Foreign & Colonial Investment Trust PLC

REPORT AND ACCOUNTS
31 DECEMBER 2016

FOREIGN & COLONIAL
INVESTMENT TRUST

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Financial Calendar	
Annual General Meeting	25 April 2017
Final dividend payable for 2016	2 May 2017
Interim results for 2017 announced	end July 2017
First interim dividend for 2017	August 2017
Second interim dividend for 2017	November 2017
Third interim dividend for 2017	February 2018
Final Results for 2017 announced	March 2018
Final dividend for 2017	May 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 ordinary shares in Foreign & Colonial Investment Trust PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of shares, you should retain these documents.

Introducing Foreign & Colonial

Our objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Founded in 1868 as the first ever investment trust, Foreign & Colonial continually evolves; keeping pace with new investment opportunities and maintaining its relevance in today's world.

Our approach is designed to provide investors with the performance benefits of having concentrated individual investment portfolios together with the diversification benefits of lower risk and lower volatility that derive from being managed as part of a larger combined portfolio. Offering investors a globally diversified portfolio, Foreign & Colonial aims to be at the core of an investor's portfolio.

Foreign & Colonial is suitable for retail investors in the UK, professionally advised private clients and institutional investors who seek growth in capital and income from investment in global markets and who understand and are willing to accept the risks, as well as the rewards, of exposure to equities.

Visit our website at www.foreignandcolonial.com

The Company is registered in England and Wales with company registration number 12901
Legal Entity Identifier: 213800W6B18ZHTNG7371

OVERVIEW
STRATEGIC REPORT
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INFORMATION

Financial Highlights 2016

Strengthening our performance record

23.7%

Share price total return of 23.7%

Our share price total return(1) for 2016 was 23.7% and over ten years is 141%, the equivalent of 9.2% per annum.

23.9%

Strong performance with 23.9% NAV Total Return

Our net asset value(2) total return was 23.9% which compares with 29.6% from our benchmark, the FTSE All-World Index.

7.4%

Discount closed the year at 7.4%

Our share price discount(3) to net asset value(2) ended the year narrower than the 7.5% average level set by the Board for discount control.

9.85 pence

Dividend of 9.85 pence – 46th consecutive annual increase

We recognise the importance of a rising dividend in real terms. The proposed total dividend for the year is 9.85 pence, an increase of 2.6% compared to a CPI increase of 1.6%.

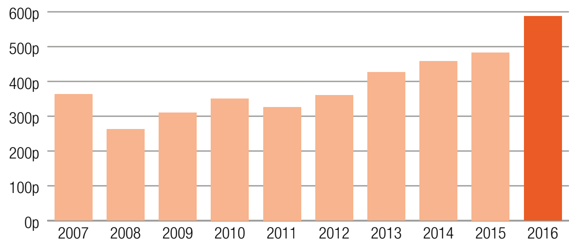
(1) Total return – see Alternative Performance Measures on page 87
(2) Net asset value per share with debt at market value. See Alternative Performance Measures on page 87
(3) Discount/Premium – See Alternative Performance Measures on page 87

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.

Delivering long-term growth in capital and income

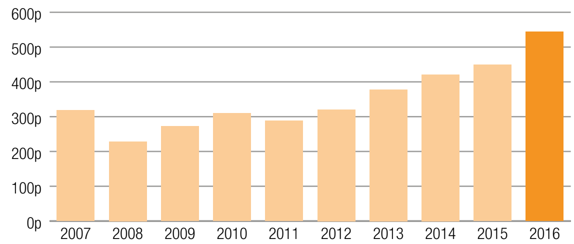
In the last ten years Foreign & Colonial has turned a £1,000 investment, with dividends reinvested, into £2,410.

NET ASSET VALUE[1] PER SHARE AT 31 DECEMBER – PENCE



Source: F&C

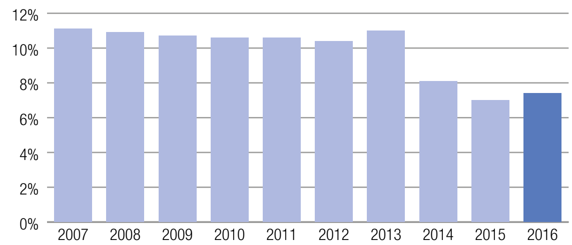
MID-MARKET PRICE PER SHARE AT 31 DECEMBER – PENCE



Source: F&C

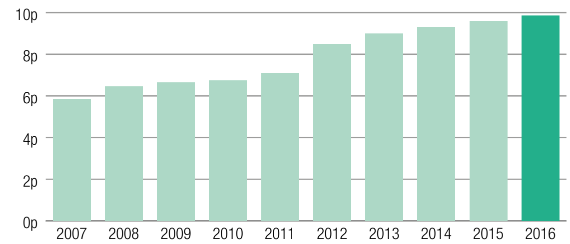
Our discount has narrowed in recent years enhancing shareholder returns.

SHARE PRICE DISCOUNT[2] TO NET ASSET VALUE[1] AT 31 DECEMBER – %



Source: F&C

DIVIDENDS[3] – PENCE PER SHARE



Source: F&C

The dividend has increased every year for the past 46 years and over the last ten years is up 85.8% or 6.4% compound per annum, compared with inflation of 25.3% or 2.3% compound per annum.

(1) Net asset value per share with debt at market value. See Alternative Performance Measures on page 87
(2) Discount/premium – see Alternative Performance Measures on page 87
(3) The final dividend for 2016 is subject to shareholder approval at the Annual General Meeting.

In 1867, New York legislators approved the plan for the Brooklyn Bridge. In London meanwhile, the idea was being conceived for the introduction of the world's first investment trust, Foreign & Colonial – launched in March 1868.

‘Not only are we proud of our heritage but also of our relevance for investors in today’s world. We will continue to adapt and innovate.’

Simon Fraser, Chairman

6 March 2017

Chairman's Statement

Simon Fraser, Chairman

2016 was an extraordinary year in terms of political events, stock market returns and sterling weakness. Despite the upheaval, I am delighted to report that your Company had a very strong year, achieving a total shareholder return(1) of 23.7%. Our Net Asset Value ("NAV") total return with debt at market value(1) rose at its strongest annual rate for over a decade, gaining 23.9%. The proposed total dividend for 2016 is 9.85 pence per share, an increase of 2.6% on the year – our forty-sixth consecutive annual rise in dividends.

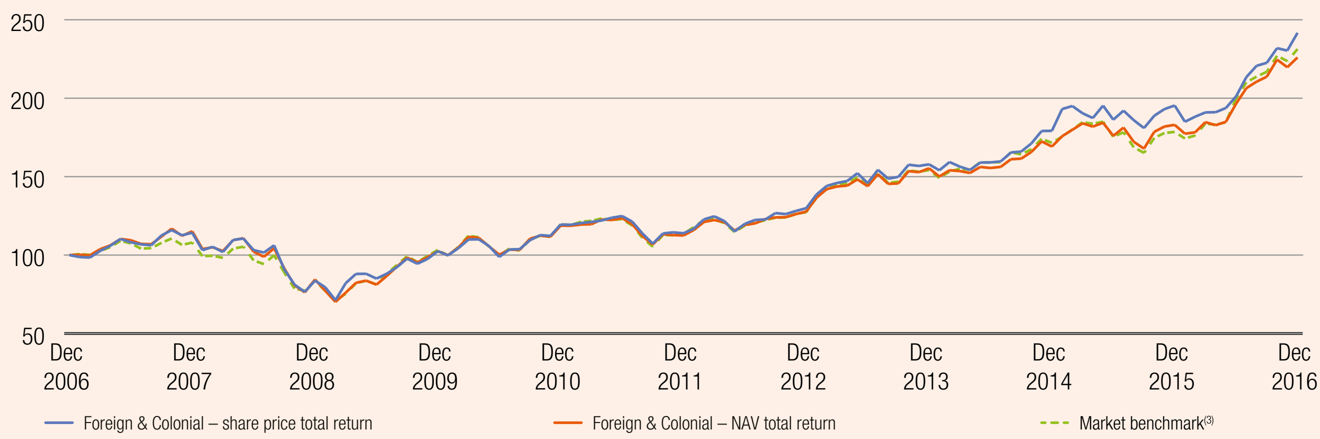
These results further strengthen our long-term record of delivering growth in both capital and income for our shareholders. Over ten years the share price total return is 141%, equivalent to 9.2% per annum and over twenty years is 443%, which equates to 8.8% per annum.

Performance

Our NAV per share with debt at market value(2) rose from 483.4 pence to 587.2 pence per share while the share price increased from 449.2 pence to 544.0 pence. In sterling terms, investors enjoyed the strongest annual returns from global equity markets since 1999 with your Company ending the year at a new record high for both the share price and NAV. Volatility was a notable feature throughout the year, with few predicting the combined outcomes of the US Presidential elections and the UK's Brexit Referendum. While we delivered NAV total returns of 23.9% this fell short of the 29.6% delivered by our benchmark, the FTSE All-World Index.

This shortfall was largely due to a significant reversal in performance within equity markets, with a substantial rally in areas previously out of favour, such as resources and economically sensitive stocks. Our underweight position in the highly performing North American region and underperformance from stock selection there also detracted from returns as did our exposure to private equity which, despite posting strong returns, lagged benchmark returns over the

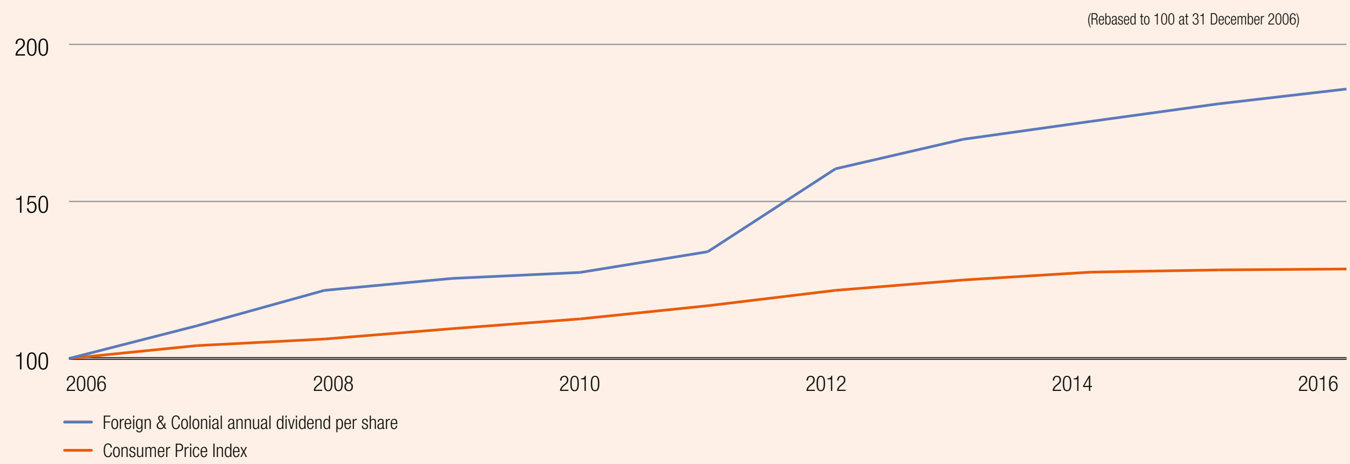
Foreign & Colonial's NAV and share price performance vs Market benchmark(3) over ten years



Source: F&C & Thomson Reuters Eikon

(1) Total return – see Alternative Performance Measures on page 87
(2) Net asset value per share with debt at market value. See Alternative Performance Measures on page 87.
(3) See Glossary of terms on pages 88 and 90 for explanations of "Benchmark" and "Market benchmark"

Foreign & Colonial's annual dividend per share vs Consumer Price Index over ten years



Source: F&C & Thomson Reuters Eikon

year. While we underperformed listed markets over the year, we performed well relative to our peer group and continue to deliver excess shareholder total returns over the longer term.

Earnings and dividends

We have made strong progress in our earnings over recent years. Revenue per share of 10.6 pence earned in 2016 represents a rise of 26% by comparison to 2015. This improvement in earnings was helped by the receipt of £4.4m of special dividends(1) from our investments.

Subject to shareholder approval at the Annual General Meeting ("**AGM**"), shareholders will receive a final dividend of 2.70 pence per share on 2 May 2017 bringing the total dividend for the year to 9.85 pence. That represents an increase of 2.6% over 2015 which compares with an increase of 1.6% in the Consumer Price Index. After the full year dividend, which is fully covered, our revenue reserve will stand at about one year's worth of dividends.

A rising income stream in real terms is important for our shareholders and it is a clear focus of the Board that we maintain our record of long-term dividend growth ahead of the rate of inflation. As ever, there remains a great deal of uncertainty over the global economic outlook but the Board is planning another dividend increase ahead of inflation for 2017.

'In sterling terms, investors enjoyed the strongest annual returns from global equity markets since 1999'

Our direct and indirect costs, expressed as the ongoing charge, were 0.79%, down from 0.80% in 2015.

Gearing

Gearing levels ended 2016 modestly lower on the year. In June, we secured £75m of new long-term debt in two tranches with twelve and fifteen year maturities. The borrowings were undertaken ahead of the Brexit Referendum and replaced short-dated foreign currency denominated debt. At a blended rate of 3.04%, we locked in interest costs for these borrowings at some of the lowest levels seen in many generations. Our range of fixed rate borrowings is complemented by access to short term funding when required.

Private Equity

Our private equity holdings delivered strong returns of 24.7% in 2016 and generated £69.6m of net cashflow. Our past commitments have now been repaid in full and we retain £264m of value in exposure at the year end. We expect further profits to be realised for shareholders as these holdings mature, further enhancing shareholder returns.

The Board has agreed to recommit capital to a new private equity programme taking a more focused, opportunistic and direct approach that is flexible and will ultimately be considerably cheaper. We are doing this by making good use of the internal expertise at F&C. New commitments to this programme have been made over the course of the year.

Buyback and share issue policies

The year saw a general widening in investment trust discount levels. This deterioration in rating was driven by reduced investor demand

(1) See Glossary of Terms on page 90

as a function of uncertainty arising from Brexit as well as a perceived overhang from institutional sellers in the investment trust sector as a whole. For most of the year our discount traded wider than the 7.5% average level that the Board has set for the purpose of discount control. Our desire to meet our discount control objective led us to increase the pace of buybacks from the lowest level in a decade and purchase 12.4m shares. The discount closed the year at 7.4%. It remains the aspiration of your Board to reach a point where our share price trades at or around the NAV of the Company.

Your Board

We continue to ensure that proper succession arrangements are in place. Edward Knapp was appointed during the year and brings to us his experience in board advisory and business transformation, including deep expertise in financial services and risk. Stephen Burley will retire immediately following the AGM in April having served nine years. Our thanks are extended to Stephen whose investment insight and experience have been particularly helpful in recent years as the Company's strategy has evolved.

Our strategy

At the start of 2013 your Board made the strategic decision to allocate more capital to overseas markets, creating a truly global growth portfolio. This decision has helped to significantly improve returns to shareholders; over the following four years, we have seen the domestic market, represented by the FTSE All-Share Index, deliver a healthy 44.1% return but well behind the 81.6% delivered from global equities.

We carry out a review of the Manager's overall investment performance and services following each year end with continual monitoring throughout the year. As a consequence it has again been decided that F&C be re-appointed as our Manager.

Outlook

Long running trends in inflation and interest rates may well have turned on a secular basis, with significant implications for investment opportunities across and within stock markets. Despite longer term uncertainty and the unclear political environment, we enter 2017 with some renewed impetus in the global economy and signs of improvement in corporate earnings for the first time in several years. Markets have responded with enthusiasm and the US economy continues to be very resilient.

Your Company therefore faces a year of challenges and opportunities as it has on numerous occasions since it was launched as the very first investment trust in 1868. Not only are we proud of our heritage but also of our relevance for investors in today's world. We will continue to adapt and innovate. Our corporate structure enables us to take a long term view, borrowing in different currencies to invest and providing a rising income stream in real terms to our shareholders over time. As we move towards the celebration of your Company's 150th anniversary in 2018, you can be assured that we will remain focused on extending our record of delivering growth in capital and income to you over the longer term from our globally diversified equity portfolio.

Simon Fraser
Chairman
6 March 2017

Forward-looking statements

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

‘Over ten years the share price total return is 141%, equivalent to 9.2% per annum and over twenty years is 443%, which equates to 8.8% per annum’

Business Model

Foreign & Colonial's objective is to secure long-term growth in both capital and income for our shareholders. In order to meet this objective the Board believes that equity exposure – sourced from public and private markets – is the strategic focus. Appropriate use of gearing and effective control of costs support this focus. The result is long-term shareholder out-performance.

Our Approach

Our approach is designed to provide shareholders with the long-term investment performance benefits of concentrated individual investment portfolio strategies alongside the diversification benefits of lower risk and volatility that derive from being managed as part of a larger combined portfolio. These distinct strategies are managed on both a global and regional basis, without constraints to specific countries, continents, industries or sectors, to provide a breadth of sources of return.

We blend the expertise of our appointed Manager, F&C, with those of external fund managers to create a truly diversified global investment strategy. F&C has overall responsibility for the management of the Company's assets, asset allocation, gearing, stock and sector selection and risk within policies set by the Board.

Whilst a number of the individual portfolio strategies are managed directly by F&C, they have the flexibility to delegate to external third party managers. The North America equity portfolios and the Private Equity funds of funds portfolios are managed externally. The Global Multi-Manager portfolio comprises a wide range of externally managed funds selected by F&C's specialist multi-manager team.

While we invest mainly in the shares or equities of companies publicly listed on global stock markets, we retain complete investment flexibility. We will invest in other types of securities or assets depending on the return prospects and in consideration of implications for the broader portfolio.

The Board

The Board is responsible for corporate strategy; corporate governance; risk and control assessment; the overall investment and dividend policies; setting limits on gearing and asset allocation; monitoring investment performance; and for approving marketing budgets. The Directors have considered their duties under section 172 of the Companies Act 2006 in promoting the success of the Company for the benefit of stakeholders who are, in the main, our retail shareholders. This includes duties towards responsible ownership, which are explained on page 11. An important responsibility is the formal annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager. The wholly non-executive Board comprises six male and two female Directors.

Fund Management

As Fund Manager on behalf of F&C, Paul Niven is responsible for developing and implementing the investment strategy with the Board and for the day-to-day management of the total portfolio covering the entire range of individual investment portfolio strategies. The role covers tactical decisions over the allocation of assets between the different investment portfolio strategies as well as decisions over levels and timing of gearing within the prescribed range. Paul Niven is responsible for overall portfolio composition but delegates stock selection decisions. The underlying portfolio specialist management teams are responsible and accountable to him and ultimately to the Board for their investment performance.

F&C's fee as Manager is based on the market capitalisation of the Company, thus fully aligning their interests with shareholders through share price performance. The ancillary functions of administration, secretarial, accounting and marketing services are also carried out by F&C.

Marketing

F&C promotes investment in the Company's shares, which are suitable for retail distribution in the UK as well as professionally advised private clients and institutional investors. The Board works closely with F&C to ensure optimal delivery of the Company's investment proposition through all available channels including the internet and social media. The F&C Savings Plans remain a cost effective and flexible way to invest in the Company.

With approximately 90% of our shareholder register now in the hands of retail investors, and savings or execution-only platforms representing an increasingly significant and growing element of the register, your Board remains focused on the effective promotion of the Company.

Policies

Responsible ownership

The Board supports F&C in its belief that good governance creates value. F&C takes a particular interest in corporate governance and sustainable business practices, and continues to work on systematically incorporating environmental, social and governance factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term. Engagement with companies on significant matters, 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 the Manager has voted against the recommendation of an investee company management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments. Information on F&C's engagement and voting at company meetings and where to find their statement of compliance with The UK Stewardship Code can be found on page 29.

Dividend

The Company's revenue account is managed with the objective of continuing its record of delivering a rising income stream in real terms for shareholders. Prudent use of revenue reserves established over many decades is made whenever necessary to help meet any revenue shortfall. Dividends can also be paid from capital reserves although the Board has no current need or intention of doing so.

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

Gearing

Over many years the Company has used borrowings to enhance its returns. The Board has set a gearing range as explained opposite in the Investment policy statement. The flexible structure created to manage borrowings is explained by the Fund Manager on page 19.

Investment policy statement

The Company invests globally. Risk diversification is achieved through geographic asset allocation and industry sector and stock selection across a wide range of markets. Within the general policy of maintaining a diversified portfolio, there are no specific geographic or industry sector exposure limits for the publicly listed equities. The Board has placed a limit of 5% of the value of the total portfolio on unlisted securities, at the time of acquisition and excluding private equity investments, and any unlisted investment requires specific Board approval. Shareholder approval would be sought in the event that the Board considers that the long-term exposure to Private Equity investments should exceed a figure of 20%.

Under the Company's articles of association, with limited exceptions, no single investment may be made by the Company which exceeds 10% of the value of the total portfolio at the time of acquisition. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Board has placed a limit of 5% of the value of the total portfolio on investment funds managed by F&C at the time of acquisition, and any such investment requires specific Board approval.

Borrowings, which can be taken out either in Sterling or foreign currency, would normally be expected to fall within a range of 0–20% of shareholders' funds.

The Company will typically remain fully invested in equities, but is not prohibited from investing in other types of securities or assets. Derivatives may be used for the purpose of income enhancement and portfolio management covering tactical asset allocation and risk mitigation including protection against currency risks within strict limits.

Buybacks and share issues

The Board's aspiration is to see Foreign & Colonial's shares trading in the market at or close to its net asset value per share. Buying back shares at a discount to net asset value reduces discount volatility and is accretive to shareholder returns. The Board has set an average level of 7.5% in normal market conditions for the purpose of discount control. This forms part of its progressive discount control policy and is kept under review. In the event that the share price moves to a premium, the Board will utilise its shareholder authority to sell shares held in treasury or to issue new shares.

