# The Edinburgh Investment Trust plc

Annual Financial Report for the
Year ended 31 March 2019

If you have any queries about The Edinburgh Investment Trust plc, or any of the other specialist funds managed by Invesco, please contact our Client Services Team on

☎ 0800 085 8677

Website – www.invesco.co.uk/investmenttrusts

**Cover Description: Edinburgh cityscape viewed from Calton Hill, looking across at Edinburgh Castle.**

The Company is a member of

aic

The Association of Investment Companies

# Contents

## Strategy



**The Company's ordinary shares and debenture qualify to be considered as mainstream investment products suitable for promotion to retail investors. The Company's ordinary shares are eligible for investment in an ISA.**

## Investment Objective

The Edinburgh Investment Trust plc is an investment trust whose investment objective is to invest primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

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 portfolio in securities listed on stock exchanges outside the UK. The portfolio is selected on the basis of assessment of fundamental value of individual securities and is not structured on the basis of industry weightings.

## Nature of the Company

The Company is a public listed Investment Company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 12), with the aim of spreading investment risk and generating a return for shareholders.

The Company uses borrowing to enhance returns to shareholders. This increases the risk to shareholders should the value of investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited (the 'Manager'), to manage its investments and to provide the Company's general administration. Other administrative functions are contracted to other external service providers. The Company has a Board of non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment objective and policy is adhered to. The Company has no employees.

## Strategy

Overview

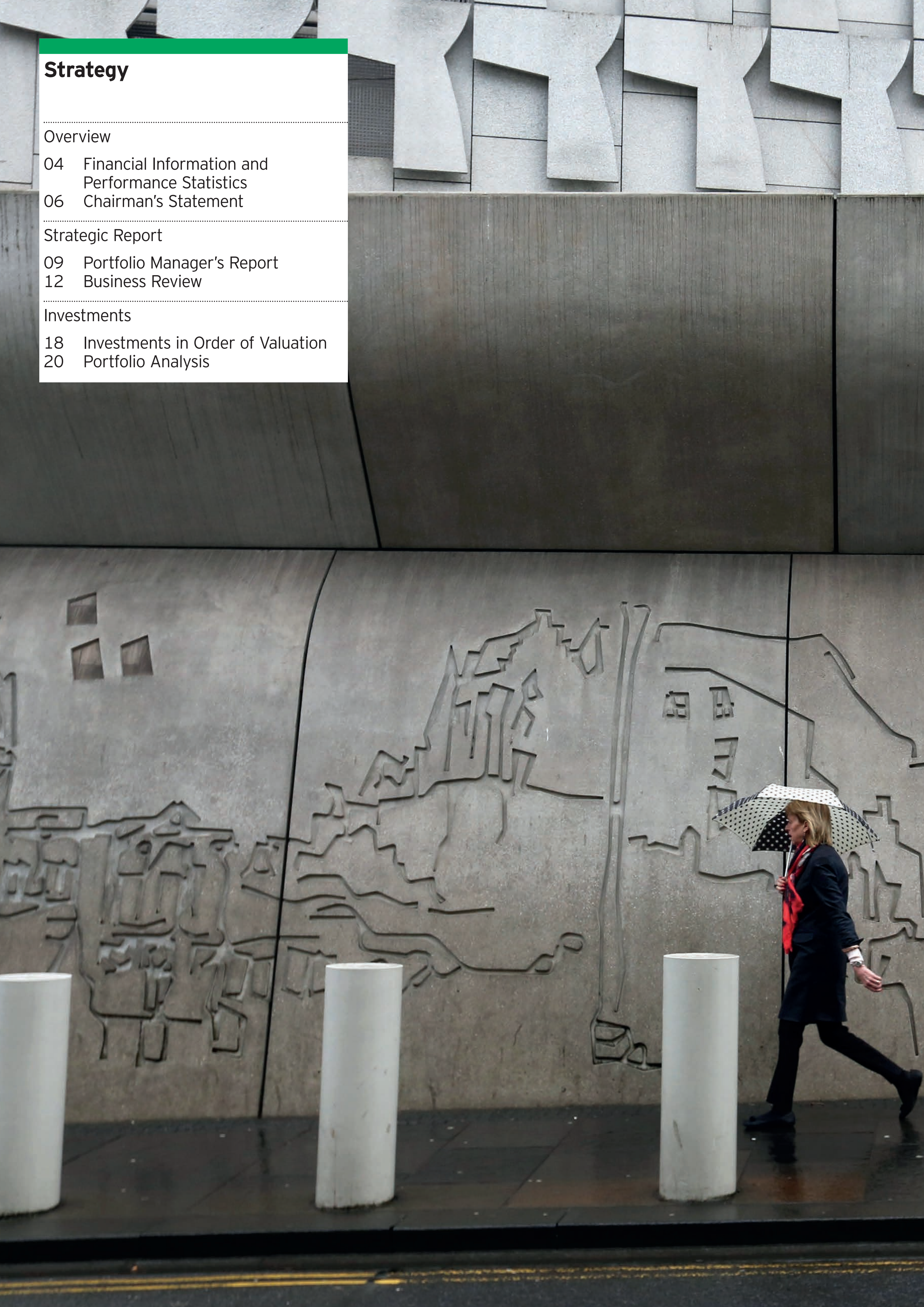


Strategic Report



Investments





Scottish Parliament Building, Edinburgh

# Financial Information and Performance Statistics

| Total Return[1][2][3] (with dividends reinvested) | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| Net asset value[1] (NAV) - debt at market value | +2.9% | -5.9% |
| Share price | +4.6% | -6.7% |
| FTSE All-Share Index | +6.4% | +1.2% |
| The Company's benchmark is the FTSE All-Share Index. | | |

| | At 31 March 2019 | At 31 March 2018 | Change % |
|---|---|---|---|
| **Capital Return[1]** | | | |
| Net asset value - debt at market value | 696.91p | 703.34p | -0.9 |
| Share price[2] | 644.0p | 642.0p | +0.3 |
| FTSE All-Share Index[2] | 3,978.28 | 3,894.17 | +2.2 |
| **Discount[1][3]** - debt at market value | (7.6)% | (8.7)% | |
| **Gearing (debt at market value)[1][3]** - gross gearing | 11.0% | 12.1% | |
| - net gearing | 10.8% | 11.8% | |

| **Revenue and Dividends[3]** | Year Ended 31 March 2019 | Year Ended 31 March 2018 | Change % |
|---|---|---|---|
| Revenue return per ordinary share | 28.7p | 29.3p | -2.0 |
| Dividends - first interim | 6.25p | 5.80p | |
| - second interim | 6.25p | 5.80p | |
| - third interim | 6.25p | 5.80p | |
| - final proposed | 9.25p | 9.20p | |
| - total dividends | 28.00p | 26.60p | +5.3 |
| **Retail Price Index[2]** - annual change | 2.4% | 3.3% | |
| **Dividend Yield[1][3][4]** | 4.3% | 4.1% | |
| **Ongoing Charges Ratio[1][3]** | 0.56% | 0.57% | |

**Notes:**
(1) The term is defined in the Glossary of Terms and Alternative Performance Measures, including reconciliations, on pages 75 to 77. NAV with debt at market value is widely used by the investment company sector for the reporting of performance, premium or discount, gearing and ongoing charges.
(2) Source: Refinitiv.
(3) Key Performance Indicator.
(4) Based on year end figures.

## Ten Year Historical Information

| Year ended 31 March | Ordinary shareholders' funds £m | Shares (bought back)/ issued m | Per ordinary share at 31 March: Revenue return p | Dividend rate p | Net asset value (debt at market value) p | Share price p | (Discount)/ Premium (debt at market value) % | Gross gearing (debt at market value) % | Net gearing (debt at market value) % |
|---|---|---|---|---|---|---|---|---|---|
| 2010 | 827 | - | 19.8 | 20.60 | 398.9 | 396.3 | (0.7) | 31.6 | 31.6 |
| 2011 | 894 | - | 23.0 | 22.99(1) | 434.0 | 444.0 | 2.3 | 28.8 | 28.8 |
| 2012 | 982 | - | 22.1 | 22.00 | 478.3 | 497.6 | 4.0 | 26.4 | 26.4 |
| 2013 | 1,138 | - | 22.0 | 22.80 | 559.0 | 572.0 | 2.3 | 22.4 | 22.4 |
| 2014 | 1,228 | - | 23.2 | 23.50 | 613.3 | 594.0 | (3.1) | 19.1 | 18.6 |
| 2015 | 1,376 | - | 24.8 | 23.85 | 686.1 | 662.0 | (3.5) | 13.9 | 13.8 |
| 2016 | 1,392 | 0.55 | 26.7 | 24.35 | 695.3 | 665.0 | (4.4) | 15.5 | 15.3 |
| 2017 | 1,535 | - | 27.9 | 25.35 | 768.8 | 713.5 | (7.2) | 15.9 | 15.7 |
| 2018 | 1,400 | - | 29.3 | 26.60 | 703.3 | 642.0 | (8.7) | 12.1 | 11.8 |
| **2019** | **1,382** | **(0.19)** | **28.7** | **28.00** | **696.9** | **644.0** | **(7.6)** | **11.0** | **10.8** |

Note: (1) Includes a special dividend of 2.19p arising on refunds of VAT on management fees.

## Capital Returns (excluding dividends paid) to 31 March 2019

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 3yr | 5yr | 10yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NAV (debt at market value) (%) | 35.9 | 8.8 | 10.2 | 16.9 | 9.7 | 11.9 | 1.3 | 10.6 | -8.5 | -0.9 | 0.2 | 13.6 | 137.4 |
| Share Price (%) | 35.5 | 12.0 | 12.1 | 15.0 | 3.8 | 11.4 | 0.5 | 7.3 | -10.0 | 0.3 | -3.2 | 8.4 | 120.2 |
| FTSE All-Share Index (%) | 46.7 | 5.4 | -2.1 | 12.6 | 5.2 | 3.0 | -7.3 | 17.5 | -2.4 | 2.2 | 17.2 | 11.9 | 100.5 |

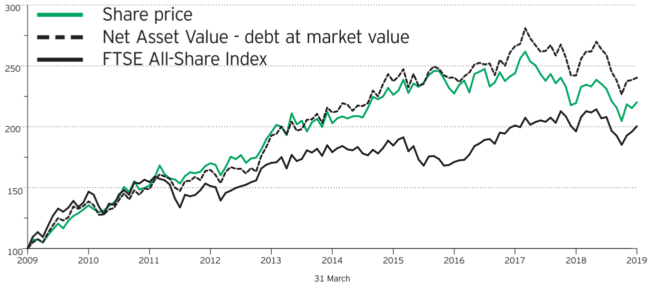
## Total Returns (with dividends reinvested) to 31 March 2019

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 3yr | 5yr | 10yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NAV (debt at market value) (%) | 49.3 | 11.8 | 16.3 | 22.9 | 14.3 | 16.2 | 5.0 | 14.7 | -5.9 | 2.9 | 11.6 | 35.9 | 264.0 |
| Share Price (%) | 45.7 | 16.5 | 17.6 | 20.1 | 8.0 | 15.7 | 4.0 | 11.2 | -6.7 | 4.6 | 8.5 | 30.6 | 238.4 |
| FTSE All-Share Index (%) | 52.3 | 8.7 | 1.4 | 16.8 | 8.8 | 6.6 | -3.9 | 22.0 | 1.2 | 6.4 | 31.3 | 34.5 | 186.8 |

Source: Refinitiv.

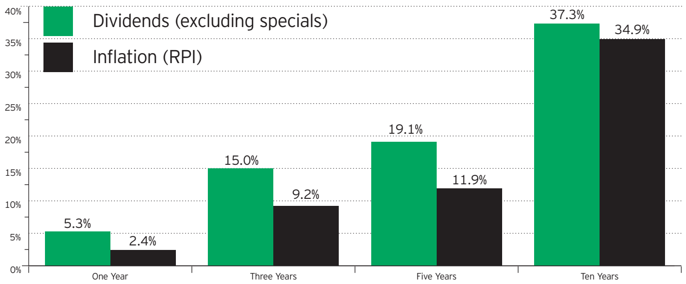
### Capital Returns Over Ten Years

Rebased to 100 at 31 March 2009




### Cumulative Real Dividend Growth

To 31 March 2019




Source: Refinitiv.

**Glen Suarez**
Chairman

12 June 2019

**Dear Shareholder**
As you will read in the Performance section below, the Company had a disappointing year – the third year of underperformance relative to our benchmark. Mark Barnett, the portfolio manager, has reported on the performance in detail in his Portfolio Manager's Report which follows, but I would like to make a few observations here.

As stated on page 1, the Company has two objectives for the medium to long term: the first is to outperform the FTSE All-Share Index over the long term on a net asset value (NAV) capital return basis and, second, to produce dividend growth in excess of UK inflation, by investing primarily in a portfolio of UK listed shares. The Board has delegated discretion to Mark to manage the portfolio (subject to certain prudential restrictions) and we meet regularly with him to discuss, challenge and oversee his actions. As shown in the table below, over the past five years, both these objectives have been met: in that period, the Company's NAV capital return with debt at market was 13.6% cumulatively, whilst the Company's benchmark over the same period returned 11.9%. In addition, annualised dividend growth of 3.6% over the past five years compares favourably with annualised inflation measured in term of the Retail Prices Index of 2.3%.

Mark's approach to investment is based on fundamental research and he builds his portfolios based on the convictions that result from his research. As a result, the portfolio tends to be concentrated in a number of sectors and holdings. This approach has the potential to deliver significant outperformance over the medium to long-term, but a concentrated portfolio of this kind may also result in periods of underperformance, as has been the case in the past three years.

In the light of the Company's underperformance during the past three years, the Board stepped up its scrutiny of the way that the portfolio is managed: probing once again the nature of investment, risk management and challenge processes. We continue to believe that Mark's approach, accompanied by appropriate Invesco and Board support, oversight and challenge, is the right one to meet the Company's objectives.

**Returns to 31 March 2019**

| | Capital Returns (excluding dividends paid) | | Total Returns (with dividends reinvested) | |
|---|---|---|---|---|
| | NAV (debt at market value) | FTSE All-Share Index | NAV (debt at market value) | FTSE All-Share Index |
| 1yr | -0.9% | 2.2% | 2.9% | 6.4% |
| 3yr | 0.2% | 17.2% | 11.6% | 31.3% |
| 5yr | 13.6% | 11.9% | 35.9% | 34.5% |

## Performance
The table below shows the track record on the basis of the NAV capital return (i.e. excluding dividends paid) which is one of the Company's objectives and on the basis of the NAV total return which includes the dividends reinvested.

For the year ended 31 March 2019, the Company's net asset value (NAV) total return was 2.9%, with debt at market value, whilst the Company's benchmark index returned 6.4%. The portfolio was adversely affected by the exposure to domestic stocks (in a year when more global stocks have outperformed) as well as to particular issues at a number of companies. A more detailed explanation is set out in the Portfolio Manager's Report.

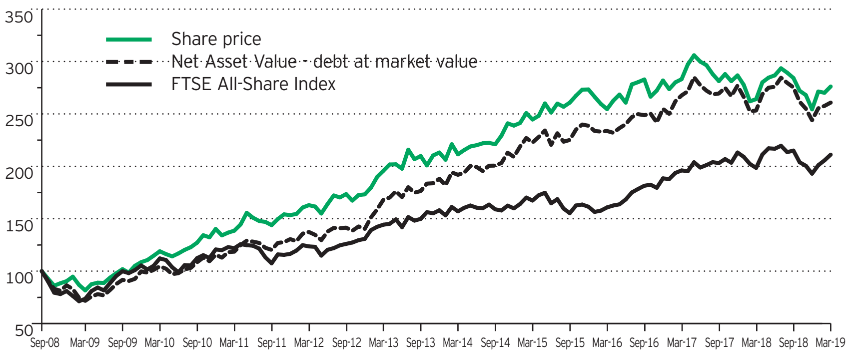
Over the past three years, the Company's NAV total return has been 11.6% cumulatively, with the Company's benchmark index returning 31.3% over the same period. Over the past five years, the Company's NAV total return with debt at market value has been 35.9% cumulatively, with the Company's benchmark Index returning 34.5% over that period.

## Discount and share buy backs
The Company's share price ended the year at 644p, an increase of 0.3% from the previous year's closing price of 642p. This reflects the increase in NAV but also a modest narrowing of the discount: with debt at market value, the discount narrowed to 7.6% from 8.7% at the end of the previous year.

The Board has in place the authority to buy back shares and in exercising this

**Total Returns Since Appointment of Invesco on 15 September 2008**

Figures rebased to 100 at 15 September 2008.




Source: Refinitiv.

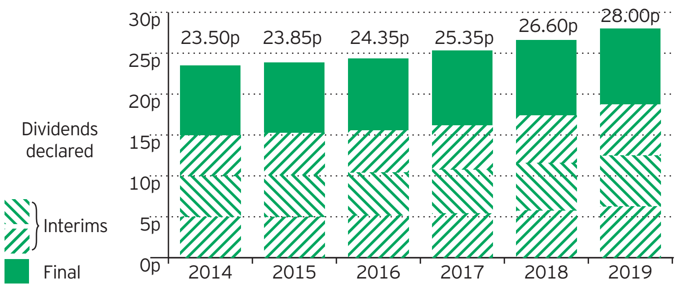
power, considers a variety of factors including the degree of resulting NAV enhancement, the general market environment, the pattern of supply and demand and the rating of the peer group.

During the year, the Company's discount traded in a range of 6.3% to 10.7%, and the average discount was 8.6%. In the third quarter of the calendar year, the Company's discount widened, along with that of the peer group, and the Board bought back 185,000 shares. The discount subsequently narrowed.

Since the Company's year-end, the peer group and the Company's discounts have again widened, and the Board has again exercised its buy back powers.

At 11 June 2019, the latest practical date before the signing of this report, the NAV and share price had fallen and were respectively 685.8p and 592p and the resultant discount has widened to 13.7% with debt at market value.

**Recent Dividend History**




| Annual increase: | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| - in dividend | +3.1% | +1.5% | +2.1% | +4.1% | +4.9% | +5.3% |
| - in RPI | +2.5% | +0.9% | +1.6% | +3.1% | +3.3% | +2.4% |

Source: Refinitiv.

### Dividend

In line with our policy of recent years to rebalance the interim and final dividend towards the interim dividend, in the year to 31 March 2019, the Board has declared three interim dividends of 6.25p (2018: 5.80p) and is proposing a final dividend of 9.25p (2018: 9.20p) per share. This results in a total dividend of 28.0p for the year, an increase of 1.40p. This represents an increase of 5.3% in the total dividend over the previous year, which is in excess of the 2.4% annual increase in the Retail Price Index, reflecting the Board's commitment to providing income growth which exceeds the rate of inflation. The final dividend, which is subject to approval by shareholders, will be paid on 31 July 2019 to shareholders on the register on 21 June 2019.

### Borrowings and Gearing

The Company has in place a mixture of fixed and floating rate debt comprising of the Company's 7¾% 2022 debenture; and a £150 million, 364 day committed credit facility. By these means, Mark has the ability to vary the gearing level of the portfolio depending on his view of the market. Borrowings at the start of the year were £143.9 million (equivalent to gross gearing with debt at market of 12.1%), aggregate borrowings during the year ranged between £100 million and £177.6 million and ended the year at £130.8 million, equivalent to gross gearing with debt at market of 11.0%, reflecting the Manager's more cautious outlook.

