# Perpetual Income and Growth Investment Trust plc

**Annual Financial Report**

**Year Ended 31 March 2014**

Perpetual Income and Growth Investment Trust plc

Annual Financial Report 2014

# Investment Objective

Perpetual Income and Growth Investment Trust plc (the 'Company') is an investment trust whose investment objective is 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 and fixed interest markets.

# Highlights

| | 2014 | 2013 |
|---|---|---|
| Net asset value(1): | | |
| – debt at par | +18.8% | +28.9% |
| – debt at market value | +19.4% | +29.0% |
| FTSE All-Share Index(1) | +8.8% | +16.8% |
| Share price(1) | +21.1% | +25.0% |
| Dividend (excluding special dividend) | +5.4% | +7.7% |
| Dividend (including special dividend) | +22.3% | n/a |

(1) Total return figures. Source: Thomson Reuters Datastream.

### 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 its funds, according to a specified investment objective and policy (set out on page 9), with the aim of spreading investment risk and generating a return for shareholders. The Company uses borrowing for additional investment with the aim of enhancing returns to shareholders.

Responsibility for the strategy and governance of the Company rests with the Board and committees, as set out on page 18. The Company has contracted with an external investment manager, Invesco Asset Management Limited (the 'Manager'), to manage its investments and for the Company's general administration. Other administrative functions are contracted to 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.

**The Company's ordinary shares and debentures 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.**

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If you have any queries about Perpetual Income and Growth Investment Trust plc, or any of the other specialist funds managed by Invesco Perpetual, please contact our Investor Services Team on

0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

*Front Cover:* Slate, Metamorphic Rock, Slate Quarry.

The Company is a member of

aic

The Association of Investment Companies

# FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

***The Benchmark Index of the Company is the FTSE All-Share Index.***

## Total return (all income reinvested)

| | 1 YEAR | 3 YEARS | 5 YEARS | 10 YEARS |
|---|---|---|---|---|
| Net asset value (NAV)[1][2] – debt at par | 18.8% | 67.0% | 164.6% | 217.8% |
| – debt at market value | 19.4% | 67.4% | 165.0% | 217.6% |
| Ordinary share price | 21.1% | 66.6% | 172.4% | 227.3% |
| Benchmark | 8.8% | 28.8% | 113.3% | 128.7% |

Source: Thomson Reuters Datastream and Morningstar.

| | YEAR ENDED 31 MARCH 2014 | YEAR ENDED 31 MARCH 2013 |
|---|---|---|
| **Shareholders' funds[1]** | | |
| Net assets (£'000) | 896,290 | 743,106 |
| NAV per ordinary share | 383.3p | 332.3p |
| **Share price** | | |
| Middle market price | 377.5p | 322.0p |
| Discount[1] to NAV | 1.5% | 3.1% |
| **Gearing[1]** | | |
| Gross gearing | 14.2% | 14.1% |
| Net gearing | 14.2% | 14.1% |
| **Return per ordinary share – diluted** | | |
| Revenue return | 13.79p | 12.54p |
| Capital return | 49.56p | 66.54p |
| Total return | 63.35p | 79.08p |
| **Dividend per ordinary share** | | |
| First interim | 2.70p | 2.55p |
| Second interim | 2.70p | 2.55p |
| Third interim | 2.70p | 2.55p |
| Fourth interim | 3.70p | 3.55p |
| Total interim dividends | 11.80p | 11.20p |
| Increase in total interim dividends | +5.4% | +7.7% |
| Special dividend | 1.90p | n/a |
| Total including special | 13.70p | n/a |
| Increase in dividend (including special) | +22.3% | n/a |
| **Ongoing charges ratio[1]** | | |
| Excluding performance fee | 0.94% | 0.99% |
| Performance fee only | 0.94% | 1.03% |

Notes: 1 Defined in the Glossary of Terms on page 64.
2 Following the final exercise of the subscription shares, the diluted NAV is the equivalent of the undiluted (basic) NAV.

# Historical Record – Last Ten Years

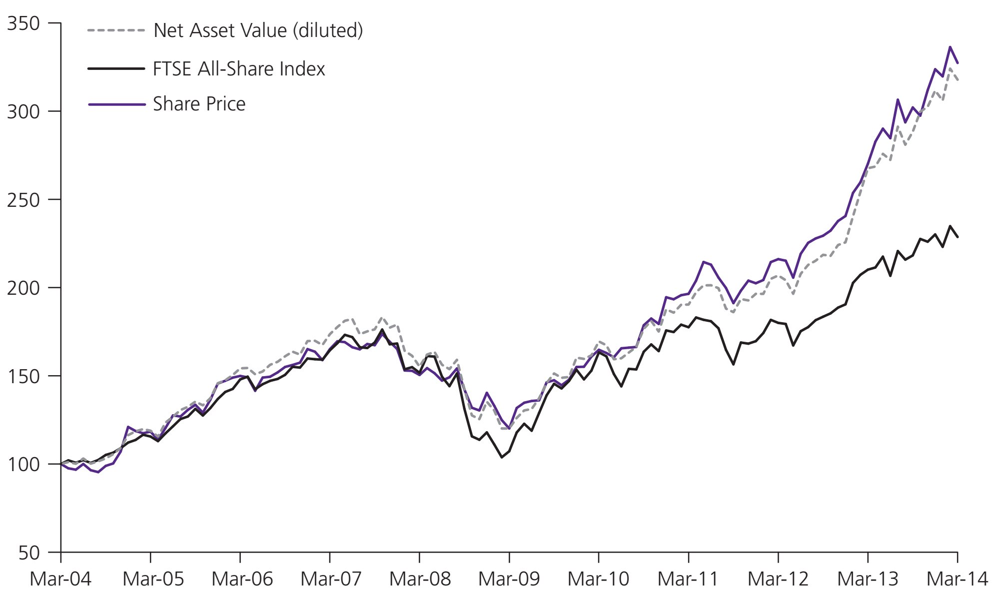
| TO 31 MARCH | ORDINARY SHARES REVENUE RETURN[1] p | DIVIDEND p | TOTAL ASSETS LESS CURRENT LIABILITIES £'m | NET ASSET VALUE PER ORDINARY SHARE[2] p | MID-MARKET PRICE PER ORDINARY SHARE p |
|---|---|---|---|---|---|
| 2005 | 5.40 | 5.65 | 417 | 208.4 | 197.8 |
| 2006 | 5.60 | 6.00 | 536 | 262.9 | 234.3 |
| 2007 | 6.90 | 6.60 | 606 | 278.8 | 251.0 |
| 2008 | 8.00 | 7.80 | 532 | 242.2 | 222.5 |
| 2009 | 9.20 | 8.50[3] | 409 | 182.0 | 171.0 |
| 2010 | 9.47 | 8.80 | 517 | 231.2 | 217.9 |
| 2011 | 9.85 | 9.35 | 575 | 255.5 | 252.8 |
| 2012 | 10.86 | 10.40 | 610 | 267.4 | 267.7 |
| 2013 | 12.54 | 11.20 | 773 | 332.3 | 322.0 |
| **2014** | **13.79** | **11.80[4]** | **896** | **383.3** | **377.5** |

Notes:
1. When dilution occurs, the diluted return per ordinary share is shown.
2. NAV is diluted where dilution occurs; otherwise the basic NAV is shown.
3. Excludes a special dividend of 0.84p per share.
4. Excludes a special dividend of 1.9p per share. This special dividend arose from special dividends received during the year of £4,547,000, the equivalent of 1.9p per share.

## Net Asset Value and Share Price Performance vs Index (Total Return)

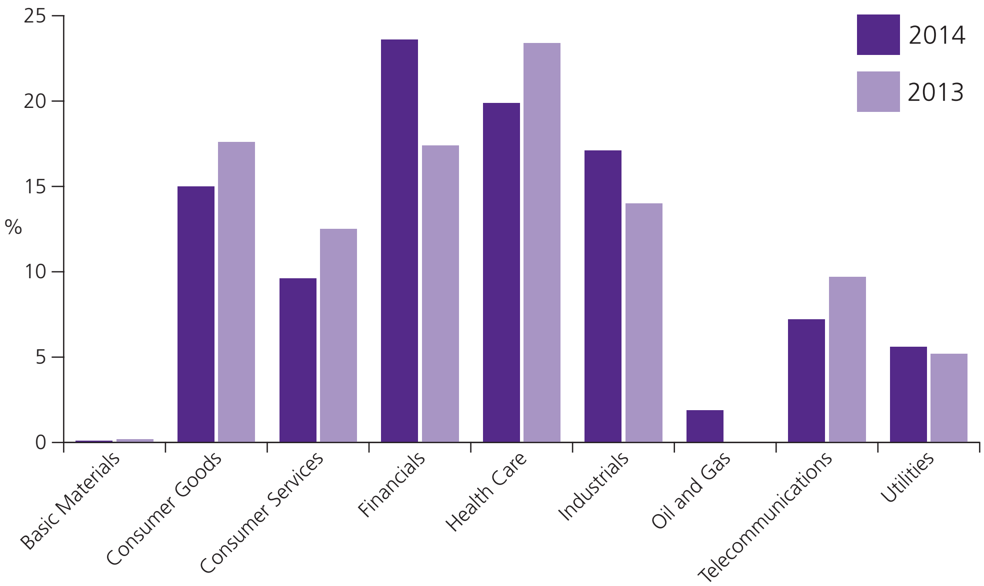
From 31 March 2004 to 31 March 2014

Figures have been rebased to 100 at 31 March 2004.

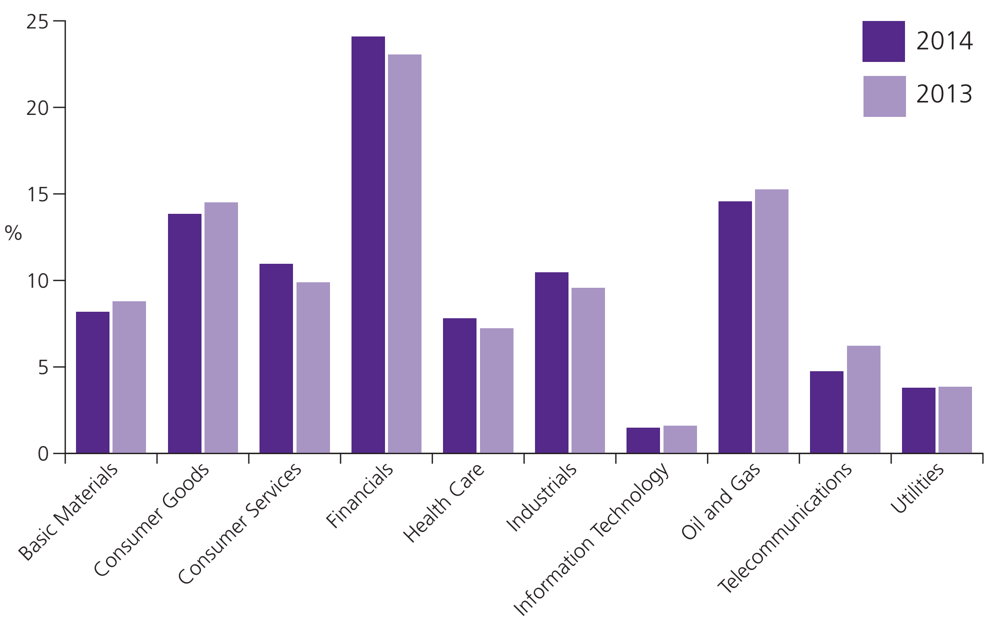


# FINANCIAL INFORMATION AND PERFORMANCE STATISTICS
continued

## Allocation of Portfolio by Industry
As at 31 March




## Allocation of Benchmark by Industry
As at 31 March



# CHAIRMAN'S STATEMENT

## Performance

For the year ended 31 March 2014, on a total return basis the Company's net asset value increased by 18.8%. This was substantially above the 8.8% rise in the Company benchmark which is the FTSE All-Share Index.

This degree of outperformance by the portfolio manager is to be congratulated and you can read how he achieved this in Mark Barnett's report, which can be found on pages 7 and 8.

## Dividend

For the year ended 31 March 2014, three interim dividends of 2.7p each were paid to shareholders in September and December 2013, and March 2014. A fourth interim dividend of 3.7p will be paid on 27 June 2014 to shareholders on the Company's register on 6 June 2014. This gives total interim dividends for the year of 11.8p, representing an increase of 5.4% on the previous year. With this dividend the Board has maintained its policy of real dividend growth over the medium to longer term.

During the year the Company has received a number of special dividends. The total for the year is £4,547,000 which equates to 1.9p per share. Special dividends are, by their nature, non recurring. However, the Board recognises the importance of dividends to our shareholders and has decided to pay a special dividend of 1.9p. This will be paid to shareholders at the same time and for the same record date as the fourth interim dividend. Total dividends for the year, thus totalling 13.7p, an increase of 22.3% on the previous year.

## Borrowing and Gearing

As announced prior to the year end, on 8 May 2014 the Company issued £60 million of fixed rate 15 year private placement notes (the 'Notes') at a coupon of 4.37%. The interest payment dates are 8 May and 8 November, with a repayment date of 8 May 2029. The Notes will replace the Company's existing £30 million 6.125% debentures 2014 (the 'Debentures') which are repayable on 8 July 2014 and they are secured by a first floating charge over the Company's assets and rank pari passu with the Debentures. The Notes will provide the Company with a balance of attractively priced, fixed rate long-term debt alongside its variable rate short term bank overdraft facility.

The Board's policy is to permit gearing to a maximum of 25% of net assets and allows the portfolio manager some discretion up to that level. Throughout the year the portfolio manager has demonstrated faith in his portfolio by using this facility to gear his positions and has varied the gearing between 9.5% and 17.9%. The Company ended the year with gearing of 14.2% (2013: 14.1%).

## Subscription Share Exercise and Issued Share Capital

At the half year stage I reported to shareholders that the subscription shareholders had had their final opportunity to exercise their right to subscribe for one ordinary share of your Company at a price of 218.94p per share in August 2013. As a result, a total of 12,914,737 new ordinary shares of 10p each were issued and allotted.

In addition to this, a further 1,673,378 new shares have been issued during the year, reflecting strong demand for the Company's shares. Of these 973,378 arose from shareholders choosing to reinvest their dividends and a further 700,000 were issued at an average price (excluding costs) of 351.86p.

## Investment Management Arrangements

As I mentioned in my Chairman's Statement to shareholders in the half-yearly report, the Board is delighted that your portfolio manager, Mark Barnett, will continue to manage the Company's investments on your behalf following the announcement of his promotion to Head of UK Equities by Invesco Perpetual.

Your Board, mindful of developments in the investment trust sector and the wider investment market, has been discussing the Company's fee arrangements with the Manager. These discussions are ongoing at the date of signing this report.

# CHAIRMAN'S STATEMENT continued

## Investment Policy

The investment policy has been in place for many years and, whilst the Board does not intend to change the overall meaning of the policy, it has been re-worded into – hopefully – clearer English. The new wording can be seen on page 9.

Shareholder approval of this change is not required as it is not material. However, the Board thought it would be appropriate to seek shareholder approval, and as a result, resolution 2 is included in the Notice of Meeting on page 57.

## Annual General Meeting (AGM)

Shareholders' attention is drawn to the special business in the Notice of AGM which includes the annual renewal of powers to issue and buy back shares and to allow application of the minimum notice required for general meetings (other than the annual general meeting) by the Companies Act 2006.