Key Performance Indicators

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

Total return* performance

	1 Year %	3 Years %	5 Years %	10 Years %	
Foreign & Colonial share price	23.7	53.0	112.0	141.0	This measures the Company's share price and NAV total return, which assumes dividends paid by the Company have been reinvested, relative to the Market benchmark, our peer group and inflation. The Market benchmark takes into account that in January 2013 the Company moved from a composite benchmark (40% FTSE All-Share/60% FTSE WI World Index ex UK) to using the FTSE All-World Index as the new Benchmark.
Foreign & Colonial NAV (with debt at market value)	23.9	46.9	102.7	126.1	
Market benchmark**	29.6	50.0	103.5	131.2	
AIC Global Sector weighted average share price (investment companies)	21.0	46.5	114.8	131.3	
AIC Global Sector weighted average NAV (investment companies)	21.0	41.4	98.9	119.3	
IA Global Sector average (open-ended funds)	24.1	39.3	89.0	104.1	
Consumer Price Index	1.6	2.3	7.2	25.3	

*See Alternative Performance Measures on page 87 for explanation

**See Glossary of terms on pages 88 and 90 for explanations of "Benchmark" and "Market benchmark"

Source: F&C, Morningstar UK Limited and Thomson Reuters Eikon

Income Growth (Compound annual growth rate)

	1 Year %	3 Years %	5 Years %	10 Years %	
Foreign & Colonial dividend	2.6	3.1	6.8	6.4	This shows the Company's compound annual dividend growth rate and compares it to the compound annual rate of growth in dividend from the FTSE All-Share Index and the Consumer Price Index.
FTSE All-Share	5.5	4.3	6.0	3.8	
Consumer Price Index	1.6	0.8	1.4	2.3	

Source: F&C and Thomson Reuters Eikon

Share price discount to NAV per share

As at:	31 Dec 2016 %	31 Dec 2015 %	31 Dec 2014 %	31 Dec 2013 %	31 Dec 2012 %	
Discount	7.4	7.0	8.1	11.0	10.4	This is the difference between the share price and the NAV per share with debt at market value. It is an indicator of the need for shares to be bought back or, in the event of a premium to NAV per share, issued.

Source: F&C

Expenses

Year to:	31 Dec 2016 %	31 Dec 2015 %	31 Dec 2014 %	31 Dec 2013 %	31 Dec 2012 %	
Ongoing charges*	0.79	0.80	0.87	0.86	0.90	This data shows whether the Company is being run efficiently. It measures the running costs as a percentage of the average net assets.
TER*	0.53	0.53	0.53	0.50	0.55	

*See Alternate Performance Measures on page 87 for explanation

Source: F&C


'Your Company had a very strong year, achieving a total shareholder return of 23.7%'

Principal Risks and Future Prospects

Each year the Board carries out a comprehensive, robust assessment of the principal risks and uncertainties that could threaten Foreign & Colonial's ongoing operations and achievement of its objective. The consequences for its business model, liquidity, future prospects and viability form an integral part of this assessment.

The principal risks, both perceived and observed, together with their mitigations are set out in the table below. The Board's processes for monitoring them are set out on pages 41 and 42 and in note 25 on the accounts. The risks that affect the Company's ongoing operations as well as the threats to security over the Company's assets may vary in significance from time to time. These principal risks are unchanged from those reported in the prior year.

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

Principal Risks	Mitigation
Inappropriate business strategy in relation to investor needs leading to significant pressure on the share price discount to net asset value per share. **Unchanged throughout the year under review**	The Board specifically considers business strategy at a formal meeting annually and monitors investor requirements and themes at each Board meeting. A discount control mechanism has operated over many years. The effectiveness of the marketing strategy is also reviewed at each meeting.
Unfavourable markets or inappropriate asset allocation, sector and stock selection, currency exposure and use of gearing and derivatives may give rise to investment under-performance as well as impacting capacity to pay dividends to investors. Political risk factors could also impact performance. **Unchanged throughout the year under review**	Underlying investment strategies, performance and gearing are reviewed with the Fund Manager at each Board meeting. Cash, borrowing and derivative limits are also monitored. F&C's Performance and Risk Oversight team provides independent oversight on investment risk management for the directly managed portfolios. The portfolio is diversified and the Company's structure enables it to take a long-term view of countries, markets and currencies.
Failure of F&C as the Company's main service provider to continue to operate effectively including the loss of key staff. **Unchanged throughout the year under review**	The Board regularly reviews the strength of the Manager's investment management and client services resources and meets their risk management team to review internal control and risk reports. The Manager's appointment can be terminated at six months' notice. A business continuity plan is in place. The Manager structures its recruitment and remuneration packages in order to retain key staff and works closely with the Board on any significant management changes.
Errors, fraud or control failures at service providers or loss of data through business continuity failure or cyber attacks could damage reputation or investors' interests or result in loss. Cyber risks increased generally in 2016. **Increased in the year under review**	The Board receives regular control reports from F&C covering risk and compliance including oversight of third party service providers. The Board has access to F&C's Head of Business Risk and BMO's Group Information Security Officer, International and requires any significant issues directly relevant to the Company to be reported immediately. The Depositary is specifically liable for loss of any of the Company's securities and cash held in custody.

Through a series of connected stress tests over the ten years commencing 1 January 2017, the Board assessed the effects of:

- Potential illiquidity of the Company's portfolio during substantial market falls when needing to fund private equity commitments.
- Substantial falls in investment values on the ability to maintain loan covenants and to repay and re-negotiate funding.
- Significant falls in income on the ability to continue paying steadily-rising dividends and maintaining adequate revenue reserves.
- Constraints on the Board's ability to control the discount including those concerning the funding of buybacks during periods of high volatility in the share price.

The Board also took into consideration the perceived viability of its principal service providers, potential effects of anticipated regulatory changes and the potential threat from competition.

Actions taken on Principal Risks in the year
More shares were bought back than in 2015 in an environment in which discounts widened generally. The Board also commissioned an independent assessment of the Company's audience, proposition and values to help determine how best to direct its future marketing and promotional campaigns. Marketing campaigns continued throughout the year including advertising across financial and price comparison websites.
2016 was a very strong year. The opportunity was taken to secure long-term borrowings at historically low rates. New private equity commitments were made as part of the new structure accommodating future exposure towards this asset class.
The Board has reviewed F&C's controls and risk management structure as part of its annual assessment. The Board meets senior management at least annually as part of the reappointment process.
The Audit Committee is reviewing a proposed new risk management framework provided by the Manager which aligns with its parent company, BMO, to enhance controls and help improve the risk management process. This is to be implemented for the Company for the current year. This forms part of the strengthening of the Manager's Risk, Compliance and Internal Control functions including IT security. Supervision of third party service providers has been maintained by F&C and includes assurances regarding IT security and increasing cyber-threats. The Depositary maintained oversight of custody of investments and cash and reported to the Company in accordance with the AIFMD.

The Board's conclusions are set out under the Ten Year Horizon below.

Ten Year Horizon

Based on its assessment and evaluation of the Company's future prospects, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the coming ten years; the Company's business model, strategy and the embedded characteristics listed below have helped define and maintain the stability of Foreign & Colonial over many decades. The Board expects this to continue over many more years to come.

- The Company has a long-term investment strategy under which it invests mainly in readily realisable, publicly listed securities and which restricts the level of borrowings.
- The Company's business model and strategy are not time limited and, as a global investment trust, are unlikely to be adversely impacted as a direct result of the Brexit Referendum.
- The Company is inherently structured for long-term outperformance, rather than short-term opportunities, with ten years as a sensible time-frame for measuring and assessing long-term investment performance.
- The Company is able to take advantage of its closed-end investment trust structure.
- The Company has the ability to hold a proportion of long-term less liquid private equity investments with ten years being the period over which commitments are made and realisations are expected to be received.
- The Company has put in place long-term borrowing arrangements and has the ability to secure additional finance in excess of ten years.
- There is rigid monitoring of the headroom under the Company's bank borrowing financial covenants.
- Regular and robust review of revenue and expenditure forecasts is undertaken throughout the year against a backdrop of large revenue and capital reserves.
- The Company retains title to all assets held by the Custodian which are subject to further safeguards imposed on the Depositary.
- The Company maintains a business continuity plan.

Fund Manager's Review

Paul Niven, Fund Manager

We delivered strong shareholder returns over the year and our revenue growth was such that the proposed 2016 dividend is fully covered. Our strategy in recent years of moving towards a truly global portfolio has proven beneficial for shareholders.

2016 Results

2016 proved to be an excellent year to add to our record of delivering growth in capital and income over the long term. While our NAV and share price total returns at 23.9% and 23.7% respectively compare favourably to our peer group, we were behind the 29.6% rise in the FTSE All-World Index over the year. As discounts within the sector widened we continued our policy of buying back shares in the Company for the benefit of shareholders. Our share price ended the year at a discount to net asset value of 7.4%.

Stock selection within a number of our underlying investment strategies, coupled with our underweight North America position, detracted from our relative returns during the year. Despite switching some of our foreign currency debt into sterling borrowings prior to the Brexit Referendum, our gearing decisions only added modestly to returns. Even after a challenging year for performance relative to our Benchmark, our shareholder returns compare favourably against the Benchmark and our peer group over longer time periods. Our approach diversifies exposure across a range of strategies investing into listed equities and private equity with the aim of enhancing returns while reducing risks. In this regard, we continue to deliver strong risk adjusted returns in the longer term, demonstrating the benefits of this approach.

Investment returns

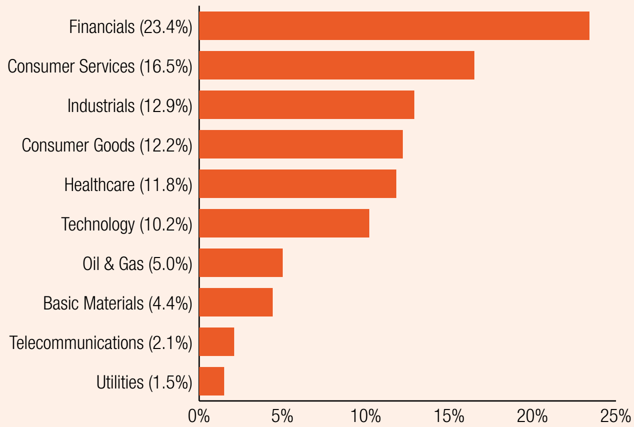
Investors had entered 2016 with significant concerns over the continued US expansion and worries over the health of the Chinese economy. These fears drove resource stocks and economically sensitive areas to underperform markedly in the early part of the year. In addition, the imposition of negative interest rates in Japan and the Eurozone had a material adverse effect on the financial sector in general and banks in particular. Subsequent to heightened volatility and falls in markets, we witnessed a sharp reversal in performance. From the nadir in February there began an exceptional rally in previously unloved areas. This rotation within equities was pronounced and the year ended with resource related stocks, economically sensitive sectors and financials leading investment performance tables and many previously high performing areas, with more secure earnings and defensive attributes, lagging broad market indices. The focus of a number of

Contributors to total returns in 2016

	%
Portfolio return	24.3
Management fees	(0.4)
Interest and other Expenses	(0.3)
Buy-backs	0.2
Change of value of debt	(0.1)
Gearing	0.2
Net Asset Value total return	23.9
Increase in discount	(0.2)
Share price total return	23.7
FTSE All-World Total Return	29.6

Source: F&C

Underlying Classification of Listed Investment Portfolio as at 31 December 2016

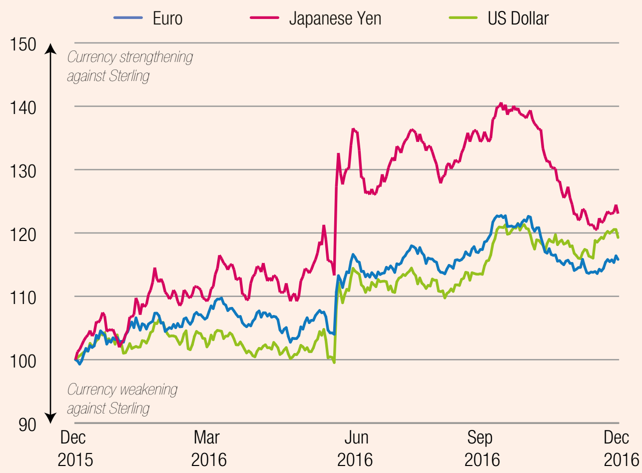


Source: F&C

Foreign & Colonial share price 2016

Source: F&C

Currency movements vs Sterling in 2016



Source: F&C

Weighting, stock selection and performance over one year in each investment portfolio strategy and underlying geographic exposure versus Index at 31 December 2016

Investment Portfolio Strategy	Our portfolio strategy weighting %	Underlying geographic exposure* %	Benchmark weighting %	Our strategy performance in Sterling %	Index performance in Sterling %
UK	6.2	8.6	6.2	17.8	18.9
North America	32.5	47.3	56.3	28.5	34.1
Europe ex UK	12.9	19.4	14.5	14.1	19.7
Japan	8.3	10.1	8.4	26.1	22.7
Emerging Markets	9.8	11.9	10.4	26.7	33.1
Developed Pacific	–	2.7	4.2	–	29.8
Global Strategies**	22.1			29.3	29.6
Private Equity	8.2			24.7	

*Represents the geographic exposure of the portfolio, including underlying exposures in private equity and fund holdings
**The Global Strategies consist of Global Income, Global Multi-Manager and Global Smaller Companies and have been in existence for less than three years. Source: F&C

our strategies on quality business models with sustainable earnings growth proved detrimental in this environment and cost us relative performance against market indices.

Following our strategic moves of recent years towards a more global portfolio we held only 8.6% in UK domiciled assets at the year end and, therefore, our absolute returns were helped significantly in 2016 from the appreciation of overseas currencies against sterling. All of our underlying investment strategies posted strong gains in absolute terms but showed wide performance dispersion of returns – ranging from 14.1% (European equities) to 29.3% (Global Strategies). We hold a range of regional and global equity strategies which provide diversified exposure across a range of managers. Within our Global Strategies we hold a Global Income component, targeting a higher dividend yield than the market, a Global Multi-Manager component, investing in third party funds, as well as the recently established Global Smaller Companies strategy.

In North America, the combined underperformance of our US managers was detrimental to performance. Here, our value focused manager, Barrow Hanley, delivered sterling gains of 36.6%, amongst the highest absolute performance across all of our strategies and comfortably exceeded the local broad market index return in sterling. In contrast, our US growth manager, T Rowe Price, reversed their impressive performance of recent years with a sterling based return of 21%, lagging the local index. Despite holding almost half of our assets in North America our allocation to this area was less than that of our Benchmark index. We had viewed the US market as offering

Investment portfolio strategies attribution in Sterling						
	1 year %		3 years %		5 years %	
Region	Return	Index return	Return	Index return	Return	Index return
UK	17.8	18.9	21.6	18.6	60.2	58.3
North America	28.5	34.1	66.9	69.0	153.7	140.0
Europe ex UK	14.1	19.7	24.5	26.9	105.5	88.2
Japan	26.1	22.7	60.1	48.2	106.3	91.3
Emerging Markets	26.7	33.1	24.2	25.4	32.6	36.5
Global Strategies*	29.3	29.6				
Private Equity	24.7		67.0		89.4	

The Company's Benchmark is the FTSE All-World Index whereas for the purposes of this table the relevant regional sub-indices are used for comparison, except in the case of Emerging Markets where the MSCI Emerging Markets Index is used.
*The Global Strategies consist of Global Income, Global Multi-Manager and Global Smaller Companies and have been in existence for less than three years.
Source: F&C

comparatively less value with less upside potential in corporate earnings than other regions. In 2016, however, this area provided the strongest regional returns in sterling terms, partly as a result of the strength of US dollar against sterling, and our underweight position against our Benchmark detracted from relative returns.

Private Equity holdings performed strongly, delivering 24.7% during the year. We realised substantial net cash flow (of £69.6m) from our portfolio of long-held commitments during the year.

In Europe we did not hold any industrial metals, mining shares or oil stocks, all of which performed strongly. In Emerging Markets, the demonetisation in India, outperformance of resources, and underperformance of consumer staples as well as the hit to Mexico from Donald Trump's rhetoric, all compounded to detract from returns.

While the UK market posted healthy returns and ended the year at an all-time high, it materially lagged the returns available from overseas markets. Sterling played a key role in the performance of the domestic market as well as returns overseas. Short term concerns over the potential impact of the UK's decision to leave the European Union receded as the year progressed. Our underweight positions in some of the highly performing sectors, such as oil & gas and miners, detracted from our relative returns.

We saw markedly better relative performance from our allocation to Japanese equities. Here, our strategy delivered good levels of excess returns and posted an absolute gain of 26.1%. We performed well in the face of the building pro-inflationary trends that developed during the year, benefiting from an overweight stance in industrials, oil & gas and materials and our neutral stance on financials was augmented by strong stock picking.

The Company's full list of investments exceeds 500 and is published monthly on the website at **www.foreignandcolonial.com**. Copies are also available on request from the Secretary

Our combined Global Strategies delivered returns which were broadly in line with our benchmark, posting a return of 29.3%.

Portfolio Activity

Over the course of the year we reduced our allocation to some of our regional strategies, including the UK and Europe, and increased our exposure to Global Strategies (up from 16.6% to 22.1%). As a result of these changes and despite a modest reduction to our US 'growth' manager, T Rowe Price, underlying exposure to North America was higher on the year.

We also allocated capital to Emerging Market assets in the first half of the year. This area has underperformed significantly in recent years and represents an interesting longer-term value proposition for investors.

Our allocation to private equity fell over the year, from 9.4% at the start of the period, to 8.2% by the end. Our portfolio is now mature and we are confident of future profitable realisations over the next few years. For the first time since 2008 we have made some £34m of new commitments across a range of direct investments.

Revenue Returns

Our policy remains one of balancing growth in both capital and income for shareholders. Our gross revenue grew by 23% during 2016 and our net income per share gained almost 26% for the full year from 8.42p per share to 10.57p per share. Much of the improvement in the revenue account came from £4.4m of special dividends from our investments, received mainly in the first half of the year, and from the decline in Sterling in the second half. Special dividends included in the revenue account in 2015 amounted to £1.9m.

Our revenue per share has risen by 58% over the past two calendar years and our earnings in the first six months of 2016 exceeded the full year level from 2014. We ended 2016 with £83m in our revenue reserve.

It is pleasing that we have once again reached a point where our annual revenue exceeds dividends. We are also in the fortunate position of having a blend of cheap fixed rate funding which provides certainty over future interest payments on our debt. We anticipate

Private Equity portfolio

		Original commitment	Cumulative commitment drawn down	Commitment outstanding	Cumulative cash returned	Value of holding
		€'000s	€'000s	€'000s	€000s	€'000s
Total Euro denominated portfolio	**2016**	**312,500**	**274,460**	**38,040**	**347,095**	**80,922**
	2015	290,000	272,150	17,850	307,746	112,141
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	**2016**	**597,050**	**554,038**	**43,012**	**565,611**	**240,821**
	2015	589,050	545,170	43,880	504,829	284,730
		£'000s	£'000s	£'000s	£'000s	£'000s
Total Sterling denominated portfolio	**2016**	**9,000**	**478**	**8,522**	**–**	**452**
	2015	–	–	–	–	–

		Commitment outstanding 31 December 2016 £'000s		Value of holding 31 December 2016 £'000s
Total Private Equity portfolio(1)	Brought forward	42,925		275,832
Committed in 2016(2)		34,419		–
Cash drawn in 2016(2)		(8,091)		8,091
Cash returned in 2016(2)		–		(77,644)
Valuation movements(3)		–		11,422
Exchange movements		6,549		46,722
Total Private Equity portfolio(3)	Carried forward	75,802		264,423

(1) At exchange rates ruling at 31 December 2015
(2) At actual exchange rates in 2016
(3) At exchange rates ruling at 31 December 2016
Source: F&C

that our income should post reasonable gains in 2017, benefiting from underlying growth in corporate earnings, but we are well aware that risks remain. Significant uncertainty surrounds the UK economic outlook and there is the prospect of rising domestic inflation. Despite this, we are confident in our ability to extend your Company's long track record of dividend growth for shareholders in real terms. Once approved, our 2016 dividend will represent our 46th consecutive annual rise in dividends.

Gearing

2016 saw UK borrowing rates, as reflected by government bond yields, fall to new record lows. We took the opportunity to secure funding and lock in rates at the lowest levels for generations while retaining access to short term financing arrangements. Our refinancing risks have been minimised while maintaining a high level of flexibility in our debt structure.

We now have a range of fixed borrowing arrangements which are diversified by currency, lender and by maturity profile. As at the end of 2016 we held £110.5m of seven year US dollar and Yen loans which will mature in 2019. We also have £61.5m of euro denominated loans which mature in 2022. Including our longer dated debt drawn during 2016, our gross borrowings were £247.5m at the end of the year. Including cash balances, our net gearing fell modestly on the year, to 6.9%, down from a starting year level of 8.6%. Our blended rate across all our borrowings is 2.85%, which is slightly higher on the year reflecting some short to longer-term switching. We continue to have access to a revolving credit facility giving us the flexibility to draw down up to £200m on terms based on short-dated funding rates. This facility was unused at the end of 2016.

Current market perspective

Looking forward, there clearly remains a high degree of uncertainty in terms of global politics and the economy. Both factors are important for underlying corporate earnings and investor sentiment. Fund managers focusing on the micro stock specific issues will not be immune from these macro influences. Indeed, 2016 served to illustrate an environment where market perceptions of fundamentals proved to be far more volatile than the reality. While not readily apparent at the broad market level, 2016 was a year of violent rotation within markets away from relative quality and safety in corporate earnings towards areas of greater potential value but inherently less predictable cash flows. A key question, looking forward, relates to whether renewed economic and growth optimism can persist.

The factors which have driven recent marked rotation will continue to have a significant bearing in 2017 and beyond. Indeed, the direction of global interest rates beyond the short term, driven in turn by economic growth prospects and inflation, will have a strong influence on returns on, and within, equity markets. In this regard, at present, the direction of change appears clearer than the magnitude.

The rejection of the political status quo by voters, reflected in Donald Trump's victory, the Brexit Referendum result and the failure of Matteo Renzi's reform proposals have created greater political uncertainty, particularly in Europe. The presidential elections in France look set to be tightly contested with Marine le Pen taking on the traditional establishment. Later in the year Angela Merkel will face a test of her popularity and, further ahead, Italy will face a general election and periodic concerns over fragmentation of the Eurozone will give rise to bouts of market volatility.

In recent years, monetary policy has served to boost asset prices but the law of diminishing returns has been evident for some time. Indeed, the limits of monetary policy were manifest in 2016 when markets took fright at negative interest rates in Japan and Europe punishing the bank sector. It is likely that fiscal policy will become more prominent globally in attempts to stimulate growth. In the US, where capacity is already limited, such a pro-cyclical approach may lead to further rate rises, with uncertain implications for asset prices.

The UK will be in focus again this year due to the government's intention to trigger Article 50 by the end of March. The economy has remained in better shape than most had expected post the Brexit Referendum but, with the expectation of a squeeze in real incomes, a slowdown looks inevitable in 2017 as uncertainty levels rise. Complexity around the upcoming negotiations suggest that the process will be lengthy and there can be no certainty that a deal is reached on full or transitional arrangements within the two year period. The concern for the UK economy will be that this will become apparent in 2017 and the short-term costs of exit may more tangibly impact the economy, with reduced corporate and consumer confidence and declines in investment. Sterling, however, has already fallen to levels which suggest undervaluation from a longer term perspective. Whether this value is realised in 2017 will be a critical driver of UK equity performance, which remains heavily influenced by currency volatility. For Foreign & Colonial, the direction of sterling will also have a significant bearing on our absolute returns this year as it did in 2016.

