Regulatory Story

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Edinburgh Investment Trust PLC - EDIN Annual Financial Report
Released 07:00 21-May-2015

The Edinburgh Investment Trust plc

Annual Financial Report Announcement

For the Year Ended 31 March 2015

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

The Company's Benchmark is the FTSE All-Share Index

FOR THE YEAR TO 31 MARCH	2015 % CHANGE	2014 % CHANGE
Total Return (capital growth with income reinvested)		
Net asset value (NAV) total return(1):		
- debt at par	+16.5	+12.3
- debt at market value	+16.2	+14.3
Share price total return(1)	+15.7	+8.0
FTSE All-Share Index total return(1)	+6.6	+8.8

	AT 31 March 2015	AT 31 March 2014	% CHANGE
Capital Return			
NAV:			
- debt at par	704.23p	628.18p	+12.1
- debt at market value	686.07p	613.25p	+11.9
Share price(1)	662.0p	594.0p	+11.4
FTSE All-Share Index(1)	3663.58	3555.59	+3.0
Discount/(premium):			
- debt at par	6.0%	5.4%	
- debt at market value	3.5%	3.1%	
Gearing (at par):			
- gross gearing	10.9%	16.3%	
- net gearing	10.9%	15.7%	

FOR THE YEAR TO 31 MARCH	2015	2014	% CHANGE
Revenue Return			
Revenue return per share	24.8p	23.2p	+6.9
Dividends:			

- first interim	5.00p	5.00p	
- second interim	5.10p	5.00p	
- third interim	5.15p	5.00p	
- final proposed	8.60p	8.50p	
- total dividends	23.85p	23.50p	+1.5
Retail Price Index(1)	0.9%	2.5%	
Ongoing Charges Ratio:			
Excluding performance fee	0.61	0.67	
Performance fee(2)	n/a	0.42	

(1) Source: Thomson Reuters Datastream

(2) As of 1 April 2014 a performance fee is no longer payable.

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CHAIRMAN'S STATEMENT

Dear Shareholder

The performance of the UK equity market picked up in the second half of the year to 31 March 2015, but remained relatively subdued in comparison to the strong growth previously seen in the two years to 31 March 2014. However, against this backdrop, and in Mark Barnett's first full year as portfolio manager, I am pleased to be able to report strong investment performance against both the Company's benchmark and peer group, outperforming the former by nearly 10%.

The income generation of the portfolio remains good and the Board is proposing a final dividend of 8.6p per share for the year which would result in a full year dividend of 23.85p per share, an increase of 1.5% year-on-year.

UK Equity Market

The recovery in the UK market continued into 2015 with the oil price decline helping both the reduction in CPI inflation, to an official level of zero, and an increase in consumer spending power - the equivalent of a tax cut. However, most economists consider the recovery still to be vulnerable to set backs both domestically and globally, especially from within the Eurozone, thus postponing further any rise in interest rates.

There has been a marked divergence in the monetary stance of central banks in the US and UK on the one hand, and Japan and the Eurozone on the other. As expected, volatility in the currency, fixed interest and equity markets has increased and is likely to continue throughout 2015.

The weakness in wage growth amongst middle and lower income workers which is due to unexpected slow growth in productivity in the UK, as well as part of a world-wide trend, suggests there is no likelihood of a surge in credit or GDP growth or of any signs of inflation; none of these is likely to pick up until personal balance sheets are repaired after the financial crisis and consumers feel sufficiently confident to go out and "consume".

A review of the market and the Company's portfolio can be found in the Portfolio Manager's Report below.

Investment Strategy

The hunt for yield by investors knows no bounds; the portfolio manager is well aware of the desire by the Company's shareholders to see growth in capital and dividends and, in his own words, "vigilance and patience remain two of my key watchwords". Given the challenges in the economy and stock market, the portfolio manager remains focused on investing in companies that can be resilient across many different macro-economic outcomes, regardless of global currency fluctuations, moves in commodity prices or interest rate rises.

There is a good balance in the portfolio across the market cap spectrum. Although weighted towards the top end of the FTSE100, the amount invested in mid-cap stocks, where potential for growth is arguably greater, has increased and is presently 24%. Ownership of overseas stocks continues to be a theme (subject to the Company's investment restriction of 20%) in order to extend holdings in the favoured pharmaceutical and tobacco sectors, in which there are a limited number of major UK-listed companies. The portfolio manager favours companies in the market which offer visibility of revenues, profits and cash flows in this low-growth world and which are managed for the primary purpose of delivering shareholder value in the form of a sustainable and growing dividend.

Performance for the Year

My Chairman's Statement last year set out the review undertaken by the Board of the management of the Company, and the decision we made to remain with Invesco Perpetual as Manager with Mark Barnett as our new portfolio manager, together with the reduction in management costs.

It therefore gives me pleasure to report the Company's excellent performance for the year, producing on a total returns basis a net asset value (NAV) with debt at par of 16.5% versus the return of 6.6% for the FTSE All-Share Index (the `Index'), the Company's benchmark. For the same period the NAV with debt at market returned 16.2% and the share price total return (with dividends reinvested) was 15.7%.

The portfolio continues to be concentrated in a relatively small number of stocks (52 at the year end) as well as sectors, and its overweight or underweight positions in various sectors continue to be material drivers of the Company's relative investment performance.