### Costs

The ongoing charges ratio fell, marginally, from 0.57% to 0.56%. A significant proportion of the ongoing charges are paid to Invesco for a variety of services including portfolio management, administration, regulation and compliance, shareholder communication, support services and supervision of the arrangements with other key service providers. The Board continues to look for ways to reduce the impact of charges further.

### Board Composition and Succession Planning

After serving on the Board for over 14 years, Sir Nigel Wicks, will retire as a Director of the Company at the forthcoming AGM. Sir Nigel has made a very significant contribution to the Company which has benefited from his knowledge and commitment. The Board would like to record its thanks to him for his services to the Company and shareholders.

During the year, the Nomination Committee carried out a review of the composition and skills of the Board and the Company's succession plan. Following this, the Board appointed Odgers Berndtson, an external search consultant, to conduct the search for two new directors and as a result, the Board is pleased to propose the election of Steven Baldwin and Elisabeth Stheeman as non-executive Directors at the forthcoming AGM.

### Annual General Meeting and London Shareholder Presentation

The Company's AGM will be held at 11am on 25 July 2019 at The Merchants Hall, 22 Hanover Street, Edinburgh EH2 2EP. Mark Barnett will give a presentation about the Company after the AGM and be available to answer shareholder questions. I hope as many of you as possible will attend. The Board has considered all resolutions proposed in the Notice of AGM and believe all are in the interests of shareholders as a whole.

The Company is also pleased to invite shareholders to a presentation by Mark Barnett on 16 September 2019 at 12 noon. This will be held at 43-45 Portman Square, London W1H 6LY. I do hope that shareholders unable to attend the AGM will be able to attend this meeting to hear from the portfolio manager and meet with Directors. Please note that shareholders will not be able to vote at this meeting.

Shareholders can register to attend both events by visiting the Invesco website www.invesco.co.uk/edinburgh

***Glen Suarez***

Strategy

**Strategic Report**

# Portfolio Manager's Report

## For the year ended 31 March 2019

**Mark Barnett**
Portfolio Manager

**James Goldstone**
Deputy Portfolio Manager

12 June 2019

### Market Review

The UK equity market provided a positive return over the twelve month period to 31 March 2019. However, the market's mid-single digit rise masks periods of significant volatility. The UK equity market rallied strongly in the second quarter of 2018 and, having peaked in May, the FTSE All-Share Index sold off sharply in the second half of 2018. The principal causes of this change were the outlook for US interest rates, heightened fears of a global economic slowdown and the escalation of US-Sino trade tensions. Against a backdrop of declining global equity markets, the UK equity market fell to an eighteen-month low in December 2018. However, a shift in the stance on interest rate policy from the US Federal Reserve and a cooling of the previously negative trade rhetoric between the US and China, laid the foundations for a strong equity market rally during the first quarter of 2019. This resulted in a positive UK equity market return for the period under review.

Against this challenging global backdrop, the question of the UK's exit from the European Union continued to dominate the domestic agenda. The extended political uncertainty saw the value of Sterling fall materially through the year, reaching a twenty-month low of US$1.23 in December 2018, as a vote of no confidence against Theresa May was called over the terms of the negotiated EU Withdrawal Agreement.

The Bank of England's (BoE) Monetary Policy Committee voted to increase the UK's base interest rate by 0.25% at its August 2018 meeting, but kept rates on hold for the rest of the period as the political impasse continued. In February 2019, the BoE cut its UK growth forecast from 1.7% to 1.2% for the year. Despite this, economic data proved remarkably robust in 2018. We saw a return to real wage growth, whilst the number of people in work increased by 350,000, more than three times the increase in the size of the working age population.

### Portfolio Strategy and Review

The Company's net asset value, including reinvested dividends, provided a return of 2.9% during the period under review, compared with a return of 6.4% (£ total return) by the FTSE All-Share Index.

The portfolio's themes have remained broadly consistent over the past year. The tilt towards UK domestic opportunities has been emphasised, as persistent negativity towards domestic sectors has created further opportunities, whilst exposure to more internationally orientated growth stocks has been modestly reduced.

Exposure to the tobacco sector remains prominent, and a significant proportion of the portfolio is invested in non-correlated financials, a theme which offers the portfolio both risk diversification benefits and diversified sources of income.

The portfolio's exposure to UK domestic opportunities supported absolute performance over the period, as stock selection proved crucial across a range of sectors. Most notable was the holding in Next, which defied the well-publicised crises facing many high-street retailers to deliver full-year results in line with expectations. The 15% rise in online sales offset more challenging declines in in-store retail sales, emphasising that the company's multi-channel offering allows it to see the growth of online shopping as an opportunity not a threat. Meanwhile the 4.5% increase in the annual dividend reaffirmed the company's focus on shareholder returns. Holdings in Drax, Tesco, Legal & General and BCA Marketplace further supported returns.

Sterling weakness and prolonged political uncertainty saw the internationally orientated companies of the FTSE All-Share Index outperform. Stock selection within this theme contributed to the portfolio's relative underperformance over the year. The portfolio's zero weighting in the metals and mining sector detracted from relative performance. Mining companies have historically paid dividends from current earnings, which are highly correlated to commodity prices. Given the inherent volatility underpinning earnings within the sector, I believe there are alternative areas of the market better-suited to the objectives of the portfolio.

Elsewhere, the leisure sector faced some challenging trading conditions during the period. The portfolio's positions in Thomas Cook and easyJet suffered as a result of rising oil prices, an unusually hot summer across Northern Europe and the Brexit impasse, which impacted demand within the sector.

The portfolio has a significant weighting in the oil & gas sector, namely in BP and Royal Dutch Shell, which performed well over the period. BP provided the portfolio's strongest contribution to performance, releasing better-than-expected results for 2018 in February. I believe that the sector's outlook is dependent on the market's confidence in these companies' ability to cover their cash flow and dividends. Unlike other sectors, I believe that this is reliant on capital discipline within the sector, rather than price strength in the underlying commodity.

In absolute terms, the portfolio's standout return was provided by holdings in international healthcare stocks as Roche, Novartis and BTG which provided a strong positive contribution. Roche and Novartis traded strongly over the period, whilst the share price of BTG rose sharply in November, as the company accepted an offer from US biopharmaceutical firm Boston Scientific. The portfolio's holding in AstraZeneca also supported absolute performance over the period, although the decision to sell the position mid-way through 2018, coupled with the non-inclusion of GlaxoSmithKline, proved challenging for relative returns.

Other notable contributors included HomeServe. The emergency home repairs and services provider released strong full-year results in May 2018, which included a 25% increase in the company's dividend following a year of "record profit growth". The company's share price continued to trade positively, supported by a positive trading update in July 2018, analyst upgrades and an acquisition.

Tobacco remains a prominent theme, with investments in Altria, British American Tobacco (BAT) and Imperial Brands, which have delivered exceptional returns for shareholders over the long term. However, the headwinds noted in my 2017 commentary persisted into 2018, as the market continued to weigh concerns around regulation and the outlook for next generation technologies. In November, the United States Food & Drug Administration (FDA) announced plans to pursue a ban on the sale of menthol products, which caused further weakness across the sector. The portfolio's holding in BAT was most impacted, given the company's revenue exposure to menthol sales.

It is my view that the prospect of a total menthol ban remains unlikely, given the requirement to evidence "additional harm" versus non-menthol products. Furthermore, the real impact of a ban remains uncertain, as consumers may move to non-menthol tobacco alternatives. Meanwhile, the tobacco majors are at the forefront of new technologies, with the resources to drive successful innovation in the sector. In 2019 the sector has recovered somewhat, buoyed by the surprise resignation of the Head of the FDA and the release of strong full-year results from BAT, which included meaningful growth in the dividend.

Amid challenging and uncertain market conditions the need to secure diversified income streams for the portfolio remains crucial. The portfolio retains a significant exposure to the final theme of non-correlated financials, which can offer strong cash flow and income generation potential that is not correlated to traditional business cycles. Notable contributors over the period included litigation finance company Burford Capital, which continued to support portfolio returns after posting very strong half and full year results for 2018. In December 2018, the company's share price was further supported by confirmation that it has secured an additional US$1.6 billion in new litigation investments, whilst full-year results released in March 2019 confirmed a 14% increase in the full-year dividend, a second consecutive year of double-digit growth. The significant underweight position in mainstream banks was a positive decision, as the sector underperformed the overall market, affirming my view of the importance of non-correlated stocks within the portfolio.

Conversely, the portfolio's holdings in the non-standard lending sector weighed on performance. Amigo performed poorly following its initial public offering last summer as the market became concerned about increased regulatory scrutiny of guarantor-lending. Provident Financial (PFG) also traded down over the period; a result of the slower than expected pace of profit recovery under the new management team. The non-standard lending sector has historically been a strong contributor to portfolio returns and it remains my view that the sector plays an important role in the lending market, providing a competitively priced alternative to borrowers who would otherwise be excluded from access to traditional credit. Furthermore, Amigo and PFG, as regulated entities, are well placed within the industry to respond to an evolving regulatory environment. In February 2019 PFG received an unsolicited takeover bid from Non-Standard Finance, a smaller rival, which saw further volatility in the company's share price as PFG publicly sought to resist the hostile takeover. The offer has now lapsed.

Elsewhere in the financials sector, a recently initiated position in the financial trading platform Plus500 proved volatile. The company has met with challenges in clearly explaining to the market the short term revenue volatility that can arise in trading of contracts-for-difference (derivative instruments).

Having maintained a zero weighting in mainstream banks for a number of years, a significant new investment was made in Royal Bank of Scotland (RBS). The newly initiated position reflects the portfolio manager's confidence that RBS is the best capitalised of all UK banks, with the clearest line of sight to delivering substantially improved total shareholder returns. New investments were also made in Cranswick, Draper Esprit, Whitbread, Plus500, Amigo and Urban Exposure. The holdings in AstraZeneca and RELX were sold.

**Portfolio Manager outlook**

The portfolio's positioning has evolved incrementally over the past year to take advantage of the best risk-adjusted opportunities at the most interesting valuations. The portfolio continues to offer a sustainable flow of diversified income, with stronger dividend cover and better growth prospects compared to the wider market. However, these qualities have been largely ignored by a market that has rewarded momentum over fundamentals, such that on a price-to-book basis the portfolio is significantly undervalued. This suggests that there is an opportunity for material revaluation in the portfolio from current levels.

The performance of the UK economy continues to confound most forecasts by recording steady growth. Over the course of 2019 the overall level of growth is expected to remain solid, supported by improvements in household cash flow and rising employment, which will benefit consumption activity and economic growth. Given that the outlook for the economy appears to be more resilient than currently implied by the currency or valuations of domestic sectors, it is anticipated that political resolution will see this material differential start to close. However, valuations in the UK market as a whole remain polarised between a basket of multi-national companies, which command high valuations, and a basket of UK domestic equities, which are valued significantly lower. Given this wide valuation disparity, the portfolio has retained a large exposure to sterling revenues, which are undervalued due to the persistent caution towards the UK economy as evidenced by the weakness of the exchange rate.

The portfolio has also maintained exposure to a number of global industries, namely oil and tobacco, which despite yielding significantly higher than average dividends, remain attractively valued in a market that seeks out new disruptive business models within the context of perceived sunset industries. In many respects, the stock-market's current sentiment towards these industries resembles behaviour that was seen during the last tech bubble. It would appear that the market is happy to discount a future decline in the cash flow from these businesses, which is much more rapid than appears likely.

Patience is an essential characteristic of successful long-term investing. Over the past 12 months this quality has been severely tested. The trend towards momentum stocks has been exacerbated by exogenous economic and political factors – primarily the sustainability of global economic growth and the protracted Brexit negotiations. As a result of these persistent uncertainties, the market has focused on supporting premium valuations for growth or highly disruptive companies, which has not suited the core investment themes of the Company. It is frustrating that the capital and income growth potential of the Company is not currently reflected in capital values, however the inherent strengths of the portfolio, detailed above, remain robust. It remains crucial that in such times of extreme momentum and somewhat irrational market pricing, the Company remains rooted in the fundamental investment process, which has worked over many stock market cycles.

***Mark Barnett***

**The Portfolio Manager**

The portfolio manager, Mark Barnett, is based in Henley-on-Thames. Mark is Head of UK Equities at Invesco, specialising in UK equity income investing. Mark started his investment career in 1992 at Mercury Asset Management and joined the Manager in 1996. He graduated in French and Politics from Reading University in 1992 and has passed the associate examinations of the Association for Investment Management and Research (now CFA Institute).

**The Deputy Portfolio Manager**

James Goldstone, based in Henley-on-Thames, was appointed Deputy Manager of The Edinburgh Investment Trust plc in July 2016 and manages UK equity and pan-European equity mandates including Invesco Perpetual Select Trust plc and Keystone Investment Trust plc. Prior to joining Invesco in August 2012, James was co-head of pan-European sales at Banco Espirito Santo in London. James began his career in pan-European equity sales at Credit Lyonnais in 2001 and went on, via HSBC and Dresdner Kleinwort, to specialise in UK equity sales. James graduated with a First Class Honours Degree in French from Manchester University.

## Strategy and Business Model

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 and the deputy portfolio manager is James Goldstone.

In addition, the Company has contractual arrangements with Link Asset Services to act as registrar and The Bank of New York Mellon (International) Limited as depositary and custodian.

## 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 in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of 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. No acquisition may be made which would result in a holding being greater than 10% of the market value of the Company's investment 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 of 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 644.0p per ordinary share (2018: 642.0p). The net asset value (debt at market value) per ordinary share was 696.91p (2018: 703.34p).

Subject to approval at the AGM, the final proposed dividend for the year ended 31 March 2019 of 9.25p (2018: 9.20p) per ordinary share will be payable on 31 July 2019 to shareholders on the register on 21 June 2019. The shares will be quoted ex-dividend on 20 June 2019. This will give total dividends for the year of 28.00p per share, an increase of 5.3% on the previous year's dividends of 26.60p. The revenue return per share for the year was 28.7p, a 2% decrease on the 2018 return of 29.3p.

## Performance

The Board reviews the Company's performance by reference to a number of key performance indicators (KPIs) which are shown on page 4. 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.

The Chairman's Statement on pages 6 to 8 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, except for disappointing performance, all other KPIs are considered satisfactory.

The Board also regularly reviews the performance of the Company in relation to the 23 investment trusts in the UK Equity Income sector. As at 29 March 2019, the Company was ranked 17th by NAV performance in this sector over one year and 20th over three and 8th over five years (source: JPMorgan Cazenove).

**Financial Position and Borrowings**
The Company's balance sheet on page 52 shows the assets and liabilities at the year end. Borrowings at the year end comprised the £100 million 7¾% debenture which matures in 2022 and £30.8 million (2018: £43.9 million) drawn down on the Company's £150 million bank revolving credit facility. Details of this facility are contained in note 11.

**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.

**Analysis of Performance**

| | for year ended 31 March 2019 % |
|---|---|
| **Total Return Basis(1)** | |
| NAV (debt at market value) | 2.9 |
| Less: Benchmark | 6.4 |
| Relative underperformance | (3.5) |
| **Analysis of Relative Performance** | |
| Portfolio total return including cash and excluding expenses | 4.0 |
| Less: Benchmark total return(1) | 6.4 |
| Portfolio underperformance | (2.4) |
| Borrowings: | |
| Net gearing effect | (0.2) |
| Interest | (0.6) |
| Market value movement | 0.3 |
| Management fee | (0.5) |
| Other expenses | (0.1) |
| Tax | (0.1) |
| Share buybacks | 0.1 |
| Total | (3.5) |

(1) Source: Refinitiv.

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

**Relative performance** – represents the arithmetic difference between the NAV and benchmark returns.

**Portfolio total return** – represents the return of the holdings in the portfolio including transaction costs, cash and income received, but excluding expenses incurred by the Company.

**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 capital performance and negative if capital performance is negative.

**Interest** – the debenture stock and bank loan interest paid has a negative impact on performance.

**Management fee** – the base fee reduces the Company's net assets and decreases returns.

**Other expenses and tax** – reduce the level of assets and therefore result in a negative effect on relative performance.

**Share buybacks** – measures the effect of ordinary shares bought back at a discount to net asset value on the Company's relative performance.

**Principal Risks and Uncertainties**

The Company's key long-term investment objectives are an increase in the net asset value per share in excess of the growth in the FTSE All-Share Index (the 'benchmark') and an increase in dividends in excess of the growth in RPI. The principal risks and uncertainties facing the Company are an integral consideration when assessing the operations in place to meet 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. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity with consideration being given to market and possible regulatory uncertainty arising from Brexit. The following sets out a description of the principal risks and how they are being managed or mitigated.

**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, including Brexit 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 portfolio relative to 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 at each Board meeting. 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 described 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.

**Borrowing Risk**

The Company may borrow to provide gearing to the equity portfolio of up to 25% of net assets. Borrowing is a mix of the Company's £100 million debenture stock and the Company's £150 million bank facility. Details of all borrowings are given in Notes 11 and 12. The principal gearing risk is that the level of gearing may have an adverse impact on performance. Secondary risks include whether the cost of borrowing is too high and whether the bank facility can be renewed and on terms acceptable to the Company.

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.

**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. During the year, the Company has repurchased 185,000 shares for holding in treasury.

**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 registrar, 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 Risk**
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 management of 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. The Company's operational structure means that all cyber risk (information and physical security) arises at its third party service providers, including fraud, sabotage or crime against the Company. 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 and the service organisation control reports of other key 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, Head of UK Equities at Invesco. He has worked in equity markets since 1992 and has been part of the UK equities team at Invesco for over 20 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 UK Equity team. Moreover James Goldstone, as deputy portfolio manager, would be able to manage the portfolio if Mark Barnett was unable to for any reason.

- 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, strategic and political risks in the future, as well as regulatory risks (such as an adverse change in the tax treatment of investment companies), and the perceived impact of the 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 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. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from the service providers. The Manager's compliance and internal audit officers produce regular reports for review by the Company's Audit Committee.

Additionally, the depositary monitors stock, cash, borrowings and investment restrictions throughout the year. The depositary reports formally once a year and also has access to the Company Chairman and the Audit Committee Chairman if needed during the year.

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.

**Viability Statement**

The Company is a collective investment vehicle rather than a commercial business venture and is designed and managed for long term investment. The Company's investment objective clearly sets this out. Long term for this purpose is considered by the Directors to be at least five years and accordingly they have assessed the

Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

In assessing the viability of the Company, the Directors considered the principal risks to which it is exposed, as set out on pages 14 to 16, together with mitigating factors. The risks of failure to meet the Company's investment objective, and contributory market and investment risks, were considered to be of particular importance. The Directors also took into account: the investment capabilities of the portfolio manager; the business model of the Company, which has effectively been stress tested for many years through different and difficult market cycles; the liquidity of the portfolio, with nearly all investments being listed and readily realisable; the Company's borrowings – both long and short term – and the ability of the Company to meet its liabilities as they fall due; and the Company's annual operating costs.