The outlook is better today than a year ago but markets have already factored in much of the improvement. That said, President Trump's plan for a fiscal boost and a more protectionist stance creates risks on global trade. This has increased the prospects for both boom and bust in the years to come. Recession is not a serious risk yet and animal spirits have yet to be unleashed suggesting that this year could, once again, provide scope for considerable surprises.

Paul Niven
Fund Manager
6 March 2017


'We are confident in our ability to extend your Company's long track record of dividend growth for shareholders in real terms'

Twenty Largest Listed Company Holdings

1. Amazon.com (1)
US online retailer.
1.31% Total investments
£45.1m Value

2. Unitedhealth (3)
US owner and manager of organised health systems.
1.17% Total investments
£40.2m Value

3. Alphabet (2)
US holding company of Google.
1.09% Total investments
£37.4m Value

4. Microsoft (4)
US technology company focused on software products.
1.05% Total investments
£36.0m Value

5. BP PLC (–)
London listed oil and petrochemicals company.
1.00% Total investments
£34.3m Value

6. Utilico Emerging Markets Ltd (8)
Specialist closed-ended investment company investing in utility and infrastructure industries.
0.82% Total investments
£28.1m Value

7. Facebook Inc A (15)
US operator of social networking sites.
0.73% Total investments
£25.1m Value

8. CRH PLC (7)
Irish building materials group.
0.70% Total investments
£24.1m Value

9. The Priceline Group Inc (19)
US online travel company.
0.67% Total investments
£23.0m Value

10. HSBC Holdings PLC (–)
International banking and financial services group.
0.66% Total investments
£22.6m Value

11. JPMorgan Chase + Co (–)
Multinational banking corporation.
0.65% Total investments
£22.3m Value

12. Novartis (5)
Swiss global pharmaceutical company.
0.63% Total investments
£21.7m Value

13. State Street (–)
US financial services company.
0.61% Total investments
£21.0m Value

14. Pfizer (14)
US global pharmaceutical company.
0.61% Total investments
£21.0m Value

15. Roche (6)
Swiss global pharmaceutical company.
0.60% Total investments
£20.7m Value

16. ING Groep NV (–)
Dutch multinational banking and financial services corporation.
0.59% Total investments
£20.4m Value

17. Bank Mandiri Persero TBK PT (–)
Indonesian bank.
0.58% Total investments
£20.0m Value

18. Unilever (9)
UK consumer goods manufacturer.
0.56% Total investments
£19.3m Value

19. Anthem (–)
US health insurance company.
0.56% Total investments
£19.2m Value

20. Apple (–)
US multinational technology company.
0.55% Total investments
£19.0m Value

The value of the twenty largest listed securities represents 15.14% (2015: 15.02%) of the Company's total investments.
The figures in brackets denote the position within the top 20 at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2016 was £426,000 or 0.0% of total assets less current liabilities (2015: £239,000 or 0.0% of total assets less current liabilities).

Twenty Largest Fund Holdings

1 Pantheon Europe Fund V A* (1)
Fund of funds investing in Europe, with the largest exposure being to the UK. It distributed a net £13.1m in 2016.
1.15% Total Investments
£39.6m Value

2 Pantheon Asia Fund V* (4)
Fund of funds investing in Asian markets. It distributed a net £4.1m in 2016.
0.76% Total Investments
£26.2m Value

3 Harbourvest Partners VIII Buyout Fund* (3)
Investing in buyouts of US businesses. The fund distributed a net £6.9m in 2016.
0.75% Total Investments
£25.8m Value

4 HarbourVest Partners VIII Venture Fund* (2)
Investing in US venture capital, the Fund distributed a net £4.6m in 2016.
0.72% Total Investments
£24.9m Value

5 Artemis US Extended Alpha Fund I (12)
Fund with a US portfolio, able to take short positions against long stock positions.
0.63% Total Investments
£21.5m Value

6 Conventum Lyrical Fund (13)
Deep value US strategy utilising systematic strategies.
0.61% Total Investments
£21.1m Value

7 HIPEP VI Asia Pacific Fund* (16)
Fund of funds investing in private equity opportunities in Asia. It distributed a net £2.7m in 2016.
0.52% Total Investments
£18.0m Value

8 Findlay Park American Fund (15)
Portfolio of US and Latin America stocks following a value based approach.
0.52% Total Investments
£18.0m Value

9 Dover Street VII* (6)
HarbourVest managed Fund with holdings in other private equity funds. It distributed a net £4.3m in 2016.
0.52% Total Investments
£17.9m Value

10 Dover Street VI* (9)
HarbourVest managed Fund with holdings in existing private equity funds. It distributed a net £3.5m in 2016.
0.48% Total Investments
£16.4m Value

11 Majedie Asset Management US Equity Z Acc GBP (18)
Value focused US equity fund seeking out of favour stocks.
0.47% Total Investments
£16.0m Value

12 HarbourVest Partners VII Buyout Fund* (7)
Investing in buyouts of US businesses, the Fund distributed a net £7.4m in 2016.
0.46% Total Investments
£15.9m Value

13 William Blair US Small-Mid Cap Growth (–)
US Small-mid cap growth fund focusing on quality growth companies.
0.46% Total Investments
£15.9m Value

14 Nordea North America All Cap BI USD (17)
North American equity fund with a value and reasonable growth approach.
0.44% Total Investments
£15.1m Value

15 Edgewood US Select Fund (–)
US fund with focused exposure investing in companies with proven ability to grow their earnings.
0.43% Total Investments
£14.8m Value

16 Pantheon Europe Fund III* (8)
Fund of funds investing in UK and European management buyouts which distributed a net £7.3m in 2016.
0.42% Total Investments
£14.3m Value

17 HarbourVest V Direct Fund* (5)
Specialist fund investing directly alongside other fund managers. It distributed a net £11.3m in 2016.
0.41% Total Investments
£14.2m Value

18 Hermes Global Emerging Markets Fund (–)
Emerging markets fund investing in high quality corporates with a high margin of safety.
0.38% Total Investments
£13.2m Value

19 Fidelity FAST US (–)
Thematically focused US growth fund.
0.38% Total Investments
£13.1m Value

20 HIPEP VI Emerging Markets Fund LP* (–)
Fund of funds investing in private equity opportunities in Emerging Markets. It distributed a net £0.8m in 2016.
0.38% Total Investments
£13.0m Value

By order of the Board, Simon Fraser, Chairman, 6 March 2017

* Unquoted private equity limited partnership investment held at estimated fair value, with no fixed capital and no distributable income in the ordinary course of business.
The value of the twenty largest funds represents 10.89% (2015: 12.51%) of the Company's total investments. The figures in brackets denote the position within the top 20 at the previous year end.

‘We took the opportunity to secure funding and lock in rates at the lowest levels for generations while retaining access to short term financing arrangements’

Directors

Simon Fraser†

Chairman

Appointed to the Board in September 2009, appointed Chairman in May 2010 and is Chairman of the Nomination Committee and the Management Engagement Committee. He is also chairman of the Investor Forum, an investor led organisation established for the purpose of improving long-term returns from investment through collective shareholder engagement. Most of his career was at Fidelity International, where he started as an analyst and spent a number of years in Japan, latterly as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. Other positions included President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He is also chairman of The Merchants Trust PLC and is a non-executive director of Ashmore Group PLC and Fidelity European Values PLC.

Shared directorships with other Directors:

The Investor Forum with Nicholas Moakes

Sir Roger Bone KCMG†*

Senior Independent Director

Appointed to the Board in March 2008. Prior to that he served as British Ambassador to Brazil from 1999 to 2004 and to Sweden from 1995 to 1999. He was an Assistant Under-Secretary of State in the Foreign and Commonwealth Office between 1991 and 1995, head of the Economic Relations Department there from 1989 to 1991 and Political Counsellor at the British Embassy in Washington DC from 1985 to 1989. He was a visiting fellow at Harvard University in 1984/85 and served as a private secretary to the Foreign Secretary between 1982 and 1984. He was president of Boeing UK from 2005 to 2014. He was also one of the Prime Minister's honorary ambassadors for British business from 2010 to 2015. He is a non-executive director of ITM Power plc, a designer and manufacturer of hydrogen energy systems for energy storage and clean fuel production and is also chairman of Over-c-ltd, a small high tech company in the telecoms sector.

Shared directorships with other Directors:

None

Sarah Arkle*

Appointed to the Board in March 2011. She was Vice Chairman of Threadneedle where she was Chief Investment Officer for ten years until her retirement at the end of December 2010. She was instrumental in establishing Threadneedle's investment process and recruiting a number of the firm's senior fund managers. In 1983 Sarah moved from stockbroker WI Carr to become a Far East Equity Manager and subsequently became a Director at Allied Dunbar Asset Management, which became part of Threadneedle in May 1994. She is a non-executive director of Henderson Group PLC and JPMorgan Emerging Markets Investment Trust PLC.

Shared directorships with other Directors:

None

Stephen Burley*

Joined the Board in January 2008. He was Head of Pensions Investments at Rio Tinto from 1982 until his retirement in March 2007. He is a former investment adviser to University College London, the Central Board of Finance of the Church of England and, until 2010, the BAE Systems Pension Fund. He is a trustee of the Imperial War Graves Endowment Fund.

Shared directorships with other Directors:

None

Francesca Ecsery†

Joined the Board on 1 August 2013. Francesca has extensive expertise in marketing, with over 22 years of experience in senior director roles, with both blue chip and start-up companies. She has worked across a broad range of consumer industries and previously held the role of Global Business Development Director at Cheapflights Media. She also held senior executive roles with STA travel, the Thomas Cook Group and Thorn EMI plc and is currently a non-executive director of Good Energy Group plc, Share Plc, Marshall Motor Holdings plc and VISTA Ltd.

Shared directorships with other Directors:

None

Jeffrey Hewitt*

Chairman of the Audit Committee

Appointed in September 2010 and as Chairman of the Audit Committee in November 2011. He was the Group Finance Director of Electrocomponents plc from 1996 to 2005 and Deputy Chairman from 2000 to 2005. Prior to that, he was the Finance Director of Unitech plc from 1991 to 1996. Between 1981 and 1991 he held directorships successively with Carrington Viyella, Vantona Viyella and Coats Viyella (where he was Group Strategy Director). He started his career with Arthur Andersen where he qualified as a chartered accountant, following which he spent seven years with The Boston Consulting Group. He is also a non-executive director of Cenkos Securities plc and chairman of Electrocomponents Pension Trustees.

Shared directorships with other Directors:

None

Edward Knapp*

Appointed to the Board in July 2016, Edward is an expert in operational transformation, board advisory and performance optimisation, currently as a Managing Director at HSBC, where he is a Chief Operating Officer and Global Head of Business Management within the Technology function. Prior to that, he was a Chief Operating Officer and Head of Business Management at Barclays Bank within the Global Risk Function. Until 2012 he was at McKinsey & Company, providing extensive board and executive-level advisory to clients worldwide, focusing on banking operations, strategy, value creation and risk management and technology.

Shared directorships with other Directors:

None

Nicholas Moakes†

Appointed to the Board In March 2011. He is a Managing Partner of the Investment Division at The Wellcome Trust and a director of the Investor Forum. He was Head of the Asia Pacific investment team and Co-Head of Emerging Markets at BlackRock Investment Management until 2007. He has 25 years' experience of global equity markets and extensive experience of investing in private equity. Prior to joining BlackRock in 1997 he lived in Hong Kong for nine years, and is a Chinese speaker. He started his career in the Diplomatic Service, where he specialised in Hong Kong and China.

Shared directorships with other Directors:

The Investor Forum with Simon Fraser

* Members of the Audit Committee

† Members of the Nomination Committee

All the Directors are members of the Management Engagement Committee

Directors' Report

The Directors submit the Report and Accounts of the Company for the year ended 31 December 2016. The Corporate Governance Statement; the Reports of the Management Engagement, Nomination and Audit Committees; and the Remuneration Report all form part of this Directors' Report.

Statement regarding Report and Accounts

The Directors consider that, following advice from the Audit Committee, the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit Committee had reviewed the draft Report and Accounts for the purpose of this assessment having also put in place an arms' length process to provide additional comfort to the Directors in making this statement. The outlook for the Company can be found on pages 8, 19 and 20. Principal Risks can be found on page 14 with further information in note 25 to the Accounts. There are no instances where the Company is required to make disclosures in respect of Listing Rule 9.8.4R.

Results and dividends

The results for the year are set out in the attached accounts. The three interim dividends totalling 7.15 pence per share, together with the final dividend of 2.70 pence per share, which will be paid on 2 May 2017 to shareholders registered on 31 March 2017 subject to approval at the AGM (Resolution 4), will bring the total dividend for the year to 9.85 pence per share. This represents an increase of 2.6% over the comparable 9.6 pence per share paid in respect of the previous year.

Company status

The Company is a public limited company and an investment company as defined by section 833 of the Companies Act 2006. The Company is registered in England and Wales with company registration number 12901 and is subject to the UK Listing Authority's Listing Rules, UK and European legislation and regulations including company law, financial reporting standards, taxation law and its own articles of association.

Taxation

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

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

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

Accounting and going concern

The Financial Statements, starting on page 53, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the Financial Statements appears on page 46. Shareholders will be asked to approve the adoption of the Report and Accounts at the AGM (Resolution 1).

As discussed in note 24 on the Accounts, the Directors believe that, in light of the controls and monitoring processes that are in place, the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. Accordingly, it is reasonable for the financial statements to continue to be prepared on a going concern basis. The Company's longer term viability is considered in the "Ten Year Horizon" Statement on page 15.

Statement as to disclosure of information to the auditors

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

Reappointment of auditors

EY have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their reappointment and authorising the Audit Committee to determine their remuneration for the ensuing year will be put to shareholders at the AGM (Resolutions 12 and 13). Further information in relation to the reappointment can be found on page 43.

Voting policy on portfolio investments

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all listed company meetings worldwide where practicable in accordance with F&C's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. In 2016, F&C had engaged with 138 companies held by Foreign & Colonial over 25 countries and had voted in respect of Foreign & Colonial's holdings at 383 company meetings on a range of issues. Key themes in 2016 included the risks associated with corporate culture and business ethics, the alignment of pay with business strategy and risk, the appropriateness of governance structure and effective carbon management.

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/.

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.

Modern Slavery Act 2015

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

Capital structure

At the AGM held on 26 April 2016, shareholders authorised the Board to buy back up to 14.99% of the Company's ordinary shares either to be held in treasury or to be cancelled. A total of 12,400,207 shares were bought back all of which were placed in treasury. The shares bought back represented 2.2% of the shares in issue (calculated exclusive of any shares held in treasury) at 31 December 2015. This enhanced the net asset value per share by 0.9 pence. The purchases were made at prices ranging between 397.95 pence and 543.67 pence and the aggregate consideration paid for the shares, including stamp duty and commissions, was £57,613,000. As at 31 December 2016 there were 561,819,016 ordinary shares of 25 pence each ("**ordinary shares**") in issue of which 15,246,154 were held in treasury. Therefore the total number of voting rights in the Company at that date was 546,572,862. Between the date of the year end and 1 March 2017 a total of 1,265,595 shares have been bought back leaving the number of shares in issue at 561,819,016 of which the number of shares in treasury is 16,511,749.

All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 17 on the accounts. The revenue profits of the Company (including accumulated revenue reserves), together with the realised capital profits of the Company, are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares. Full details are set out in the Company's articles of association.

Voting rights and proportional voting

At 1 March 2017 the Company's 561,819,016 ordinary shares in issue less the 16,511,749 shares held in treasury represented a total of 545,307,267 voting rights. As at 31 December 2016 and since that date no notifications of significant voting rights have been received under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Approximately 45% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. For those planholders who do not return their voting directions, the nominee company will vote their shares in proportion to those who do ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 611,750 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

The Company has the flexibility to borrow over the longer term and to use short-term borrowings by way of loans and overdrafts, subject to the limit set out in the Company's investment policy statement. On 1 June 2016 the Company issued fixed rate senior unsecured private placement notes in tranches of (i) £25m principal with a 12 year term and (ii) £50m principal with a 15 year term ("**the Notes**"). There is also a fixed term seven year £50m borrowing with Royal Bank of Scotland in the currency equivalent of €72m and this will mature in 2022. A borrowing of £100m with JPMorgan Chase Bank in the currency equivalents of US$80m and ¥6,600m for a fixed term of seven years will mature in April 2019. A £100m committed multi-currency facility, with the option to request an additional commitment of £100m, is in place with Royal Bank of Scotland. This will mature in September 2017 when its renewal will be considered by the Board. There is also a multi-currency overdraft facility with JPMorgan Chase Bank and the Company also has a longstanding £575,000 4.25% perpetual debenture stock. Further reference is made on page 19 and in notes 13, 15 and 16 on the accounts. The Company's £100m committed multi-currency facility with Scotia Bank expired in December 2016.

Directors' remuneration report

The Directors' Remuneration Report, which can be found on pages 38 to 39 provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' remuneration policy at the forthcoming AGM, which has no material changes to that last approved by shareholders in 2014. Remuneration is set at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. It is intended that this policy will continue for the three year period ending at the AGM in 2020. Shareholders will also be asked to approve the Remuneration Report (Resolutions 2 and 3).

Director re-elections

The names of the Directors of the Company, along with their biographical details, are set out on pages 26 to 27 and are incorporated into this report by reference. All the Directors held office throughout the year under review with the exception of Mr Edward Knapp who was appointed to the Board on 25 July 2016. Mr Knapp will stand for election by shareholders at the AGM (Resolution 5). With the exception of Mr Stephen Burley, all the other Directors will stand for re-election by shareholders at the meeting in accordance with the requirements of the UK Corporate Governance Code (Resolutions 6 to 11). The Nomination Committee has considered each Director and the Board has concurred with the Nomination Committee's assessment that each Director is independent, continues to make a valuable and effective contribution and remains committed in the role. Mr Burley will retire immediately following the meeting having served as a Director for over nine years.

Directors' interests and indemnification

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

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

Safe custody of assets

The Company's listed investments are held in safe custody by JPMorgan Chase Bank (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager via F&C in accordance with the provisions of the investment management agreement. The Custodian is paid a variable fee dependent on the number of trades transacted and location of the securities held.

Depositary

JPMorgan Europe Limited (the "**Depositary**") acts as the Company's Depositary in accordance with the Alternative Investment Fund Managers Directive ("**AIFMD**"). The Depositary's responsibilities, which are set out in an Investor Disclosure Document on the Company's website, include: cash monitoring; ensuring the proper segregation and safe keeping of the Company's financial instruments that are held by the Custodian; and monitoring the Company's compliance with investment and leverage limits requirements. The Depositary receives for its services a fee of one basis point per annum on the first £1 billion of the Company's net assets and 0.25 basis points per annum on net assets in excess of that amount, payable monthly in arrears.

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

Management fees

Information on the management fees payable by the Company are set out in the Report of the Management Engagement Committee.

AGM

The AGM will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Tuesday, 25 April 2017 at 12 noon. The Notice of Meeting appears on pages 81 to 84 and includes a map of the venue. The Fund Manager will give a presentation and there will be an opportunity to ask questions during the meeting. Shareholders will be able to meet the Directors informally over refreshments afterwards.

Authority to allot shares and sell shares from treasury (Resolutions 14 and 15)

By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash or selling shares out of treasury, without first offering them to existing shareholders in proportion to their holdings.

Resolution 14 gives the Directors the necessary authority to allot securities up to an aggregate nominal amount of £6.8m, (27.2m ordinary shares, being equivalent to approximately 5% of the Company's current issued share capital (calculated exclusive of any shares being held by the Company in treasury) as at 1 March 2017, being the latest practicable date before the publication of the notice of the AGM). The authority and power expires at the conclusion of the AGM in 2018 or on 30 June 2018, whichever is the earlier.

Resolution 15 empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro-rata basis and also to sell treasury shares without first offering them to existing shareholders in proportion to their holdings up to an aggregate nominal amount also of £6.8m (representing approximately 5% of the issued ordinary share capital of the Company at 1 March 2017) (calculated exclusive of any shares held in treasury).

These authorities and powers provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares or the sale of treasury shares, in accordance with the policies set out on page 11 or should any other favourable opportunities arise to the advantage of shareholders.

The Directors anticipate that they will mainly use them to satisfy demand from participants in the F&C Savings Plans when they believe it is advantageous to such participants and the Company's shareholders to do so. Under no circumstances would the Directors use them to issue shares or sell treasury shares at a price which would result in a dilution of net asset value per ordinary share.

Authority for the Company to purchase its own shares (Resolution 16)

Resolution 16 authorises the Company to purchase in the market up to a maximum of 81,740,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital exclusive of treasury shares) at a minimum price of 25 pence per share and a maximum price per share of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase, reflecting requirements of the Companies Act 2006 and the Listing Rules.

The Directors will continue to use this authority in accordance with the strategy set out on page 11. Under the Companies Act 2006, the Company is allowed to hold its own shares in treasury following a buyback, instead of having to cancel them. This gives the Company the ability to reissue treasury shares quickly and cost-effectively (including pursuant to the authority under Resolution 15, see above) and provides the Company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the Board exercises the authority conferred by Resolution 16, the Company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue. Purchases of ordinary shares under the authority will be financed out of realised revenue and/or capital reserves and funded from the Company's own cash resources or, if appropriate, from short-term borrowings. The authority to purchase ordinary shares will continue until the AGM in 2018 or on 30 June 2018, whichever is the earlier. The Board intends to seek a renewal of such authority at subsequent AGMs.

Form of proxy for AGM voting

If you are a registered shareholder you will find enclosed a form of proxy for use at the AGM. You will also have the option of lodging your proxy vote using the Internet. For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Please either complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions or, alternatively, lodge your proxy vote via the Internet or the CREST proxy voting system, whether or not you intend to be present at the AGM. This will not preclude you from attending and voting in person if you so wish.

All proxy appointments should in any event be returned or lodged so as to be received not later than 48 hours before the time appointed for holding the AGM.

Form of direction and proportional voting

If you are an investor in any of the F&C Savings Plans, you will have received a form of direction for use at the AGM and you will also have the option of lodging your voting directions using the Internet. F&C operates a proportional voting arrangement, which is explained on page 29.

All voting directions should be made as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 12 noon on 18 April 2017, so that the nominee company can submit a form of proxy before the 48 hour period begins.

Voting recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board,
for and on behalf of
F&C Investment Business Limited
Secretary
6 March 2017

Corporate Governance Statement

Introduction

The Board has considered the principles and recommendations of the UK Corporate Governance Code (the "**UK Code**") published in 2014 and the AIC Code of Corporate Governance (the "**AIC Code**"). The Board believes that the Company has complied with the provisions of the UK Code (copies of which can be found at www.frc.org.uk) and is also adhering to the principles and recommendations of the AIC Code during the period under review and up to the date of this report except as set out below. The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Corporate Governance Guide for Investment Companies the Board considers these three provisions as not being relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day to day management and administrative functions have been delegated to the Manager. As a result, the Company has no executive directors, employees or internal operations. Therefore, with the exception of the need for an internal audit function, which is addressed on page 41, the Company has not reported further in respects of these provisions.

