Foreign & Colonial Investment Trust PLC

REPORT AND ACCOUNTS
31 DECEMBER 2017

F&C Investment Trust
CELEBRATING 150 YEARS

Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in 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.

Company Overview

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 **foreignandcolonial.com**

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

aic DIVIDEND HERO

MONEY OBSERVER RATED FUND 2017

MORNINGSTAR Silver

Investors Chronicle FT Investment and Wealth Management Awards 2016 Winner Best Investment Trust Foreign & Colonial

INVESTMENT WEEK INVESTMENT COMPANY OF THE YEAR AWARDS 2017 WINNER SPECIAL RECOGNITION

Financial highlights

21.0%

Share price total return[1] of 21.0%, ahead of the market benchmark of 13.8%

16.9%

A net asset value[2] total return of 16.9% (debt at market value)

10.4p

Annual dividend[4] per share up 5.6% to 10.4p, our 47th consecutive annual increase

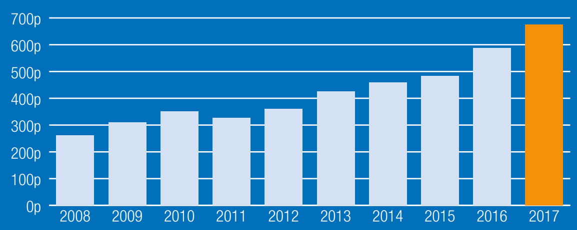
4.3%

Discount[3] of 4.3%, our lowest year end level for over 10 years

Delivering long-term growth in capital and income

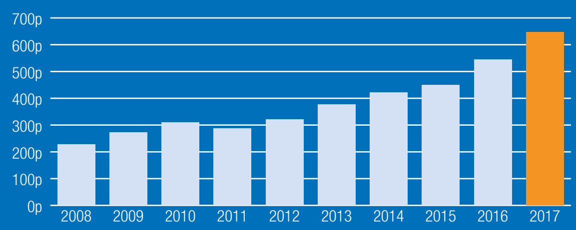
In the last ten years Foreign & Colonial has turned a £1,000 investment, with dividends reinvested, into £2,561.

Net asset value[2] per share at 31 December – pence



Source: F&C

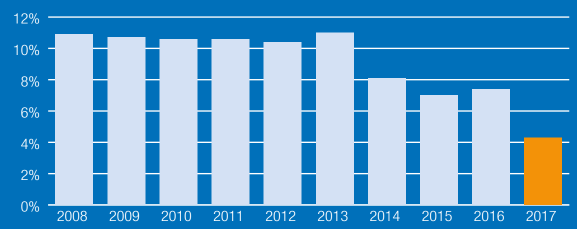
Mid-market price per share at 31 December – pence



Source: F&C

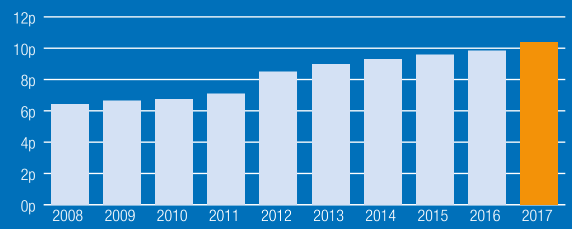
Our discount has narrowed in recent years enhancing shareholder returns.

Share price discount[3] to net asset value[2] at 31 December – %



Source: F&C

Dividends[4] – pence per share



Source: F&C

The dividend has increased every year for the past 47 years and over the last ten years is up 77.8% or 5.9% compound per annum, compared with inflation of 26.5% or 2.4% compound per annum.

Potential investors are reminded that the value of investments and the income from dividends 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.

(1) Total return. See Alternative Performance Measures on page 90
(2) Net asset value per share with debt at market value. See Alternative Performance Measures on page 90
(3) Discount – see Alternative Performance Measures on page 90
(4) The final dividend for 2017 is subject to shareholder approval at the Annual General Meeting

Foreign & Colonial Investment Trust celebrates its **150th birthday in 2018**

The world's first investment trust, Foreign & Colonial Investment Trust celebrates its 150th birthday in 2018. Founded in 1868 initially as a trust, Foreign & Colonial was established with the purpose of bringing stock market investing to those of moderate means. That principle has stood the test of time for 15 decades, through world wars, recessions and financial crises. Foreign & Colonial represented a step-change in the way individuals could access the stock market, paving the way for the development of pooled savings vehicles like unit trusts and OEICS.

Ask The **Fund Manager**

Foreign & Colonial's Fund Manager has changed less than a dozen times over its 150 year history. There have only been three over the past 40 years. Paul Niven took over from Jeremy Tigue in 2014, who had managed the portfolio for 17 years. Paul joined F&C in 1996. Here he gives some thoughts on Foreign & Colonial.

What do you think is so special about Foreign & Colonial?

The Company's most important attributes include its 150 year heritage, its scale and the sheer number of its underlying investors. Foreign & Colonial is one of the most widely held investment products in the UK, with over 100,000 direct investors. Because it's overwhelmingly held by private investors, it's still fulfilling Philip Rose's 150-year-old vision of an investment product for the investor of moderate means.

How has Foreign & Colonial managed to stay relevant over the past 150 years?

Foreign & Colonial started out with a focus on emerging market bonds with investments spanning Europe, the Middle East, New Zealand, South America and North America at a time when Canada and the US were still considered "emerging markets". Over time, the portfolio has evolved and expanded to include, at certain points in its history, corporate bonds, equities and private equity. We have always cast our nets widely to look for new investment opportunities. We've gone from investing in the Amazon 150 years ago to investing in Amazon.com today.

The Company has continued to evolve...how do you see its future development?

It is more global than at any point in recent history. About 95% of the portfolio is invested overseas. We have the flexibility and resource to scan the entire global market across a whole range of opportunities, spanning regions, market capitalisations, investment styles and asset classes.

Inevitably we face challenges today that are very similar to those faced by our predecessors, from world conflicts to financial crises. We're certainly not uniquely placed in history with regard to uncertainty, our longevity though helps us put these challenges into perspective. Looking ahead, I believe that the best growth prospects lie in equities for the foreseeable future.

If you could meet the founder, Philip Rose, what would you want to ask him?

Looking at his original vision, it would be interesting to know how he would feel about Foreign & Colonial today compared to inception in 1868. I think he would agree that we are continuing to fulfil his vision, by providing a diversified investment vehicle with a global focus that meets the needs of the smaller investor.

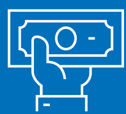
While our approach and underlying investments have changed over the years Foreign & Colonial has remained focused on shareholder returns and has evolved to meet investor needs over generations.

Paul Niven,
Fund Manager

Did you **know?**

- Foreign & Colonial was set up in 1868 by young lawyer Philip Rose alongside barrister Samuel Laing, and Samuel Laing's business partner James Thompson Mackenzie, who was also Deputy Chairman of the East Bengal Railway

- With the backing of influential politician Lord Westbury, Foreign & Colonial was launched on Thursday 19 March 1868
- Today, it has total assets of £4.0 billion across a range of globally diversified holdings



- Foreign & Colonial has paid a dividend every year over its 150-year history, and has grown its payout ahead of inflation every year without fail since 1970

Visit our anniversary website at:
fcit150.co.uk

Chairman's Statement

Simon Fraser, Chairman

As we begin to mark Foreign & Colonial's 150th anniversary and the launch of the investment trust industry, I am very pleased to report another year of strong gains with a total shareholder return of 21.0%.

150-year milestone

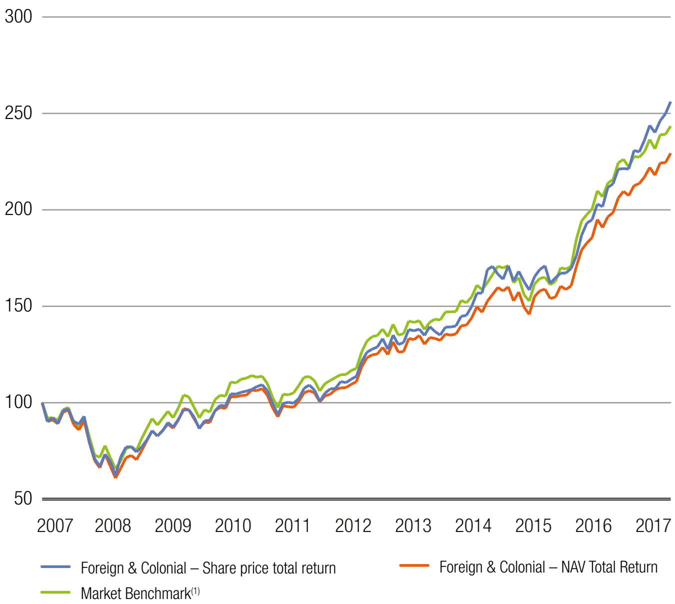
Before reporting on our results for last year, we should perhaps take a moment to reflect on the last 150 years. It is remarkable to think that the original purpose of Foreign & Colonial Investment Trust has remained relevant throughout its long history. Providing exposure to a globally diversified portfolio of private and listed securities in one place, with access to all aspects of portfolio construction including portfolio allocation, stockpicking, manager selection and risk management at a reasonable cost, the investment trust that launched an industry 150 years ago is as relevant today as it ever was.

Performance

2017 was a good year. Our Net Asset Value ("**NAV**") total return with debt at market value rose by 16.9% and our total shareholder return was 21.0%. We benefited from a rise in global stock markets with many indices reaching new record highs over the year. The 21.0% rise in our total shareholder return over the year significantly exceeded the 13.8% return of our benchmark, the FTSE All-World Index.

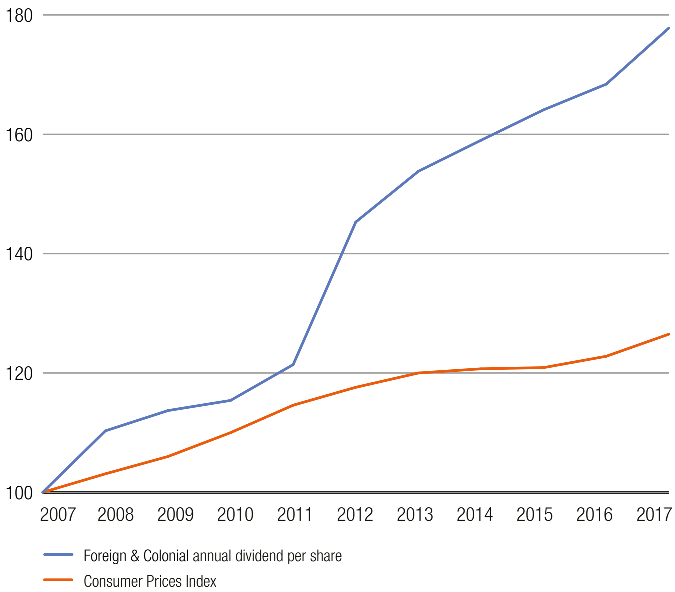
Many of our investment portfolios delivered returns in excess of their market benchmarks and we benefited from exposure to technology related stocks and the outperformance of Europe, Japan and

Foreign and Colonial NAV and share price performance vs Market benchmark(1) over 10 years



Source: F&C & Thomson Reuters Eikon

Foreign and Colonial annual dividend per share vs Consumer Prices Index over 10 years



Source: F&C & Thomson Reuters Eikon

(1) See Glossary of terms on pages 91 and 93 for explanations of "Benchmark" and "Market benchmark"

Emerging Markets. In another year of strongly rising equity markets gearing was also helpful to performance. Returns on our private equity investments were lower than on our listed equities but have been higher over the longer term. The majority of our private equity portfolio was invested over ten years ago and is therefore quite mature. I am pleased to say that this means our fund of fund programme is returning cash to us (£77.8m net in 2017).

Delivering long-term growth in capital and income

We look to deliver sustainable long-term growth in capital and income and I am pleased to say that over ten years our share price total return is 156.1%. This is equivalent to 9.9% per annum. Over twenty years it is 453.4%, which equates to 8.9% per annum.

Dividend growth has also been strong, with an annualised rise of 5.9% in payments over the past decade and 7.4% over the past twenty years. Foreign & Colonial has paid a dividend every year for 150 years.

Earnings and Dividends

We continued to see good growth in income during the year helping to bring our Net Revenue Return per share up to 11.7 pence from 10.6 pence last year. While sterling had gained slightly against a number of major currencies by the end of the year, average exchange rate levels over the period were still down on 2016 and this was estimated to add to our income by £3m (£6m in 2016). Special dividends treated as income were £2.7m for the year, £1.7m lower than last year.

Shareholders will be asked to approve a final dividend of 2.7 pence per share payable on 1 May 2018. This will bring the total dividend for the year to 10.4 pence, a rise of 5.6%, which compares with the 3.0% rise in the Consumer Prices Index, and will be the 47th year of rising dividends. The 2017 dividends are fully covered by earnings and after payment of the final dividend the Revenue Reserves will significantly exceed one year's worth of dividends.

The Board remains confident that our investment portfolio will generate revenue increases higher than inflation over the long term and our intention is to continue to deliver sustainable real rises in dividend per share to shareholders.

Efficiency

Control of costs continues to be a focus of the Board. Annualised costs are calculated as a proportion of net assets in accordance with two recognised yardsticks: the AIC's "Ongoing Charges", and the EU's new "Total Cost" measure introduced under PRIIPs[(1)]. These are set out on page 15. Ongoing Charges for 2017, which take account of expected future costs, have remained level at around 0.8% of net assets for the last three years. This calculation includes approximately 0.3% attributable to fees incurred within investee funds. Total Costs, as measured under the EU rules for the first time, include costs such as interest and transaction charges as well as the charges within investee funds and therefore show a higher figure of 1.06%. The Board and Manager will keep the Company's costs under continuous review.

Discount

The Board has long been committed to effective discount control that provides benefits for shareholders in terms of reducing volatility and enhancing returns. The Company's discount to NAV started the year at 7.4% but, due to improved investor demand, narrowed to 4.3% by the end of the period further enhancing shareholder returns. The average discount level of 6.7% for the year was the lowest seen for over twenty years.

The number of shares bought back by your Company in 2017 fell to a low level of 4.4m shares. The shares have recently been trading, and bought back, within a 5% discount level, which represents significant progress since adjusting our policy towards a 7.5% average attainment level in May 2015.

The Board will continue to use buybacks for the benefit of shareholders in pursuit of a sustainably low deviation between the price and NAV per share in normal market conditions. No reference will therefore be made in future to a specific attainment level for the Company's discount. The policy and the levels within which it operates will continue to be reviewed with the aim of achieving our long-held aspiration of seeing the Company's shares trading at or close to NAV.

Key Information Document

In the context of investment performance, I should draw your attention to the EU's PRIIPs regulations which came into effect in January of this year. Their purpose is to improve the functioning of financial markets and increase customer protection. One aspect is the responsibility of our management company to produce a Key Information Document. Retail investors must now be directed to this before buying or selling shares in the Company. The document has been prepared according to a prescriptive methodology under the regulation such that the investment performance scenarios, based on recent past performance, may indicate future returns for shareholders that are too optimistic. This affects investment trusts generally and concerns have been expressed within the industry. It is to be hoped that these issues will be quickly resolved but, in the meantime, we will continue to remind shareholders to heed the maxim that past performance should not be taken as a guide to the future.

The Board

As part of the Board's succession plans, we are very pleased that Beatrice Hollond agreed to join the Board in September. She brings to us her significant experience in asset management and as a non-executive director, including investment trusts.

"F&C Investment Trust"

Our anniversary year provides a natural reflection point to ensure your Company continues its contribution and relevance in the modern world. As part of this, our marketing will increasingly take

(1) See Glossary of terms on page 93.

place under the Company's commonly used name "F&C Investment Trust"; the name with which Foreign & Colonial has always been synonymous. At the AGM shareholders will be asked to approve an amendment to the articles of association to enable the Directors to change the Company's corporate name to "F&C Investment Trust PLC" in the year ahead.

Your Company, your future

While we look forward to celebrating our 150th anniversary in a number of ways our greatest focus is, as always, on the future of the Company and the part that it continues to play within the investment sector as a whole. Despite the growth in the industry, there is still much work to be done in helping people to understand the benefits of saving and investing for the longer term given that there is now a much greater need for individuals to take control of their future financial wellbeing. State and private pensions will simply not be able to provide a comfortable retirement. The fact that life-expectancy is so much longer, combined with the rapid rise in the cost of care in old age means that people will also have to plan their savings for their future requirements much more carefully. Consequently, we will be focusing considerable effort during our anniversary year on supporting broader financial education across schools and universities.

More than ever before the financial services industry needs to create simple to use, transparent investment products that help everybody in our society invest for the long term and secure their financial future. Your Company meets that need by being structured to provide a clear investment choice, particularly for smaller investors to have as a core holding of their investment portfolio. Indeed, we are confident that your Company will remain an appropriate choice for any longer-term investor, however small or large, for many years to come. In 2018 we face another period of political and economic uncertainty as well as market volatilty, but we still strongly believe that the best long-term investment approach is to hold a globally diversified portfolio of publicly listed and private equities such as Foreign & Colonial.

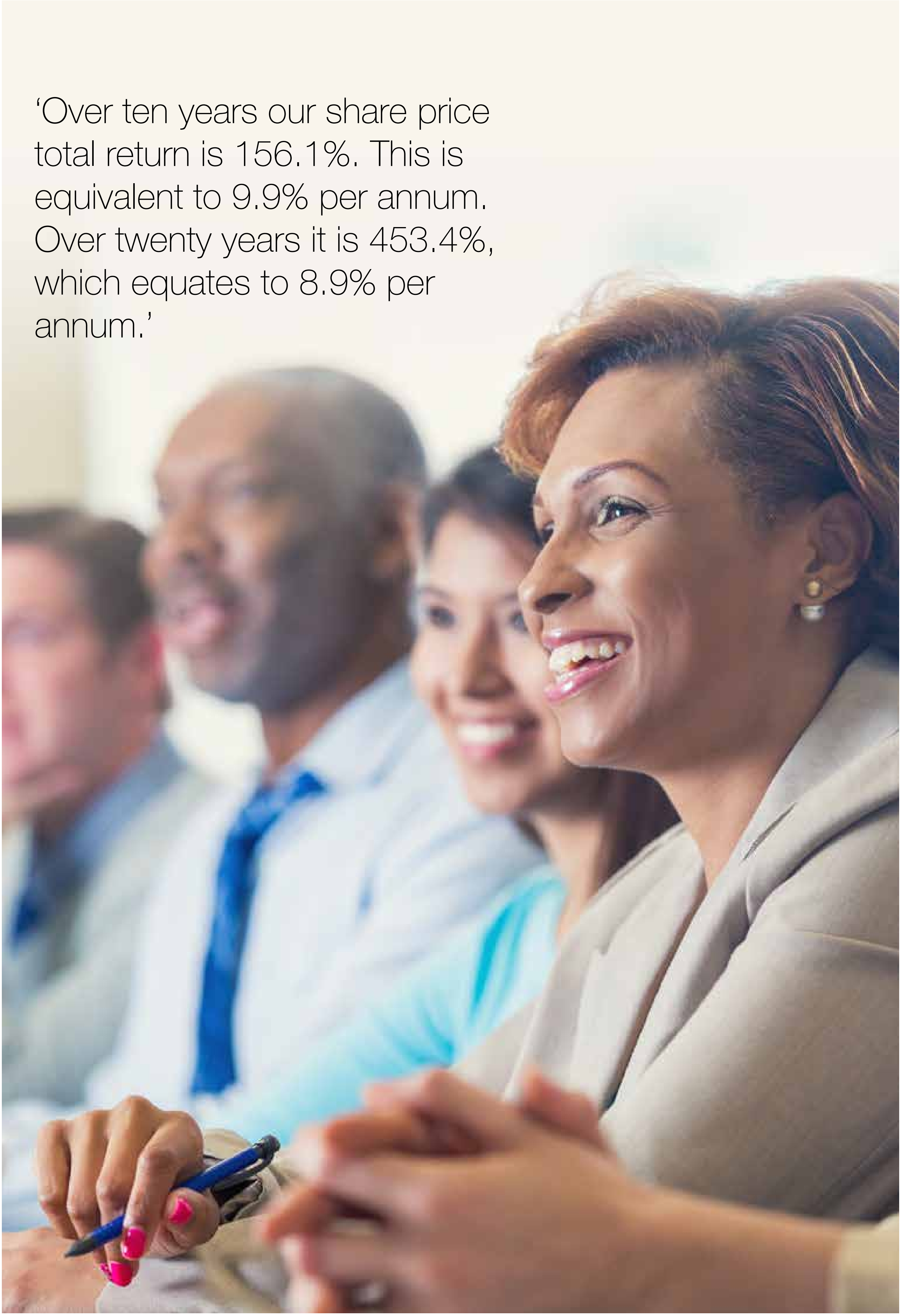
Simon Fraser
Chairman
6 March 2018

'The investment trust that launched an industry 150 years ago is as relevant today as it ever was.'