The Directors have carefully considered all the resolutions proposed in the Notice of the AGM (as set out on pages 57 and 58) and, in their opinion, consider them all to be in the interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

The Company's AGM will be held at Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH on Friday, 11 July 2014 at 11.00 am. I do hope that as many shareholders as possible are able to attend. The Directors and the portfolio manager, Mark Barnett, will be available at the meeting to answer shareholder questions.

**Bill Alexander**
Chairman
4 June 2014

# STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2014

## PORTFOLIO MANAGER'S REPORT

### Market Review

The year under review showed evidence of the stock market's sensitivity to the activities of central banks. The comments regarding quantitative easing last June from Ben Bernanke, Chairman of the Federal Reserve, that "it would be appropriate to moderate the pace of purchases later this year" prompted market volatility, mitigated by subsequent reassurance that US interest rates would be kept low for some time. There was also positive news on the UK economy. Improving forecasts for UK economic growth were complemented by the Chancellor of the Exchequer's positive assessment of the economic outlook in his March budget.

The first quarter of 2014 was challenging as concerns grew over the outlook for economic growth in emerging markets, most notably China, but overall, the 12 months were positive for market returns as equity valuations re-rated relative to fixed interest and cash.

### Portfolio Strategy & Review

The Company's net asset value, including reinvested dividends, returned 18.8% during the 12 months to the end of March 2014. This compares to a total return of 8.8% from the FTSE All-Share Index.

The portfolio's holding in Thomas Cook continued to deliver impressive outperformance. The company announced a fund raising via a rights issue early last year, which was well received by the stock market and put the company on a sounder financial footing. More recent news from the company has confirmed an improved performance at the operating level, benefiting from new revenue growth, cost cutting, web integration and profit improvement programmes.

The portfolio benefited from strong performance by its holdings in the pharmaceutical sector, notably AstraZeneca. Its drug pipeline has generated a number of pieces of good news and an increased rate of drug approvals by the US Food and Drug Administration (FDA) is positive for the sector as a whole. BTG saw its shares rise on news that the FDA had approved its Varithena injectable foam treatment (previously known as Varisolve) for the non-surgical treatment of varicose veins.

The holdings in the fixed line telecoms sector also performed well over the period. BT Group has continued to deliver results above expectations, with profit growth driven by cost cutting as well as by the company's dominant position in fibre and broadband. The latest results were also accompanied by a 13% rise in the dividend and a comment that its recently introduced BT Sport package had made a "confident start". TalkTalk Telecom initially saw its shares underperform on fears of the impact that BT might have on its broadband strategy, but subsequently saw its shares rise very strongly on confirmation of accelerating revenue growth.

Beazley was another holding to contribute positively. The specialist insurance group saw gross premiums written rise by 5%, driven by growth in reinsurance and positive news from its Political Risks and Contingency Division. Beazley also said that the claims environment had "developed favourably" last year.

The portfolio's investments in the support services sector experienced mixed fortunes over the period. News flow from Capita continues to impress the market as its pipeline of tendered work grows – now up to £5.5 billion – and Bunzl pleased investors with an improving rate of organic revenue growth but particularly with a rise in its operating margin. There was disappointing news, however, from Serco. The company warned that 2014 profits would miss market forecasts by as much as 20%, due to a reduction in its largest contract in Australia. More positive news was that the company is now eligible to bid for UK public sector contracts after the government said that it was reassured that Serco "had developed a thorough plan for corporate renewal", and the appointment of Rupert Soames as the company's new CEO.

The continuing political debate over retail electricity prices had a negative impact on the share prices of SSE and Centrica. SSE's own pricing initiative and the referral by Ofgem of the industry to the Competition Commission for a full review led to some recovery for both companies. In its referral, Ofgem noted that there is no meaningful evidence of wrong doing or excessive returns, but just that some elements of the market are not functioning optimally. We expect the review to conclude that

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FOR THE YEAR ENDED 31 MARCH 2014

## PORTFOLIO MANAGER'S REPORT continued

industry returns are not excessive, while moves such as that by SSE are already addressing the political agenda of pricing and transparency of margins.

The market was surprised by Rolls-Royce's first profit warning in a decade, confirming that this year will see no growth in sales or profits. This is largely a result of defence spending cuts but the company claims that this is a pause, not a change in direction, and that growth will resume in 2015. BAE Systems similarly warned that profits would be hit by defence cuts but also announced the good news that it had agreed pricing with Saudi Arabia over the rising cost of a long running Eurofighter contract.

The UK Budget led to a fall in value of the holding in Ladbrokes, as a new duty on fixed odds betting terminals was unveiled. This followed a warning from the company earlier in the period that profits would not match expectations, blaming challenging trading in its on-line business.

In terms of portfolio activity, new investments were made in Betfair, BP, Bunzl, CLS, Derwent London, Horizon Discovery, NewRiver Retail, Nimrod Sea Assets, Macau Property and Shaftesbury. The holding in Carnival was disposed of.

### Outlook

2014 to date has seen the UK equity market struggle to find a convincing direction. Despite the well publicised improvements in economic growth in the UK and US economies, the current valuation of the market represents a level which reflects this optimism and which may struggle to be maintained if the pace of earnings growth does not accelerate. Meanwhile, the outlook is likely to remain challenging for the foreseeable future due to a combination of elevated valuations and an environment of continued flat corporate profit growth – the recent earnings season was notable for the number of profit warnings from large corporates. The other significant reasons for caution over the near term are the impact of a reduction in the scale of asset purchases under the policy of quantitative easing in the US, uncertainty about the strength of economic growth in the developing world, especially China, and a heightened level of political risk both in a domestic context ahead of the UK General Election and internationally due to the Ukrainian/Russian situation. It is unlikely that the performance of the market in 2013 will be repeated in the current year.

Despite these concerns, there remain some pockets of value within the UK equity market. The key to navigating the near term is to remain highly vigilant about the strength of corporate performance and to remain judicious in portfolio selection. The Company's strategy remains largely unchanged from the recent past, with a strong preference for companies that have proven ability to grow revenues, profits and free cash flow in this low growth world, coupled with management teams that are fully cognisant of the need to deliver sustainable, long term, dividend growth. It is this type of investment opportunity that forms the majority of the portfolio and that we believe offers the potential to deliver good risk adjusted returns over the long term.

**Mark Barnett**
Portfolio Manager

4 June 2014

# BUSINESS REVIEW

Perpetual Income and Growth 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 Asset Management Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight. The Manager also provides company secretarial, marketing and general administration services including accounting. Mark Barnett is the portfolio manager responsible for the day-to-day management of the portfolio.

## Investment Objective

The Company's investment objective is 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 and fixed interest markets.

## Update of the Investment Policy and Investment Limits

The Directors have taken the publication of the annual financial report as an opportunity to update the wording of both the investment policy and investment limits in order to make them easier to understand. Accordingly, the following wording differs from that used in last year's report, although the meaning remains substantially unchanged from that shown in the 2013 annual report and accounts, a copy of which is shown in the Appendix on page 61.

## Investment Policy

The Company invests mainly in UK equities and equity-related securities of UK-listed companies. The Manager seeks to identify and invest mainly in companies that offer a combination of good capital growth prospects with the ability to increase dividends over time. Market exposure may also be gained through the limited use of derivatives, the purpose of which would be to achieve changes to the portfolio's economic exposure. However, the Company will not enter into derivative transactions for speculative purposes.

The Manager manages the portfolio to reflect its convictions and best ideas. The Manager does not set out to manage the risk characteristics of the portfolio relative to the FTSE All-Share Index ('benchmark index') and the investment process may result in potentially very significant over or underweight positions in individual sectors versus the benchmark index. If a security is not considered to be a good investment, then the Company will not own it, irrespective of its weight in the benchmark index.

The Manager controls the stock-specific risk of individual securities by ensuring that the portfolio is always appropriately diversified. In-depth and continual analysis of the fundamentals of investee companies allows the Manager to assess the financial risks associated with any particular security.

The Directors believe that the use of borrowings can enhance returns to shareholders and the Company will use borrowings in pursuing its investment objective.

The Company may hedge exposure to changes in foreign currency rates in respect of its overseas investments, at the Manager's discretion.

## Investment Limits

The Board has prescribed investment limits forming part of the Investment Policy, the most significant of which follow:

- not more than 12% of gross assets in any single investment;
- not more than 15% of gross assets in other listed investment companies;
- not more than 20% of gross assets in non-UK listed securities;
- not more than 10% of gross assets in fixed interest securities;
- derivatives (including warrants) may be used for investment purposes to increase the Company's market exposure by up to 5% of gross assets. Derivatives may also be used to hedge the portfolio's market exposure; and

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FOR THE YEAR ENDED 31 MARCH 2014
## BUSINESS REVIEW continued

– borrowings may be used to raise equity exposure up to a maximum of 25% of net assets at the time of purchase where it is appropriate.

Each limit is measured at the time of investment or borrowing.

### Borrowing and Debt

Borrowing policy is under the control of the Board. The maximum limit is 25% of total net assets (measured at the time new borrowings are incurred) for investment in companies where there are stock-specific opportunities. The use of borrowing is not an expression of confidence in the performance of the overall UK stock market, but rather an endorsement of the potential for selected securities. In this respect both the Board and the Manager are content that the flexibility which the overdraft facility provides offers the most appropriate means of gearing, supplementing the longer-term borrowings of the Company.

As explained in the Chairman's Statement on pages 5 and 6, the £30 million 6.125% debenture 2014 is repayable on 8 July 2014. In view of this, the Company issued on 8 May 2014 £60 million of fixed rate 15 year private placement notes (Notes) at par with a coupon of 4.37%. The Notes have a repayment date of 8 May 2029 and interest payment dates are 8 May and 8 November each year, with the first payment to be made on 8 November 2014. The Notes are secured by a first floating charge over the Company's assets and rank *pari passu* with the most senior financial indebtedness of the Company, the debenture.

### Performance

The Board reviews performance by reference to Key Performance Indicators (KPIs). The five main KPIs are as follows:

**Asset Performance**

During the course of the year the NAV total return of the Company was 18.8% compared with a total return of 8.8% for the FTSE All-Share Index.

In reviewing the performance of the assets of the Company, the Board monitors the diluted NAV performance in relation to the FTSE All-Share Index. However, the Manager's aim is to achieve absolute return through a genuinely active investment management approach. It is not the investment management team's philosophy to regard the FTSE All-Share Index as a benchmark for portfolio construction for the Company. This approach can therefore result in a portfolio that is from time to time substantially different from the FTSE All-Share Index but has historically achieved significant outperformance of that index.

**Peer Group Performance**

There were 21 investment trusts in the UK Equity Income sector at 31 March 2014. This group, however, is quite diverse in its investment policies and structures. The Board monitors the performance of the Company in relation to both the sector as a whole and to those companies within it which the Board consider to be its peer group.

As at 31 March 2014, within those companies ranked within the UK Equity Income sector, the Company was ranked 4$^{th}$ over one year and 3$^{rd}$ over three and 7$^{th}$ over five years respectively by NAV performance (source: JPMorgan Cazenove).

**Dividend**

It remains the Directors' intention to distribute, by way of dividend, substantially all of the Company's net income after expenses and taxation whilst also retaining a prudent level of reserves. To this end, total interim dividends for the year are 11.8p which is an increase of 5.4% on the previous year's 11.2p. In addition, the Company has declared a special dividend of 1.9p which has arisen from the special dividends received by the Company during the year.

The Manager aims to maximise total return from the portfolio. The Manager believes in strong earnings growth and in the importance of dividends to total return. The portfolio will typically command a yield premium to the market. However, whilst income is a prime objective, dividend yields do not constrain investment decisions.

The Directors intend to maintain their existing policy of providing ordinary shareholders with real growth in dividends over the medium to longer term.

**Premium/Discount**

The Board monitors the premium/discount at which the Company's ordinary shares trade in relation to the assets and how this compares to other investment trusts in the peer group. During the year the Company's ordinary shares traded at both a discount and a premium. The highest premium was 2.1% and the widest discount was 4.9%. At the year end the discount was 1.5% (2013: 3.1% discount). As at 31 March 2014, the average discount of the 21 investment trusts in the UK Equity Income sector was 0.5% (2013: 2.1%) (source: JPMorgan Cazenove).

The Board and Manager closely monitor movements in the Company's share price and dealings in the Company's shares. In order to address any significant overhang or shortage of ordinary shares in the market the Board asks shareholders to approve resolutions each year which allow for the repurchase of ordinary shares (for cancellation or to be held as treasury shares) and also their issuance. This may assist in the management of the discount.

The Company has not previously held any shares in treasury. However, should the Board consider it to be in shareholders' interests to do so, then it is the Board's policy to sell shares held as treasury shares on terms that are in the best interests of shareholders as a whole.

**Ongoing Charges Ratio**

The expenses of managing the Company are carefully monitored by the Board and the ongoing charges ratio provides a guide to the effect on performance of the annual operating costs. The Board reviews expenditure using an annual budgetary process. The ongoing charges ratio for the year was 0.94% (2013: 0.99%) based on management fees (excluding the performance fee) and other expenses of £7,727,000 (2013: £6,169,000).

## Results and Dividends

On 31 March 2014, the mid-market price and the net asset value (NAV) per ordinary share were 377.5p and 383.3p respectively. The comparable figures at 31 March 2013 were 322.0p and 332.3p (diluted).

For the year ended 31 March 2014, three interim dividends of 2.7p each per share were paid on 28 September 2013, 28 December 2013 and 28 March 2014 respectively. A fourth interim dividend of 3.7p per share has been declared for payment on 27 June 2014 to shareholders on the register on 6 June, giving total interim dividends for the year of 11.8p (2013: 11.2p). This represents an increase of 5.4% on the previous year. As discussed in the Chairman's Statement, a special dividend of 1.9p per share was declared and will be paid at the same time as the fourth interim dividend. Total dividends for the year, thus totalling 13.7p, an increase of 22.3% on the previous year.

## Financial Position and Borrowings

At 31 March 2014 the Company's net assets were valued at £896.3 million (2013: £743.1 million) comprising a portfolio of mainly equity, with some fixed interest, investments and net current assets, including £30 million of borrowings in the form of a 6.125% debenture, which matures in July 2014. Since the year end the Company has issued £60 million of fixed rate 15 year notes at par with a coupon of 4.37%. This replaces the structural debt and the uncommitted bank overdraft facility has also been reduced by £20 million (to £110 million). At the year end, the previous overdraft facility was limited to the lower of 25% of net assets and £130 million. Details of the debenture and the overdraft facility are shown 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 of this Strategic Report. Further details of the principal risks affecting the Company are set out under 'Principal Risks and Uncertainties' below.

## Principal Risks and Uncertainties

The Board carries out a regular review of the risk environment in which the Company operates. The principal risks and uncertainties identified in this review follow:

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## BUSINESS REVIEW continued

**Economic Risk**

Economic risk arises from uncertainty about the future prices of the Company's investments. A majority of the Company's investments are listed on regulated stock exchanges and will be subject to market fluctuations, both upward and downward, arising from external factors including general economic conditions and government policies. Such factors are outside the control of the Board and the Manager and may give rise to high levels of volatility in the prices of the investments held.

**Investment Risk**

Poor performance of individual portfolio investments is mitigated as the Board has established guidelines to ensure that the Investment Policy of the Company is pursued by the portfolio manager and that the portfolio of investments is appropriately diversified. Any proposed variation outside these guidelines is referred to the Board and the guidelines themselves are reviewed at every Board meeting. The day-to-day management of the portfolio is the responsibility of the portfolio manager who, with his team, undertakes continual analysis of the fundamentals of all holdings. The performance of the portfolio manager is carefully monitored by the Board culminating in the annual review of the management contract.