AIFMD

The Company is defined as an Alternative Investment Fund ("**AIF**") under the AIFMD issued by the European Parliament, which requires that all AIFs must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**"). The Board remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Manager is the Company's AIFM.

Articles of association

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

The Board

The Boards responsibilities are outlined on page 44. More specifically, the Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision. These are categorised under strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buyback and issue policy and corporate governance matters which are all reviewed regularly.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Fund Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has the right of veto over the appointment of sub-managers recommended by the Fund Manager. The Board has responsibility for the approval of private equity and unlisted investments and all investments in in-house funds managed or advised by F&C.

The following table sets out the Directors' meeting attendance in 2016. The Board held a separate meeting in September 2016 to consider strategic issues and also met regularly in private session during the year, without any representation from the Manager.

Directors' attendance in 2016

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
No. of meetings	8	5	1	1
Simon Fraser(1)	8	5	1	1
Sarah Arkle(2)	8	4	n/a	1
Sir Roger Bone(3)	8	3	1	1
Stephen Burley	8	5	n/a	1
Francesca Ecsery	8	n/a	n/a	1
Jeffrey Hewitt	8	5	n/a	1
Christopher Keljik(4)	3	2	1	1
Edward Knapp(5)	4	1	n/a	n/a
Nicholas Moakes(2)	7	n/a	1	1

(1) Attends but is not a member of the Audit Committee
(2) Absent for one meeting to attend a funeral
(3) Joined the Audit Committee on 26 April 2016
(4) Retired as a Director on 26 April 2016
(5) Joined the Board on 25 July 2016 and the Audit Committee on 25 October 2016

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at AGMs.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the investment management agreement. The powers of the Board relating to the buying back or issuance of the Company's shares are explained on pages 11 and 31.

Appointments

Under the articles of association of the Company, the number of Directors on the Board may be no more than fifteen. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars. All the other Directors stand for re-election by shareholders annually.

Board effectiveness

Every three years the Chairman conducts the Board appraisal process with an independent external facilitator. In 2016 the appraisal of the Board, committees and individual Directors was carried out by the Chairman with the support of independent consultants, The Board Advisory Partnership LLP. The process included confidential unattributable one-to-one interviews between the consultant and each Director. The Fund Manager, Head of Investment Trusts at F&C and the Company Secretary also participated to provide all-round feedback to the Board. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. Progress in achieving the 2016 objectives and those relating to the critical success factors identified and considered in previous annual appraisals were reviewed as part of the process. This comprehensive process helped the Board identify its priorities and objectives for 2017.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of his term of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his place. The provisions under which a Director would automatically cease to be a Director are set out in the articles of association.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. All the Directors have been assessed by the Board as remaining independent of F&C and of the Company itself; none has a past or current connection with F&C and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement.

Conflicts of interest

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

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought. These authorisations were reviewed in January 2017, and each Director abstained from voting in respect of their own directorships.

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

Committees

The Board has established an Audit Committee, Management Engagement Committee and Nomination Committee. The role and responsibilities of these committees are set out in their respective reports on pages 35, 37 and 40.

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a remuneration committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Remuneration Report on pages 38 to 39 and in note 5 on the Accounts.

Relations with shareholders

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

A regular dialogue is maintained with the Company's institutional shareholders and with private client asset managers.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 34.

By order of the Board
for and on behalf of
F&C Investment Business Limited
Secretary
6 March 2017

Management and Advisers

The Management Company

Foreign & Colonial Investment Trust PLC ("**Foreign & Colonial**" or the "**Company**") is managed by F&C Investment Business Limited ("**FCIB**" or the "**Manager**"), a wholly-owned subsidiary of F&C Asset Management plc ("**F&C**") which is ultimately owned by Bank of Montreal ("**BMO**"). FCIB is appointed under an investment management agreement with Foreign & Colonial, setting out its responsibilities for investment management, administration and marketing. As Manager, it is authorised and regulated in the UK by the Financial Conduct Authority.

The Manager also acts as the Alternative Investment Fund Manager under the AIFMD.

Foreign & Colonial and F&C are two separate, independent and distinct entities.

Paul Niven Appointed Fund Manager (the "**Fund Manager**") of Foreign & Colonial in July 2014. Head of Multi-Asset Investment and chair of F&C's asset allocation committee. He has extensive experience in managing large diversified investment funds. He joined F&C in 1996.

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

Marrack Tonkin Head of Investment Trusts with responsibility for F&C's relationship with Foreign & Colonial. He joined F&C in 1989.

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Sub-managers to F&C (North America large and medium cap portfolio)

Barrow Hanley – appointed July 2005
T Rowe Price – appointed February 2006

Private Equity Managers

HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

Secretary and Company's Registered Office

F&C Investment Business Limited,
Exchange House, Primrose Street, London
EC2A 2NY

Telephone:	020 7628 8000
Facsimile:	020 7628 8188
Website:	www.fandc.com
Email:	info@fandc.com

Independent Auditors

Ernst & Young LLP,
25 Churchill Place, London E14 5EY

Custodian

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

Depositary

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

Share Registrars

Computershare Investor Services PLC,
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ

Telephone:	0800 923 1506
Facsimile:	0870 703 6143

Authorised and regulated in the UK by the Financial Conduct Authority.

New Zealand Share Registrars

Computershare Investor Services Limited,
Private Bag 92119, Auckland 1142.
Level 2, 159 Hurstmere Road, Takapuna,
North Shore City 0622, New Zealand

Telephone:	+64 9 488 8700
Facsimile:	+64 9 488 8787

Solicitors

Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ

Stockbrokers

JPMorgan Cazenove, 25 Bank Street,
Canary Wharf, London E14 5JP

Report of the Management Engagement Committee

Role of the Committee

The primary role of the Management Engagement Committee is to review the investment management agreement and monitor the performance of the Manager for the investment, secretarial, financial, administration, marketing and support services that it provides under that agreement. It also reviews the terms of the agreement including the level and structure of fees payable, the length of notice period and best practice provisions generally. All of the Committee's responsibilities have been carried out over the course of 2016 and 2017 to date.

Composition of the Committee

All the Directors are members of the Committee. Its terms of reference can be found on the website at www.foreignandcolonial.com

Manager evaluation process

The Committee met once during the year and again in January 2017 for the purpose of the formal evaluation of the Manager's performance (including the contribution from F&C more widely). Their performance is considered by the Board at every meeting, with a formal evaluation by the Committee each year. For the purposes of its ongoing monitoring, the Board receives detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risk, together with quarterly presentations on the F&C managed portfolio strategies. Quarterly updates are received from the US sub-managers. The Board also receives comprehensive performance measurement schedules, provided by Thomson Reuters Eikon and F&C. These enable it to assess: the success or failure of the management of the total portfolio against the performance objectives set by the Board; the sources of positive and negative contribution to the portfolio in terms of gearing, asset allocation and stock selection; and the performance of each investment portfolio strategy against its local index, where applicable, and the risk/return characteristics of the portfolio. Portfolio performance information, which is relevant in monitoring F&C, the sub-managers and the Private Equity managers, is set out on pages 16 to 20.

Manager reappointment

The annual evaluation that took place in January 2017 included presentations from the Fund Manager and F&C's Head of Investment Trusts. This focused primarily on the objectives set by the Board and F&C's contribution towards achieving those objectives particularly in regard to investment strategy and marketing. As part of the evaluation, BMO's Group Head, Asset Management, the CEO and CIO of BMO Global Asset Management and the Head of Distribution, BMO Global Asset Management presented to the Board on the strength of these businesses and the resources and opportunities for F&C as part of BMO and their continued support for its investment trust business. With regard to performance, while the shareholder return lagged the Benchmark over the year, shareholder returns have outperformed the Market benchmark over longer time periods. The Committee met in closed session following the presentations and concluded that in their opinion the continuing appointment of FCIB as Manager on the terms agreed was in the interests of shareholders as a whole. The Board ratified this recommendation.

The Manager's fee

An important responsibility of the Committee is that relating to the management fee. The Manager receives an annual fee, which for the year under review was equal to 0.365% of the market capitalisation of the Company. The fee is calculated and paid monthly and is subject to a deduction for amounts earned from investments in other investment vehicles managed by F&C. The amount received was £9.5million (2015: £9.0 million). Note 4 on the Accounts provides detailed information in relation to the management fee.

Whilst the funds held in the Global Multi-Manager portfolio levy management fees, no fees are paid to the Manager for the selection of the funds.

Review of the Manager's fee

The fee paid to the Manager is reviewed by the Committee every three years and is next due for review in December 2018. At the last review in December 2015, presentations were given by both F&C and an independent consultant, which had provided an in-depth analysis of fees prevailing in the market place and trends both within the investment trust industry and more widely. The review also considered the effect of the ad valorem structure and hence the impact of exchange rate movements and share buybacks. The findings of the independent consultant were that the existing structure and fee level were both sensible and aligned in the key areas. Although market capitalisation as the basis for the fee calculation was uncommon, this was now appearing more and more in new issues and the basis had worked well for Foreign & Colonial in terms of its simplicity; clarity; discount tightening; and alignment. This was consistent with F&C's own assessment. In summary, the Company was meeting the key criteria for an appropriate management fee structure, which were regarded as:

- Competitive
- Simple
- Sufficiently incentivised

The Committee also took into consideration that the Company had broadened its investment capabilities by allocating additional assets to F&C's Multi-Manager team at no additional direct management cost as well as services from other areas within the business. There also remained scope to reduce management costs from externally managed assets by utilising existing resource within F&C under new arrangements for the management of private equity investments.

The Committee had concluded that on the basis of the review there was no immediate need for the Company to change the rate of the fee payable to the Manager but to continue to monitor developments and made a recommendation to the Board to that effect. The Board subsequently endorsed the Committee's recommendation.

Third Party Managers' fees

F&C incurs investment management fees from the sub-managers appointed to manage the North America portfolio. The Company reimburses F&C for these fees, which in 2016 amounted to £2.7 million (2015: £2.4 million) (see note 4 on the accounts).

The fees paid to Pantheon and HarbourVest in respect of the Private Equity funds of funds amounted to £4.6 million for 2016 (2015: £4.6 million) of which £0.3 million was paid directly and £4.3 million was incurred indirectly through the funds. Some of the funds have arrangements whereby these Private Equity managers share in the profits once certain "hurdle" rates of return to investors have been achieved. These arrangements are varied and complex, but are on normal commercial terms within the private equity funds of funds industry. Fees payable by the underlying funds are negotiated by Pantheon and HarbourVest. The arrangements also vary from fund to fund, but management fees of 2% per annum and a 20% carried interest, once an agreed hurdle rate of return for investors has been achieved, would be normal.

Committee evaluation

The activities of the Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 33.

Simon Fraser
Management Engagement Committee Chairman
6 March 2017

Report of the Nomination Committee

Role of the Committee

The primary role of the Nomination Committee is to review and make recommendations with regard to Board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity and consider succession planning and tenure policy. All of the Committee's responsibilities have been carried out over the course of 2016 and 2017 to date. The Committee met on one occasion during the year and specifically considered, monitored and reviewed the following matters:

- The structure and size of the Board and its composition particularly in terms of succession planning and the experience and skills of the individual Directors and diversity across the Board as a whole;
- tenure policy;
- the criteria for future Board appointments and the methods of recruitment, selection and appointment;
- the appointment of new Directors and the reappointment of those Directors standing for re-election at AGMs;
- the need for any changes in committee membership;
- the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;
- the question of each Director's independence prior to publication of the Report and Accounts;
- the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Companies Act 2006 and the policy and procedures established by the Board in relation to these provisions.

Composition of the Committee

Committee membership is listed on pages 26 and 27 and its terms of reference can be found on the website at www.foreignandcolonial.com. Francesca Ecsery was appointed to the Committee on 24 January 2017.

Succession planning

One new non-executive Director appointment was made to the Board during the year, Mr Edward Knapp. He replaced Mr Christopher Keljik, who retired immediately following the AGM meeting in 2016. This appointment was made using Nurole Ltd as the search agency. This agency uses an innovative digital platform designed to assist organisations find the right people and those people to find the right roles by intelligently matching the competencies specified in the role with registered individuals. A short list of six candidates for interview was established from the substantial number of potential candidates that had come forward. Following these interviews with the Committee members the other Board members were invited to meet Mr Knapp who was then formally invited to join the Board. The appointment was made on 25 July 2016. A similar process will take place for Mr Burley who will retire immediately following the forthcoming AGM. The final decision with regard to new appointments always rests with the Board. The services provided by Nurole Ltd were for the sole purpose of recruiting the new Director; no other business relationship exists with that agency.

Diversity and tenure

In carrying out its responsibilities, the Committee applies the policies of the Board with regard to its belief in the benefits of having a diverse range of experience, skills and backgrounds, including gender and length of service. There is 25% female representation on the Board. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Board is also of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of the board. In normal circumstances the Directors are expected to serve for a nine year term, but this may be adjusted for reasons of flexibility and continuity.

Committee evaluation

The activities of the Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 33.

Simon Fraser
Nomination Committee Chairman
6 March 2017

Remuneration Report

Directors' Remuneration Policy

The Board's policy is to set Directors' remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. Time committed to the Company's business and the specific responsibilities of the Chairman, Senior Independent Director, Directors and the chairmen and members of the various committees of the Board and their retention are taken into account. The policy aims to be fair and reasonable in relation to comparable investment trusts and other similar sized financial companies. This policy was first approved by shareholders in 2014 and will be put to shareholders for renewal at the AGM with the modification of 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 Board has not received any views from 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 Company's articles of association limit the aggregate fees payable to the Board to a total of £500,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Board considers the level of Directors' fees annually. Towards the end of the year the Chairman carried out a review of fee rates in accordance with the policy. The Board agreed his recommendation that commencing 1 January 2017, the basic fee should be £35,000 representing an increase of 2.9% since the last increase on 1 January 2015. The Board also agreed to the Senior Independent Director's recommendation that an increase be made to the Chairman's fee commensurate with the increase in the basic fee; an increase to £70,000. The Board also agreed to the Chairman's recommendation that an additional £1,000 be paid to the Chairman of the Audit Committee bringing the fee for that role to £11,000.

The Board is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. Each new Director is provided with a letter of appointment. There is no provision for compensation upon early termination of appointment. The letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes before and throughout the forthcoming AGM, at which all Directors, other than Stephen Burley, will stand for re-election or election in the case of Edward Knapp. The fees for specific responsibilities are set out in the table below. No fees are payable for membership of the Management Engagement Committee.

Annual fees for Board Responsibilities	2017 £'000s	2016 £'000s
Board		
Chairman	70.0	68.0
Senior Independent Director	41.3	40.3
Director	35.0	34.0
Audit Committee		
Chairman	11.0	10.0
Members	5.0	5.0
Nomination Committee		
Chairman	3.0	3.0
Members	3.0	3.0

Directors' shareholdings

The interests of the Directors in the Company's ordinary shares at the beginning and end of the financial year are shown below:

Directors' share interests (audited)

At 31 December	2016	2015
Simon Fraser	36,897	36,770
Sarah Arkle	10,000	10,000
Sir Roger Bone	58,349	54,622
Stephen Burley	25,000	25,000
Francesca Ecsery	8,314	4,816
Jeffrey Hewitt	20,980	19,291
Edward Knapp	7,338	–
Nicholas Moakes	76,115	1,252

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

During the year Nicholas Moakes disposed of 29,642 units in the Old Mutual Wealth – F&C Investment Fund, a collective investment fund investing solely in the Company's shares. The proceeds were invested in the Company's shares through a SIPP adding to his existing direct holding. Since the year end, the following Directors have acquired further ordinary shares: Simon Fraser 31, Edward Knapp 50, Sir Roger Bone 619, Jeffrey Hewitt 273, Francesca Ecsery 37 and Nicholas Moakes 326. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stock or shares of the Company other than as stated above. There is no requirement for the Directors to hold shares in the Company.

As at 1 March 2017 the Fund Manager held 120,327 shares in the Company.

Implementation Report

An ordinary resolution for the approval of the Directors' Annual Report on Remuneration will be put to shareholders at the forthcoming AGM. At the Company's last AGM, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 December 2015. 93.5% of votes were cast in favour of the resolution.

Directors' emoluments for the year

The Directors who served during the year received the following amounts for services as non-executive Directors for the years ended 31 December 2016 and 2015 and can expect to receive the fees indicated for 2017 as well as reimbursement for expenses necessarily incurred.

Fees for services to the Company (audited)

	Fees £'000s (audited)		Taxable Benefits(1) £'000s (audited)		Total £'000s (audited)		Anticipated Fees(2) £'000s
Director	2016	2015	2016	2015	2016	2015	2017
Simon Fraser(3)	71.0	71.0	0.4	0.1	71.4	71.1	73.0
Sarah Arkle	39.0	39.0	0.7	0.1	39.7	39.1	40.0
Sir Roger Bone(4)	44.6	37.0	0.7	0.1	45.3	37.1	49.3
Stephen Burley(5)	39.0	39.0	0.7	0.1	39.7	39.1	13.3
Francesca Ecsery	34.0	34.0	0.7	0.2	34.7	34.2	37.7
Jeffrey Hewitt	44.0	44.0	1.8	1.3	45.8	45.3	46.0
Edward Knapp(6)	15.8	n/a	0.4	n/a	16.2	n/a	40.0
Nicholas Moakes	37.0	37.0	0.7	0.1	37.7	37.1	38.0
Christopher Keljik(7)	15.5	48.3	0.0	1.4	15.5	49.7	0.0
Total	339.9	349.3	6.1	3.4	346.0	352.7	337.3

Comparative amounts for 2015 have been restated on a consistent basis.

(1) Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI contributions
(2) Fees expected to be payable to the Directors during the course of the year ending 31 December 2017. Taxable benefits are also anticipated but are not currently quantifiable
(3) Highest paid Director
(4) Appointed Senior Independent Director on 26 April 2016
(5) Retires 25 April 2017
(6) Appointed 25 July 2016
(7) Retired 26 April 2016

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

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

Actual expenditure

	2016 £'000s	2015 £'000s	% Change
Aggregate Directors' Remuneration	339.9	349.3	(2.7)
Aggregate Dividends paid to Shareholders*	53,628	53,323	0.6
Aggregate cost of ordinary shares repurchased	57,613	14,788	289.6

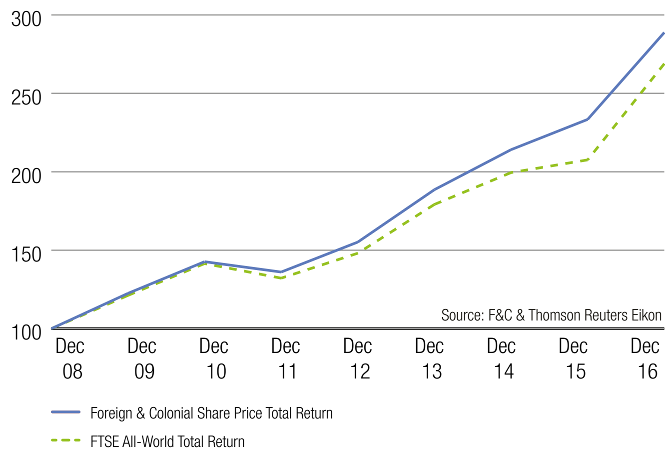
*The aggregate dividend figure is only marginally higher than 2015 as buybacks reduce the number of shares in issue that are entitled to payment. See note 9 on the accounts for further details.

Company performance

The Board is responsible for the Company's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Manager. An explanation of the performance of the Company for the year ended 31 December 2016 is given in the Chairman's Statement and Fund Manager's Review.

A comparison of the Company's performance over the required eight year period is set out on the graph below. This shows the total return (assuming all dividends are reinvested) to ordinary shareholders against the Company's Benchmark.

Shareholder total return vs Benchmark total return over eight years



On behalf of the Board
Simon Fraser
Chairman
6 March 2017

Report of the Audit Committee

I am pleased to present to you the Report of the Audit Committee for the year ended 31 December 2016. At the AGM on 26 April 2016 Shareholders approved the appointment of EY as auditors for the 31 December 2016 audit following the retirement of PwC. The reasons for the change were reported last year. The Committee has worked closely with both EY and PwC to ensure a smooth and successful transition. The Committee has also focused on regulatory developments throughout the year and has been keeping a watchful eye on the Manager's cyber-security measures given the increasing levels of threat generally.

Role of the Committee

The primary responsibilities of the Audit Committee are to monitor the integrity of the financial reporting and statements of the Company, and to oversee the audit of the annual accounts, preparation of the half yearly accounts and the internal control and risk management processes. The Committee met five times during the year with F&C's Head of Investment Trusts, Head of Trust Accounting, Head of Business Risk and the Fund Manager in attendance. PwC attended the meeting at which the financial statements for the year ended 31 December 2015 were reviewed and met in private session with the Committee. EY attended all the other meetings. The Board Chairman was invited to, and regularly attended, Committee meetings.

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

- The audited annual results statement and annual report and accounts and the unaudited half-yearly report and accounts, including advice to the Board as to whether the annual report and accounts taken as a whole are fair, balanced and understandable;
- The accounting policies of the Company;
- The Principal Risks faced by the Company and the effectiveness of the Company's internal control and risk management environment, including consideration of the assumptions underlying the Board's Future Prospects statement on viability;
- The effectiveness of the audit process and the current independence and objectivity of the external auditor;
- The appointment, remuneration and terms of engagement of the auditor and the transition from the previous incumbent;
- The policy on the engagement of the external auditor to supply non-audit services in light of new ethical standards;
- The need for the Company to have its own internal audit function;
- The receipt of AAF and SSAE16 reports or their equivalent from F&C, the Custodian, Depositary, the Private Equity managers and the sub-managers and a due diligence report from the Company's Share Registrars;
- The performance of the Company's third party service providers and administrators, other than F&C, and the fees charged in respect of those services;
- Counterparty monitoring and F&C's dealing efficiency and associated costs;
- The Company's trademarks and intellectual property rights; and
- The Committee's Terms of Reference for approval by the Board.

Comprehensive papers relating to each of these matters were prepared for discussion. These were debated by the Committee and any recommendations were fully considered if there was a judgement to be applied in arriving at conclusions. Recommendations were then made to the Board as appropriate.

The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information as is noted in the Statement of Directors' Responsibilities on page 44. On broader control policy issues, the Committee has reviewed, and is satisfied with F&C's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by F&C under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for communication by F&C to this Committee where matters might impact the Company with appropriate follow up action. In 2016 there were no such concerns raised with the Committee.