The Company's share price ended the year at 662p, an increase of 11.4% from the previous year end of 594.0p. The discount of the shares to NAV with debt at par widened slightly from 5.4% at the start to 6.0% at the year end. With debt at market value, the discount moved out from 3.1% to 3.5%. This slight widening of discount was better than the trend of the peer group, the average discount of which widened from 0.5% to 2.5%, (debt at market value) over the same period. At 18 May 2015, the latest practical date to signing this report, the NAV and share price were respectively 730.28p and 687.5p, and the resultant discount was 5.9% (debt at par) and 3.5% (debt at market value).

Borrowings and Gearing

As I reported in the interim report, the Company repaid the £100 million 11½% debenture that matured in June 2014 and this has resulted in considerable cost savings. The Company now has a better mix of fixed and floating rate borrowings in place, with its £100 million 7¾% debenture 2022 and the new £100 million bank credit facility at LIBOR+0.7%. The portfolio manager has used this new flexibility and actively managed the gearing of the portfolio during the year, based on his assessment of risks versus rewards of the extra market exposure arising from the gearing, including the effect of uncertainty around the UK election. As a result, borrowings have ranged from the full £200 million at the start of the year, down to £150 million at the year end - equivalent to gearing of 10.9%, and had been reduced to £132 million (9.6%) on the general election date.

Dividend

Income from the portfolio during the year was £56.0 million (2014: £55.4 million). Of this £7.0 million, which is equal to 3.6p per share (2014: £3.75 million; 1.9p), was from special dividends. Theoretically special dividends are non-recurring, however, the Company has received a good flow of these dividends over the past couple of years and company results announced to date indicate that there will be more special dividends receivable for the year to 31 March 2016. The Board remains alert to the income requirement of the Company, and during the year reviewed the situation on a regular basis with the portfolio manager.

The Board is recommending a final dividend of 8.6p per share which, if approved at the AGM, will be paid on 31st July 2015 to shareholders on the Company's register on 12th June 2015. This increases the total dividend to 23.85p for the year, an increase of 1.5% on last year's total dividend of 23.5p. The annual increase in the Retail Prices Index was 0.9% and demonstrates the Company's commitment to its long term objective of providing income growth which exceeds the rate of inflation.

The Board understands the importance of a consistent stream of dividend income to shareholders, and as a result has raised slightly the second and third interim dividends to 5.1p and 5.15p respectively. It is the intention of the Board to move to a more even distribution of dividends during the coming years, but highlights that this will take time to achieve if a reduction in a future final dividend is to be avoided.

Outlook

The Company continues to attract the type of shareholder for whom investment trusts were originally intended, namely private investors, either directly or through the discretionary management of wealth managers. As mentioned in previous years, unadvised investors, who have decided to use the services of the many trading platforms that exist to execute their deals simply and cheaply, continue to be attracted by the Company's clear strategy, long-term performance record and dividend growth.

As highlighted in the Portfolio Manager's Report below there are a number of challenges and potential headwinds facing financial markets. The unexpected UK election result returning a Conservative Government to office has initially been welcomed by financial markets, but history tells us that small majority governments can be problematic and there are a number of challenging constitutional matters that the Board will keep under review. However, it is important to stress, as in previous Chairman's Statements, the portfolio manager's unchanged investment approach which, with its emphasis on value driven stock selection, should provide resilience in periods of market weakness whilst still providing the opportunity for creating growth in shareholder value over the longer term.

Jim Pettigrew

Chairman

20 May 2015

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2015

BUSINESS REVIEW

The Edinburgh Investment Trust plc is an investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its investment objective has been to contract the services of Invesco Fund Managers Limited (the `Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The portfolio manager with individual responsibility for the day to day management of the portfolio is Mark Barnett.

Investment Objective and Policy

Investment Objective

The Company invests primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and

2. growth in dividends per share by more than the rate of UK inflation.

Investment Policy

The Company will generally invest in companies quoted on a recognised stock exchange in the UK. The Company may also invest up to 20% of the market value of the Company's investment portfolio, measured at the time of any acquisition, in securities listed on stock exchanges outside the UK. The portfolio is selected by the Manager on the basis of its assessment of the fundamental value available in individual securities. Whilst the Company's overall exposure to individual securities is monitored carefully by the Board, the portfolio is not primarily structured on the basis of industry weightings. The securities of no one company may, as determined at the time of acquisition, represent more than 10% of the market value of the Company's equity portfolio. Similarly, the Company may not hold more than 5% of the issued share capital (or voting shares) in any one company. Investment in convertibles is subject to normal security limits. Should these or any other limit be exceeded by subsequent market movement, each resulting position is specifically reviewed by the Board.

The Company may borrow money to provide gearing to the equity portfolio up to 25% of net assets.

Use of derivative instruments is monitored carefully by the Board and permitted within the following constraints: the writing of covered calls against securities which in aggregate amount to no more than 10% of the value of the portfolio and the investment in FTSE 100 futures which when exercised would equate to no more than 15% of the value of the portfolio. Other derivative instruments may be employed, subject to prior Board approval, provided that the cost (and potential liability) of exercise of all outstanding derivative positions at any time should not exceed 25% of the value of the portfolio at that time. The Company may hedge exposure to changes in foreign currency rates in respect of its overseas investments.

Results and Dividends

At the year end the share price was 662p per ordinary share (2014: 594p). The net asset value (debt at par) and net asset value (debt at market value) per ordinary share were 704.23p and 686.07p respectively. The comparative figures on 31 March 2014 were 628.18p and 613.25p.