Based on the above, and assuming there is no significant adverse change to the regulatory environment and tax treatment of UK investment trusts, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

**Board Responsibilities**
As set out in the Directors' Report on pages 30 and 39 the Directors have a statutory duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests (s172 Companies Act 2006). However, the Company has no employees and no customers in the traditional sense. Consistent with the Company's nature as an investment trust, the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole.

Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager at every Board meeting and reviews its relationships with other service providers at least annually.

**Board Diversity**
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. The Board has considered the recommendations of the Davies and Hampton-Alexander reviews as well as the Parker review, but does not consider it appropriate to establish targets or quotas in these regards. As a norm, the Board comprises six non-executive directors of which, at present, two are female. Summary biographical details of the Directors are set out on page 24.
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 Manager applies the United Nations Principles for Responsible Investment.

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

This Strategic Report was approved by the Board on 12 June 2019

Invesco Asset Management Limited
Company Secretary

Strategy
# Investments in Order of Valuation

## At 31 March 2019

**UK listed ordinary shares unless otherwise stated**

| **Investment** | **Sector** | **Value £'000** | **% of Portfolio** |
|---|---|---|---|
| BP | Oil & Gas Producers | 96,929 | 6.5 |
| British American Tobacco | Tobacco | 91,312 | 6.1 |
| Legal & General | Life Insurance | 62,420 | 4.2 |
| Burford Capital[AIM] | Financial Services | 57,326 | 3.8 |
| Next | General Retailers | 52,676 | 3.5 |
| Altria – *US common stock* | Tobacco | 52,412 | 3.5 |
| Royal Dutch Shell – *A shares* | Oil & Gas Producers | 51,968 | 3.5 |
| Imperial Brands | Tobacco | 50,486 | 3.4 |
| Novartis – *Swiss common stock* | Pharmaceuticals & Biotechnology | 43,223 | 2.9 |
| Derwent London | Real Estate Investment Trusts | 43,035 | 2.9 |
| **Ten Top Holdings** | | **601,787** | **40.3** |
| Roche – *Swiss common stock* | Pharmaceuticals & Biotechnology | 42,646 | 2.8 |
| Hiscox | Non-life Insurance | 42,040 | 2.8 |
| Tesco | Food & Drug Retailers | 39,743 | 2.6 |
| Aviva | Life Insurance | 37,603 | 2.4 |
| BAE Systems | Aerospace & Defence | 36,756 | 2.4 |
| HomeServe | Support Services | 35,770 | 2.4 |
| BCA Marketplace | Support Services | 32,322 | 2.2 |
| BT | Fixed Line Telecommunications | 32,197 | 2.1 |
| NewRiver REIT | Real Estate Investment Trusts | 32,023 | 2.1 |
| Drax | Electricity | 30,008 | 2.0 |
| **Twenty Top Holdings** | | **962,895** | **64.1** |
| British Land | Real Estate Investment Trusts | 28,897 | 1.9 |
| easyJet | Travel & Leisure | 28,717 | 1.9 |
| Provident Financial | Financial Services | 26,893 | 1.8 |
| Capita | Support Services | 26,253 | 1.8 |
| G4S | Support Services | 24,443 | 1.6 |
| BTG | Pharmaceuticals & Biotechnology | 23,724 | 1.6 |
| Beazley | Non-life Insurance | 22,128 | 1.5 |
| Babcock International | Aerospace & Defence | 21,552 | 1.4 |
| Lancashire | Non-life Insurance | 21,271 | 1.4 |
| CLS | Real Estate Investment & Services | 20,130 | 1.4 |
| **Thirty Top Holdings** | | **1,206,903** | **80.4** |

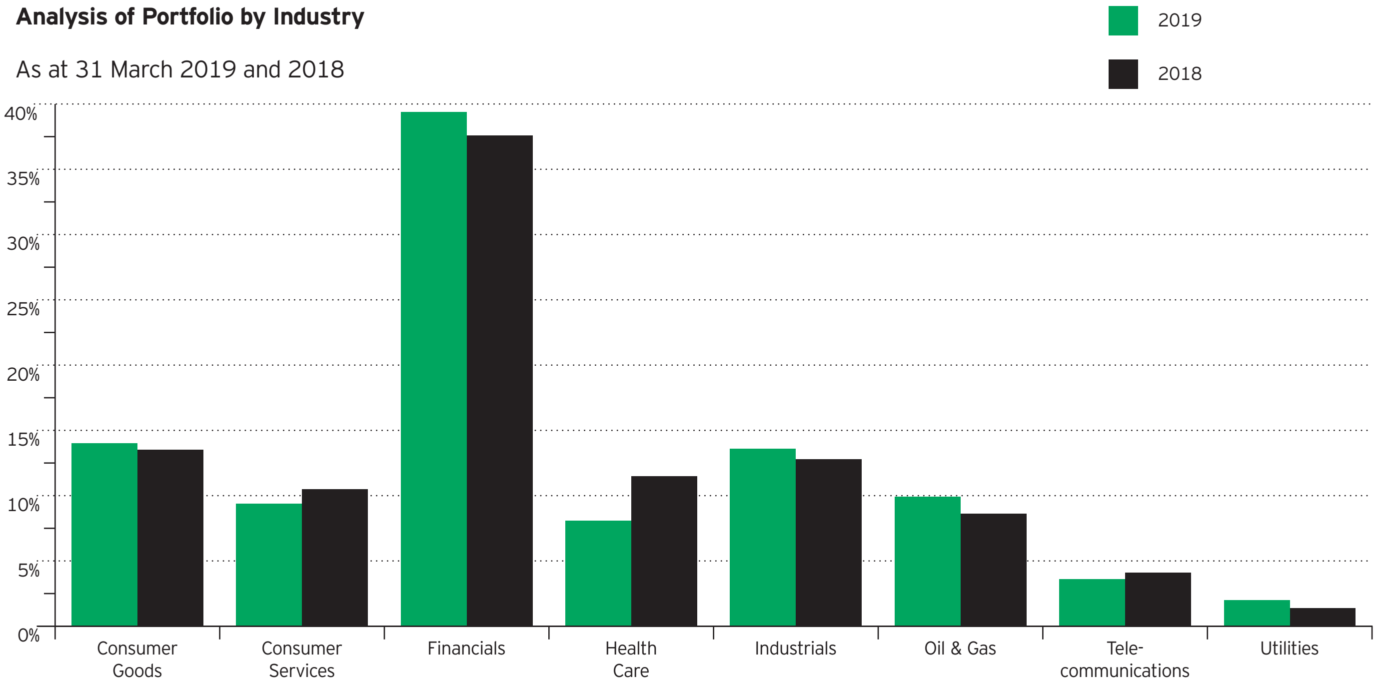
| Investment | Sector | Value £'000 | % of Portfolio |
|---|---|---|---|
| Honeycomb Investment Trust | Equity Investment Instruments | 19,700 | 1.3 |
| Royal Bank of Scotland | Banks | 16,485 | 1.1 |
| Cranswick | Food Producers | 15,370 | 1.0 |
| P2P Global Investments | Equity Investment Instruments | 15,369 | 1.0 |
| Rentokil Initial | Support Services | 15,324 | 1.0 |
| Secure Income REIT[AIM] | Real Estate Investment Trusts | 15,016 | 1.0 |
| Draper Esprit[AIM] | Financial Services | 14,520 | 1.0 |
| Whitbread | Travel & Leisure | 14,060 | 1.0 |
| Plus500 | Financial Services | 13,717 | 0.9 |
| Assura | Real Estate Investment Trusts | 13,242 | 0.9 |
| **Forty Top Holdings** | | **1,359,706** | **90.6** |
| Amigo | Financial Services | 12,387 | 0.8 |
| Secure Trust Bank | Banks | 12,278 | 0.8 |
| Eddie Stobart Logistics[AIM] | Industrial Transportation | 11,901 | 0.8 |
| TalkTalk Telecom | Fixed Line Telecommunications | 11,601 | 0.8 |
| Redde[AIM] | Financial Services | 11,463 | 0.7 |
| IP Group | Financial Services | 10,930 | 0.7 |
| Zegona Communications | Non Equity Investment Instruments | 10,871 | 0.7 |
| KCOM | Fixed Line Telecommunications | 10,490 | 0.7 |
| Vectura | Pharmaceuticals & Biotechnology | 10,436 | 0.7 |
| Raven Property Group - Ordinary | Real Estate Investment & Services | 5,976 | |
| - Preference | | 3,814 | |
| | | 9,790 | 0.7 |
| **Fifty Top Holdings** | | **1,471,853** | **98.0** |
| VPC Specialty Lending Investments | Financial Services | 6,150 | 0.4 |
| Funding Circle SME | Equity Investment Instruments | 6,125 | 0.4 |
| Hadrian's Wall Secured Investments | Equity Investment Instruments | 6,027 | 0.4 |
| Urban Exposure[AIM] | Financial Services | 4,826 | 0.4 |
| Thomas Cook | Travel & Leisure | 4,518 | 0.3 |
| Circassia Pharmaceuticals[AIM] | Pharmaceuticals & Biotechnology | 1,406 | 0.1 |
| Eurovestech[UQ] | Financial Services | 246 | 0.0 |
| **Total Holdings (57)** | | **1,501,151** | **100.0** |

[AIM] Investments quoted on AIM.
[UQ] Unquoted investment.

# Portfolio Analysis

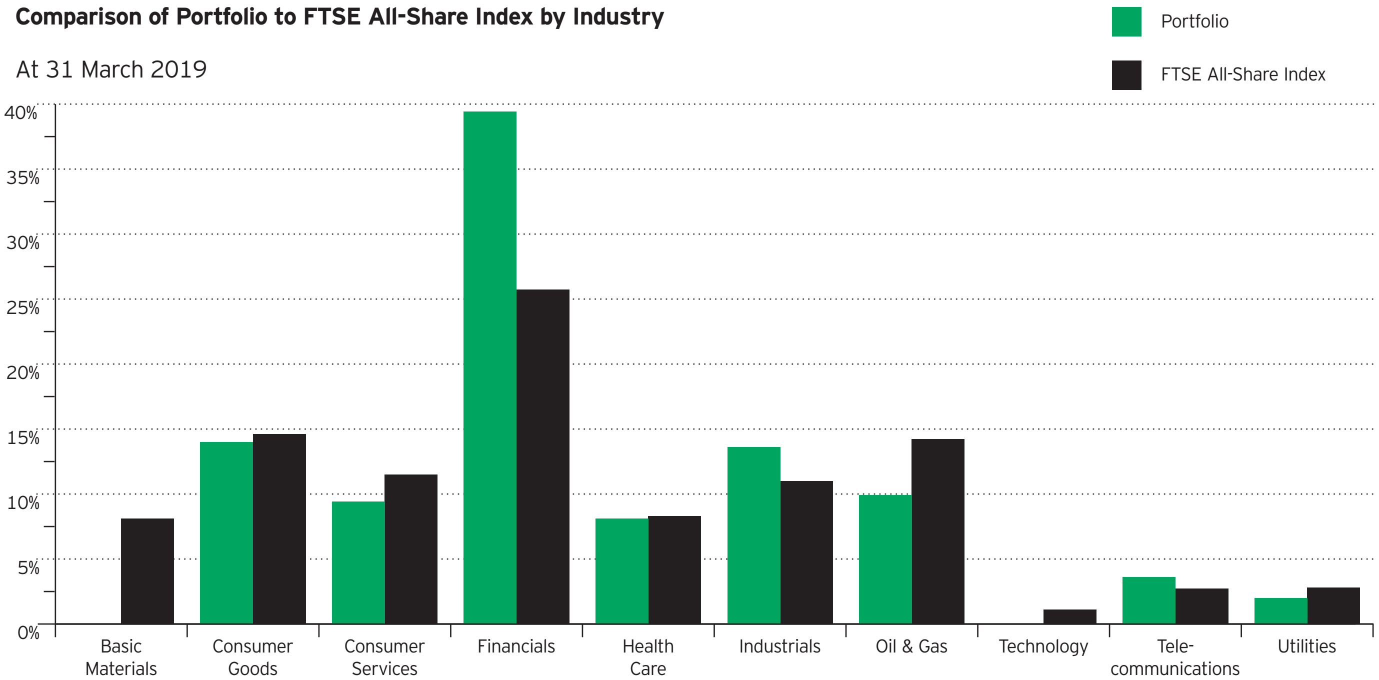
**Analysis of Portfolio by Industry**

As at 31 March 2019 and 2018




**Comparison of Portfolio to FTSE All-Share Index by Industry**

At 31 March 2019



# Governance



Waverley Station, Edinburgh

# The Directors

### Glen Suarez

Glen Suarez was appointed to the Board on 24 May 2013 and became Chairman on 22 November 2017. Glen is Chairman of Knight Vinke Asset Management. Prior to joining Knight Vinke, he was a Partner in Soditic Limited and before that he was Head of European Utilities at Morgan Stanley. He is a specialist in the banking and energy sectors, and is a Fellow of the Institute of Chartered Accountants in England and Wales, Royal Society of Arts and a member of the Capital Markets Advisory Committee.

### Gordon McQueen†

Gordon McQueen was appointed to the Board on 31 May 2011 and is Chairman of the Audit Committee. He is a Chartered Accountant and a Fellow of the Chartered Institute of Bankers of Scotland. He is a former Finance Director of Bank of Scotland and until 2003, he was an Executive Director of HBOS plc, where his main role was Chief Executive, Treasury. He is a former non-executive director and audit committee Chairman of Scottish Mortgage Investment Trust plc, Shaftesbury plc and JPMorgan Midcap Investment Trust plc.

### Steve Baldwin†

Steven Baldwin was appointed to the Board on 10 September 2018. He is a Chartered Accountant. He is senior independent non-executive director at TruFin plc and Elegant Hotels Group plc, a non-executive director at Plus500 and a Trustee at Howard de Walden Estate Limited. He was formerly a non-executive director of Panmure Gordon & co plc. He was the Head of European Equity Capital Markets and Corporate Broking at Macquarie Capital until February 2015. Prior to this Steve was a Director at JPMorgan Cazenove for ten years and was a Vice President of Corporate Finance at UBS from 1995-1998.

### Victoria Hastings†

Victoria Hastings was appointed to the Board on 23 May 2013. She has over 25 years' experience in the investment management industry and is a non-executive director of Impax Environmental Markets plc and both JPMorgan Asset Management (UK) Ltd and JPMorgan Asset Management International Ltd. Her roles have included investment director at JO Hambro Capital Management; chief investment officer, private clients at Merrill Lynch Investment Managers (London); a fund manager in the Merrill Lynch European Equity team; non-executive director of Charter European Trust and Henderson Global Trust plc. She is also a trustee of Moorfields Eye Charity.

### Elisabeth Stheeman†

Elisabeth Stheeman was appointed to the Board on 23 May 2019. She is currently an external member of the Financial Policy Committee (FPC) and Financial Markets Infrastructure (FMI) board of the Bank of England. She is a member of the supervisory board and audit committee for Korian SA in France and a member of the supervisory board for Aareal Bank AG in Germany. She is also a member of Court and Council at The London School of Economics and a member of Council of the German British Chamber of Industry and Commerce.

Previously, she was a senior advisor to the Bank of England/Prudential Regulation Authority and member of the supervisory board and audit committee of TLG Immobilien AG and global chief operations officer and member of global management committee at LaSalle Investment Management and COO at Morgan Stanley International. She was previously a non-executive director at RDI REIT PLC.

### Maxwell Ward†

Maxwell Ward was appointed to the Board on 8 August 2011. Mr Ward joined Baillie Gifford in 1971 becoming a partner in the firm in 1975 and was head of the UK Equity Department from 1981 until his retirement in April 2000. He was also a member of the firm's Management and Investment Policy Committees and Chairman of Baillie Gifford Overseas. From 1989 until 2000 he was manager of Scottish Mortgage and Trust plc. Following his retirement from Baillie Gifford, he floated The Independent Investment Trust plc and has been its managing director since. He is a former non-executive director of Aegon UK plc and Foreign and Colonial Investment Trust plc.

### Sir Nigel Wicks†

Sir Nigel Wicks, GCB, CVO, CBE was appointed to the Board on 24 May 2005 and is the Senior Independent Director. After working for The British Petroleum Company, Sir Nigel joined HM Treasury in 1968. He worked for Prime Ministers Harold Wilson, James Callaghan and Margaret Thatcher. He was the UK's Executive Director at the International Monetary Fund and World Bank, the Prime Minister's representative ('Sherpa') for the Economic Summits of the Group of Seven Industrialised Nations and he was the Treasury's Second Permanent Secretary responsible for international financial matters. He was past Chair of the Committee on Standards in Public Life and formerly the Chairman of Euroclear plc, The British Bankers Association and a Commissioner of the Jersey Financial Services Commission.

**All Directors are non-executive and considered independent.**

All Directors are members of the Management Engagement and Nomination Committees.

† Member of the Audit Committee

Governance
# The Company's Corporate Governance Framework

## The Board and Committees

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that it is an Investment Company with no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.

**The Board**

Senior Independent Director
- Sir Nigel Wicks (Victoria Hastings with effect from 25 July 2019)

Five additional non-executive directors (NEDs)

**Chairman**
Glen Suarez

**Key responsibilities:**
- to set strategy, values and standards;
- to provide leadership within a framework of prudent effective controls which enable risk to be assessed and managed;
- to appoint the Manager and other external service providers; and
- to challenge constructively and scrutinise performance of all outsourced activities.

| **Audit Committee** | **Management Engagement Committee** | **Nomination Committee** | **Remuneration Committee Function** |
|---|---|---|---|
| All NEDs excluding Glen Suarez | All NEDs | All NEDs | The Board as a whole performs this function |
| **Chairman** Gordon McQueen | **Chairman** Glen Suarez | **Chairman** Glen Suarez | |
| **Key responsibilities:**<br>- to oversee the control environment and financial reporting;<br>- to make recommendation for the appointment of the auditor; and<br>- to review the performance of other service providers, including the auditor. | **Key responsibilities:**<br>- to review regularly the management contract and the performance of the Manager. | **Key responsibilities:**<br>- to review regularly the Board's structure, composition and performance; and<br>- to make recommendations for any changes or new appointments. | **Key responsibilities:**<br>- to set the remuneration policy of the Company. |

# Corporate Governance Statement

## For the year ended 31 March 2019

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Board has considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (2016 AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The 2016 AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2016 UK Corporate Governance Code (UK Code), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The 2016 AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company intends to comply with the updated 2019 AIC Code for the year ending 31 March 2020.

The Company has complied with the recommendations of the 2016 AIC Code and the relevant provisions of the UK Code, except the 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 Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of The Edinburgh Investment Trust plc, being an externally managed investment company with no executive employees. It considers an internal audit function unnecessary as the relevant issues are covered by the Manager's internal audit function. The Company has therefore not reported further in respect of these provisions.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

- the composition and operation of the Board and its committees are summarised on pages 30 to 33, and page 27 in respect of the Audit Committee;
- the Company's approach to internal control and risk management is summarised on page 34;
- the contractual arrangements with, and assessment of, the Manager are summarised on page 35;
- the Company's capital structure and voting rights are summarised on page 36;
- the most substantial shareholders in the Company are listed on page 37;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 32. There are no agreements between the Company and its directors concerning compensation for loss of office; and
- powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a resolution to be passed by shareholders.