Composition of the Committee

The Board recognises the requirement for the 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 Committee comprises five independent non-executive Directors. I, Jeffrey Hewitt, am Chairman of the Committee and a Chartered Accountant and was for many years Group Finance Director of Electrocomponents plc, as well as currently or having recently been audit committee chairman of other listed companies. The other members of the Committee have a combination of financial, investment and business experience through the senior posts held throughout their careers. Several have wide experience of the investment trust sector and its most recent appointee, Edward Knapp, has a current executive role as a Chief Operating Officer and Global Head of Business Management within Technology at HSBC, including deep experience in operations strategy and technology. Sir Roger Bone was appointed to the Committee on the retirement of Christopher Keljik in April 2016. The contribution of Chris to the working of the Committee over many years has been much appreciated. Details of the members can be found on pages 26 and 27 and the updated Committee's terms of reference can be found on the website at www.foreignandcolonial.com.

Management of risk

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

A key risk "radar" summary is produced by F&C in consultation with the Board to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix at each of its meetings and dynamically reviews the significance of the risks and the reasons for any changes. F&C are integrating their control framework within the wider BMO organisation and the Committee is monitoring the continued awareness of Company relevant control issues.

The Company's Principal Risks are set out on page 14 with additional information given in note 25 on the Accounts. The Committee noted the robustness of the Board's review of Principal Risks and of course participated as Board members themselves. The integration of these risks into the analyses underpinning the "Ten Year Horizon" Statement on viability on page 15 was fully considered and the Committee concluded that the Board's statement was soundly based. The period of ten years was also agreed as remaining appropriate for the reasons given in the statement, whilst recognising that the period is longer than that used by many other companies.

Internal controls

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations, which are managed by F&C. The Committee has reviewed and reported to the Board on these controls, which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Committee through regular reports provided by F&C. The reports cover investment performance, performance attribution, compliance with agreed and regulatory investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans and on other relevant management issues.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, or loss or fraud. Further to the review by the Committee, the Board has assessed the effectiveness of the Company's internal controls. The assessment included a review of the F&C risk management infrastructure and the report on policies and procedures in operation and tests for the year to 31 October 2016 (the "**AAF Report**") and subsequent confirmation from F&C that there had been no material changes to the control environment in the period to 3 February 2017. This had been prepared by F&C for all its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). The AAF Report from independent reporting accountants KPMG sets out F&C's control policies and procedures with respect to the management of clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by F&C's Group Audit and Compliance Committee, which receives regular reports from its Internal Audit department. Procedures are also in place to capture and evaluate any failings and weaknesses within F&C's control environment and those extending to any outsourced service providers to ensure that action would be taken to remedy any significant issues. Any errors or breaches relating to the Company are reported at each Committee and Board meeting by F&C. No failings or weaknesses material to the overall control environment and financial statements were identified in the year. The Committee also reviewed the control reports of the Custodian, the Depositary, T. Rowe Price and Barrow Hanley, Private Equity managers and the Share Registrar's due diligence report and were satisfied that there were no material exceptions.

Through the reviews noted above and by direct enquiry of F&C and other relevant parties, the Committee and the Board have satisfied themselves that there were no material control failures or exceptions affecting the Company's operations during the year nor to the date of this Report.

Based on the processes and controls in place within F&C, the Committee has concluded and the Board has concurred that there is no current need for the Company to have a separate internal audit function.

External audit process and significant issues considered by the Committee

In carrying out its responsibilities, the Committee has considered the planning arrangements, scope, materiality levels and conclusions of the external audit for 2016. The table on page 42 describes the significant judgements and issues considered by the Committee in conjunction with EY in relation to the financial statements for the year and how these issues were addressed. The Committee also included in their review the areas of judgements, estimates and assumptions

Significant Judgements and Issues considered by the Committee in 2016	
Matter	**Action**
Investment Portfolio Valuation	
The Company's portfolio of investments comprises highly liquid securities quoted on recognised stock exchanges, held directly or through quoted open-ended funds, together with illiquid Private Equity funds of funds. The Private Equity vehicles, which are subject to signed agreements covering long-term commitments and funding, hold a diversity of unquoted investments whose values are subjective.	The Committee reviewed annual audited internal control reports from F&C, the sub-managers and Private Equity managers. These reports indicated that the relevant systems and controls surrounding daily pricing, cash and holdings reconciliations, security valuation and Private Equity funding had operated satisfactorily. In addition, with regard to Private Equity vehicles, the Committee: discussed controls directly with the managers; reviewed the managers estimated valuations in detail at six monthly intervals; and performed a thorough review and comparison of each funds' 31 December 2015 audited values versus the managers estimated valuations adopted by the Company in its own reporting. The review indicated that the Private Equity managers' estimated valuations could continue to be relied upon as being at fair value in accordance with the Company's accounting policy. F&C's reports on the effect of the weakening of the Sterling exchange rate on unrealised and realised investment gains and losses were scrutinised and approved.
Misappropriation of Assets	
Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Committee reviewed the annual audited internal control reports of F&C and the Custodian. Neither of these reports indicated any failures of controls over the existence and safe custody of the Company's investments and cash balances. The Committee reviews regularly the list of banks which the Manager and sub-managers are authorised to place cash and deposits with. The Company's Depositary reported quarterly on the safe custody of the Company's investments and the operation of controls over the movement of cash in settlement of investment transactions. Through these reports the Committee is satisfied that the assets remained protected throughout the year.
Income Recognition	
Incomplete controls over, or inaccurate recognition of, income could result in the Company misstating its revenue receipts and associated tax, with consequences for overall performance, payment of dividends to shareholders, and compliance with taxation rules.	The Committee's review of F&C's annual audited controls report indicated that there were no control failures in the year. The Committee reviewed and approved at the interim and final accounts reporting meetings, all dividend receipts deemed to be capital (special) in nature by dint of their payment out of investee company restructuring rather than ordinary business operations. In addition, the Committee reviewed that all special dividends had been correctly treated in accordance with the Company's accounting policy. The Manager's reports on the effect of the weakening of the Sterling exchange rate on dividend receipts were scrutinised and approved.

referred to in note 2(c)(xi) on the Accounts and welcomes this increase in transparency on such issues. Likewise, the Committee welcomes the disclosure and description of Alternative Performance Measures provided on page 87. Both of these disclosures are new this year and represent a step forward in reporting practice.

Procedures for investment valuation and recognition of income were the main areas of audit focus and testing. For unlisted Private Equity investments in particular, the Committee questioned the fund-of-fund managers on their processes in meetings during the year and noted the further challenge provided by EY as part of the year-end audit process. The year-end valuation is an estimate based on the September valuations extrapolated to the year-end by adjusting for cash flows and any known events (as described in notes 2(c)(ii) and 25(d) on the Accounts). The Committee reviewed prior year experience on the validity of this estimation process by comparing the estimated value with the actual audited values (which become known in May/June of the following year). The variances were not material.

The Committee met in February 2017 to discuss the final draft of the Report and Accounts, with representatives of EY and F&C in attendance. EY submitted their Year-End Report and confirmed that they had no reason not to issue an unqualified audit opinion in respect of the Report and Accounts. The Committee established that there were no material issues or findings arising which needed to be brought to the attention of the Board.

The Committee also noted that an objective and skilled third party had read the Report and Accounts and commented on fairness, balance and comprehension. Consequently, the Committee recommended to the Board that the Report and Accounts were in their view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice.

The Independent Auditors' Report which sets out the unqualified audit opinion, the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 46 to 51.

Auditor, assessment, independence and appointment

The Committee reviews the reappointment of the auditor every year and has been satisfied with the effectiveness of EY's performance on this, their first audit of the Company's accounts. EY have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating EY, the Committee has taken into consideration the standing skills and experience of the firm and the audit team. From direct observation and indirect enquiry of management, the Committee is satisfied that EY will continue to provide effective independent challenge in carrying out their responsibilities. The Committee also considered the FRC evaluation of EY's audit performance through the AQR process and noted the positive progress that EY had made. Their fee was £72,000. This compares with £74,000 paid to PwC last year that included a one-off charge for the review of the Company's adoption of new UK Accounting Standards.

The Committee considers the appointment of the external auditor annually and the need for putting the audit out to tender for reasons of quality or independence. As the Company is required to carry out a tender every ten years, the next one will be conducted no later than 2026.

Non-audit services

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

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

In particular, the Committee has a policy that the 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 not exceed 70% cumulatively over three years; and any individual service likely to exceed £5,000 should be agreed by the Committee prior to commencement of the services and be accompanied by terms regarding liability, cost and responsibilities.

The Company paid £11,000 to PwC for non-audit services in relation to taxation in the period January to April 2016, prior to their resignation as Auditor. The Committee does not view these activities as prejudicial to the independence of PwC whilst they were Auditors.

In the four months prior to their appointment as Auditor in April 2016, EY provided professional advice to the Company on taxation matters for a total cost of £22,000. These services ceased prior to their appointment as Auditor. EY have not provided or charged for any non-audit services since the date of their appointment as Auditor, in compliance with the new Ethical Standard for Auditors.

Regulatory compliance

The Committee confirms that the Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of the policy on the provision of non-audit services.

VAT reclaim

As previously reported, PwC continue to act for the Company on a contingent fee basis in respect of a long running case for the reclaim of VAT. Regulations came into force in 2016 prohibiting auditors from work on a contingent basis such as the VAT reclaim arrangement with PwC. The Committee and PwC took the view that this work had not compromised PwC's independence as auditors during their tenure as the outcome of the case is not dependent on any audit judgment and the potential fee is not material to PwC. The Committee is of the view that the arrangement with PwC remains an arms-length transaction.

Committee evaluation

The activities of the Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 33.

Jeffrey Hewitt
Audit Committee Chairman
6 March 2017

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

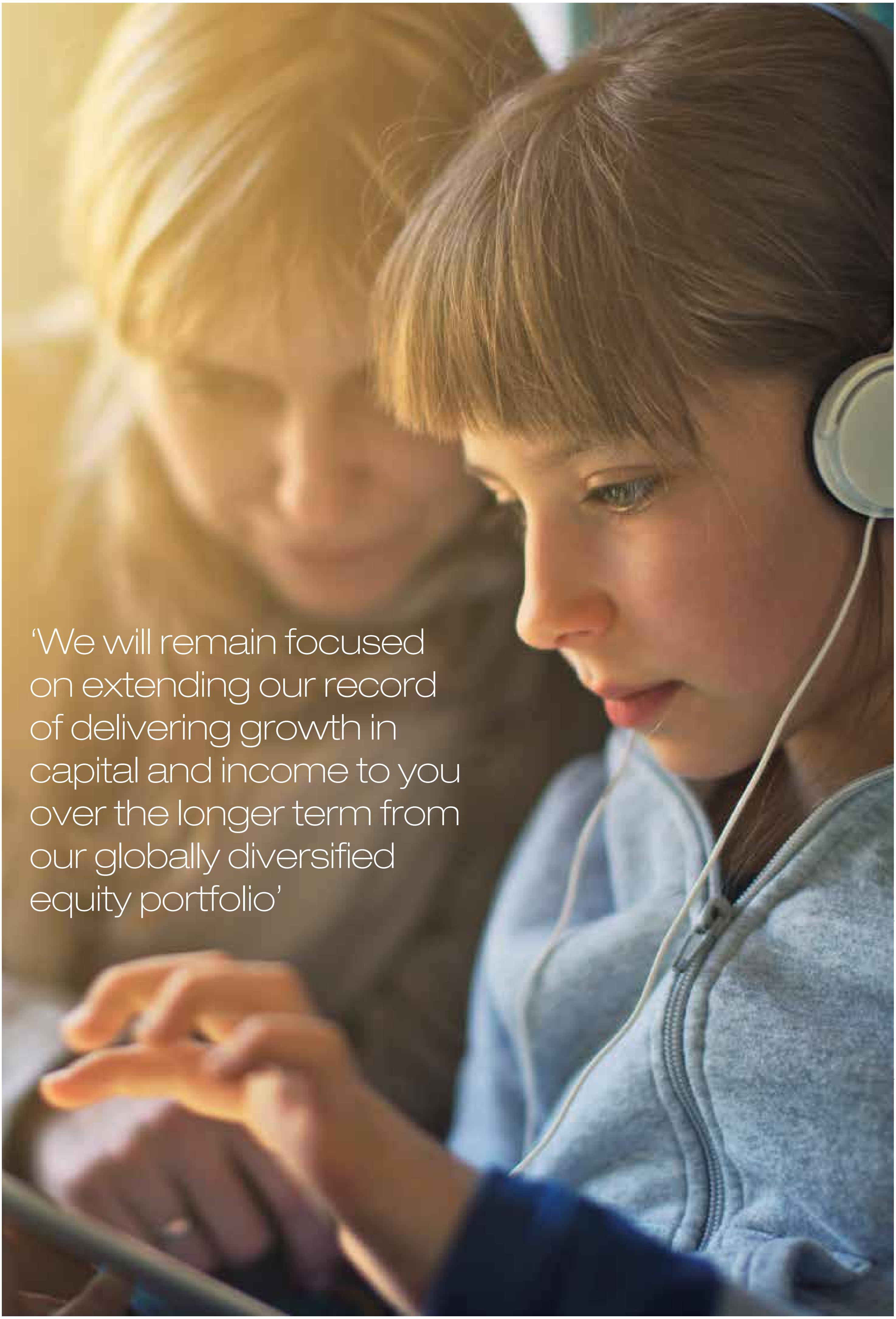
The Report and Accounts is published on the www.foreignandcolonial.com website, which is maintained by F&C. The Directors are responsible for the maintenance and integrity of the Company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of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

Statement under Disclosure Guidance and Transparency Rule 4.1.12

Each of the Directors listed on pages 26 and 27 confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report includes a fair, balanced and comprehensive review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- the financial statements and the Directors' Report include details on related party transactions.

On behalf of the Board
Simon Fraser
Chairman
6 March 2017


‘We will remain focused
on extending our record
of delivering growth in
capital and income to you
over the longer term from
our globally diversified
equity portfolio’

Independent Auditors' Report

Opinion on the financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

We have audited the financial statements for Foreign & Colonial Investment Trust PLC for the year ended 31 December 2016 which comprise:
- the Income Statement for the year then ended;
- the Statement of Changes in Equity;
- the Balance Sheet as at 31 December 2016;
- the Statement of Cash Flows for the year then ended; and
- the related notes 1 to 27 to the financial statements

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 44, 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.

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 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 Report and Accounts 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.

Our assessment of risks 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. From our discussions with the Directors and PricewaterhouseCoopers LLP, we believe that the risks identified are consistent with those identified by PricewaterhouseCoopers LLP in the Company's 31 December 2015 Audit Report. 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	What we concluded to the Audit Committee
Valuation of unquoted investments (as described by the Audit Committee on page 42)	We performed the following procedures:	
("The Company holds unquoted investments in Private Equity ("PE") through funds or partnerships which are managed by HarbourVest Partners LLC, Pantheon Ventures Limited and F&C Investment Business Limited ("FCIB") (together "the PE Managers"). For the year ended 31 December 2016 the PE portfolio totals £266.1m which represents 7.7% of the Company's total investment portfolio. The 31 December Net Asset Value ("NAV") of the PE funds is based on estimates and unaudited NAV statements. The Investment Trust Accounting team at FCIB apply consistent controls to the valuation process which are subject to oversight by the Board. We focus on the valuation of unquoted investments because there is the risk that inappropriate judgments made in the assessment of fair value, could materially misstate the value of the investment portfolio in the Balance Sheet, the unrealised gains in the income statement and the NAV per share. There is also the risk that FCIB or the Board may influence the unquoted investment valuations in order to meet market expectations of the overall NAV of the Company.	We obtained an understanding of the Company's and PE Managers' processes and controls for the valuation of the unquoted investments by performing walkthrough procedures and inspecting the PE Managers' internal control reports. We obtained an understanding from the Investment Trust Accounting team at FCIB of the governance structure and protocols surrounding the valuation process. We have evidenced the oversight at Board level through our review of minutes, board packs and discussions with the Audit Committee. We held meetings with HarbourVest and Pantheon to discuss: • the annual performance of the funds in which the Company held an investment at 31 December 2016; • the reasons for the immaterial variances noted between estimated and actual NAVs for the year ended 31 December 2015; and • whether, based on any recently available information there are any adjustments required to the estimated 31 December 2016 NAV to the date of our opinion. We compared the Company's valuation methodology to the requirements of United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"). As the 31 December 2016 NAVs received are "estimated" NAVs we checked for fair value adjustments made to the 30 September 2016 reported NAV reported and corroborated them to supporting documentation to establish the reasonableness of the estimated NAVs. We agreed the NAV of the PE funds per the Company to the estimated 31 December 2016 NAV statements which we received directly from the PE Managers. We performed a back testing exercise comparing the Company's unquoted investment values for HarbourVest and Pantheon managed investments to audited values for the year ended 31 December 2015. We recalculated the unrealised profits on the revaluation of unquoted investments impacting the income statement. We recalculated investments in foreign currencies to gain assurance over the reasonableness of foreign currency rates used and agreed the exchange rates used to third party sources. We confirmed the total committed capital investments directly to the Limited Partnership Agreements and "drawn-down capital" notices received from the PE Managers. To test for the risk of management override we checked for any manual journal entries posted in relation to unquoted investments during the year and confirmed there were none.	The results of our procedures identified no control weaknesses in the Directors' assessment of fair value of the Company's unquoted investments that might result in a material misstatement of the unquoted portfolio. **Based on the work performed we have no matters to report.**

Risk	Our response to the risk	What we concluded to the Audit Committee
Recognition of investment income (as described by the Audit Committee on page 42)	We performed the following procedures:	
As can be seen in note 3 in the notes to the financial statements, the Company has reported investment income of £70.4m (2015: £57.4m). Investment income is received primarily in the form of dividends from UK and overseas investments in quoted companies, as well as distributions from unquoted investments. Overseas dividends are recorded gross of withholding tax. Distributions from PE funds are recognised when the right to the distribution is established. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or apply appropriate accounting treatment in particular relating to the categorisation of special dividends and journal entries applied to the income account. Special dividends by their nature require the exercise of judgment as to whether the income receivable should be classified as "revenue" or "capital" for S1158 Corporation Tax Act 2010 ("CTA") purposes. The revenue column of the income statement is the main driver of the minimum dividend calculation. There is therefore a risk that an incorrect classification could potentially result in an under distribution of income and put the Company's investment trust status at risk. There is also a risk that inappropriate journal entries applied to the income account could result in a manipulation of the Company's revenue to support performance and dividend targets.	We obtained an understanding of State Street Bank and Trust Company ("the Administrator") and FCIB's processes and controls for the recognition of investment income by performing walkthrough procedures and inspecting the Administrator's and FCIB's internal control reports and obtaining an understanding from FCIB of the governance structure and protocols for oversight of investment income recognition. We agreed all dividends declared for the ten highest dividend paying securities during the financial year to bank statements and to an external pricing source to verify occurrence and measurement. For an additional representative sample we: • agreed dividends received from the income report to an independent pricing source for occurrence and measurement. • agreed dividends to bank statements to test the receipt of the income. We agreed a sample of accrued dividends at the period end to post year end bank statements and an external pricing source to test the income was appropriately recognised in the correct period. We tested all special dividends received during the year to an external source and reviewed their recognition basis to ensure that they were appropriately allocated between revenue and capital within the income statement. We agreed a sample of the distributions received from the unquoted investments to the notices received from the PE Managers and to the bank statements to gain assurance over the occurrence, appropriate classification and measurement. For completeness of income we selected a sample of holdings from the portfolio; we checked whether any dividends had been declared during the period by these holdings and then checked the dividends had been correctly recorded in the income receipts report. We additionally checked for securities sold during the year that dividends declared after the sale date were not recognised as revenue. To test for the risk of management override we tested a sample of manual journal entries posted to the income account during the year. For the samples discussed in the paragraph above we recalculated income received from overseas to gain assurance over the measurement and recognition of income in foreign currencies.	The results of our procedures identified no issues with the accuracy or completeness of income receipts. We concurred with the accounting treatment adopted for special dividends and also the basis of recognition of income from unquoted investments. **Based on the work performed, we have no matters to report.**

Risk	Our response to the risk	
Valuation and existence of the quoted investment portfolio (as described by the Audit Committee on page 42)	We performed the following procedures:	**What we concluded to the Audit Committee**
The investment portfolio at the year-end comprised of quoted equity and fund investments (£3,433m, 2015:£2,934m) page 66. The Company holds a significant portfolio of quoted investments both in the UK and overseas. Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is listed. There is a risk of incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements and assessment of stock liquidity which could result in the Balance Sheet and Income Statement being materially misstated. Certificates of investment ownership are held by the JPMorgan Chase (the "Custodian") and not directly by the Company. JP Morgan Europe Limited (the "Depositary") provides depository services to the Company. There is a risk of assets being misappropriated and the ownership of investments being unsecured.	We obtained an understanding of FCIB's, the Administrator's, the Custodian's and the Depositary's processes and controls for the valuation and existence of the quoted investments by performing walkthrough procedures and inspecting their internal control reports. We agreed all of the quoted investment holding prices to an independent pricing vendor using our Visual Portfolio team. We investigated any pricing variances over 0.75% to a second source to verify the prices. We recalculated the value of quoted investments in foreign currencies to verify the accuracy of the corresponding sterling balances and verified the exchange rates used to an external source. We reviewed the year end reconciliation of the Company's records to those of the Custodian and the Depositary. We obtained confirmation from the Custodian and Depositary of all securities held at the period end and agreed these to the Company's records.	The results of our procedures identified no material error in the valuation or existence of the quoted investments portfolio. **Based on the work performed, we have no matters to report**

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 planning materiality for the Company to be £30.5m which is 1% of net assets. We derived our materiality calculation from a percentage of the net asset value, as we consider that to be the most important financial metric on which shareholders judge the performance of the Company. During the course of our audit, we re-assessed initial materiality in the context of the Company's performance and this resulted in no change from our original assessment of materiality. The predecessor auditor PricewaterhouseCoopers LLP set their materiality at £27.0m, being 1% of net assets, for the Company's 31 December 2015 audit.

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 Company's overall control environment, our judgment was that overall performance materiality for the Company should be 75% of planning materiality, being £22.9m. We have set performance materiality at this percentage based on our knowledge of the control environment and discussion with prior auditor that indicate a lower risk of material misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £3.3m for the revenue column of the Income Statement, being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

Our reporting threshold is defined as "An amount below which identified misstatements are considered as being clearly trivial."

We agreed with the Audit Committee that we would report all audit differences in excess of £1.5m as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

An overview of 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 the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

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
- 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 has been prepared in accordance with the applicable legal requirements.

