# Perpetual Income and Growth Investment Trust plc

## Annual Financial Report
## Year Ended 31 March 2016

# 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

| | 2016 | 2015 |
|---|---|---|
| Net asset value total return[1]: | | |
| – debt at par | 0.0% | +11.7% |
| – debt at market value | 0.0% | +10.7% |
| Share price total return[1] | –2.9% | +10.1% |
| FTSE All-Share Index total return[1] | –3.9% | +6.6% |
| Dividend (excluding special dividend) | +4.1% | +4.2% |
| Dividend (including special dividend) | +4.9% | +3.6% |

(1) 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 10), 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 Fund Managers 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 qualify to be considered as a mainstream investment product suitable for promotion to retail investors and 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 Client 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

## Total return(1) (all income reinvested)

| | 1 YEAR | 3 YEARS | 5 YEARS | 10 YEARS |
|---|---|---|---|---|
| Net asset value (NAV)(1) – debt at par | 0.0% | 32.7% | 86.5% | 130.2% |
| – debt at market value | 0.0% | 32.2% | 85.4% | 107.0% |
| Share price | –2.9% | 29.5% | 78.1% | 133.3% |
| FTSE All-Share Index(2) | –3.9% | 11.4% | 31.9% | 58.3% |

Source: Thomson Reuters Datastream.

| | YEAR ENDED 31 MARCH 2016 | YEAR ENDED 31 MARCH 2015 |
|---|---|---|
| **Shareholders' funds** | | |
| Net assets (£'000) | 960,350 | 978,427 |
| NAV per ordinary share – debt at par | 399.4p | 413.1p |
| – debt at market value | 395.6p | 409.1p |
| **Share price and discount** | | |
| Share price | 375.6p | 400.9p |
| Discount(1) to NAV – debt at par | 6.0% | 3.0% |
| – debt at market value | 5.1% | 2.0% |
| **Gearing(1)** | | |
| Gross gearing | 16.0% | 15.3% |
| Net gearing | 16.0% | 15.3% |
| **Return per ordinary share** | | |
| Revenue | 15.12p | 14.34p |
| Capital | (14.24p) | 29.59p |
| Total | 0.88p | 43.93p |
| **Dividend per ordinary share** | | |
| First interim | 2.9p | 2.8p |
| Second interim | 2.9p | 2.8p |
| Third interim | 2.9p | 2.8p |
| Fourth interim | 4.1p | 3.9p |
| Total interim dividends | 12.8p | 12.3p |
| Increase in total interim dividends | +4.1% | +4.2% |
| Special dividend | 2.1p | 1.9p |
| Total including special | 14.9p | 14.2p |
| Increase in dividend (including special) | +4.9% | +3.6% |
| **Ongoing charges ratio(1)** | | |
| Excluding performance fee | 0.64% | 0.65% |
| Performance fee only | 0.42% | 0.58% |

Note: (1) Defined in the Glossary of Terms on page 63.
(2) The benchmark index of the Company.

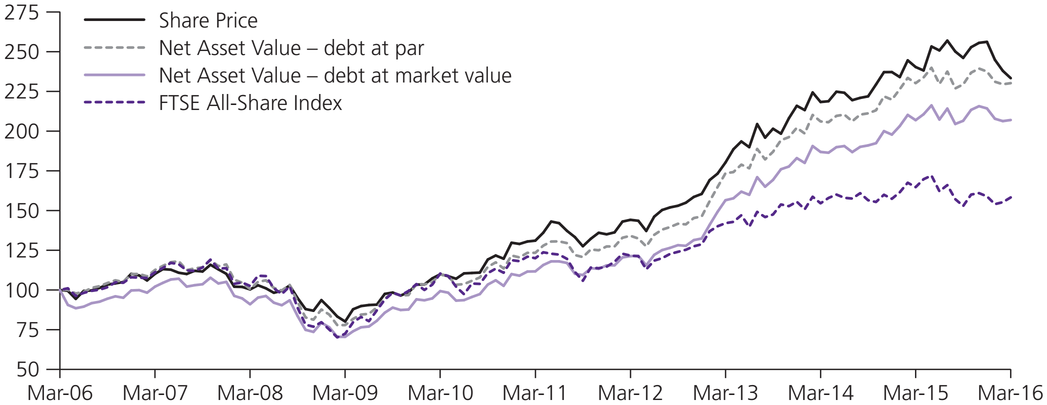
# Historical Record – Last Ten Years

| TO 31 MARCH | ORDINARY SHARES REVENUE RETURN[1] p | ORDINARY SHARES DIVIDEND p | TOTAL ASSETS LESS CURRENT LIABILITIES £'m | NET ASSET VALUE PER ORDINARY SHARE[1] DEBT AT PAR p | NET ASSET VALUE PER ORDINARY SHARE[1] DEBT AT MARKET VALUE p | SHARE PRICE p |
|---|---|---|---|---|---|---|
| 2007 | 6.90 | 6.60 | 606 | 278.8 | 273.6 | 251.0 |
| 2008 | 8.00 | 7.80 | 532 | 242.2 | 239.6 | 222.5 |
| 2009 | 9.20 | 8.50[2] | 409 | 182.0 | 178.3 | 171.0 |
| 2010 | 9.47 | 8.80 | 517 | 231.2 | 230.9 | 217.9 |
| 2011 | 9.85 | 9.35 | 575 | 255.5 | 255.3 | 252.8 |
| 2012 | 10.86 | 10.40 | 610 | 267.4 | 266.8 | 267.7 |
| 2013 | 12.54 | 11.20 | 773 | 332.3 | 331.5 | 322.0 |
| 2014 | 13.79 | 11.80[3] | 896 | 383.3 | 383.1 | 377.5 |
| 2015 | 14.34 | 12.30[3] | 1,038 | 413.1 | 409.1 | 400.9 |
| **2016** | **15.12** | **12.80[4]** | **1,020** | **399.4** | **395.6** | **375.6** |

Notes:
1. Where dilution occurred, the diluted figure is shown. Otherwise the basic figure is shown.
2. Excludes a special dividend of 0.84p per share. This special dividend arose from recovery of VAT on management fees.
3. Excludes a special dividend of 1.9p per share. The special dividend arose from special dividends received during the year.
4. Excludes a special dividend of 2.1p per share. This special dividend arose from special dividends received during the year.

