	(35,850)
– gains on sales	6,645	–	6,645	6,645
Increase in unrealised appreciation	13,539	–	13,539	13,539
Closing valuation at 31 March 2017	136,041	250	136,291	136,041
Closing book cost at 31 March 2017	103,009	250	103,259	103,009
Closing unrealised appreciation	33,032	–	33,032	33,032
Closing valuation at 31 March 2017	136,041	250	136,291	136,041

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

	Company 2017 £'000	Group 2017 £'000	Company 2016 £'000	Group 2016 £'000
Equity investments	133,439	133,189	114,845	114,595
Fixed interest – UK denominated	2,228	2,228	8,299	8,299
– Overseas denominated	624	624	4,711	4,711
	136,291	136,041	127,855	127,605
Net gains on realisation of investments	6,645	6,645	2,460	2,460
Movement in fair value	13,539	13,539	(9,100)	(9,100)
Gains/(losses) on investments	20,184	20,184	(6,640)	(6,640)

The Group incurred transaction costs of £97,000 (2016: £68,000) on the purchase of assets and £23,000 (2016: £15,000) 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 2017 compared with the difference between the book cost of investments held and their market value at 31 March 2016.

## 12. Significant interests

As at 31 March 2017, 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 31.03.17 £'000
Investors Securities Company Limited	Scotland	Ordinary	250	–	100	100	250

The registered office of Investors Securities Company Limited is 80 George Street, Edinburgh EH2 3BU.

At 31 March 2017, no investments were held by the dealing subsidiary and it did not trade during the year.

## 13. Receivables

	Company 2017 £'000	Group 2017 £'000	Company 2016 £'000	Group 2016 £'000
Income receivable from shares and securities	940	940	1,056	1,056
Fair value of foreign exchange currency contracts	4	4	–	–
Due from brokers in settlement of sales of investments	–	–	606	606
Withholding tax recoverable	9	9	–	–
Sundry debtors	26	26	28	28
	979	979	1,690	1,690

## 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**

	Company 2017 £'000	Group 2017 £'000	Company 2016 £'000	Group 2016 £'000
Loan from subsidiary undertaking	250	–	250	–
Accrued expenses	105	105	119	119
Investment management fee	248	248	219	219
Fair value of foreign exchange currency contracts	–	–	23	23
Due to brokers in settlement of purchases of investments	–	–	995	995
Due to brokers in settlement of shares purchased from treasury	–	–	675	675
	603	353	2,281	2,031

**16. Bank loan**

	Company and Group 2017 £'000	Company and Group 2016 £'000
£18 million term loan maturing 28 September 2017	18,000	18,000

The Company has drawn down an £18 million term loan facility with a five year term to 28 September 2017. The term loan with JPMorgan Chase Bank is currently secured on investments and cash held by JPMorgan Chase Bank as custodian which constitutes the majority of the assets of the Company. The term loan carries interest at a fixed rate of 3.15 per cent per annum which is payable quarterly in arrears. An administration fee of £18,000 is payable annually in addition.

The term loan contains certain financial covenants with which the Company must comply. These include a financial covenant to the effect that the percentage of the total amounts drawn down under the term loan (together with any other borrowings) should not exceed 45 per cent of the Company's Eligible Total Secured Assets. The Company complied with the required financial covenants throughout the period since drawdown.

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 (2016: £18,156,000). The fair value of the loan is calculated using a discounted cashflow technique based on forecasts of future interest rates and classified as level 2 under the hierarchy of fair value measurement for financial instruments.