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 our share price total return is 156.1%. This is equivalent to 9.9% per annum. Over twenty years it is 453.4%, which equates to 8.9% per annum.’



Strategic Report

We provide our shareholders with long-term growth in capital and income. We do this by investing mainly in public and private equity markets, using borrowings to enhance returns and by controlling costs. Our investments are held in a number of portfolios that are individually concentrated, but are managed as a whole to provide global diversification, lower volatility and lower risk. This strategy produces investment out-performance over the longer term.

Business model

The Directors have a duty to promote the success of the Company. As an investment company with no employees, we believe that the optimum basis for doing this and achieving our objective is a strong working relationship with our appointed Manager, FCIB, a subsidiary of F&C. Within policies set and overseen by the Board of Directors, the Manager has been given overall responsibility for the management of the Company's assets, asset allocation, gearing, stock and sector selection and risk. As part of this, they have the flexibility to blend their expertise with those of other fund managers by delegating the management of some investment portfolios externally. These include the North America publicly listed equities portfolios and the Private Equity funds of funds portfolios, while a wide range of externally managed investment funds are held within our Global Multi-Manager portfolio. Engagement on environmental, social and governance ("**ESG**") matters are also undertaken by F&C.

To provide a breadth of sources of return, the individual investment portfolios are managed on a global or regional basis. While we invest in equities, we retain complete investment flexibility to invest in other types of securities or assets depending on the return prospects and in consideration of the implications for the broader portfolio. Furthermore, as a closed-ended listed investment company we are not constrained by asset sales to meet redemptions. Our share capital structure gives us the flexibility to take a longer term view and stay invested while taking advantage of illiquidity throughout normal and volatile market conditions. Having the ability to borrow to invest gives us a significant advantage over a number of other investment fund structures.

The Board remains responsible for decisions over corporate strategy; corporate governance; risk and control assessment; setting policies detailed on pages 12 and 13; setting limits on gearing and asset allocation; monitoring investment performance; and setting and monitoring marketing budgets.

ESG impact

As the Company has no employees and no premises, the Board has concluded that the direct impact of its activities is minimal. The Company's indirect impact occurs through the large range of organisations and businesses in which it invests. The Company aims to mitigate their impact through the implementation of F&C's Responsible Ownership policy, which encourages investee companies to focus on ESG matters.

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 ESG issues. The statement is available on F&C's website at http://www.bmogam.com/corporate/about-us/responsible/.

Our ESG policies are aligned towards the delivery of sustainable investment performance over the longer term and are set out on page 13.

Manager evaluation

Investment performance and responsible ownership are fundamental to delivering sustainable long-term growth in capital and income for our shareholders and therefore an important responsibility of the Directors is exercising a robust annual evaluation of the Manager's performance. This is an essential part of the strong governance that is carried out by the Board of Directors, all of whom are independent and non-executive.

The process for the evaluation of the Manager for 2017 and the basis on which the decision to reappoint them for another year are set out on page 38. FCIB's fee as Manager is based on the market capitalisation of the Company, thus fully aligning their interests with shareholders through share price performance.

In 2017 F&C engaged with 239 companies held by Foreign & Colonial over 35 countries and had voted in respect of Foreign & Colonial's holdings at 356 company meetings on a range of ESG issues.

Fund Manager and the specialist management teams

As Fund Manager on behalf of FCIB, 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. His role covers tactical decisions over the allocation of assets between the different investment portfolios as well as decisions over levels and timing of gearing within the prescribed range. He has responsibility for overall portfolio composition but delegates stock selection decisions. The underlying specialist portfolio management teams are responsible and accountable to him and ultimately to the Board for their investment performance.

Shareholder communication and marketing

We foster good working relationships with our key stakeholders; our Manager, as described above, and our shareholders. With approximately 90% of our shareholder register in the hands of around 100,000 retail investors, and savings or execution-only platforms representing an increasingly significant and growing element of the shareholder base, we remain focused with our Manager on the optimal delivery of the Company's investment proposition. All available channels are used including the internet and social media as well as the F&C Savings Plans, which remain a cost effective and flexible way to invest in the Company.

Managing risks and opportunities

We look to make good use of our corporate structure and the investment opportunities that lead to long-term growth in capital and income for our shareholders. Like all businesses, these opportunities do not come without risks and uncertainties and so the performance of the Manager is monitored at each Board meeting on a number of levels. In addition to managing the investments, the ancillary functions of administration, secretarial, accounting and marketing services are all carried out by the Manager. They provide reports on the investment portfolios; the wider portfolio structure; risks; compliance with borrowing covenants; income, dividend and expense forecasts; errors; internal control procedures; marketing; shareholder issues, including the Company's share price discount to net asset value; and accounting and regulatory updates. The performance of each individual investment portfolio is reviewed through a series of presentations given by each specialist management team throughout the year.

Shareholders can assess our financial performance from the Key Performance Indicators that are set out on page 15 and, on page 16, can see what the Directors consider to be the Principal Risks that we face. The risk of not achieving the Company's objective, or of consistently under-performing the Company's benchmark or competitors, may arise from any or all of inappropriate asset allocation, poor market conditions, ineffective or expensive gearing, poor cost control, loss of assets and service provider governance issues. In addition to continually monitoring the Manager's performance, their commitment and available resources and their systems and controls, the Directors also review the services provided by other principal suppliers. These include the Custodian and Depositary in their duties towards the safeguarding of the assets.

The policies applied in running the Company are set out in detail on the following page, whilst the Fund Manager's review of activity in the year can be found on page 18. In the light of the Company's strategy, investment processes and control environment (relating to both the oversight of the Company's service providers and the effectiveness of the risk mitigation activities), the Board has set out on page 17 its reasonable expectation that the Company will continue in operation for the next ten years.

Policy Summary

Investment Policy

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. Any unlisted investment requires specific Board approval with the exception of new private equity investments, responsibility for which has been delegated to F&C. 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.

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.

Borrowing Policy

The Company has the flexibility to borrow over the longer term and to use short-term borrowings by way of loans and overdrafts. 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.

Dividend Policy

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.

Taxation Policies

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

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("**Section 1158**") such that it does not suffer UK Corporation Tax on capital gains; ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due; and ensures that it claims back in a timely manner, where possible, all taxes suffered in excess of taxation treaty rates on non-UK dividend receipts.

Marketing Policy

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.

Discount Policy

The Board uses buybacks for the benefit of shareholders where they see value and, importantly, in pursuit of a sustainably low deviation between the price and NAV per share in normal market conditions. No reference will therefore be made in future to a specific attainment level for the Company's discount. The policy and the levels within which it operates will continue to be reviewed with the aim of achieving the long-held aspiration of seeing the Company's shares trading at or close to NAV. 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.

Environmental, Social and Governance (ESG) Policies

In setting the Company's ESG policies, the Board has considered the requirements of Section 172 of the Companies Act 2006 (regarding promoting the success of the Company for the benefit of stakeholders) and the EU Non-Financial Reporting Directive (EU/2014/95). The Board anticipates that its disclosures on ESG matters will evolve in future years.

Responsible ownership

As an investment vehicle, all 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. Neither does it provide goods nor services in the normal course of business and does not have customers. In consequence, it does not directly generate any greenhouse gas or other emissions or pollution and it is not required to make any statement under the Modern Slavery Act 2015.

The Board supports F&C in its belief that good governance creates value. F&C takes a particular interest in corporate governance and sustainable business practices, and continues to work on systematically incorporating environmental, social and governance factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term. Engagement with companies on significant regulatory and ESG matters, so as to reduce risk, improve performance, encourage best practice and underpin long-term investor value forms an important part of F&C's approach towards responsible investment.

With regard to possible tax evasion by investee companies, the Board believes that it is best in the first instance to engage proactively with companies to ensure high standards of corporate governance rather than exclude investment opportunities on the basis of tax practices. F&C will therefore engage with the boards of investee companies in an effort to ensure that their tax policies are both prudent and sustainable. Investee company boards are expected to disclose to shareholders that they are providing appropriate oversight over their tax policies.

F&C's Corporate Governance Guidelines set out expectations of the boards of investee companies in terms of good corporate governance. This includes the affirmation of responsibility for reviewing internal business ethics systems, and ensuring that there is an effective mechanism for the internal reporting of wrongdoing, whether within the investee company itself, or involving other parties, such as suppliers, customers, contractors or business partners. Under legislation, which is developing globally, there will be scope for more rigorous enforcement of anti-corruption and anti-bribery.

In addition to this, the Board applies a strict anti-bribery and anti-corruption policy insofar as it applies to any directors or employee of F&C or of any other organisation with which the Company conducts business. The Board also ensures that adequate procedures are in place, and followed, in respect of third party appointments, acceptance of gifts and hospitality and similar matters.

Voting on portfolio investments

The Board expects to be informed by the Manager of any sensitive voting issues involving the Company's investments. In the absence of explicit instructions from the Board, the Manager 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.

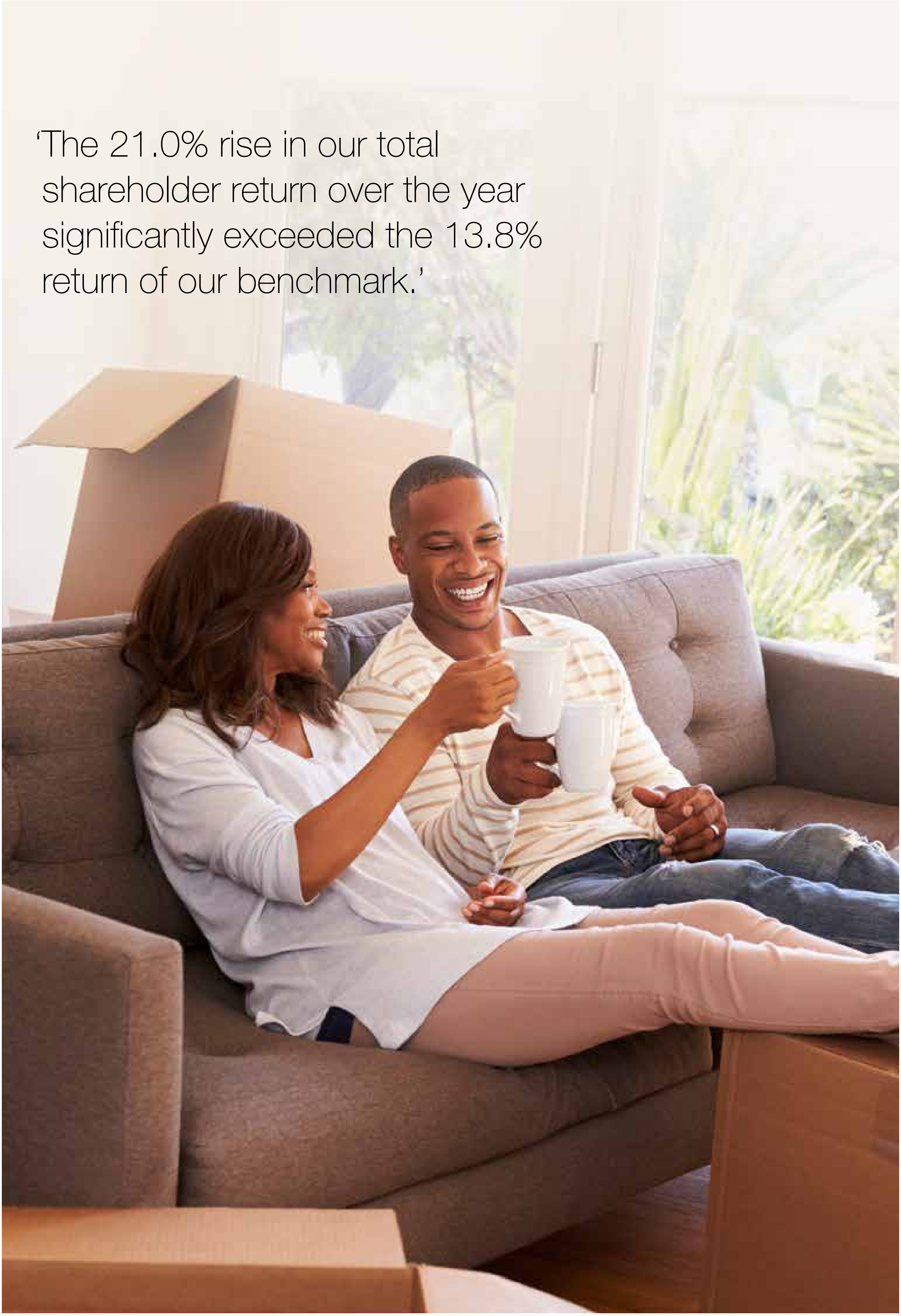
In 2017 F&C engaged with 239 companies held by Foreign & Colonial over 35 countries and had voted in respect of Foreign & Colonial's holdings at 356 company meetings on a range of issues. In addition to corporate culture and business ethics, key engagement themes in 2017 focused on management of climate change and natural resource scarcity, as well as on labour standards, governance and remuneration – the latter having been particularly pertinent in the UK where shareholders voted on binding resolutions to corporate pay policies.

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 10.

Board diversity

The Board is composed solely of non-executive Directors and has 37.5% female representation. The Board's approach to the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including gender. The Board complies with the UK Corporate Governance Code in appointing appropriately diverse, independent non-executive directors who set the operational and moral standards of the Company. The Board will always appoint the best person for the job and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability. Further details on the operation of this policy are given in the Nomination Committee Report on page 42.

'The 21.0% rise in our total shareholder return over the year significantly exceeded the 13.8% return of our benchmark.'



Key Performance Indicators

The Board assesses the efficacy of its strategy by comparing the Company's long-term performance against the following four key measures (Performance, Dividend, Discount and Efficiency). Detailed commentary on these measures can be found in the Chairman's Statement and Fund Manager's Review.

Performance: Total returns(1)

	1 Year %	3 Years %	5 Years %	10 Years %	**The Board's policy is to secure long-term growth in capital and income**
Foreign & Colonial share price	21.0	63.2	125.3	156.1	This compares the Company's share price and NAV total return against those produced by the constituents of the Market benchmark and our peer group, and against inflation. The Market benchmark takes into account the change in January 2013 from a composite benchmark (40% FTSE All-Share/60% FTSE WI World Index ex UK) to the FTSE All-World Index as the new Benchmark.
Foreign & Colonial NAV (with debt at market value)	16.9	55.8	108.6	129.3	
Market benchmark(2)	13.8	53.5	106.7	143.8	
AIC Global Sector Median share price (investment companies)(3)	21.1	55.3	113.8	142.5	
AIC Global Sector Median NAV (investment companies)(3)	17.1	52.1	98.4	123.5	
IA Global Sector Median (open-ended funds)(3)	13.2	45.3	90.3	102.2	
Consumer Prices Index	3.0	4.8	7.5	26.5	

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

Dividend: Dividend Growth per annum

	1 Year %	3 Years %	5 Years %	10 Years %	**The Board's long-term policy is to deliver a rising dividend stream In real terms.**
Foreign & Colonial dividend	5.6	3.8	4.1	5.9	This shows the Company's compound annual dividend growth rate and compares it to the Consumer Prices Index.
Consumer Prices Index	3.0	1.6	1.5	2.4	

Source: F&C and Thomson Reuters Eikon

Discount: Share price discount to NAV

Year ended:	31 Dec 2017 %	31 Dec 2016 %	**The Board's discount policy aspiration is to see the Shares trading at or close to NAV per share.**
Discount at 31 December	4.3	7.4	A "Discount" arises when the share price is lower than the NAV per share (with debt at market value). A high discount may indicate the need for shares to be bought back.
Average discount in year	6.7	9.7	

Source: F&C

Efficiency: Costs

Year to:	31 Dec 2017 %	31 Dec 2016 %	31 Dec 2015 %	31 Dec 2014 %	31 Dec 2013 %	**The Board's policy is to control the costs of running the Company**
Ongoing charges(1)	0.79	0.79	0.80	0.87	0.86	This data measures the running costs as a percentage of the average net assets in the year. Total Costs are inclusive of interest expense and transaction charges.
Total Costs(1)	1.06	n/a	n/a	n/a	n/a	

Source: F&C

(1) See Alternative Performance Measures on page **90** for explanation
(2) See Glossary of terms on pages **91** and **93** for explanations of "Benchmark" and "Market benchmark"
(3) These are considered by the Board to be the most relevant and reliable industry-standard peer group performance measures.

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 success. 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 46 and 47 and in note 25 on the accounts. The 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. **Unchanged throughout the year under review**	The Board assesses investor needs through targeted research and marketing, the effectiveness of which is kept under continuous review. Overall business strategy is formally discussed annually with the Manager and is monitored by the Board throughout the year against their own objectives. A discount control mechanism has operated over many years. **The Company's discount is a KPI measured by the Board on an ongoing basis.**
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, gearing and income forecasts are reviewed with the Fund Manager at each Board meeting. Cash, borrowing and derivative limits, as well as dividend paying capacity, are 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. The Company has a Revenue Reserve which can be used to pay growing dividends in years when income receipts fall as a result of poor market conditions. **The performance of the Company relative to its Market Benchmark, its peers and inflation is a KPI measured by the Board on an ongoing basis.**
Failure of F&C as the Company's main service provider to continue to operate effectively, including the loss of key staff, and within regulations. **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. **Performance KPIs and Manager errors are monitored by the Board for indications of continuity or other Manager issues.**
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 remain heightened. **Unchanged throughout 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. **The Board additionally monitors efficiency of service providers' processes through efficiency KPIs.**

Through a series of connected stress tests based on historical information, but forward-looking over the ten years commencing 1 January 2018, 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.