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

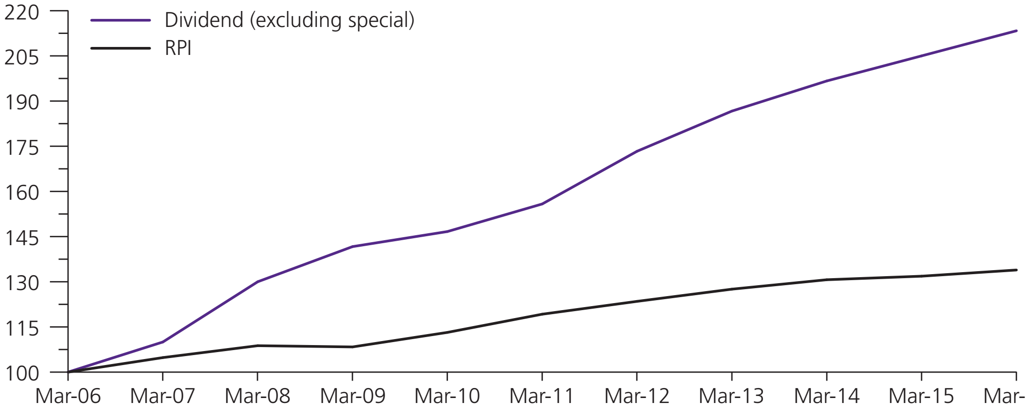
For the ten years to 31 March 2016 and figures rebased to 100 at 31 March 2006.




Source: Thomson Reuters Datastream.

## Dividends vs Retail Price Index (RPI)

Figures have been rebased to 100 at 31 March 2006

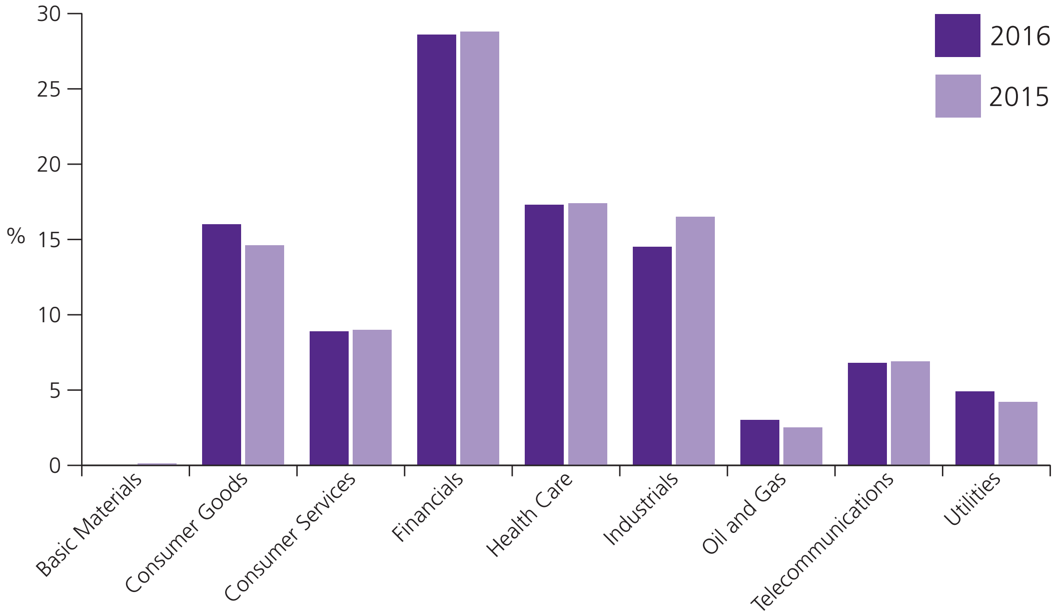


# FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

continued

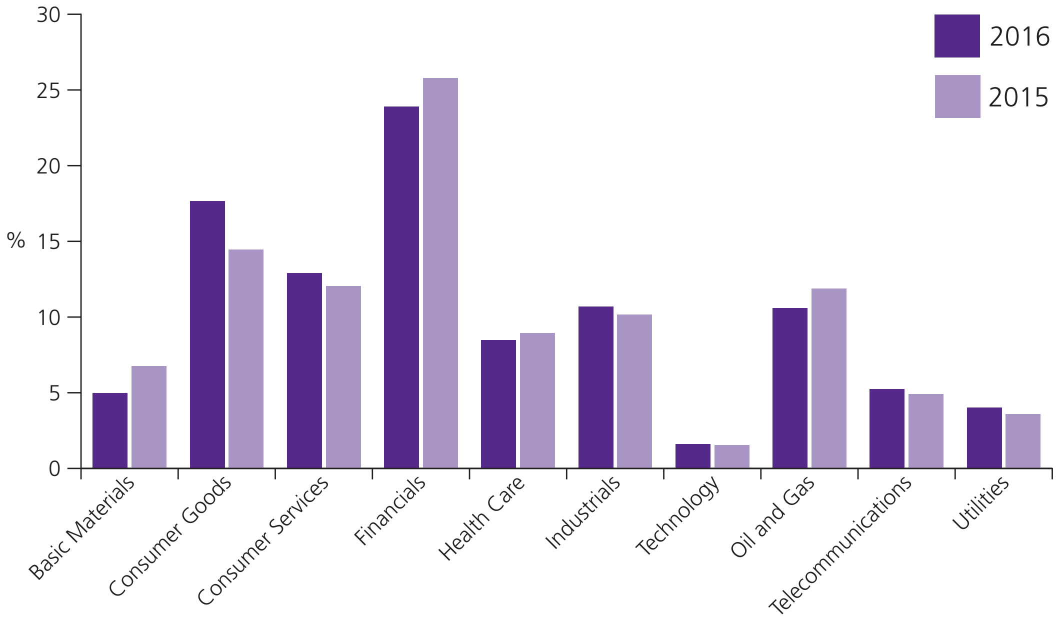
## Allocation of Portfolio by Industry

As at 31 March




## Allocation of Benchmark by Industry

As at 31 March



# CHAIRMAN'S STATEMENT

## Performance

For the year ended 31 March 2016, the Company's net asset value total return was flat. This compared favourably to the fall of 3.9 % in the FTSE All-Share Index, the Company's benchmark. This return should be viewed in the context of the significant market volatility created by sustained political and economic uncertainty during the year, which negatively impacted global markets. The positioning of the portfolio has largely protected shareholders from this volatility, with net assets broadly flat compared to the prior year.

Your portfolio manager, Mark Barnett, provides further detail on the performance of the portfolio during the year and sets out his strategy and outlook for the coming year in his report on pages 7 to 9.

## Dividend

For the year ended 31 March 2016, three interim dividends of 2.9p each were paid to shareholders in September and December 2015, and March 2016. The Board is pleased to declare a fourth interim dividend of 4.1p and a special dividend of 2.1p both to be paid on 30 June 2016 to shareholders on the register on 10 June 2016. This gives a total dividend (including specials) for the year of 14.9p, representing an increase of 4.9% on the previous year which is especially pleasing given the challenging conditions referred to above.

The Company's dividend for the year (excluding the special dividend) has more than doubled over the last 10 years, a growth rate exceeding three times the rate of inflation in the same period. The Board continues to recognise the importance of dividends to shareholders and is seeking to maintain its policy of real dividend growth over the medium to longer term.

## Borrowing and Gearing

The Board's policy is to permit gearing up to a maximum of 25% of total net assets and the Board allows the portfolio manager some discretion up to that level. Borrowings are provided by £60 million of 4.37% senior secured notes redeemable in 2029 and a bank overdraft which was increased in the year from £110 million to £140 million to reflect the increased size of the Company. The Board believes that these arrangements provide the portfolio manager with an optimum balance of fixed and flexible borrowing. During the year the gearing ranged between 15% and 21%, and ended the year at 16.0% (2015:15.3%).