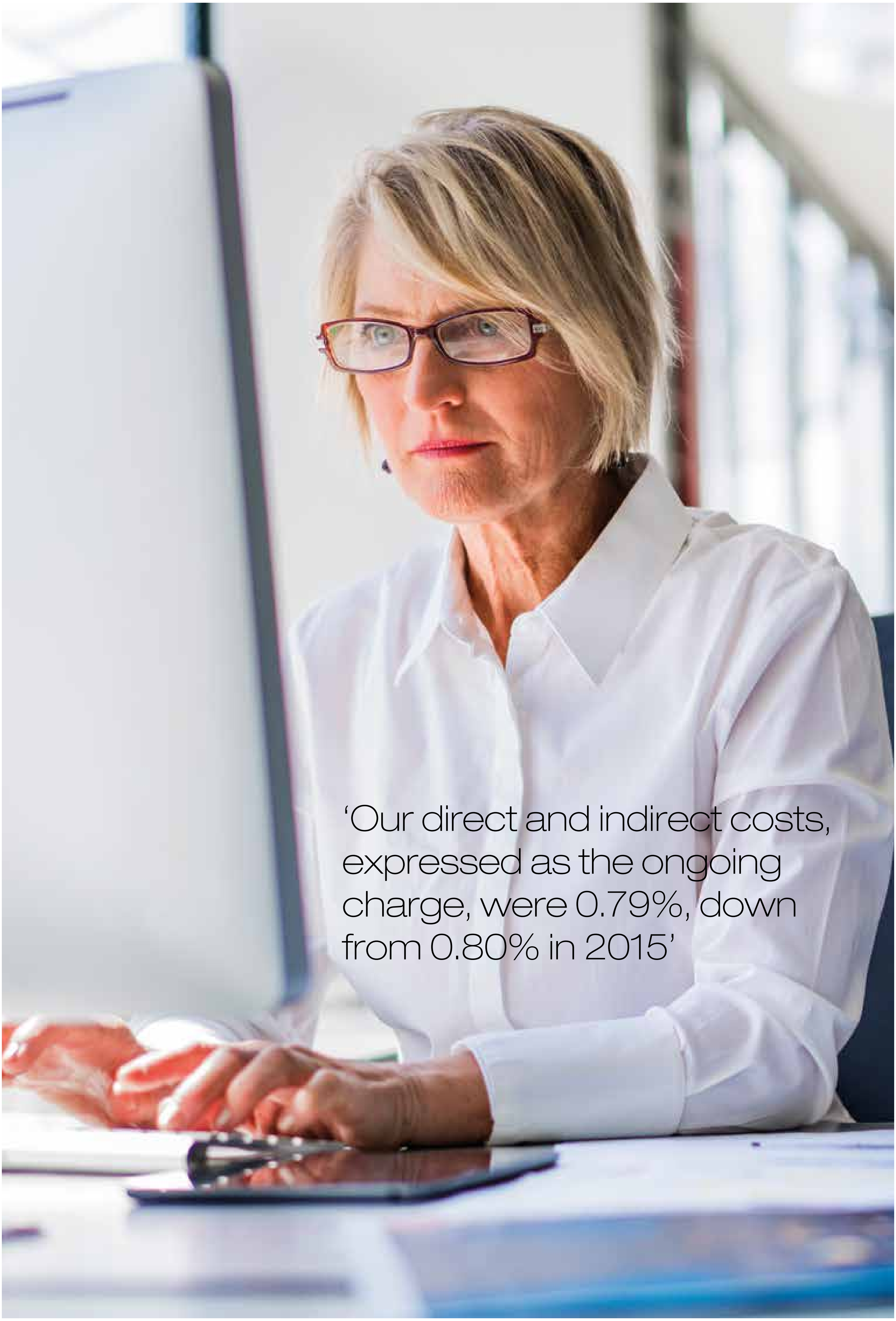
Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	
We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or • otherwise misleading. 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 Company'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.	**We have no exceptions to report.**
Companies Act 2006 reporting	
We are required to report to you if, in our opinion: • adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	**We have no exceptions to report.**
Listing Rules review requirements	
We are required to review: • the directors' statement in relation to going concern, set out on pages 28 and 29, and longer-term viability as set out in the "Ten Year Horizon" on page 15; and; • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	**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	
We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' 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 Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**We have nothing material to add or to draw attention to.**

Julian Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
6 March 2017


‘Our direct and indirect costs, expressed as the ongoing charge, were 0.79%, down from 0.80% in 2015’

Income Statement

Revenue notes	Capital notes	For the year ended 31 December	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s	2015 Revenue £'000s	2015 Capital £'000s	2015 Total £'000s
	10	Gains on investments and derivatives	–	620,118	620,118	–	164,815	164,815
	19	Exchange movements on foreign currency loans and cash balances	857	(41,236)	(40,379)	(127)	(6,577)	(6,704)
3		Income	71,117	–	71,117	57,982	–	57,982
4	4	Management fees	(3,063)	(9,499)	(12,562)	(2,849)	(8,791)	(11,640)
5	19	Other expenses	(2,758)	(97)	(2,855)	(2,403)	(59)	(2,462)
		Net return before finance costs and taxation	66,153	569,286	635,439	52,603	149,388	201,991
6	6	Finance costs	(1,722)	(5,167)	(6,889)	(1,206)	(3,619)	(4,825)
		Net return on ordinary activities before taxation	64,431	564,119	628,550	51,397	145,769	197,166
7	7	Taxation on ordinary activities	(6,038)	–	(6,038)	(4,135)	(269)	(4,404)
8	8	**Net return attributable to shareholders**	58,393	564,119	622,512	47,262	145,500	192,762
8	8	**Net return per share – basic (pence)**	10.57	102.12	112.69	8.42	25.94	34.36

The total column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.
The notes on pages 57 to 78 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2016

Notes		Share capital £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance brought forward 31 December 2015	140,455	122,307	2,361,073	78,329	2,702,164
9	Dividends paid	–	–	–	(53,628)	(53,628)
17	Shares repurchased by the Company and held in treasury	–	–	(57,613)	–	(57,613)
	Net return attributable to shareholders	–	–	564,119	58,393	622,512
	Balance carried forward 31 December 2016	140,455	122,307	2,867,579	83,094	3,213,435

For the year ended 31 December 2015

Notes		Share capital £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance brought forward 31 December 2014	140,573	122,189	2,230,361	84,390	2,577,513
9	Dividends paid	–	–	–	(53,323)	(53,323)
	Shares repurchased by the Company and cancelled	(118)	118	(2,121)	–	(2,121)
	Shares repurchased by the Company and held in treasury	–	–	(12,667)	–	(12,667)
	Net return attributable to shareholders	–	–	145,500	47,262	192,762
	Balance carried forward 31 December 2015	140,455	122,307	2,361,073	78,329	2,702,164

The notes on pages 57 to 78 form an integral part of the financial statements.

Balance Sheet

Notes	at 31 December	£'000s	2016 £'000s	£'000s	2015 £'000s
	Fixed assets				
10	Investments		3,432,682		2,932,572
	Current assets				
12	Debtors	6,648		6,044	
	Cash at bank and short term deposits	26,463		73,605	
		33,111		79,649	
	Creditors: amounts falling due within one year				
13	Loans	-		(154,096)	
14	Other	(4,785)		(10,818)	
		(4,785)		(164,914)	
	Net current assets/(liabilities)		28,326		(85,265)
	Total assets less current liabilities		3,461,008		2,847,307
	Creditors: amounts falling due after more than one year				
15	Loans	(246,998)		(144,568)	
16	Debenture	(575)		(575)	
			(247,573)		(145,143)
	Net assets		3,213,435		2,702,164
	Capital and reserves				
17	Share capital		140,455		140,455
18	Capital redemption reserve		122,307		122,307
19	Capital reserves		2,867,579		2,361,073
19	Revenue reserve		83,094		78,329
	Total shareholders' funds		3,213,435		2,702,164
20	**Net asset value per share – prior charges at nominal value (pence)**		587.92		483.42

The notes on pages 57 to 78 form an integral part of the financial statements.

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

Simon Fraser
Chairman

Jeffrey Hewitt
Director

Statement of Cash Flows

Notes	at 31 December	2016 £'000s	2015 £'000s
21	**Cash flows from operating activities before dividends received and interest paid**	**(21,403)**	(17,805)
	Dividends received	**69,943**	56,794
	Interest paid	**(6,512)**	(4,523)
	Cash flows from operating activities	**42,028**	34,466
	Investing activities		
	Purchases of investments	**(1,233,876)**	(1,084,118)
	Sales of investments and derivatives	**1,347,880**	1,126,372
	Other capital charges and credits	**(93)**	(58)
	Cash flows from investing activities	**113,911**	42,196
	Cash flows before financing activities	**155,939**	76,662
	Financing activities		
	Equity dividends paid	**(53,628)**	(53,323)
	Repayment of loans	**(547,676)**	(364,692)
	Drawdown of loans	**456,100**	396,565
	Cash flows from share buybacks for treasury shares	**(57,407)**	(12,464)
	Cash flows from share buybacks for cancellation	**–**	(2,121)
	Cash flows from financing activities	**(202,611)**	(36,035)
	Net (decrease)/increase in cash and cash equivalents	**(46,672)**	40,627
	Cash and cash equivalents at the beginning of the year	**73,605**	32,831
	Effect of movement in foreign exchange	**(470)**	147
	Cash and cash equivalents at the end of the year	**26,463**	73,605

Represented by:		
Cash at bank	**10,071**	8,322
Short-term deposits	**16,392**	65,283
Cash and cash equivalents at the end of the year	**26,463**	73,605

The notes on pages 57 to 78 form an integral part of the financial statements.

Notes on the Accounts

1. General information

Foreign & Colonial Investment Trust PLC is an Investment Company, incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company Registration number is 12901, and the Registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company has conducted its affairs so as to qualify as an Investment Trust under the provisions of Section 1158 of the Corporation Tax Act 2010. Approval of the Company under S1158 has been received. The Company intends to conduct its affairs so as to enable it to continue to comply with the requirements of S1158. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments and derivatives.

There have been no significant changes to the Company's accounting policies during the year ended 31 December 2016, as set out in note 2 below.

2. Significant accounting policies

(a) Going concern

As referred to in note 24 and the Statement of Directors' Responsibilities, the Directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

(b) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivatives at fair value, and in accordance with the Companies Act 2006, Financial Reporting Standard (FRS) 102 applicable in the United Kingdom and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in November 2014.

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

The Company had no operating subsidiaries at any time during the years ended 31 December 2016 and 31 December 2015. Consequently, consolidated accounts have not been prepared.

The Directors are of the opinion that the Company's activities comprise a single operating segment, which is investing internationally in equities to secure long-term growth in income and capital.

In accordance with the SORP, the Income Statement has been analysed between a Revenue Account (dealing with items of a revenue nature) and a Capital Account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2(c)(vii)). Net revenue returns are allocated via the revenue account to the Revenue Reserve, out of which interim and final dividend payments are made. The amounts paid by way of dividend are shown in the Statement of Changes in Equity. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivatives and currency profits and losses on cash and borrowings. The Company may distribute net capital returns by way of dividend. It is the Board's current stated intention to continue paying dividends to equity shareholders out of the Revenue Reserve.

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year. Changes to the hierarchical classification of Investments, in accordance with an amendment to FRS 102 in March 2016, are explained in note 2(c)(i). The changes have not resulted in any amendments to prior year figures.

2. Significant accounting policies (continued)

(i) Financial instruments

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

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

Level 2 – Quoted prices for similar assets or liabilities or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be forward exchange contracts and certain other derivative instruments.

Level 3 – Where no active market exists and recent transactions for identical instruments do not provide a good estimate of fair value, the value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

(ii) Fixed asset investments

As an investment trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Purchases are recognised on the relevant trade date, less expenses which are incidental to the acquisition of the investments. Sales are also recognised on the trade date, after deducting expenses incidental to the sales. Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is listed. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments are carried at cost less any provision for impairment.

With respect specifically to investments in Private Equity, whether through funds or partnerships, the Directors rely on unaudited valuations of the underlying unlisted investments as supplied by the investment advisers or managers of those funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they are in compliance with the above policies. Distributions from Private Equity funds are recognised when the right to distributions is established.

(iii) Derivative instruments

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

2. Significant accounting policies (continued)

(iv) Debt instruments

The Company's debt instruments include the 4.25% perpetual debenture stock included in the Balance Sheet at proceeds received, net of issue costs, and bank borrowings and overdrafts, initially measured at the amount of cash received less direct issue costs and subsequently measured at amortised cost using the effective interest rate method. No debt instruments held during the year required hierarchical classification.

The fair market value of the bank borrowings and perpetual debenture stock are set out in notes 15 and 16 on the accounts respectively. Finance charges, including interest, are accrued using the effective interest rate method. See 2(c)(vii) below for allocation of finance charges within the Income Statement.

(v) Foreign currency

Foreign currency monetary assets and liabilities are expressed in Sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the Capital Account. Exchange profits and losses on other currency balances are separately credited or charged to the Capital Account except where they relate to revenue items.

(vi) Income

Income from equity shares is brought into the Revenue Account (except where, in the opinion of the Directors, its nature indicates it should be recognised within the Capital Account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment. Dividends are accounted for on the basis of income actually receivable, without adjustment for any tax credit attaching to the dividends. Dividends from overseas companies are shown gross of withholding tax. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the Capital Account. Rebates on investee funds management fees are accounted for on a receipts basis.

(vii) Expenses, including finance charges

Expenses are charged to the Revenue Account of the Income Statement, except as noted below:
- expenses incidental to the acquisition or disposal of fixed assets investments are charged to Capital Reserve realised via the Capital Account;
- 100% of management fees, invoiced to the Company in respect of certain Private Equity investments, are allocated to Capital Reserves, via the Capital Account, in accordance with the Board's long-term expected split of returns from those investments;
- 75% of other management fees and finance costs (both net of applicable tax relief) are allocated to Capital Reserves via the Capital Account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding Private Equity investments) of the Company.

All expenses are accounted for on an accruals basis.

(viii) Taxation

Taxation currently payable is calculated using tax rules and rates in force at the year end, based on taxable profit for the period which differs from the net return before tax. Note 7(b) sets out those items which are not subject to UK Corporation Tax.

Deferred tax is provided on an undiscounted basis on all timing differences that have originated but not reversed by the Balance Sheet date, based on tax rates enacted by the reporting date that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the Revenue Account, then no tax relief is transferred to the Capital Account.

2. Significant accounting policies (continued)

(ix) Capital Redemption Reserve

This is a non-distributable reserve. The nominal value of ordinary share capital repurchased for cancellation is transferred out of Share Capital and into the Capital Redemption Reserve, on a trade date basis. Where shares are repurchased into treasury, the transfer of nominal value to the Capital Redemption Reserve is made if and when the shares are cancelled.

(x) Capital Reserves

These are distributable reserves which may be utilised for the repurchase of share capital and for distributions to shareholders by way of dividend.

Capital reserve – arising on investments sold
The following are accounted for in this reserve:
- gains and losses on the disposal of fixed asset investments and derivatives;
- realised exchange differences of a capital nature;
- costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;
- other capital charges and credits charged or credited to this account in accordance with the above policies; and
- costs of repurchasing ordinary share capital into treasury or for cancellation, including related stamp duty, are recognised on a trade date basis.

Capital reserve – arising on investments held
The following are accounted for in this reserve:
- increases and decreases in the valuation of fixed asset investments and derivatives held at the year end; and
- unrealised exchange differences of a capital nature

(xi) Use of judgements, estimates and assumptions

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

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

The policy for valuation of unquoted securities is set out in note 2(c)(ii) and further information on Board procedures is contained in the Report of the Audit Committee and note 25(d).

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

3. Income

	2016 £'000s	2015 £'000s
UK dividends	13,909	12,121
Overseas dividends	56,499	45,290
	70,408	57,411
Other Income		
Rebates relating to investee funds management fees	603	424
Interest on cash and short-term deposits	92	125
Underwriting commission	14	22
	709	571
Income	71,117	57,982
Income comprises:		
Dividends	70,408	57,411
Other income	709	571
	71,117	57,982
Income from investments comprises:		
Quoted UK	13,568	11,798
Quoted overseas	56,499	45,290
Unquoted	341	323
	70,408	57,411

4. Management fees

		2016 £'000s	2015 £'000s
Payable directly to F&C:			
– in respect of management services provided by the Manager	(i)	9,539	9,030
– reimbursement in respect of services provided by sub-managers	(i)	2,715	2,365
		12,254	11,395
Payable directly to Private Equity managers	(ii)	308	245
Total directly incurred management fees		12,562	11,640
Incurred indirectly within funds managed by Private Equity managers	(iii)	4,262	4,341
Total direct and indirect management fees		16,824	15,981

(i) 75% of these fees allocated to capital reserve arising on investments sold. See note 2(c)(vii)
(ii) 100% of these fees allocated to capital reserve arising on investments sold. See note 2(c)(vii)
(iii) Indirectly incurred fees included within the value of the respective funds

Directly incurred fees are analysed as follows:

Management fees	2016 £'000s	2015 £'000s
– payable directly to F&C	12,254	11,395
– payable directly to Private Equity managers	308	245
	12,562	11,640
Less: allocated to capital reserves (see note 19)	(9,499)	(8,791)
Allocated to revenue account	3,063	2,849

(a) Management fees payable to F&C

The Manager provides investment management, company secretarial, financial, marketing and general administrative services to the Company under the terms of an agreement which may be terminated upon six months' notice given by either party. In the event of a change of control of the Manager, the Company may give three months' notice of termination.

The Manager's remuneration is based on a fee of 0.365% per annum of the market capitalisation of the Company, calculated at each month end on a pro-rata basis (2015: same); the fee is adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager. Variable fees payable in respect of third party sub-managers are also reimbursed.

(b) Management fees payable to the Private Equity managers

At 31 December 2016 the Company had commitments in 24 Private Equity funds (2015:17) (see note 22(b)) . Management fees in respect of the Pantheon Europe Fund III were paid quarterly, directly to Pantheon Ventures Limited, at a rate of 0.32% per annum (2015: 0.32%) based on capital commitments. With effect from 31 December 2016 the fee rate has been reduced to nil. These fees were allocated fully to Capital Reserve on investments sold. Fees in respect of all other Private Equity funds are based on capital commitments and are charged quarterly against the underlying investments in those funds. The fees are not directly incurred by the Company and are disclosed for information purposes only. The fee rates applying during 2016 varied from 0.10% per annum to 2.00% per annum (2015: 0.10% to 1.26%).

5. Other expenses

	2016 £'000s	2015 £'000s
Auditors' remuneration:		
for audit and audit-related assurance services*	75	79
for other services**	11	21
Custody fees	417	339
Depositary fees	149	153
Directors' emoluments (see Directors' Remuneration Report on pages 38 to 39):		
Fees for services to the Company	340	349
Subscriptions	18	23
Directors' and officers' liability insurance	52	37
Marketing	626	656
Loan commitment and arrangement fees***	312	72
Registrars fees	153	157
Professional charges	210	204
Printing and postage	152	145
Sundry	243	168
	2,758	2,403

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

* Total auditors' remuneration for audit services, exclusive of VAT, amounted to £72,000 (2015: £74,000 exclusive of VAT).

** Total auditors' remuneration for other services, exclusive of VAT, amounting to £11,000, paid to PwC as auditors (2015: £20,000 exclusive of VAT paid to PwC as auditors), comprised; £11,000 for taxation compliance services (2015: £20,000). No part of these amounts was charged to capital reserves (2015: £nil). No amounts fell to be payable under the terms of the contingent fee for VAT reclamation (see note 22(a)). No amounts were paid to EY for non-audit services in the period since their appointment as auditor.

*** Under loan facility agreements (see notes 13 and 15) the Company pays commitment fees on any undrawn portions of the facilities.

6. Finance costs

	2016 £'000s	2015 £'000s
Debenture stock	24	24
Loans	6,715	4,732
Overdrafts	150	69
	6,889	4,825
Less: allocated to capital reserves (see note 2(c)(vii) and note 19)	(5,167)	(3,619)
	1,722	1,206
The interest on the debenture stock, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	1,704	2,247
Debenture and loans repayable after more than one year, not by instalments (see notes 15 and 16)	5,185	2,578
	6,889	4,825

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2016 Total £'000s	Revenue £'000s	Capital £'000s	2015 Total £'000s
Corporation Tax at 20.00% (2015: 20.25%)	–	–	–	–	–	–
Relief for overseas taxation	–	–	–	–	–	–
	–	–	–	–	–	–
Overseas taxation	(6,038)	–	(6,038)	(4,135)	–	(4,135)
Indian tax on capital gains	–	–	–	–	(269)	(269)
Total taxation (note 7(b))	(6,038)	–	(6,038)	(4,135)	(269)	(4,404)

The tax assessed for the year is lower (2015: lower) than the standard rate of Corporation Tax in the UK.

(b) Factors affecting tax charge for the year

	Revenue £'000s	Capital £'000s	2016 Total £'000s	Revenue £'000s	Capital £'000s	2015 Total £'000s
Net return on ordinary activities before taxation	64,431	564,119	628,550	51,397	145,769	197,166
Net return on ordinary activities multiplied by the standard rate of UK Corporation Tax of 20.00% (2015: 20.25%)	12,886	112,824	125,710	10,408	29,518	39,926
Effects of:				–	–	–
Dividends*	(14,082)	–	(14,082)	(11,626)	–	(11,626)
Exchange (profits)/losses*	(171)	–	(171)	26	–	26
Capital returns*	–	(115,776)	(115,776)	–	(32,043)	(32,043)
Expenses not deductible for tax purposes	47	19	66	49	12	61
Expenses not utilised in the year	1,320	2,933	4,253	1,143	2,513	3,656
Overseas tax in excess of double taxation relief	6,038	–	6,038	4,135	–	4,135
Indian tax on capital gains	–	–	–	–	269	269
Total taxation (note 7(a))	6,038	–	6,038	4,135	269	4,404

* These items are not subject to Corporation Tax within an investment trust company.

The Company has an unrecognised deferred tax asset of £51.0 million (2015: £50.9 million) in respect of unutilised expenses at 31 December 2016 which has not been recognised in the financial statements as it is unlikely to be utilised in the foreseeable future. Of this amount £19.5 million (2015: £19.5 million) relates to revenue expenses and £31.5 million (2015: £31.4 million) to capital expenses.