In concluding that ten years is a reasonable period over which to assess future prospects of the Company, the Board considers that this approximates the periods relating to:

- its private equity commitments;
- its borrowings, repayable by June 2031; and
- the Corporate Governance rules relating to the Directors' tenure.

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.

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

Actions taken in the year

In continuing to apply the discount control mechanism, the Board bought back fewer shares than in 2016. Marketing campaigns continued throughout the year, including promotion across financial and other relevant websites and publications.

The Board continuously measures the Manager's investment performance against the Key Performance Indicators set out on page 15 and is satisfied that the Manager's long-term performance remains in line with expectations.

The Board has reviewed F&C's controls and risk management structure as part of its annual assessment. The Board met senior management as part of the reappointment process described on page 38. The viability, systems and staffing capabilities of the Manager were fully reviewed by the Board and a decision was taken to continue with the Manager's services. Thorough review and challenge of the Manager were provided through the Audit Committee, the Management Engagement Committee and the Board.

The Audit Committee regularly reviews the Company's risk management framework with the assistance of the Manager. Supervision of third party service providers has been maintained by F&C and includes assurances regarding IT security and increasing cyber-threats. The Board received a presentation during the year from the Custodian on its own cyber-security controls. The Depositary maintained oversight of custody of investments and cash and its regular reports to the Board indicated no matters of concern. The Board has engaged with the Manager and Registrar to ensure that the new General Data Protection Regulations will be properly and fully implemented for the safeguarding of all personal data held by the Company.

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 Brexit and other political uncertainties.
- The Company is inherently structured for long-term outperformance, rather than short-term opportunities, with ten years considered as a sensible time-frame for measuring and assessing long-term investment performance.
- The Company is able to take advantage of its closed-ended investment trust structure.
- The Company has the ability to hold a proportion of long-term less liquid private equity investments with ten years typically 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

2017 was another very good year. We comfortably exceeded benchmark returns and all of our investment portfolios produced a pleasing level of absolute returns with Europe, Japan and Emerging Market areas providing the strongest returns in sterling terms on a regional basis.

Investment performance in 2017

Our NAV total return of 16.9% compared favourably to the benchmark total return of 13.8%. Shareholder returns were further enhanced by a reduction in our share price discount to NAV, which ended the year at 4.3% to give a shareholder total return of 21.0%.

We maintained a higher weighting than our benchmark index in each of the highly performing areas of Europe, Japan and Emerging Markets, which added to our overall return. Returns from Europe were boosted by strength in the euro, which gained by 4.1% against sterling. In contrast, the US equity market delivered another year of strong gains in local currency terms, but the weak US dollar relative to sterling detracted from sterling based returns. Our year-end allocations and underlying geographic exposures are shown in the table opposite.

Significant steps have been taken in recent years to increase our global exposure on the portfolio and we ended the year with less than 6% in UK listed corporates. Many large UK listed companies are, of course, internationally focused in terms of operations, revenues and profits, but the UK equity market benchmark again produced returns which generally lagged those of overseas markets; a gain of 11.8%. Our return of 10.5% lagged the benchmark, with a negative impact from our overweight position on media stocks (through Daily Mail) and underperformance from selected stocks (Barclays) in the banking sector.

North America made up 47.7% of the underlying geographic exposure of our investments, though still below the benchmark weighting of 54.2%. The gain of 25.3% in sterling terms from our growth oriented manager, T Rowe Price, was amongst the highest return from all of our investment portfolios. Our overall return in Sterling from the US portfolios was 14.9% against the benchmark 11.3%. Much of this return can be attributed to the area of focus of investment opportunities from this manager and a high weighting in technology and healthcare stocks in the US. Performance from stocks such as Amazon, Facebook and Alphabet (which gained by between 33% and 56% in local terms over the year) as well as Tencent (115% in US$) and Alibaba (96% in US$) on this part of the portfolio contributed meaningfully to returns and enabled T Rowe Price to deliver exceptional gains, also exceeding those available from growth oriented market indices.

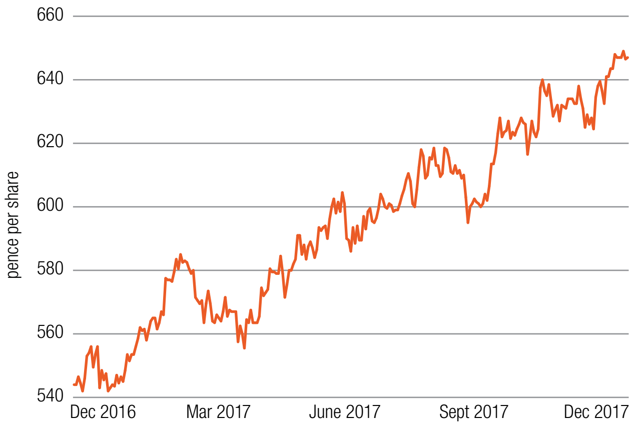
Our other main allocation in North America is value focused and managed through Barrow Hanley. While value strategies generally had a poor year, Barrow Hanley produced creditable results against value based indices. Nevertheless, a return of only 6.0% in sterling terms, relatively anaemic performance from this area and a general focus on financials and more lowly valued opportunities in healthcare, energy and technology sectors served to illustrate the gulf in performance over the year between highly rated stocks with fast growing fundamentals and more lowly valued but slower growing companies.

The European portfolio delivered good relative returns over the year, with a gain of 19.3% in sterling terms. Early concerns over elections in France and the Netherlands receded and there were clear signs of improvement in the economic growth trajectory for the Eurozone as the year progressed. By mid-year the corporate sector in Europe was reporting the strongest earnings season in a decade and our strategy benefited from strong stock selection and underweight positions in oil and gas, telecoms and retailers. We raised exposure to cheaper domestic companies to benefit from improving growth prospects and reduced exposure to more expensive quality companies.

Japan also posted good returns, with our return of 15.7% exceeding the market return of 14.4% in 2017.

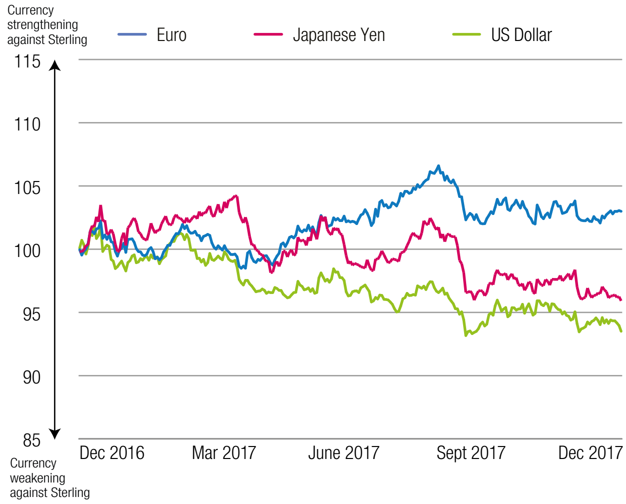
2017 was the best year for global Emerging Markets investors since 2009 in US dollar terms. Emerging Markets also delivered the strongest regional returns in 2017. Our exposure produced a healthy return of 25.6% in sterling terms, which was broadly in line with market indices. The portfolio manager performed well in the first half but gave back relative performance as the year progressed. Within this portfolio we have a focus on strong free cash flow generation and quality opportunities from companies with high exposure to domestic emerging markets growth.

Foreign & Colonial share price 2017



Source: F&C

Currency movements vs Sterling in 2017



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 2017

Investment Portfolio Strategy	Our portfolio strategy weighting %	Underlying geographic exposure(1) %	Benchmark weighting %	Our strategy performance in Sterling %	Index performance in Sterling %
UK	4.3	5.8	6.1	10.5	11.8
North America	33.8	47.7	54.2	14.9	11.3
Europe ex UK	13.2	19.9	15.1	19.3	17.2
Japan	8.5	10.6	8.6	15.7	14.4
Emerging Markets	11.1	13.2	11.8	25.6	25.8
Developed Pacific	–	2.9	4.2	–	15.9
Global Strategies(2)	22.8			15.8	13.8
Private Equity	6.3			5.9	

(1) Represents the geographic exposure of the portfolio, including underlying exposures in private equity and fund holdings
(2) The Global Strategies consist of Global Income, Global Multi-Manager and Global Smaller Companies.

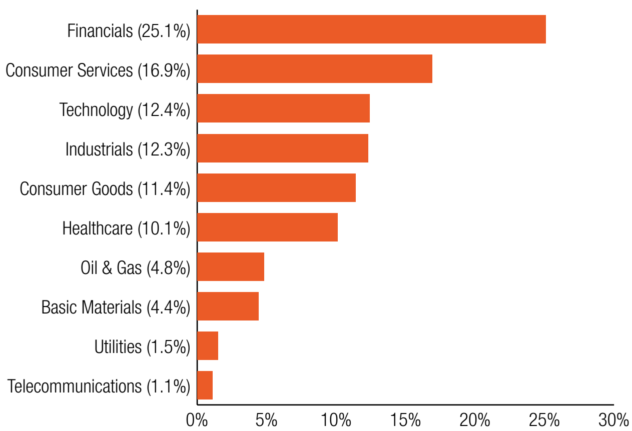
Source: F&C

Contributors to total returns in 2017

	%
Portfolio return	15.8
Management fees	(0.4)
Interest and other expenses	(0.3)
Buy-backs	0.1
Change of value of debt	(0.1)
Gearing/other	1.8
Net Asset Value total return	**16.9**
Decrease in discount	4.1
Share price total return	**21.0**
FTSE All-World total return	13.8

Source: F&C

Underlying Classification of Listed Investment Portfolio as at 31 December 2017



Source: F&C

Our investments are held in a number of portfolios that are individually concentrated, but are managed as a whole to provide global diversification and lower risk.

Our combined Global Strategies performed well over the year. This section of the portfolio contains a multi-manager component, an allocation to smaller companies and an income focused strategy. Our Global Multi-Manager team seek performance from fund selection and strong performance from a number of our underlying holdings globally contributed to the good performance. The Global Smaller Companies exposure also performed strongly with stock selection contributing meaningfully to returns with a gain of 17.9%. Despite a more challenging year for stocks with high dividend yields, our Global Income portfolio still delivered returns ahead of the market. This was a creditable result as this income focused area of the portfolio continues to produce a meaningful yield pick-up relative to the market without significant sectoral or country risks to the broader market.

Our private equity exposure produced returns of 5.9%. This was the lowest return of our investment portfolio strategies in 2017 and significantly lagged those from listed equity markets. This investment portfolio contains a mix of historic holdings in private equity fund of funds managed by specialists Harbourvest and Pantheon, as well as a much smaller portion of more recent direct fund and co-investments that are selected by F&C. We also have a holding in Syncona, which is transforming into a life sciences company. Having purchased this holding in late 2016, we saw a greater than 51% gain in value in 2017. Value began to be realised from within Syncona's portfolio as their largest holding, Nightstar, underwent a successful IPO in the US and clinical trials on some other holdings gave rise to optimism on future commercial opportunities.

Portfolio activity

After significant progress in recent years, there was more limited activity in terms of allocation between investment portfolio strategies in 2017. We made £29.8m of new commitments to Private Equity investments but, with £77.8m of net cashflow returned from existing investments and the strong relative performance of listed equities the overall allocation had fallen to 6.3% of the overall portfolio by the end of the period. Our UK equity exposure was cut further to multi-decade lows while Emerging Markets exposure was increased. We now have more than twice as much invested in Emerging Markets listed companies than those in the UK.

Revenue returns

2017 was also a good year for our revenue account and we remain focused on balancing our investment approach towards delivering growth in both capital and income for shareholders. Our gross revenue from investments grew by 11% over the year to £77.9m and although we benefited from £2.7m of special dividends, this was down from the £4.4m received in 2016. Some weakness in average levels of sterling year on year was a modest positive of £3m (2016: £6m) for our income. We now have more than 80% of our revenues derived from overseas listed corporates and therefore movements in sterling will have a greater impact on both capital and revenue returns going forward.

Gearing and buybacks

In a year of strong market gains, our gearing was a positive contributor to returns in the year, adding approximately 1.8% to our NAV. A decline in the value of our US dollar and Japanese Yen denominated loans, caused by strengthening in sterling against these currencies, was beneficial. Our gearing was 7.2% of net assets at the end of the year and we held £102.5m in seven year US dollar and Yen loans which mature in 2019. In addition, we have £64m of 2022 euro denominated loans and £25m/£50m of 2028 and 2031 debt. In addition to these longer dated borrowings we have access to a shorter term revolving credit facility which was drawn by £50m at year end. This facility provides certainty of access to up to £200m of short-term borrowings and was renegotiated over the year to mature in 2019.

In aggregate, our total borrowings at the end of 2017 were £291.9m and we paid an average blended rate of less than 3% across all of our debt. Our borrowing rates remain amongst the lowest seen in the history of your Company and we are mindful that the cost of credit is still low by any historic standard. We will continue to adopt a diversified approach to the structuring and maturity of our debt whilst recognising that current opportunities to borrow longer term are

Investment portfolio strategies attribution in Sterling

	1 year %		3 years %		5 years %	
Region	Return	Index return	Return	Index return	Return	Index return
UK	10.5	11.8	35.5	31.8	59.4	57.5
North America	14.9	11.3	63.8	57.2	159.9	141.2
Europe ex UK	19.3	17.2	48.5	48.7	92.5	88.2
Japan	15.7	14.4	78.3	65.1	127.9	111.9
Emerging Markets	25.6	25.8	47.4	51.3	44.6	51.4
Global Strategies(1)	15.8	13.8	53.3	53.4		
Private Equity	5.9		50.3		91.3	

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.
(1) The Global Strategies consist of Global Income, Global Multi-Manager and Global Smaller Companies and have been in existence for less than five years.
Source: F&C

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	**2017**	**312,500**	**280,898**	**31,602**	**383,170**	**60,176**
	2016	312,500	274,460	38,040	347,095	80,922
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	**2017**	**626,168**	**581,140**	**45,028**	**635,562**	**221,481**
	2016	597,050	554,038	43,012	565,611	240,821
		£'000s	£'000s	£'000s	£'000s	£'000s
Total Sterling denominated portfolio	**2017**	**16,000**	**8,101**	**7,899**	**–**	**8,152**
	2016	9,000	478	8,522	–	452

		Commitment outstanding 31 December 2017 £'000s		Value of holding 31 December 2017 £'000s
Total Private Equity portfolio(1)	Brought forward	75,802		264,423
Committed in 2017(2)		29,780		–
Cash drawn in 2017(2)		(34,141)		34,141
Cash returned in 2017(2)		–		(85,339)
Valuation movements(3)		–		25,345
Exchange movements		(2,087)		(13,276)
Total Private Equity portfolio(3)	Carried forward	69,354		225,294

(1) At exchange rates ruling at 31 December 2016
(2) At actual exchange rates in 2017
(3) At exchange rates ruling at 31 December 2017
Source: F&C

attractive at present. In a year in which buybacks fell to a low level their contribution to the total return was minimal.

Market outlook

The global economy entered 2017 with modest positive momentum. Importantly, recent quarters have seen the recovery gain breadth such that a synchronised upturn in corporate earnings across major regions was delivered for the first time since 2010. This improvement in corporate earnings, combined with low inflation and interest rates, has supported equity markets after a period of patchy performance and general rise in market valuations. It is encouraging to note that growth globally is not restricted to a particular region or single economic powerhouse.

The bullish earnings and growth backdrop looks set to continue into 2018. There is little, at present, to suggest a material slowdown in the overall growth trajectory in the global economy. Indeed, financial indicators are suggestive of strong momentum continuing for the next twelve months, reflecting still supportive monetary and credit conditions. Barring some shock, it now looks more likely than not that the US economic cycle will extend to the longest on record, into 2019.

Despite this constructive backdrop it appears highly unlikely that we will return to any semblance of historic normality in terms of interest rate levels and it also appears that growth and productivity levels will remain relatively subdued. Demographics along with changing corporate dynamics leads to the conclusion that, while we are in a short-term upswing for inflation and interest rates, the next peak in these variables will be at historically low levels. This is important as the recent backdrop has been a strong positive influence on stock markets. The spread between winners and losers has widened, valuations have expanded toward historic highs as inflation and rates have been kept low while corporates have taken an ever larger share of overall output.

Even in a world of synchronised growth, the improvement of Europe's economies stands out. The reasons behind the upturn are self-evident. Europe is at the end of a period of fiscal austerity and this alongside massive monetary expansion is feeding through into a sustained economic upswing. Spain's problems in Catalonia, Italy's forthcoming 2018 election and key wage negotiations in Germany loom on the horizon but we do not foresee these derailing Europe's cyclical upturn.

There is of course one notable outlier in Europe – and that is the UK. Negotiations around its withdrawal from the European Union (EU) are proving difficult and whatever the outcome, the country faces a challenging period of readjustment to life outside the single market. More immediately, the pound is still weak but to date it hasn't done much to enhance the UK's trading position. It has, however, reduced real incomes and squeezed consumption while investment is held back by uncertainty.

In Emerging Markets, China's trend growth rate is slowing. The labour supply has peaked and is set to decline and productivity has been falling – following the path previously trodden by other Asian 'growth miracle' stories. We don't believe that a hard landing is in store for China but it seems reasonable to assume that lower growth is likely to be sustained in the next few years.

In the last few years the markets have been led by a few rapidly growing technology related businesses such as Amazon, Alphabet and Apple in the US and Alibaba, Tencent and Baidu in China. These companies have been able to consistently apply new technologies to disrupt existing business models and grow on the back of it. We have benefited from the market's focus on these companies through our growth portfolios, particularly in the US. Looking forward there is no doubt that the market rally is extended, that the interest rate environment is changing gradually and the valuations in these growth stocks requires them to continue to see their earnings grow rapidly from here. Having said that though, the equity market as a whole is reasonably well underpinned by global economic growth and corporate earnings which will also benefit from tax cuts in the US and does not look expensive compared to other asset classes.

It is difficult to forecast exactly when some of these trends will change in a meaningful way, particularly against a very uncertain geo-political backdrop, but when they do leadership in the market may well shift to the cheaper names in the more traditional sectors. This is why, more than ever, we feel long-term capital growth with limited volatility can be best be achieved through a properly diversified portfolio of equities that diversifies by sector, geography and investment style.

Paul Niven
Fund Manager
6 March 2018

‘Barring some shock, it now looks more likely than not that the US economic cycle will extend to the longest on record, into 2019.’