## Issued Share Capital

A total of 3,558,099 new shares were issued during the year, reflecting market demand for the Company's shares. Of these, 998,099 arose from shareholders choosing to reinvest their dividends and a further 2,560,000 were issued at an average price (excluding costs) of 407.8p. There have been no further shares issued following the year end and as at the date of this report the Company's issued share capital is 240,432,350 ordinary shares.

## The Board

The Board has a formal succession plan in place and regularly reviews its composition to ensure that there remains an appropriate balance of skills, knowledge, experience, diversity and importantly for an externally managed investment trust, true independence. The Board conducted an extensive search and selection process during the year which resulted in the identification of a number of high calibre candidates, of which two were invited to join the Board. I am delighted to welcome Victoria Cochrane and Alan Giles. They bring with them a wealth of business and financial experience and I am pleased to report that they have already proved to be most valuable appointments, further strengthening the existing board. More information can be found in their respective biographies on page 17.

## Change of Auditor

Deloitte LLP, in its various forms, has been the Company's auditor since inception in 1996. Having due regard to auditor rotation regulations, the Audit Committee undertook an audit tender during the year. As a result of this exercise the Board, on the Audit Committee's recommendation, invited Ernst & Young LLP to be the Company's auditor for the year ending 31 March 2016. Further information can be found in the Audit Committee Report on page 30.

# CHAIRMAN'S STATEMENT continued

## 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 as well as allow application of the minimum notice required for general meetings (other than the annual general meeting) by the Companies Act 2006.

The Board is required under the Company's Articles of Association to offer shareholders an opportunity, every five years, to decide on whether the Company should continue in existence as an investment trust. The Board considers it to be best practice for all shareholders to be regularly given the opportunity to express their views and as a result, Ordinary Resolution 11 asks you to vote on the Company's future. Further information on all resolutions can be found in the Directors' Report on pages 21 and 22.

The Directors have carefully considered all the resolutions proposed in the Notice of the AGM (as set out on pages 57 to 60) 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 Tuesday, 12 July 2016 at 11.00 a.m. 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 shareholders' questions.

**Bill Alexander**
*Chairman*

6 June 2016

# STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2016

## PORTFOLIO MANAGER'S REPORT

### Market Review

The year to 31 March 2016 saw the FTSE All-Share Index reach an all-time high in April 2015, only to hit its lowest level since 2012 some 10 months later. Stock market turbulence was particularly extreme towards the end of the year, with intra-day market activity characterised by some sharp index moves and a low volume of shares traded.

Stock market sentiment over this 12 month period was largely driven by concerns over a slowing Chinese economy and the global economic outlook, the actions of central banks and movements in commodity prices. The start of the period saw the equity market rise strongly, driven by the introduction of quantitative easing in the Eurozone and further stimulus from Japan. However, market sentiment swung sharply negative on growing concerns over the impact of the strengthening US dollar on emerging market debt and the deflationary impact of a possible devaluation of the Chinese Yuan.

The first increase in US interest rates for seven years saw a year-end rally by equities, but the start of 2016 saw the FTSE All-Share Index fall back sharply to a multi-year low. Commodity prices hit 10 year lows, and oil and mining companies cut profit guidance and, in some cases, dividends. Volatility moderated as oil and metals prices showed some recovery and the European Central Bank cut interest rates in the Eurozone to zero and stepped up the pace of quantitative easing. Nevertheless, worries persisted over the profitability of banks in a zero interest rate world. Towards the period end, Janet Yellen, Chairman of the US Federal Reserve, provided a boost to equities by stating that the US central bank should proceed cautiously with interest rate rises, causing a welcome weakening in the US dollar.

### Portfolio Strategy and Review

The Company's net asset value (NAV), including reinvested dividends, delivered a flat return for the year, compared with –3.9% (total return) by the FTSE All-Share Index.

Against a volatile stock market backdrop, the Company outperformed its benchmark index. The portfolio benefited from its zero weighting in the banking sector, but its underweight position in the oil & gas sector, notably the absence of a holding in BG Group, detracted from performance. The zero weighting in the mining sector, where share prices demonstrated exceptional swings, was a positive over the period as a whole, but a negative over the final quarter.

The portfolio has significant investments in the pharmaceutical sector, in both large multinationals and smaller companies. This sector as a whole underperformed on the back of a sell-off in the US – driven by political opposition to higher drug prices and a reassessment of the merits of some acquisition driven groups such as Valeant Pharmaceuticals (which is not held in the portfolio). This setback in sentiment towards the sector is likely to be only temporary and in a low growth world where many industries have little pricing power, these pharmaceutical companies offer the scope for longer term growth in earnings, cash flow and dividends.

A key positive contribution to Company performance during the period came from the holdings in the tobacco sector. Reynolds American (which is 40% owned by British American Tobacco) concluded the purchase of US tobacco company Lorillard in June 2015 and the company is now seeing cost and revenue synergies emerging from the process of integration. As part of the deal, Imperial acquired some US brands from Reynolds as well as Lorillard's US based salesforce – a purchase which Imperial anticipates will be positively incremental to earnings. In spite of a decline in sales, dividend growth and profit margins remain healthy across all the tobacco majors as a result of product innovation, tobacco quality improvements and cost rationalisation.

Also contributing strongly to performance were certain investments in the financials sector. Amlin, a Lloyds insurance market investment vehicle, agreed to a takeover from Japanese company Mitsui, resulting in a significant uplift to its share price. The share prices of Beazley and Hiscox, also in the non-life insurance sector, both rose. Meanwhile, the portfolio's long term holding in Provident Financial gained entry to the FTSE 100 index during the period, as the company delivered a sixth consecutive year of double-digit percentage dividend increases. In March, London Stock Exchange Group announced a 'merger of equals' with Deutsche Boerse and saw its shares rise to a record high as New York Stock Exchange owner ICE said it may make a counter offer for the company.

# STRATEGIC REPORT
## PORTFOLIO MANAGER'S REPORT continued

Within the fixed line telecoms sector, BT announced its strongest revenue growth in over seven years and continued its expansion into mobile telephony, with its acquisition of EE gaining approval from the Competition & Markets Authority. Shareholders received further good news as it was confirmed that the company would not have to demerge or sell the Openreach fixed line infrastructure, as had been feared. KCOM saw its shares rise on the sale of its national infrastructure (outside of Hull and East Yorkshire) to CityFibre for £90 million. TalkTalk Telecom, however, announced that it had been the victim of a cyber-attack. The shares were marked down in the weeks following the news, but stabilised towards the end of the period as it was confirmed that the impact of the attack had been less than originally suspected.

The holdings in the support services sector also provided a mixed impact on performance. Capita's results led to a lowering of forecasts for organic growth and a higher interest charge, while G4S has faced headwinds in its emerging market businesses and from provisions for its 'onerous' (unprofitable) contracts in the UK and from balance sheet concerns. The negative share price reactions appear to have been unduly harsh, with the companies well positioned to deliver growth from their bid pipelines in a challenging macro-economic environment. Meanwhile, Rentokil enjoyed a solid performance throughout the year, as the group's focus on its core pest control business and on cash flow led to higher margins and a lower interest charge.