**By order of the Board**

Invesco Asset Management Limited
Company Secretary

12 June 2019

Governance
# Audit Committee Report

For the year ended
31 March 2019

## Committee Composition and Role

The Audit Committee comprises all the Directors with the exception of Glen Suarez, under my chairmanship.

The Committee has written terms of reference which clearly define its authority, meetings, duties and reporting. These were updated during the year, to ensure good practice and compliance with the latest AIC Code. They will be available for inspection at the AGM and can be inspected at the registered office of the Company or viewed on the Manager's website.

## Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

- consideration of the integrity of the annual and half-yearly financial reports prepared by the Manager, the appropriateness of the accounting policies applied and any financial judgements and key assumptions, together with ensuring compliance with relevant statutory and listing requirements;
- at the Board's request, advising it on whether the Committee believes the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy;
- evaluation of the effectiveness of the internal control systems and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;
- consideration of the scope of work undertaken by the Manager's internal audit and compliance departments, monitoring and reviewing the effectiveness of the Manager's internal audit and reviewing the Company's procedures for detecting fraud; and
- management of the relationship with the external auditor, including evaluation of their reports and the scope, effectiveness, independence and objectivity of their audit, as well as making recommendations to the Board in respect of their appointment, reappointment and removal and for the terms of their audit engagement.

## Audit Committee Activities

The Committee meets three times a year to review the internal financial and non-financial controls and, when applicable, the contents of the half-yearly and annual financial reports, including accounting policies. In addition, the Committee reviews the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Compliance and Internal Audit Departments attend at least two meetings each year. Representatives of the auditor, KPMG LLP, attend the Committee meetings at which the draft half-yearly and annual financial reports are reviewed and are given the opportunity to speak to Committee members in the absence of representatives of the Manager.

The external audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period and matters for audit focus are discussed and agreed. The auditor ensures that these matters are given particular attention during the audit process and reports on them, and other matters as required, in its report to the Committee. In addition, the Committee reviews any material issues raised by the auditor. There have been no such issue raised during the year. The auditor's report, together with reports from the Manager, the Manager's Internal Audit and Compliance Departments and the depositary, form the basis of the Committee's consideration and discussions with the various parties and any recommendations to the Board, including the Committee's recommendation to sign the 2019 financial statements.

## Correspondence with the Financial Reporting Council

During the year the Company received formal feedback from the Financial Reporting Council ('FRC') in respect of disclosures of Alternative Performance Measures (APMs) in the Company's annual financial report for the year to 31 March 2018. The FRC review was performed without the benefit of detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. As a result of this, the Company has undertaken to enhance disclosures of APMs and provide reconciliations, where appropriate, between alternative performance measures and numbers derived from the financial statements. Accordingly, these are included in the Glossary of Terms and Alternative Performance Measures on pages 75 to 77.

For the year ended
31 March 2019

## Accounting Matters and Significant Areas

For the year end, the accounting matters that were identified for specific consideration by the Committee follow:

| Significant area | How addressed |
|---|---|
| Accuracy of the portfolio valuation, with emphasis on any investments held at Directors' valuation. | Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value. This is set out in accounting policies note 1C(v). Any such valuations are carefully considered by the Manager's pricing committee and the Committee. |
| Proof of existence of portfolio holdings. | The Manager, the auditor and the depositary confirmed that the holdings shown in the accounting records agreed with the custodian records. |
| Recognition of investment income, with emphasis on special dividend income. | Investment income is recognised in accordance with accounting policies note 1F. The Manager provides detailed revenue estimates for the Board's review, and income is assessed to ensure it is complete and accounted for correctly. Careful consideration is given to special dividends. These are allocated to revenue or capital according to the nature of the payment by the underlying company and the allocation is also reviewed by the auditor. |
| The allocation of management fees and finance costs between revenue and capital. | The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; yield; the objective of the Company; and the latest market practice of peers. |

These matters were discussed with the Manager and the auditor in pre year end audit planning, and were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor at the conclusion of the audit process.

Consequently, and following a thorough review process of the 2019 annual financial report, the Audit Committee advised the Board that the report 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 Chairman of the Audit Committee will be present at the AGM to answer questions relating to the annual financial report.

## Review of the External Auditor, including Non-Audit Services

The Committee evaluated the performance and effectiveness of the external auditor and their audit process. This included a review of the audit planning, execution and reporting and the quality of the audit work, results and audit team. This review sought the view of the Manager in their dealings with the auditor. The Committee also considered the independence of KPMG LLP (KPMG) and the objectivity of the audit process. No modifications were required to the external audit approach. Combining the output of all the above, and the Audit Committee Chairman's and the Committee's direct interaction with KPMG, the Committee concluded that it continued to be satisfied with the performance of KPMG and that the auditor continued to display the necessary attributes of objectivity and independence.

Prior to any engagement for non-audit services, the Audit Committee consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensures there is no threat to objectivity and independence in the conduct of the audit as a result. Excluding VAT and any expenses, the annual audit fee was £23,400 (2018: £21,095) and the non-audit fee was £7,100 (2018: £6,750); this latter item covered the review of the half-yearly financial report and the annual certificate of compliance to the trustees of the debenture stock. The Committee does not believe that this has impaired the auditor's independence and objectivity. Non-audit services up to £5,000 do not require approval in advance of the Audit Committee; amounts in excess of this require the approval of the Audit Committee.

## Auditor

The Company was incorporated in 1889 and the tenure of KPMG (including its predecessor firms) is at least fifty years. The Committee conducted a tender exercise during the year for the audit of the Company's 2020 annual financial report. Three audit firms were invited to submit written proposals and present in person to the Committee. After due consideration, the Committee recommended the appointment of PricewaterhouseCoopers LLP. The Board consequently invited them to be the Company's auditor for the year ended 31 March 2020. KPMG LLP will resign after signing this year's report and resolutions appointing PricewaterhouseCoopers LLP and for the Committee to determine their remuneration will be put to shareholders at the forthcoming AGM.

## Internal Controls and Risk Management

The Committee undertakes a robust assessment of the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place and relevant information reported to the Directors, throughout the year. The resultant ratings of the mitigated risks allow the Directors to concentrate on those risks that are most significant and also form the basis of the list of principal risks and uncertainties set out in the Strategic Report on pages 14 to 16.

The Committee, on behalf of the Board, is responsible for ensuring that the Company maintains a sound system of internal control to mitigate risk and safeguard the Company's assets. The effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems, is reviewed at least annually. Appropriate action is taken to remedy any significant failings or weaknesses identified from these reviews. No significant items were identified in the year. As part of this, the Committee receives and considers, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian, company secretary and registrar. These reviews identified no issues of significance during the year.

## Internal Audit

The Company, being an externally managed investment company with no executive employees and in view of the Manager having an internal audit function, does not have its own internal audit function.

## Committee Evaluation

The Committee's activities fell within the scope of the review of Board effectiveness performed in the year. Details of this process can be found under 'Board, Committee and Directors' Performance Appraisal' on pages 32 and 33.

**Gordon McQueen**
Chairman of the Audit Committee

12 June 2019

# Directors' Report

## For the year ended 31 March 2019

### Business and Status

The Company was incorporated and registered in Scotland on 1 March 1889 as a public limited company, registered number SC1836. It is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

### Corporate Governance

The Corporate Governance Statement set out on page 26 is included in this Directors' Report by reference.

### The Board

At the year end the Board comprised six non-executive Directors. Brief biographical details of the Directors are shown on page 24. The Company's Corporate Governance Framework is set out on page 25. This shows the key objectives of the Board and also the membership and key objectives of the Board's supporting committees which deal with specific aspects of the Company's affairs: the Audit, Management Engagement and Nomination Committees.

The Board regards all of the Directors to be wholly independent of the Company's Manager.

**Chairman**
The Chairman of the Company is Glen Suarez. He has been a member of the Board since 2013 and was appointed Chairman on 22 November 2017.

**Senior Independent Director**
The Company's Senior Independent Director is Sir Nigel Wicks. As previously highlighted in the Chairman's Statement, Sir Nigel Wicks will be retiring as a Director of the Company at the conclusion of the forthcoming annual general meeting and Victoria Hastings will be appointed as Senior Independent Director.

**Board Balance**
The Directors have a range of business, financial or asset management skills and experience relevant to the direction and control of the Company.

### Board Responsibilities

The Board has overall responsibility for the Company's affairs. The Directors are equally responsible under United Kingdom law for promoting the success of the Company and for the proper conduct of the Company's affairs taking into consideration the likely consequences of any decision in the long-term; the need to foster business relationships with its Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly between shareholders of the Company. This is reported in the Strategic Report on page 17. The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures for and on behalf of the Company that the Board considers adequate to prevent persons associated with it from engaging in bribery and has a zero tolerance approach towards the criminal facilitation of tax evasion. In addition, the Directors are responsible for ensuring that their policies and operations are in the interest of all of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly considered.

The Board has a schedule of matters reserved for its consideration, which clearly define the Directors' responsibilities. The main responsibilities include: setting long-term strategy; setting the Company's objectives, policies and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; selecting an appropriate Manager; approving accounting policies and dividend policy; determining dividends payable; managing the capital structure; reviewing investment performance; assessing risk; approving borrowing; and reviewing, and, if agreed, approving recommendations made by the Board's committees. The schedule of matters reserved for the Board will be available for inspection at the AGM and is otherwise available at the registered office of the Company and on the Company's page on the Manager's website.

The Board ensures that shareholders are provided with sufficient information in order to understand the risk:reward balance to which they are exposed by holding their shares, through the portfolio details given in the half-yearly and annual financial reports, factsheets and daily NAV disclosures.

The Board meets at least four times each year. Additional meetings are arranged as necessary. Regular contact is maintained by the Manager with the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook, strategic direction, performance against stock market indices and the Company's peer group, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, investment policy guidelines, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

There is an agreed procedure for the Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted with the Chairman.

Finally, the Board as a whole undertakes the responsibilities which would otherwise be assumed by a remuneration committee, determining the Company's remuneration policy. The Board takes into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report.

## Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## The Committees

The Board has three committees: the Audit Committee, the Management Engagement Committee and the Nomination Committee. Each committee has written terms of reference, which clearly define each committees' responsibilities and duties. The terms of reference of each committee are available for inspection at the AGM, at the registered office of the Company and also available on the Company's page of the Manager's website.

### The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on page 27, which is included in this Directors' Report by reference.

### The Management Engagement Committee

The Management Engagement Committee comprises all directors under the chairmanship of Glen Suarez. The Committee meets at least annually to review the investment management agreement and to review the services provided by the Manager.

During the year the Committee undertook a detailed review of the investment process and oversight by the Manager. This review was undertaken by a series of meetings with the investment team and representatives of Invesco. The Committee confirmed to the Board that they continued to believe in the portfolio manager's investment approach and recommended the continued appointment of the Manager.

**The Nomination Committee**

All Directors are members of the Nomination Committee which is chaired by Glen Suarez. The Committee meets at least once a year to review the composition of the Board and its committees and evaluating whether they have the appropriate balance of skills, experience, independence and knowledge of the Company; and making recommendations to the Board for the re-election of directors at AGMs.

The Committee is also responsible for identifying and nominating to the Board suitable candidates taking into consideration the above requirements; the ability of any new director to devote sufficient time to the Company to carry out his or her duties effectively; and with due regard for the benefits of diversity (including gender). The Board has not set any measurable objectives in respect of the latter.

As previously announced and reported in the half yearly financial report, Steven Baldwin was appointed as a non-executive Director of the Company on 10 September 2018 and a resolution for his election is included in the Notice of AGM.

During the year the Committee continued to review succession planning and commenced recruitment for a new director. An external independent recruitment consultancy, Odgers Berndtson, was engaged for this search and the Committee provided a detailed description of the role and the skills required. As a result, Elisabeth Stheeman was appointed to the Board on 23 May 2019 and a resolution for her election is included in the Notice of AGM.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and will also be available at the AGM. A Director can be removed from office without notice or compensation upon being served with a written notice signed by all the other Directors.

**Appointment, Re-election and Tenure**

New Directors are appointed by the Board following recommendation by the Nominations Committee. The Articles of Association require that a Director shall be subject to election at the first AGM after appointment and re-election at least every three years thereafter. However, in accordance with the UK Code of Corporate Governance, the Board has resolved that all Directors shall stand for annual re-election at the AGM, with the exception of Sir Nigel Wicks who will retire at the conclusion of the meeting.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are continually updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with new legislation and the changing risk environment.

The Board has noted the implication of the provisions in the UK Corporate Governance Code that non-executive directors who have served for more than nine years should be presumed not to be independent. The AIC does not believe that this presumption is appropriate for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority of an investment trust board. Accordingly the Board considers that the independence of Sir Nigel Wicks, who has served on the Board over nine years, is not compromised by his length of service but, to the contrary, is strengthened by his experience. As noted earlier, Sir Nigel Wicks will retire as a Director of the Company with effect from the conclusion of the forthcoming AGM. It is the Board's policy that all Directors, including the Chairman, shall normally have tenure limited to nine years from their first appointment to the Board, except that the Board may determine otherwise if it is considered that the continued participation on the Board of an individual Director, or the Chairman, is in the best interests of the Company and its shareholders. This is also subject to the Director's re-election annually by shareholders. The Board considers that this policy encourages regular refreshment and is conducive to fostering diversity.

## Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendation in respect of evaluating the performance of the Board as a whole, the Committees of the Board and individual Directors.

In 2017 the Board appointed Lintstock Limited, an external consultant, to undertake a review of the Board, its Committees and the Directors individually. As no concerns were raised in these reports, the Board opted to conduct the 2019 performance evaluation through formal questionnaires and discussion between the Directors, the Chairman and the Audit Committee Chairman including the consideration of each Director's independence. The conclusion was that the performance of the Board as a whole, the Committees, the Chairman and individual Directors was effective and in the Board's considered view, all Directors were independent.

## Attendance at Board and Committee Meetings

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The table below sets out the number of scheduled Directors' meetings held during the year and the number of meetings attended by each Director. In addition, Directors attended a number of ad hoc meetings during the year.

### Attendance at Board and Committee Meetings

The number of scheduled meetings held during the year to 31 March 2019 and the attendance of individual Directors are shown in the table below:

| | Scheduled Board | Audit Committee | Management Engagement Committee | Nomination Committee |
|---|---|---|---|---|
| Meetings held | 4 | 3 | 2 | 3 |
| Meetings attended: | | | | |
| – Glen Suarez | 4 | 3† | 2 | 3 |
| – Steven Baldwin†† | 2 | 2 | 1 | 1 |
| – Victoria Hastings | 4 | 3 | 2 | 3 |
| – Gordon McQueen | 4 | 3 | 2 | 3 |
| – Elisabeth Stheeman††† | 0 | 0 | 0 | 0 |
| – Maxwell Ward | 4 | 3 | 2 | 3 |
| – Sir Nigel Wicks | 4 | 3 | 2 | 3 |

† Glen Suarez is not a member of the Audit Committee but was in attendance at the meetings.

†† Steven Baldwin was appointed on 10 September 2018 and has attended all meetings since his appointment.

††† Elisabeth Stheeman was appointed on 23 May 2019.

## Directors

### Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 42.

**Disclosable Interests**

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end.

**Director's Indemnities and Insurance**

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, deeds of indemnity have been executed on behalf of the Company for each of the Directors under the Company's Articles of Association. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

## Conflicts of Interest

A Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or has the potential to conflict with the company's interests. The Articles of Association of the Company give the Directors authority to authorise potential conflicts of interest and there are safeguards which apply when Directors decide whether to do so. First, only Directors who have no interest in the matter being considered are able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors can impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. The Register of Potential Conflicts of Interests is kept at the registered office of the Company. It is reviewed regularly by the Board and Directors know to advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

## Internal Controls and Risk Management

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls (the 'internal controls') which are designed to safeguard the Company's assets and which have been in place throughout the year and up to the date of this report.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board.

The Audit Committee reviews, and makes recommendations to the Board, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal controls is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. This system can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that necessary actions would be taken to remedy any significant failings or weaknesses identified from their review and that no significant failings or weaknesses occurred throughout the year ended 31 March 2019 and up to the date of this annual financial report.

The Board reviews financial reports and performance against forecasts, relevant stock market criteria and the Company's peer group. In addition, the Manager and custodian maintain their own systems of internal controls and risk management and the Board and Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also produced annually on the internal controls and procedures in place for the operation of secretarial and administrative, custodial, investment management and accounting activities. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

## Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet, for the same reasons as set out in the Viability Statement. In considering this, the Directors took into account both ongoing expenses and any obligations under the Company's borrowing (both the debenture and the bank facility). The Directors also considered revenue forecasts and future dividend payments in determining the going concern basis.

## The Manager

The Manager is Invesco Fund Managers Limited (IFML). The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company.

The Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the Manager prepares half-yearly and annual financial reports on behalf of the Company.

**Investment Management Agreement (IMA)**
The Manager provides investment and administration services to the Company under an investment management agreement dated 22 July 2014. The agreement is terminable by either party by giving not less than three months' notice. Prior to this, IAML provided these services.

The management fee is calculated on 0.0458333% of the market capitalisation of the Company's ordinary shares at each month end and paid monthly in arrears (equivalent to an annual fee of 0.55%). There is no performance fee.

**Assessment of the Manager**
The Management Engagement Committee has carried out a review following the Company's 2019 financial year end and, following recommendation from the Committee, the Board considers that the continuing appointment of IFML as Manager is in the best interests of the Company and its shareholders.

## Company Secretary

The Board has direct access to the advice and services of the corporate company secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The company secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. Finally, the company secretary is responsible for advising the Board through the Chairman on all governance matters.

## Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. The Manager's approach to corporate governance and the UK Stewardship Code can be found on the Manager's website at www.invesco.co.uk together with a copy of the Manager's Stewardship Policy and the manager's global proxy voting policy.

### Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and results. This information is supplemented by the daily publication of the net asset value and the monthly and daily factsheets.

Shareholders can also visit the Company's page of the Manager's website in order to access copies of the annual and half-yearly financial reports, pre-investment information, Key Information Documents (KIDs), proxy voting results, factsheets and stock exchange announcements. At each AGM, a presentation is made by the Manager following the formal business of the meeting and shareholders have the opportunity to attend, vote and most importantly to communicate directly with the Board.

There is a regular dialogue between the Manager and major institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

There is a clear channel of communication between the Board and the Company's Shareholders via the Company Secretary. The Company Secretary has no express authority to respond to enquiries addressed to the Board and all communications, other than junk mail, are redirected to the Chairman.

### Greenhouse Gas Emissions

The Company has no employees or premises and does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes.

### Share Capital

#### Capital Structure

At the year end, the Company's allotted and fully paid share capital consisted of 195,666,734 ordinary shares of 25p each of which 185,000 shares are held in treasury. To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares. No shares were issued in the year. During the year, 185,000 ordinary shares were repurchased for holding in treasury at an average price of 675.48p per share. Since the year end, 350,000 ordinary shares have been bought back for holding in treasury at an average price of 591.46p per share.