Twenty largest holdings

1. Amazon.com (1)

US listed e-commerce and cloud computing company. Largest listed internet retailer in the world based on market capitalisation

1.53% Total investments
£60.3m Value

2. Microsoft (5)

US listed technology company focused on software products. The company also designs and sells hardware devices

1.36% Total investments
£53.6m Value

3. Alphabet (4)

US listed parent company of Google. Google's primary business is focused on internet related services and products including its internet search engine

1.09% Total investments
£42.7m Value

4. Unitedhealth (2)

US listed company offering health care products and insurance services. Largest healthcare company in the world by revenue

1.04% Total investments
£41.0m Value

5. Facebook (10)

US listed operator of social media sites and social networking services

0.91% Total investments
£35.6m Value

6. Utilico Emerging Markets (7)

UK listed closed-ended investment company investing into utility and infrastructure industries in Emerging Markets

0.84% Total investments
£33.1m Value

7. Pantheon Europe V A LP Fund(1) (3)

Unlisted private equity fund of funds investing into Europe, with the largest exposure being the UK

0.79% Total investments
£30.9m Value

8. Anthem (25)

US listed health insurance company

0.77% Total investments
£30.3m Value

9. BP (6)

UK listed oil and gas company operating in all areas of the oil and gas industry including exploration and production and refining activities

0.75% Total investments
£29.6m Value

10. J P Morgan Chase (15)

US listed banking and financial services company with a significant asset management and custody business

0.72% Total investments
£28.1m Value

The value of the twenty largest holdings represents 16.20% (2016: 16.32%) of the Company's total investments.
The figures in brackets denote the position within the portfolio at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2017 was £896,000 or 0.0% of total assets less current liabilities (2016: £239,000 or 0.0% of total assets less current liabilities).

(1) 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.

Twenty largest holdings (continued)

11. Apple (26)
US listed technology company predominantly involved in the design, development and sale of consumer electronics and software

0.71% Total investments
£27.8m Value

12. Royal Dutch Shell (44)
UK (and Dutch) listed oil and gas company operating in all areas of the oil and gas industry including exploration and production and refining activities

0.70% Total investments
£27.3m Value

13. Citigroup (29)
US listed banking and financial services company which provides consumer and corporate services

0.65% Total investments
£25.4m Value

14. Alibaba (105)
US listed Chinese company whose business predominantly covers e-commerce, retail, internet and technology services

0.64% Total investments
£25.0m Value

15. Conventum Lyrical Fund (18)
US equity fund with a fundamental value based approach

0.63% Total investments
£24.9m Value

16. Artemis US Extended Alpha Fund (17)
US equity fund combining a traditional portfolio of best ideas with selective shorting of stocks

0.63% Total investments
£24.6m Value

17. State Street (19)
US listed financial services company whose primary business is asset management and custody services

0.63% Total investments
£24.6m Value

18. Priceline (13)
US listed company that, through its websites, acts as an intermediary for travel related purchases

0.62% Total investments
£24.3m Value

19. Intesa Sanpaolo (107)
Italian listed banking group offering retail and corporate banking services and wealth management

0.60% Total investments
£23.7m Value

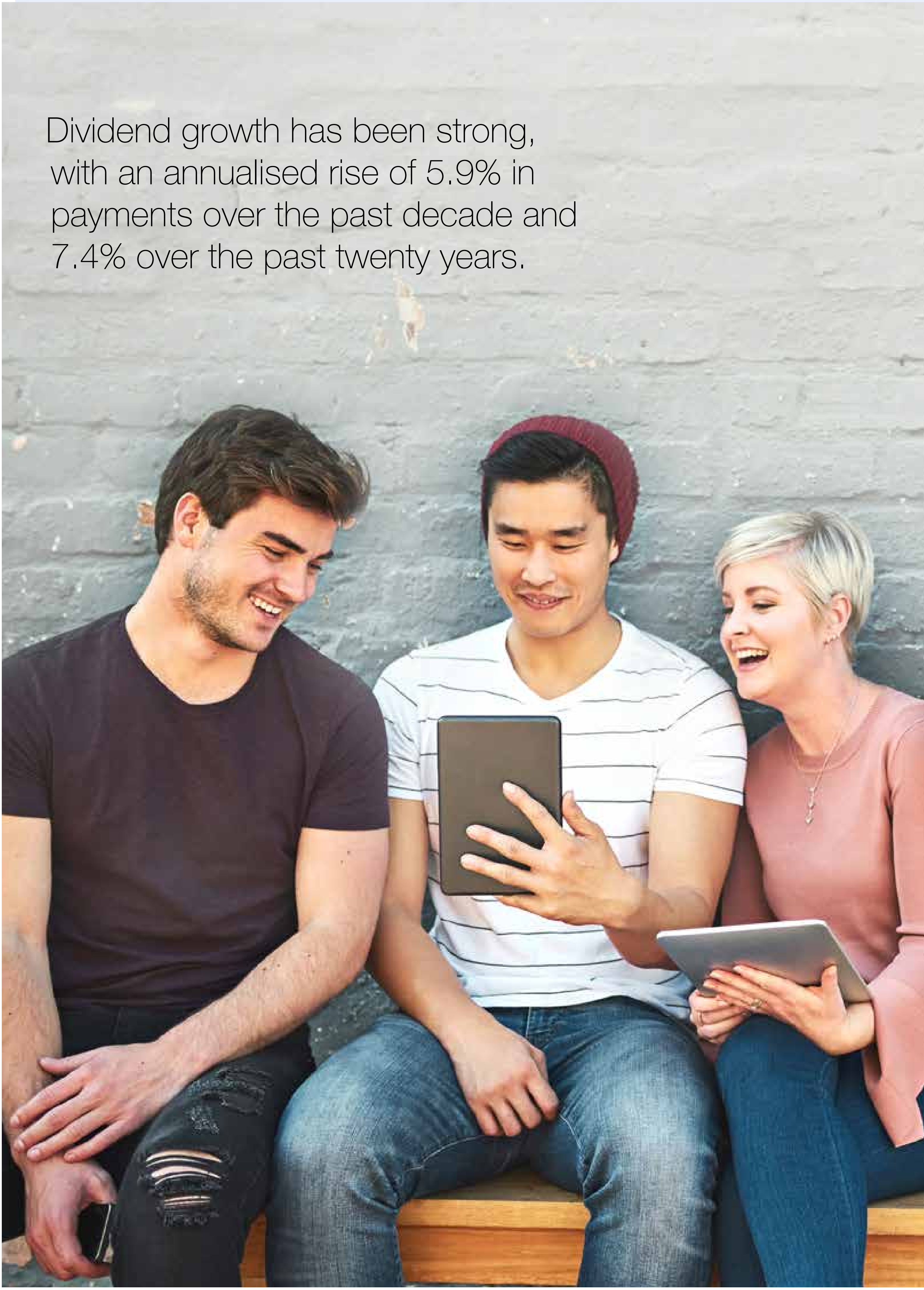
20. British American Tobacco (110)
UK listed tobacco group. Largest listed tobacco company in the world

0.59% Total investments
£23.3m Value

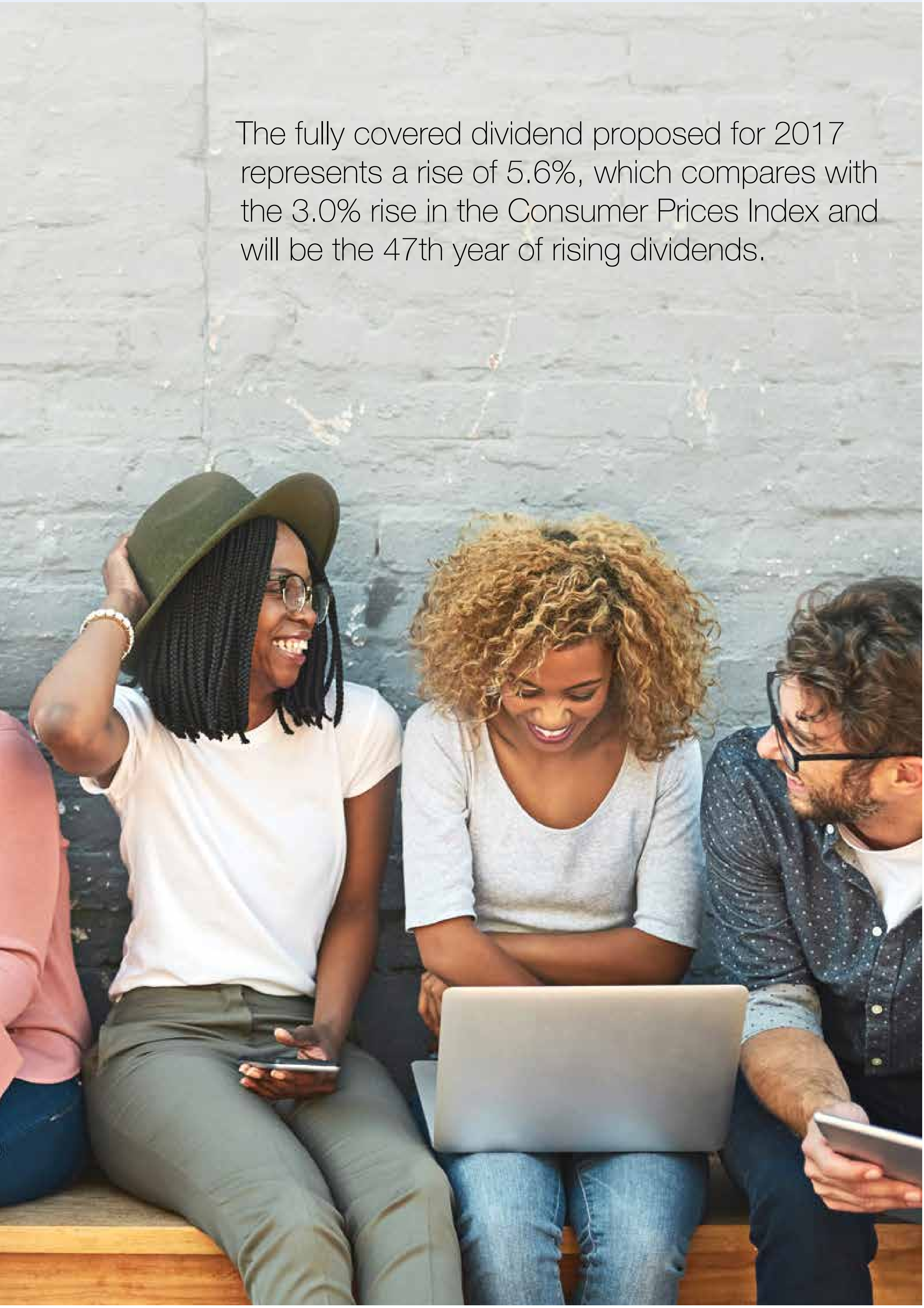
By order of the Board, Simon Fraser, Chairman, 6 March 2018

The Company's full list of investments exceeds 450 and is published monthly on the website at **foreignandcolonial.com**. Copies are also available on request from the Secretary.

Dividend growth has been strong, with an annualised rise of 5.9% in payments over the past decade and 7.4% over the past twenty years.



The fully covered dividend proposed for 2017 represents a rise of 5.6%, which compares with the 3.0% rise in the Consumer Prices Index and will be the 47th year of rising dividends.



Directors

Simon Fraser[2]
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. He is also chairman of The Merchants Trust PLC, Fidelity Funds (Luxembourg) and McInroy and Wood.
Shared directorships with other Directors:
The Investor Forum with Nicholas Moakes

Sarah Arkle[1]
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 Janus Henderson Group PLC and is chairman of JPMorgan Emerging Markets Investment Trust PLC.
Shared directorships with other Directors:
None

Sir Roger Bone KCMG[1] [2]
Senior Independent Director
Appointed to the Board in March 2008. He was president of Boeing UK from 2005 to 2014. In earlier years 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 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, and is also chairman of Over-c-ltd, a small high tech company in the telecoms sector.
Shared directorships with other Directors:
None

Beatrice Hollond[1]
Appointed to the Board on 1 September 2017. Beatrice spent 16 years at Credit Suisse Asset Management in Global Fixed Income and began her career as an equity analyst at Morgan Grenfell Asset Management. She is a member of the Board of Brown Advisory and holds non-executive directorships at Telecoms Plus PLC, M&G Group Limited and Templeton Emerging Markets Investment Trust. Beatrice is chairman at Millbank Investment Management Limited, chairman at Keystone Investment Trust PLC and non-executive director and chairman of the Audit Committee at Henderson Smaller Companies Investment Trust PLC.
Shared directorships with other Directors:
None

Francesca Ecsery[2]

Joined the Board on 1 August 2013. Francesca has extensive expertise in marketing, with over 23 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 Share Plc, Marshall Motor Holdings plc and VISTA Ltd.

Shared directorships with other Directors:
None

Jeffrey Hewitt[1]

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

(1) Members of the Audit Committee
(2) Members of the Nomination Committee

All the Directors are members of the Management Engagement Committee

Edward Knapp[1]

Appointed to the Board in July 2016, Edward brings a combination of general management and operational experience worldwide, with expertise in the digital transformation of large scale organisations, Risk, Strategy and Cyber Security. He is currently 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[2]

Appointed to the Board In March 2011. He is a Managing Partner and Chief Investment Officer of the Investment Division at The Wellcome Trust and a non-executive 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. He is a non-executive director of Jupiter Emerging & Frontier Income Trust PLC.

Shared directorships with other Directors:
The Investor Forum with Simon Fraser

Directors' Report

The Directors submit the Report and Accounts of the Company for the year ended 31 December 2017. 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 arm's length process to provide additional comfort to the Directors in making this statement. The market outlook for the Company can be found on page 22. Principal Risks can be found on page 16 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 7.70 pence per share, together with the final dividend of 2.70 pence per share, which will be paid on 1 May 2018 to shareholders registered on 3 April 2018 subject to approval at the AGM (Resolution 3), will bring the total dividend for the year to 10.40 pence per share. This represents an increase of 5.6% over the comparable 9.85 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. 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 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 56, 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 50. 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 17.

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 48.

Capital structure

At the annual general meeting held on 25 April 2017, 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 4,392,150 shares were bought back all of which were placed in treasury. The shares bought back represented 0.8% of the shares in issue (calculated exclusive of any shares held in treasury) at 31 December 2016. The share buybacks enhanced the NAV per share by 0.2 pence. The purchases were made at prices ranging between 542.3 pence and 647.1 pence and the aggregate consideration paid for the shares, including stamp duty and commissions, was £25,661,000. As at 31 December 2017 there were 561,819,016 ordinary shares of 25 pence each ("**ordinary shares**") in issue of which 19,638,304 were held in treasury. Therefore the total number of voting rights in the Company at that date was 542,180,712. No shares have been bought back between the date of the year end and 1 March 2018.

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 2018 the Company's 561,819,016 ordinary shares in issue less the 19,638,304 shares held in treasury represented a total of 542,180,712 voting rights. As at 31 December 2017 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 610,000 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 a number of borrowing facilities and has in issue fixed rate senior unsecured private placement notes. There is also a multi-currency overdraft facility with JPMorgan Chase Bank and the Company also has a perpetual debenture stock. Further reference is made on page 20 and in notes 13, 15 and 16 on the accounts.

Remuneration report

At the annual general meeting held on 25 April 2017, shareholders approved the Directors' remuneration policy. It is intended that this policy will continue for the three year period ending at the annual general meeting in 2020, when shareholders will next be asked for their approval. The policy can be found on page 43. The Remuneration Report, which can be found on pages 43 to 44, provides detailed information on the remuneration arrangements for the Directors. Shareholders will be asked to approve the report at the AGM. (Resolution 2).

Director re-elections

The names of the Directors of the Company, along with their biographical details, are set out on pages 28 to 29 and are incorporated into this report by reference. All the Directors held office throughout the year under review with the exception of Mrs Beatrice Hollond who was appointed to the Board on 1 September 2017. Mrs Hollond will stand for election by shareholders at the AGM (Resolution 4). 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 5 to 11). Sir Roger Bone has served as a Director for more than nine years. 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.

Directors' interests and indemnification

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

The Company has granted a deed of indemnity to the Directors in respect of liabilities that may attach to them in their capacity as

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

Safe custody of assets

The Company's listed investments are held in safe custody by 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 is set out in the Report of the Management Engagement Committee.

AGM

The AGM will be held at The Brewery, 52 Chiswell Street, London, EC1Y 4SD on Monday, 23 April 2018 at 12 noon. The Notice of Meeting appears on pages 84 to 87 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 £6.7m, (27.1m ordinary shares), being equivalent to approximately 5% of the Company's current issued share capital (calculated exclusive of any shares held by the Company in treasury) as at 1 March 2018, being the latest practicable date before the publication of the notice of the AGM. The authority and power expires at the conclusion of the annual general meeting in 2019 or on 30 June 2019, 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 £6.7m (representing approximately 5% of the issued ordinary share capital of the Company at 1 March 2018, 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 12 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 NAV per ordinary share.

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

At the annual general meeting held in 2017 the Company was authorised to purchase approximately 14.99% of its own shares for cancellation or to be held in treasury. The number of shares remaining under that authority as at 31 December 2017 was 79,332,118 shares or 14.63% of the issued share capital exclusive of the number of shares held in treasury. Resolution 16 will authorise the renewal of such authority enabling the Company to purchase in the market up to a maximum of 81,270,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital exclusive of treasury shares) and the minimum and maximum prices at which they may be bought exclusive of expenses, reflecting requirements of the Companies Act 2006 and the Listing Rules.

The Directors will continue to use this authority in accordance with the policy set out on page 12. 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 annual general meeting in 2019 or on 30 June 2019, whichever is the earlier. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Change of Company name (Resolution 17)

The Directors intend to promote the Company increasingly using the abbreviated name, F&C Investment Trust, a name that has long been synonymous with the name Foreign & Colonial Investment Trust. Resolution 17 will also seek to adopt articles of association in substitution for the existing articles of association. New article 107 will enable the Directors to change the Company's corporate name to "F&C Investment Trust PLC" in the year ahead. A copy of the proposed new articles of association will be available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and Bank holidays excluded) until the date of the AGM and also on the date and at the place of the AGM from 15 minutes before the commencement of the AGM until it's conclusion.

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 31.