GAME Digital saw its shares fall sharply after an update on pre-Christmas trading, which confirmed that UK sales had fallen off sharply at the most critical time of year for the company. Sales in old format content have declined much faster than expected and, while sales of new generation content have remained strong, these were not enough to offset the fall. The company's sales in the Spanish market have remained strong.

Rolls-Royce published a negative trading update in November, forecasting that 2015 profits would be at the lower end of expectations and that demand would weaken in 2016. With visibility of future earnings growth showing no signs of improvement, the remainder of the holding in the company was sold, having been reduced earlier in the year.

Also weighing on portfolio performance were the holdings in the travel & leisure sector, where sentiment has been overshadowed by terrorist events. Thomas Cook confirmed a challenging trading backdrop for 2016, although it has moved much of its summer capacity to the Western Mediterranean. EasyJet reported a reduction in revenue per seat – with the Paris bombing and the French air traffic control strikes having a short term impact.

In terms of portfolio activity, the Company's holding in Amlin was disposed of on acceptance of the bid from Mitsui. As mentioned above, the holding in Rolls-Royce was sold, while the holdings in GlaxoSmithKline, Ladbrokes and Workspace were also disposed of. New investments were made in BCA Marketplace, Diurnal, easyJet, infirst Healthcare, Marwyn Value Investors, Mayair, Motif Bio, Oxford Sciences Innovation, Scifluor Life Sciences and VPC Specialty Lending.

### Outlook

The near term outlook for the UK stock market is likely to remain clouded by a muted macro-economic backdrop in the global economy and increased pressure on profitability in the corporate sector. The multiyear monetary policy of setting interest rates at close to zero has not stimulated capital investment. Rather, companies have contained costs, particularly wages, and have used low financing costs to buy back their own stock. Whilst good for profit margins and shareholder returns in the short term, the result has been a depletion of the capital stock and an implied level of economic growth in the developed world which is below historic averages. Another side effect has been to widen income inequality in many developed market economies, prompting incumbent governments, increasingly wary of more populist movements, to redress the balance – measures have included increasing minimum wages and tackling corporate tax arbitrage. Combined with some natural wage pressure from tighter labour markets in the US, this is beginning to threaten corporate profit margins.

The collapse in energy prices and the relentless drive of digital technology have entrenched low inflation expectations such that, combined with the factors outlined above, companies operating in the global economy face an ongoing lack of pricing power. This in turn has restrained the level of turnover growth in many industries, while any rebound in energy prices or pick up in employment costs may not easily be passed on.

The overall implications for the UK stock market, which is highly global in its make-up, are that earnings growth in many sectors may disappoint. Given that valuations are not obviously cheap, overall returns from equities may be expected to be subdued for the time being. The volatility witnessed since the start of 2016, partly caused by nervousness over financial stability in China, is also likely to remain a feature of the investment landscape for the remainder of the year. The Company's portfolio has changed relatively little in recent months, as the current investments continue to demonstrate the ability to grow earnings and dividends in this challenging environment. In the very short term, the outcome of the referendum on EU membership is playing on investors' minds, with a sharp fall in the currency expected should the outcome be an EU exit. The performance of the UK equity market under this scenario is less certain, laden as it is with large companies that derive substantial earnings from overseas and who would in theory be beneficiaries of a weaker sterling.

**Mark Barnett**
*Portfolio Manager*
6 June 2016

# STRATEGIC REPORT

## 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 investment management and administration to appropriate external service providers, which are overseen by the Board. The principal service provider is Invesco Fund Managers Limited (the 'Manager'). Invesco Asset Management Limited, an associate company of the Manager, manages the Company's investments and acts as Company Secretary under delegated authority from the Manager.

The Manager provides company secretarial, marketing and general administration services including accounting and manages the portfolio in accordance with the Board's strategy. Mark Barnett is the portfolio manager responsible for the day-to-day management of the portfolio.

The Company also has contractual arrangements with third parties to act as registrar, corporate broker and depositary. The depositary is BNY Mellon Trust & Depositary (UK) Limited. The depositary has delegated safekeeping of the Company's investments to the Company's previous custodian, The Bank of New York Mellon (London Branch).

### 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.

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

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

## Borrowing

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.

In addition to the overdraft facility, the Company has in issue £60 million of fixed rate 15 year senior secured notes (Notes) at par with an interest rate of 4.37%. Further detail on the Notes is contained in note 12 on page 50.

## Performance

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

**Asset Performance**

On a total return basis, the Company's one, three, five and ten year record for its NAV and share price compared to the benchmark index is shown on page 2. For the year to 31 March 2016, the Company's NAV outperformed the benchmark index by 3.9%.

In reviewing the performance of the assets of the Company, the Board monitors the 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 22 investment trusts in the UK Equity Income sector at 31 March 2016. This sector, however, is quite diverse in its investment policies and structures. The Board monitors the performance of the Company in relation to both this sector as a whole and to those companies within it which the Board consider to be its peer group.

As at 31 March 2016, within those companies ranked within the UK Equity Income sector, the Company was ranked 9th over one year and 8th over three and 5th over five years by NAV performance (source: JP Morgan 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. The dividends declared for the year are shown on the next page, under 'Results and Dividends'.

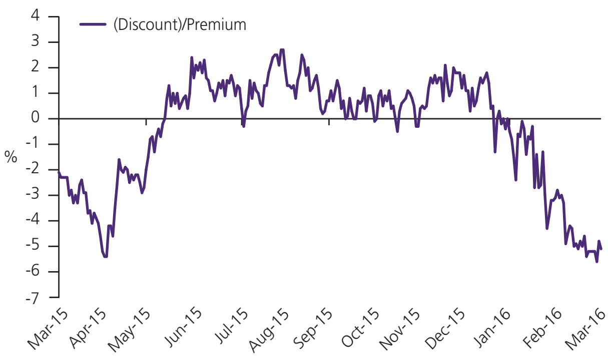
The Manager aims to maximise total return from the portfolio. The Manager believes in strong earnings growth and in the importance of dividends to total return. However, whilst income is a prime objective, dividend yields do not constrain investment decisions.

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

# STRATEGIC REPORT
## BUSINESS REVIEW continued

**Premium/Discount**

The Board monitors the premium/discount at which the Company's ordinary shares trade and how this compares to other investment trusts in the peer group. During the year the shares traded in the range of a 5.6% discount to a 2.7% premium and ended the year at 5.1% discount. This is shown in the adjacent graph which plots the discount over the year. All figures are with debt at market value. As at 31 March 2016, the average discount of the 22 investment trusts in the UK Equity Income sector was 4.5% (2015: 2.5% (source: JPMorgan Cazenove).




The Board and the 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 any 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 0.64% (2015: 0.65%) based on management fees (excluding the performance fee which is described on page 27) and other expenses of £6,305,000 (2015: £5,985,000).