A fuller discussion of the economic and market conditions facing the Company and the current and future performance of the portfolio are included in the Portfolio Manager's Report on pages 7 and 8. Past performance of the Company is not necessarily indicative of future performance.

**Financial Risk**

The financial risks faced by the Company include market price risk (including currency risk, interest rate risk and other price risk), liquidity risk and credit risk, which includes counterparty and custodial risk. Details of these risks and how they are managed are disclosed in note 19 to the financial statements on pages 52 to 56.

**Gearing Risk**

Whilst the use of borrowings by the Company should enhance total shareholder return when the return on the Company's underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect when the underlying return is falling. Whilst the portfolio manager has full discretion on when and how he should use borrowings to gear returns, the Board reviews regularly the level of gearing and the extent of available borrowings.

**Investment Objective**

There can be no guarantee that the Company will meet its investment objective and therefore there is also a risk of underperformance against the Company's benchmark index. The Manager provides the Board with management information, including performance data and reports and shareholder analysis.

**Share Discount Risk**

The Company's shares may trade on a wide discount. The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV and there are in place both share repurchase and issuance facilities to help the management of this process.

**Operational Risk**

The Board regularly reviews the system of financial and non-financial internal controls operated by the Company, the Manager and other external service providers. These include controls designed to safeguard the Company's assets and to ensure that proper accounting records are maintained. Details of how the Board monitors the services provided by the Manager and other suppliers are explained further in the internal controls section in the audit committee report on page 29.

**Regulatory Risk**

The Company is subject to various laws and regulations by virtue of its status as a public limited company registered under Section 833 of the Act, its status as an investment trust, and its listing on the Official List of the UK Listing Authority.

Loss of investment trust status for tax purposes could lead to the Company being subject to tax on the realised capital profits on the sale of its investments. A serious breach of other regulatory rules could lead to suspension from the Official List, a fine or qualified audit report. Other control failures, either by the Manager or any other of the Company's service providers, could result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews compliance with tax and other financial regulatory requirements on a daily basis and reports to the Board on a regular basis on all regulatory aspects.

**Other Risks**

While it is the intention of the Directors to pay quarterly dividends to shareholders, the ability to do so will depend upon the net income earned by the portfolio throughout the year.

The risk that the portfolio manager, Mark Barnett, may become incapacitated or otherwise be unavailable is mitigated by the fact that he is one member of the wider Invesco Perpetual UK Equities team.

## Alternative Investment Fund Managers Directive (AIFMD)

The Board is taking independent legal advice in relation to the Directive and has decided, in principle, to appoint Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager. IFML is in the process of seeking approval as an AIFM before the AIFMD implementation date of 22 July 2014, so that your Company will be fully compliant. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depositary responsibilities. To this end the Board has agreed, in principle, to appoint BNY Mellon Trust & Depositary (UK) Limited to act as the Company's depositary.

## Board Diversity

The Company's policy on diversity is set out on page 24. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises six non-executive directors. All served throughout the year and their details are shown on page 17 together with their biographies. There are no female directors on the Board and no target has been set in this respect. However, this is at the forefront of considerations in the Board's deliberations but is dependent on suitably qualified candidates who are willing, and have the time, to be a director of the Company. Summary biographical details of the Directors are set out on page 17. 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 make or not to make an investment on environmental and social grounds alone. The Company does not have a human rights policy, although the Manager applies the United Nations Principles for Responsible Investment.

This Strategic Report was approved by the Board of Directors on 4 June 2014

**Invesco Asset Management Limited**
*Company Secretary*

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

# INVESTMENTS IN ORDER OF VALUATION

AT 31 MARCH 2014

*Ordinary shares listed in the UK unless stated otherwise*

| ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|
| **Equity Investments** | | | |
| British American Tobacco | Tobacco | 48,185 | 4.7 |
| BT Group | Fixed Line Telecommunications | 43,500 | 4.2 |
| AstraZeneca | Pharmaceuticals & Biotechnology | 40,904 | 4.0 |
| Imperial Tobacco | Tobacco | 38,943 | 3.8 |
| Roche – Swiss common stock | Pharmaceuticals & Biotechnology | 38,600 | 3.8 |
| Reynolds American – US common stock | Tobacco | 37,655 | 3.7 |
| BAE Systems | Aerospace & Defence | 34,232 | 3.3 |
| GlaxoSmithKline | Pharmaceuticals & Biotechnology | 31,849 | 3.1 |
| Novartis – Swiss common stock | Pharmaceuticals & Biotechnology | 30,923 | 3.0 |
| Thomas Cook | Travel & Leisure | 29,857 | 2.9 |
| **Top ten holdings** | | 374,648 | 36.5 |
| Reckitt Benckiser | Household Goods & Home Construction | 29,271 | 2.9 |
| SSE | Electricity | 25,011 | 2.4 |
| Provident Financial | Financial Services | 23,877 | 2.3 |
| Rolls-Royce | Aerospace & Defence | 22,410 | 2.2 |
| Legal & General | Life Insurance | 22,003 | 2.1 |
| Babcock International | Support Services | 21,245 | 2.1 |
| Beazley | Non-life Insurance | 20,891 | 2.0 |
| Rentokil Initial | Support Services | 20,655 | 2.0 |
| Bunzl | Support Services | 20,430 | 2.0 |
| Reed Elsevier | Media | 20,288 | 2.0 |
| **Top twenty holdings** | | 600,729 | 58.5 |
| BP | Oil & Gas Producers | 20,021 | 2.0 |
| Capita | Support Services | 19,465 | 1.9 |
| Amlin | Non-life Insurance | 19,445 | 1.9 |
| Compass | Travel & Leisure | 19,381 | 1.9 |
| Hiscox | Non-life Insurance | 18,963 | 1.8 |
| BTG | Pharmaceuticals & Biotechnology | 18,525 | 1.8 |
| Drax | Electricity | 18,136 | 1.8 |
| KCOM | Fixed Line Telecommunications | 16,414 | 1.6 |
| N Brown | General Retailers | 15,796 | 1.5 |
| Workspace | Real Estate Investment Trusts | 14,643 | 1.4 |
| **Top thirty holdings** | | 781,518 | 76.1 |
| TalkTalk Telecom | Fixed Line Telecommunications | 14,512 | 1.4 |
| Shaftesbury | Real Estate Investment Trusts | 14,423 | 1.4 |
| Centrica | Gas, Water & Multiutilities | 14,260 | 1.4 |
| London Stock Exchange | Financial Services | 13,951 | 1.4 |
| NewRiver Retail | Real Estate Investment Trusts | 13,589 | 1.3 |
| Lancashire | Non-life Insurance | 13,488 | 1.3 |
| G4S | Support Services | 12,961 | 1.3 |
| Ladbrokes | Travel & Leisure | 11,619 | 1.1 |
| Lombard Medical Technologies | Health Care Equipment & Services | 11,292 | 1.1 |
| Napo Pharmaceuticals – Unquoted US common stock | Pharmaceuticals & Biotechnology | 10,566 | 1.0 |
| **Top forty holdings** | | 912,179 | 88.8 |

| ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|
| **Equity Investments** | | | |
| Serco | Support Services | 10,342 | 1.0 |
| Macau Property Opportunities Fund | Real Estate Investment & Services | 10,294 | 1.0 |
| HomeServe | Support Services | 9,350 | 0.9 |
| Vectura | Pharmaceuticals & Biotechnology | 9,013 | 0.9 |
| Derwent London | Real Estate Investment Trusts | 8,672 | 0.8 |
| IP Group | Financial Services | 8,212 | 0.8 |
| Nimrod Sea Assets | Investment Instruments | 7,807 | 0.8 |
| CLS | Real Estate Investment & Services | 6,128 | 0.6 |
| Circassia Pharmaceuticals | Pharmaceuticals & Biotechnology | 5,924 | 0.6 |
| Imperial Innovations | Financial Services | 5,139 | 0.5 |
| Top fifty holdings | | 993,060 | 96.7 |
| Doric Nimrod Air Three – Preference Shares | Investment Instruments | 5,027 | 0.5 |
| Doric Nimrod Air Two – Preference Shares | Investment Instruments | 4,859 | 0.5 |
| Sherborne Investors Guernsey B – A Shares | Financial Services | 4,752 | 0.5 |
| Chemring | Aerospace & Defence | 4,449 | 0.4 |
| Damille Investments II | Investment Instruments | 3,639 | 0.4 |
| PuriCore | Health Care Equipment & Services | 3,377 | 0.3 |
| Horizon Discovery | Health Care Equipment & Services | 2,970 | 0.3 |
| Betfair | Travel & Leisure | 1,524 | 0.1 |
| Coalfield Resources | Mining | 1,214 | 0.1 |
| Altus Resource Capital | Investment Instruments | 822 | 0.1 |
| Top sixty holdings | | 1,025,693 | 99.9 |
| HaloSource | Chemicals | 230 | — |
| XTL Biopharmaceuticals – ADR | Pharmaceuticals & Biotechnology | 201 | — |
| Mirada | Media | 20 | — |
| Acquisition 1234 – Unquoted | Financial Services | 6 | — |
| **Total Equity Investments (64)** | | **1,026,150** | **99.9** |

| ISSUER AND ISSUE | MOODY/S&P RATING[1] | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|---|
| **Other Investments** | | | | |
| Barclays Bank – Nuclear Power Notes 28 Feb 2019[2] | NR/NR | Electricity | 671 | 0.1 |
| **Total Other Investments (1)** | | | **671** | **0.1** |
| **Total Investments (65)** | | | **1,026,821** | **100.0** |

Notes: (1) NR is non-rated.

(2) Contingent Value Rights (CVRs) referred to as Nuclear Power Notes (NPNs) were offered by EDF as a partial alternative to its cash bid for British Energy (BE). The NPNs were issued by Barclays Bank. The CVRs participate in BE's existing business at the time of the takeover.

# TOP TEN INVESTMENTS

AT 31 MARCH 2014

*All investments UK listed ordinary shares unless otherwise stated*

| COMPANY | 2014 MARKET VALUE £'000 | 2014 % OF PORTFOLIO | 2013 MARKET VALUE £'000 | 2013 % OF PORTFOLIO |
|---|---|---|---|---|
| British American Tobacco | 48,185 | 4.7 | 41,019 | 4.8 |
| BT Group | 43,500 | 4.2 | 50,813 | 6.0 |
| AstraZeneca | 40,904 | 4.0 | 42,420 | 5.0 |
| Imperial Tobacco | 38,943 | 3.8 | 39,354 | 4.6 |
| Roche – Swiss common stock | 38,600 | 3.8 | 39,842 | 4.7 |
| Reynolds American – US common stock | 37,655 | 3.7 | 40,708 | 4.8 |
| BAE Systems | 34,232 | 3.3 | 32,830 | 3.9 |
| GlaxoSmithKline | 31,849 | 3.1 | 33,295 | 3.9 |
| Novartis – Swiss common stock | 30,923 | 3.0 | 37,489 | 4.4 |
| Thomas Cook | 29,857 | 2.9 | 27,720 | 3.3 |
| | 374,648 | 36.5 | 385,490 | 45.4 |
| Total of other investments | 652,173 | 63.5 | 461,811 | 54.6 |
| **Total value of investments** | 1,026,821 | 100.0 | 847,301 | 100.0 |

# DIRECTORS

**Bill Alexander CBE, †* (Chairman of the Board and of the Management Engagement Committee)**
Bill Alexander was appointed to the Board on 28 March 2006 and as Chairman on 19 July 2007. He was previously non-executive Chairman of Wigborough Ltd, Chairman of Xansa plc and Chief Executive of RWE Thames Water plc, and also held non-executive appointments at RMC plc, GB Airways Ltd and Laporte plc. Bill is a Chartered Engineer and a Fellow of the Royal Academy of Engineering. (FREng).

**Sir Martyn Arbib**
Sir Martyn was appointed to the Board on 6 February 1996. He was the founder and Chairman of Perpetual plc, which became part of the Invesco group on 7 December 2000, and left the company in 2002. He is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

**Vivian Bazalgette †***
Vivian Bazalgette was appointed to the Board on 21 May 2007. He is a non-executive Director of Henderson High Income Investment Trust plc and Brunner Investment Trust plc. He is a non-executive Director of St. James Place plc and Chairman of its Investment Committee and is also an adviser to BAE Systems Pension Fund and to the Nuffield Foundation. He is currently Vice Chairman of the Governors of Dulwich College. He previously held the position of Chief Investment Officer of M&G between 1996 and 2000 and, following the takeover of M&G by Prudential, was Chief Investment Officer of Prudential M&G from 2000 to 2002.

**Richard Laing †***
Mr Laing was appointed to the Board on 20 November 2012. He was previously Chief Executive of CDC Group plc, formerly the Commonwealth Development Corporation, from 2004 to 2011, having joined the organisation in 2000 as Finance Director. Prior to CDC, he spent 15 years at De La Rue where he held a number of positions both in the UK and internationally, latterly as the Group Finance Director. He was also a non-executive Director of Camelot. He previously worked in agribusiness in developing countries and at PricewaterhouseCoopers and Marks & Spencer. He has had a number of non-executive positions across a range of sectors, mainly overseas. His current appointments include: a Director of the Overseas Development Institute, the UK's leading independent think-tank on international development; a Trustee of Plan UK, the international children's charity; Chairman of Miro Forestry, which operates in Ghana and Sierra Leone; and a non-executive Director of Madagascar Oil Limited. He obtained an MA from Cambridge University in Engineering and is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

**Antony Hardy †* (Chairman of the Audit Committee and Senior Independent Director)**
Antony Hardy was appointed to the Board on 2 February 1996. He has held the position of Investment Adviser to Essex County Council Pension Fund and South Yorkshire Pension Fund. He is adviser to a number of endowed charities and trusts, a Director of Sableknight Limited, Chairman of the Trustees of the Threadneedle Pension Plan and was previously Investment Manager of the Church Commissioners for England.

**Bob Yerbury**
Bob Yerbury was appointed to the Board on 4 December 2008. His investment career spans over 40 years, having led the North American team at Invesco Perpetual for 14 years, becoming Chief Investment Officer in 1997 and Chief Executive Officer in 2004. He handed over his CEO and CIO responsibilities in September 2008 and June 2010 respectively, continuing as a Senior Managing Director of Invesco Ltd until his retirement on 27 March 2013. He holds an MA in Mathematics from Cambridge University and qualified as an Actuary at Equity & Law Life Assurance Society. He is a Fellow of the Institute of Actuaries (FIA).

†Member of the Audit Committee.

*Member of the Management Engagement Committee.

All Directors are non-executive.

All Directors are considered independent except for Bob Yerbury, as he was employed by Invesco Perpetual until 27 March 2013.

# 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 as an Investment Company it has no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.

### The Board

Six non-executive directors

Chairman – Bill Alexander

Key objectives:

- to set strategy, values and standards;
- to provide leadership within a framework of prudent effective controls which enable risk to be assessed and managed; and
- to challenge constructively and scrutinise performance of all outsourced activities.

### Management Engagement Committee

Chairman – Bill Alexander

Other members:

- Antony Hardy
- Vivian Bazalgette
- Richard Laing

Key objective:

- to review regularly the management contract and the performance of the Manager.

### Audit Committee

Chairman – Antony Hardy

Other members:

- Bill Alexander
- Vivian Bazalgette
- Richard Laing

Key objectives:

- to oversee the control environment and financial reporting; and
- to review other service providers, including the auditor.

### Nominations Committee

The Board as a whole performs this function

Key objectives:

- to review regularly the Board's structure and composition; and
- to make recommendations for any changes or new appointments.