## Substantial Holdings in the Company

The Company has been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

| | 31 May 2019 Shares | % | 31 March 2019 Shares | % |
|---|---|---|---|---|
| Hargreaves Lansdown, stockbrokers (EO) | 15,830,895 | 8.10 | 15,569,521 | 7.96 |
| Alliance Trust Savings | 11,316,139 | 5.79 | 11,336,321 | 5.80 |
| Rathbones | 9,002,500 | 4.61 | 9,084,632 | 4.65 |
| Charles Stanley | 8,927,579 | 4.57 | 9,287,270 | 4.75 |
| Aberdeen Standard Retail Plans | 7,263,253 | 3.72 | 7,334,954 | 3.75 |
| Brewin Dolphin, stockbrokers | 6,899,107 | 3.53 | 7,205,143 | 3.69 |

**Restrictions**
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, no restrictions on the distribution of dividends and the repayment of capital, and no agreements to which the Company is party that might affect its control following a successful takeover bid.

**Voting**
At a general meeting of the Company, every shareholder has one vote on a show of hands and, on a poll, one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

**Repurchase Powers**
The Board's current powers to repurchase shares and proposals for their renewal are disclosed on page 38.

## Disclosure Required by Listing Rule 9.8.4

The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. The Company confirms that all such reporting applied only to non-applicable events for the year to 31 March 2019.

## Individual Savings Account (ISA)

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

**Business of the Annual General Meeting (AGM)**

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 25 July 2019 at 11am. The notice of the AGM and related notes can be found on pages 70 to 72. All resolutions are ordinary resolutions unless otherwise identified.

**Resolution 1** is for members to receive and consider this Annual Financial Report (AFR), including the financial statements and auditor's report.

**Resolution 2** is to approve the Directors' Remuneration Policy as set out on page 41.

**Resolution 3** is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 41 to 43 of this AFR.

**Resolution 4** is to declare the final dividend for the year.

**Resolutions 5 to 10** are to re-elect and elect Directors. Biographies of the Directors can be found on page 24.

All Directors will stand for election or re-election by shareholders at the AGM, with the exception of Sir Nigel Wicks who will retire as a non-executive Director and Senior Independent Director at the conclusion of the meeting. The Board has determined that each of the Directors is independent, continues to perform effectively and demonstrates commitment to their role. Their balance of knowledge and skills combined with their diversity and business experience makes a major contribution to the functions of the Board and its Committees. Mr Suarez's experience in the asset management industry and accountancy background brings valuable technical information to the meetings. Gordon McQueen is a Chartered Accountant and together with his experience in banking, finance and investment management, has thereby acquired skills that have enabled him to successfully Chair the Audit Committee. Steven Baldwin is also a Chartered Accountant and his experience in a range of industries brings a breadth of experience to the meetings. Victoria Hastings had an executive career in the investment management industry that has brought her broad sector experience to the Board. Maxwell Ward has extensive investment management experience that brings industry knowledge to the Board. Elisabeth Stheeman has extensive executive and non-executive experience in financial services and real estate that bring highly relevant and valuable skills to the Board.

**Resolutions 11 and 12** are to appoint PricewaterhouseCoopers LLP as auditor and to authorise the Audit Committee to determine their remuneration. Please see the Audit Committee Report for more information on the reasons and process by which PricewaterhouseCoopers LLP have been selected for the office. PricewaterhouseCoopers LLP have expressed willingness to hold office until the conclusion of the next AGM of the Company.

**Special Business**

**Resolution 13: Authority to Allot Shares** is an Ordinary Resolution seeking renewal of the current authority for the Directors' to allot up to 10% of the issued ordinary share capital, this being an aggregate nominal amount of £4,878,293 as at 12 June 2019.

**Special Resolution 14: Authority to Allot Shares** is a Special Resolution which seeks renewal of the current authority to allot equity securities pursuant to a rights issue or to issue up to 10% of the issued ordinary share capital otherwise than in connection with a rights issue, dis-applying preemption rights. This will allow shares to be issued to new shareholders, within the prescribed limits, without having to be offered to existing shareholders first, thus broadening the shareholder base of the

Company. The Directors will not dilute the interests of existing shareholders by using the authority to issue shares at a price which is less than the Net Asset Value (calculated with debt at market value) of the existing shares in issue at that time. These authorities will expire at the next AGM of the Company or fifteen months after the passing of the resolutions, whichever is the earlier.

**Special Resolution 15: Authority to Buy Back Shares**
This resolution seeks to renew the Directors' authority to purchase up to 14.99% of the Company's issued share capital, this being 29,250,247 ordinary shares as at 12 June 2019. The authority will expire at the Company's next AGM or 15 months following the passing of this resolution, if earlier. The principal purpose of share buy backs is to enhance the net asset value for remaining shareholders and purchases will only be made if they do so.

In accordance with the UK Listing Rules, the maximum price which may be paid for a share must not be more than the higher of: (i) 5% above the average of the mid-market values of the shares for the five business days before the purchase is made; and (ii) the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price which may be paid will be 25p per share, this being the nominal value of a share. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using its existing cash balance or borrowing facilities or by selling securities in the Company's portfolio.

The Directors might consider holding repurchased shares as treasury shares with a view to possible resale.

**Special Resolution 16: Notice Period for General Meetings**
The EU Shareholder Rights Directive increased the notice period for general meetings of companies to 21 days unless certain conditions are met in which case it may be 14 days' notice. A shareholders' resolution is required to ensure that the Company's general meetings (other than Annual General Meetings) may be held on 14 days' notice. Accordingly, Special Resolution 16 will propose that the period of notice for general meetings of the Company (other than AGMs) shall not be less than 14 days' notice. It is intended that this flexibility will be used only where the Board believes it is in the best interests of shareholders as a whole, and an explanation will be provided.

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

**By order of the Board**

Invesco Asset Management Limited
Company Secretary

12 June 2019

Governance

# Statement of Directors' Responsibilities

## in respect of the preparation of the Annual Financial Report

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK accounting standards, including 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 its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, which is maintained by the Company's Manager. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Responsibility statement of the Directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- 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 or loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the annual financial report, 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.

**Signed on behalf of the Board of Directors**

Glen Suarez
Chairman

12 June 2019

Governance
# Directors' Remuneration Report

## For the year ended 31 March 2019

This report has been prepared under the requirements of The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 46 to 50.

### Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

### Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 19 July 2018 and became effective on that date.

The policy is that the remuneration of Directors: be fair and reasonable in relation to that of other investment trusts and to the time commitment and responsibilities undertaken; be reviewed relative to movements in the Retail Price Index; be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board but not be more than necessary for the purpose; and take into consideration any committee memberships and chairmanship duties.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association (Articles). The maximum currently is £250,000 in aggregate per annum.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in the performance of their duties. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

Notwithstanding the above, the Company's Articles also provide that additional discretionary payments can be made for services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director.

The level of Directors' remuneration is reviewed annually, although such review will not automatically result in any changes. This Directors' Remuneration Policy will apply to any new directors, who will be paid the appropriate fee based on the Directors' fees level in place at the date of appointment. The Board will consider, where raised, shareholders' views on Directors' remuneration.

The Board may amend the level of remuneration paid to Directors within the parameters of the Directors' Remuneration Policy.

This Directors' Remuneration Policy is the same as that currently followed by the Board as disclosed in last year's Directors' Remuneration Report.

The Company has no employees and consequently has no policy on the remuneration of employees.

### Annual Statement on Directors' Remuneration

For the year ended 31 March 2019, fees paid to the Directors per annum were:
Chairman £44,000; Senior Independent Director £27,500; Audit Committee Chairman £30,000; Other Directors £24,200.

Directors' fees have remained unchanged since 1 April 2007, with the exception of the Audit Committee Chairman's fee which increased from £27,000 with effect from 1 April 2015. During the year under review the Board reviewed Directors' fees and considered that the current level of remuneration remained appropriate. No discretionary payments were made in the year, or the previous year. In reaching their decision, the Board considered information supplied by the Manager at their request. This included the fee rates of comparable investment companies. No external consultant was used.

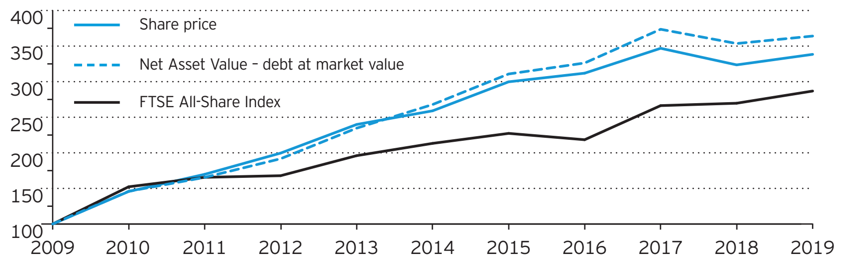
## Report on Remuneration for the Year Ended 31 March 2019

### The Company's Performance

The adjacent graph plots, in annual increments, the net asset value total return and share price total return to ordinary shareholders compared to the total return of the FTSE All-Share Index over the ten years to 31 March 2019. This index is the benchmark adopted by the Company for comparison purposes.

### Total Return Graph

Figures have been rebased to 100 at 31 March 2009.




## Single Total Figure of Remuneration for the Year (Audited)

The single total figure of remuneration for each Director is detailed below, together with the prior year comparative:

| | 2019 Fees £ | 2019 Taxable Benefits[1] £ | 2019 Total £ | 2018 Fees £ | 2018 Taxable Benefits[1] £ | 2018 Total £ |
|---|---|---|---|---|---|---|
| Glen Suarez (appointed as Chairman from 22 November 2017) | 44,000 | 4,822 | 48,822 | 31,261 | 2,434 | 33,695 |
| Steve Baldwin (appointed 10 September 2018) | 13,459 | - | 13,459 | - | - | - |
| Victoria Hastings | 24,200 | - | 24,200 | 24,200 | - | 24,200 |
| Gordon McQueen (Chairman of the Audit Committee) | 30,000 | 3,265 | 33,265 | 30,000 | 610 | 30,610 |
| Jim Pettigrew (retired 22 November 2017) | - | - | - | 28,319 | - | 28,319 |
| Maxwell Ward | 24,200 | 2,817 | 27,017 | 24,200 | 778 | 24,978 |
| Sir Nigel Wicks (Senior Independent Director) | 27,500 | - | 27,500 | 27,500 | - | 27,500 |
| **Total** | **163,359** | **10,904** | **174,263** | **165,480** | **3,822** | **169,302** |

[1] Taxable benefits relate to grossed up costs of travel.

## Directors' Shareholdings and Share Interests (Audited)

Save as here stated, no Director had any interests, beneficial or otherwise, in the ordinary shares or debenture stock of the Company during the year. No changes to these holdings have been notified since the year end. No connected person interests have been notified.

Directors hold shares in the Company at their discretion. Share ownership is encouraged, but no guidelines have been set.

The beneficial interests of the Directors in the ordinary share capital of the Company are set out below:

| | 31 March 2019 | 31 March 2018 |
|---|---|---|
| Glen Suarez | 37,000 | 37,000 |
| Steve Baldwin | - | - |
| Victoria Hastings | 5,000 | 5,000 |
| Gordon McQueen | 2,000 | 2,000 |
| Maxwell Ward | 20,000 | 20,000 |
| Sir Nigel Wicks | 3,500 | 3,500 |

Elisabeth Stheeman was appointed as a Director after the year end, on 23 May 2019, and currently holds no shares in the Company.

**Relative Importance of Spend on Pay**
The Company has no employees. The following table compares the remuneration paid to the non-executive Directors with aggregate distributions to shareholders in respect of the year to 31 March 2019 and the prior year:

| | 2019 £'000 | 2018 £'000 | Change £'000 |
|---|---|---|---|
| Aggregate Directors' Remuneration | 174 | 169 | +5 |
| Aggregate Shareholder Distributions | 54,704 | 52,047 | +2,657 |

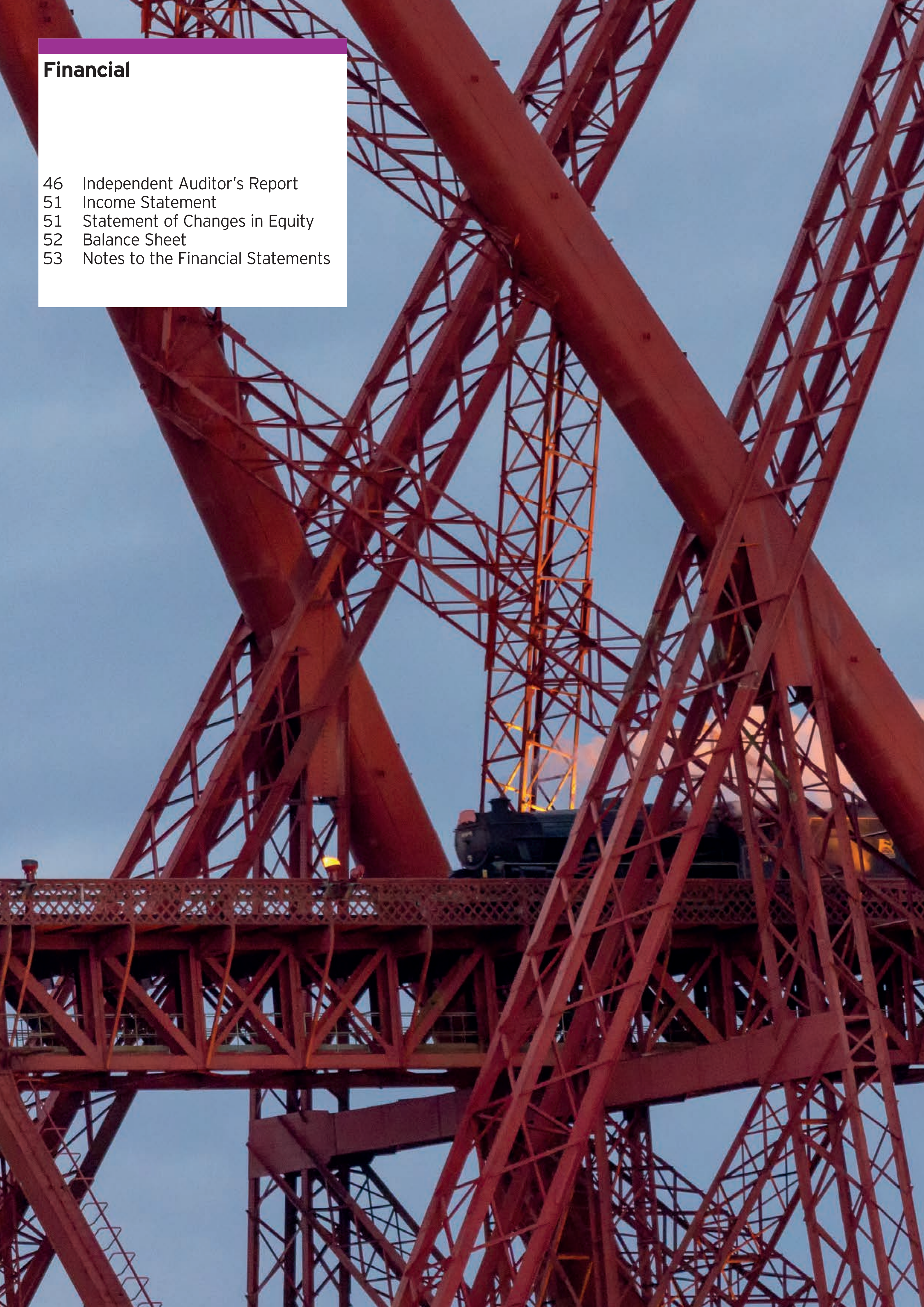
**Approval**
This Directors' Remuneration Report was approved by the Board of Directors on 12 June 2019.

**Glen Suarez**
Chairman

Signed on behalf of the Board of Directors

**Voting at Last Annual General Meeting**
At the Annual General Meeting of the Company held on 19 July 2018 resolutions approving the Directors' Remuneration Policy and the Chairman's Annual Statement and Report on Remuneration were passed. The votes cast (including votes cast at the Chairman's discretion) were as follows.

| | Votes For | % | Votes Against | % | Votes Withheld |
|---|---|---|---|---|---|
| Directors' Remuneration Policy | 45,457,132 | 99.56 | 199,693 | 0.44 | 164,679 |
| Annual Statement and Report | 47,650,895 | 99.72 | 133,019 | 0.28 | 109,831 |



# Financial

Forth Railway Bridge

# Independent Auditor's Report

## To the Members of The Edinburgh Investment Trust plc only

### Overview

**Materiality:** financial statements as a whole

£16.3m (2018: £15.5m)
1.08% (2018: 1.00%) of Total Assets

**Lower Materiality**
income from investments excluding unrealised gains and losses, investment management fees and finance cost of borrowings

£2.0m (2018: £1.9m)
3.23% (2018: 3.00%) of income from investments

| Risks of material misstatement | vs 2018 |
|---|---|
| **Recurring risks** | |
| Carrying amount of quoted investments | ◀▶ |

**1. Our opinion is unmodified**
We have audited the financial statements of The Edinburgh Investment Trust PLC ("the Company") for the year ended 31 March 2019 which comprise the Income Statement, Statement of Changes in Equity and Balance Sheet and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its return for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the company before 31 March 1980. The period of total uninterrupted engagement is for more than the 39 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

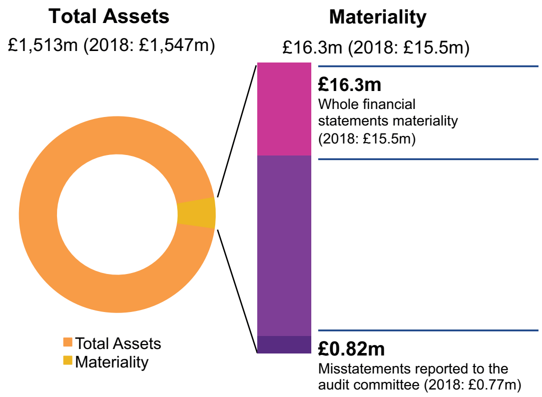
**2. Key audit matters: including our assessment of risks of material misstatement**
Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matter (unchanged from 2018) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

**Carrying amount of Quoted Investments** (£1,501.1 million; 2018: £1,535.9 million)
Refer to page 28 (Audit Committee Report), page 53 (accounting policy) and page 58 (Note 9 Investments).

- **The risk: Low risk, high value**
  The Company's portfolio of investments make up 99% (2018: 99%) of the total assets (by value) and are considered to be the key driver of operations and performance results. We do not consider investments to be a high risk of significant misstatement, or to be subject to a significant level of judgement, because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

- **Our response:** Our procedures included:
  - **Tests of detail**: Agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and

- **Enquiry of custodians**: Agreeing 100% of the investment holdings in the portfolio to independently received third party confirmations from investment custodians.
- **Our Results**: We found the carrying amount of quoted investments to be acceptable (2018: acceptable).




**3. Our application of materiality and an overview of the scope of our audit**
Materiality for the financial statements as a whole was set at £16.3 million (2018: £15.5 million), determined with reference to a benchmark of total assets, of which it represents 1.08% (2018: 1.00%).