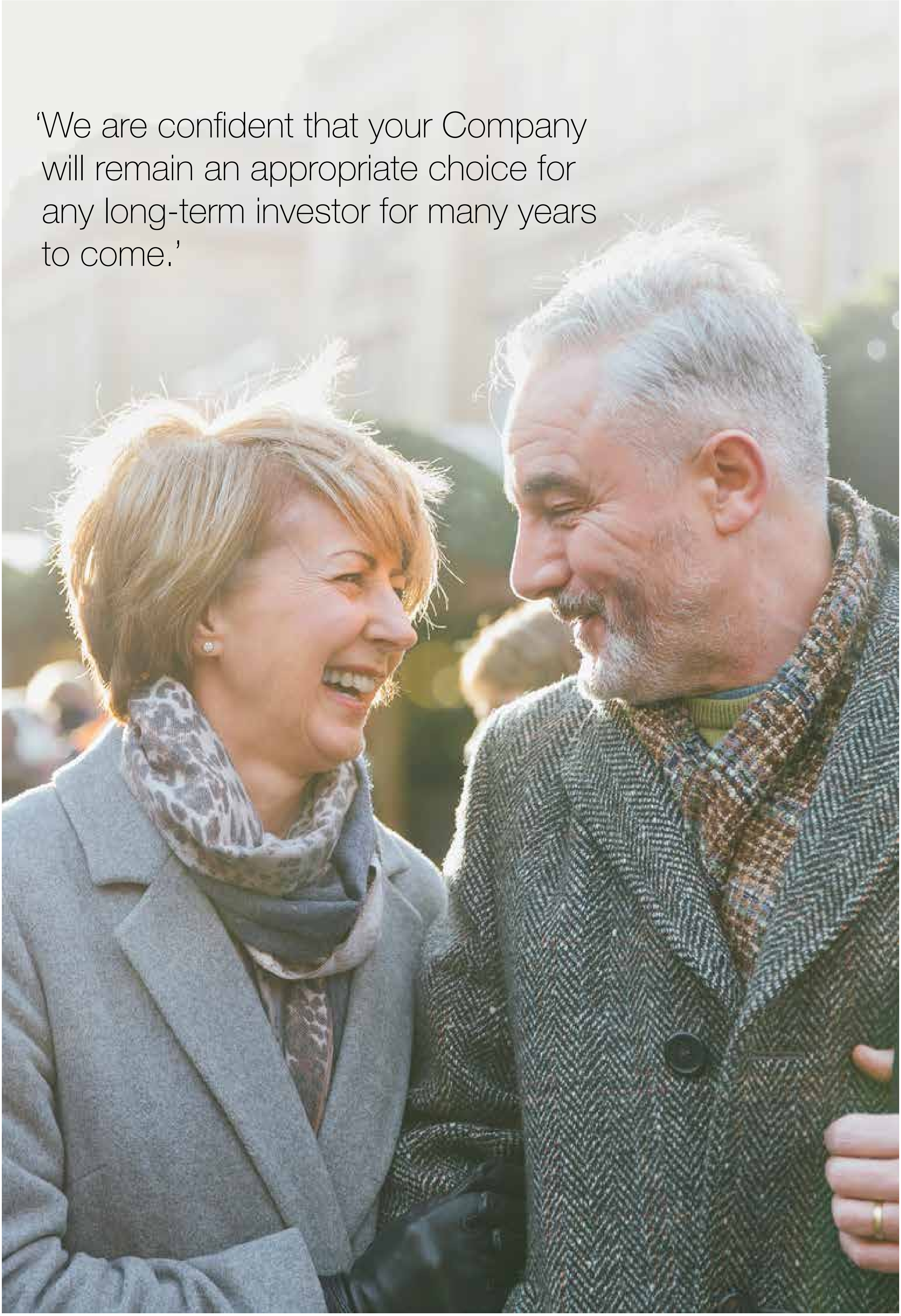
All voting directions should be made as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 12 noon on 16 April 2018, so that the nominee company can submit a form of proxy before the 48 hour period begins.

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 2018

‘We are confident that your Company will remain an appropriate choice for any long-term investor for many years to come.’



Corporate Governance Statement

Introduction

The Board has considered and supports the principles and recommendations of the UK Corporate Governance Code (the "**UK Code**") published in 2016 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 except as detailed below 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 46, the Company has not reported further in respects of these provisions.

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

AIFMD

The Company is defined as an Alternative Investment Fund ("**AIF**") under the AIFMD issued by the European Parliament, and which has been implemented into UK law. This 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 a general meeting of shareholders.

The Board

The Board's responsibilities are outlined on page 49. 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, policies (set out on pages 12 and 13) 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 all investments in in-house funds managed or advised by F&C and any unlisted investments with the exception of new private equity investments, responsibility for which has been delegated to F&C. The following table sets out the Directors' meeting attendance in 2017. The Board held a separate meeting in September 2017 to consider strategic issues and also met regularly in private session during the year, without any representation from the Manager.

Directors' attendance in 2017

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

(1) Attends but is not a member of the Audit Committee
(2) Retired as a Director on 25 April 2017
(3) Joined the Nomination Committee on 24 January 2017
(4) Joined the Board on 1 September 2017 and the Audit Committee on 30 October 2017

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 annual general meetings.

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 12, 32 and 33.

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 annual general meeting 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

The 2017 annual appraisal of the Board, the committees and the individual Directors has been carried out by the Chairman. This built on the objectives identified from the previous year's appraisal for which the Chairman was supported by independent consultants, the Board Advisory Partnership LLP. The process included confidential unattributable one-to-one interviews between the Chairman and each Director. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. The Chairman's report on progress against the objectives was submitted to the Board in February 2018 and new objectives set. These include the delivery of the promotional campaign as part of the celebrations for the Company's 150th anniversary year; the maintenance of the high profile achieved as part of that campaign into the future; and stepping up the succession plans for the changes that will be needed for the Board over the next two to three years. The appraisal determined that the Board was effective as was the Chairman's leadership of the Board.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of their term of office and may by ordinary resolution appoint another person who is willing to act to be a Director in their 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 the individual Directors. 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. That includes Sir Roger Bone who has served for over nine years. Those Directors serving more than six years are subject to more rigorous review before being proposed for re-election.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the 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 2018, 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. 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 43 to 44 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 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 37.

All shareholders have the opportunity to meet and question the Board at the AGM.

By order of the Board
for and on behalf of
F&C Investment Business Limited
Secretary
6 March 2018

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.

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, Mewhinney & Strauss, LLC – appointed July 2005
T. Rowe Price International Ltd – 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:	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,
Auckland 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 2017 and 2018 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 foreignandcolonial.com.

Manager evaluation process

The Committee met once during the year and again in January 2018 for the purpose of the formal evaluation of the Manager's performance (including the contribution from F&C more widely). Its 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 against its local index, where applicable, and the risk/return characteristics. Portfolio performance information, which is relevant in monitoring F&C, the sub-managers and the Private Equity managers, is set out on pages 18 to 22.

Manager reappointment

The annual evaluation that took place in January 2018 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, 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, the Shareholder return outperformed the benchmark over one, three, five and ten years. 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 paid was £11.8m, an increase of 24% from £9.5m last year reflecting the increase of the Company's average market capitalisation during the year. 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. No additional fees (beyond the annual fees detailed above) are paid to the Manager for any future commitments made to Private Equity. The Manager and certain individuals employed by the Manager are, however, entitled to participate in a performance fee arrangement in the form of carried interest over secondary or co-investments made within the Private Equity programme.

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 2017 amounted to £3.3m (2016: £2.7m) (see note 4 on the accounts).

The fees paid to Private Equity managers in respect of the Private Equity funds of funds amounted to £4.5m for 2017 (2016: £4.6m) all of which 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 each manager. 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.

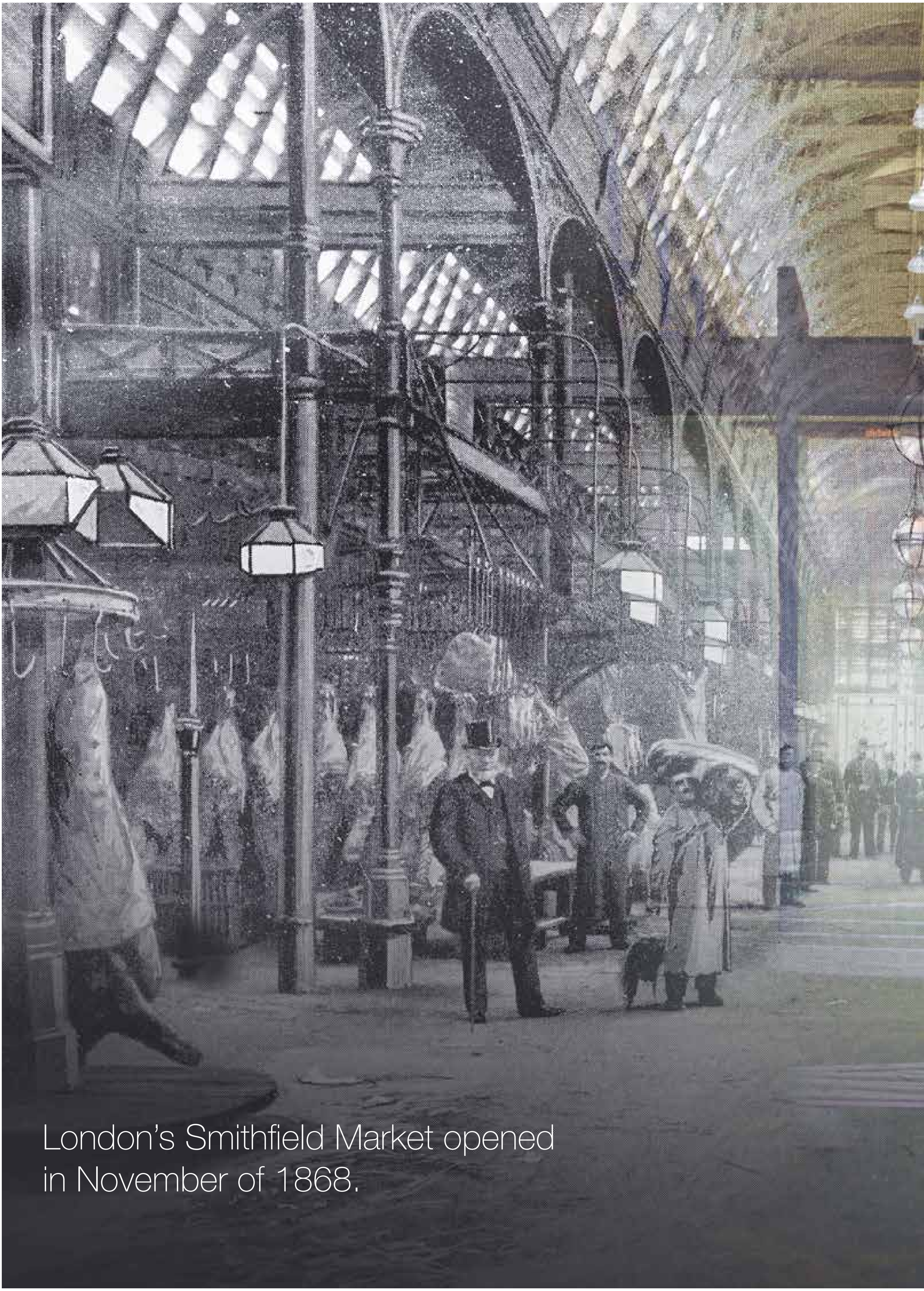
Use of the "F&C" name

The Company owns the name "Foreign & Colonial" and F&C owns the name "F&C". For many years the Company has had rights to use the "F&C" name in accordance with provisions set out in the management agreement. Over the years the Company has not exercised those rights to any meaningful degree but henceforth will increasingly use the "F&C" name for marketing purposes. In time, and subject to shareholder approval at the AGM, the Board will also change the corporate name to "F&C Investment Trust PLC". The Board has therefore reviewed the terms under which it can use the "F&C" name and on 1 March 2018 entered into a separate trade mark licence agreement with F&C which supersedes the provisions within the management agreement over future use. The licence agreement is royalty free subject to there being no material change to the Company's management arrangements with F&C within the next 15 years.

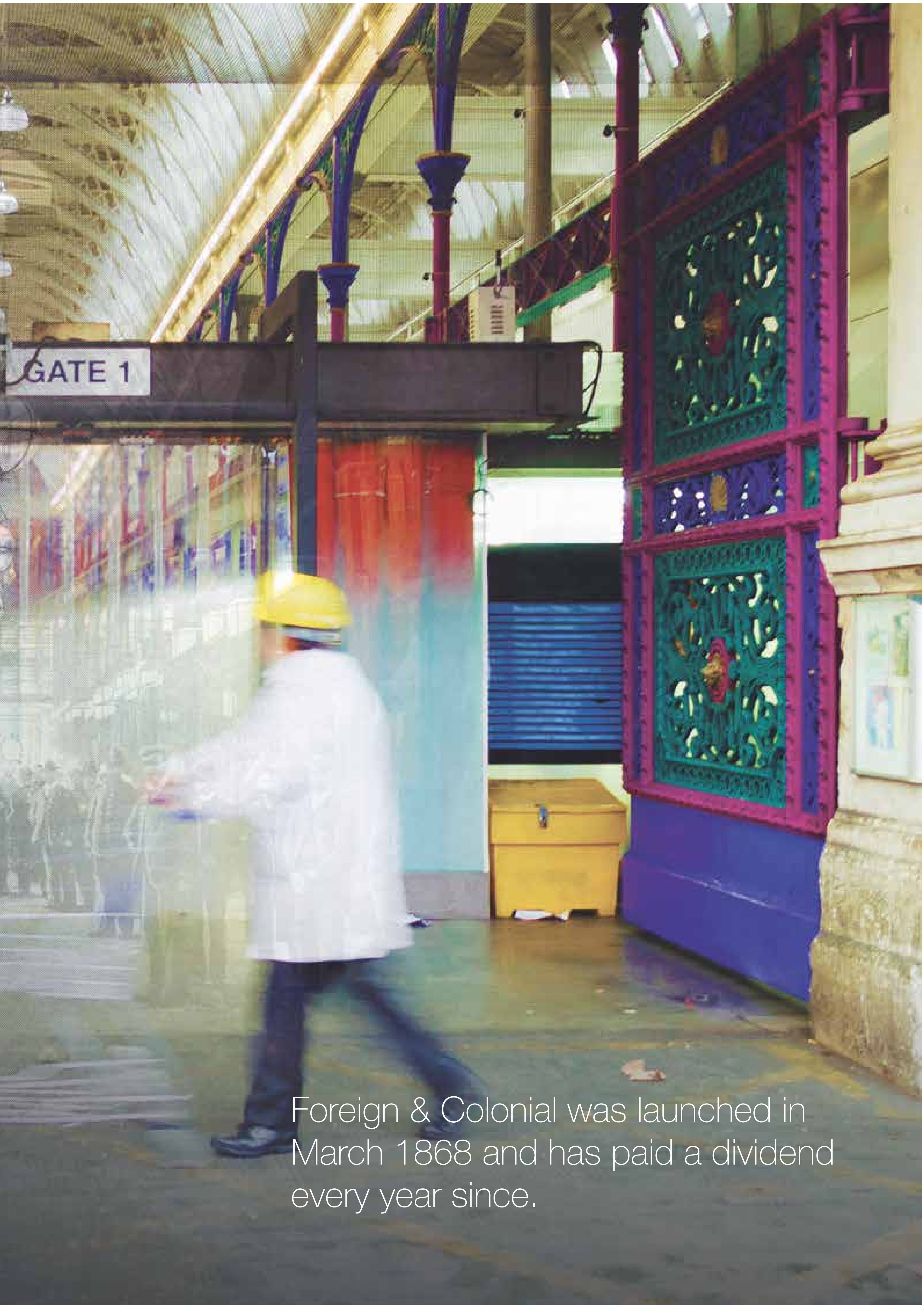
Committee evaluation

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 36. The conclusion from the process was that the Committee was operating effectively, with the right balance of membership and skills.

Simon Fraser
Management Engagement Committee Chairman
6 March 2018



London's Smithfield Market opened in November of 1868.



Foreign & Colonial was launched in March 1868 and has paid a dividend every year since.

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 2017 and 2018 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 annual general meetings;
- 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; and
- 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 28 and 29 and its terms of reference can be found on the website at foreignandcolonial.com.

Succession planning

One new non-executive Director appointment was made to the Board in 2017, Mrs Beatrice Hollond. She replaced Mr Stephen Burley, who retired immediately following the 2017 annual general meeting. This appointment was made using an independent search platform, Nurole Ltd. Following candidate interviews with the Committee members, the other Board members were invited to meet Mrs Hollond who was then formally invited to join the Board. The appointment was made on 1 September 2017. The final decision with regard to new appointments always rests with the Board. The services provided by the platform were for the sole purpose of recruiting the new Director; no other business relationship exists with that agency.

As part of the Board's annual objectives, succession planning will be stepped up in 2018 in order to put in place the processes that will be needed for the Board to make the necessary changes over the next two to three years.

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. The appointment of Beatrice Hollond was made in accordance with these policies. The Board's diversity policy is set out on page 13.

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 36. The conclusion from the process was that the Committee was operating effectively, with the right balance of membership, experience and skills.

Simon Fraser
Nomination Committee Chairman
6 March 2018

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 Company 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 includes provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings, including those treated as a benefit in kind subject to tax and national insurance. The policy was approved by shareholders in April 2017 with 93.3% voting in favour. 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 annual general meeting 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 with his recommendation that commencing 1 January 2018, the basic fee should be £36,000 representing an increase of 2.9% since the last increase on 1 January 2017. 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 £72,000. 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 £12,000.

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 for loss of office. The letters of appointment are available for inspection 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 will stand for re-election or election in the case of Beatrice Hollond. 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

	2018 £'000s	2017 £'000s
Board		
Chairman	72.0	70.0
Senior Independent Director	42.3	41.3
Director	36.0	35.0
Audit Committee		
Chairman	12.0	11.0
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	2017	2016
Simon Fraser	37,004	36,897
Sarah Arkle	10,000	10,000
Sir Roger Bone	61,371	58,349
Francesca Ecsery	8,423	8,314
Jeffrey Hewitt	22,346	20,980
Beatrice Hollond	nil	n/a
Edward Knapp	7,575	7,338
Nicholas Moakes	77,407	76,115

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

Since the year end, the following Directors have acquired further ordinary shares: Simon Fraser 28, Edward Knapp 45, Sir Roger Bone 556, Jeffrey Hewitt 244, Francesca Ecsery 33 and Nicholas Moakes 324. 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 2018 the Fund Manager held 134,960 ordinary 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 annual general meeting, shareholders approved the Remuneration Report in respect of the year ended 31 December 2016. 94.1% 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 and can expect to receive the fees indicated for 2018 as well as reimbursement for expenses necessarily incurred.

Fees for services to the Company (audited)

	Fees £'000s (audited)		Taxable Benefits[1] £'000s (audited)		Total £'000s (audited)		Anticipated Fees[2] £'000s
Director	2017	2016	2017	2016	2017	2016	2018
Simon Fraser[3]	73.0	71.0	0.2	0.4	73.2	71.4	75.0
Sarah Arkle	40.0	39.0	0.3	0.7	40.3	39.7	41.0
Sir Roger Bone[4]	49.3	44.6	0.2	0.7	49.5	45.3	50.3
Francesca Ecsery[5]	37.7	34.0	0.2	0.7	37.9	34.7	39.0
Jeffrey Hewitt	46.0	44.0	1.3	1.8	47.3	45.8	48.0
Beatrice Hollond[6]	12.6	n/a	0.0	n/a	12.6	n/a	41.0
Edward Knapp[7]	40.0	15.8	0.1	0.4	40.1	16.2	41.0
Nicholas Moakes	38.0	37.0	0.1	0.7	38.1	37.7	39.0
Stephen Burley[8]	12.7	39.0	0.0	0.7	12.7	39.7	0.0
Christopher Keljik[9]	n/a	15.5	n/a	0.0	n/a	15.5	0.0
Total	349.3	339.9	2.4	6.1	351.7	346.0	374.3

(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. Due to timing differences in the payment process, the 2017 benefits in kind figure for Jeffrey Hewitt includes £482 of expenses and related tax incurred in 2016.
(2) Fees expected to be payable to the Directors during the course of the year ending 31 December 2018. Taxable benefits are also anticipated but are not currently quantifiable
(3) Highest paid Director
(4) Appointed Senior Independent Director on 26 April 2016
(5) Appointed to the Nomination Committee on 24 January 2017
(6) Appointed to the Board on 1 September 2017 and to the Audit Committee on 30 October 2017
(7) Appointed 25 July 2016
(8) Retired 25 April 2017
(9) Retired 26 April 2016

The information in the table above for the years 2016 and 2017 has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

The table in the next column is shown to enable shareholders to assess the relative importance of spend on remuneration. It compares the remuneration, excluding taxable benefits, against the shareholder distributions of dividends and share buybacks.