### Remuneration Committee Function

The Board as a whole performs this function

Key objective:

- to set the remuneration policy of the Company.

## The Portfolio Manager

The portfolio manager, Mark Barnett, is based in Henley-on-Thames. As one of the team's most experienced fund managers and specialising in UK equity income investing, Mark was recently promoted by Invesco Perpetual to Head of UK Equities. In this role, Mark is responsible for the management of a number of UK equity portfolios, with a focus on the management of open and closed ended vehicles.

Mark joined Perpetual in 1996 and has been the investment manager of Perpetual Income and Growth Investment Trust since 1999. Mark started his investment career in 1992 at Mercury Asset Management. He graduated in French and Politics from Reading University in 1992 and has passed the associated examinations of the Association for Investment Management and Research (AIMR).

# DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2014

## Introduction

The Directors present their report for the year ended 31 March 2014.

## Business and Status

The Company was incorporated in England and Wales on 2 February 1996 as a public limited company, registered number 3156676. 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.

## Life of the Company

The Company's Articles of Association require that with effect from 2006 and every five years thereafter, the Company will propose an ordinary resolution to approve the continuation of the Company as an investment trust. The next occasion on which the Company must propose a similar ordinary resolution will be at the 2016 AGM.

## Corporate Governance

The Corporate Governance Statement set out on page 22 is included in this Directors' Report by reference.

## Directors

**Board Composition**

The Board comprises six non-executive Directors, all of whom served throughout the year. Their biographies, which are set out on page 17, demonstrate their width of investment, commercial and professional experience relevant to their positions as Directors.

**Directors' Remuneration and Interests in Shares**

The Directors Remuneration Report on pages 31 to 33 provides information on the remuneration and interests of Directors. No Director was a party to, or had interests in, any contract or arrangement with the Company during the year or at the year end.

**Conflicts of Interest**

A Director must avoid a situation where he 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 in place which will 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 secondly, 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 are obliged to declare any potential conflicts of interest to the Company and these are recorded in the Company's register of potential conflicts. This is reviewed regularly by the Board.

**Directors' 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 exercised 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.

## Share Capital

**Capital Structure**

On 10 September 2013, 12,914,737 ordinary shares were allotted as a result of the final opportunity for subscription shareholders to exercise their rights to subscribe for ordinary shares at a price of 218.94p per share. In response to demand for ordinary shares, during the year 700,000 shares were

# DIRECTORS' REPORT
continued

issued for 351.86p and a further 973,378 shares issued as a result of dividend reinvestment. As a result there were 233,816,175 ordinary shares in issue at the year end.

Subsequent to the year end no further shares have been issued.

The Company's Articles of Association allow an issue of B shares to take place should conditions permit. There are no B shares in issue.

**Restrictions**

There are no restrictions concerning the transfer of ordinary and subscription shares in the Company, no special rights with regard to control attached to said securities, no agreements between holders regarding their transfer known to the Company, and no agreements to which the Company is a party that might affect its control following a successful takeover bid.

There are restrictions on the transfer of B shares by shareholders located in the US, which make it more difficult for a US person to resell B shares in many instances.

**Voting**

At a general meeting of the Company every ordinary shareholder has one vote on a show of hands and on a poll one vote for each ordinary 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 shown in the section titled 'Special Business at the Annual General Meeting'.

**Substantial Shareholders**

The Company had been notified of the following holdings of 3% and over of the Company's ordinary share capital:

| | AS AT 30 APRIL 2014 | | AS AT 31 MARCH 2014 | | AS AT 31 MARCH 2013 | |
|---|---|---|---|---|---|---|
| | HOLDING | % | HOLDING | % | HOLDING | % |
| Invesco Perpetual Savings Scheme and ISA | 53,781,223 | 23.0 | 53,902,817 | 23.1 | 55,931,184 | 25.5 |
| Hargreaves Lansdown | 16,660,128 | 7.1 | 16,431,623 | 7.0 | 14,502,723 | 6.4 |
| Brewin Dolphin | 13,368,407 | 5.7 | 13,343,139 | 5.7 | 14,086,582 | 6.6 |
| Charles Stanley | 11,614,901 | 5.0 | 11,665,437 | 5.0 | 11,029,591 | 4.7 |
| Rathbones | 11,514,972 | 4.9 | 11,577,257 | 5.0 | 10,279,229 | 5.0 |
| Alliance Trust Savings | 9,306,655 | 4.0 | 9,273,423 | 4.0 | 8,401,683 | 3.8 |
| Investec Wealth & Investment | 8,067,996 | 3.5 | 7,958,138 | 3.4 | 7,178,570 | 3.3 |

## 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. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet funding commitments, and the ability of the Company to meet all of its liabilities (including maturity of the debenture stock in 2014) and ongoing expenses from its assets. The Directors also considered the revenue forecasts for the forthcoming year and future dividend payments in concluding on the going concern basis.

## Auditor

Deloitte UK LLP have indicated their willingness to continue as Auditor to the Company and a resolution for their reappointment will be proposed at the AGM. The Audit Committee Report on pages 28 to 30 details, among other things, that Committees review of the Auditor's effectiveness and the Directors' confirmation concerning relevant audit information as required by section 418 of the Companies Act.

## Individual Savings Account (ISA)

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

## Greenhouse Gas Emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

## Special Business at the Annual General Meeting

The notice of the Annual General Meeting (AGM) of the Company is on pages 57 to 60. In addition to the ordinary business, four resolutions are proposed as special business, one as an ordinary resolution and three as special resolutions.

**Share Issuance**

The Directors are seeking the authority to issue up to an aggregate nominal amount of £7,793,872 (a third of the Company's issued share capital as at 4 June 2014) in new ordinary shares. This will allow Directors to issue shares within the prescribed limits should any favourable opportunities arise to the advantage of shareholders. This authority will expire at the AGM in 2015 or the date 15 months after the passing of this resolution, whichever is the earlier.

The Directors are also seeking the usual authority to issue new ordinary shares pursuant to a rights issue or otherwise than in accordance with a rights issue of up to an aggregate nominal amount of £2,338,161 (10% of the Company's issued share capital as at 4 June 2014) of new ordinary shares disapplying pre-emption rights. This authority will not be exercised at a price below NAV so that the interests of existing shareholders are not diluted and will expire at the AGM in 2015 or the date 15 months after the passing of this resolution, whichever is the earlier.

**Share Buy Backs and Treasury Shares**

The Directors are seeking to renew the authority to buy back up to 35,049,044 shares (14.99% of the Company's issued share capital as at 4 June 2014), subject to the restrictions referred to in the Notice of Meeting of the AGM. This authority will expire at the AGM in 2015 or the date 15 months after the passing of this resolution, whichever is the earlier. The Directors are proposing that shares repurchased by the Company be either cancelled or, alternatively, held as treasury shares with a view to their resale if appropriate or cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

**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 15 will propose that the period of notice for general meetings of the Company (other than AGMs) shall not be less than 14 days' notice.

The Directors recommend that shareholders vote in favour of all the resolutions.

*By order of the Board*
**Invesco Asset Management Limited**
*Company Secretary*
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

4 June 2014

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2014

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 latest AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 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 AIC Code is available from the Association of Investment Companies website (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company has complied with the recommendations of the 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 Perpetual Income and Growth Investment Trust plc, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties and in view of the Manager having an internal audit function. The Company has therefore not reported further in respect of these provisions.

## The Board

The Board comprises six non-executive Directors, five of whom are considered independent. Bob Yerbury was a Senior Managing Director of Invesco Ltd and a Director of IAML until his retirement on 27 March 2013. In accordance with the AIC Code, as a recent employee of the Manager, he is not considered independent.

The Board has considered the continued appointment of Sir Martyn Arbib and Antony Hardy in light of their having served on the Board for over nine years and has concluded that they continue, both collectively and individually, to be effective and make valuable contributions to the Board.

Notwithstanding their length of service, the Board consider that they each remain independent, a view which has been demonstrated by their actions on behalf of the Company and their other business interests.

**Board Balance**

Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. Brief biographical details are shown on page 17.

**Chairman**

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of the role. The Chairman is Bill Alexander, a non-executive and independent Director who has no conflicting relationships.

**Senior Independent Director**

In his role as Senior Independent Director, Antony Hardy provides a sounding board for the Chairman and serves as an intermediary for the other Directors if necessary. He also provides a channel of communication for shareholders where contact through the Chairman or Company Secretary have failed to resolve or for which such contact is inappropriate.

**Board Responsibilities**

The Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term, the need to foster the Company's 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 as between stakeholders of the Company.

In order to promote the success of the Company, the Board directs and supervises its affairs within a framework of effective controls which enable risk to be assessed and managed. A formal schedule of matters reserved for the Board has been established. The schedule is reviewed annually to ensure compliance with the latest regulatory requirements, best practice and the AIC Code and is available for inspection at the AGM, at the registered office of the Company and on the Manager's website.

The main responsibilities of the Board include: setting policies and standards, ensuring that the Company's obligations to shareholders and others are understood and complied with, approving accounting and dividend policies, managing the capital structure, setting long-term objectives and strategy, assessing risk, reviewing investment performance, approving loans and borrowing, approving recommendations presented by the Company's respective Board Committees, controlling risks and the ongoing assessment of the Manager. The Board also seeks to ensure 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 annual and half-yearly financial reports, interim management statements, fact sheets and daily NAV disclosures.

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 that the Board considers adequate to prevent persons associated with it from engaging in or accepting bribery for and on behalf of the Company.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by committees for remuneration and nomination:

*Remuneration*

The Board as a whole operates as a Remuneration Committee, including 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 on pages 31 to 33.

*Nominations*

The Board as a whole operates as a Nominations Committee. This includes regularly reviewing 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 identifying suitable candidates. The appointment, re-election and tenure of Directors is explained on page 24.

## Supply of Information

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.

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 changing risks.

The Board meets on a regular basis and at least five times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, the Company Secretary and the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with reports 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, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

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.

# CORPORATE GOVERNANCE STATEMENT
continued

## The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 28 to 30, which is included in this Directors' Report by reference.

## The Management Engagement Committee

The Management Engagement Committee comprises Bill Alexander, Antony Hardy, Vivian Bazalgette and Richard Laing, all of whom are independent Directors. The Chairman of the Management Engagement Committee is Bill Alexander. The Management Engagement Committee has written terms of reference which clearly define its responsibilities and duties. The terms of reference are reviewed as and when appropriate to ensure compliance with the latest regulatory requirements, best practice and the AIC Code. They will be available for inspection at the AGM, the registered office of the Company and on the Manager's website.

The Management Engagement Committee meets annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager and Company Secretary. A statement of IAML's responsibilities as Manager, Administrator and Company Secretary of the Company and the assessment of the Manager and Company Secretary by the Management Engagement Committee can be found on pages 25 and 26.

## Appointment, Re-election and Tenure of Directors

The Directors are responsible for reviewing the size, structure and skills of the Board and considering any necessary changes or new appointments. No Director has a formal 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, on the Manager's website and will be available at the AGM.

The Board has a formal, rigorous and transparent procedure for the selection and appointment of any new Director to the Board. This ensures that the Board and its committees have the correct composition and balance, and that the Company's Directors have the necessary skills, experience, length of service and knowledge of the Company. The Board considers 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.

In accordance with the UK Code of Corporate Governance, at every AGM all Directors shall retire and offer themselves for re-election. The Board confirms that the performance of the Directors continues to be effective and demonstrates commitment to the role. The Board therefore recommends to shareholders their support for resolutions 3 through to 8 relating to the Directors.

The Articles will be available at the AGM and can be inspected at the registered office address of the Company.

**Board, Committee and Directors' Performance Appraisal**

The Company has in place a system of performance evaluation which is undertaken by the Board annually. The appropriateness and benefits of externally facilitated Board evaluation were considered by the Board during the year and information was sought from service providers in this regard. The Board intends to consider the use of external evaluation again next year.

Since the year end an external consultant, Trust Associates Limited, undertook an exercise to assess the effectiveness and performance of individual Directors, the Board as a whole and the individual committees. The results were satisfactory, with the Directors being deemed to devote sufficient time to their duties and to be effective in their roles.

**Attendance at Board and Committee Meetings**

All the Directors are considered to have an excellent attendance record at Board and Committee Meetings of the Company. The following table sets out the number of scheduled meetings held during the year and the number of meetings attended by each Director or member of each Committee. In addition, Directors also attended several ad-hoc meetings as required between scheduled meetings.

| | BOARD MEETINGS | AUDIT COMMITTEE MEETINGS | MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS |
|---|---|---|---|
| Number of meetings: | 5 | 3 | 1 |
| *Meetings attended:* | | | |
| Bill Alexander | 5 | 3 | 1 |
| Sir Martyn Arbib | 5 | n/a | n/a |
| Vivian Bazalgette | 5 | 3 | 1 |
| Antony Hardy | 5 | 3 | 1 |
| Richard Laing | 5 | 3 | 1 |
| Bob Yerbury | 5 | n/a | n/a |

## Internal Controls and Risk Management

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

The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The Directors consider that these procedures enable the Company to comply with the Financial Reporting Council's 'Internal Control: Revised Guidance for Directors on the Combined Code'.

The Company's internal controls and risk management systems are reviewed at least annually with the Manager against risk parameters approved by the Board. The Board reviews financial reports and performance against forecasts, stock market indices and the Company's peer group. The Board also considers reports from the Audit Committee in its capacity of reviewer of the services provided, including effectiveness, of external service providers. The Audit Committee report on page 28 describes in more depth its activities.

## The Manager

**Investment Management Agreement**

Invesco Asset Management Limited (IAML) was appointed Manager, Administrator and Company Secretary under an agreement dated 20 February 1996 and subsequently amended on 27 December 2001. This agreement is terminable by either party giving not less than one year's notice. Under the agreement, the Manager receives a management fee of 0.1875% per quarter of the Company's funds under management.

A performance-related fee is payable to the Manager annually in arrears if the Company's performance exceeds that of the FTSE All-Share Index, including any brought forward underperformance. The performance-related fee is equal to 10% of the value of any outperformance, but may not exceed 0.75% of the value of the Company's funds under management at the balance sheet date, before deduction of the current year's performance fee.

**The Manager's Responsibilities**

The Manager is generally responsible for the day-to-day investment management activities of the Company, seeking and evaluating investment opportunities and analysing the results of investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated Investment Policy as determined from time to time by the Board and approved by shareholders. The Manager also advises on currency and borrowings.

The Manager provides full company secretarial and administration services ensuring that the Company complies with all legal, regulatory and corporate governance requirements and attending on the Directors at Board meetings and shareholders' meetings. The Manager also maintains records of the Company's investment transactions and portfolio and all monetary transactions, from which the Manager prepares annual and half-yearly financial statements and interim management statements on behalf of the Company and various statistical reports and information throughout the year.

# CORPORATE GOVERNANCE STATEMENT
continued

**Assessment of the Investment Manager**

The performance of the Manager in the roles of investment manager, company secretary and administrator is subject to continual review by the Board and an annual review of the management contract is undertaken by the Management Engagement Committee.

The Board has formally reviewed the Manager's performance and, taking into account the long-term performance of the portfolio, the other services provided by the Manager and the risk and corporate governance environment in which the Company operates, the Board considers that the continuation of the management contract is in the best interests of shareholders as a whole.

## Alternative Investment Fund Managers (AIFM) Directive

The Board is taking independent legal advice in relation to the AIFM Directive and has decided in principle to appoint Invesco Fund Managers Limited (IFML) as the Company's AIFM, pending IFML's approval as such by the FCA. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

## Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed, that applicable rules and regulations are complied with and is responsible for advising the Board through the Chairman on all governance matters. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports, that the statutory obligations of the Company are met and acts as a contact for all shareholders. The appointment and ongoing assessment and review of the Company Secretary are matters for the Board as a whole.