Subject to approval at the AGM, the final proposed dividend for the year ended 31 March 2015 of 8.60p (2014: 8.50p) per ordinary share will be payable on 31 July 2015 to shareholders on the register on 12 June 2015. The shares will be quoted ex-dividend on 11 June 2015. This will give total dividends for the year of 23.85p per share, an increase of 1.5% on the previous year's dividends of 23.50p. The revenue return per share for the year was 24.8p, a 6.9% increase on the 2014 return of 23.2p.

Performance

The Board reviews the Company's performance by reference to a number of key performance indicators (KPIs) which are set out below. Notwithstanding that some KPIs are beyond its control, they are measures of the Company's absolute and relative performance. The KPIs assist in managing performance and compliance and are reviewed by the Board at each meeting.

Year to 31 March	2015	2014
Total Return:		
Net asset value (per share debt at par)(1)	16.5%	12.3%
Net asset value (per share debt at market value)(1)	16.2%	14.3%
Share price(1)	15.7%	8.0%
FTSE All-Share Index(1)	6.6%	8.8%
Discount to NAV (debt at par)	6.0%	5.4%
Discount to NAV (debt at market value)	3.5%	3.1%
Revenue return per share	24.8p	23.2p
Dividend per share	23.85p	23.5p
Gross gearing	10.9%	16.3%
Ongoing charges ratio(2) - excluding performance fee	0.6	0.7
Performance fee(3)	n/a	0.4

(1) Source: Thomson Reuters Datastream.

(2) Calculated in accordance with AIC Guidelines i.e. total ongoing expenses ÷ average NAV (debt at market value).

(3) As of 1 April 2014, a performance fee is no longer payable.

Past performance is not a guide to future returns.

The Chairman's Statement above gives a commentary on the performance of the Company during the year, the gearing and the dividend.

Expenses are reviewed at each Board meeting enabling the Board, amongst other things, to review costs and consider any expenditure outside that of its normal operations. For the year being reported, all KPIs are considered satisfactory.

The Board also regularly reviews the performance of the Company in relation to the 21 investment trusts in the UK Equity Income sector. As at 31 March 2015, the Company was ranked 3rd by NAV performance in this sector over one year, 5th over three years and 3rd over five years (source: JPMorgan Cazenove).

Analysis of Performance	FOR THE YEAR ENDED 31 MARCH 2015
Total return Basis	%
Net asset value total return	16.5
Benchmark total return	6.6

Analysis of Performance - analyses the relative performance of the Company to its benchmark index.

Relative performance - represents the arithmetic difference between the NAV and the benchmark.

Net gearing effect - measures the impact of the debenture stock, bank loan and cash on the Company's relative performance. This will be positive if the portfolio has positive

Relative performance	9.9
Analysis of Relative Performance	
Portfolio total return	16.1
Less Benchmark total return	6.6
Portfolio outperformance	9.5
Borrowings:	
Net gearing effect	2.0
Interest	(0.9)
Management fee	(0.5)
Other expenses	(0.1)
Tax	(0.1)
Total	9.9

performance.

Interest - arising from the debenture stock and bank loan reduces the assets available to invest and has a negative impact on performance.

Management fee - the base fee reduces the Company's net assets and decreases performance.

Other expenses and tax - reduce the level of assets and therefore result in a negative effect for relative performance.

Financial Position and Borrowings

At 31 March 2015 the Company's net assets were valued at £1,376 million (2014: £1,228 million) comprising principally a portfolio of equity investments, cash and borrowings. Borrowings at the year end comprised the £100 million 73/4% debenture which matures in 2022 and amounts drawn down on the Company's £100 million bank revolving credit facility of £50 million. During the year the Company's £100 million 111/2% debenture matured and was replaced by this more flexible facility.

The Company also has a bank overdraft facility of up to 10% of assets held by the custodian, which is available to facilitate settlement of short-term cash timing differences. As at 31 March 2015, £0.2 million (2014: £nil) was drawn down.

Outlook, including the Future of the Company

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Manager's Report. Details of the principal risks affecting the Company follow.

Principal Risks and Uncertainties

The Company's key long-term investment objectives are an increase in the net asset value per share by more than the growth in the FTSE All-Share Index (the `benchmark') and an increase in dividends by more than the growth in RPI. The principal risks and uncertainties facing the Company are an integral consideration when assessing the operations in place to monitor these objectives, including the performance of the portfolio, share price and dividends. The Board is ultimately responsible for the risk control systems but the day-to-day operation and monitoring is delegated to the Manager. As described in the following sections, the Board is actively engaged in assessing and monitoring the principal risks facing the Company.

Market Risk

A great majority of the Company's investments are traded on recognised stock exchanges. The principal risk for investors in the Company is a significant fall, and/or a prolonged period of decline in those markets. The Company's investments, and the income derived from them, are influenced by many factors such as general economic conditions, interest rates, inflation, political events, and government policies as well as by supply and demand reflecting investor sentiment. Such factors are outside the control of the Board and Manager and may give rise to high levels of volatility in the prices of investments held by the Company. The asset value and price of the Company's shares and its earnings and dividends may consequently also experience volatility and may decline.

Investment Performance Risk

The Board sets performance objectives and delegates the investment management process to the Manager. The achievement of the Company's performance objectives relative to the market requires active management of the portfolio of assets and securities. The Manager's approach is to construct a portfolio which should benefit from expected future trends in the UK and global economies. The Manager is a long term investor, prepared to take substantial positions in securities and sectors which may well be out of fashion, but which the Manager believes will have potential for material increases in earnings and, in due course, dividends and share prices. Strategy, asset allocation and stock selection decisions by the Manager can lead to underperformance of the benchmark and/or income targets. The Manager's style may result in a concentrated portfolio with significant overweight or underweight positions in individual stocks or sectors compared to the index and consequently the Company's performance may deviate significantly, possibly for extended periods, from that of the benchmark. In a similar way, the Manager manages other portfolios holding many of the same stocks as the Company which reflects the Manager's high conviction style of investment management. This could significantly increase the liquidity and price risk of certain stocks under certain scenarios and market conditions. However, the Board and Manager believe that the investment process and policy outlined above should, over the long term, meet the Company's objectives of capital growth in excess of the benchmark and real dividend growth.