## 17. Share capital

Allotted, issued and fully paid

	Listed		Held in Treasury		In Issue	
	Number	£	Number	£	Number	£
<b>A Shares of 0.1p each</b>						
Balance at 1 April 2016	102,067,144	102,067	(12,639,000)	(12,639)	89,428,144	89,428
Repurchased to be held in treasury	–	–	(2,000,000)	(2,000)	(2,000,000)	(2,000)
Balance at 31 March 2017	102,067,144	102,067	(14,639,000)	(14,639)	87,428,144	87,428
<b>B Shares of 0.1p each</b>						
Balance at 1 April 2016	32,076,703	32,077	(650,000)	(650)	31,426,703	31,427
Repurchased to be held in treasury	–	–	(450,000)	(450)	(450,000)	(450)
Balance at 31 March 2017	32,076,703	32,077	(1,100,000)	(1,100)	30,976,703	30,977
<b>Total at 31 March 2017</b>	<b>134,143,847</b>	<b>134,144</b>	<b>(15,739,000)</b>	<b>(15,739)</b>	<b>118,404,847</b>	<b>118,405</b>

During the year the Company bought back 2,000,000 (2016: 850,000) A Shares to hold in treasury at a cost of £1,941,000 (2016: £758,000) and 450,000 (2016: 650,000) B Shares to hold in treasury at a cost of £440,000 (2016: £575,000). The Company did not buy back any shares for cancellation during the year (2016: nil).

At 31 March 2017 the Company held 14,639,000 (2016: 12,639,000) A Shares and 1,100,000 (2016: 650,000) B Shares in treasury.

### Shareholder entitlements

The Company has two classes of shares: A 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. A 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 A Shareholders.

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

## 18. Share premium account and reserves (continued)

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, Strategy and Policies 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 A 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 111.19p (2016: 96.42p) is based on the equity shareholders' funds of £131,649,000 (2016: £116,528,000) and on 118,404,847 equity shares, consisting of 87,428,144 A Shares and 30,976,703 B Shares (2016: 120,854,847 equity shares, consisting of 89,428,144 A Shares and 31,426,703 B Shares), being the number of shares in issue at the year end.

The Company's shares may also be traded as units, each unit consisting of three A Shares and one B Share. The basic net asset value per unit as at 31 March 2017 was therefore 444.76p (2016: 385.68p).

The Company's treasury net asset value per share, incorporating the 14,639,000 A shares and 1,100,000 B Shares held in treasury at the year end (2016: 12,639,000 A Shares and 650,000 B Shares), was 110.54p (2016: 95.95p). The Company's treasury net asset value per unit at the end of the year was 442.15p (2016: 383.80p). 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 2016 £'000	Cash flow £'000	Currency movements £'000	At 31 March 2017 £'000
Cash and cash equivalents	7,264	6,290	(572)	12,982
Bank loan	(18,000)	–	–	(18,000)
Net debt	(10,736)	6,290	(572)	(5,018)

## 21. Financial instruments

The Company's financial instruments comprise equity and fixed interest 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 Equities Portfolio. There were no call options written during the current year or prior year.

Apart from the fair value of the fixed-rate term loan as disclosed in note 16, the fair value of the financial assets and liabilities of the Company at 31 March 2017 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, other receivables and fixed interest investments, 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, other than the dealing subsidiary, 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 Group's strategy for the management of market price risk is driven by the Company's investment policy as outlined within the Business Model, Strategy and Policies on pages 9 to 11. 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 and fixed interest 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 'Equities 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 Equities Portfolio as at 31 March 2017 would have increased net assets and income for the year by £13,319,000 (2016: an increase of 10 per cent would have increased net assets and income by £11,459,000). A decrease of 10 per cent (2016: 10 per cent) would have had an equal but opposite effect.

A 10 per cent increase in the value of the Higher Yield Portfolio as at 31 March 2017 would have increased net assets and income for the year by £285,000 (2016: an increase of 10 per cent would have increased net assets and income by £1,301,000). A decrease of 10 per cent (2016: 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.

## 21. Financial instruments (continued)

### 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. However, where there has been a deterioration in credit quality or an event of default the Company may not be able to liquidate quickly, at fair value, some of its investments in the Higher Yield Portfolio. 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 in the event of a change of control of the Company or 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.