## 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. A copy of the Manager's Policy on Corporate Governance and Stewardship can be found at *www.invescoperpetual.co.uk*.

## 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 annual and half-yearly financial reports, which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by the publication of interim management statements, monthly factsheets and the NAV of the Company's ordinary shares, which is published daily via the London Stock Exchange and the Manager's website.

A presentation is made by the Manager following the main business of the AGM each year. Shareholders have the opportunity to communicate directly with the Directors at the AGM. All shareholders are encouraged to attend the AGM.

It is the intention of the Board that the annual financial report and the notice of the AGM be issued to shareholders so as to provide twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card, via the Manager's website or in writing to the Company Secretary at the address given on page 63. At other times the Company responds to queries from shareholders on a range of issues.

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

Shareholders can visit the Manager's website in order to contact the Directors, Manager and Company Secretary, access copies of annual and half-yearly financial reports, interim management statements, shareholder circulars, factsheets, Stock Exchange announcements, schedule of matters reserved for the Board, terms of reference of Board Committees, Directors' letters of appointment, the Company's share price and any proxy voting results.

## Social and Environmental Policies

As an investment trust company with no employees, property or activities outside investment, environmental matters, employees and social and community issues have limited application.

The Manager considers various factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price to book value. Others are more subjective indicators which rely on first hand research; for example, quality of management, innovation and product strength. While a company's policy towards the environment and social responsibility is considered as part of the overall assessment of risk and the suitability of the company for the portfolio, the Manager does not necessarily preclude an investment being made on environmental and social grounds alone.

The Company is able to supply documents or information to shareholders in electronic form (e.g. by email) or by means of a website. This delivers environmental benefits through the reduced use of paper and of the energy required for its production and distribution.

# AUDIT COMMITTEE REPORT
FOR THE YEAR ENDED 31 MARCH 2014

The Audit Committee is chaired by myself, Antony Hardy, and the other members are Bill Alexander, Vivian Bazalgette and Richard Laing.

The Committee has written terms of reference which clearly define its responsibilities and duties. The terms of reference of the Audit Committee, including its role and authority, were updated during the year, are compliant with the AIC Code and are available for inspection at the registered office of the Company or on the Manager's website. They will also be available for inspection at the AGM.

## Audit Committee Duties

The Committee's main duties include:

– review of the Company's risk matrix and risk control summary and the effectiveness of internal control, together with consideration of the Manager's and external service providers control reports;

– consideration of the scope of work undertaken by the Manager's internal audit and compliance departments, and the results therefrom; also review of the effectiveness of the Manager's internal audit;

– review of the Manager's whistleblowing arrangements by which staff can, in confidence, raise concerns about possible improprieties or irregularities in relation to the Company;

– review of the half year results and the annual financial statements including: compliance with relevant statute and listing requirements; the appropriateness of accounting policies; any financial judgements and key assumptions; disclosures in relation to internal controls and risk management and going concern; and advising the Board, at its request, on whether the annual report is fair, balanced and understandable;

– review of the performance fee calculation;

– consideration of the nature and scope of the external audit, items for audit focus and discussion of the audit findings;

– consideration of the auditor's independence and objectivity and the effectiveness of the audit process; and

– making recommendations to the Board in respect of the auditor's appointment, reappointment and removal and for the terms of their audit engagement, as well as any recommendation of non-audit services.

Representatives of the auditor attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The Committee met three times in the year in the performance of its duties. It has direct access to the auditor and representatives of the Manager, including the Manager's Compliance and Internal Audit personnel, who attend Committee meetings, one meeting being prior to approval and signature of the annual financial report. The Committee reviewed reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company and the systems of internal controls in place.

## 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 investments that are not listed, or are listed but not regularly traded. | 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 a fair value, as set out in the accounting polices, and all such valuations are reviewed by the Manager's pricing committee and the Committee. |
| Correct calculation of the performance fee . | The year end performance fee calculation is prepared and reviewed by the Manager and reviewed in depth by the Committee with reference to the investment management agreement. |

| SIGNIFICANT AREA | HOW ADDRESSED |
|---|---|
| Recognition of income. | The recognition of income is undertaken in accordance with accounting policy note 1(e) on page 41. The Committee satisfied itself that adequate systems were in place for the complete and proper recording of income. |

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.

The Audit Committee advised the Board that, following a thorough review of the 2014 annual financial report, the report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

The provision of non-audit services is considered by the Committee on a case-by-case basis, and consideration is given as to whether the skills and experience of the auditor make them a suitable supplier of such services and to ensure that there is no resultant threat to the objectivity and independence of the audit. Non-audit fees for the year to 31 March 2014 were £4,000 in respect of compliance with the debenture covenants and the debenture trust deed. 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.

Following the satisfactory outcome to the Committee's regular review of auditor effectiveness, performance and independence, the Committee recommends to the Board a resolution proposing the reappointment of Deloitte LLP at the forthcoming AGM for the year ending 31 March 2015.

Deloitte have been the auditor of the Company since (its inception in) 1996. As highlighted in last year's annual report, the Committee intends to initiate a tender process to coincide with the normal audit partner rotation cycle, which corresponds with the 2016 annual audit appointment.

## 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.

## Internal Controls and Risk Management

The Committee has established an ongoing process for identifying, evaluating and managing the major risks faced by the Company. Risks are reviewed by means of the Company's risk matrix and risk control summary which, after consideration of mitigating controls, effectively highlight and monitor the Company's principal risks.

These risks include those arising in relation to the Company's operations that are, of necessity as an externally managed investment trust, contracted to external service providers. These external service providers comprise the Manager – to whom responsibility both for the Company's portfolio and for the provision of company secretarial and administrative services are delegated – accounts administrator, custodian, registrar and corporate broker.

Systems are in operation to safeguard the Company's assets, to maintain proper accounting records and to ensure that financial information is reliable.

The Committee receives and considers, together with representatives of the Manager, reports by independent external accountants in relation to the operational system of financial and non-financial internal controls of the Manager, accounts administrator, custodian and registrar. In addition the Committee, on a formal and regular basis, reviews the performance of all external service providers in relation to agreed service standards, and any issues and concerns are dealt with promptly and reported to the Board. These reviews identified no issues of significance in during the year.

# AUDIT COMMITTEE REPORT
continued

## Internal Audit

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

I will be present at the AGM and will be available at that meeting or thereafter to answer questions relating to the annual financial report. I look forward to seeing shareholders there.

**Antony Hardy**
*Chairman of the Audit Committee*

4 June 2014

# DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2014

The Directors present this Remuneration Report which has been prepared under the requirements of Schedule 8 to 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 Chairman's 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 35 to 38.

## 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

Fees for directors are determined by the Board within the limit stated in the Company's Articles of Association (Articles). The Articles limit the aggregate fees to £200,000 per annum, and any change to this limit would require shareholder approval by special resolution.

The directors' Remuneration Policy is that the remuneration of directors should be fair and reasonable in relation to that of other investment trusts and to the time commitment and responsibilities of directors; and 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. The remuneration of directors must also take into consideration any committee memberships and chairmanship duties.

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. Directors are not entitled to exit payments or any compensation for loss of office. 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.

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 usually reviewed annually, although such review will not automatically result in any changes. Any director undertaking more than one role will receive only the higher of the fees due for the roles they hold.

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

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;

– is the same in all material respects as that currently followed by the Board and summarised in the last Directors' Remuneration Report; and

– is intended to take effect immediately upon its approval by shareholders.

The Board consider, where raised, shareholders' views on directors' remuneration.

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

## Chairman's Annual Statement on Directors' Remuneration

For the year to 31 March 2014, the Directors were paid fees at the rates shown in the table below. These rates have remained at this level since 1 April 2010.

During the year a review of Directors' fees was conducted based on information provided by the Manager and research from third parties, which included reference to fees of other similar trusts,

# DIRECTORS' REMUNERATION REPORT
continued

and taking into consideration the increasing demands and accountability of the current corporate governance and regulatory environment and the additional workload that each Director has and will continue to experience.

As a result, fees were revised with effect from 1 April 2014 as shown in the following table.

| | FEES FROM 1 APRIL 2014 (P.A.) | FEES FOR 4 YEARS TO 31 MAR 2014 (P.A.) | CHANGE | ANNUALISED CHANGE (%) |
|---|---|---|---|---|
| Chairman | £37,500 | £30,000 | £7,500 | 5.7 |
| Audit Committee Chairman | £31,250 | £25,000 | £6,250 | 5.7 |
| Senior Independent Director | £29,000 | £25,000 | £4,000 | 3.8 |
| Other Directors | £25,000 | £20,000 | £5,000 | 5.7 |

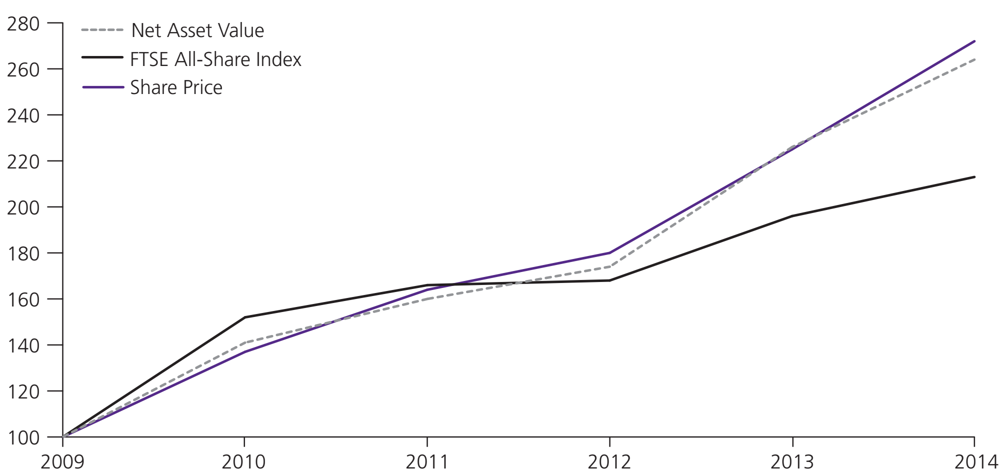
No additional discretionary payments were made in the year, or the previous year.

## Report on Remuneration for the Year Ended 31 March 2014

**The Company's Performance**

The graph below 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 five years to 31 March 2014. This index is the benchmark adopted by the Company for comparison purposes.

Figures have been rebased to 100 at 31 March 2009.




**Directors' Emoluments for the Year (Audited)**

The Directors who served during the year received the following total emoluments, all of which were in the form of fees:

| | 2014 £ | 2013 £ |
|---|---|---|
| Bill Alexander (Chairman of the Board) | 30,000 | 30,000 |
| Antony Hardy (Chairman of the Audit Committee and Senior Independent Director) | 25,000 | 25,000 |
| Sir Martyn Arbib | 20,000 | 20,000 |
| Vivian Bazalgette | 20,000 | 20,000 |
| Bob Yerbury | 20,000 | 20,000 |
| Richard Laing (appointed on 20 November 2012) | 20,000 | 7,269 |
| Total | 135,000 | 122,269 |

**Directors' Shareholdings and Share Interests (Audited)**

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

| ORDINARY SHARES | 2014 ORDINARY SHARES | 2013 ORDINARY SHARES | 2013 SUBSCRIPTION SHARES |
|---|---|---|---|
| Bill Alexander | 10,000 | 10,000 | — |
| Sir Martyn Arbib | 13,000 | 12,000 | 1,000 |
| Vivian Bazalgette | 10,000 | 10,000 | — |
| Antony Hardy | 12,000 | 11,000 | 1,000 |
| Richard Laing | 10,000 | 10,000 | — |
| Bob Yerbury | 10,000 | 10,000 | — |

Save as aforesaid, 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.

**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 the year to 31 March 2014 and the prior year:

| | 2014 £'000 | 2013 £'000 | CHANGE £'000 |
|---|---|---|---|
| Aggregate Directors' Emoluments | 135 | 122 | 13 |
| Aggregate Shareholder Distributions | 26,332 | 23,480 | 2,852 |

**Voting at Last Annual General Meeting**

At the Annual General Meeting of the Company held on 11 July 2013 an advisory ordinary resolution was put to shareholders to approve the remuneration report set out in the 2013 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the resolution were: For 35,297,736 (99.7%); Against 105,597 (0.3%); Withheld 137,413.

## Approval

This Directors' Remuneration Report was approved by the Board of Directors on 4 June 2014.

**Bill Alexander**
Chairman

*Signed on behalf of the Board of Directors*

# STATEMENT OF DIRECTORS' RESPONSIBILITIES
## in respect of the preparation of the Annual Financial Report

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with UK Generally Accepted Accounting Practice. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006 ('CA 2006'). They are responsible 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, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's Auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with s418 of CA 2006.

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

- the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- this annual financial report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces; and
- they consider that 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 performance, business model and strategy.

Signed on behalf of the Board of Directors

**Bill Alexander**
*Chairman*
4 June 2014

# INDEPENDENT AUDITOR'S REPORT

to the shareholders of Perpetual Income and Growth Investment Trust plc

## Opinion on financial statements of Perpetual Income & Growth Investment Trust plc

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Income Statement, the Reconciliation of Movement in Shareholders' Funds, Balance Sheet, the Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Debt and the related notes 1 to 20. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

## Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' Report on page 20 that the Company is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

| RISK | HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK |
|---|---|
| **Valuation of investments**<br>The investment portfolio at £1 billion is the most quantitatively significant amount in the balance sheet and is the main driver of the Company's performance and net asset value.<br>There is a risk investments within the portfolio may not be actively traded or that prices quoted may not be reflective of fair value. | We documented and assessed the design and implementation of controls in place to value investment portfolio.<br>We agreed the valuation of 100% of the listed investment portfolio to independent pricing sources;<br>In order to confirm investments are actively traded, we verified trading activity and volume of listed investments held around year end.<br>We assessed prices for unquoted investments, as determined by the pricing committee, for reasonableness and agreed the basis to third party documentation. |

# INDEPENDENT AUDITOR'S REPORT

to the shareholders of Perpetual Income and Growth Investment Trust plc

continued

| RISK | HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK |
|---|---|
| **Ownership of investments**<br>The investment portfolio at £1 billion is the most quantitatively significant amount in the balance sheet and is the main driver of the Company's performance and net asset value.<br>There is a risk that the assets recorded may not represent the property of the Company. | We documented and assessed the design and implementation of controls over ownership of investments to confirm that there were no issues with controls in place over safekeeping of assets with the custodian.<br>We tested the ownership of investments by verifying 100% of the portfolio to an independent confirmation from the custodian.<br>We reviewed a report prepared on the design and operation of controls at the custodian to confirm that there were no issues with the controls in place over safekeeping of assets at the custodian had been identified. |
| **Calculation of performance fee**<br>The performance fee is accrued when the performance of the Company exceeds a targeted performance of FTSE All-Share Index on a high-water mark basis. There is a risk that the computation of the performance fee may not be accurate. | We documented and assessed the design and implementation of controls over the calculation of performance fees.<br>We checked the performance fee calculation to obtain assurance that the performance fee in the current year is in agreement with the Investment Management Agreement. |
| **Revenue recognition due to fraud**<br>Dividend income from equity investments are accounted for on an ex-dividend basis. Interest income from fixed investments is recognised on an effective yield basis. There is a risk that revenue recognised in the financial statements may be misstated or not recognised in the correct period. | We documented and assessed the design and implementation of controls over revenue recognition and management's monitoring of accuracy and completeness of revenue.<br>For a sample of investments, we obtained ex-dividend dates and rates for dividends declared during the year and agreed the amounts to the dividend entitlements earned and the general ledger.<br>We agreed a sample of dividend income receipts to bank statements.<br>We performed cut-off testing around the balance sheet date by agreeing the ex-dividend dates and rates of a sample of accrued dividends to independent data and checked for subsequent receipts.<br>We obtained the corporate action listing for the year, and for a sample of such actions, reviewed management assessment and underlying information according to the corporate action notification. We reviewed the treatment of the recognition criteria for any special dividends or other income received in the year. |

The Audit Committee consideration of these risks is set out on pages 28 and 29.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be £8,960,000, which has been determined using 1% of Shareholders' funds.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £179,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for the Company was performed directly by the audit engagement team.