Investment selection is delegated to the Manager. The Board does not specify asset allocations. Information on the Company's performance against the benchmark and peer group is provided to the Board on a quarterly basis. The Board uses this to review the performance of the Company, taking into account how performance relates to the Company's objectives. The Manager is responsible for monitoring the portfolio selected and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

As shown in the investment policy, derivatives may be used provided that the market exposure arising is less than 25% of the value of the portfolio. During the year, no forward currency contracts or derivatives were used for hedging or market exposure respectively.

Gearing and Borrowing Risk

The Company has the ability to invest up to £200 million from its £100 million debenture stock and £100 million revolving credit facility in the equity market. The principal gearing risk is that the level of gearing may have an adverse impact on performance. Secondary risks relate to whether the cost of borrowing is too high and whether the term of borrowing is appropriate.

The Manager has full discretion over the amount of the borrowing it uses to gear its portfolio, whilst the issuance, repurchase or restructuring of borrowing are for the Board to decide. Information related to borrowing and gearing is provided to the Directors as part of the Board papers. Additionally, the Board keeps under review the cost of buying back debt.

Income/Dividend Risk

The Company is subject to the risk that income generation from its investments fails to reach the level of income required to meet its objectives.

The Board monitors this risk through the review of detailed income forecasts and comparison against budget. These are contained within the Board papers. The Board considers the level of income at each meeting.

Share Price Risk

There is a risk that the Company's prospects and NAV may not be fully reflected in the share price from time-to-time.

The share price is monitored on a daily basis. The Board is empowered to repurchase shares within agreed parameters. The discount at which the shares trade to NAV can be influenced by share repurchases. The Company has not repurchased shares in the last year.

Control Systems Risk

The Board delegates a number of specific risk control activities to the Manager including:

• good practice industry standards in fund management operations;

• financial controls;

• meeting regulatory requirements;

• the management of the relationship with the depositary;

• via the depositary, the management of the custody and security of the Company's assets; and

• the management of the relationship with the registrar.

Consequently in respect of these activities the Company is dependent on the Manager's control systems and those of its depositary and registrars, both of which are monitored by the Manager in the context of safeguarding the Company's assets and interests. There is a risk that the Manager fails to ensure that these controls are operated in a satisfactory manner. In addition, the Company relies on the soundness and efficiency of the custodian for good title and timeliness of receipt and delivery of securities.

A risk-based programme of internal audits is carried out by the Manager regularly to test the controls environment. An internal controls report providing an assessment of these risks and operation of the controls is prepared by the Manager and considered by the Audit Committee, and is formally reported to and considered by the Board.

Reliance on the Manager and other Third Party Providers

The Company has no employees and the Directors are all appointed on a non-executive basis. The Company is reliant upon the performance of third party providers for its executive function and other service provisions. The Company's most significant contract is with the Manager, to whom responsibility both for the Company's portfolio and for the provision of company secretarial and administrative services is delegated. The Company has other contractual arrangements with third parties to act as auditor, registrar, depositary and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to pursue successfully its investment policy and expose the Company to risk of loss or to reputational risk.

In particular, the Manager performs services which are integral to the operation of the Company. The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks in a number of ways:

• The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns are dealt with promptly and reported to the Board. The Manager formally reviews the performance of all third party providers and reports to the Board on an annual basis.

• The Board reviews the performance of the Manager at every Board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.

• The day-to-day management of the portfolio is the responsibility of the named portfolio manager. Mark Barnett is Head of UK Equities at Invesco Perpetual. He has worked in equity markets since 1992 and has been part of the UK equities team at Invesco Perpetual for 18 years.

• The risk that the portfolio manager might be incapacitated or otherwise unavailable is mitigated by the fact that he works within, and is supported by, the wider Invesco Perpetual UK Equity team.

• The Board has set guidelines within which the portfolio manager is permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and compliance with the guidelines and the guidelines themselves are reviewed at every Board meeting.

Other Risks

The Company may be exposed to other business and strategic risks in the future, including fiscal, legal or regulatory changes, and the perceived impact of the designated Investment Manager ceasing to be involved with the Company.

The instruments in which the Company's cash positions are invested are reviewed by the Board to ensure credit, liquidity and concentration risks are adequately managed. Where an Invesco Group vehicle is utilised, it is assessed for suitability against other similar investment options.

The Company is subject to laws and regulations by virtue of its status as an investment trust and is required to comply with certain regulatory requirements that are applicable to listed closed-ended investment companies. The Company is subject to the continuing obligations imposed by the UK Listing Authority on all companies whose shares are listed on the Official List. A breach of the conditions for approval as an investment trust could lead to the Company being subject to capital gains tax on the sale of the investments in the Company's portfolio. A serious breach of other regulatory rules may lead to suspension from listing on the Stock Exchange.

The most significant regulatory change in the year has been the implementation of the Alternative Investment Fund Managers Directive. This has required the appointment of a depositary and a change in the contractual arrangements with the Manager, who bears the main compliance obligations.