8. Net return per share

	2016 pence	2016 £'000s	2015 pence	2015 £'000s
Total return	112.69	622,512	34.36	192,762
Revenue return	10.57	58,393	8.42	47,262
Capital return	102.12	564,119	25.94	145,500
Weighted average ordinary shares in issue, excluding shares held in treasury – number		552,403,894		560,998,806

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2016 £'000s	2015 £'000s
2014 Third interim of 2.20p	5 Jan 2015	2 Feb 2015	–	12,370
2014 Final of 2.70p	28 Mar 2015	1 May 2015	–	15,168
2015 First interim of 2.30p	3 Jul 2015	3 Aug 2015	–	12,896
2015 Second interim of 2.30p	2 Oct 2015	2 Nov 2015	–	12,889
2015 Third interim of 2.30p	8 Jan 2016	1 Feb 2016	12,748	–
2015 Final of 2.70p	1 Apr 2016	3 May 2016	14,994	–
2016 First interim of 2.35p	1 Jul 2016	1 Aug 2016	12,985	–
2016 Second interim of 2.35p	30 Sep 2016	1 Nov 2016	12,901	–
			53,628	53,323

A third interim dividend of 2.45p was paid on 1 February 2017 to all shareholders on the register on 6 January 2017.

The Directors have proposed a final dividend in respect of the year ended 31 December 2016 of 2.7p payable on 2 May 2017 to all shareholders on the register at close of business on 31 March 2017. The total dividends payable in respect of the financial year for the purposes of the income retention test for Section 1159 of the Corporation Tax Act 2010 are set out below.

	2016 £'000s	2015 £'000s
Revenue available for distribution by way of dividends for the year	58,393	47,262
First interim dividend for the year ended 31 December 2016 – 2.35p per share (2015: 2.30p)	(12,985)	(12,896)
Second interim dividend for the year ended 31 December 2016 – 2.35p per share (2015: 2.30p)	(12,901)	(12,889)
Third interim dividend for the year ended 31 December 2016 – 2.45p per share (2015: 2.30p)	(13,390)	(12,748)
Proposed final dividend for the year ended 31 December 2016 – 2.70p per share (2015: 2.70p) (estimated cost based on 545,307,267 shares in issue at 1 March 2017, excluding shares held in treasury)	(14,723)	(14,994)
Estimated amount transferred to/(from) revenue reserve for Section 1159 purposes	4,394	(6,265)

10. Investments and derivative financial instruments

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2016 Total £'000s	Level 1* £'000s	Level 3* £'000s	2015 Total £'000s
Cost at 1 January	2,118,226	–	254,941	2,373,167	1,902,941	306,653	2,209,594
Unrealised gains at 1 January	536,021	–	23,384	559,405	536,546	59,223	595,769
Valuation at 1 January	2,654,247	–	278,325	2,932,572	2,439,487	365,876	2,805,363
Purchases at cost	1,219,279	–	8,201	1,227,480	1,071,620	17,786	1,089,406
Sales proceeds	(1,269,275)	95	(78,308)	(1,347,488)	(979,860)	(147,152)	(1,127,012)
Losses on derivatives sold	–	(95)	–	(95)	–	–	–
Gains on investments sold	194,126	–	41,032	235,158	123,525	77,654	201,179
Gains/(losses) on investments held	368,184	–	16,871	385,055	(525)	(35,839)	(36,364)
Valuation at 31 December of investments and derivatives	3,166,561	–	266,121	3,432,682	2,654,247	278,325	2,932,572
Analysed at 31 December							
Cost	2,262,356	–	225,866	2,488,222	2,118,226	254,941	2,373,167
Unrealised gains	904,205	–	40,255	944,460	536,021	23,384	559,405
Valuation at 31 December of investments and derivatives	3,166,561	–	266,121	3,432,682	2,654,247	278,325	2,932,572

Valuation of investments and derivatives	2016 £'000s	2015 £'000s
Valuation of investments at 31 December	3,432,682	2,932,572
Valuation of derivatives at 31 December	–	–
Total valuation of investments and derivatives at 31 December	3,432,682	2,932,572

Gains/(losses) on investments and derivatives held at fair value	2016 £'000s	2015 £'000s
Gains on investments sold	235,158	201,179
Losses on derivatives sold	(95)	–
Gains/(losses) on investments held at year end	385,055	(36,364)
Total gains on investments and derivatives	620,118	164,815

*The hierarchy of investments and derivative instruments is described in note 2(c)(i) and below. There were no investments held in 2015 which were valued in accordance with Level 2.

Level 1 includes investments and derivatives listed on any recognised stock exchange or quoted on the AIM market in the UK and quoted open-ended funds.
Level 2 includes investments for which the quoted price has been suspended, forward exchange contracts and other derivative instruments.
Level 3 includes investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles, for which observable market data is not specifically available.

Investments managed or advised by F&C

The portfolio of investments did not include at any time during the year any funds or investments managed or advised by F&C (2015: none). Under the terms of the Company's Management Agreement with F&C set out in note 4, the management fee is adjusted for fees earned by the Manager on all such holdings.

Unquoted investments

Unquoted investments include £264.4 million (2015: £275.8 million) of investments described as Private Equity, together with £1.7 million (2015: £2.5 million) of other partnerships, the underlying portfolios of which principally comprise unlisted investments. These are valued in accordance with the policies set out in note 2(c)(ii).

It is in the nature of Private Equity and similar unquoted investments that they may be loss making, with no certainty of survival, and that they may prove difficult to realise. The concept of "fair value" as applied to such investments is not precise and their ultimate realisation may be at a value materially different from that reflected in the accounts. Further details on the valuation process in respect of Private Equity investments can be found in note 25(d).

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11. Substantial interests

At 31 December 2016 the Company held more than 3% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, represent a participating interest.

Investment and share class	Country of registration and incorporation	Number of units/shares held	Holding* %
Open-ended Funds			
Artemis US Extended Alpha Fund I Accumulation	England	12,852,000	3.68
Conventum – Lyrical Fund I	Luxembourg	119,005	3.35
Fidelity Active Strategy US Fidelity Fund A	Luxembourg	106,101	4.40
Edinburgh Partners European Opportunities Fund I GBP	Ireland	2,472,279	7.69
Hector Eagle Emerging Markets Eq Fund A Accumulation USD	Luxembourg	111,417	13.64
JPMorgan America Equity Fund C Net Income	England	7,565,000	57.64
Majedie Asset Management US Equity Fund Z Accumulation	Ireland	9,792,394	10.69
TT International Emerging Markets Unconstrained Fund	Ireland	671,146	36.04
Private Equity Funds			
Dover Street VI LP	USA	–	11.12
HarbourVest Partners VII – Buyout Partnership Fund LP	USA	–	3.86
HIPEP V – Direct Fund LP	USA	–	15.66
HIPEP V – Asia Pacific and Rest of World Partnership Fund LP	USA	–	4.74
HIPEP VI – Emerging Markets Fund	USA	–	12.06
HIPEP VI – Asia Pacific Fund LP	USA	–	4.93
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.29
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Channel Islands	–	6.19
Pantheon Global Secondary Fund III LP	Scotland	–	3.50
Other Investments			
Esprit Capital Fund 1 LP	England	–	10.80
Jupiter US Smaller Companies PLC ord 25p	England	909,841	4.40
Utilico Emerging Markets Limited ord 10p	Bermuda	14,450,000	6.82

* The Company neither has a controlling interest nor participates in the management of any of these undertakings.

12. Debtors

	2016 £'000s	2015 £'000s
Investment debtors	1,116	1,508
Prepayments and accrued income	3,569	3,217
Overseas taxation recoverable	1,963	1,319
	6,648	6,044

13. Creditors: amounts falling due within one year

Loans Non-instalment debt payable on demand or within one year	2016 £'000s	2015 £'000s
Euro loan €100 million repaid January 2016	–	73,702
Yen loan ¥14.254 billion repaid January 2016	–	80,394
	–	154,096

At 31 December 2016 there were no loans drawn down under the unsecured revolving credit facility. The facility is for £100 million with the option to extend the commitment by a further £100 million and expires in December 2017. Interest rate margins on the amounts drawn down are variable and are dependent upon commercial terms agreed with each bank. Commitment commissions are payable on undrawn amounts at commercial rates.

14. Creditors: amounts falling due within one year

Other	2016 £'000s	2015 £'000s
Investment creditors	686	7,083
Management fees payable to the Manager	1,999	2,224
Cost of ordinary shares repurchased	409	203
Other accrued expenses	1,691	1,308
	4,785	10,818

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

Loans Non-instalment debt payable after more than one year	2016 £'000s	2015 £'000s
$80 million repayable April 2019	64,743	54,278
¥6,600 million repayable April 2019	45,796	37,224
€72 million repayable July 2022	61,459	53,066
Loan notes £25 million repayable June 2028	25,000	–
Loan notes £50 million repayable June 2031	50,000	–
	246,998	144,568

In April 2012 the Company entered into a loan arrangement facility drawing loans in Yen and US dollars, equivalent at that date to £100 million, at commercial fixed interest rates, expiring April 2019. Early redemption penalties apply. In July 2015 the Company entered into a further loan arrangement facility drawing loans in Euros, equivalent at that date to £50 million, at commercial fixed interest rates, expiring July 2022. Early redemption penalties apply. In June 2016 the Company issued fixed rate senior unsecured notes in tranches of £25 million and £50 million sterling denominated loan notes expiring in June 2028 and June 2031 respectively. Interest rates applying to the notes are commercially competitive and fixed until the expiry dates.

At 1 March 2017, long-term borrowings comprised $80 million, ¥6,600 million, €72 million and £75 million loan notes (£248.7 million).

The market value of the long-term loans at 31 December 2016 was £251,035,000 based on the equivalent benchmark gilts or relevant commercially available current debt. The prior year comparatives for the market value of the long-term loans were not considered to be materially different from the par value.

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

Debenture	2016 £'000s	2015 £'000s
4.25% perpetual debenture stock – secured	575	575

The 4.25% perpetual debenture stock, which was issued in 1960, is listed on the London Stock Exchange and secured by floating charges over the assets of the Company. The market value of the debenture stock at 31 December 2016 was £429,000 (31 December 2015: £429,000).

17. Share capital

2016	Shares held in treasury Number	Shares entitled to dividend Number	Total shares in issue Number	Issued and fully paid nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	2,845,947	558,973,069	561,819,016	140,455
Shares repurchased by the Company and held in treasury	12,400,207	(12,400,207)	–	–
Balance carried forward	15,246,154	546,572,862	561,819,016	140,455

2015	Shares held in treasury Number	Shares entitled to dividend Number	Total shares in issue Number	Issued and fully paid Nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	–	562,292,016	562,292,016	140,573
Shares repurchased by the Company and cancelled	–	(473,000)	(473,000)	(118)
Shares repurchased by the Company and held in treasury	2,845,947	(2,845,947)	–	–
Balance carried forward	2,845,947	558,973,069	561,819,016	140,455

During the year the Company bought back 12,400,207 ordinary shares at a total cost of £57,613,000, all of which were placed in treasury. The full cost of all shares bought back is dealt with in Capital Reserve arising on investments sold.

Ordinary shares held in treasury have no voting rights and are not entitled to dividends.

Since the year end a further 1,265,595 shares have been bought back into treasury at a cost of £6,995,000.

18. Capital redemption reserve

	2016 £'000s	2015 £'000s
Balance brought forward	122,307	122,189
Transfer from share capital on repurchase of ordinary shares	–	118
Balance carried forward	122,307	122,307

19. Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year:				
Gains on investments and derivatives sold (see note 10)	235,063	–	235,063	–
Gains on investments held at year end (see note 10)	–	385,055	385,055	–
Exchange movements on foreign currency loan and cash balances	(38,104)	(3,132)	(41,236)	–
Management fees (see note 4)	(9,499)	–	(9,499)	–
Finance costs (see note 6)	(5,167)	–	(5,167)	–
Other capital charges	(97)	–	(97)	–
Revenue return attributable to shareholders	–	–	–	58,393
Total gains and losses transferred in current year	182,196	381,923	564,119	58,393
Cost of ordinary shares repurchased in year	(57,613)	–	(57,613)	–
Dividends paid in year (see note 9)	–	–	–	(53,628)
Balance brought forward	1,795,697	565,376	2,361,073	78,329
Balance carried forward	1,920,280	947,299	2,867,579	83,094

Included within the capital reserve movement for the year is £4,952,000 (2015: £936,000) of dividend receipts recognised as capital in nature. £1,215,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2015: £692,000). £675,000 of transaction costs on sales of investments are similarly included (2015: £607,000).

20. Net asset value per ordinary share

	2016	2015
Net asset value per share – pence	587.92	483.42
Net assets attributable at end of period – £'000s	3,213,435	2,702,164
Ordinary shares of 25p in issue at end of year, excluding shares held in treasury – number	546,572,862	558,973,069

Net asset value per share (with the debenture stock and long term loans at market value – see notes 15 and 16) was 587.21p (31 December 2015: 483.44p).

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

	2016 £'000s	2015 £'000s
Net return on ordinary activities before taxation	628,550	197,166
Adjust for non-cash flow items, dividend income and interest expense:		
Gains on investments	(620,118)	(164,815)
Exchange losses	40,379	6,704
Non-operating expenses of a capital nature	97	59
Decrease in other debtors	10	65
(Decrease)/increase in creditors	(117)	467
Dividends receivable	(70,408)	(57,411)
Interest payable	6,889	4,825
Tax on overseas income	(6,685)	(4,865)
	(649,953)	(214,971)
Cash flows from operating activities (before dividends received and interest paid)	(21,403)	(17,805)

22. Contingencies and capital commitments

(a) VAT legal case

The Company is one of a number of claimants in a case brought against HMRC to seek recovery of VAT paid on management fees in the period 1997 to 2000, together with interest on a compound basis. Both HMRC and the claimants have appealed the decision to the Supreme Court, which heard the case in May 2016. The Court decision is still awaited. As a consequence of the continuing uncertainty over the outcome of the case, no VAT or related interest recovery has been accrued or recognised as a contingent asset.

PwC assisted the Company and other claimants in the Supreme Court and their fee in respect of the claim by the Company is contingent on the successful outcome of the case.

22. Contingencies and capital commitments (continued)

(b) Capital commitments

The Company had the following outstanding capital commitments at the year end.

	2016 Currency millions	2015 Currency millions	2016 £'000s	2015 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	US$4.3m	US$4.3m	3,472	2,911
– Venture Partnership Fund LP	US$0.5m	US$0.7m	425	458
– Mezzanine Fund LP	US$0.7m	US$0.7m	583	488
Dover Street VI LP	US$3.1m	US$3.1m	2,515	2,108
Dover Street VII LP	US$3.2m	US$3.2m	2,580	2,162
HarbourVest Partners V– Asia Pacific and Rest of World LP	US$1.5m	US$1.8m	1,214	1,187
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	US$3.6m	US$5.4m	2,913	3,664
– Venture Partnership Fund LP	US$0.8m	US$1.2m	647	814
HarbourVest Partners V – Direct Fund LP	€3.0m	€3.0m	2,561	2,211
HIPEP VI – Asia Pacific Fund LP	US$3.3m	US$5.8m	2,630	3,943
HIPEP VI – Emerging Markets Fund	US$5.2m	US$7.6m	4,198	5,131
Pantheon Europe Fund III LP	€5.4m	€5.8m	4,576	4,238
Pantheon Europe Fund V LP	€8.7m	€9.1m	7,426	6,707
Pantheon Asia Fund IV LP	US$3.0m	US$3.0m	2,387	2,001
Pantheon Asia Fund V LP	US$4.1m	US$4.8m	3,338	3,240
Pantheon Global Secondary Fund III LP	US$2.4m	US$2.4m	1,983	1,662
Esprit Capital Fund I LP	£0.27m	£0.27m	265	265
Astorg VI	€6.5m	–	5,531	–
Inflexion Supplemental IV	£2.5m	–	2,522	–
August Equity IV	£6.0m	–	6,000	–
DBAG Fund VII	€6.3m	–	5,378	–
DBAG Fund VII B	€1.2m	–	1,024	–
Procuritas VI	€7.0m	–	5,975	–
Warburg Pincus China Fund	US$7.3m	–	5,924	–
			76,067	43,190

23. Related party transactions

The following are considered related parties: the Board of Directors, the Manager and fellow members of BMO.

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 39 and as set out in note 5 on the accounts. There were no outstanding balances with the Board at year end. Transactions between the Company and F&C are detailed: in note 4 on management fees; in note 10, where investments managed or advised by F&C are disclosed; and in note 14 in relation to fees owed to F&C at the Balance Sheet date.

24. Going Concern

The Company's investment objective, strategy and policy are subject to a process of regular Board monitoring and are designed to ensure that the Company is invested mainly in readily realisable, publicly listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by the Custodian and agreements cover its borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager and the Board.

The Directors believe that: the Company's objective and policy continue to be relevant to investors; the Company operates within a robust regulatory environment; and the Company has sufficient resources to continue operating within its stated policy for the 12 month period commencing from the date of this report. Accordingly, the financial statements have been drawn up on the basis that the Company is a going concern.

25. Financial Risk Management

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the UK as an investment trust under the provisions of Section 1158 of the Corporation Tax Act 2010. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and Private Equity, with the use of gearing. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board of Directors, together with the Manager, is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The significant accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice, and include the valuation of financial assets and liabilities at fair value except as noted in (d) below and in notes 15 and 16 in respect of loans and the perpetual debenture stock. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities, including any derivatives, held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board's policies for managing these risks within the Company's objective include: risk diversification – no more than 5% of the portfolio may be invested in unquoted securities, excluding Private Equity investments, and no single investment may be made which exceeds 10% of the value of the portfolio at the time of acquisition; currency borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies; and gearing – borrowings including the debenture valued at market value – should not normally exceed 20% of shareholders' funds. The total nominal exposure arising from derivative holdings is limited to a maximum of 5% of the portfolio at the time of investment. The Board meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

The Company's other assets and liabilities may be denominated in currencies other than Sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in foreign exchange rates. Debenture deeds and loan contracts are agreed and signed by the Board and compliance with the agreements is monitored by the Board at each meeting. Gearing may be short or long-term in Sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

25. Financial Risk Management (continued)

Currency Exposure

The carrying value of the Company's assets and liabilities at 31 December, by currency, are shown below:

2016	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,361	732	(575)	(75,000)	(2,125)	(75,607)	433,377	357,770
US Dollar	2,619	21,953	–	(64,743)	(2,262)	(42,434)	1,737,041	1,694,607
Euro	897	1,368	–	(61,459)	(179)	(59,373)	444,621	385,248
Yen	734	2,314	–	(45,796)	(219)	(42,966)	338,101	295,135
Other	1,037	96	–	–	–	1,133	479,542	480,675
Total	6,648	26,463	(575)	(246,998)	(4,785)	(219,247)	3,432,682	3,213,435

2015	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,278	33,205	(575)	–	(2,125)	31,783	413,233	445,016
US Dollar	2,914	35,003	–	(54,278)	(2,898)	(19,259)	1,413,447	1,394,188
Euro	873	3,999	–	(126,768)	(182)	(122,078)	430,275	308,197
Yen	699	1,344	–	(117,618)	(226)	(115,801)	286,350	170,549
Other	280	54	–	–	(5,387)	(5,053)	389,267	384,214
Total	6,044	73,605	(575)	(298,664)	(10,818)	(230,408)	2,932,572	2,702,164

The principal currencies to which the Company was exposed were the US Dollar, Euro and Yen. The exchange rates applying against Sterling at 31 December, and the average rates during the year, were as follows:

	2016	Average	2015
US Dollar	1.2356	1.3556	1.4739
Euro	1.1715	1.2295	1.3568
Yen	144.1200	149.3112	177.3028

Based on the financial assets and liabilities held, and exchange rates applying at each Balance Sheet date, a weakening or strengthening of Sterling against each of these currencies by 10% would have had the following approximate effect on annualised income after tax and on net asset value (NAV) per share:

			2016			2015
Weakening of Sterling	US$ £'000s	€ £'000s	¥ £'000s	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue return	1,637	1,181	587	1,305	869	406
Capital return	169,461	38,525	29,513	139,419	30,820	17,055
Total return	171,098	39,706	30,100	140,724	31,689	17,461
NAV per share – pence	31.30	7.26	5.51	25.18	5.67	3.12

25. Financial Risk Management (continued)

Strengthening of Sterling	US$ £'000s	€ £'000s	2016 ¥ £'000s	US$ £'000s	€ £'000s	2015 ¥ £'000s
Income statement return after tax						
Revenue return	(1,637)	(1,181)	(587)	(1,305)	(869)	(406)
Capital return	(169,461)	(38,525)	(29,513)	(139,419)	(30,820)	(17,055)
Total return	(171,098)	(39,706)	(30,100)	(140,724)	(31,689)	(17,461)
NAV per share – pence	(31.30)	(7.26)	(5.51)	(25.18)	(5.67)	(3.12)

These analyses are broadly representative of the Company's activities during the current and prior years as a whole, although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate risks at 31 December is shown below:

	Total £'000s	Within one year £'000s	2016 More than one year £'000s	Total £'000s	Within one year £'000s	2015 More than one year £'000s
Exposure to floating rates						
Cash and deposits	10,071	10,071	–	8,322	8,322	–
Exposure to fixed rates						
Cash and deposits	16,392	16,392	–	65,283	65,283	–
Debentures	(575)	–	(575)	(575)	–	(575)
Other borrowings	(246,998)	–	(246,998)	(298,664)	(154,096)	(144,568)
Net exposures						
At year end	(221,110)	26,463	(247,573)	(225,634)	(80,491)	(145,143)
Maximum in year	(256,614)	(100,540)	(156,074)	(322,106)	(176,963)	(145,143)
Minimum in year	(147,132)	96,248	(243,380)	(166,230)	(80,491)	(85,739)

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

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rate applying on the debenture stock is set out in note 16 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, except in respect of the debenture and long-term loans (see notes 15 and 16), on which the interest rate is fixed.

25. Financial Risk Management (continued)

Based on the financial assets and liabilities held, and the interest rates pertaining, at each Balance Sheet date, a decrease or increase in interest rates by 2% would have the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV:

	2016 Increase in rate £'000s	2016 Decrease in rate £'000s	2015 Increase in rate £'000s	2015 Decrease in rate £'000s
Revenue return	201	(201)	166	(166)
Capital return	–	–	–	–
Total return	201	(201)	166	(166)
NAV per share – pence	0.04	(0.04)	0.03	(0.03)

Other market risk exposures

The portfolio of investments, valued at £3,432,682,000 at 31 December 2016 (2015: £2,932,572,000) is exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in the Fund Manager's Review.

Based on the portfolio of investments held at each Balance Sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV:

	2016 Increase in value £'000s	2016 Decrease in value £'000s	2015 Increase in value £'000s	2015 Decrease in value £'000s
Income statement capital return	686,536	(686,536)	586,514	(586,514)
NAV per share – pence	125.61	(125.61)	104.93	(104.93)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments, Private Equity investments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (over 500 at 31 December 2016); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio and the existence of ongoing overdraft and loan facility agreements. Cash balances are held with approved banks, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £325 million as set out in notes 13 and 15 on the accounts together with an option to extend by a further £100 million. The facilities limit the amount which the Company may borrow at any one time as a proportion of the relevant portfolio of investments and cash. The most onerous financial covenant limits total borrowings to 33.3% of the Company's adjusted net asset value, which at 31 December 2016 was £2,947 million. Actual borrowings at market value at 31 December 2016 were £251.0 million in loans (see note 15) and £0.4 million in a debenture at market value (see note 16).