As the accounting is performed by service organisations, we obtained an understanding of how the Company uses service organisations in its operations and evaluated the design and implementation of relevant controls at the Company that relate to the services provided by service organisations. We reviewed the latest reports on internal controls from the service organisations and contacted them directly to obtain specific information we needed to conduct our audit.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

**Adequacy of explanations received and accounting records**

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

**Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

**Corporate Governance Statement**

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

**Our duty to read other information in the Annual Report**

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual

# INDEPENDENT AUDITOR'S REPORT

to the shareholders of Perpetual Income and Growth Investment Trust plc
continued

report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

## Scope of the audit of the financial statements

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

**Stuart McLaren**
*Senior Statutory Auditor*
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

4 June 2014

## Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/investmenttrusts* which is the Manager's website. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 MARCH

| | NOTES | 2014 REVENUE £'000 | 2014 CAPITAL £'000 | 2014 TOTAL £'000 | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments at fair value | 9 | — | 127,613 | 127,613 | — | 158,828 | 158,828 |
| Foreign exchange gains | | — | — | — | — | 45 | 45 |
| Income | 2 | 35,921 | 960 | 36,881 | 31,430 | — | 31,430 |
| Investment management fees | 3 | (2,150) | (12,756) | (14,906) | (1,688) | (10,346) | (12,034) |
| Other expenses | 4 | (557) | (2) | (559) | (540) | (2) | (542) |
| **Net return before finance costs and taxation** | | 33,214 | 115,815 | 149,029 | 29,202 | 148,525 | 177,727 |
| Finance costs | 5 | (902) | (2,104) | (3,006) | (900) | (2,100) | (3,000) |
| **Return on ordinary activities before tax** | | 32,312 | 113,711 | 146,023 | 28,302 | 146,425 | 174,727 |
| Tax on ordinary activities | 6 | (660) | — | (660) | (698) | — | (698) |
| **Return on ordinary activities after tax for the financial year** | | 31,652 | 113,711 | 145,363 | 27,604 | 146,425 | 174,029 |
| **Return per ordinary share:** | | | | | | | |
| Basic | 7 | 13.92p | 50.00p | 63.92p | 12.73p | 67.56p | 80.29p |
| Diluted | 7 | 13.79p | 49.56p | 63.35p | 12.54p | 66.54p | 79.08p |

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

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

## FOR THE YEAR ENDED 31 MARCH

| | SHARE CAPITAL £'000 | SHARE PREMIUM £'000 | CAPITAL RESERVE £'000 | REVENUE RESERVE £'000 | TOTAL £'000 |
|---|---|---|---|---|---|
| **At 31 March 2012** | 21,382 | 194,816 | 342,763 | 20,947 | 579,908 |
| Net return on ordinary activities | — | — | 146,425 | 27,604 | 174,029 |
| Dividends paid – note 8 | — | — | — | (23,477) | (23,477) |
| Net proceeds from issue of new shares | 134 | 3,595 | — | — | 3,729 |
| Exercise of subscription shares | 407 | 8,510 | — | — | 8,917 |
| **At 31 March 2013** | 21,923 | 206,921 | 489,188 | 25,074 | 743,106 |
| Net return on ordinary activities | — | — | 113,711 | 31,652 | 145,363 |
| Dividends paid – note 8 | — | — | — | (26,330) | (26,330) |
| Net proceeds from issue of new shares | 168 | 5,718 | — | — | 5,886 |
| Exercise of subscription shares | 1,291 | 26,974 | — | — | 28,265 |
| **At 31 March 2014** | 23,382 | 239,613 | 602,899 | 30,396 | 896,290 |

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

# BALANCE SHEET
## AS AT 31 MARCH

| | NOTES | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 9 | 1,026,821 | 847,301 |
| **Current assets** | | | |
| Debtors | 10 | 7,370 | 10,732 |
| **Creditors: amounts falling due within one year** | 11 | (137,901) | (85,012) |
| **Net current liabilities** | | (130,531) | (74,280) |
| **Total assets less current liabilities** | | 896,290 | 773,021 |
| **Creditors: amounts falling due after more than one year** | 12 | — | (29,915) |
| **Net assets** | | 896,290 | 743,106 |
| **Capital and reserves** | | | |
| Share capital | 13 | 23,382 | 21,923 |
| Share premium | 14 | 239,613 | 206,921 |
| Capital reserve | 14 | 602,899 | 489,188 |
| Revenue reserve | 14 | 30,396 | 25,074 |
| **Shareholders' funds** | | 896,290 | 743,106 |
| **Net asset value per ordinary share** | | | |
| Basic | 15 | 383.3p | 339.0p |
| Diluted | 15 | n/a | 332.3p |

These financial statements were approved and authorised for issue by the Board of Directors on 4 June 2014.

**Bill Alexander**
*Chairman*
*Signed on behalf of the Board of Directors*

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

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH

| | NOTES | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| Net cash inflow from operating activities | 16(a) | 21,473 | 21,566 |
| Servicing of finance | 16(b) | (2,981) | (2,936) |
| Capital expenditure and financial investment | 16(b) | (49,173) | (9,223) |
| Equity dividends paid | 8 | (26,330) | (23,477) |
| Net cash outflow before management of liquid resources and financing | | (57,011) | (14,070) |
| Financing | 16(b) | 34,151 | 13,539 |
| Decrease in cash | | (22,860) | (531) |

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

FOR THE YEAR ENDED 31 MARCH

| | NOTES | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| Decrease in cash in year | | (22,860) | (531) |
| Debenture stock non-cash movement | | (67) | (55) |
| Movement in net debt in the year | | (22,927) | (586) |
| Net debt at beginning of year | | (104,748) | (104,162) |
| Net debt at end of year | 16(c) | (127,675) | (104,748) |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Principal Accounting Policies

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

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

### (a) Basis of Preparation

*Accounting Standards applied*

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, in accordance with applicable United Kingdom Accounting Standards and with the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. The financial statements are also prepared on a going concern basis. The disclosures on going concern in the Directors' Report on page 20 form part of the financial statements.

### (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 currencies, 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 regulated stock exchanges.

### (c) 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 interests 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 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. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

*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) Hedging and Derivatives

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 included in capital reserves.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves.

Derivative instruments are valued at fair value in the balance sheet. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

### (e) Income

Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

Interest income arising from fixed income securities and cash is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

### (f) 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.

The performance fee is allocated wholly to capital as it arises from capital returns on the portfolio.

Investment transaction costs are recognised in capital in the income statement. All other expenses are allocated to revenue in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 1. Principal Accounting Policies (continued)

### (g) Taxation

The liability for corporation tax is based on net revenue for the year excluding 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 has not been recognised in respect of surplus management expenses, losses on loan relationships and eligible unrelieved foreign tax, as the Company is unlikely to have sufficient future taxable revenue to offset against these.

### (h) Dividends

Dividends are not recognised in the financial statements 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.**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Income from investments** | | |
| UK dividends – ordinary | 25,538 | 24,412 |
| UK dividends – special | 3,269 | 685 |
| Overseas dividends – ordinary | 5,560 | 5,337 |
| Overseas dividends – special | 1,278 | 702 |
| Scrip dividends | 246 | 97 |
| Unfranked investment income | 30 | 197 |
| **Total income** | 35,921 | 31,430 |

Special dividends of £960,000 have been recognised in capital (2013: Nil).

## 3. Investment Management Fees

**This note shows the fees due to the Manager. These are made up of the management fee calculated and paid quarterly and a performance fee calculated and paid annually.**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Investment management fee (i) | 2,150 | 5,018 | 7,168 | 1,688 | 3,939 | 5,627 |
| Performance-related management fee (ii) | — | 7,738 | 7,738 | — | 6,407 | 6,407 |
| | 2,150 | 12,756 | 14,906 | 1,688 | 10,346 | 12,034 |

(i) Invesco Asset Management (IAML) provides investment management, company secretarial and administration services to the Company under an agreement dated 20 February 1996 and subsequently amended on 27 December 2001. Details of this are contained in the Directors' Report. At 31 March 2014 £1,934,000 (2013: £1,602,000) was due for payment in respect of the investment management fee.

(ii) A performance-related fee is payable annually in arrears to the Manager, if the Company's performance exceeds the FTSE All-Share Index, to the extent that it exceeds any brought forward underperformance. The Company's performance was in excess of the benchmark index and as at 31 March 2014 £7,738,000 (2013: £6,407,000) was due for payment in respect of the performance-related fee.

## 4. Expenses

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

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Directors' fees | 135 | — | 135 | 122 | — | 122 |
| Fees payable to the Company's auditor for: | | | | | | |
| – audit of the financial statements | 27 | — | 27 | 25 | — | 25 |
| – other services (non-audit) | 4 | — | 4 | 4 | — | 4 |
| Other expenses | 391 | 2 | 393 | 389 | 2 | 391 |
| | 557 | 2 | 559 | 540 | 2 | 542 |

The Directors' Remuneration Report provides further information on Directors' fees. Included within other expenses is £9,000 (2013: £6,000) of employer's National Insurance paid on Directors' fees. As at 31 March 2014, the amounts outstanding on Directors' fees and employer's National Insurance was £12,000 (2013: £12,000).

Fees payable to the Company Auditor are shown excluding VAT which is included in other expenses. Auditor's other non-audit services are for debenture covenant compliance.

Other expenses to capital arise from custodian transaction charges.

## 5. Finance costs

**Finance costs arise on any borrowing the Company has, being in this case the £30 million debenture and the overdraft facility.**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Interest payable on borrowings repayable as follows: | | | | | | |
| Bank overdraft repayable within 1 year, not by instalments | 330 | 771 | 1,101 | 332 | 775 | 1,107 |
| Debenture stock repayable within 1 year, not by instalments | 572 | 1,333 | 1,905 | — | — | — |
| Debenture stock repayable in 1-2 years, not by instalments | — | — | — | 568 | 1,325 | 1,893 |
| | 902 | 2,104 | 3,006 | 900 | 2,100 | 3,000 |

Debenture issue costs are amortised on an effective interest basis.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 6. Taxation

**As an investment trust the Company pays no tax on capital gains. The Company also suffers no tax on income arising on UK and certain overseas dividends, mainly EU ones. As a result, the Company's tax charge arises solely from irrecoverable tax on overseas dividends. Lastly, this note clarifies the basis for the Company having no deferred tax asset or liability.**

### (a) Current Tax Charge

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Overseas taxation | 660 | — | 660 | 698 | — | 698 |

### (b) Reconciliation of Current Tax Charge

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Return on ordinary activities before taxation | 146,023 | 174,727 |
| Theoretical tax at UK Corporation Tax rate of 23% (2013: 24%) | 33,585 | 41,934 |
| Effects of: | | |
| – non-taxable gains on investments | (29,351) | (38,119) |
| – non-taxable gains on foreign exchange movements | — | (11) |
| – non-taxable UK dividends | (6,427) | (5,986) |
| – non-taxable scrip dividends | (56) | (23) |
| – non-taxable overseas dividends | (1,573) | (1,449) |
| – non-taxable overseas dividend received in capital | (221) | — |
| – disallowable expenses | 5 | 5 |
| – expenses in excess of taxable income | 4,038 | 3,649 |
| – irrecoverable overseas tax suffered | 660 | 698 |
| | 660 | 698 |

### (c) Factors That May Affect Future Tax Changes

The Company has excess management expenses and loan relationship deficits of £138,383,000 (2013: £120,796,000) that are available to offset future taxable revenue. A deferred tax asset, measured at the standard rate of corporation tax of 20% (2013: 23%), of £27,677,000 (2013: £27,783,000) has not been recognised in respect of these expenses since they are recoverable only to the extent that the Company has sufficient future taxable revenue.

## 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.**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Returns after tax: | | |
| – revenue | 31,652 | 27,604 |
| – capital | 113,711 | 146,425 |
| – total | 145,363 | 174,029 |
| Weighted average number of ordinary shares in issue during the year: | | |
| – basic | 227,407,467 | 216,743,446 |
| – diluted potential shares arising from subscription shares | 2,040,967 | 3,316,449 |
| – total | 229,448,434 | 220,059,895 |

The diluted return per ordinary share is based on the weighted average number of ordinary shares in issue during the year, as adjusted in accordance with the requirements of FRS22 'Earnings per Share'.

In calculating the diluted return, the exercise of all the subscription shares has been assumed, with the exercise proceeds of 218.94p per share being used to purchase ordinary shares at a price of 344.83p, being the average market price up to the subscription share exercise date. For the year ended 31 March 2013, the subscription shares were dilutive as the average market price for the year of 282.29p was greater than the exercise price.

## 8. Dividends on Ordinary Shares

**Dividends represent the return of income less expenses to shareholders. The Company pays four interim dividends a year.**

Dividends on equity shares paid in the year:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | PENCE | £'000 | PENCE | £'000 |
| Fourth interim in respect of previous year | 3.55 | 7,783 | 3.20 | 6,842 |
| First interim paid | 2,70 | 5,930 | 2.55 | 5,467 |
| Second interim paid | 2.70 | 6,306 | 2.55 | 5,581 |
| Third interim paid | 2.70 | 6,313 | 2.55 | 5,590 |
| | 11.65 | 26,332 | 10.85 | 23,480 |
| Return of unclaimed dividends from previous years | — | (2) | — | (3) |
| | 11.65 | 26,330 | 10.85 | 23,477 |

Dividends on equity shares payable in respect of the year:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | PENCE | £'000 | PENCE | £'000 |
| First interim paid | 2.70 | 5,930 | 2.55 | 5,467 |
| Second interim paid | 2.70 | 6,306 | 2.55 | 5,581 |
| Third interim paid | 2.70 | 6,313 | 2.55 | 5,590 |
| Fourth interim payable | 3.70 | 8,651 | 3.55 | 7,783 |
| Total interim dividends | 11.80 | 27,200 | 11.20 | 24,421 |
| Special dividend payable | 1.90 | 4,442 | — | — |
| Total | 13.70 | 31,642 | 11.20 | 24,421 |

During the year, three interim dividends of 2.7p each per share were paid on 30 September 2013, 27 December 2013 and 28 March 2014 respectively. A fourth interim dividend of 3.7p per share and special dividend of 1.9p per share were declared on 28 May 2014, for payment on 27 June 2014 to shareholders on the register on 6 June 2014.