The Manager is regulated by the Financial Conduct Authority and failure to comply with the relevant regulations could harm the Manager's reputation with a potential detrimental effect on the Company.

The Manager reviews compliance with investment trust tax conditions and other financial and regulatory requirements on a daily basis.

There is an ongoing process for the Board to consider these other risks. In addition, the composition of the Board is regularly reviewed to ensure the membership offers sufficient knowledge and experience to assess, anticipate and mitigate these risks, as far as possible.

Board Diversity

The Company's policy on diversity is set out on page 25 in the Annual Financial Report. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. As a norm the Board comprises either five or six non-executive directors of which, at present, one is female. Summary biographical details of the Directors are set out on page 17 in the Annual Financial Report. The Company has no employees.

Social and Environmental Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Company does not have a human rights policy, although the Manager does apply the United Nations Principles for Responsible Investment.

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PORTFOLIO MANAGER'S REPORT

Market Review

The year ending 31 March 2015 produced a total return of 6.6% for the UK equity market, as measured by the FTSE All-Share Index, the Company's benchmark index. The market performance was held back for most of the year as a result of concerns over future profit growth caused by the strength of sterling, the end to the Quantitative Easing (QE) programme in the US, rising geopolitical risk, and the prospect of UK domestic elections. A renewed sense of optimism developed at the start of 2015 fuelled by a significant fall in energy prices, declining bond yields, and by an increase in M&A speculation - despite uncertainty ahead of the UK general election in May.

As the year unfolded, fears over China's growth rate and a weakening European economy became more relevant concerns. However, offsetting this, the fall in the price of oil in the second half of the year increased optimism that consumer disposable income would rise as fuel and utility costs fell. The deflationary impact of this would also serve to reduce any short-term upward pressure on interest rates. A final positive factor for the market was the news in January that the European Central Bank had decided to introduce a programme of QE in Europe.

Portfolio Strategy and Review

The Company's total return net asset value (debt at market) was 16.2% during the year compared to 6.6% for the benchmark index.

The portfolio's continued rise in value over a period which saw several high profile profit warnings and pronounced swings in sentiment is encouraging. The market has been driven by a more positive view of those companies able to deliver sustainable growth in earnings, cash-flow and, particularly, dividends.

The portfolio's holdings in tobacco companies delivered a significant positive contribution to performance over the period under review. A combination of continuing robust profit margins and solid dividend growth helped drive performance. Altria Group (the parent company of Philip Morris USA), Reynolds American, and Imperial Tobacco delivered total share price returns of 58%, 51% and 32% respectively over the year. The two strongest performers, Altria Group and Reynolds American, both operate in the North American market. The underlying driver of the US market has been to prioritise prices over volume which has resulted in a positive pricing environment for all companies in the sector.

At the company level, Reynolds American's agreed acquisition of North American competitor Lorillard announced last summer, should further strengthen its position in the US market. Imperial Tobacco also stands to benefit from the deal, which is currently awaiting approval from the US Federal Trade Commission, as it will make a strategic purchase of some of Lorillard's North American brands.

Within the global tobacco industry, there remain high barriers to entry for new competitors and the existing premium brands strategy continues to demonstrate revenue growth despite a more difficult operating environment in many parts of the world. All three companies held in the portfolio continue to offer above average dividend yields, in spite of the strong share price performance over the last 12 months.

Other strong contributors to performance during the financial year were BAE Systems and AstraZeneca. BAE Systems reported in February that defence spending remained a high priority in a number of international markets and commented that in spite of continuing pressure on public spending in the UK, the company benefited from having long-term contracts in place. The company also highlighted that its large order backlog of £40.5 billion continued to provide `good, multi-year visibility across many of their businesses'.

The value inherent in AstraZeneca's drug pipeline was highlighted in April 2014 when Pfizer made a bid for the company, which was subsequently rejected by the AstraZeneca board. The company has continued to make progress and, at the time of the company's full year results in February, the chief executive described 2014 as having been a `remarkable' year during which six product approvals were announced and the drugs pipeline was accelerated across all main therapy areas. The company continues to expand in China which is now its second largest national market. AstraZeneca remains a core holding in our portfolio.

The other industry that contributed positively to performance over the period was financials. The portfolio has maintained significant holdings in insurance companies, specialist lenders, and property companies - all of which have contributed positively to performance during the period. The portfolio continues to have no exposure to banks.

Among the detractors to performance were the holdings in Drax, Rolls-Royce and Serco. Whilst the portfolio's exposure to the oil and gas sector is relatively low, the impact of a falling oil price was felt through the holdings in UK power generators, especially Drax, as earnings forecasts were downgraded and sentiment turned negative. Furthermore, Drax was also impacted by the UK government's decision to change its method of subsidy for future biomass conversions and by the possibility of EU intervention.

There was continuing disappointing news from the holding in Rolls-Royce. Having issued a profits warning at the start of 2014, the company warned again in September that sales would decline in 2014 as a whole and could fall again in 2015 as a result of lower demand for defence equipment, client specific order delays, and Russian sanctions, which have blocked diesel-engine exports to Russia. It was widely felt that the company could have communicated this news to the market more effectively and action has subsequently been taken by the company to address this issue.

The holding in Serco fell in value. The company had a difficult year with several profit warnings and a change of management, which resulted in significant provisions and impairments being made.

Portfolio Activity

In terms of portfolio activity, new investments were made in Game Digital, P2P Global Investments, Workspace Group and TalkTalk Telecom. The holdings in Sanofi, Paypoint and Catlin Group were sold.