### Results and Dividends

On 31 March 2016, the share price and the net asset value (debt at market value) per ordinary share were 375.6p and 395.6p respectively. The comparable figures at 31 March 2015 were 400.9p and 409.1p.

For the year ended 31 March 2016, three interim dividends of 2.9p each per share were paid on 30 September 2015, 23 December 2015 and 29 March 2016 respectively. A fourth interim dividend of 4.1p per share has been declared for payment on 30 June 2016 to shareholders on the register on 10 June, giving total interim dividends for the year of 12.8p (2015: 12.3p). This represents an increase of 4.1% on the previous year. As discussed in the Chairman's Statement, a special dividend of 2.1p per share was also declared and will be paid at the same time as the fourth interim dividend. The aggregate dividend paid for the year is 14.9p, an increase of 4.9% on the previous year.

### Financial Position and Borrowings

The Company's balance sheet on page 42 shows the assets and liabilities at the year end. Details of the £60 million senior secured notes are shown in note 12, and details of the Company's 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 and has carried out a robust assessment of the principal risks facing the Company. The following sets out a description of those risks and how they are being managed or mitigated.

**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**

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 shareholder analysis.

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 to 9. 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 18 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.

**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 and risk management section in the audit committee report on page 31. The depositary also monitors the Company's stock, cash, borrowings and investment restrictions throughout the year and issues an annual report to the Directors.

**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

# STRATEGIC REPORT
## BUSINESS REVIEW continued

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**

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.

### Viability Statement

The Company, as an investment trust, is a collective investment vehicle designed and managed for the long term. The Company's investment objective is to provide shareholders with capital growth and real growth in dividends over the medium to longer term. The Directors take a long term view in their stewardship of the Company, as does the portfolio manager in his management of the portfolio. Whilst the Company has a continuation vote at its forthcoming AGM, the Directors have no reason to believe that shareholders will not vote for the continuation of the Company. Five years is regarded by many as the minimum time for investing in equities, and this period is substantially less than the term of the Company's Notes, which will require repayment in 2029. Consequently, the Directors consider that the appropriate term for the purpose of this viability statement is five years.

In their assessment of the Company's viability, the Directors considered the principal risks to which it is exposed, as set out on pages 12 to 14, together with mitigating factors. Their assessment also considered the following: the Company's investment objective and strategy; the investment capabilities of the portfolio manager; the business model of the Company, which has effectively been stress tested over the years through various difficult market cycles; the current outlook for the UK economy and equity markets; demand for the Company's shares and their discount/premium; the Company's borrowing structure; the liquidity of the portfolio; and the Company's future income and annual operating costs. Consideration of the borrowing structure included the amount the NAV could fall without triggering the repayment of the Notes and /or the bank overdraft and the amount of debt cover – which at the year end was more than 7x the amount of these aggregate liabilities.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

### Board Diversity

The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises six non-executive directors, one of whom is a woman. This constitutes 16.6% female Board representation. 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.

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not within the scope of the Modern Slavery Act 2015.

This Strategic Report was approved by the Board of Directors on 6 June 2016

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

# INVESTMENTS IN ORDER OF VALUATION

AT 31 MARCH 2016

*Ordinary shares listed in the UK unless stated otherwise*

| ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|
| **Equity Investments** | | | |
| Reynolds American – *US common stock* | Tobacco | 61,989 | 5.5 |
| British American Tobacco | Tobacco | 56,930 | 5.1 |
| Imperial Brands (formerly Imperial Tobacco) | Tobacco | 47,360 | 4.2 |
| BT Group | Fixed Line Telecommunications | 43,972 | 4.0 |
| AstraZeneca | Pharmaceuticals & Biotechnology | 38,957 | 3.5 |
| BAE Systems | Aerospace & Defence | 37,360 | 3.3 |
| Roche – *Swiss common stock* | Pharmaceuticals & Biotechnology | 35,625 | 3.2 |
| BP | Oil & Gas Producers | 33,583 | 3.0 |
| Provident Financial | Financial Services | 32,513 | 2.9 |
| London Stock Exchange | Financial Services | 27,546 | 2.5 |
| **Top ten holdings** | | 415,835 | 37.2 |
| RELX | Media | 27,128 | 2.4 |
| Legal & General | Life Insurance | 25,769 | 2.3 |
| Capita | Support Services | 24,606 | 2.2 |
| Bunzl | Support Services | 24,246 | 2.2 |
| Rentokil Initial | Support Services | 24,187 | 2.2 |
| Babcock International | Support Services | 23,734 | 2.1 |
| Beazley | Non-life Insurance | 23,254 | 2.1 |
| Compass | Travel & Leisure | 23,136 | 2.1 |
| BTG | Pharmaceuticals & Biotechnology | 22,474 | 2.0 |
| Hiscox | Non-life Insurance | 20,537 | 1.8 |
| **Top twenty holdings** | | 654,906 | 58.6 |
| SSE | Electricity | 20,452 | 1.8 |
| Centrica | Gas, Water & Multiutilities | 20,115 | 1.8 |
| Derwent London | Real Estate Investment Trusts | 20,113 | 1.8 |
| Shaftesbury | Real Estate Investment Trusts | 19,983 | 1.8 |
| NewRiver Retail | Real Estate Investment Trusts | 19,764 | 1.7 |
| KCOM | Fixed Line Telecommunications | 17,787 | 1.6 |
| easyJet | Travel & Leisure | 15,737 | 1.4 |
| Thomas Cook | Travel & Leisure | 14,734 | 1.3 |
| TalkTalk Telecom | Fixed Line Telecommunications | 14,262 | 1.3 |
| Drax | Electricity | 14,169 | 1.3 |
| **Top thirty holdings** | | 832,022 | 74.4 |
| Novartis – *Swiss common stock* | Pharmaceuticals & Biotechnology | 13,991 | 1.3 |
| G4S | Support Services | 13,367 | 1.2 |
| Smith & Nephew | Health Care Equipment & Services | 13,185 | 1.2 |
| Circassia Pharmaceuticals | Pharmaceuticals & Biotechnology | 12,600 | 1.1 |
| BCA Marketplace | Financial Services | 12,536 | 1.1 |
| Reckitt Benckiser | Household Goods & Home Construction | 12,202 | 1.1 |
| Harworth | Real Estate Investment & Services | 12,084 | 1.1 |
| HomeServe | Support Services | 11,858 | 1.1 |
| Imperial Innovations | Financial Services | 11,802 | 1.1 |
| P2P Global Investments | Equity Investment Instruments | 11,708 | 1.0 |
| **Top forty holdings** | | 957,355 | 85.7 |