## 9. Investments at Fair Value

**The portfolio comprises investments which are listed, i.e. traded on a regulated stock exchange, and a small proportion of investments which are valued by the Directors as they are unlisted or not regularly traded.**

**Gains and losses in the year 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.**

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 9. Investments at Fair Value (continued)

### (a) Investments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments listed on a recognised stock exchange | 1,016,249 | 834,418 |
| Unlisted investments | 10,572 | 12,883 |
| Total investments | 1,026,821 | 847,301 |
| Opening valuation | 847,301 | 683,579 |
| Movements in year: | | |
| Purchases at cost | 257,944 | 173,821 |
| Sales – proceeds | (206,037) | (168,927) |
| – net realised profits on sales | 70,763 | 26,171 |
| Movement in investment holding gains | 56,850 | 132,657 |
| Closing valuation | 1,026,821 | 847,301 |
| Closing book cost | (765,354) | (642,684) |
| Closing investment holding gains | 261,467 | 204,617 |
| Net realised gains based on historical cost | 70,763 | 26,171 |
| Movement in investment holding gains | 56,850 | 132,657 |
| Gains on investments | 127,613 | 158,828 |

### (b) Transaction Costs

The transactions costs included in gains on investments consisted of £1,330,000 (2013: £906,000) on purchases and £257,000 (2013: £299,000) on sales.

## 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.**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Amounts due from brokers | 781 | 4,863 |
| Tax recoverable | 1,336 | 1,120 |
| Prepayments and accrued income | 5,253 | 4,749 |
| | 7,370 | 10,732 |

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

**Creditors are amounts which must be paid by the Company and are split between those due within 12 months of the balance sheet date and those due after that time. The main creditors are the bank overdraft and, for this year only, the debenture – as the latter matures within 3 months of the balance sheet date.**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| £30,000,000 6.125% Debenture 2014 | 29,982 | — |
| Bank overdraft | 97,693 | 74,833 |
| Amounts due to brokers | — | 1,594 |
| Performance-related fee | 7,738 | 6,407 |
| Accruals | 2,488 | 2,178 |
| | 137,901 | 85,012 |

At the year end the Company has an uncommitted bank overdraft facility based on the lower of 25% of the net asset value of the Company and £130 million. During the year, the covenant under the facility requiring total assets to not fall below £400 million, was increased to £520 million. There were no other changes to the facility agreement.

The debenture was issued on 8 July 1999 and is secured by a floating charge over all the Company's assets; it is redeemable on 8 July 2014. The debenture has a fixed rate of 6.125% per annum. Interest is payable on 8 January and 8 July. The debenture trust deed requires total borrowings to not exceed 25% of Adjusted Capital and Reserves.

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

**These creditors are amounts due, as shown by note 11, but are due more than 12 months after the balance sheet date. As the debenture matures on 8 July 2014, it has been moved to note 11 this year.**

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| £30,000,000 6.125% Debenture 2014 | — | 29,915 |

## 13. Share Capital

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

### (a) Allotted

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | NUMBER | £'000 | NUMBER | £'000 |
| **Allotted, called-up and fully paid:** | | | | |
| Ordinary shares of 10p each | 233,816,175 | 23,382 | 219,228,060 | 21,923 |

### (b) Share Movements

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | ORDINARY NUMBER | SUBSCRIPTION NUMBER | ORDINARY NUMBER | SUBSCRIPTION NUMBER |
| Number at start of year | 219,228,060 | 12,914,737 | 213,816,850 | 16,987,622 |
| Exercise of subscription shares | 12,914,737 | (12,914,737) | 4,072,885 | (4,072,885) |
| Issue of new shares | 1,673,378 | — | 1,338,325 | — |
| Number at end of year | 233,816,175 | — | 219,228,060 | 12,914,737 |
| | £'000 | | £'000 | |
| Net proceeds from issue of shares | 5,886 | | 3,729 | |

During the year the Company issued 973,378 ordinary shares as a result of dividend reinvestment and a further 700,000 ordinary shares at an average price (excluding costs) of 351.86p.

Since the period end no further shares have been issued.

**Subscription Shares**

The final opportunity to exercise subscription shares occurred on 31 August 2013. On 10 September 2013, the remaining 12,914,737 subscription shares were converted into the same number of ordinary shares at a price of 218.94 pence per share.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 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 arises on the issue of new shares and is non-distributable.

The capital reserve includes the investment holding gains/(losses), being the difference between cost and market value at the balance sheet date, totalling a gain of £261,467,000 (2013: £204,617,000). The capital and revenue reserves are distributable.

## 15. Net Asset Value

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Shareholders' funds: | | |
| – basic | 896,290 | 743,106 |
| – diluted | n/a | 771,382 |
| | NUMBER | NUMBER |
| Ordinary shares in issue at year end: | | |
| – basic | 233,816,175 | 219,228,060 |
| – diluted | n/a | 232,142,797 |
| | PENCE | PENCE |
| Net Asset Value: | | |
| – basic | 383.3 | 339.0 |
| – diluted | n/a | 332.3 |

No diluted NAV is calculated as there were no subscription shares in issue at the year end. At 31 March 2013, the basic NAV per share was greater than the exercise price of 218.94p and the subscription shares were dilutive.

## 16. Notes to the Cash Flow Statement

**The cash flow statement shows the cash flows of the Company from its operating, investing and financing activities. The main cash flows arise from the purchase and sell of investments.**

### (a) Reconciliation of Operating Profit to Operating Cash Flows

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Total income before finance costs and taxation | 149,029 | 177,727 |
| Scrip dividends received as income | (246) | (97) |
| Gains on investments | (127,613) | (158,828) |
| Increase in debtors | (720) | (2,382) |
| Increase in creditors | 1,683 | 5,844 |
| Tax on overseas income | (660) | (698) |
| Net cash inflow from operating activities | 21,473 | 21,566 |

(b) Analysis of Cash Flow for Headings Netted in the Cash Flow Statement

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Servicing of finance | | |
| Interest paid on overdraft | (1,143) | (1,098) |
| Interest paid on debenture | (1,838) | (1,838) |
| Net cash outflow from servicing of finance | (2,981) | (2,936) |
| **Capital expenditure and financial investment** | | |
| Purchase of investments | (259,292) | (173,320) |
| Sale of investments | 210,119 | 164,097 |
| Net cash outflow from capital expenditure and financial investments | (49,173) | (9,223) |
| **Financing** | | |
| Issue of new shares | 5,886 | 4,622 |
| Exercise of subscription shares – net of costs | 28,265 | 8,917 |
| Net cash inflow from financing | 34,151 | 13,539 |

(c) Analysis of Net Debt

| | 1 APRIL 2013 £'000 | CASH FLOW £'000 | DEBENTURE STOCK NON-CASH MOVEMENT £'000 | 31 MARCH 2014 £'000 |
|---|---|---|---|---|
| Bank overdraft | (74,833) | (22,860) | — | (97,693) |
| Debenture debt due: | | | | |
| – within one year | — | — | (29,982) | (29,982) |
| – in two to five years | (29,915) | — | 29,915 | — |
| Net debt | (104,748) | (22,860) | (67) | (127,675) |

## 17. Contingencies, Guarantees and Financial Commitments

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

There were no contingencies, guarantees or financial commitments of the Company at the year end.

## 18. 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 on pages 31 to 33 with additional disclosure in note 4. No other related parties have been identified.

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, acts as Manager, Company Secretary and Administrator to the Company. Details of IAML's services and fees are disclosed in the Directors' Report.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 19. Financial Instruments

**Financial instruments comprise the Company's investment portfolio, derivative financial instruments (if the Company had any), as well as any cash, borrowings, other receivables and other payables.**

The Company's strategy for managing investment risk is determined with regard to the Company's Investment Policy, as outlined in the Business Review on page 9. The management of market risk is part of the investment management process. The Company's portfolio is managed in accordance with the internal controls and risk management systems as described in the sections thereon in the Corporate Governance Statement (page 25) and in the Audit Committee Report (page 29). The overall disposition of the Company's assets is reviewed by the Board on a regular basis.

The Company's financial instruments comprise its investment portfolio (as shown on pages 14 and 15) cash, borrowings (including overdraft and debenture), debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. 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 principal risks that an investment company faces in its portfolio management activities 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 of the Company as more fully described in the Business Review.

As an investment trust the Company invests in equities and other investments for the long term so as to meet its investment objective and policies. 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. The risks applicable to the Company and the policies the Company used to manage these risks for the two years under review follow.

***Market Risk***

The Company's Manager assesses the Company's direct exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed on page 23. No other derivative or hedging instruments are utilised to manage market risk. Gearing is used to enhance returns, but this also increases the Company's exposure to market risk and volatility.

*Currency risk*

The majority of the Company's assets, liabilities and income are denominated in sterling. There is some exposure to US dollars, Swiss francs and Swedish krona.

*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 anticipated future changes in exchange rates which are used also to achieve the portfolio characteristics that assist the Company in meeting its investment objective and policies. All contracts are limited to currencies and amounts commensurate with the asset denominated in those currencies.

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.

*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.

| | 31 MARCH 2014 | | 31 MARCH 2013 | | |
|---|---|---|---|---|---|
| | US DOLLAR £'000 | SWISS FRANC £'000 | US DOLLAR £'000 | SWISS FRANC £'000 | SWEDISH KRONA £'000 |
| Foreign currency exposure on net monetary items | 401 | 986 | — | — | — |
| Investments at fair value through profit or loss that are equities | 56,229 | 69,523 | 41,118 | 77,331 | 1,138 |
| Total net foreign currency exposure | 56,630 | 70,509 | 41,118 | 77,331 | 1,138 |

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*

The following table illustrates the sensitivity of the profit after taxation for the year using exchange rates for sterling to US dollars, Swiss francs and Swedish krona. It is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of forward foreign exchange contracts that offset the effects of changes in currency exchange rates.

The exchange rate of ±3.4% (2013: ±2.1%) for US dollars, ±1.3% (2013:±2.2% ) for Swiss francs and ±2.9% (2013: ±3.9%) for Swedish krona has been determined based on market volatility in the year, using the standard deviation of sterling's fluctuation to the applicable foreign currency against the mean.

If sterling had strengthened, this would have had the following effect:

| | 31 MARCH 2014 | | 31 MARCH 2013 | | |
|---|---|---|---|---|---|
| | US DOLLAR £'000 | SWISS FRANC £'000 | US DOLLAR £'000 | SWISS FRANC £'000 | SWEDISH KRONA £'000 |
| Income statement – profit/(loss) after taxation | | | | | |
| Revenue return | (58) | (39) | (36) | (49) | — |
| Capital return | (1,925) | (917) | (866) | (1,675) | (45) |
| Total loss after taxation for the year | (1,983) | (956) | (902) | (1,724) | (45) |

If sterling had weakened against the currencies above, the effect would have been the exact opposite.

In the opinion of the Directors, the above sensitivity analysis is not representative of the year as a whole, since the level of exposure may change frequently as part of the currency risk management process of the Company.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 19. Financial Instruments (continued)

### Risk Management Policies and Procedures (continued)

*Interest rate risk*

Interest rate movements may affect the level of income receivable on cash deposits 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 of the Custodian. At the year end the Company had an uncommitted bank overdraft facility based on the lower of 25% of the net assets of the Company and £130 million. The Company uses the facility when required at levels approved and monitored by the Board. The Company also has in issue a £30 million 6.125% Debenture 2014.

At the year end drawings on the Company's overdraft were £97,693,000 (2013: £74,383,000) and the debenture had an amortised cost of £29,982,000 (2013: £29,915,000). At the maximum overdraft of £130 million, the effect of a ±1% in the interest rate would result in a decrease/increase to the Company's income statement of £1.3 million.

At the year end the Company had no exposure to any debt securities. In 2013 the Company had a £2,100,000 exposure arising from one fixed rate debt security of less than one year maturity. This was a fixed rate security and so the Company had no exposure to floating interest rate risk.

*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 Manager to manage the portfolio to achieve the best return for an acceptable level of risk.

*Management of 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 as a result is not 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 rose or fell by 10% at the balance sheet date, the profit after tax for the year would increase or decrease by £102.7 million (2013: £84.7 million) respectively.

***Liquidity risk***

Liquidity risk is minimised as the majority of the Company's investments are readily realisable securities which can be sold to meet funding commitments as necessary. In addition, the £130 million bank overdraft facility provides for additional funding flexibility, and this facility was unchanged at the year end. Since the year end, the overdraft facility was reduced to £110 million.

| 2014 | THREE MONTHS OR LESS £'000 | MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000 | MORE THAN ONE YEAR £'000 | TOTAL £'000 |
|---|---|---|---|---|
| Bank overdraft | 97,693 | — | — | 97,693 |
| Amounts due to brokers | — | — | — | — |
| Accruals and performance-related fees (excluding interest on debenture stocks) | 9,819 | — | — | 9,819 |
| Debenture stocks | — | 30,000 | — | 30,000 |
| Interest on debenture stocks | — | 919 | — | 919 |
| | 107,512 | 30,919 | — | 138,431 |

| 2013 | THREE MONTHS OR LESS £'000 | MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000 | MORE THAN ONE YEAR £'000 | TOTAL £'000 |
|---|---|---|---|---|
| Bank overdraft | 74,833 | — | — | 74,833 |
| Amounts due to brokers | 1,594 | — | — | 1,594 |
| Accruals and performance-related fees (excluding interest on debenture stocks) | 8,178 | — | — | 8,178 |
| Debenture stocks | — | — | 30,000 | 30,000 |
| Interest on debenture stocks | 919 | 919 | 918 | 2,756 |
| | 85,524 | 919 | 30,918 | 117,361 |

***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. This risk is minimised by using only approved counterparties. Investments may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. 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 £2.5 million with any one depositary, with only approved depositories being used.

### Fair Values of Financial Assets and Financial Liabilities

The fair values of the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals, cash at bank and overdraft). The fair value of the £30 million 6.125% Debenture 2014, based on the offer value at the balance sheet date, is £30,600,000 (2013: £31,950,000).

### Fair Value of Hierarchy Disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 29 'Financial Instruments: Disclosures'. The three levels set out in FRS29 follow.

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

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. All bar one of the quoted equity investments are deemed to be Level 1. Barclays Bank Nuclear Power Notes is the sole Level 2 holding. Level 3 investments at the year end comprise solely of unquoted securities.

| 2014 | LEVEL 1 £'000 | LEVEL 2 £'000 | LEVEL 3 £'000 | TOTAL £'000 |
|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss:** | | | | |
| Quoted investments – equities | 1,015,578 | — | — | 1,015,578 |
| Other securities | — | 671 | — | 671 |
| Unquoted investments | — | — | 10,572 | 10,572 |
| Total for financial assets | 1,015,578 | 671 | 10,572 | 1,026,821 |

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 19. Financial Instruments (continued)

### Fair Value of Hierarchy Disclosures (continued)

| 2013 | LEVEL 1 £'000 | LEVEL 2 £'000 | LEVEL 3 £'000 | TOTAL £'000 |
|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss:** | | | | |
| Quoted investments – equities | 833,076 | — | — | 833,076 |
| Other securities | — | 1,342 | — | 1,342 |
| Unquoted investments | — | — | 12,883 | 12,883 |
| Total for financial assets | 833,076 | 1,342 | 12,883 | 847,301 |

A reconciliation of the fair value of Level 3 is set out below.

| | £'000 |
|---|---|
| Opening fair value | 12,883 |
| Purchases at cost | 682 |
| Transfer to Level 1 | (2,100) |
| Return of capital | (56) |
| Unrealised holding movement | (837) |
| Closing fair value of Level 3 | 10,572 |

During the year, the unquoted Lombard Medical Technologies 8% Convertible Loan Notes were converted to ordinary shares, which are traded on AIM and are Level 1 investments.

### Capital Management

The Company's total capital employed at 31 March 2014 was £1,023,965,000 (2013: £847,854,000) comprising borrowings of £127,675,000 (2013: £104,748,000) and equity share capital and other reserves of £896,290,000 (2013: £743,106,000).