Outlook

The recent performance of the UK equity market has seen further strong positive returns, with the FTSE All-Share Index recently hitting a new all-time high, which makes the near term outlook more subdued. The continued rerating of equities primarily as a result of the policies of central banks has resulted in boosting asset values to the point where the market looks more fully valued than for many years. This high level of valuation coupled with a low level of earnings growth is the primary risk to the current level of share prices. Furthermore, the increased probability of a change in monetary policy from the US central bank represents a more difficult backdrop for government bond markets which will inevitably have a knock-on impact into equities. The unexpected outright Conservative victory in the general election was positive for business and for UK plc. Importantly, it removes the uncertainty that would have surrounded a hung parliament and fears of anti-business legislation. However, as a result of this outcome two new political risks have risen to prominence. First, the risk surrounding the successful integration of the Scottish Nationalist Party (SNP) into the UK parliamentary system and second, the longer term risk relating to the EU "in-out" referendum in 2017. The latter will certainly have an impact on financial markets and the domestic economy in due course.

Notwithstanding the challenging backdrop, the portfolio remains well positioned to prosper in this environment of continued low interest rates and low nominal GDP growth. Identifying companies that can cope with this environment and where the ability to fund a sustainable and growing dividend remains a key principle of corporate strategy is central to the portfolio manager's approach. The portfolio is well represented with businesses with these qualities which should, over the long term, provide the shareholders of the Company with a healthy total return from a combination of capital and income growth.

Mark Barnett

Portfolio Manager

The Strategic Report was approved by the Board of Directors on 20 May 2015.

Invesco Asset Management Limited
Company Secretary

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INVESTMENTS IN ORDER OF VALUATION

AT 31 MARCH 2015

UK listed and ordinary shares unless stated otherwise

AIM Investments quoted on AIM

INVESTMENT	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
Reynolds American - US common stock	Tobacco	78,221	5.2
British American Tobacco	Tobacco	71,771	4.7
BT Group	Fixed Line Telecommunications	70,441	4.6
Imperial Tobacco	Tobacco	70,362	4.6
AstraZeneca	Pharmaceuticals & Biotechnology	69,208	4.6
Roche - Swiss common stock	Pharmaceuticals & Biotechnology	65,475	4.3
BAE Systems	Aerospace & Defence	64,521	4.3
GlaxoSmithKline	Pharmaceuticals & Biotechnology	49,999	3.3
BP	Oil & Gas Producers	47,312	3.1
Altria - US common stock	Tobacco	42,611	2.8
Ten Top Holdings		629,921	41.5
Provident Financial	Financial Services	41,647	2.8
Capita	Support Services	40,499	2.7
Legal & General	Life Insurance	38,209	2.5
SSE	Electricity	36,945	2.5
London Stock Exchange	Financial Services	36,893	2.4
Reed Elsevier	Media	33,342	2.2
Rolls-Royce	Aerospace & Defence	33,183	2.2
Compass	Travel & Leisure	32,805	2.2
BTG	Pharmaceuticals &	31,380	2.1

	Biotechnology		
Babcock International	Support Services	31,154	2.1
Twenty Top Holdings		985,978	65.2
G4S	Support Services	30,664	2.0
Hiscox	Non-life Insurance	30,465	2.0
Derwent London	Real Estate Investment Trusts	29,116	1.9
Reckitt Benckiser	Household Goods & Home Construction	28,624	1.9
Amlin	Non-life Insurance	26,614	1.8
Smith & Nephew	Health Care Equipment & Services	25,941	1.7
Shaftesbury	Real Estate Investment Trusts	25,878	1.7
Novartis - Swiss common stock	Pharmaceuticals & Biotechnology	25,704	1.7
Thomas Cook	Travel & Leisure	25,457	1.7
GAME Digital	General Retailers	20,328	1.4
Thirty Top Holdings		1,254,769	83.0
Centrica	Gas, Water & Multiutilities	20,298	1.3
Rentokil Initial	Support Services	19,808	1.3
NewRiver RetailAIM	Real Estate Investment Trusts	18,935	1.3
Beazley	Non-life Insurance	18,304	1.2
Drax	Electricity	18,047	1.2
P2P Global Investments - C Shares	Investment Instruments	17,415	1.2
CLS	Real Estate Investment & Services	15,631	1.0
Lancashire	Non-life Insurance	15,244	1.0
IP Group	Financial Services	13,974	0.9
HomeServe	Support Services	13,927	0.9
Forty Top Holdings		1,426,352	94.3
KCOM	Fixed Line Telecommunications	13,616	0.9
Workspace	Real Estate Investment Trusts	13,245	0.9
TalkTalk Telecom	Fixed Line Telecommunications	11,450	0.8
N Brown	General Retailers	11,147	0.7
Raven Russia - Ordinary	Real Estate Investment & Services	6,948	
Raven Russia - Preference		3,785	
		10,733	0.7
Vectura	Pharmaceuticals & Biotechnology	9,047	0.6
Burford CapitalAIM	Investment Instruments	6,134	0.4

ReddeAIM	Financial Services	4,394	0.3
Serco - Ordinary	Support Services	3,040	
Serco - Rights 16 Apr 2015		908	
		3,948	0.3
Barclays Bank - Nuclear Power Notes 28 Feb 2019	Investment Instruments	1,797	0.1
Fifty Top Holdings		1,511,863	100.0
Eurovestech - Unquoted	Financial Services	390	-
Proximagen - Rights 12 Sept 2017 - Unquoted	Pharmaceuticals & Biotechnology	378	-
Total Holdings (52)		1,512,631	100.0

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the annual financial report and the financial statements

The Directors are responsible for preparing the annual financial report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with UK Accounting Standards.