# INVESTMENTS IN ORDER OF VALUATION

continued

| ISSUER | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|
| **Equity Investments** | | | |
| Lancashire | Non-life Insurance | 10,885 | 1.0 |
| N Brown | General Retailers | 10,843 | 1.0 |
| Sherborne Investors Guernsey B – *A shares* | Financial Services | 10,077 | 0.9 |
| Vectura | Pharmaceuticals & Biotechnology | 9,594 | 0.9 |
| IP Group | Financial Services | 9,467 | 0.9 |
| Oxford Sciences Innovation[UQ] | Financial Services | 9,390 | 0.8 |
| SciFluor Life Sciences[UQ] – *US Series A convertible preferred* | Pharmaceuticals & Biotechnology | 8,136 | 0.7 |
| GAME Digital | General Retailers | 8,097 | 0.7 |
| Marwyn Value Investors | Equity Investment Instruments | 7,551 | 0.7 |
| Diurnal | Pharmaceuticals & Biotechnology | 7,483 | 0.6 |
| **Top fifty holdings** | | 1,048,878 | 93.9 |
| Motif Bio | Pharmaceuticals & Biotechnology | 7,038 | 0.6 |
| Horizon Discovery | Pharmaceuticals & Biotechnology | 7,027 | 0.6 |
| CLS | Real Estate Investment & Services | 6,683 | 0.6 |
| infirst Healthcare[UQ] – *D shares* | Pharmaceuticals & Biotechnology | 5,939 | 0.5 |
| Macau Property Opportunities Fund | Real Estate Investment & Services | 5,233 | 0.5 |
| Doric Nimrod Air Three – *preference shares* | Equity Investment Instruments | 4,649 | 0.4 |
| Doric Nimrod Air Two – *preference shares* | Equity Investment Instruments | 4,558 | 0.4 |
| Silence Therapeutics | Pharmaceuticals & Biotechnology | 4,167 | 0.4 |
| VPC Specialty Lending Investments | Equity Investment Instruments | 4,143 | 0.4 |
| Napo Pharmaceuticals[UQ] – *US common stock* | Pharmaceuticals & Biotechnology | 4,023 | 0.3 |
| **Top sixty holdings** | | 1,102,338 | 98.6 |
| Nimrod Sea Assets | Equity Investment Instruments | 3,764 | 0.3 |
| Damille Investments II | Equity Investment Instruments | 2,456 | 0.2 |
| MayAir | Industrial Engineering | 2,444 | 0.2 |
| PuriCore | Health Care Equipment & Services | 2,111 | 0.2 |
| Funding Circle SME | Equity Investment Instruments | 1,726 | 0.2 |
| Lombard Medical – *US common stock* | Health Care Equipment & Services | 1,393 | 0.2 |
| Real Estate Investors | Real Estate Investment Trusts | 1,008 | 0.1 |
| HaloSource | Chemicals | 230 | — |
| XTL Biopharmaceuticals – *ADR* | Pharmaceuticals & Biotechnology | 74 | — |
| Mirada | Media | 5 | — |
| **Total Equity Investments (70)** | | **1,117,549** | **100.0** |

| ISSUER AND ISSUE | MOODY/S&P RATING(2) | SECTOR | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|---|
| **Other Investments** | | | | |
| Barclays Bank – Nuclear Power Notes 28 Feb 2019 | NR/NR | Electricity | 27 | — |
| **Total Other Investments (1)** | | | **27** | **—** |
| **Total Investments (71)** | | | **1,117,576** | **100.0** |

Notes: (1) UQ is unquoted investment.
(2) NR is non-rated.

# 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).

**Vivian Bazalgette †***
Vivian Bazalgette was appointed to the Board on 21 May 2007. He is Chairman and a non-executive Director of Fidelity European Values plc and a non-executive Director of Brunner Investment Trust plc. He is also an adviser to BAE Systems Pension Fund. 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. He holds an MA in English from Cambridge University.

**Victoria Cochrane †***
Victoria Cochrane was appointed to the Board on 28 October 2015. She is a former Member of the Global Executive Board of Ernst & Young, where she was responsible for risk worldwide. She stood down from her executive career in 2013, having been a Partner in the firm for 20 years. Prior to the global role, she spent two years as a Member of the UK Executive, responsible for risk, and was Managing Partner for Risk and General Counsel before that. Victoria is a qualified solicitor and spent more than 10 years as a litigator. She is also a non-executive Director of HM Courts & Tribunals Service.

**Alan Giles †***

Alan Giles was appointed to the Board on 6 November 2015. Alan is currently Senior Independent Director and Chairman of the remuneration committee of Rentokil Initial Plc and Senior Independent Director and Chairman of the audit and risk committee of the Competition and Markets Authority. He is also Chairman of the Advisory Board at the Oxford Institute of Retail Management and an Associate Fellow at Said Business School, University of Oxford as well as Honorary visiting professor at Cass Business School. He was formerly Chairman of Fat Face Group Limited, Chief Executive of HMV Group Plc, Managing Director of Waterstones, and an Executive Director of WH Smith Plc. He previously held non-executive Directorships at The Office of Fair Trading, Somerfield Plc and Wilson Bowden Plc.

**Richard Laing †* (Chairman of the Audit Committee)**
Richard 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, latterly as the Group Finance Director. He previously worked in international agribusiness, at PricewaterhouseCoopers and Marks & Spencer. He has had a number of non-executive positions across a range of sectors. His current appointments include: Chairman of 3i Infrastructure plc and Miro Forestry Ltd, which operates in West Africa; non-executive Director of JPMorgan Emerging Markets Investment Trust plc and the Overseas Development Institute; and a Trustee of Plan UK, the international children's charity. He obtained an MA from Cambridge University in Engineering and is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

**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).

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.

†Member of the Audit Committee.

*Member of the Management Engagement Committee.

# 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:

– Vivian Bazalgette
– Victoria Cochrane
– Alan Giles
– Richard Laing

Key objective:

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

### Audit Committee

Chairman – Richard Laing

Other members:

– Bill Alexander
– Vivian Bazalgette
– Victoria Cochrane
– Alan Giles

Key objectives:

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

### Nominations Committee Function

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. Mark is Head of UK Equities and is one of the team's most experienced fund managers who specialises in UK equity income investing. 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 2016

## Introduction
The Directors present their report for the year ended 31 March 2016.

## 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. Accordingly, resolution 11 is proposed at the forthcoming AGM.

Should this ordinary resolution fail, then the Directors shall, within four months of the AGM, convene a General Meeting at which the following resolutions shall be proposed:

(a) a special resolution for the reconstruction of the Company and incorporating proposals for shareholders to elect either:

  (i) to continue their investment in a closed-ended company; or

  (ii) to receive a cash alternative; and

(b) if the special resolution referred to in (a) above shall not be passed, a special resolution requiring the Company to be wound up voluntarily.

By way of background, since launch in 1996 to 31 March 2016, the Company's net asset value (ex-income) has increased by 311.6% compared to the increase in the FTSE All-Share Index of 84.6% (source Thomson Reuters Datastream). Dividends, over the same period, have grown by 309.3%. The Directors believe, therefore, that the Company has continued to achieve its objectives of providing shareholders with growth in capital and dividends over the medium term and is well placed to continue to do so in the future. The Board recommends that shareholders vote in favour of this resolution.

Further details can be found in the Chairman's Statement on pages 5 and 6 and in Directors' Report on page 21.