Actual expenditure

	2017 £'000s	2016 £'000s	% Change
Aggregate Directors' Remuneration	349.3	339.9	2.8
Aggregate Dividends paid to Shareholders[1]	55,260	53,628	3.0
Aggregate cost of ordinary shares repurchased	25,661	57,613	(55.5)

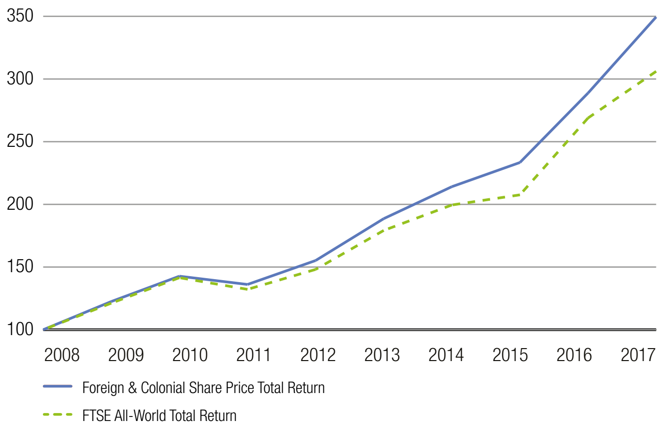
(1) As buybacks reduce the number of shares in issue that are entitled to a dividend payment, the increase in the aggregate amount paid is lower in percentage terms than the 5.6% increase in the total dividend per share paid to shareholders for the year.

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

A comparison of the Company's performance over the required nine 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 nine years



Annual statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) regulations 2013, it is confirmed that the above Remuneration Report summarises, as applicable, for the year to 31 December 2017:

- The major decisions on Directors' remuneration;
- Any substantial changes relating to Directors' remuneration made during the year; and
- The context in which the changes occurred and decisions have been taken.

On behalf of the Board
Simon Fraser
Chairman
6 March 2018

Report of the Audit Committee

I am pleased to present to you the Report of the Audit Committee for the year ended 31 December 2017. The Report and Accounts have been reviewed particularly in respect of the new requirements relating to the Strategic Report. The Committee has also reviewed the Manager's preparations for new regulations including MiFID II and related disclosures. Our focus on cyber-security measures has been maintained.

Role of the Committee

The primary responsibilities of the Audit Committee are to ensure the integrity of the financial reporting and statements of the Company, and to oversee: the preparation and audit of the annual accounts; preparation of the half yearly accounts and the internal control and risk management processes. The Committee met four 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. EY have attended all meetings and have met in private session with the Committee. 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 external audit process and the current independence and objectivity of EY;
- The appointment, remuneration and terms of engagement of the auditor;
- The policy on the engagement of the external auditor to supply non-audit services and approval of any such services;
- The need for the Company to have its own internal audit function;
- The ISAE/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;
- Bank 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 49. 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 2017 there were no such concerns raised with the Committee. The Committee has also considered and agreed the processes relating to new regulations particularly MiFID II and the Criminal Finances Act 2017.

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 including Beatrice Hollond who joined the Committee during the year. Details of the members can be found on pages 28 and 29 and the updated Committee's terms of reference can be found on the website at 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. The process evolved during the year to align with BMO's rigorous risk profiling activity.

The Company's Principal Risks are set out on page 16 with additional information given in note 25 on the Accounts. The Committee noted the robustness of the Board's review of Principal Risks and participated as Board members themselves. The integration of these risks into the analyses underpinning the "Ten Year Horizon" Statement on viability on page 17 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 remains 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 2017 (the "**ISAE/AAF Report**") and subsequent confirmation from F&C that there had been no material changes to the control environment in the period to 1 March 2018. This had been prepared by F&C for all its investment trust clients to the International Standard on Assurance Engagement (ISAE) No. 3402 and to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). The ISAE/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 2017. The table on page 47 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 referred to in note 2(c)(xii) on the Accounts and welcomes this increase in transparency on such issues. Likewise, the Committee reviewed the disclosure and description of Alternative Performance

Significant Judgements and Issues considered by the Committee in 2017	
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 Private Equity fund's 31 December 2016 or most recent audited value versus the managers estimated valuation 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. The process for valuing the more recent direct private equity valuations was reviewed and agreed by the Committee.
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 virtue 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. Investment income was tested and reported on by F&C.

Measures provided on page 90 and is satisfied that the disclosure is fair and relevant.

Procedures for investment valuation and recognition of income were the main areas of audit focus and testing. For the long-held Pantheon and HarbourVest unlisted Private Equity investments in particular, the Committee questioned the fund-of-fund managers on their processes in meetings during the year. 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 process for valuing the more recent direct private equity valuations was reviewed and agreed by the Committee as being appropriate.

The Committee met in February 2018 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 increased focus on the Strategic Report by investors and regulators is welcomed by the Committee. The Committee has carefully considered the disclosures made in the Report and Accounts particularly in relation to the EU Non-Financial Reporting Directive (EU/2014/95). It is aware that this area of Non-Financial Reporting matters will evolve further in coming years.

The Committee also noted that an independent, objective and skilled third party had read the Report and Accounts and commented on fairness, balance and comprehension. 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 50 to 55.

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 second 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 evaluation of EY's audit performance through the Audit Quality Review. Their audit fee amounted to £87,000, excluding VAT (2016: £72,000) of which £10,000 was a supplementary fee in relation to prior year audit work completed in February 2017.

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;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- the services are considered to be likely to inhibit the auditor's independence or objectivity as auditors.

In particular, the Committee has a policy that the 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 is agreed by the Committee prior to the commencement of the services and are accompanied by terms regarding liability, cost and responsibilities. EY have not provided or charged for any non-audit services during the year.

VAT case

As previously reported, PwC had continued to act for the Company on a contingent fee basis in respect of a long running case for the reclaim of VAT. The Supreme Court judgment on this case was finally issued in April 2017, in favour of HMRC and as such no fee became payable to PwC. No further action by the Company is intended.

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.

Committee evaluation

The activities of the Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as noted on page 36. A full evaluation was undertaken on the effectiveness, roles and responsibilities of the Committee in accordance with the Financial Reporting Council's current guidance. The evaluation found that the Committee functioned well, with the right balance of membership and skills.

Jeffrey Hewitt
Audit Committee Chairman
6 March 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and Accounts 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".

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. Further details can be found in notes 2 and 24 on the accounts.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors Report, Directors Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Report and Accounts is published on the 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.

Each of the Directors listed on pages 28 and 29 confirm to the best of their knowledge that:

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

On behalf of the Board
Simon Fraser
Chairman
6 March 2018

Independent Auditors' Report

Independent auditor's report to the members of Foreign & Colonial Investment Trust PLC

Opinion
We have audited the financial statements of Foreign & Colonial Investment Trust PLC (the Company) for the year ended 31 December 2017 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and the related Notes on the Accounts 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
- Give a true and fair view of the Company's affairs as at 31 December 2017 and of its profit for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements Section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:
- The disclosures in the annual report set out on page 16 that describe the principal risks and explain how they are being managed or mitigated.
- The directors' confirmation set out on page 16 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity.
- The directors' statement set out on page 16 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- Whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The directors' explanation set out on page 17 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of unquoted investments and resulting impact on the Income Statement • Incomplete or inaccurate recognition of investment income • Valuation and existence of the quoted investment portfolio
Materiality	• Overall materiality of £36.7m which represents 1% of net assets at 31 December 2017.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matters discussed below are consistent with those identified in the Independent Auditors Report for the year ended 31 December 2016.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of unquoted investments and resulting impact on the Income Statement		
The Company holds investments in Private Equity (PE) through funds or partnerships which are managed by HarbourVest Partners LLC (HarbourVest), Pantheon Ventures (UK) LLP (Pantheon) and F&C Investment Business Limited (FCIB) (together 'the PE Managers'). For the year ended 31 December 2017 the PE portfolio totalled £226.7m (2016: £266.1m) which represented 5.8% (2016: 7.7%) of the Company's total investment portfolio (See Note 10). The Net Asset Value (NAV) of the PE funds is based on estimates and unaudited NAV statements. The Investment Trust Accounting team at FCIB apply various controls to the valuation process which are subject to oversight by the Board. Controls over the valuation process include: the reconciliation of cash movements to the NAV statements received, reading internal control reports from the PE Managers, reading audited financial statements as well as the portfolio reports for the underlying PE fund investments and performing a reasonableness analysis of variances between prior years reported and audited NAVs. We focus on the valuation of unquoted investments because there is the risk that inaccurate judgments made in the assessment of fair value, could materially misstate the value of the investment portfolio in the Balance Sheet, the unrealised gains or losses in the Income Statement and the NAV per share. For the unquoted investments, realised profits are calculated as the difference between distribution proceeds less return of capital. Specifically in relation to our procedures on management override, we considered 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 of the governance structure and protocols surrounding the valuation process from the Investment Trust Accounting team at FCIB. This included the primary controls of reconciling cash movements in monthly reported NAVs to underlying notices of calls and distributions and bank statements, reading internal control reports of the PE Managers and performing a reasonableness analysis of variances between reported and audited NAVs. We observed the oversight at Board level through reading minutes and board packs from Audit Committee and Board meetings throughout the year. We held meetings with the PE Managers' to discuss and challenge: • The annual performance of the funds in which the Company held an investment at 31 December 2017. • The reasons for the variances noted between estimated and actual NAVs for the year ended 31 December 2016. • Whether, based on any recently available information there should be any adjustments required to the estimated 31 December 2017 NAVs. 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). We agreed the NAV of the PE funds per the Company to the estimated 31 December 2017 NAV statements which we received directly from the PE Managers. As the 31 December 2017 NAVs received were 'estimated' NAVs we considered the reasonableness of the fair value adjustments made to the 30 September 2017 reported NAV by the PE Managers, and challenged any unusual variances. We recalculated the unrealised profits on the revaluation of unquoted investments impacting the Income Statement. For a sample of unquoted investments we confirmed the realised gains or losses to the notices received from the relevant PE Manager. We recalculated investments in foreign currencies using third party exchange rates to gain assurance over the reasonableness of currency rates used. We agreed the total committed capital directly to the Limited Partnership Agreements of the PE funds and the 'drawn-down capital' to independent confirmations received from the PE Managers. To test for the risk of management override we tested a sample of manual journal entries posted in relation to unquoted investments during the year to relevant support.	The results of our procedures identified no material misstatement in the valuation or existence of the quoted investment portfolio. **Based on the work performed we have no matters to report.**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate recognition of investment income		
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. For the year ended 31 December 2017 investment income totalled £77.9m (2016: £70.4m). Special dividends charged to income and capital for the year ended 31 December 2017 totalled £3.8m (2016: £9.4m) (See notes 3 and 19). Distributions from Private Equity 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' in accordance with the SORP and the subsequent implications for Section 1158 compliance. For special dividends the Company determines whether amounts should be credited to the revenue or capital columns of the Income Statement based on the underlying substance of the transaction. 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. Specifically in relation to our procedures on management override, we consider the risk that inappropriate journal entries are applied to the income account resulting in a manipulation of the Company's revenue to support performance and dividend targets.	We obtained an understanding of FCIB's processes and controls for the recognition of investment income by performing walkthrough procedures and reading their internal control reports. We agreed all dividends declared for the ten highest dividend paying securities during the financial year and additionally for a representative sample of securities from the income received report to bank statements and to an external pricing source to verify occurrence and measurement. We agreed a sample of accrued dividends at the period end to post year end bank statements and an external pricing source for occurrence and measurement. We tested a sample of special dividends from the income received report by agreeing these to an external source and testing 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 ledger to the notices received from the PE Managers and to the bank statements to gain assurance over the occurrence, appropriate classification and measurement. We tested for completeness of income by selecting a sample of holdings from the portfolio to verify that any dividends that they had declared during the period were correctly recorded in the income received report. For a sample of securities sold during the year we verified that dividends declared after the sale date were not recognised as revenue to test cut off. Additionally we tested pre and post year-end bank statements for evidence of income receipts in line with our testing threshold to ensure that these were recorded in the correct period. For the samples we tested we recalculated income received from overseas investments to gain assurance over the measurement and recognition of income in foreign currencies. To test for the risk of management override we tested a sample of manual journal entries posted to the income account and corroborated their business purpose.	The results of our procedures identified no issues with the accuracy or completeness of income receipts. We concurred with the accounting treatment 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	Key observations communicated to the Audit Committee
Valuation and existence of the quoted investment portfolio		
The Company holds a portfolio of quoted investments both in the UK and Overseas. The quoted portfolio is managed by FCIB who in turn sub-delegate the role of investment management for a proportion of the portfolio to T. Rowe Price International Ltd and Barrow, Hanley, Mewhinney and Strauss LLC (together 'the Sub-Managers') for their experience in the United States equities market. The fair value of investments within the portfolio is based on the quoted bid value at the Balance sheet date. There are a small number of quoted funds which are valued at NAV. Quoted investments held at the year-end were valued at £3,699.9m (2016: £3,166.6m) (See Note 10). 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. The Directors are responsible for implementing systems and controls to ensure that the assets of the Company are not susceptible to misappropriation and other fraud or error. Certificates of investment ownership are held by the Custodian and not directly by the Company. There is a risk of assets being misappropriated and the ownership of investments being unsecured.	We obtained an understanding of FCIB's and the Administrator's processes and controls for the valuation of the quoted investments by performing walkthrough procedures and reviewing FCIB's and the Administrator's internal control reports. We agreed all of the quoted investment holding prices to relevant independent sources using a range of third party pricing vendors. We reviewed the stale pricing reports to assess the liquidity of investments held. We recalculated the value of quoted investments in foreign currencies to verify the accuracy of the corresponding Sterling balances. We obtained an understanding of the Administrator's, JP Morgan Europe Limited (the 'Depositary') and JP Morgan Chase (the 'Custodian') processes and controls for asset recognition by inspecting their internal control reports. We inspected the year end reconciliation of the Company's records to those of the Custodian and corroborated any variances. 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 misstatement in the valuation or existence of the quoted investment portfolio **Based on the work performed we have no matters to report.**

An overview of the scope of our audit

Tailoring the scope

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.

Our application of materiality

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

Materiality

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

We determined materiality for the company to be £36.7m (2016: £30.5m), which is 1% (2016: 1%) of net assets. We believe that net assets is the most appropriate measure as it is the primary measure that investors use to assess the performance of the Company.

During the course of our audit, we reassessed initial materiality and made no changes to the basis of calculation from our original assessment at the planning stage.

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 performance materiality was 75% (2016: 75%) of our planning materiality, namely £27.5m (2016: £22.9m).

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £3.5m (2016: £3.3m) for the revenue column of the Income Statement being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.8m (2016: £1.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 93 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 36 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit.
- Audit Committee reporting set out on page 45 – the Section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 13 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and directors' reports have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies Statement of Recommended Practice 2017 and Section 1158 of the Corporation Tax Act 2010.
- We understood how Foreign & Colonial Investment Trust PLC is complying with those frameworks through discussions with the Audit Committee and Company Secretary in combination with a review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud and management override risk relating to the journal entries applied to the income account including for the categorisation of special dividends. We also identified the risk of management override with relation to journals used in the valuation of unquoted investments. Our audit procedures stated above for 'Incomplete or inaccurate recognition of investment income' and 'Valuation of unquoted investments and resulting impact on the Income Statement' are tailored to address this risk.
- Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Company's control environment is adequate for the size and operating model of such a listed investment company.

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

Other matters we are required to address

We were appointed by the company on 26 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 31 December 2016 and 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit Committee.

Julian Young (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor
London
6 March 2018

Notes:

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

Income Statement

Notes	For the year ended 31 December	**Revenue £'000s**	**Capital £'000s**	**2017 Total £'000s**	Revenue £'000s	Capital £'000s	2016 Total £'000s
10	Gains on investments and derivatives	**–**	**486,348**	**486,348**	–	620,118	620,118
19	Exchange movements on foreign currency loans and cash balances	**(95)**	**3,328**	**3,233**	857	(41,236)	(40,379)
3	Income	**78,765**	**–**	**78,765**	71,117	–	71,117
4	Management fees	**(3,768)**	**(11,305)**	**(15,073)**	(3,063)	(9,499)	(12,562)
5	Other expenses	**(3,094)**	**(61)**	**(3,155)**	(2,758)	(97)	(2,855)
	Net return before finance costs and taxation	**71,808**	**478,310**	**550,118**	66,153	569,286	635,439
6	Finance costs	**(1,858)**	**(5,574)**	**(7,432)**	(1,722)	(5,167)	(6,889)
	Net return on ordinary activities before taxation	**69,950**	**472,736**	**542,686**	64,431	564,119	628,550
7	Taxation on ordinary activities	**(6,464)**	**(713)**	**(7,177)**	(6,038)	–	(6,038)
8	Net return attributable to shareholders	**63,486**	**472,023**	**535,509**	58,393	564,119	622,512
8	Net return per share – basic (pence)	**11.67**	**86.79**	**98.46**	10.57	102.12	112.69

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.

The net return attributable to Shareholders is also the total comprehensive income.

The notes on pages 60 to 81 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

Notes		Share capital £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance brought forward 31 December 2016	140,455	122,307	2,867,579	83,094	3,213,435
9	Dividends paid	–	–	–	(55,260)	(55,260)
17	Shares repurchased by the Company and held in treasury	–	–	(25,661)	–	(25,661)
	Net return attributable to shareholders	–	–	472,023	63,486	535,509
	Balance carried forward 31 December 2017	140,455	122,307	3,313,941	91,320	3,668,023

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)
	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

The notes on pages 60 to 81 form an integral part of the financial statements.