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 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; 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 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 which enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

In so far as each of the Directors is aware:

• there is no relevant audit information of which the Company's auditor is unaware; and

• the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors of the Company each confirm to the best of their knowledge, that:

• the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;

• this annual financial 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; and

The Directors consider that this annual financial report, 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.

Jim Pettigrew

Chairman

Signed on behalf of the Board of Directors

20 May 2015

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INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH

	2015			2014		
	REVENUE	CAPITAL	TOTAL	REVENUE	CAPITAL	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Gains on investments	-	158,768	158,768	-	112,468	112,468
Foreign exchange profits	-	2	2	-	154	154
Income - note 2	56,045	-	56,045	55,360	22	55,382
Investment management fee - note 3	(2,035)	(4,748)	(6,783)	(2,084)	(9,689)	(11,773)
Other expenses	(870)	(1)	(871)	(785)	(2)	(787)
Net return before finance costs and taxation	53,140	154,021	207,161	52,491	102,953	155,444
Finance costs	(3,515)	(8,203)	(11,718)	(5,850)	(13,651)	(19,501)
Return on ordinary activities before tax	49,625	145,818	195,443	46,641	89,302	135,943
Tax on ordinary activities	(1,278)	-	(1,278)	(1,417)	-	(1,417)
Return on ordinary activities after tax for the financial year	48,347	145,818	194,165	45,224	89,302	134,526
Return per ordinary share						
Basic - note 4	24.8p	74.7p	99.5p	23.2p	45.8p	69.0p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other gains or losses therefore no statement of recognised gains or losses is presented. No operations were acquired or discontinued in the year.

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RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

FOR THE YEAR ENDED 31 MARCH

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL REDEMPTION RESERVE	CAPITAL RESERVE	REVENUE RESERVE	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2013	48,779	6,639	24,676	997,171	60,481	1,137,746
Dividends paid - note 5	-	-	-	-	(44,461)	(44,461)
Net return on ordinary activities	-	-	-	89,302	45,224	134,526
Balance at 31 March 2014	48,779	6,639	24,676	1,086,473	61,244	1,227,811
Dividends paid - note 5	-	-	-	-	(46,025)	(46,025)

Net return on ordinary activities	-	-	-	145,818	48,347	194,165
Balance at 31 March 2015	48,779	6,639	24,676	1,232,291	63,566	1,375,951

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BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH

	2015 £'000	2014 £'000
Fixed assets		
Investments held at fair value through profit or loss	1,512,631	1,420,220
Current assets		
Debtors	12,428	10,500
Cash and cash funds	100	7,025
	12,528	17,525
Creditors: amounts falling due within one year	(51,091)	(112,068)
Net current liabilities	(38,563)	(94,543)
Total assets less current liabilities	1,474,068	1,325,677
Creditors: amounts falling due after more than one year	(98,117)	(97,866)
Net assets	1,375,951	1,227,811
Capital and reserves		
Share capital - note 6	48,779	48,779
Share premium	6,639	6,639
Capital redemption reserve	24,676	24,676
Capital reserve	1,232,291	1,086,473
Revenue reserve	63,566	61,244
Shareholders' funds	1,375,951	1,227,811
Net asset value per ordinary share		
Basic - note 7	704.23p	628.18p

These financial statements were approved and authorised for issue by the Board of Directors on 20 May 2015.

Signed on behalf of the Board of Directors

Jim Pettigrew
Chairman

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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH

	2015 £'000	2014 £'000
Cash inflow from operating activities	43,049	32,888
Servicing of finance	(14,303)	(19,250)
Capital expenditure and financial investment	60,124	37,761
Equity dividends paid - note 5	(46,025)	(44,461)
Net cash inflow before management of liquid resources and financing	42,845	6,938
Management of liquid resources	6,700	(6,800)

Financing	(50,000)	-
(Decrease)/increase in cash	(455)	138

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash	(455)	138
Cashflow from movement in liquid resources	(6,700)	6,800
Debenture stock non-cash movement	(251)	(251)
Cash inflow from bank facility drawn down	(50,000)	-
Cash outflow from repayment of debenture stock 30 June 2014	100,000	-
Movement in net debt in the year	42,594	6,687
Net debt at beginning of year	(190,841)	(197,528)
Net debt at end of year	(148,247)	(190,841)

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NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Accounting policies describe the Company's approach to recognising and measuring transactions during the year and the position of the Company at the year end.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the year and the preceding year, unless otherwise stated.

a) Basis of preparation

Accounting Standards Applied

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and with the Statement of Recommended Practice (SORP) `Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. The financial statements are also prepared on a going concern basis.

2. Income

This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.

	2015	2014
	£'000	£'000
Income from listed investments		
UK dividends		
- Ordinary dividends	37,540	40,502
- Special dividends	4,391	3,441
Overseas dividends		
- Ordinary dividends	10,615	10,125
- Special dividends	2,583	311
Scrip dividends	911	969
Income from money market funds	4	11
	56,044	55,359
Other income		
Deposit interest	1	-
Underwriting commission	-	1
Total income	56,045	55,360

No special dividend was recognised in capital during the year (2014: £22,000).

3. Investment Management Fees

This note shows the fees due to the Manager. These are made up of the management fee calculated and paid monthly. A performance fee is no longer payable.