In addition, we applied a materiality of £2.03 million (2018: £1.92 million) to income from investments excluding unrealised gains and losses; investment management fees and finance cost of borrowings for which we believe misstatements of lesser amounts than materiality for the financial statement as a whole could reasonably be expected to influence the Company's members assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.82 million (2018: £0.77 million); any corrected or uncorrected identified misstatements exceeding £101,000 (2018: £96,000) to income from investments excluding unrealised gains and losses; investment management fees; and finance cost of borrowings in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at KPMG's office in London.

**4. We have nothing to report on going concern**
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 35 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

To the Members of The Edinburgh Investment Trust plc only

**5. We have nothing to report on the other information in the Annual Report**
The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

**Strategic Report and Directors' Report**
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

**Disclosures of principal risks and longer-term viability**
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on pages 16 and 17 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

**Corporate governance disclosures**
We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or

- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

**6. We have nothing to report on the other matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7. Respective responsibilities**

**Directors' responsibilities**

As explained more fully in their statement set out on page 40, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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 other irregularities (see below) or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

**Irregularities – ability to detect**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors, the Manager and the administrator (as required by auditing standards) and discussed with the Directors and the Manager the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

## To the Members of The Edinburgh Investment Trust plc only

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and its qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

**8. The purpose of our audit work and to whom we owe our responsibilities**

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.

**Catherine Burnet**
Senior Statutory Auditor
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

12 June 2019

## Income Statement

| | Notes | 2019 Revenue £'000 | 2019 Capital £'000 | 2019 Total £'000 | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 |
|---|---|---|---|---|---|---|---|
| Losses on investments | 9(c) | - | (8,567) | (8,567) | - | (129,918) | (129,918) |
| Foreign exchange gains/(losses) | | - | 22 | 22 | - | (393) | (393) |
| Income | 2 | 62,916 | 1,002 | 63,918 | 64,154 | 492 | 64,646 |
| Investment management fee | 3 | (2,124) | (4,957) | (7,081) | (2,276) | (5,312) | (7,588) |
| Other expenses | 4 | (872) | (1) | (873) | (888) | (1) | (889) |
| **Net return before finance costs and taxation** | | 59,920 | (12,501) | 47,419 | 60,990 | (135,132) | (74,142) |
| Finance costs | 5 | (2,612) | (6,095) | (8,707) | (2,679) | (6,252) | (8,931) |
| **Return on ordinary activities before taxation** | | **57,308** | **(18,596)** | **38,712** | **58,311** | **(141,384)** | **(83,073)** |
| Tax on ordinary activities | 6 | (1,251) | - | (1,251) | (1,071) | - | (1,071) |
| **Return on ordinary activities after taxation for the financial year** | | **56,057** | **(18,596)** | **37,461** | **57,240** | **(141,384)** | **(84,144)** |
| **Return per ordinary share:** | | | | | | | |
| Basic | 7 | 28.7p | (9.5)p | 19.2p | 29.3p | (72.3)p | (43.0)p |

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The return on ordinary activities after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. 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 of the Company. No operations were acquired or discontinued in the year.

## Statement of Changes in Equity

| | Notes | Share Capital £'000 | Share Premium £'000 | Capital Redemption Reserve £'000 | Capital Reserve £'000 | Revenue Reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | | 48,917 | 10,394 | 24,676 | 1,376,475 | 74,719 | 1,535,181 |
| Dividends paid | 8 | - | - | - | - | (51,168) | (51,168) |
| Net return on ordinary activities | | - | - | - | (141,384) | 57,240 | (84,144) |
| **Balance at 31 March 2018** | | **48,917** | **10,394** | **24,676** | **1,235,091** | **80,791** | **1,399,869** |
| Shares bought back and held in treasury | | - | - | - | (1,258) | - | (1,258) |
| Dividends paid | 8 | - | - | - | - | (53,635) | (53,635) |
| Net return on ordinary activities | | - | - | - | (18,596) | 56,057 | 37,461 |
| **Balance at 31 March 2019** | | **48,917** | **10,394** | **24,676** | **1,215,237** | **83,213** | **1,382,437** |

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

As at 31 March

## Balance Sheet

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | 9(a) | 1,501,151 | 1,535,929 |
| **Current assets** | | | |
| Debtors | 10 | 8,987 | 6,372 |
| Cash and cash equivalents | | 3,114 | 4,320 |
| | | 12,101 | 10,692 |
| **Creditors: amounts falling due within one year** | | | |
| Bank facility | 11 | (30,800) | (43,900) |
| Other payables | 11 | (894) | (3,982) |
| | | (31,694) | (47,882) |
| **Net current liabilities** | | (19,593) | (37,190) |
| **Total assets less current liabilities** | | 1,481,558 | 1,498,739 |
| **Creditors: amounts falling due after more than one year** | 12 | (99,121) | (98,870) |
| **Net assets** | | **1,382,437** | **1,399,869** |
| **Capital and reserves** | | | |
| Share capital | 13 | 48,917 | 48,917 |
| Share premium | 14 | 10,394 | 10,394 |
| Capital redemption reserve | 14 | 24,676 | 24,676 |
| Capital reserve | 14 | 1,215,237 | 1,235,091 |
| Revenue reserve | 14 | 83,213 | 80,791 |
| **Shareholders' funds** | | **1,382,437** | **1,399,869** |
| **Net asset value per ordinary share** | | | |
| Basic – debt at par | 15 | 706.75p | 714.85p |
| – debt at market value | 15 | 696.91p | 703.34p |

These financial statements were approved and authorised for issue by the Board of Directors on 12 June 2019.

**Glen Suarez**

Chairman

Signed on behalf of the Board of Directors

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

Financial
# 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.

### A. Basis of Preparation

***Accounting Standards Applied***

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice (UK GAAP)) and with the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014 (SORP) and updated in February 2018. The financial statements are issued on a going concern basis.

As an investment fund the Company has the option, which it has taken, not to present a cash flow statement. A cash flow statement is not required when an investment fund meets all the following conditions: substantially all investments are highly liquid and are carried at market value, and where a statement of changes in equity is provided.

### B. Foreign Currency and Segmental Reporting

(i) Functional and presentational currency

The financial statements are presented in sterling, which is the Company's functional and presentational currency and the currency in which the Company's share capital and expenses, as well as its assets and liabilities, are denominated.

(ii) Transactions and balances

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue account, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

(iii) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business of investing in equity and debt securities, issued by companies quoted mainly on the UK or other recognised stock exchanges.

### C. Financial Instruments

The Company has chosen to apply Section 11 and 12 of FRS102 in full in respect of the financial instruments.

(i) Recognition of financial assets and financial liabilities

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

(ii) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) Derecognition of financial liabilities

The Company derecognises financial liabilities when its obligations are discharged, cancelled or have expired.

(iv) Trade date accounting

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) Classification and measurement of financial assets and financial liabilities

- Financial assets

The Company's investments are classified as held at fair value through profit or loss.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the income statement, and are subsequently valued at fair value.

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. Fair value for investments that are actively traded but where active stock exchange quoted bid prices are not available is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Unquoted, unlisted or illiquid investments are valued by the Directors at fair value using a variety of valuation techniques including earnings multiples, recent transactions and other market indicators, cash flows and net assets.

# Notes to the Financial Statements

- Financial liabilities

  Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

**D. Cash and Cash Equivalents**
Cash and cash equivalents may comprise cash (including short term deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents, including money market funds. Investments are regarded as cash equivalents if they meet all of the following criteria: highly liquid investments held in the Company's base currency that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three-month high quality government bond.

**E. Hedging**
Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are recognised in the income statement and taken to capital reserves.

**F. Income**
Interest income arising from fixed income securities and cash is recognised in the income statement using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital in the income statement.

Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

**G. Expenses and Finance Costs**
Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method in the income statement.

The investment management fee and finance costs are allocated 70% to capital and 30% to revenue. This is in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the portfolio.

Transaction costs are recognised as capital in the income statement. All other expenses are allocated to revenue in the income statement.

**H. Taxation**
The liability to corporation tax is based on net revenue for the year, excluding non-taxable dividends. The tax charge is allocated between the revenue and capital account on the marginal basis whereby revenue expenses are matched first against taxable income in the revenue account.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred taxation assets are recognised where, in the opinion of the Directors, it is more likely than not that these amounts will be realised in future periods.

A deferred tax asset is only recognised in respect of surplus management expenses, losses on loan relationships and eligible unrelieved foreign tax to the extent that the Company is likely to have sufficient future taxable revenue to offset against these.

**I. Dividends Payable**
Dividends are not recognised in the accounts unless there is an obligation to pay at the balance sheet date. Proposed dividends are recognised in the year in which they are paid to shareholders.

### 2. Income

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Income from listed investments:** | | |
| UK dividends | | |
| – Ordinary | 47,446 | 48,604 |
| – Special | 955 | 3,335 |
| Overseas dividends | | |
| – Ordinary | 11,705 | 9,903 |
| Unfranked investment income | 2,785 | 2,299 |
| Income from money market funds | 22 | 9 |
| | 62,913 | 64,150 |
| **Other income:** | | |
| Deposit interest | 3 | 4 |
| **Total income** | **62,916** | **64,154** |

Special dividends of £1,002,000 were recognised in capital during the year (2018: £492,000).

### 3. Investment Management Fee

***This note shows the fee due to the Manager. This is calculated and paid monthly.***

| | 2019 Revenue £'000 | 2019 Capital £'000 | 2019 Total £'000 | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 |
|---|---|---|---|---|---|---|
| Investment management fee | 2,124 | 4,957 | 7,081 | 2,276 | 5,312 | 7,588 |

Details of the investment management agreement are disclosed on page 35 in the Directors' Report. At 31 March 2019 investment management fees of £577,000 (2018: £576,000) were accrued.

## 4. Other Expenses

***The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.***

| | Revenue £'000 | 2019 Capital £'000 | Total £'000 | Revenue £'000 | 2018 Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Other expenses** | **872** | **1** | **873** | **888** | **1** | **889** |
| Other expenses include the following: | | | | | | |
| Directors' remuneration | 174 | - | 174 | 169 | - | 169 |
| Fees payable to the Company's auditor in relation to: | | | | | | |
| - the audit of the Company's annual accounts (including expenses) | 24 | - | 24 | 23 | - | 23 |
| - audit related assurance services | 7 | - | 7 | 7 | - | 7 |

The maximum Directors' fees authorised by the Articles of Association are £250,000 per annum.

Further information on Directors' remuneration can be found in the Directors Remuneration Report. Included within other expenses is £16,000 (2018: £16,000) of employer's National Insurance payable on Directors' remuneration. As at 31 March 2019, the amount outstanding on Director's remuneration and employer's National Insurance was £8,800 (2018: £5,900).

Fees payable to the Company's auditor for audit related assurance services fees are for their review in connection with the half-yearly financial statements and the annual certificate to the trustee of the debenture stock, which are recognised in revenue. Fees payable to the Company's auditor are shown excluding VAT, which is included in other expenses.

## 5. Finance costs

***Finance costs arise on any borrowing facilities the Company has used. Borrowing facilities are the £100 million debenture stock and a £150 million bank revolving credit facility.***

| | Revenue £'000 | 2019 Capital £'000 | Total £'000 | Revenue £'000 | 2018 Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest payable on borrowings repayable not by instalments: | | | | | | |
| - interest on bank facility | 212 | 494 | 706 | 279 | 651 | 930 |
| - debenture stock repayable in 3-5 years | 2,325 | 5,425 | 7,750 | 2,325 | 5,425 | 7,750 |
| Amortised debenture stock discount and issue costs | 75 | 176 | 251 | 75 | 176 | 251 |
| | **2,612** | **6,095** | **8,707** | **2,679** | **6,252** | **8,931** |

### 6. Tax on Ordinary Activities

***As an investment trust the Company pays no tax on capital gains. As the Company invests principally in UK equities, it has little overseas tax and the overseas tax charge is the result of withholding tax deducted at source. This note also clarifies the basis for the Company having no deferred tax asset or liability.***

**(a) Tax charge**

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| Overseas tax | 1,251 | 1,071 |

**(b) Reconciliation of tax charge**

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| Total return on ordinary activities before taxation | 38,712 | (83,073) |
| UK Corporation Tax rate of 19% (2018: 19%) | 7,355 | (15,784) |
| Effect of: | | |
| – non-taxable losses on investments | 1,628 | 24,684 |
| – non-taxable (gains)/losses on foreign exchange movements | (4) | 75 |
| – non-taxable UK dividends and scrip dividends | (7,939) | (8,551) |
| – non-taxable overseas dividends | (2,175) | (1,882) |
| – non-taxable special dividends | (372) | (666) |
| – expenses and finance costs in excess of taxable income for the year carried forward | 1,507 | 2,124 |
| – overseas tax | 1,251 | 1,071 |
| **Tax charge for the year** | **1,251** | **1,071** |

**(c) Deferred tax**
Owing to the Company's status as an investment company, and the Directors' intention that it continues to meet the conditions required to maintain that approval in the foreseeable future, no deferred tax has been provided on any capital gains and losses arising on the revaluation or disposal of investments.

**(d) Factors that may affect future tax changes**
The Company has surplus management expenses and losses on loan relationships of £455,650,000 (2018: £447,424,000) that are available to offset future taxable revenue. A deferred tax asset of £77,461,000 (2018: £76,062,000), measured at the prospective rate of corporation tax of 17% (2018: 17%), has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

### 7. 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 revenue, capital and total returns per ordinary share are based on each return on ordinary shares after tax and on 195,560,762 (2018: 195,666,734) ordinary shares, being the weighted average number of shares in issue during the year.

## 8. Dividends on Ordinary Shares

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Dividends paid and recognised in the year:** | **pence** | **£'000** | **pence** | **£'000** |
| – third interim paid in respect of previous year | 5.80 | 11,349 | 5.40 | 10,566 |
| – final paid in respect of previous year | 9.20 | 18,001 | 9.15 | 17,904 |
| – first interim paid | 6.25 | 12,218 | 5.80 | 11,349 |
| – second interim paid | 6.25 | 12,218 | 5.80 | 11,349 |
| | **27.50** | **53,786** | **26.15** | **51,168** |
| Return of unclaimed dividends from previous years | – | (151) | – | – |
| | **27.50** | **53,635** | **26.15** | **51,168** |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Dividends on shares payable in respect of the year:** | **pence** | **£'000** | **pence** | **£'000** |
| – first interim | 6.25 | 12,218 | 5.80 | 11,349 |
| – second interim | 6.25 | 12,218 | 5.80 | 11,349 |
| – third interim | 6.25 | 12,218 | 5.80 | 11,349 |
| – proposed final | 9.25 | 18,050 | 9.20 | 18,000 |
| | **28.00** | **54,704** | **26.60** | **52,047** |

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

## 9. Investments

***The portfolio comprises investments which are principally listed on a regulated stock exchange or traded on AIM. A very small proportion of investments are valued by the Directors as they are unlisted.***

**Gains or losses are either:**

- **realised, usually arising when investments are sold; or**
- **unrealised, being the difference from cost on those investments still held at the year end.**

### (a) Analysis of investments by listing status

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| – investments listed on a regulated stock exchange | 1,384,447 | 1,441,803 |
| – AIM quoted investments | 116,458 | 93,804 |
| – unlisted investments at Directors' valuation | 246 | 322 |
| | **1,501,151** | **1,535,929** |

**(b) Analysis of investments gains**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Opening valuation** | **1,535,929** | **1,731,265** |
| Movements in year: | | |
| – purchases at cost | 221,902 | 249,793 |
| – sales – proceeds | (248,113) | (315,211) |
| – sales – net realised gains | 111,613 | 100,887 |
| Movement in investment holding gains | (120,180) | (230,805) |
| **Closing valuation** | **1,501,151** | **1,535,929** |
| Closing book cost | 1,390,495 | 1,305,093 |
| Closing investment holding gains | 110,656 | 230,836 |
| **Closing valuation** | **1,501,151** | **1,535,929** |

There were no purchases or sales of unlisted investments during the year (2018: £nil).

**(c) Losses on investments**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Realised gains on sales | 111,613 | 100,887 |
| Movement in investment holding gains | (120,180) | (230,805) |
| **Losses on investments** | **(8,567)** | **(129,918)** |

**(d) Transaction costs**
Transaction costs on purchases of £740,000 (2018: £1,157,000) and on sales of £149,000 (2018: £316,000) are included within gains and losses on investments.

**(e) Significant holdings**
At 31 March 2019 the Company had holdings of 3% or more of the number in issue of the following investments:

| Name of Undertaking | Country of Incorporation | Instrument | % held |
|---|---|---|---|
| Zegona Communications | England & Wales | Ordinary shares | 4.9 |
| Secure Trust Bank | England & Wales | Ordinary shares | 4.9 |
| Urban Exposure | England & Wales | Ordinary shares | 4.7 |
| Honeycomb Investment Trust | England & Wales | Ordinary shares | 4.5 |
| Hadrian's Wall Secured Investments | Guernsey | Ordinary shares | 4.4 |
| NewRiver REIT | England & Wales | Ordinary shares | 4.4 |
| Eddie Stobart Logistics | England & Wales | Ordinary shares | 3.2 |
| Redde | England & Wales | Ordinary shares | 3.1 |

## 10. Debtors

***Debtors are amounts which are due to the Company, such as monies due from brokers for investments sold and income which has been earned (accrued) but not yet received.***

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts due from brokers | 2,219 | 1,301 |
| Prepayments and accrued income | 4,331 | 3,371 |
| Tax recoverable | 2,437 | 1,700 |
| | **8,987** | **6,372** |

## 11. Creditors: amounts falling due within one year

***Creditors are amounts which must be paid by the Company and are split between those payable within 12 months of the balance sheet date and those payable after that time. The main creditors are the debenture and bank borrowings. The other creditors include any amounts due to brokers for the purchase of investments or amounts owed to suppliers (accruals) such as the Manager and auditor.***

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Bank facility | 30,800 | 43,900 |
| Other payables: | | |
| Amounts due to brokers | - | 3,131 |
| Accruals | 894 | 851 |
| | 894 | 3,982 |
| | **31,694** | **47,882** |

The Company has a 364 day committed revolving credit facility (the 'facility') of £150 million (2018: £150 million) with the lender, The Bank of New York Mellon. The facility is due for renewal on 19 June 2019. Interest is payable at 0.70% over LIBOR with a commitment fee for undrawn amounts. Under the facility's covenants, the Company's total indebtedness must not exceed 25% of total assets and total assets must not be less than £700 million (2018: £700 million).

## 12. Creditors: amounts falling due after more than one year

***These creditors are amounts that must be paid, as shown by note 11, but are due more than one year after the balance sheet date.***

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Debenture Stock 7¾% redeemable 30 September 2022 | 100,000 | 100,000 |
| Unamortised discount and issue expenses on debenture stock | (879) | (1,130) |
| | **99,121** | **98,870** |

The debenture is secured by a floating charge on the Company, under which borrowing must not exceed a sum equal to the Adjusted Total of Capital and Reserves. The interest on the 7 ¾% debenture is payable in half-yearly instalments, in March and September, each year.

The effect on the net asset value of deducting the debenture stock at market value, rather than at par, is disclosed in note 15.