At 31 December 2016 the Company had £76.1 million outstanding commitments to Private Equity investments, payable over more than one year (see note 22(b)).

25. Financial Risk Management (continued)

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

2016	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities				
Other creditors	4,785	–	–	4,785
Long-term liabilities* (including interest)	1,193	5,885	286,573	293,651
	5,978	5,885	286,573	298,436

*See notes 15 and 16 for maturity dates

2015	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities				
Other borrowings	154,096	–	–	154,096
Other creditors	10,818	–	–	10,818
Long-term liabilities (including interest)	1,011	3,012	157,764	161,787
	165,925	3,012	157,764	326,701

(c) Credit risk and counterparty exposure

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

A list of pre-approved counterparties is maintained by the Manager. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Payments in respect of Private Equity investments are made only to counterparties with whom a contracted commitment exists. Cash and deposits are held with approved banks.

The Company has an ongoing contract with the Custodian for the provision of custody services. The contract was reviewed and updated in 2014. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The Depositary has regulatory responsibilities relating to segregation and safe keeping of the Company's financial assets, amongst other duties, as set out in the Directors' Report. The Board has direct access to the Depositary and receives regular reports from it via the Manager.

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

The Company had no credit-rated bonds or similar securities in its portfolio at the year end (2015: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

During the year, the Company sold £32m of gilt futures and €21m of bund futures, realising a net loss of £95,000. No derivative transactions were undertaken in 2015. The maximum exposure to credit risk on cash and debtors equates to their carrying amounts.

25. Financial Risk Management (continued)

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof, except for the long-term loans which are carried at amortised cost and the debenture which is carried at proceeds less costs, in accordance with Accounting Standards. The fair values of the long-term loans and debenture at 31 December 2016 are set out in notes 15 and 16. Borrowings under overdraft and short-term loan facilities do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchange rates ruling at each valuation date.

The fair value of investments quoted on active markets is determined directly by reference to published price quotations in these markets.

Unquoted investments, including Private Equity investments, are valued based on professional advice and assumptions that are not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques including reference to: net assets; industry benchmarks; cost of investment; roll forward of calls and redemptions; and recent arm's length transactions in the same or similar investments. With respect specifically to investments in Private Equity funds or partnerships, the underlying investment advisers and managers provide regular estimated valuations to the Directors, based on the latest information available to the managers. The Directors review these valuations for consistency with the Company's own accounting policies and with fair value principles. The investment advisers' and managers' estimated valuations relating to the Private Equity funds' period ends are compared annually by the Directors to the final audited annual valuations of those funds to ensure that the managers' valuation techniques gave rise to valid estimates. The Directors were satisfied with the results of this annual review, which took place most recently in June 2016, indicating that the Company can, all things being equal, continue to place reliance on the Private Equity advisers' and managers' estimates and valuation techniques.

(e) Capital risk management

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

Changes to ordinary share capital are set out in note 17 on the accounts. Dividend payments are set out in note 9 on the accounts. The Directors have no current intention to pay dividends out of capital reserves. Borrowings are set out in notes 13, 15 and 16 on the accounts.

26. Alternative Investment Fund Managers Directive ("AIFMD")

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

The Company's maximum and actual leverage levels at 31 December 2016 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum permitted limit	200%	200%
Actual	110%	111%

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.

27. Securities financing transactions ("SFT")

The Company has not, in the year to 31 December 2016 (2015: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

Ten Year Record

All data is based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies.

Assets
at 31 December

£m	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets less current liabilities (excl loans)	2,587	2,694	2,003	2,069	2,425	2,214	2,401	2,657	2,838	3,001	**3,461**
Prior changes	179	203	221	111	282	286	322	227	261	299	**248**
Available for ordinary shares	2,408	2,491	1,782	1,958	2,143	1,928	2,079	2,430	2,577	2,702	**3,213**
Number of ordinary shares (million)**	750	685	679	632	610	590	577	570	562	559	**547**

Net Asset Value
at 31 December

pence	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV per share	321.1	363.5	262.5	309.8	351.2	326.6	360.2	426.1	458.4	483.4	**587.9**
NAV total return on % – 5 years†											**102.7**
NAV total return on % – 10 years†											**126.1**

Share Price
at 31 December

pence	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Middle market price per share	284.5	318.8	228.5	272.1	309.6	288.5	320.5	378.0	421.2	449.2	**544.0**
Share price High	287.5	326.3	319.0	275.3	311.0	327.9	321.6	383.0	425.9	465.0	**544.0**
Share price Low	240.0	273.0	209.0	185.8	251.4	261.5	282.5	320.5	363.0	401.6	**391.2**
Share price total return on % – 5 years†											**112.0**
Share price total return on % – 10 years†											**141.0**

Revenue
for the year ended 31 December

	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Available for ordinary shares – £'000s	48,197	45,909	46,989	35,609	34,654	40,270	40,841	44,037	37,857	47,262#	**58,393#**
Net revenue return per share – pence	6.16	6.40	6.90	5.31	5.61	6.74	7.02	7.69	6.69	8.42	**10.57**
Dividends per share – pence	5.30	5.85	6.45	6.65	6.75	7.10	8.50	9.00	9.30	9.60	**9.85**

*Restated for changes in accounting policies.
**Shares entitled to dividends.
#Management fees and finance costs allocated 25% to revenue account (previously 50%)
† Source: Morningstar UK Limited.

Ten Year Record

Performance
(rebased at 31 December 2006)

	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV per share	100.0	113.2	81.8	96.5	109.4	101.7	112.2	132.7	142.8	150.5	**183.1**
Middle market price per share	100.0	112.1	80.3	95.6	108.8	101.4	112.7	132.9	148.0	157.9	**191.2**
Net revenue return per share	100.0	103.9	112.0	86.2	91.1	109.4	114.0	124.8	108.6	136.7	**171.6**
Dividends per share	100.0	110.4	121.7	125.5	127.4	134.0	160.4	169.8	175.5	181.1	**185.8**
RPI	100.0	104.0	105.0	107.5	112.7	118.1	121.8	125.0	127.0	128.6	**131.8**
CPI	100.0	102.1	105.2	108.2	112.2	117.0	120.0	122.5	123.1	123.4	**125.3**

Cost of running the Company
for the year ended 31 December

%	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expressed as a percentage of average net assets											
Total Expense Ratio	0.58	0.76	0.64	0.63	0.59	0.57	0.55	0.50	0.53	0.53	**0.53**
Ongoing Charges**	–	–	–	–	–	0.92	0.90	0.86	0.87	0.80	**0.79**

Gearing
at 31 December

%	2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net gearing	7.0	7.0	12.2	6.0	13.2	15.8	14.3	8.0	8.9	8.6	**6.9**

* Restated for changes in accounting policies
**Not calculated for years prior to 2011

Analysis of ordinary shareholders

Category	Holding % at 31 Dec 2016	Holding % at 31 Dec 2015
F&C savings plans	44.8	43.8
Discretionary/Advisory	17.2	19.3
Platforms (IFA[(1)] and Direct to Consumer)	13.9	10.7
Institutions	10.8	11.7
Direct individuals	10.0	10.9
Old Mutual Wealth IFA[(1)] products	3.3	3.6
	100.0	100.0

Source: F&C
(1) Independent Financial Adviser products

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty-eighth Annual General Meeting of the Company will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Tuesday, 25 April 2017 at 12 noon for the following purposes:

Ordinary Resolutions:

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

1. To receive and adopt the Directors' report and accounts for the year ended 31 December 2016.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' annual report on remuneration.
4. To declare a dividend on the ordinary shares.
5. To elect Mr Edward Knapp as a Director.
6. To re-elect Ms Sarah Arkle as a Director.
7. To re-elect Sir Roger Bone as a Director.
8. To re-elect Ms Francesca Ecsery as a Director.
9. To re-elect Mr Simon Fraser as a Director.
10. To re-elect Mr Jeffrey Hewitt as a Director.
11. To re-elect Mr Nicholas Moakes as a Director.
12. To re-appoint Ernst & Young LLP as auditors to the Company.
13. To authorise the Audit Committee to determine the remuneration of the auditors.
14. Authority to allot shares
    THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "**relevant securities**") up to an aggregate nominal amount of £6,800,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2018 or 30 June 2018 (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**") save that the Company may, at any time prior to the expiry of this authority, make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

Special Resolutions:

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

15. Disapplication of pre-emption rights
    THAT, subject to the passing of resolution 14 above and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby authorised, pursuant to sections 570 and 573 of the Companies Act 2006 (the "**Act**"), to allot equity securities (within the meaning of section 560 of the Act) either pursuant to the authority conferred by resolution 14 for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment or transfer, provided this authority shall be limited to:

    (a) the allotment of equity securities in connection with an offer of equity securities:
        (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
        (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

        and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and

    (b) the allotment (otherwise than under paragraph (a) of this Resolution 15) of equity securities up to an aggregate nominal amount of £6,800,000, and shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 30 June 2018 (whichever is the earlier), unless extended by the Company in a general meeting (the "**relevant period**") save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.

16. Share buyback authority
    THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "**Act**"), to make

market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25p each in the capital of the Company ("**ordinary shares**") on such terms and in such manner as the Directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 81,740,000 or, if less, 14.99% of the number of ordinary shares in issue (excluding treasury shares) as at the date of the passing of this resolution;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is the higher of
   (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased, and
   (ii) an amount equal to the higher of the price of the last independent trade for an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out;

(d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company after passing of this resolution or on 30 June 2018, whichever is earlier, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(e) the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or may be completed or executed wholly or partly after the expiration of such authority and the Company may purchase ordinary shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

By Order of the Board
For and on behalf of
F&C Investment
Business Limited
Secretary
6 March 2017

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

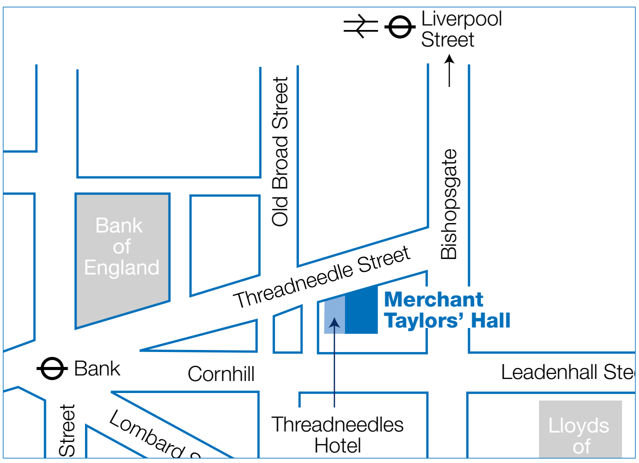
Notes:

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.

2. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority ("**FCA**"). As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules need not make a separate notification to the Company and the FCA.

3. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such person complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.

4. A Form of Proxy is provided with this notice for members. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Computershare Investor Services PLC on 0800 923 1506. To be valid, the Form of Proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be received by post or (during normal business hours only) by hand at the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof. Completion and return of a Form of Proxy will not preclude members from attending and voting at the meeting should



they wish to do so. Amended instructions must also be received by the Company's registrars by the deadline for receipt of Forms of Proxy.

5. Alternatively, members may register the appointment of a proxy for the meeting electronically, by accessing the website www.eproxyappointment.com where full instructions for the procedure are given. The Control Number, Shareholder Reference and PIN as printed on the Form of Proxy will be required in order to use the electronic proxy appointment system. This website is operated by Computershare Investor Services PLC. The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by Computershare Investor Services PLC not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. If you want to appoint more than one proxy electronically please contact Computershare Investor Services PLC on 0800 923 1506.

6. Investors holding shares in the Company through the F&C Private Investor, or Children's Investment Plans, the F&C Child Trust Fund, Junior ISA or in an F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 12 noon on 18 April 2017. Alternatively, voting directions can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN as printed on the form of direction. Voting directions must be submitted electronically no later than 12 noon on 18 April 2017.

7. Any person receiving a copy of this notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "**Nominated Person**") should note that the provisions in notes 1, 4 and 5 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.

8. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps, the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 (the "**Act**"), the Company has specified that only those members registered on the register of members of the Company at 11 p.m. on 23 April 2017 (the "**Specified Time**") (or, if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 11 p.m. on the day which is two days prior to the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by the latest time(s) for receipt of proxy appointments specified in notes 4 and 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

12. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).

13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

15. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or
    (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006.

16. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

17. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. However, members should note that no answer need be given in the following circumstances:
    (a) if to do so would interfere unduly with the preparation of the meeting or would involve a disclosure of confidential information;
    (b) if the answer has already been given on a website in the form of an answer to a question; or
    (c) if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

18. As at 1 March 2017, being the last practicable date prior to the printing of this notice, the Company's issued capital (less the shares held in Treasury) consisted of 545,307,267 ordinary shares of 25 pence each carrying one vote each. Therefore, the total voting rights in the Company as at 1 March 2017 are 545,307,267.

19. This notice, together with information about the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 1 March 2017 being the last practicable date prior to the printing of this notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.foreignandcolonial.com.

20. Any electronic address provided either in this notice or in any related documents (including the Form of Proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

21. Copies of the letters of appointment between the Company and its Directors; a copy of the articles of association of the Company; the register of Directors' holdings; and a deed poll relating to Directors' indemnities will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Bank Holidays excluded) until the date of the meeting and also on the date and at the place of the meeting from 15 minutes prior to the commencement of the meeting to the conclusion thereof.

22. No Director has a service agreement with the Company.

23. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections have the right to require the Company;
    (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or
    (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

    A resolution may properly be moved or a matter may properly be included in the business unless:
    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise),
    (b) it is defamatory of any person or
    (c) it is frivolous or vexatious.

    Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 13 March 2017, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Information for Shareholders

Net asset value and share price

The Company's net asset value is released daily, on the working day following the calculation date, to the London and New Zealand Stock Exchanges. The current share price of Foreign & Colonial is shown in the investment trust section of the stock market page in most leading newspapers, usually under "For & Col". Investors in New Zealand can obtain share prices from leading newspapers in that country.

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in August and March respectively. More up-to-date performance information, including the full list of investments in the portfolio as at the most recent month end, is available on the Internet at www.foreignandcolonial.com under "Investor Information". The F&C website (at www.fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

UK capital gains tax ("CGT")

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

A rate of CGT of 18% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£32,000 in 2016–17 tax year). A higher rate of 20% will apply to those whose income and gains exceed this figure.

Income tax

The final dividend of 2.7 pence per share is payable on 2 May 2017. From April 2016 dividend tax credits have been replaced by an annual £5,000 tax-free allowance to UK residents on dividend income received in their entire share portfolios. Dividend income received in excess of this amount will be taxed at rates of 7.5% (basic rate taxpayers), 32.5% (higher rate taxpayers) or 38.1% (additional rate taxpayers).

Association of Investment Companies ("AIC")

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

Unclaimed dividends

The Company has engaged the services of Georgeson (a subsidiary of Computershare) to locate shareholders, or their beneficiaries, who have lost track of or are unaware of their investments. The service is provided at no cost to the Company; Georgeson retain 10% of unclaimed dividends from the shareholder on completion of each successful claim. Alternatively, shareholders are given the option of contacting the Registrar themselves, thereby incurring no charges.

Common reporting standards

New tax legislation under The OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information ("**The Common Reporting Standard**") has been introduced with effect from 1st January 2016. The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. The Company will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders, and corporate entities.

All new shareholders, excluding those whose shares are held in CREST, who are entered onto the share register from 1 January 2016 will be sent a certification form for the purposes of collecting this information.

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

Registered in England and Wales with Company Registration No. 12901

How to Invest

One of the most convenient ways to invest in Foreign & Colonial Investment Trust PLC is through one of the savings plans run by F&C.

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.

BMO A part of BMO Financial Group

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%
JISA/CIP/PIP: 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 two switches are carried out in one year.

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

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan.

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

HOW TO INVEST

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

Note, this is not available if you are transferring an existing plan with another provider to F&C, or if you are applying for a new plan in more than one name.

New Customers:
Call: 0800 136 420**
(8:30am – 5:30pm, weekdays.)
Email: info@fandc.com

Existing Plan Holders:
Call: 0345 600 3030**
(9:00am – 5:00pm, weekdays)
Email: investor.enquiries@fandc.com
By post: F&C Plan Administration Centre
PO Box 11114
Chelmsford CM99 2DG

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

The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please read our Key Features Document before you invest and this can be found on our website fandc.co.uk. F&C cannot give advice on the suitability of investing in our investment trust or savings plans. If you have any doubt as to the suitability of an investment, please contact a professional financial adviser.

Alternative Performance Measures

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 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 said to be at a premium, in which case there tend to be more buyers than sellers. The Board of the Company tries to ensure that the shares trade, in normal market conditions, at around 92.5% of the value of the NAV with debt at market value (see below) (i.e. that the discount is on average around 7.5%) by means of buying shares from sellers at the below the NAV per share and cancelling them or holding them in treasury. Buybacks effectively create a profit for the Company and at least temporarily deal with the perceived excess of shares in the market.

Net Asset Value (NAV) with Debt at Market Value – the Company's debt (debenture and loans) is valued in the Balance Sheet (on page 55) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as "Debt at Par". The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the "Debt at Market Value" or "Debt at Fair value". This Market Value is spelt out in notes 15 and 16 (page 68) and note 25(d) (page 78) on the accounts. The difference between market and par values of the debt is subtracted from or added to the Balance Sheet NAV on page 55 to derive the NAV with debt at market value. The NAV with debt at market value at 31 December 2016 was £3,209,544,000 (587.2p per share) and the NAV with debt at par was £3,213,435,000 (587.9p per share).

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

Total Expense Ratio (TER) – an alternative measure of expenses to Ongoing Charges. It comprises all operating costs incurred in the reporting period by the Company (see note 4 (page 62) and note 5 (page 63) on the accounts), calculated as a percentage of the average daily net asset values (valued in accordance with accounting policies) in that year (see Ten Year Record). Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments and derivatives, interest costs, taxation and the costs of buying back or issuing ordinary shares.

Total Return – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV (with debt at market value) 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. Dividends paid and payable are set out in note 9 on page 65.

Glossary of Terms

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

Administrator – The administrator is State Street Bank and Trust Company to which F&C has outsourced trade processing, valuation and middle office tasks and systems.

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 requires that all investment vehicles ("**AIFs**") in the European Union, including Investment Trusts, must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**"). The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Company's AIFM is F&C Investment Business Limited ("**FCIB**"), a wholly-owned subsidiary of F&C Asset Management plc and ultimately BMO.

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

Benchmark – the FTSE All-World (Total Return) Index is the benchmark against which the increase or decrease in the Company's net asset value is measured. The Index averages the performance of a defined selection of companies listed in stock markets around the world and gives an indication of how those markets have performed in any period. Divergence between the performance of the Company and the Index is to be expected 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.

Brexit (referendum) – a public referendum was held on 23 June 2016 in the United Kingdom to decide whether to remain or withdraw from membership of the European Union. The decision of the majority to withdraw has been termed "Brexit".

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

CMA – Competition and Markets Authority, an independent non-ministerial government department which promotes competition for the benefit of consumers.

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

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

Depositary – The Depositary is JPMorgan Europe Limited. Under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under the AIFMD rules, the Depositary has strict liability for the loss of the Company's financial assets in respect of which it has safe–keeping duties. The Depositary's oversight duties will include but are not limited to oversight of share buybacks, dividend payments and adherence to investment limits.

Derivative – a contract between two or more parties, the value of which fluctuates in accordance with the value of an underlying security. The contract is usually short-term (for less than one year). Examples of derivatives are Put and Call Options, Swap contracts, Futures and

Contracts for Difference. A derivative can be an asset or a liability and is a form of gearing because the fluctuations in its value are usually greater than the fluctuations in the underlying security's value.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital (see notes 2(c)), 17, 18 and 19 on the accounts). Company Law requires that Share Capital and the Capital Redemption Reserve may not be distributed. The Company's articles of association allow distributions by way of dividend out of Capital Reserves. Dividend payments are currently made out of Revenue Reserve. The cost of all share buybacks is deducted from Capital Reserves.

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

EY – The Company's auditors, Ernst & Young, LLP.

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

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

FCIB – F&C Investment Business Limited is the company that acts as Manager to the Company.

Foreign & Colonial – Foreign & Colonial Investment Trust PLC, also "**the Company**".

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

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

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

Investment Company (Section 833) – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made Capital losses in any year, 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 portfolio strategies – the separate regional, global and Private Equity portfolios that together make up the total investment portfolio of the Company.

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 above 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. The Directors Report contains confirmation of the Company's compliance with this law and its consequent exemption from taxation on capital gains.

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

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

Market benchmark – Market benchmark represents the Company's existing Benchmark, the FTSE All-World (Total Return) Index from January 2013 and the Company's previous benchmark which was a composite of 40% FTSE All-Share (Total Return)/60% FTSE WI World ex UK (Total Return) prior to that date.

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

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

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

Peer group – Investment Trusts and Funds investing in Global markets on behalf of investors, in competition with the Company and included within either the AIC Global Sector or the Investment Association (IA) Global Sector in the UK.

Private Equity – an asset consisting of shares and debt in operating companies that are not publicly traded on a stock exchange. The holdings in such companies may be collected in a Fund which operates as a limited partnership, with Partners contributing capital to the Fund over a period of years and receiving proportional repayments of capital and income as and when the investments are sold.

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

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

Special Dividends – dividends received from investee companies which have been paid out of capital reconstructions or reorganisations of the investees are sometimes referred to as Special Dividends and may be allocated to Capital Reserves in accordance with the Company's accounting policies and the SORP. Dividends which are unusually large in terms of the investee companies' annual earnings or normal payment pattern are also sometimes referred to as special but are treated as revenue in nature unless the evidence suggests otherwise.

Treasury shares – ordinary shares previously issued by the Company that have been bought back from shareholders on the open market and kept in the Company's own treasury. Such shares may, at a later date, be re-issued for sale on the open market or cancelled if demand is insufficient. Treasury shares carry no rights to dividends and have no voting rights and hence are not included within calculations of earnings per share or net asset value per share.

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

Foreign & Colonial Investment Trust PLC

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Registered office:
Exchange House, Primrose Street, London EC2A 2NY
Tel: 020 7628 8000 Fax: 020 7628 8188
www.foreignandcolonial.com
info@fandc.com

Registrars:
Computershare Investor Services PLC,
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ
Tel: 0800 923 1506 Fax: 0870 703 6143
www.computershare.com
web.queries@computershare.co.uk

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