The remaining contractual maturities of the financial liabilities at 31 March 2017, 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
<b>31 March 2017</b>					
Current liabilities					
Payables	353	–	–	–	353
Bank loan	142	18,142	–	–	18,284
<b>31 March 2016</b>					
Current liabilities					
Payables	2,031	–	–	–	2,031
Non-current liabilities					
Bank loan	142	443	18,284	–	18,869

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 0.25 per cent at 31 March 2017 (2016: 0.5 per cent).

## 21. Financial instruments (continued)

### Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities.

	2017			2016		
	£'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	12,158	3.4%*	3.1 years
Floating rate notes	204	1.3%	2.7 years	852	4.3%	1.3 years
Fixed interest liabilities:						
Term loan	18,000	3.2%	0.5 years	18,000	3.2%	1.5 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.

Movements in the fair value of investments held in the Higher Yield Portfolio due to a movement in the market interest rate is viewed to form part of the market price risk.

The Company's Equities Portfolio does not contain any fixed interest or floating rate interest assets. Details of the Company's Equities Portfolio are given in Note 11 and in the section of this report entitled 'Equities Portfolio'.

The £18 million term loan carries a fixed interest rate of 3.15 per cent per annum.

Considering the effect on the term loan, it is estimated that an increase of 100 basis points in interest rates as at the balance sheet date would have decreased its fair value liability by approximately £254,000 (2016: £257,000). A decrease of 100 basis points would have increased its fair value liability by approximately £260,000 (2016: £263,000). These calculations are based on the balance of the term loan at the respective balance sheet date and are not representative of the year as a whole, nor reflective of future market conditions.

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 £130,000 (year to 31 March 2016: £73,000). 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 order to achieve a diversified portfolio of higher yielding securities the Company invests partly in overseas securities which gives rise to currency risks. In the year to 31 March 2017, the Company entered into US Dollar and Euro foreign exchange currency contracts with a view to hedging these currency risks. Foreign currency exposure at 31 March 2017 was as follows:

	2017				2016			
	Investments £'000	Net Current Assets £'000	Cash £'000	Total £'000	Investments £'000	Net Current Assets £'000	Cash £'000	Total £'000
US Dollar	163	23	4	190	1,610	202	4	1,816
Euro	461	33	7	501	3,101	68	6	3,175
	624	56	11	691	4,711	270	10	4,991



## 21. Financial instruments (continued)

As at 31 March 2017 the foreign exchange currency contracts not yet realised were as follows:

	2017 Hedged amount £'000	2017 Unrealised gain £'000	2016 Hedged amount £'000	2016 Unrealised gain/(loss) £'000
US Dollars for Sterling	163	–	1,594	10
Euro for Sterling	464	4	3,086	(33)
	627	4	4,680	(23)

Total losses in the year from foreign exchange currency contracts and balances held in cash were £545,000 (2016 – losses: £325,000). All foreign exchange currency contracts in place at 31 March 2017 and 31 March 2016 were due to expire within 12 months of the respective balance sheet dates.

Given the policy to hedge currency risk on non-sterling denominated assets 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 Consolidated Statement of Comprehensive Income for either the year or the prior year nor the net asset value as at 31 March 2017 or 31 March 2016.

## 22. Related party transactions

The Directors of the Company and the Manager are considered related parties.

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 accounts. There are no outstanding balances with the Board at year end. 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.

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# AIFM Disclosures

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## Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Group'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 Group's maximum and average actual leverage levels at 31 March 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	260%	260%
Actual	104%	114%

For the purposes of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group'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 Group'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 tenth Annual General Meeting of F&C UK High Income Trust plc will be held at Exchange House, Primrose Street, London, EC2A 2NY, on Thursday 29 June 2017 at 2 pm for the following purposes. To consider and, if thought fit, pass the following Resolutions, of which Resolutions 1 to 9, 12 and 15 will be proposed as Ordinary Resolutions and Resolutions 10, 11, 13, 14 and 16 as Special Resolutions:

## Ordinary Resolutions

1. That the Report and Accounts for the year to 31 March 2017 be received.
2. That the Directors' Remuneration Policy be approved.
3. That the Annual Report on Directors' Remuneration for the year ended 31 March 2017 be approved.
4. That Mr I A McLaren, who retires annually, be re-elected as a Director.
5. That Mrs J Le Blan, who retires annually, be re-elected as a Director.
6. That Mr J M Evans, who retires annually, be re-elected as a Director.
7. That Mr J P Williams, who retires annually, be re-elected as a Director.
8. That Deloitte LLP be appointed as Auditors and the Directors be authorised to determine their remuneration.
9. 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 £4,371 in respect of A shares of 0.1 pence each in the capital of the Company ("A 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 2018, 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

10. That, subject to the passing of Resolution number 9 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 9 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 2018, 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 £4,371 in respect of A 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 19 May 2017) at a price of not less than the net asset value per share of the existing A Shares (in the case of an allotment of A Shares) or B Shares (in the case of an allotment of B Shares).

11. 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 A 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 ("A 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 A Shares and B Shares hereby authorised to be purchased is 14.99 per cent of the issued A Shares and 14.99 per cent of the issued B Shares (excluding A 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 A or B Share is 0.1 pence;
  - (c) the maximum price (excluding expenses) which may be paid for an A 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 A 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 2018 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase A 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 A Shares and/or B Shares pursuant to any such contract.

### Ordinary Resolution

12. That, subject to the passing of Resolution 13 to be proposed at the Annual General Meeting of the Company convened for 29 June 2017 ("Resolution 13"), 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 A 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 A Shares and/or B Shares in issue pursuant to the authority conferred by Resolution 13, provided always that A 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 A Shares and/or B Shares are to be resold must be less than the average discount at which A 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

13. 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 £8,742 in respect of A Shares and £3,097 in respect of B Shares, representing approximately 8.6 per cent of the Company's A 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 2018 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.

14. 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 2018, whichever is the earlier (all dates inclusive).

### Ordinary Resolution

15. That, the proposed investment policy set out on page 11 of the Report and Accounts of the Company to 31 March 2017, a copy of which has been produced to the meeting and signed by the chairman for the purposes of identification, be and is hereby adopted as the investment policy of the Company to the exclusion of all previous investment policies of the Company.

### Special Resolution

16. That, in order to change the name of the Company's A Shares to Ordinary Shares, 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  
80 George Street  
Edinburgh EH2 3BU

19 May 2017

### 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 A shareholder is entitled to one vote per A 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](http://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 27 June 2017 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 27 June 2017 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.

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7. As at 19 May 2017 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 87,428,144 A Shares carrying one vote each and 30,976,703 B Shares carrying one vote each. The Company holds 14,639,000 A 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 19 May 2017 were 118,404,847 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 Rules 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](http://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 80 George Street, Edinburgh EH2 3BU.
  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 11 becoming effective, the maximum aggregate number of shares hereby authorised to be purchased shall be 13,105,478 A shares and 4,643,407 B shares (or, if less, 14.99 per cent. of the number of A 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 4.5% for the A and B Shareholders based on the share prices for both classes of share at 31 March 2017.'

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# Capital Structure

At 31 March 2017

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The Company has a capital structure comprising A 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: A 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 A 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 A shares.

The tax treatment on distributions received from A shares will be different from that on distributions received from B shares. Dividends paid on the A 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 A 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 A shares and one B share.

## Bank Loan Facility

The Company has a sterling term bank loan in the amount of £18 million which matures on 28 September 2017. The rate of interest has been fixed at 3.15 per cent per annum. The returns of both the A 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 A 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](http://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 A 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.