### 13. Share Capital

***Share capital represents the total number of shares in issue.***

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Share capital: | | |
| Ordinary shares of 25p each | 48,871 | 48,917 |
| Treasury shares of 25p each | 46 | - |
| | **48,917** | **48,917** |

| | 2019 | 2018 |
|---|---|---|
| Number of ordinary shares in issue: | | |
| Brought forward | 195,666,734 | 195,666,734 |
| Shares bought back and held in treasury | (185,000) | - |
| **Carried forward** | **195,481,734** | **195,666,734** |
| Number of treasury shares held: | | |
| Brought forward | - | - |
| Shares bought back and held in treasury | 185,000 | - |
| **Carried forward** | **185,000** | **-** |
| **Total ordinary shares** | **195,666,734** | **195,666,734** |

During the year the Company bought back, into treasury, 185,000 ordinary shares at an average price of 675.48p. Since the year end, 350,000 shares have been bought back into treasury, at an average price of 591.46p.

The Directors' Report on page 36 sets out the Company's share capital structure, restrictions and voting rights.

### 14. Reserves

***This note explains the different reserves attributable to shareholders. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.***

The share premium comprises the net proceeds received by the Company following the issue of shares, after deduction of the nominal amount of 25 pence and any applicable issue costs. The capital redemption reserve maintains the equity share capital of the Company and arose from the nominal value of any shares bought back and cancelled; both are non-distributable.

The capital reserve includes the investment holding gains/(losses), being the difference between cost and market value at the balance sheet date. It also includes cumulative realised gains/(losses) and costs related to share buybacks. Capital investment gains and losses are shown in note 9(b) and form part of the capital reserve.

The revenue reserve shows the net revenue retained after payment of any dividends. The capital and revenue reserves are distributable by way of dividend.

## 15. Net Asset Value 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 195,481,734 (2018: 195,666,734).

**(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:

| | 2019 NAV per share pence | 2019 Shareholders' funds £'000 | 2018 NAV per share pence | 2018 Shareholders' funds £'000 |
|---|---|---|---|---|
| Shareholders' funds | 707.20 | 1,382,437 | 715.43 | 1,399,869 |
| Less: | | | | |
| Unamortised discount and expenses arising from debenture issue | (0.45) | (879) | (0.58) | (1,130) |
| **NAV – debt at par** | **706.75** | **1,381,558** | **714.85** | **1,398,739** |

**(b) NAV – debt at market value**
The market value of the debenture stock 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 gilt.

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

| | 2019 NAV per share pence | 2019 Shareholders' funds £'000 | 2018 NAV per share pence | 2018 Shareholders' funds £'000 |
|---|---|---|---|---|
| NAV – debt at par | 706.75 | 1,381,558 | 714.85 | 1,398,739 |
| Debenture stock – debt at par | 51.15 | 100,000 | 51.11 | 100,000 |
| – debt at market value | (60.99) | (119,220) | (62.62) | (122,530) |
| **NAV – debt at market value** | **696.91** | **1,362,338** | **703.34** | **1,376,209** |

## 16. Risk Management and Financial Instruments

***Financial instruments comprise the Company's investment portfolio, derivative instruments (if any) as well as cash, and any borrowings, debtors and creditors. This note sets out the Company's financial instruments and the risks related to them.***

**Financial instruments**
The Company's financial instruments mainly comprise its investment portfolio (as shown on pages 18 and 19), a debenture, a bank loan as well as its cash, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. For the purpose of this note 'cash' should be taken to comprise cash and cash equivalents as defined in note 1d. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main financial risks that the Company faces from its financial instruments are market risk, liquidity risk, and credit risk. These are set out below:

**Market risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

- ***Currency risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;
- ***Interest rate risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

- ***Other price risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

***Liquidity risk*** – arising from any difficulty in meeting obligations associated with financial liabilities.
***Credit risk*** – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

**Risk Management Policies and Procedures**
The Directors have delegated to the Manager the responsibility for the day-to-day investment activities and management of gearing of the Company as more fully described in the Directors' Report.

As an investment trust the Company invests in equities and other investments for the long-term so as to fulfil its investment policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. These policies are summarised below and have remained substantially unchanged for the two years under review.

16.1 **Market Risk**
The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk for the whole of the investment portfolio on an ongoing basis. The Board has meetings in each calendar quarter to assess risk and review investment performance, as disclosed in the Board Responsibilities on pages 30 and 31. Any borrowing to gear the investment portfolio is used to enhance returns but also increases the Company's exposure to market risk and volatility. The Company has the ability to gear by using its £100 million debenture stock 2022 and its bank facility of £150 million.

16.1.1 ***Currency risk***
The majority of the Company's assets and all of its liabilities are denominated in sterling. There is some exposure to US dollar, Swiss franc and the Euro.

**Management of the currency risk**
The Manager monitors the Company's direct exposure to foreign currencies on a daily basis and reports to the board on a regular basis. Forward currency contracts can be used to reduce the Company's exposure to foreign currencies arising naturally from the Manager's choice of securities. All contracts are limited to currencies and amounts commensurate with the assets denominated in currencies. No forward currency contracts were used during the year (2018: none).

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

The Company may invest up to 20% of the portfolio in securities listed on non-UK stock exchanges. At the year end holdings of non-UK securities total £138.3 million (2018: £122.4 million) representing 9.2% (2018: 8.0%) of the portfolio.

**Currency exposure**
The fair values of the Company's monetary items that have currency exposure at 31 March are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

| | 2019 USD £'000 | 2019 CHF £'000 | 2019 EUR £'000 | 2018 USD £'000 | 2018 CHF £'000 | 2018 EUR £'000 |
|---|---|---|---|---|---|---|
| Foreign currency exposure on net monetary items | 1,474 | 2,189 | 249 | 507 | 1,603 | 97 |
| Investments at fair value through profit or loss that are equities | 52,412 | 85,869 | - | 53,489 | 68,894 | - |
| **Total net foreign currency exposure** | **53,886** | **88,058** | **249** | **53,996** | **70,497** | **97** |

The above may not be representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year.

**Currency sensitivity**
In respect of the Company's direct foreign currency exposure to investments denominated in currencies, if sterling had weakened by 2.8% (2018: 3.4%) for the US dollar, 2.5% (2018: 2.6%) for the Swiss franc and 1.4% (2018: 2.0%) for the Euro during the year, the income statement, capital return and net assets of the Company would have increased by £3.7 million (2018: £3.6 million). Conversely, if sterling had strengthened to the same extent for the currencies mentioned above, the capital return and net assets of the Company would have decreased by the same amount. The exchange rate variances noted above have been based on market volatility in the year, using the standard deviation of sterling's fluctuation to the applicable currency. This sensitivity takes no account of any impact on the market values of the Company's investments arising from the foreign currency mix of their respective revenues, expenses, assets and liabilities.

16.1.2 ***Interest rate risk***

Interest rate movements will affect the level of income receivable on cash deposits and money market funds, and the interest payable on variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate determined by the custodian, The Bank of New York Mellon.

The Company has in place a revolving credit facility (the 'facility'), details of which are shown in note 11. The Company uses the facility when required at levels monitored by the Board. At the maximum possible facility gearing of £150 million, the effect of a 1% increase/decrease in the interest rate would result in a decrease/increase to the Company's income of £1,500,000 p.a.

The Company also has an uncommitted bank overdraft facility which it uses for settlement purposes and interest is dependent on the base rate determined by the custodian. At the year end, no amounts were overdrawn (2018: none).

The Company's debt of £100 million (2018: £100 million) of debenture stock is fixed which exposes the Company to changes in market value in the event that the debt is repaid before maturity. Details of the debenture stock interest is shown in note 12, with details of its market value and the affect on net asset value in note 15(b).

The Company can invest in fixed income securities although at the year end none were held (2018: £nil).

**Interest rate exposure**

At 31 March the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

– floating interest rates (giving cash flow interest rate risk) – when the interest rate is due to be re-set; and
– fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Within one year £'000** | **Between one and five years £'000** | **Total £'000** | **Within one year £'000** | **Between one and five years £'000** | **Total £'000** |
| Exposure to floating interest rates: | | | | | | |
| Cash and cash equivalents | 3,114 | – | 3,114 | 4,320 | – | 4,320 |
| Bank facility | (30,800) | – | (30,800) | (43,900) | – | (43,900) |
| Exposure to fixed interest rates: | | | | | | |
| Debenture, excluding unamortised discount and issue expenses | – | (100,000) | (100,000) | – | (100,000) | (100,000) |
| **Total exposure to interest rates** | **(27,686)** | **(100,000)** | **(127,686)** | **(39,580)** | **(100,000)** | **(139,580)** |

16.1.3 ***Other price risk***

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the equity investments, but it is the business of the portfolio manager to manage the portfolio to achieve the best return that he can.

**Management of the other price risk**

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis the Manager's compliance with the Company's stated objectives and policies, and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and need not be highly correlated with the Company's benchmark or the market in which the Company invests. The value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year and the net assets of the Company would decrease by £150 million (2018: £154 million). Conversely, if the value of the portfolio rose by 10%, the profit after tax and the net assets of the Company would increase by the same amounts.

16.2 **Liquidity risk**
Liquidity risk is minimised as the majority of the Company's investments constitute a diversified portfolio of readily realisable securities which can be sold to meet funding commitments as necessary. In addition, the Company has an overdraft facility which it can use to provide short-term funding flexibility.

**Liquidity risk exposure**
The contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

| **2019** | **Three months or less £'000** | **More than three months but less than one year £'000** | **More than one year £'000** | **Total £'000** |
|---|---|---|---|---|
| Debenture stock | – | – | 100,000 | 100,000 |
| Bank facility | 30,800 | – | – | 30,800 |
| Interest on debenture stock | – | 7,750 | 19,375 | 27,125 |
| Accruals | 894 | – | – | 894 |
| | **31,694** | **7,750** | **119,375** | **158,819** |

| **2018** | **Three months or less £'000** | **More than three months but less than one year £'000** | **More than one year £'000** | **Total £'000** |
|---|---|---|---|---|
| Debenture stock | – | – | 100,000 | 100,000 |
| Bank facility | 43,900 | – | – | 43,900 |
| Interest on debenture stock | – | 7,750 | 27,125 | 34,875 |
| Amounts due to brokers | 3,131 | – | – | 3,131 |
| Accruals | 851 | – | – | 851 |
| | **47,882** | **7,750** | **127,125** | **182,757** |

16.3 **Credit risk**
Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved counterparties. The Company's ability to operate in the short-term may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. However, with the support of the depositary's restitution obligation the risk of outright credit loss on the investment portfolio is remote. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of 1% of net assets with any one deposit taker, with only approved deposit takers being used, and a maximum deposit of 5% of net assets with Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund. These limits are at the discretion of the Board and are reviewed on a regular basis.

### 17. Fair Value

***The values of the financial assets and financial liabilities are carried either at their fair value (investments), or at a reasonable approximation of fair value (amounts due from brokers, dividends receivable, accrued income, amounts due to brokers, accruals, cash and any drawings on the bank facility) or at amortised cost (debenture).***

**Fair Value Hierarchy Disclosures**
All except one of the Company's portfolio of investments are in the Level 1 category as defined in FRS 102 as amended for fair value hierarchy disclosures (March 16). The three levels set out in this follow.

Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The valuation techniques used by the Company are explained in the accounting policies note. During the year, one level 2 investment in Barclays Bank – Nuclear Power Notes 28 February 2019 was redeemed (2018: £94,000). In addition, the holding in Honeycomb Investment Trust of £19,700,000 (2018: £13,953,000) has been classed as a level 2 (2018: level 1) investment on the basis that, although it is listed and an unadjusted quoted price is available, it has low trading in the market. The investment in Level 3 is the result of a past corporate event on a listed security previously held; Eurovestech delisted from AIM. The holding in Eurovestech did not change during the year.

| | 2019 | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| Financial assets designated at fair value through profit or loss | | | | |
| Quoted investments: | | | | |
| Equities | 1,481,205 | 19,700 | – | 1,500,905 |
| Unquoted investments | – | – | 246 | 246 |
| **Total for financial assets** | **1,481,205** | **19,700** | **246** | **1,501,151** |

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| Financial assets designated at fair value through profit or loss | | | | |
| Quoted investments: | | | | |
| Equities | 1,535,513 | – | – | 1,535,513 |
| Other securities | – | 94 | – | 94 |
| Unquoted investments | – | – | 322 | 322 |
| **Total for financial assets** | **1,535,513** | **94** | **322** | **1,535,929** |

The book cost and fair value of the debenture stock, based on the offer value at the balance sheet date, are as follows:

| | 2019 Book Value £'000 | 2019 Fair Value £'000 | 2018 Book Value £'000 | 2018 Fair Value £'000 |
|---|---|---|---|---|
| Debenture stock repayable between one and five years: | | | | |
| 7¾% Debenture Stock 2022 | 100,000 | 119,220 | 100,000 | 122,530 |
| Discount on issue of debenture stock | (879) | - | (1,130) | - |
| | **99,121** | **119,220** | **98,870** | **122,530** |

Incorporating the fair value of the debenture, results in the reduction of the net asset value per ordinary share to 696.91p (2018: 703.34p).

## 18. Capital Management

***The Company's total capital employed at 31 March 2019 was £1,512,358,000 (2018: £1,542,639,000) comprising borrowings of £129,921,000 (2018: £142,770,000) and equity share capital and other reserves of £1,382,437,000 (2018: £1,399,869,000).***

The Company's total capital employed is managed to achieve the Company's objective and investment policy as set out on page 12, including that borrowings may be used to provide gearing of the equity portfolio up to the maximum authorised by shareholders, currently 25% of net assets. Net gearing was 10.8% (2018: 11.8%) at the balance sheet date. The Company's policies and processes for managing capital were unchanged throughout the year and the preceding year.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 14 to 16. These also explain that the Company is able to use borrowings to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

The board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy-back shares and it also determines dividend payments.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by section 1159 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the facility by the terms imposed by the lender. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year. Borrowings comprise the debenture stock, details of which are contained in note 12, a bank facility and an overdraft facility which may be used for short-term funding requirements.

## 19. Contingencies, Guarantees and Financial Commitments

***This note would show any liabilities the Company is committed to honour, and which are dependent on future circumstances or events occurring.***

There are no contingencies, guarantees or financial commitments of the Company at the year end (2018: £nil).

## 20. 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.***

Under UK GAAP, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed in pages 41 and 42 with additional disclosure in note 4. No other related parties have been identified.

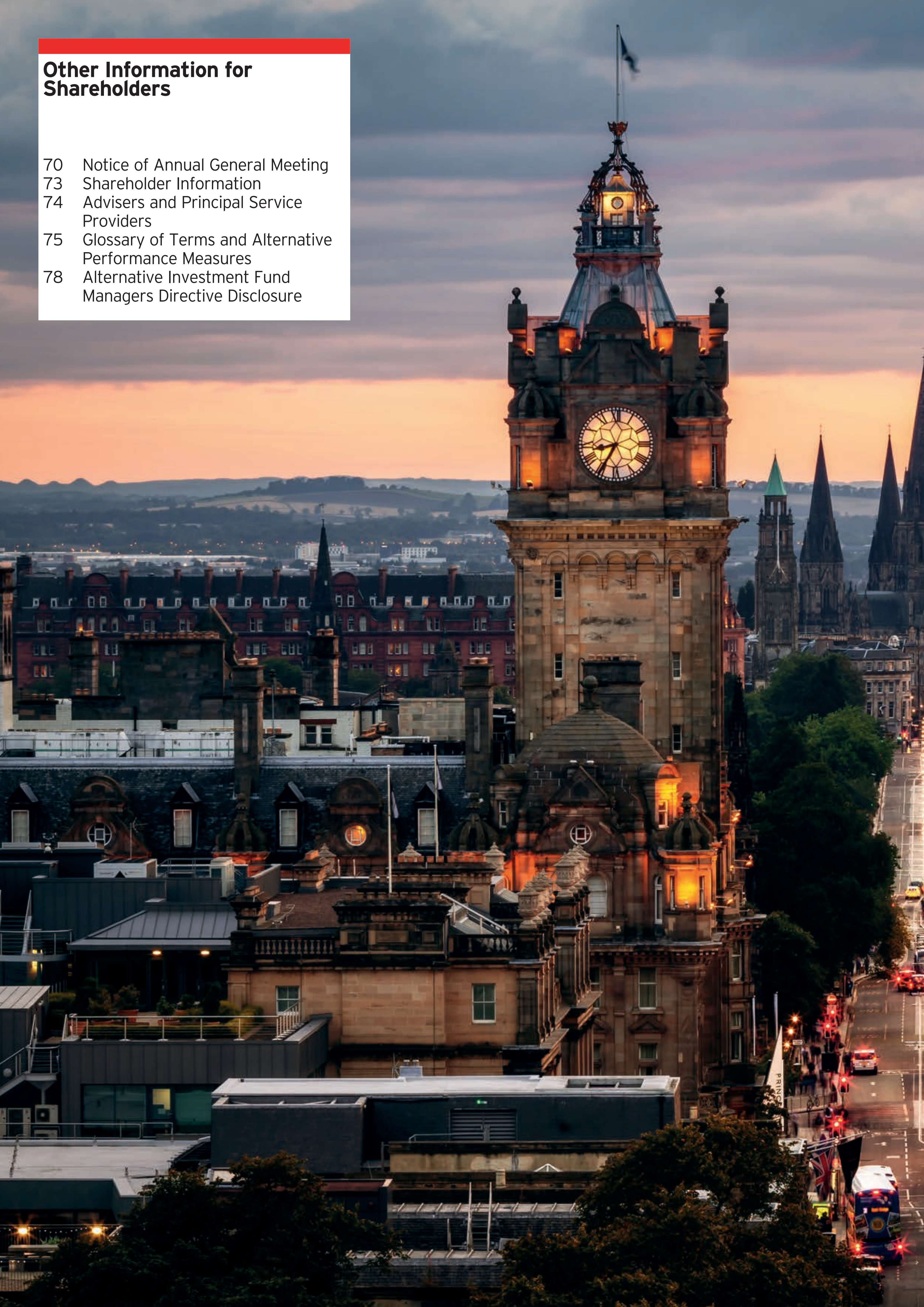
Details of the Manager's services and fees are disclosed in the Directors' Report on page 35, and in note 3.

## 21. Post Balance Sheet Events

Except for the share buybacks as disclosed in note 13, there are no other significant events after the end of the reporting year requiring disclosure.

# Other Information for Shareholders





Princes Street, Edinburgh

# Notice of Annual General Meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in The Edinburgh Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.**

## Notice Of Annual General Meeting

Notice is hereby given that the one hundred and twenty ninth Annual General Meeting of The Edinburgh Investment Trust plc will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh, EH2 2EP on 25 July 2019 at 11am, for the following purposes:

## Ordinary Business

To consider and, if thought fit, to pass the following resolutions all of which will be proposed as Ordinary Resolutions.

**1.** To receive and consider the Annual Financial Report for the year ended 31 March 2019;
**2.** To approve the Directors' Remuneration Policy;
**3.** To approve the Annual Statement and Report on Remuneration for the year ended 31 March 2019;
**4.** To declare a final dividend on the ordinary shares;
**5.** To re-elect Glen Suarez as a Director of the Company;
**6.** To elect Steven Baldwin as a Director of the Company;
**7.** To re-elect Victoria Hastings as a Director of the Company;
**8.** To re-elect Gordon McQueen as a Director of the Company;
**9.** To re-elect Maxwell Ward as a Director of the Company;
**10.** To elect Elisabeth Stheeman as a Director of the Company;
**11.** To appoint PricewaterhouseCoopers LLP as auditor of the Company; and
**12.** To authorise the Audit Committee to determine the remuneration of the auditor.