		2015			2014	
	REVENUE	CAPITAL	TOTAL	REVENUE	CAPITAL	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	2,035	4,748	6,783	2,084	4,863	6,947
Performance fee	-	-	-	-	4,826	4,826
	2,035	4,748	6,783	2,084	9,689	11,773

Details of the investment management agreement are disclosed on page 27 in the Directors' Report in the Annual Financial Report. At 31 March 2015 investment management fees of £592,000 (2014: £579,000) were accrued. As the Manager is no longer entitled to a performance fee from 1 April 2014, there is no performance fee accrual (2014: £4,826,000).

4. Return per Ordinary Share

Return per share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic, capital and total returns per ordinary share are based on each return on ordinary shares after tax and on 195,116,734 (2014: 195,116,734) ordinary shares, being the number of shares in issue during the year.

5. Dividends

Dividends represent the distribution of income to shareholders. The Company pays four dividends a year - three interim and one final dividend.

	2015		2014	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Third interim paid in respect of previous year	5.00	9,756	5.00	9,756
Final paid in respect of previous year	8.50	16,585	7.80	15,219
First interim paid	5.00	9,756	5.00	9,756
Second interim paid	5.10	9,951	5.00	9,756
	23.60	46,048	22.80	44,487
Unclaimed dividends	-	(23)	-	(26)
	23.60	46,025	22.80	44,461
Dividends on shares payable in respect of				
the year:				
First interim	5.00	9,756	5.00	9,756
Second interim	5.10	9,951	5.00	9,756
Third interim	5.15	10,049	5.00	9,756
Proposed final	8.60	16,780	8.50	16,585
	23.85	46,536	23.50	45,853

The proposed final dividend is subject to approval by ordinary shareholders at the AGM.

6. Share Capital

Share capital represents the total number of shares in issue, on which dividends accrue.

	2015 NUMBER	2015 £'000	2014 NUMBER	2014 £'000
Allotted, called-up and fully paid				
Ordinary shares of 25p each	195,116,734	48,779	195,116,734	48,779

7. Net Asset Value (NAV) per Ordinary Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into NAV per ordinary share by dividing by the number of shares in issue.

The NAV - debt at par is the NAV with the value of the £100 million debenture (the debt) at its nominal (equivalent to the par) value of £100 million. The NAV - debt at market value reflects the debenture stock at the value that a third party would be prepared to pay for the debt, and this amount fluctuates owing to various factors including changes in interest rates and the remaining life of the debt. The number of ordinary shares in issue at the year end was 195,116,734 (2014: 195,116,734).

(a) NAV - debt at par

The shareholders' funds in the balance sheet are accounted for in accordance with accounting standards; however, this does not reflect the rights of shareholders on a return of assets under the Articles of Association. These rights are reflected in the net assets with debt at par and the corresponding NAV per share. A reconciliation between the two sets of figures follows:

	2015 NAV PER SHARE	2015 SHAREHOLDERS' FUNDS	2014 NAV PER SHARE	2014 SHAREHOLDERS' FUNDS
	PENCE	£'000	PENCE	£'000
Shareholders' funds	705.19	1,375,951	629.27	1,227,811
Less: Unamortised discount and expenses arising from debenture issue	(0.96)	(1,883)	(1.09)	(2,134)
NAV - debt at par	704.23	1,374,068	628.18	1,225,677

(b) NAV - debt at market value

The market value of the debenture stocks is determined by reference to the daily closing price, and is subject to review against various data providers to ensure consistency between data providers and against the reference gilts.

The net asset value per share adjusted to include the debenture stocks at market value rather than at par is as follows:

	2015 NAV PER SHARE PENCE	2015 SHAREHOLDERS' FUNDS £'000	2014 NAV PER SHARE PENCE	2014 SHAREHOLDERS' FUNDS £'000
NAV - debt at par	704.23	1,374,068	628.18	1,225,677
Debt at par	51.25	100,000	102.50	200,000
Debt at market value				
- 73/4% Debenture Stock 2022	(69.41)	(135,439)	(64.52)	(125,892)
- 111/2% Debenture Stock 2014	-	-	(52.91)	(103,231)
NAV - debt at market value	686.07	1,338,629	613.25	1,196,554

8. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company. Under accounting standards, the Manager is not a related party but disclosures are made in accordance with industry practice.

Under UK GAAP, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed in the Annual Financial Report with additional disclosure in the notes to the financial statements. No other related parties have been identified.

Up to 22 July 2014, the Manager was Invesco Asset Management Limited. Thereafter, the Manager was Invesco Fund Managers Limited. Details of the Manager's services and fees are disclosed in the Directors' Report in the Annual Financial Report, and in note 3 above.

9. This Annual Financial Report announcement is not the Company's statutory accounts. The statutory accounts for the year ended 31 March 2014 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 March 2014 received an audit report which was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not include a statement under either section 498(2) or 498(3) of the Companies Act 2006. The statutory accounts for the financial year ended 31 March 2015 have been approved and audited but have not yet been filed.

10. The Audited Annual Financial Report will be posted to shareholders shortly. Copies may be obtained during normal business hours from the Company's registered office, Quartermile One, 15 Lauriston Place, Edinburgh EH3 9EP. A copy of the Annual Financial Report will be available from Invesco Perpetual on the following website:

www.invescoperpetual.co.uk/edinburgh

11. The Annual General Meeting of the Company will be held at 11.00 am on 24 July 2015 at the Weston Link, National Galleries of Scotland, Princes Street, Edinburgh.

By order of the Board

Invesco Asset Management Limited - Company Secretary

20 May 2015

Annual Financial Report - RNS