## Corporate Governance
The Corporate Governance Statement set out on page 23 is included in this Directors' Report by reference.

## Directors
**Board Composition**

The Board comprises six non-executive Directors, all of whom, with the exception of Victoria Cochrane and Alan Giles who were appointed on 28 October and 6 November 2015 respectively, served throughout the year. Their biographies, which are set out on page 17, demonstrate their breadth of investment, commercial and professional experience relevant to their positions as Directors.

**Directors' Remuneration and Interests in Shares**

The Directors' Remuneration Report on pages 32 to 34 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

# DIRECTORS' REPORT
continued

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 executed on behalf of the Company for each of the Directors under the Company's Articles of Association. Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

## Share Capital

**Capital Structure**

As at 31 March 2016, the Company's share capital consisted of 240,432,350 ordinary shares of 10p each. During the year 3,558,099 shares were issued at an average price of 407.8p. 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 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, no restrictions on the distribution of dividends and the repayment of capital, 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' on page 21.

**Substantial Shareholders**

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

| | AS AT 31 MAY 2016 | | AS AT 31 MARCH 2016 | | AS AT 31 MARCH 2015 | |
|---|---|---|---|---|---|---|
| | HOLDING | % | HOLDING | % | HOLDING | % |
| Invesco Perpetual Savings Scheme and ISA | 48,893,191 | 20.3 | 49,635,889 | 20.6 | 51,605,311 | 21.8 |
| Hargreaves Lansdown | 20,144,388 | 8.4 | 20,182,105 | 8.4 | 18,363,975 | 7.7 |
| Brewin Dolphin | 13,141,490 | 5.5 | 13,208,605 | 5.5 | 13,753,037 | 5.8 |
| Rathbones | 12,324,342 | 5.1 | 12,142,751 | 5.1 | 11,420,750 | 4.8 |
| Charles Stanley | 12,072,902 | 5.0 | 12,377,514 | 5.2 | 12,407,484 | 5.2 |
| Alliance Trust Savings | 11,765,164 | 4.9 | 10,643,312 | 4.4 | 9,816,239 | 4.1 |
| Investec Wealth & Investment | 9,789,454 | 4.1 | 9,631,692 | 4.0 | 9,328,417 | 3.9 |

## Disclosures Required by Listing Rule 9.8.4

The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. For this year only one item applies – disclosure around the issue of shares – and this is covered by note 13 (Share Capital).

## Going Concern

The financial statements have been prepared on a going concern basis. As previously explained, an ordinary resolution is proposed at this year's AGM to release the Directors from their obligation to convene a meeting in 2016 at which a special resolution for the reconstruction of the Company would be proposed. After making enquiries, the Directors have no reason to believe that such a resolution will not receive shareholder approval.

The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet for the same reasons as set out in the Viability Statement on page 14. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet funding commitments; the ability of the Company to meet all of its liabilities (including the £60 million senior secured notes, repayable in May 2029) and ongoing expenses from its assets; revenue forecasts; and future dividend payments.

## Auditor

As a result of an audit tender process, Deloitte LLP resigned on 30 September 2015 and Ernst & Young LLP were appointed as auditor to the Company. A resolution for the appointment of Ernst & Young LLP will be proposed at the forthcoming AGM. The Audit Committee Report on pages 29 to 31 details, among other things, the Committee's review of the auditor's effectiveness, the audit tender process and the Directors' confirmation concerning relevant audit information as required by section 418 of the Companies Act.

## Individual Savings Account (ISA)

The ordinary 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, five resolutions are proposed as special business, two as ordinary resolutions and three as special resolutions.

**Continuation of the Company**

Resolution 11 is being proposed as an Ordinary resolution and seeks shareholder authority to release the Directors from their obligation, pursuant to Article 155.1 of the Articles of Association of the Company, to convene a General Meeting of the Company at which a special resolution for the reconstruction of the Company be proposed to approve the continuation of the Company as an investment trust. Such a reconstruction would offer shareholders to elect either to continue their investment in a closed-ended company or receive a cash alternative. Should that resolution fail, a special resolution that the Company be voluntarily wound up would then be required.

**Share Issuance**

The Directors are seeking the authority to issue up to an aggregate nominal amount of £2,404,323 (10% of the Company's issued share capital as at 6 June 2016) 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 2017 or the date 15 months after the passing of this resolution, whichever is the earlier.

# DIRECTORS' REPORT
continued

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 £2,404,323 (10% of the Company's issued share capital as at 6 June 2016) 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 2017 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 36,040,809 shares (14.99% of the Company's issued share capital as at 6 June 2016), subject to the restrictions referred to in the Notice of Meeting of the AGM. This authority will expire at the AGM in 2017 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. Only in exceptional circumstance will the Company use this power and an explanation will be provided.

The Directors have carefully considered all resolutions proposed in the Notice of AGM (set out on pages 57 to 60) and, in their opinion, consider them to be in the best interests of shareholders as a whole.

The Directors therefore 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

6 June 2016

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2016

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 companies.

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. As a result, the Company has no executive directors, employees or internal operations. 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 Limited and a Director of Invesco Asset Management Limited 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 both Bill Alexander and Vivian Bazalgette, in light of them having served on the Board for over nine years and has concluded that they continue to be effective in the discharge of their duties and responsibilities to the Board. Notwithstanding their length of service, the Board consider that they remain independent, a view which has been demonstrated by their actions on behalf of the Company and their other business interests.

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.

### Board and Committee Composition and Succession Planning

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

The Board has a formal succession plan in place and, at least annually, reviews both the performance of the Board as a whole, its committees and individual Directors.

Following a review of the current and future requirements of the Board as part of the Board's succession planning and the planned retirement of two Directors during the year, a recruitment process was initiated with the objective of identifying suitable candidates. An independent specialist recruitment consultancy, The Miles Partnership, was engaged to assist the Board in achieving this objective. A number of high calibre candidates were identified and two new Directors, Victoria Cochrane and Alan Giles, were subsequently appointed. The biographies of these, and all the Directors are set out on page 17.

# CORPORATE GOVERNANCE STATEMENT

continued

### 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

Vivian Bazalgette, is the appointed Senior Independent Director (SID). The SID provides a sounding board for the Chairman, serves as an intermediary for the other Directors if necessary and provides a channel of communication for shareholders where contact through the Chairman or Company Secretary have failed to resolve the issue or where that channel of communication 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 on Company's section of 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, mitigating 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, 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.

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

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

*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 32 to 34.

*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, diversity and knowledge of the Company, and identifying suitable candidates where required. The appointment, re-election and tenure of Directors is explained on page 25.

## The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 29 to 31, which is included in this Directors' Report by reference.

## The Management Engagement Committee (MEC)

The MEC comprises Bill Alexander, Victoria Cochrane, Alan Giles, Vivian Bazalgette and Richard Laing, all of whom are independent Directors. The Chairman of the MEC is Bill Alexander. The MEC has written terms of reference which clearly define its responsibilities and duties. The terms of reference are reviewed at least annually 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 Company's section of the Manager's website.