Balance Sheet

Notes	at 31 December	£'000s	2017 £'000s	£'000s	2016 £'000s
	Fixed assets				
10	Investments		**3,926,558**		3,432,682
	Current assets				
12	Debtors	**12,663**		6,648	
	Cash at bank and short-term deposits	**31,136**		26,463	
		43,799		33,111	
	Creditors: amounts falling due within one year				
13	Loans	**(50,000)**		–	
14	Other	**(10,397)**		(4,785)	
		(60,397)		(4,785)	
	Net current (liabilities)/assets		**(16,598)**		28,326
	Total assets less current liabilities		**3,909,960**		3,461,008
	Creditors: amounts falling due after more than one year				
15	Loans	**(241,362)**		(246,998)	
16	Debenture	**(575)**		(575)	
			(241,937)		(247,573)
	Net assets		**3,668,023**		3,213,435
	Capital and reserves				
17	Share capital		**140,455**		140,455
18	Capital redemption reserve		**122,307**		122,307
19	Capital reserves		**3,313,941**		2,867,579
19	Revenue reserve		**91,320**		83,094
	Total shareholders' funds		**3,668,023**		3,213,435
20	**Net asset value per share – prior charges at nominal value (pence)**		**676.53**		587.92

The notes on pages 60 to 81 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 6 March 2018 and signed on its behalf by

Simon Fraser
Chairman

Jeffrey Hewitt
Director

Statement of Cash Flows

Notes	at 31 December	2017 £'000s	2016 £'000s
21	Cash flows from operating activities before dividends received and interest paid	**(26,226)**	(21,403)
	Dividends received	**77,631**	69,943
	Interest paid	**(7,344)**	(6,512)
	Cash flows from operating activities	**44,061**	42,028
	Investing activities		
	Purchases of investments	**(1,390,393)**	(1,233,876)
	Sales of investments and derivatives	**1,384,673**	1,347,880
	Other capital charges and credits	**(55)**	(93)
	Cash flows from investing activities	**(5,775)**	113,911
	Cash flows before financing activities	**38,286**	155,939
	Financing activities		
	Equity dividends paid	**(55,260)**	(53,628)
	Repayment of loans	**–**	(547,676)
	Drawdown of loans	**50,000**	456,100
	Cash flows from share buybacks for treasury shares	**(25,952)**	(57,407)
	Cash flows from financing activities	**(31,212)**	(202,611)
	Net increase/(decrease) in cash and cash equivalents	**7,074**	(46,672)
	Cash and cash equivalents at the beginning of the year	**26,463**	73,605
	Effect of movement in foreign exchange	**(2,401)**	(470)
	Cash and cash equivalents at the end of the year	**31,136**	26,463

Represented by:		
Cash at bank	**3,461**	10,071
Short-term deposits	**27,675**	16,392
Cash and cash equivalents at the end of the year	**31,136**	26,463

The notes on pages 60 to 81 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 Section 1158 has been received. The Company intends to conduct its affairs so as to enable it to continue to comply with the requirements of Section 1158. 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 2017, 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 and updated in January 2017.

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.

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

The Company had no operating subsidiaries at any time during the years ended 31 December 2017 and 31 December 2016. 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 notes 2(c)(vii) and 2(c)(viii)). 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.

2. Significant accounting policies (continued)

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year ending 31 December 2017 and the prior year.

(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. FRS102 recognises 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) and the lowest priority to unobservable inputs (Level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on 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, (see Notes 10 and 25(d) for further information).

(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 quoted. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent 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 13, 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 inclusive of associated value added tax (VAT) are charged to the Revenue Account of the Income Statement, except as noted below:
- expenses incidental to the acquisition or disposal of fixed assets investments are charged to Capital Reserves via the Capital Account;
- costs of professional advice relating to the capital structure of the Company are charged to Capital Reserves (see note 2(c)(xi));
- 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 for in accordance with FRS102 on all timing differences that have been enacted by the Balance Sheet date and are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the Revenue Account, then no tax relief is transferred to the Capital Account.

2. Significant accounting policies (continued)

(ix) Dividends payable

Dividends are included in the financial statements on the date on which they are declared or, in the case of final dividends, when they are approved by shareholders.

(x) 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.

(xi) 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

(xii) 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). The fair value of unquoted (Level 3) investments, as disclosed in note 10 on the accounts, represented 5.8% of total investments at 31 December 2017. Under foreseeable market conditions the collective value of such investments may rise or fall in the short term by more than 25%, in the opinion of the Directors. A fall of 25% in the value of the unlisted (Level 3) portfolio at the year-end would equate to £57m or 1.5% of net assets and a similar percentage rise should be construed accordingly.

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 Account. 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 Account. 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. The value of dividends received in the year treated as capital in nature, as disclosed in note 19 on the accounts, was not material in relation to capital reserves or the revenue account. The value of special dividends receivable in any period cannot be foreseen as such dividends are declared and paid by investee companies and funds without prior reference to the Company.

2. Significant accounting policies (continued)

(xii) Use of judgements, estimates and assumptions (continued)

Dividends paid and payable in respect of the year are set out in note 9 on the accounts. The amount estimated to be transferred to revenue reserve is less than the maximum allowed under rules in the Corporation Tax Act 2010. The Board assesses the minimum level of dividend payable in respect of any period in accordance with Section 1158 rules, after taking into account the audited annual net revenue available for distribution, and ensures that payments for each period comfortably exceed that minimum level.

3. Income

	2017 £'000s	2016 £'000s
Income from investments:		
UK dividends	12,601	13,909
Overseas dividends	65,333	56,499
	77,934	70,408
Other Income:		
Rebates relating to investee funds management fees	623	603
Interest on cash and short-term deposits	208	92
Underwriting commission	–	14
	831	709
Total income	78,765	71,117
Income from investments comprises:		
Quoted UK	12,555	13,568
Quoted overseas	65,333	56,499
Unquoted	46	341
	77,934	70,408

Included within income from investments is £2,737,000 (2016: £4,430,000) of special dividends classified as revenue in nature in accordance with note2(c)(xii)

4. Management fees

		2017 £'000s	2016 £'000s
Payable directly to F&C:			
– in respect of management services provided by the Manager	(i)	11,806	9,539
– reimbursement in respect of services provided by sub-managers	(i)	3,267	2,715
		15,073	12,254
Payable directly to Private Equity managers	(ii)	–	308
Total directly incurred management fees		15,073	12,562
Incurred indirectly within funds managed by Private Equity managers	(iii)	4,491	4,262
Total direct and indirect management fees		19,564	16,824

(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	2017 £'000s	2016 £'000s
– payable directly to F&C	15,073	12,254
– payable directly to Private Equity managers	–	308
	15,073	12,562
Less: allocated to capital reserves (see note 19)	(11,305)	(9,499)
Allocated to revenue account	3,768	3,063

(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 (2016: same); the fee is adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager or other members of the F&C Group. 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 2017 the Company had outstanding commitments in 28 Private Equity funds (2016:24) (see note 22(b)) . Fees in respect of 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 2017 varied from 0.10% per annum to 2.50% per annum (2016: 0.10% to 2.00%).

5. Other expenses

	2017 £'000s	2016 £'000s
Other revenue expenses		
Auditors' remuneration:		
for audit and audit-related assurance services[(1)]	96	75
for other services[(2)]	–	11
Custody fees	524	417
Depositary fees	179	149
Directors' emoluments (see Remuneration Report on pages 43 to 44):		
Fees for services to the Company	349	340
Subscriptions	21	18
Directors' and officers' liability insurance	19	52
Marketing	1,002	626
Loan commitment and arrangement fees[(3)]	293	312
Registrars fees	153	153
Professional charges	145	210
Printing and postage	153	152
Sundry	160	243
Total other revenue expenses	3,094	2,758
Capital expenses (see note 19)	61	97
Total other expenses	3,155	2,855

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

(1) Total auditors' remuneration for audit services, exclusive of VAT, amounted to £87,000 (2016: £72,000 exclusive of VAT) of which £10,000 relates to prior year.

(2) No amounts were paid to EY for non-audit services in the year (2016: £11,000 exclusive of VAT paid to PwC as auditors for taxation compliance services).

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

6. Finance costs

	2017 £'000s	2016 £'000s
Debenture stock	24	24
Loans	7,281	6,715
Overdrafts	127	150
	7,432	6,889
Less: allocated to capital reserves (see note 2(c)(vii) and note 19)	(5,574)	(5,167)
	1,858	1,722
The interest on the debenture stock, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	324	1,704
Debenture and loans repayable after more than one year, not by instalments (see notes 15 and 16)	7,108	5,185
	7,432	6,889

OVERVIEW CHAIRMAN'S STATEMENT STRATEGIC REPORT GOVERNANCE REPORT AUDITORS' REPORT FINANCIAL REPORT NOTICE OF MEETING OTHER INFORMATION

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
Corporation Tax at 19.25% (2016: 20.00%)	–	–	–	–	–	–
Relief for overseas taxation	–	–	–	–	–	–
	–	–	–	–	–	–
Overseas taxation	6,464	–	6,464	6,038	–	6,038
Indian tax on capital gains	–	713	713	–	–	–
Total taxation (note 7(b))	6,464	713	7,177	6,038	–	6,038

The tax assessed for the year is lower (2016: lower) than the standard rate of Corporation Tax in the UK.

(b) Factors affecting tax charge for the year

	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
Net return on ordinary activities before taxation	69,950	472,736	542,686	64,431	564,119	628,550
Net return on ordinary activities multiplied by the standard rate of UK Corporation Tax of 19.25% (2016: 20.00%)	13,465	91,002	104,467	12,886	112,824	125,710
Effects of:						
Dividends(1)	(15,002)	–	(15,002)	(14,082)	–	(14,082)
Exchange losses/(profits)(1)	18	–	18	(171)	–	(171)
Capital returns(1)	–	(94,263)	(94,263)	–	(115,776)	(115,776)
Expenses not deductible for tax purposes	87	12	99	47	19	66
Expenses not utilised in the year	1,432	3,249	4,681	1,320	2,933	4,253
Overseas tax in excess of double taxation relief	6,464	–	6,464	6,038	–	6,038
Indian tax on capital gains(2)	–	713	713	–	–	–
Total taxation (note 7(a))	6,464	713	7,177	6,038	–	6,038

(1) These items are not subject to Corporation Tax within an investment trust company.
(2) The Company is liable to taxation in India on gains realised on the sale of securiites within 12 months of purchase. The tax is allocated to Capital Reserve as it relates to capital transactions.

The Company has an unrecognised deferred tax asset of £55.1 million (2016: £51.0 million) in respect of unutilised expenses at 31 December 2017 which has not been recognised in the financial statements as it is unlikely to be utilised in the foreseeable future. Of this amount £20.8 million (2016: £19.5 million) relates to revenue expenses and £34.3 million (2016: £31.5 million) to capital expenses.

8. Net return per share

	2017 pence	2017 £'000s	2016 pence	2016 £'000s
Total return	98.46	535,509	112.69	622,512
Revenue return	11.67	63,486	10.57	58,393
Capital return	86.79	472,023	102.12	564,119
Weighted average ordinary shares in issue, excluding shares held in treasury – number		543,844,221		552,403,894

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2017 £'000s	2016 £'000s
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
2016 Third interim of 2.45p	6 Jan 2017	1 Feb 2017	13,390	–
2016 Final of 2.70p	31 Mar 2017	2 May 2017	14,718	–
2017 First interim of 2.50p	7 Jul 2017	1 Aug 2017	13,583	–
2017 Second interim of 2.50p	29 Sep 2017	1 Nov 2017	13,569	–
			55,260	53,628

A third interim dividend of 2.70p was paid on 1 February 2018 to all shareholders on the register on 5 January 2018.

The Directors have proposed a final dividend in respect of the year ended 31 December 2017 of 2.70p payable on 1 May 2018 to all shareholders on the register at close of business on 3 April 2018. The total dividends paid and 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.

	2017 £'000s	2016 £'000s
Revenue available for distribution by way of dividends for the year	63,486	58,393
First interim dividend for the year ended 31 December 2017 – 2.50p per share (2016: 2.35p)	(13,583)	(12,985)
Second interim dividend for the year ended 31 December 2017 – 2.50p per share (2016: 2.35p)	(13,569)	(12,901)
Third interim dividend for the year ended 31 December 2017 – 2.70p per share (2016: 2.45p)	(14,639)	(13,390)
Proposed final dividend for the year ended 31 December 2017 – 2.70p per share (2016: 2.70p) (estimated cost based on 542,180,712 shares in issue at 1 March 2018, excluding shares held in treasury)	(14,639)	(14,723)
Estimated amount transferred to revenue reserve for Section 1159 purposes(1)	7,056	4,394

(1) Represents 9.0% of total income as stated in Note 3 (2016: 6.2%)

10. Investments and derivative financial instruments

	Level 1(1) £'000s	Level 3(1) £'000s	2017 Total £'000s	Level 1(1) £'000s	Level 2(1) £'000s	Level 3(1) £'000s	2016 Total £'000s
Cost at 1 January	2,262,356	225,866	2,488,222	2,118,226	–	254,941	2,373,167
Unrealised gains at 1 January	904,205	40,255	944,460	536,021	–	23,384	559,405
Valuation at 1 January	3,166,561	266,121	3,432,682	2,654,247	–	278,325	2,932,572
Purchases at cost	1,362,594	33,933	1,396,527	1,219,279	–	8,201	1,227,480
Sales proceeds	(1,303,660)	(85,339)	(1,388,999)	(1,269,275)	95	(78,308)	(1,347,488)
Losses on derivatives sold	–	–	–	–	(95)	–	(95)
Gains on investments sold	321,362	58,753	380,115	194,126	–	41,032	235,158
Gains/(losses) on investments held	153,015	(46,782)	106,233	368,184	–	16,871	385,055
Valuation at 31 December of investments and derivatives	3,699,872	226,686	3,926,558	3,166,561	–	266,121	3,432,682
Analysed at 31 December							
Cost	2,642,652	233,213	2,875,865	2,262,356	–	225,866	2,488,222
Unrealised gains/(losses)	1,057,220	(6,527)	1,050,693	904,205	–	40,255	944,460
Valuation at 31 December of investments and derivatives	3,699,872	226,686	3,926,558	3,166,561	–	266,121	3,432,682

Valuation of investments and derivatives	2017 £'000s	2016 £'000s
Valuation of investments at 31 December	3,926,558	3,432,682
Valuation of derivatives at 31 December	–	–
Total valuation of investments and derivatives at 31 December	3,926,558	3,432,682

Gains/(losses) on investments and derivatives held at fair value	2017 £'000s	2016 £'000s
Gains on investments sold	380,115	235,158
Losses on derivatives sold	–	(95)
Gains on investments held at year end	106,233	385,055
Total gains on investments and derivatives	486,348	620,118

(1) The hierarchy of investments and derivative instruments is described in note 2(c)(i) and below. No derivative instruments were held in 2017 and no investments held in 2017 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 (2016: none). Under the terms of the Company's Management Agreement with the Manager set out in note 4, the management fee is adjusted for fees earned by the Manager and F&C on all such holdings.

Unquoted investments

Unquoted investments include £225.3 million (2016: £264.4 million) of investments described as Private Equity, together with £1.4 million (2016: £1.7 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).

11. Substantial interests

At 31 December 2017 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, provide the Company with significant influence.

Investment and share class	Country of registration and incorporation	Number of units/shares held	Holding[1] %
Open-ended Funds			
BNY Mellon US Equity Income GBP W Income	Ireland	12,822,186	5.43
CC Japan Alpha C Yen	Ireland	1,355,993	3.29
Edinburgh Partners European Opportunities Fund I GBP	Ireland	4,418,411	15.41
Fidelity Active Strategy US Fidelity Fund A	Luxembourg	106,101	8.19
JPMorgan America Equity Fund C Net Income	England	8,519,000	68.94
Majedie Asset Management US Equity Fund Z Accumulation	Ireland	8,945,394	7.33
Memnon European I GBP	Luxembourg	89,682	3.32
DNCA European Select Equity I	England	7,770,880	22.82
TT International Emerging Markets Unconstrained Fund	Ireland	1,335,146	13.69
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
Harbourvest Partners V – Asia Pacific and Rest of World 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
Apposite Healthcare	England	–	12.80
Graycliff	USA	–	4.80
Sigma Electric	USA	–	5.30
Tier1CRM	USA	–	16.00
BPInv3	England	–	12.70
Other Investments			
Esprit Capital Fund 1 LP	England	–	10.80
Utilico Emerging Markets Limited ord 10p	Bermuda	14,450,000	6.84

(1) The Company neither has a controlling interest nor significant influence in the management of any of these undertakings.

The Company had no subsidiaries at any time during the year. Since the year end the Company has signed a Limited Partnership agreement in which it holds 100% of the Limited Partner share in the PE Investment Holdings 2018 LP and F&C holds the General Partner interest. The Partnership is set up to partake in Private Equity investments.

12. Debtors

	2017 £'000s	2016 £'000s
Investment debtors	5,442	1,116
Prepayments and accrued income	3,779	3,569
Overseas taxation recoverable	2,692	1,963
Other debtors	750	–
	12,663	6,648

13. Creditors: amounts falling due within one year

Loans Non-instalment debt payable on demand or within one year	2017 £'000s	2016 £'000s
Sterling loan £50 million repaid January 2018	50,000	–

At 31 December 2017 there was £50m 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 2019. Interest rate margins on the amounts drawn down are dependent upon commercial terms agreed with each bank. Commitment fees are payable on undrawn amounts at commercial rates. The Directors consider that the carrying value of the loan is equivalent to its fair value.

14. Creditors: amounts falling due within one year

Other	2017 £'000s	2016 £'000s
Investment creditors	6,820	686
Management fees payable to the Manager	1,734	1,999
Cost of ordinary shares repurchased	194	485
Other accrued expenses	1,649	1,615
	10,397	4,785

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

Loans Non-instalment debt payable after more than one year	2017 £'000s	2016 £'000s
$80 million repayable April 2019	59,139	64,743
¥6,600 million repayable April 2019	43,311	45,796
€72 million repayable July 2022	63,912	61,459
Loan notes £25 million repayable June 2028	25,000	25,000
Loan notes £50 million repayable June 2031	50,000	50,000
	241,362	246,998

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 2018, long-term borrowings comprised $80 million, ¥6,600 million, €72 million and £75 million loan notes (£242.1 million).

The market value of the long-term loans at 31 December 2017 was £245,595,000 based on the equivalent benchmark gilts or relevant commercially available current debt (2016: £251,035,000).

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

Debenture	2017 £'000s	2016 £'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 2017 was £429,000 (31 December 2016: £429,000).

17. Share capital

2017	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	15,246,154	546,572,862	561,819,016	140,455
Shares repurchased by the Company and held in treasury	4,392,150	(4,392,150)	–	–
Balance carried forward	19,638,304	542,180,712	561,819,016	140,455

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

During the year the Company bought back 4,392,150 ordinary shares at a total cost of £25,661,000, 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 no further shares have been bought back.

18. Capital redemption reserve

	2017 £'000s	2016 £'000s
Balance brought forward and 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)	380,115	–	380,115	–
Gains on investments held at year end (see note 10)	–	106,233	106,233	–
Exchange movements on foreign currency loan and cash balances	5,039	(1,711)	3,328	–
Management fees (see note 4)	(11,305)	–	(11,305)	–
Finance costs (see note 6)	(5,574)	–	(5,574)	–
Other capital charges (see note 5)	(61)	–	(61)	–
Capital gains tax (see note 7)	(713)	–	(713)	–
Net revenue return attributable to shareholders	–	–	–	63,486
Total gains and losses transferred in current year	367,501	104,522	472,023	63,486
Cost of ordinary shares repurchased in year	(25,661)	–	(25,661)	–
Dividends paid in year (see note 9)	–	–	–	(55,260)
Balance brought forward	1,920,280	947,299	2,867,579	83,094
Balance carried forward	2,262,120	1,051,821	3,313,941	91,320

Included within the capital reserve movement for the year is £1,122,000 (2016: £4,952,000) of dividend receipts recognised as capital in nature. £1,483,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2016: £1,215,000). £798,000 of transaction costs on sales of investments are similarly included (2016: £675,000).