## Special Business

To consider and, if thought fit, to pass the following resolutions of which 13 will be proposed as an Ordinary Resolution and resolutions 14, 15 and 16 as Special Resolutions:

**13.** That:
in substitution for any existing authority under section 551 of the Companies Act 2006 (the 'Act') but without prejudice to the exercise of any such authority prior to the date of this resolution the Directors of the Company be generally and unconditionally authorised in accordance with section 551 of the Act as amended from time to time prior to the date of the passing of this resolution, to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal amount within the meaning of sections 551(3) and (6) of the Act) of £4,878,293, this being 10% of the Company's issued ordinary share capital as at 12 June 2019, such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted, or rights to be granted, after such expiry as if the authority conferred by this resolution had not expired.

**14.** That:
subject to the passing of resolution number 13 set out in the notice of this meeting (the 'Section 551 Resolution') and in substitution for any existing authority under sections 570 and 573 of the Companies Act 2006 (the 'Act') but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby empowered, in accordance with sections 570 and 573 of the Act as amended from time to time prior to the date of the passing of this resolution to allot equity securities (within the meaning of section 560(1), (2) and (3) of the Act) for cash, either pursuant to the authority given by the Section 551 Resolution or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal, regulatory or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

(b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £4,878,293, this being 10% of the Company's issued ordinary share capital as at 12 June 2019.

and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked at any other general meeting prior to such time, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

**15.** That:
the Company be generally and subject as hereinafter appears unconditionally authorised 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 the issued ordinary shares of 25p each in the capital of the Company ('Shares')

Provided always that:
(a) the maximum number of Shares hereby authorised to be purchased shall be 29,250,247 ordinary shares (being 14.99% of the issued ordinary share capital of the Company as at 12 June 2019);
(b) the minimum price which may be paid for a Share shall be 25p;
(c) the maximum price which may be paid for a Share must not be more than the higher of: (i) 5 per cent. above the average of the mid-market values of the Shares for the five business days before the purchase is made; and (ii) the higher of the price of the last independent trade in the Shares and the highest then current independent bid for the Shares on the London Stock Exchange;
(d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share (as determined by the Directors);
(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked at any other general meeting prior to such time;
(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
(g) any shares so purchased shall be cancelled, or, if the Directors so determine and subject to the provisions of section 724 to 731 of the Companies Act 2006 and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with section 727 or 729 of the Companies Act 2006) as treasury shares.

**16.** That:
the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 days.

The resolutions are explained further in the Directors' Report on pages 37 and 38.

**By order of the Board**

Invesco Asset Management Limited
Company Secretary

Dated this 12th June 2019

*Following the Annual General Meeting, shareholders will have the opportunity to meet the Board and representatives from the Manager informally. Refreshments will be served.*

**Notes**

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:
   - via Link Asset Services website www.signalshares.com; or
   - in hard copy form by post, by courier or by hand to the Company's Registrars, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case, to be received by the Company not less than 48 hours before the time of the meeting. Any amended proxy appointment must be received by this time.

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising 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. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to 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 RA10) by the latest time(s) for receipt of proxy appointments specified in this document. 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 Applications 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 changes of instructions to proxies through CREST should be communicated to the appointee through other means. 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. 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 providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be reviewed at www.euroclear.com/CREST.

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction) does not prevent a member from attending and voting at this meeting.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's Registrars, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF by no later than 11am on 23 July 2019.

4. A person entered on the Register of Members at close of business on 23 July 2019 (a 'member') is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting. If the Meeting is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members 48 hours before the time fixed for the adjourned meeting.

5. The Terms of Reference of the Audit, Management Engagement and Nominations Committees and the Letters of Appointment for Directors will be available for inspection at the Company's AGM.

6. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior and during the meeting.

7. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/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 shareholder as to the exercise of voting rights.

   The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. 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 they do not do so in relation to the same shares.

9. Any member attending the AGM has the right to ask questions. Under section 319A of the Companies Act 2006 the Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

11. As at 12 June 2019 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 195,131,734 ordinary shares of 25p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 195,131,734.

12. A copy of this notice (which is at the back of the annual financial report), and other information required by section 311A of the Companies Act 2006, can be found at www.invesco.co.uk/edinburgh.

13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) 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 AGM for the financial year beginning on 1 April 2018; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 April 2018 ceasing to hold office since the previous meeting at which the annual financial report was laid in accordance with section 437 of the Companies Act 2006 (in each case) that the members propose to raise at the relevant AGM.

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

# Other Information for the Shareholders
## Shareholder Information

### How to Invest in The Edinburgh Investment Trust plc (The Company)

The Company's shares are quoted on the London Stock Exchange. There are a variety of ways by which investors can buy the shares. Shares may be purchased through discretionary wealth managers, banks, independent financial advisers and via a large number of execution-only trading platforms. The Manager's website contains a list of some of the larger dealing platforms as well as a link to unbiased.co.uk, for those seeking financial advice, and to the AIC's website for detailed information on investment companies.

### Share Price

The price of your ordinary shares can be found in the Financial Times, Daily Telegraph, The Scotsman and The Times.

In addition, share price information can be found at the London Stock Exchange website using the EDIN ticker code, on the website of most sharedealing platforms and on the Company's page of the Manager's website of www.invesco.co.uk/edinburgh.

**NAV Publication**

The NAV of the Company's ordinary shares is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the next business day. It is published daily in the newspapers detailed above.

**Manager's Website**

Information relating to the Company can be found on the Company's page of the Manager's website, which is located at www.invesco.co.uk/edinburgh.

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated in to, nor do they form part of this annual financial report.

### Financial Calendar

In addition, the Company publishes information according to the following calendar:

**Announcements**

| | |
|---|---|
| Annual financial report | May/June |
| Half-yearly financial report | November |

**London Shareholder Presentation**

The Company is pleased to invite Shareholders to a presentation by the portfolio manager, Mark Barnett and to meet with Directors at 43-45 Portman Square, London W1H 6LY on 16 September 2019 at 12 noon.

Please note this is a non

**Dividend Payable Timetable**

| | |
|---|---|
| 1st interim | November |
| 2nd interim | February |
| 3rd interim | May |
| Final | July |

**Debenture Stock**

| | |
|---|---|
| Interest payable on $7^3/_4$% 2022 | September and March |

| | |
|---|---|
| **Annual General Meeting** | **July** |
| **Year End** | **31 March** |

**Location of AGM**

The one hundred and twenty ninth Annual General Meeting of the Company will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh EH2 2EP on 25 July 2019 at 11am.

The portfolio manager, Mark Barnett, will make a presentation about the Company after the AGM.


### General Data Protection Regulation (GDPR)

GDPR is a positive step towards individuals knowing how their personal data is used and also having more control over how it is used. The Company has a privacy notice which sets out what personal data is collected, and how and why it is used. The latest privacy notice can be found at www.invesco.co.uk/edinburgh under the 'Literature' section, or a copy can be obtained from the company secretary whose correspondence address is shown on the next page.

Other Information for Shareholders

# Advisers and Principal Service Providers

**Registered Office**
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

**Company Number**
Registered in Scotland.
Number: SC1836

**Alternative Investment Fund Manager (Manager)**
Invesco Fund Managers Limited

**Company Secretary**
Invesco Asset Management Limited
Company Secretarial Contact: Kelly Nice

**Correspondence Address**
43-45 Portman Square
London
W1H 6LY
☎ 020 3753 1000

**Invesco Client Services**
Invesco has a Client Services Team, available from 8.30am to 6.00pm, Monday to Friday (excluding UK Bank Holidays). Please note no investment advice can be given.
☎ 0800 085 8677
www.invesco.co.uk/investmenttrusts

**Independent Auditor**
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

**Depositary and Custodian**
The Bank of New York Mellon (International) Limited
1 Canada Square
London
E14 5AL

**Banker**
The Bank of New York Mellon
160 Queen Victoria Street
London
EC4V 4LA

**Corporate Broker**
Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

**The Association of Investment Companies**
The Company is a member of the Association of Investment Companies.
Contact details are as follows:

☎ 020 7282 5555
Email: enquiries@theaic.co.uk
Website: www.theaic.co.uk

**Lawyer**
Dentons (UK) LLP
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

**Registrar**
Link Asset Services Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

If you hold your shares direct and not through a Savings Scheme or ISA and have queries relating to your shareholding, you should contact the Registrars on:
☎ 0871 664 0300.

Calls cost 12p per minute plus your phone company's access charge.

From outside the UK: +44 371 664 0300. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open from 9.00am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Link's website: www.signalshares.com.

Link Asset Services provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.linksharedeal.com or
☎ 0371 664 0445.

Calls cost 12p per minute plus your phone company's access charge.

From outside the UK: +44 371 664 0445. Calls from outside the UK will be charged at the applicable international rate. Lines are open from 8.00am to 4.30pm, Monday to Friday (excluding Bank Holidays).

Link Asset Services is the business name of Link Market Services Limited.

# Other Information for Shareholders
# **Glossary of Terms and Alternative Performance Measures**

**Alternative Performance Measure (APM)**
An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 31 March 2018 and 2019.

**Benchmark (or Benchmark Index)**
A standard against which performance can be measured, usually an index that averages the performance of companies in a stock market or a segment of the market. The benchmark most often referred to in this annual financial report is the FTSE All-Share Index.

**Discount or Premium (APM)**
Discount is a measure of the amount by which the mid-market price of an investment company share is lower than the underlying net asset value of that share. Conversely, Premium is a measure of the amount by which the mid-market price of an investment company share is higher than the underlying net asset value of that share. In this annual financial report the discount is expressed as a percentage of the net asset value per share with debt at market value (see reconciliation of net asset value per share with debt at market value in note 15 on page 62) and is calculated according to the formula set out below. If the shares are trading at a premium the result of the below calculation will be positive and if they are trading at a discount it will be negative.

| | Page | | 2019 | 2018 |
|---|---|---|---|---|
| Share price | 4 | a | 644.00p | 642.00p |
| Net asset value per share - debt at market value (note 15) | 62 | b | 696.91p | 703.34p |
| **Discount** | | **c = (a-b)/b** | **(7.6)%** | **(8.7)%** |

**Dividend Yield**
The annual dividend expressed as a percentage of the current share price.

**Gearing**
The gearing percentage reflects the amount of borrowings that a company has invested, with debt at market value. This figure indicates the extra amount by which net assets or shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which net assets are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested.

There are several methods of calculating gearing and the following has been used in this report:

**Gross Gearing (APM)**
This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets.

| | Page | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| Bank facility | 52 | | 30,800 | 43,900 |
| Debenture stock – debt at market value (note 15) | 62 | | 119,220 | 122,530 |
| Gross borrowings – debt at market value | | a | 150,020 | 166,430 |
| Net asset value – debt at market value (note 15) | 62 | b | 1,362,338 | 1,376,209 |
| **Gross gearing** | | **c = a/b** | **11.0%** | **12.1%** |

# Glossary of Terms and Alternative Performance Measures

**Net Gearing or Net Cash (APM)**
Net gearing reflects the amount of net borrowings invested, i.e. borrowings less cash and cash equivalents (incl. investments in money market funds). It is based on net borrowings as a percentage of net assets. Net cash reflects the net exposure to cash and cash equivalents, as a percentage of net assets, after any offset against total borrowings.

| | Page | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| Bank facility | 52 | | 30,800 | 43,900 |
| Debenture stock – debt at market value (note 15) | 62 | | 119,220 | 122,530 |
| Less cash and cash equivalents | 52 | | (3,114) | (4,320) |
| Net borrowings – debt at market value | | a | 146,906 | 162,110 |
| Net asset value – debt at market value | 62 | b | 1,362,338 | 1,376,209 |
| **Net gearing** | | **c = a/b** | **10.8%** | **11.8%** |

**Leverage**
Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value.
Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure.

**Net Asset Value (NAV)**
Also described as shareholders' funds, the NAV is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per share is calculated by dividing the net asset value by the number of ordinary shares in issue. For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment – often nominal – value). An alternative, NAV with debt at market value, values long term liabilities at their market (fair) value and is shown in note 15.

**Ongoing Charges Ratio (APM)**
The ongoing administrative costs of operating the Company are encapsulated in the ongoing charges ratio, which is calculated in accordance with guidance issued by the AIC. The calculation incorporates charges allocated to capital in the financial statements as well as those allocated to revenue, but excludes non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. The ongoing charges ratio is the aggregate of these costs expressed as a percentage of the daily average net asset value (debt at market value) reported in the year.

| | Page | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| Investment management fee | 51 | | 7,081 | 7,588 |
| Other expenses | 51 | | 873 | 889 |
| Less: costs in relation to custody dealing charges and one off legal costs | | | (11) | (1) |
| Total recurring expenses | | a | 7,943 | 8,476 |
| Average daily net assets | | b | 1,410,844 | 1,489,960 |
| **Ongoing charges ratio %** | | **c = a/b** | **0.56%** | **0.57%** |

**Return**
The return generated in a period from the investments.

**Capital Return**
Reflects the return to shareholders, excluding dividends paid.

**Total Return**
Total return is the theoretical return to shareholders that measures the combined effect of any dividends paid, and reinvested together with the rise or fall in the share price or NAV. In this annual financial report these return figures have been sourced from Refinitiv who calculate returns on an industry comparative basis.

**Net Asset Value Total Return (APM)**
Total return on net asset value per share, with debt at market value, assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

**Share Price Total Return (APM)**
Total return to shareholders, on a mid-market price basis, assuming all dividends received were re-invested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

| **2019** | **Page** | | **Net Asset Value – debt at market value** | **Share Price** |
|---|---|---|---|---|
| As at 31 March 2019 | 62 (note 15) and 4 | | 696.91p | 644.00p |
| As at 31 March 2018 | 4 | | 703.34p | 642.00p |
| Change in year | | a | -0.9% | 0.3% |
| Impact of dividend reinvestments(1) | | b | 3.8% | 4.3% |
| **Total return for the year** | | **c = a+b** | **2.9%** | **4.6%** |

| **2018** | **Page** | | **Net Asset Value – debt at market value** | **Share Price** |
|---|---|---|---|---|
| As at 31 March 2018 | 62 (note 15) and 4 | | 703.34p | 642.00p |
| As at 31 March 2017 | 4 | | 768.81p | 713.50p |
| Change in year | | a | -8.5% | -10.0% |
| Impact of dividend reinvestments(1) | | b | 2.6% | 3.3% |
| **Total return for the year** | | **c = a+b** | **-5.9%** | **-6.7%** |

(1) Total dividends paid during the year of 27.50p (2018: 26.15p) reinvested at the NAV (debt at market value) or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if NAV or share price rises.

**Benchmark**
Total return on the benchmark is on a mid-market value basis, assuming all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

Other Information for Shareholders

# Alternative Investment Fund Managers Directive Disclosure

**Alternative Investment Fund Manager (AIFM) and the Alternative Investment Fund Managers Directive (the 'AIFMD', the Directive)**
The Company falls within the definition of an Alternative Investment Fund (AIF) under the Directive and, as such, is required to have (or be) an authorised AIFM. Invesco Fund Managers Limited (IFML) was authorised as an AIFM, and appointed by the Company as such, with effect from 22 July 2014.

Amongst other things, regulations implementing AIFMD require certain information to be provided to prospective investors. This information can be found in the Company's page of the Manager's website (www.invesco.co.uk/edinburgh) in a downloadable document entitled 'AIFMD Investor Information'. There has been no material change to this document in the year. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company's leverage (both 'gross' and 'commitment' – see the Glossary of Terms and Alternative Performance Measures on page 76) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:
- the leverage calculated for the Company at its year end was 109% for both gross and commitment (2018: both 110%). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;
- the AIFM summary remuneration policy is available from the corporate policies page of the Manager's website (www.invesco.co.uk) and from the Company's company secretary, on request (see contact details on page 74); and
- the AIFM remuneration paid for the year to 31 December 2018 is set out below.

**AIFM Remuneration**
The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2018.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of performance year (1 January 2018 to 31 December 2018) is £6.54 million of which £3.84 million is fixed remuneration and £2.70 million is variable remuneration. The number of beneficiaries is 33.

The Manager has identified individuals considered to have a material impact on the risk profile of the Manager or the AIF it manages ('Identified Staff'), who include board members of the Manager, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers. Identified Staff of the Manager are employed by Invesco.

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2018 to 31 December 2018) is £1.34 million of which £0.31 million is paid to Senior Management and £1.03 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates (all delegates are employed by various entities of the Invesco Ltd. Group).

Invesco's summary remuneration policy is available from the corporate policies section of its website (www.invesco.co.uk). Paper copies of the full remuneration policy can be obtained for free from the registered office of the Manager, Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, UK upon request.

Invesco

The Manager of The Edinburgh Investment Trust plc is Invesco Fund Managers Limited.

Invesco Fund Managers Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco is one of the largest independent global investment management firms, with assets under management of $1,159 billion.*

Invesco aims to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

* Assets under management as at 31 May 2019.

# Other Information for Shareholders
# **Investment Companies Managed by Invesco**

### Investing for Income, Income Growth and Capital Growth (from equities, fixed interest securities or property)

**The Edinburgh Investment Trust plc**
Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of the Net Asset Value per share in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

The Company has a debenture stock in issue and, in addition, may use bank borrowings.

**City Merchants High Yield Trust Limited**
A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined. The Company may use repo financing or bank borrowings.

**Invesco Income Growth Trust plc**
Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grow above the rate of inflation. The Company may use bank borrowings.

**Invesco Enhanced Income Limited**
A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company uses repo financing to enhance returns.

**Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio**
Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

**Invesco Perpetual Select Trust plc – UK Equity Portfolio**
Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

**Keystone Investment Trust plc**
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has two debenture stocks in issue and, in addition, may use bank borrowings.

**Perpetual Income and Growth Investment Trust plc**
Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity market. The Company has secured loan stock in issue and, in addition, may use bank borrowings.

### Investing in Smaller Companies

**Invesco Perpetual UK Smaller Companies Investment Trust plc**
Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section of small to medium sized UK quoted companies. The Company may use bank borrowings.

### Investing Internationally

**Invesco Asia Trust plc**
Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI AC Asia ex Japan Index, total return, in sterling terms. The Company may use bank borrowings.

**Invesco Perpetual Select Trust plc – Global Equity Income Portfolio**
Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

### Investing for Total Returns

**Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio**
Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

### Investing in Multiple Asset Classes

**Invesco Perpetual Select Trust plc**
- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Allocation Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends are paid quarterly, apart from Balanced Risk which will not normally pay dividends.

### For more information

Please contact Invesco's Client Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invesco.co.uk/ investmenttrusts

www.invesco.co.uk/investmenttrusts

Invesco Client Services Team
Freephone 0800 085 8677
Telephone lines are open Monday to Friday 8.30am - 6.30pm.

Telephone calls may be recorded and monitored for security and training purposes.