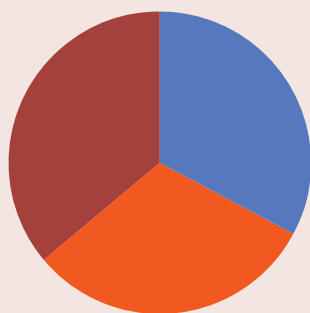
## Share Prices and Daily Net Asset Value

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

## Profile of the Company's Ownership % of Shares held at 31 March 2017



- F&C Asset Management Savings Plans 33% (2016: 32%)
- Institutions 33% (2016: 34%)
- Individuals and Private Client Stockbrokers 34% (2016: 34%)

## 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](http://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](http://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](http://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	25 <sup>7</sup> / <sub>8</sub> p
4% Debenture Stock	23 <sup>1</sup> / <sub>4</sub> p
3.675% Preference Stock	34 <sup>1</sup> / <sub>2</sub> p
7 <sup>1</sup> / <sub>4</sub> % Debenture Stock	55 <sup>1</sup> / <sub>4</sub> p

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

	First day of dealing value	Apportionment factor
Growth Shares	84 <sup>1</sup> / <sub>4</sub> p	0.6844
Income Annuity Shares	36 <sup>1</sup> / <sub>4</sub> p	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 warrant holders with regard to capital gains tax, following the capital reorganisation in June 2001:

	First day of dealing value	Apportionment factor
Zero Dividend Preference Shares	35 <sup>3</sup> / <sub>4</sub> p	0.3488
Income Shares	53 <sup>3</sup> / <sub>4</sub> p	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 A shares and one B share and capital gains tax calculations should be based on the separate A and B shareholdings. For a Unit holding, the base costs should be apportioned between the A shares and the B shares in the factors 0.75 and 0.25 respectively.

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

## F&C Junior ISA (JISA)\*

You can invest up to £4,128 for the tax year 2017/18 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA.

## F&C Child Trust Fund (CTF)\*

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

## F&C Private Investor Plan (PIP)

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

## F&C Children's Investment Plan (CIP)

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

\*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.

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](http://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

## F&C Management Limited

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## 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.co.uk](http://fandc.co.uk).

## How to Invest

To open a new F&C savings plan, apply online at [fandc.com/apply](http://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](mailto:info@fandc.com)

## Existing Plan Holders

Call: **0345 600 3030\*\*** (9.00am – 5.00pm, weekdays)

Email: [investor.enquiries@fandc.com](mailto:investor.enquiries@fandc.com)