The Company's total capital employed is managed to achieve the Company's investment objective and policy as set out on pages 9 and 10, including that borrowings may be used to raise equity exposure up to a maximum of 25% of net assets. At the balance sheet date, gross gearing of 14.2% (2013: 14.1%) and equalled net gearing. The Company's policies and processes for managing capital are unchanged from the preceding year.

The main risks to the Company's investments are shown in the Report of the Directors under the 'Principal Risks and Uncertainties' section on pages 11 and 12. These also explain that the Company is able 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 overdraft facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Borrowings comprise a bank overdraft and the debenture stock, details of which are given in note 11.

## 20. Post Balance Sheet Event

**Any significant events that occurred after the balance sheet date but before the signing of the balance sheet will be shown here.**

On 8 May 2014 the Company issued £60 million of fixed rate 15 year private placement notes (the 'Notes') at a coupon of 4.37%. The interest payment dates are 8 May and 8 November, with a repayment date of 8 May 2029. The Notes are secured by a first floating charge over the Company's assets and rank *pari passu* with the most senior financial indebtedness of the Company, the debenture (details of the debenture are shown in note 11 on page 46). Under the Notes Purchase Agreement, the net asset value (NAV) of the Company must not fall below £350 million and the Company must ensure that the ratio of gross borrowings (measured at par) to the NAV must not at any time exceed 50%.

There are no other significant post balance sheet events requiring disclosure.

**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 Perpetual Income and Growth 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 GIVEN that the Annual General Meeting (AGM) of Perpetual Income and Growth Investment Trust plc will be held at Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH on Friday, 11 July 2014 at 11am for the following purposes:

## Ordinary Business

1. To receive and adopt the Annual Accounts and Reports for the year ended 31 March 2014.
2. To approve the reworded Investment Policy wording set out on page 9 of the annual financial report.
3. To re-elect Bill Alexander a Director of the Company.
4. To re-elect Vivian Bazalgette a Director of the Company.
5. To re-elect Sir Martyn Arbib a Director of the Company.
6. To re-elect Antony Hardy a Director of the Company.
7. To re-elect Bob Yerbury a Director of the Company.
8. To re-elect Richard Laing a Director of the Company.
9. To approve the Directors' Remuneration Policy.
10. To approve the Chairman's Annual Statement and Report on Remuneration.
11. To reappoint the Auditor and authorise the Directors to determine its remuneration.

Biographies of Directors seeking re-election are shown on page 17 of the annual financial report.

## Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 12 will be proposed as an Ordinary Resolution and resolutions 13, 14 and 15 will be proposed as Special Resolutions:

12. THAT:

    the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this resolution (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £7,793,872, such authority to expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, 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 relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.

13. THAT:

    the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this resolution (the 'Act') to allot equity securities for cash, either pursuant to the authority given by resolution 12 set out above 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

# NOTICE OF ANNUAL GENERAL MEETING

continued

necessary or expedient in relation to fractional entitlements or legal 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 £2,338,161.

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the 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.

14. 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 its issued ordinary shares of 10p each in the capital of the Company ('Shares')

PROVIDED ALWAYS THAT:

(i) the maximum number of Shares hereby authorised to be purchased shall be 35,049,044;

(ii) the minimum price which may be paid for a Share shall be 10p;

(iii) the maximum price which may be paid for a Share shall be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for five business days immediately preceding the day on which the Share is purchased;

(iv) 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);

(v) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution unless the authority is renewed at any other general meeting prior to such time;

(vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and

(vii) any shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of Sections 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.

15. THAT:

the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 clear days' notice.

Dated this 4th June 2014

By order of the Board

**Invesco Asset Management Limited**
Company Secretary

## Notes:

1. A form of appointment of proxy accompanies this annual financial report.

   A shareholder 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 shareholder of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:

   - via Capita Asset Services website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's Registrars, Capita Asset Services, The Registry, PXS1,34 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 AGM.

   The 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 shareholder from attending and voting at the AGM.

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 CRESTCo'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. 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 CRESTCo 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.

3. A person entered on the Register of Shareholders at close of business on 9 July 2014 is entitled to attend and vote at the AGM pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Shareholders after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the AGM. If the AGM 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 Shareholders 48 hours before the time fixed for the adjourned meeting.

4. The Register of Directors' Interests, the schedule of matters for the Board, the terms of reference of the Board committees and the letters of appointment for Directors will be available for inspection for at least 15 minutes prior to and during the Company's AGM.

5. A copy of the Company's Articles of Association is available for inspection at the Registered Office of the Company during normal business hours until the close of the AGM and will also be available at the AGM for at least 15 minutes prior to and during the meeting.

6. 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.

# NOTICE OF ANNUAL GENERAL MEETING

continued

7. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
8. Any shareholder attending the AGM has the right to ask questions. 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.
9. You may not use any electronic address (any address or number for the purposes of sending or receiving documents or information by electronic means) 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.
10. As at 4 June 2014 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 233,816,175 ordinary shares of 10p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 233,816,175.
11. A copy of this notice (contained within the 2014 annual financial report), and other information required by Section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/investmenttrusts*.
12. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006 (the 'Act'), 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 annual accounts and reports (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 2013; or (ii) any circumstance connected with the Auditor of the Company appointed for the financial year beginning on 1 April 2013 ceasing to hold office since the previous meeting at which annual financial reports were laid in accordance with Section 437 of the Act (in each case) that the shareholders propose to raise at the relevant AGM. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Act to publish on a website.

# APPENDIX

## INVESTMENT POLICY AND LIMITS

AS PUBLISHED IN THE 2013 ANNUAL FINANCIAL REPORT

### Investment Policy

The Company invests mainly in UK equities and equity-related securities of UK-listed companies. The Manager seeks to identify and invest in companies that offer a combination of good capital growth prospects with the ability to increase dividends over time. The Manager may also invest up to 10% of gross assets in fixed income securities and up to 20% of gross assets in non-UK listed securities. Market exposure may also be gained through warrants and derivatives up to 5% of the value of the Company's equity portfolio, the purpose of which would be to achieve changes to the portfolio's economic exposure. The Manager manages a portfolio that reflects his convictions and best ideas. The Manager does not set out to manage the risk characteristics of the portfolio relative to the FTSE All-Share Index ('benchmark index') and the investment process may result in potentially very significant over or underweight positions in individual sectors versus the benchmark index. The size of weightings will reflect the Manager's view of the attractiveness of a security and the degree of conviction. If a security is not considered to be a good investment, then the Company will not own it, irrespective of its weight in the benchmark index.

The Manager controls the stock-specific risk of individual securities by ensuring that the portfolio is always appropriately diversified. In-depth and continual analysis of the fundamentals of investee companies allows the Manager to assess the financial risks associated with any particular security.

The Directors believe that the use of borrowings (gearing) can enhance returns to shareholders and the Company will use borrowings in pursuing its investment objective.

The Company may hedge exposure to changes in foreign currency rates in respect of its overseas investments.

### Investment Limits

The Board has prescribed limits on the Investment Policy, the most significant of which are the following:

- the Company will not invest more than 12% of its gross assets in any single investment;
- the Company will not invest more than 15% of its gross assets in other listed investment companies;
- the Company will not invest more than 20% of its gross assets in non-UK listed securities;
- the Company will not invest more than 10% of its gross assets in fixed interest securities; and
- borrowings may be used to raise equity exposure up to a maximum of 25% of net assets at the time of purchase where it is appropriate.

All of the above investment limits are taken at the time of acquisition.

# SHAREHOLDER INFORMATION

The shares of Perpetual Income and Growth Investment Trust plc (the 'Company') are quoted on the London Stock Exchange.

## Savings Plan and ISA

The Company is a member of the Invesco Perpetual Investment Trust Savings Scheme and the Invesco Perpetual Investment Trust ISA. The Company's Ordinary shares can be purchased and sold via these two schemes.

**Invesco Perpetual Investment Trust Savings Scheme**

The Invesco Perpetual Investment Trust Savings Scheme allows an investor to make monthly purchases from £20 per month or through lump sum investments of £500 or above in the shares of the Company in a straightforward and low cost way.

**Invesco Perpetual Investment Trust ISA**

The Invesco Perpetual Investment Trust ISA allows investments up to the current ISA limit. For the tax year 2014/15 this will be increased to £15,000 from 1 July 2014, up to that date £11,880 can be invested. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For full details of these schemes please contact Invesco Perpetual's Investor Services team free on 0800 085 8677.

## Net Asset Value (NAV) Publication

The NAV of the Company is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the following business day. It is published daily in the newspapers detailed below.

## Share Price Listings

The price of your shares can be found in The Financial Times, Daily Telegraph, The Times and The Evening Standard. In addition, share price information can be found using the PLI ticker code for ordinary shares.

**Internet addresses**

| | |
|---|---|
| Invesco Perpetual | www.invescoperpetual.co.uk/investmenttrusts |
| Association of Investment Companies | www.theaic.co.uk |

## Manager's Website

The Manager's website can be located at www.invescoperpetual.co.uk/investmenttrusts

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

## Location of Annual General Meeting (AGM)

The AGM will be held at Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH on Friday, 11 July 2014 at 11am.

## Financial Calendar

The Company publishes information according to the following calendar:

| | |
|---|---|
| **Announcements** | |
| Annual Financial Report | June |
| Half-yearly Financial Report | November |
| Interim Management Statements | January/July |
| **Annual General Meeting** | July |
| **Year End** | 31 March |
| **Ordinary Share Dividend Timetable** | |
| 1st interim payable | September |
| 2nd interim payable | December |
| 3rd interim payable | March |
| 4th interim payable | June |
| **Debenture Stock and Loan Notes** | |
| Interest payable: | |
| 6.125% Debenture 2014 | January/July |
| 4.37% Secured Loan Notes 2029 | May/November |

## Subscription Shares

**Base cost for the calculation of taxation on capital gains**

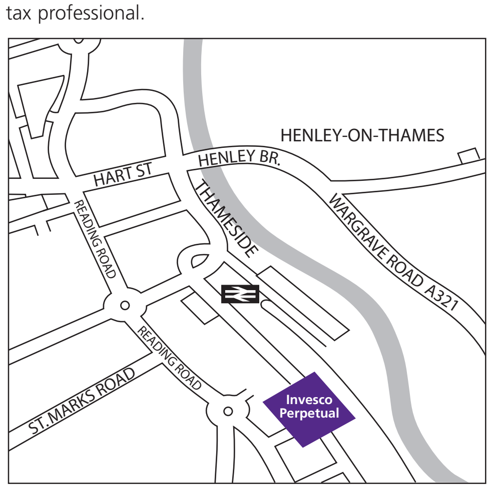
Trading in the subscription shares issued by the Company to qualifying shareholders commenced on 31 May 2005. Further to the details outlined in the prospectus, for the purposes of UK taxation, the issue of subscription shares is treated as a reorganisation of the Company's share capital. Whereas such reorganisations do not trigger a chargeable disposal for the purposes of capital gains, they do require shareholders to reallocate the base costs of their ordinary shares between ordinary shares and subscription shares acquired under the bonus issue.

At the close of business on 31 May 2005, the middle market prices of the Company's ordinary shares and subscription shares were as follows:

| | |
|---|---|
| Ordinary Shares | 190.25p |
| Subscription Shares | 34.50p |

Accordingly, an individual investor who, on 27 May 2005, held ten ordinary shares (or a multiple thereof) would have received a bonus issue of one subscription share (or the relevant multiple thereof) and would apportion the base cost of such holding 98.22% to the ten ordinary shares and 1.78% to the subscription shares.

If you need tax advice, you should contact a qualified tax professional.



# ADVISERS AND PRINCIPAL SERVICE PROVIDERS

All of the following were in place throughout the year.

## Manager and Company Secretary

Invesco Asset Management Limited
*Correspondence Address:*
6th Floor
125 London Wall
London EC2Y 5AS
☎ 020 3753 1000
Company Secretarial contact: Kelly Nice and Kevin Mayger

## Registered Office

Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

## Company Number

Registered in England and Wales
Number 03156676

## Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team, available to you from 8.30 am to 6.00 pm, Monday to Friday (excluding Bank Holidays). Current valuations, statements and literature can be ordered, however, no investment advice can be given.
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

## Savings Scheme and ISA Administrator

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA, please contact:

Invesco Perpetual
PO Box 11150
Chelmsford
CM99 2DL
☎ 0800 085 8677

## Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

If you hold your shares directly 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 10p per minute plus network charges.
From outside the UK: +44 20 8639 3399.
Lines are open from 9.00 am to 5.30 pm, Monday to Friday (excluding Bank Holidays).

Shareholders holding shares directly can also access their holding details via Capita's website: www.capitashareportal.com or www.capitaregistrars.com.

The registrars provide on-line and telephone share dealing services to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or ☎ 0871 664 0454.
Calls cost 10p per minute plus network extras.
From outside the UK: +44 20 3367 2699.
Lines are open from 8.00 am to 4.30 pm, Monday to Friday (excluding Bank Holidays).

## Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

## Banker and Custodian

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

## Corporate Brokers

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

## 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: enquires@theaic.co.uk
Website: www.theaic.co.uk

# GLOSSARY OF TERMS

## Benchmark
A market index, which averages the performance of companies in any sector, giving a good indication of any rises or falls in the market. The benchmark used in these accounts is the FTSE All-Share Index.

## Discount
The amount by which the mid-market share price of an investment trust is lower than the diluted net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

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

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

### Gross Gearing
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 shareholders' funds.

### Net Gearing
This reflects the amount of net borrowings invested, ie borrowings less cash and UK government bonds. It is based on net borrowings as a percentage of shareholders' funds.

## Market Capitalisation
Is calculated by multiplying the stockmarket price of an ordinary share by the number of ordinary shares in issue.

## Net Asset Value

### Basic Net Asset Value
Also described as Shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

### Diluted Net Asset Value
The diluted net asset value is the net asset value per share that would arise if the subscription shares were converted. It is calculated by dividing the net asset value by the number of shares that would be in issue if all the subscriptions shares were converted to ordinary shares. Where the diluted net asset value per ordinary share is greater than the basic net asset per ordinary share, there is no dilutive effect.

## Net Cash
This reflects the Company's net exposure to cash and cash equivalents expressed as a percentage of shareholders' funds after any offset against its gearing.

## Ongoing Charges Ratio
This is calculated in accordance with guidance issued by the AIC as follows: the annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (at market value) reported in the period.

## Total Return
The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Performance comparisons can then be made between companies with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares (ie share price total return) or in the Company's assets (ie NAV total return).

The Manager of Perpetual Income and Growth Investment Trust plc is Invesco Asset Management Limited.

Invesco Asset Management Limited is a wholly-owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco Perpetual is a business name of Invesco Asset Management Limited.

Invesco is one of the largest independent global investment management firms, with assets under management of $779 billion*.

We aim 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 30 April 2014*

# INVESTMENT COMPANIES MANAGED BY INVESCO PERPETUAL

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

### 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. The Company may use 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 at above the rate of inflation. The Company may use bank borrowings.

### Invesco Perpetual 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.

### Invesco Property Income Trust Limited

The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to repay its bank borrowings and other liabilities and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties and is geared by bank debt.

### Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue.

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

### 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 by more than the growth in the FTSE All Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The Company has two debenture stocks in issue.

## 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 pursuit of income is of secondary importance. 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 All Countries Asia Pacific Ex Japan Index, measured in sterling. 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 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 mainly 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 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.

Please contact our Investor 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.invescoperpetual.co.uk/investmenttrusts.

# NOTES

**Linkway Financial Printers**
Typeset and Printed in London (UK) 16311