20. Net asset value per ordinary share

	2017	2016
Net asset value per share – pence	676.53	587.92
Net assets attributable at end of period – £'000s	3,668,023	3,213,435
Ordinary shares of 25p in issue at end of year, excluding shares held in treasury – number	542,180,712	546,572,862

Net asset value per share (with the debenture stock and long term loans at market value – see notes 15 and 16) was 675.78p (31 December 2016: 587.21p).

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

	2017 £'000s	2016 £'000s
Net return on ordinary activities before taxation	542,686	628,550
Adjust for non-cash flow items, dividend income and interest expense:		
Gains on investments	(486,348)	(620,118)
Exchange (profits)/losses	(3,233)	40,379
Non-operating expenses of a capital nature	61	97
(Increase)/decrease in debtors	(793)	10
Decrease in creditors	(201)	(117)
Dividends receivable	(77,934)	(70,408)
Interest payable	7,432	6,889
Tax on overseas income and Indian Capital Gains Tax	(7,896)	(6,685)
	(568,912)	(649,953)
Cash flows from operating activities (before dividends received and interest paid)	(26,226)	(21,403)

22. Contingencies and capital commitments

(a) VAT legal case

The Company reported, in its annual report and accounts to 31 December 2016, an interest in a case brought against HMRC to recover VAT paid on management fees in the period 1997 to 2000. On 11 April 2017, the Supreme Court issued a judgment in favour of HMRC. As a consequence the Company will not be entitled to any recoveries of VAT paid in the relevant period.

22. Contingencies and capital commitments (continued)

(b) Capital commitments

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

	2017 Currency	2016 Currency	2017 £'000s	2016 £'000s
Managed by Harbourvest:				
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	US$4.3m	US$4.3m	3,171	3,472
– Venture Partnership Fund LP	US$0.5m	US$0.5m	388	425
– Mezzanine Fund LP	US$0.7m	US$0.7m	532	583
Dover Street VI LP	US$3.1m	US$3.1m	2,297	2,515
Dover Street VII LP	US$3.2m	US$3.2m	2,356	2,580
HarbourVest Partners V – Asia Pacific and Rest of World LP	US$1.5m	US$1.5m	1,109	1,214
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	US$2.7m	US$3.6m	1,996	2,913
– Venture Partnership Fund LP	US$0.8m	US$0.8m	591	647
HIPEP V – Direct Fund LP	€3.0m	€3.0m	2,663	2,561
HIPEP VI – Asia Pacific Fund LP	US$1.6m	US$3.3m	1,201	2,630
HIPEP VI – Emerging Markets Fund	US$1.6m	US$5.2m	1,201	4,198
Managed by Pantheon:				
Pantheon Europe Fund III LP	€5.4m	€5.4m	4,758	4,576
Pantheon Europe Fund V LP	€6.3m	€8.7m	5,592	7,426
Pantheon Asia Fund IV LP	US$3.0m	US$3.0m	2,181	2,387
Pantheon Asia Fund V LP	US$4.1m	US$4.1m	3,049	3,338
Pantheon Global Secondary Fund III LP	US$2.4m	US$2.4m	1,811	1,983
Managed by others:				
Esprit Capital Fund I LP	£0.27m	£0.27m	265	265
Astorg VI[1]	€4.8m	€6.5m	4,296	5,531
Inflexion Supplemental IV[1]	£1.4m	£2.5m	1,438	2,522
August Equity IV[1]	£4.8m	£6.0m	4,826	6,000
DBAG Fund VII[1]	€5.1m	€6.3m	4,506	5,378
DBAG Fund VII B[1]	€0.9m	€1.2m	816	1,024
Procuritas VI[1]	€6.1m	€7.0m	5,421	5,975
Warburg Pincus China Fund[1]	US$5.2m	US$7.3m	3,809	5,924
Stellex Capital[1]	US$3.4m	–	2,480	–
Centana[1]	US$3.3m	–	2,462	–
Graycliff[1]	US$3.7m	–	2,766	–
Apposite Healthcare[1]	£1.6m	–	1,638	–
Tier1CRM[1]	–	–	–	–
Sigma Electric[1]	–	–	–	–
BPInv3[1]	–	–	–	–
			69,619	76,067

(1) F&C is responsible for the selection and oversight of these funds, within the terms of its management agreement with the Company.

23. Related party transactions

The following are considered related parties: the Board of Directors and F&C (including 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 Remuneration Report on page 44 and as set out in note 5 on the Accounts. There were no outstanding balances with the Board at the year end. There were no transactions with the BMO group other than those detailed: in note 4 on management fees; in note 10, where investments managed or advised by F&C are disclosed; in note 14 in relation to fees owed to the Manager at the Balance Sheet date; and in the Report of the Management Engagement Committee on page 39 regarding the Management agreement in respect of Private Equity fees and a trademark licence agreement, in respect of the "F&C" name.

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, interest rates and other macroeconomic, market and financial issues, including the market perception of future risks. The Board's policies for managing these risks within the Company's objective are set out on page 11. 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. The debenture deed 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:

2017	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	1,911	(3,291)	(575)	(125,000)	(2,075)	(129,030)	452,800	323,770
US Dollar	2,987	27,617	–	(59,139)	(1,801)	(30,336)	1,969,588	1,939,252
Euro	1,644	3,932	–	(63,912)	(544)	(58,880)	543,830	484,950
Yen	814	1,597	–	(43,311)	(211)	(41,111)	417,635	376,524
Other	5,307	1,281	–	–	(5,766)	822	542,705	543,527
Total	12,663	31,136	(575)	(291,362)	(10,397)	(258,535)	3,926,558	3,668,023

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

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:

	2017	Average	2016
US Dollar	1.3527	1.2966	1.2356
Euro	1.1265	1.1453	1.1715
Yen	152.3873	145.4243	144.1200

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:

			2017			2016
Weakening of Sterling	US$ £'000s	€ £'000s	¥ £'000s	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax:						
Revenue return	1,983	1,370	708	1,637	1,181	587
Capital return	193,925	48,495	37,653	169,461	38,525	29,513
Total return	195,908	49,865	38,361	171,098	39,706	30,100
NAV per share – pence	36.13	9.20	7.08	31.30	7.26	5.51

25. Financial Risk Management (continued)

Strengthening of Sterling	US$ £'000s	€ £'000s	2017 ¥ £'000s	US$ £'000s	€ £'000s	2016 ¥ £'000s
Income statement return after tax:						
Revenue return	(1,983)	(1,370)	(708)	(1,637)	(1,181)	(587)
Capital return	(193,925)	(48,495)	(37,653)	(169,461)	(38,525)	(29,513)
Total return	(195,908)	(49,865)	(38,361)	(171,098)	(39,706)	(30,100)
NAV per share – pence	(36.13)	(9.20)	(7.08)	(31.30)	(7.26)	(5.51)

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:

	Within one year £'000s	More than one year £'000s	2017 Total £'000s	Within one year £'000s	More than one year £'000s	2016 Total £'000s
Exposure to floating rates						
Cash	3,461	–	3,461	10,071	–	10,071
Exposure to fixed rates						
Deposits	27,675	–	27,675	16,392	–	16,392
Debentures	–	(575)	(575)	–	(575)	(575)
Other borrowings	(50,000)	(241,362)	(291,362)	–	(246,998)	(246,998)
Net exposures						
At year end	(18,864)	(241,937)	(260,801)	26,463	(247,573)	(221,110)
Maximum in year	(18,864)	(241,937)	(260,801)	(100,540)	(156,074)	(256,614)
Minimum in year	45,705	(253,741)	(208,036)	96,248	(243,380)	(147,132)

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 loans (see notes 13, 15 and 16), on which the interest rates are fixed.

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:

	Increase in rate £'000s	2017 Decrease in rate £'000s	Increase in rate £'000s	2016 Decrease in rate £'000s
Revenue return	69	(69)	201	(201)
Capital return	–	–	–	–
Total return	69	(69)	201	(201)
NAV per share – pence	0.01	(0.01)	0.04	(0.04)

25. Financial Risk Management (continued)

Other market risk exposures
The portfolio of investments, valued at £3,926,558,000 at 31 December 2017 (2016: £3,432,682,000) 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:

		2017		2016
	Increase in value £'000s	Decrease in value £'000s	Increase in value £'000s	Decrease in value £'000s
Income statement capital return	785,312	(785,312)	686,536	(686,536)
NAV per share – pence	144.84	(144.84)	125.61	(125.61)

(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 450 at 31 December 2017); 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 35% of the Company's adjusted net asset value, which at 31 December 2017 was £3,441 million. Actual borrowings at market value at 31 December 2017 were £295.6 million in loans (see notes 13 and 15) and £0.4 million in a debenture at market value (see note 16).

At 31 December 2017 the Company had £69.6 million outstanding commitments to Private Equity investments, payable over more than one year (see note 22(b)).

25. Financial Risk Management (continued)

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

2017	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Other creditors	60,425	–	–	60,425
Long-term liabilities[1] (including interest)	1,132	5,701	273,842	280,675
	61,557	5,701	273,842	341,100

(1) See notes 15 and 16 for maturity dates

2016	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
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

(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 reviews 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 2017. 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 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 (2016: none) and does not normally invest in them. None of the Company's financial liabilities is past its due date or impaired.

No derivative transactions were undertaken in 2017. In 2016, the Company sold £32m of gilt futures and €21m of bund futures, realising a net loss of £95,000. 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 2017 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 2017, 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 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 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum permitted limit	200%	200%
Actual	108%	108%

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 2017 (2016: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

Ten Year Record

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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets less current liabilities (excl loans)	2,694	2,003	2,069	2,425	2,214	2,401	2,657	2,838	3,001	3,461	**3,960**
Prior charges	203	221	111	282	286	322	227	261	299	248	**292**
Available for ordinary shares	2,491	1,782	1,958	2,143	1,928	2,079	2,430	2,577	2,702	3,213	**3,668**
Number of ordinary shares (million)(1)	685	679	632	610	590	577	570	562	559	547	**542**

Net Asset Value
at 31 December

pence	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per share	363.5	262.5	309.8	351.2	326.6	360.2	426.1	458.4	483.4	587.9	**676.5**
NAV total return % – 5 years(2)											**108.6**
NAV total return % – 10 years(2)											**129.3**

Share Price
at 31 December

pence	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Middle market price per share	318.8	228.5	272.1	309.6	288.5	320.5	378.0	421.2	449.2	544.0	**647.0**
Share price High	326.3	319.0	275.3	311.0	327.9	321.6	383.0	425.9	465.0	544.0	**649.0**
Share price Low	273.0	209.0	185.8	251.4	261.5	282.5	320.5	363.0	401.6	391.2	**542.0**
Share price total return % – 5 years(2)											**125.3**
Share price total return % – 10 years(2)											**156.1**

Revenue
for the year ended 31 December

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Available for ordinary shares – £'000s	45,909	46,989	35,609	34,654	40,270	40,841	44,037	37,857	47,262(3)	58,393(3)	**63,486(3)**
Net revenue return per share – pence	6.40	6.90	5.31	5.61	6.74	7.02	7.69	6.69	8.42	10.57	**11.67**
Dividends per share – pence	5.85	6.45	6.65	6.75	7.10	8.50	9.00	9.30	9.60	9.85	**10.40**

(1) Shares entitled to dividends.
(2) Source: Morningstar UK Limited.
(3) Management fees and finance costs allocated 25% to revenue account (previously 50%).

Performance
(rebased at 31 December 2007)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per share	100.0	72.2	85.2	96.6	89.8	99.1	117.2	126.1	133.0	161.7	**186.1**
Middle market price per share	100.0	71.7	85.4	97.1	90.5	100.5	118.6	132.1	140.9	170.6	**202.9**
Net revenue return per share	100.0	107.8	83.0	87.7	105.3	109.7	120.2	104.5	131.6	165.2	**182.3**
Dividends per share	100.0	110.3	113.7	115.4	121.4	145.3	153.8	159.0	164.1	168.4	**177.8**
Consumer Prices Index	100.0	103.1	106.0	110.0	114.6	117.6	120.0	120.7	120.9	122.8	**126.5**

Cost of running the Company
%

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expressed as a percentage of average net assets											
Total Expense Ratio(4)	0.76	0.64	0.63	0.59	0.57	0.55	0.50	0.53	0.53	0.53	**0.52**
Ongoing Charges(4)(5)	–	–	–	–	0.92	0.90	0.86	0.87	0.80	0.79	**0.79**
Total Costs(4)(6)	–	–	–	–	–	–	–	–	–	–	**1.06**

(4) See Alternative Performance Measures on page 90 for explanation
(5) Not calculated for years prior to 2011
(6) Not calculated for years prior to 2017

Gearing(7)
at 31 December

%	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net gearing	7.0	12.2	6.0	13.2	15.8	14.3	8.0	8.9	8.6	6.9	**7.2**

(7) See Glossary of Terms "Gearing", page 92.

Analysis of Ordinary Shareholders

Category	Holding % at 31 Dec 2017	Holding % at 31 Dec 2016
F&C savings plans	45.0	44.8
Discretionary/Advisory	17.7	17.2
Platforms (IFA(1) and Direct to Consumer)	15.8	13.9
Institutions	9.8	10.8
Direct individuals	8.7	10.0
Old Mutual Wealth IFA(1) products	3.0	3.3
	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-ninth Annual General Meeting of the Company will be held at **The Brewery, 52 Chiswell Street, London EC1** on Monday, 23 April 2018 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 2017.
2. To approve the Directors' annual report on remuneration (excluding the Directors' remuneration policy).
3. To declare a final dividend for the year ended 31 December 2017 of 2.70 pence per ordinary share.
4. To elect Mrs Beatrice Hollond as a Director.
5. To re-elect Ms Sarah Arkle as a Director.
6. To re-elect Sir Roger Bone as a Director.
7. To re-elect Ms Francesca Ecsery as a Director.
8. To re-elect Mr Simon Fraser as a Director.
9. To re-elect Mr Jeffrey Hewitt as a Director.
10. To re-elect Mr Edward Knapp 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 £6,700,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2019 or 30 June 2019 (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 £6,700,000, 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 2019 (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 81,270,000 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 2019, 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.

17. That the draft articles of association of the Company, produced to the meeting and signed by the Chairman for the purposes of identification, be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Company's existing articles of association.

By Order of the Board
For and on behalf of
F&C Investment
Business Limited
Secretary
6 March 2018

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Registered number:
12901

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 Guidance 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 Guidance 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 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 16 April 2018. Alternatively, voting directions can be submitted electronically at 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 16 April 2018.

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 19 April 2018 (the "**Specified Time**") (or, if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 11 p.m. on the day which is two days prior to the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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 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 (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.

15. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    (a) the audit of the Company's accounts (including the 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 Act.

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 Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

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 2018, 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 542,180,712 ordinary shares of 25 pence each carrying one vote each. Therefore, the total voting rights in the Company as at 1 March 2018 are 542,180,712.

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 2018 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 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 (Including the amended form of the articles of association that are proposed to be adopted by resolution 17); 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 9 March 2018, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Information for Shareholders

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 foreignandcolonial.com under "Investor Information". The F&C website (at fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

Key Information Document

The Key Information Document relating to the Company's shares can be found on its website at foreignandcolonial.com. This document has been produced in accordance with the EU's PRIIPs Regulations.

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.

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 £11,300 in the tax year ended 5 April 2018 without incurring any tax liability.

A rate of CGT of 10% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£33,500 in 2017–18 tax year). A higher rate of 20% will apply to those whose income and gains exceed this figure.

Income tax

The final dividend of 2.7 pence per share is payable on 1 May 2018. From 6 April 2018 the annual tax-free allowance to UK residents on dividend income received in their entire share portfolios will be £2,000. 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). The allowance for the year ended 5 April 2018 was £5,000.

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

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**") was introduced in 2016. The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. The Company has 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 are 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.

Warning to Shareholders – Beware of Share Fraud

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

If you receive unsolicited investment advice or requests:

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

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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 2018/19 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits

F&C Junior ISA (JISA)(1)
You can invest up to £4,260 for the tax year 2018/19 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA

F&C Child Trust Fund (CTF)(1)
If your child has a CTF you can invest up to £4,260 for the 2018/19 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

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

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

(1) The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18.

(2) 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 Document, Key Information Document ("KID") 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(2)
(8:30am – 5:30pm, weekdays.)
Email: info@fandc.com

Existing Plan Holders:
Call: 0345 600 3030(2)
(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 Smart Investor, 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 Information Document and 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's discount policy is set out on page 12.

Net Asset Value (NAV) with Debt at Market Value – the Company's debt (debenture and loans) is valued in the Balance Sheet (on page 58) 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 (pages 71 and 72) 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 58 to derive the NAV with debt at market value. The NAV with debt at market value at 31 December 2017 was £3,663,936,000 (675.78p per share) and the NAV with debt at par was £3,668,023,000 (676.53p 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. 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 Costs – calculated in accordance with EU rules, comprise all operating costs actually incurred by the Company in the period, including transaction costs and interest on borrowings, together with costs suffered in the period within underlying investee funds and estimated implicit costs of dealing(1), expressed as a proportion of the average daily NAV of the Company over the period. Taxation expense and the costs of buying back or issuing of ordinary shares are excluded from the calculation.

The principal reasons for the excess of Total costs over Ongoing charges are as follows:
Finance costs on loans, debenture and overdrafts – £7.4m or 0.20% of net assets
Transaction charges and implicit dealing costs – £2.6m or 0.07% of average net assets

Total costs for years prior to 2017 have not been calculated.

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 65) and note 5 (page 66) 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 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 68.

(1) the cost differential between the mid-market price of the asset (before the order is placed in the market) and the price at which the deal is struck – as defined by PRIIPs regulations issued by the European Union (see Glossary of Terms, "PRIIPs" on page 93.

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.

AGM – annual general meeting of the Company to be held on 23 April 2018.

AIC – Association of Investment Companies, the trade body for closed-ended 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-ended 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 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 Financial Reporting Standards (FRS) 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 portfolios – sometimes referred to as 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.

ISAE Report – Report prepared in accordance with the International Standard on Assurance Engagements.

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 – 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 **NAV**.

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.

PRIIPs – Packaged Retail and Insurance-based Investment Products regulations which came into force on 1 January 2018 in the UK and EU. The regulations require generic pre-sale disclosure of investment "product" costs, risks and certain other matters. The Company's ordinary shares are considered to be a product for the purpose of the regulation. Costs as calculated under PRIIPs are explained within Altenative Performance Measures on page 90, under "Total Costs".

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

REPORT AND ACCOUNTS 31 DECEMBER 2017

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