By post: F&C Plan Administration Centre

PO Box 11114

Chelmsford

CM99 2DG

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

# Historic Record

<b>Assets at 31 March</b>											
£'000s	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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
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
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
* includes interest rate swap, where applicable											
<b>Net Asset Value (NAV)* at 31 March</b>											
NAV per A share and per B share	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per A 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
NAV High	–	103.8p	95.4p	83.4p	87.1p	88.7p	98.5p	105.8p	107.5p	107.3p	112.3p
NAV Low	–	84.7p	58.5p	59.5p	72.3p	74.5p	78.9p	93.0p	95.0p	87.3p	92.6p
NAV total return on 100p – 5 years											162.1p
NAV total return on 100p – since launch											193.8p
* includes debt at fair value											
<b>Share Price – A Shares at 31 March</b>											
Middle market price per share	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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
Premium/(discount) to NAV %	2.2%	(7.4)%	(1.6)%	(3.7)%	(4.2)%	(4.6)%	(4.5)%	(7.6)%	(2.7)%	(6.7)%	(6.4)%
Share price High	–	98.5p	86.7p	82.0p	85.5p	83.5p	93.5p	97.5p	101.0p	100.0p	104.5p
Share price Low	–	82.0p	58.0p	59.0p	74.0p	70.5p	76.5p	90.0p	87.5p	84.0p	87.5p
Share price total return on 100p – 5 years											162.0p
Share price total return on 100p – since launch											182.0p
<b>Share Price – B Shares at 31 March</b>											
Middle market price per share	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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
Premium/(discount) to NAV %	2.2%	(7.4)%	(1.6)%	7.7%	6.9%	0.7%	(3.4)%	(0.5)%	(2.7)%	(5.0)%	(6.1)%
Share price High	–	98.5p	86.5p	89.5p	93.5p	91.5p	94.5p	103.5p	102.3p	102.0p	104.3p
Share price Low	–	82.0p	58.0p	59.0p	77.0p	78.0p	79.0p	90.5p	88.5p	84.5p	86.5p
Share price total return on 100p – 5 years											153.2p
Share price total return on 100p – since launch											180.0p
<b>Share Price – Units at 31 March</b>											
Middle market price per share	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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
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)%
Share price High	–	393.5p	337.5p	317.0p	337.0p	334.5p	369.0p	375.0p	402.5p	400.5p	409.5p
Share price Low	–	327.0p	233.0p	236.0p	317.0p	300.0p	300.0p	358.0p	349.5p	335.0p	336.5p
Share price total return on 100p – 5 years											160.8p
Share price total return on 100p – since launch											178.1p
<b>Revenue For the year ended 31 March</b>											
Available for A shares – £'000s	2008†	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Available for A shares – £'000s	6,255	5,154	4,811	4,906	4,704	4,391	4,598	4,848	4,571	4,585	
Revenue earnings per share	4.68p	4.07p	3.79p	3.85p	3.70p	3.52p	3.73p	3.95p	3.74p	3.82p	
Dividends per A share	5.35p	5.35p	5.35p	4.28p	4.28p	4.28p	4.37p	4.48p	4.60p	4.72p	
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	
<b>Performance (rebased at 100 at 1 March 2007)</b>											
NAV per A share, B share and Unit	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per A 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
Mid Market price per A share	100.0	84.3	60.5	81.3	83.3	83.3	95.0	96.5	102.4	91.3	105.7
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
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
Dividends per A share		100.0	100.0	100.0	80.0	80.0	80.0	81.7	83.7	86.0	88.2
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
<b>Ongoing Charges For the year ended 31 March</b>											
Expressed as a percentage of average net assets	2008†	2009	2010	2011	2012	2013	2014	2015	2016	2017	
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%	
– including performance fees	1.17%	1.13%	1.25%	1.15%	1.14%	1.15%	1.51%	n/a	n/a	n/a	
<b>Gearing at 31 March</b>											
Maximum potential ratio	2007†	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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%
Investment gearing	(2.8)%	3.6%	15.2%	24.6%	25.4%	20.1%	10.1%	10.0%	7.9%	9.7%	3.5%
Equity gearing	(23.1)%	(24.9)%	(25.5)%	(12.3)%	(3.9)%	(0.3)%	(4.1)%	(5.3)%	(4.9)%	(1.5)%	1.2%

†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. 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.

**Total return** – the 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.

## 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.

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

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**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 A shares and B shares in issue. Therefore the net asset value attributable to each of the A 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 A 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.

**Depository** – under AIFMD rules applying from July 2014, the Company must appoint a Depository, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under AIFMD regulations, the depository has strict liability for the loss of the Company's financial assets in respect of which it has safe-keeping duties. The Depository'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 Depository 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 accounts). 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 accounts.

**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 accounts) 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 accounts.

**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.

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

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

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# Corporate Information

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## Directors

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

## Alternative Investment Fund Manager ('AIFM'), Investment Manager and Company Secretary

F&C Investment Business Limited  
80 George Street  
Edinburgh EH2 3BU

## Brokers

Cenkos Securities plc  
6-7-8 Tokenhouse Yard  
London EC2R 7AS

## Auditors

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

## Depositary

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

## Principal Bankers and Custodian

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

## Solicitors

Dickson Minto W.S.  
16 Charlotte Square  
Edinburgh EH2 4DF

## Company Number

SC314671



# F&C UK HIGH INCOME TRUST PLC

Annual Report and Accounts 2017

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## Registered Office

80 George Street  
Edinburgh EH2 3BU  
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Fax: 0131 718 1280

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Registrars' Shareholder Helpline: 0371 384 2470\*

Registrars' Broker Helpline: 0906 559 6025†

Registrars' Overseas Helpline: +44 121 415 7047\*\*

\* 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.