The MEC meets at least annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager and Company Secretary. The MEC's assessment of the Manager can be found on page 27.

## Appointment, Re-election and Tenure of Directors

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 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 Company's section of 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).

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 each Director demonstrates commitment to the role. The Board therefore recommends to shareholders their support for resolutions 2 through to 7 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 formal 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.

In 2014 an external consultant, Trust Associates Limited, undertook an exercise to assess the effectiveness and performance of individual Directors, the Board as a whole and its committees. The results were satisfactory, with the Directors being deemed to devote sufficient time to their duties and to be effective in their roles.

For the current year, the Board has conducted a formal internally facilitated evaluation of its performance, that of its committees and of individual Directors. The findings indicated that the Directors individually, and the Board as a whole, continued to function efficiently, that the composition of the Board is appropriately aligned to the Company's activities and that the Directors are able to effectively discharge their responsibilities to the Company and its members.

# CORPORATE GOVERNANCE STATEMENT
continued

**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 | 2 |
| *Meetings attended:* | | | |
| Bill Alexander | 5 | 3 | 2 |
| Vivian Bazalgette | 5 | 3 | 2 |
| Victoria Cochrane (appointed 28 October 2015) | 2 | 2 | 1 |
| Alan Giles (appointed 6 November 2015) | 2 | 2 | 1 |
| Richard Laing | 5 | 3 | 2 |
| Bob Yerbury | 5 | 3 | n/a |
| Antony Hardy (retired 10 July 2015) | 2 | 1 | 1 |
| Sir Martyn Arbib (retired 1 October 2015) | 3 | n/a | n/a |

All directors attended all Board and committee meetings that took place whilst they were a director.

## 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 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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 the effectiveness of external service providers. The Audit Committee report on pages 29 to 31 describes in more depth its activities.

## The Manager

**Investment Management Agreement and Management Fees**

Invesco Fund Managers Limited acts as Manager and provides administration services to the Company under an Investment Management Agreement (IMA) dated 22 July 2014 and two supplemental agreements. The IMA is terminable by either party giving not less than six months' notice; this was reduced from the previous one year's notice by the second supplemental agreement dated 28 May 2015.

Under the agreement, the Manager receives a management fee based on the Company's funds under management of 0.15% per quarter up to £500 million and 0.10% per quarter thereafter. For the year, the management fee was £5,565,000 (2015: £5,304,000). 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 0.5% 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 performance fee for the year amounted to £4,040,000 (2015: £5,282,000).

**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 on behalf of the Company and various statistical reports and information throughout the year.

**Assessment of the 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 for the year ended 31 March 2016 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.

## Company Secretary

The Board has direct access to the advice and services of the corporate company secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed, 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 monthly factsheets and the NAV of the

# CORPORATE GOVERNANCE STATEMENT
continued

Company's ordinary shares, which is published daily via the London Stock Exchange and on the Company's section of the Manager's website at *www.invescoperpetual.co.uk/pigit*.

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 62. At other times the Company responds to queries from shareholders on a range of issues.

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

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 Company's section of the Manager's website in order to access copies of annual and half-yearly financial reports, pre-investor information, 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 2016

The Audit Committee was chaired by Anthony Hardy until his retirement in July 2015 and then by, Richard Laing, following his appointment at the conclusion of the 2015 AGM. The other members during the year were Bill Alexander, Vivian Bazalgette, Victoria Cochrane and Alan Giles.

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 Association of Investment Companies Code of Corporate Governance and are available for inspection at the registered office of the Company or on the Company's section of the Manager's website. They will also be available for inspection at the AGM.

## Audit Committee Duties

The Committee's main duties include:

- review throughout the year 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 and review of the depositary's annual report;
- 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, going concern and the long-term viability of the Company; 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 attended the Committee meeting at which the draft annual financial report was reviewed and were 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 attended 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. The Committee also has direct access to the depositary which provided a report to the Committee at the year end accounts meeting where the year end accounts were discussed.

# AUDIT COMMITTEE REPORT
continued

## Accounting Matters and Significant Areas of Focus

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. |
| Proof of existence of investments. | The Manager and the depositary confirmed that the accounting records correctly recorded all investee holdings and that these had been agreed to custodian records. |
| 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. |
| Recognition of income. | The recognition of income is undertaken in accordance with accounting policy note 1(f) on page 45. 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 2016 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 position and performance, business model and strategy.

## Audit Tendering

Deloitte LLP (Deloitte) was the auditor of the Company since its inception in 1996. As highlighted in last year's annual report, the Committee put the audit of the Company's annual financial statements to competitive tender during the year. Following this exercise Deloitte was asked by the Board to resign in November 2015. I would like to take this opportunity, on behalf of the Directors, to thank Deloitte for the service provided to the Company over many years and for the benefit of its expertise and advice.

The Board subsequently appointed Ernst & Young LLP to become the Company's statutory auditor. Resolution 9 of the Notice of AGM seeks shareholder approval of this appointment.

The FRC's Audit Quality Review team selected for review the audit of the Company's 2015 financial statements as part of their annual inspection of audit firms; these statements were audited by Deloitte. As Chairman of the Audit Committee, I received a full copy of the findings of the Audit Quality Review team and can confirm that there were no significant areas for improvement identified within the report. I can also confirm that there was nothing within the report which had a bearing on the decision not to reappoint Deloitte as auditor following the audit tender.

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

The Committee evaluated the performance and effectiveness of the external auditor during the year to 31 March 2016. This included a review of the audit planning, execution and reporting, the quality of the audit work and the auditor's independence. All results were satisfactory.

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. No such fees arose during the year. 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.

## 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 and this forms the basis of the Board's robust assessment of the risks to which the Company is exposed. Risks are reviewed by means of the Company's risk matrix and its risk control summary (RCS) which sets out mitigating controls and the information flow to the Committee and Directors throughout the year. The principal risks of the Company, as set out in the Strategic Report on pages 12 to 14 are mapped to the RCS for completeness. In addition to the Committee's ongoing review of risks, a separate exercise was undertaken in the year to thoroughly test the ongoing relevance and completeness of the principal risks. These risks encompass 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.

As part of this, 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. On a formal and regular basis the Committee 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. The Committee also reviewed an annual report from the depositary which monitors the Company's stock, cash, borrowings and published investment limits throughout the year. None of these reviews identified any issues of significance during the year. Additionally, the depositary and the auditor have direct access to the Chairman or Audit Committee Chairman about any concerns; no issues arose throughout the year that caused the depositary to use this access.

## 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.

**Richard Laing**
*Chairman of the Audit Committee*

6 June 2016

# DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2016

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. An ordinary resolution for approval of the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 36 to 40.

## Remuneration Responsibilities

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

## Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 10 July 2015 and became effective on that date.

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 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.

## Annual Statement on Directors' Remuneration

For the two years to 31 March 2016, the Directors were paid fees at the following rates: Chairman, £37,500; Audit Committee Chairman, £31,250; Senior Independent Director, £29,000; and the other Directors, £25,000. Directors' emoluments received in the current year and prior year are set out over the page.

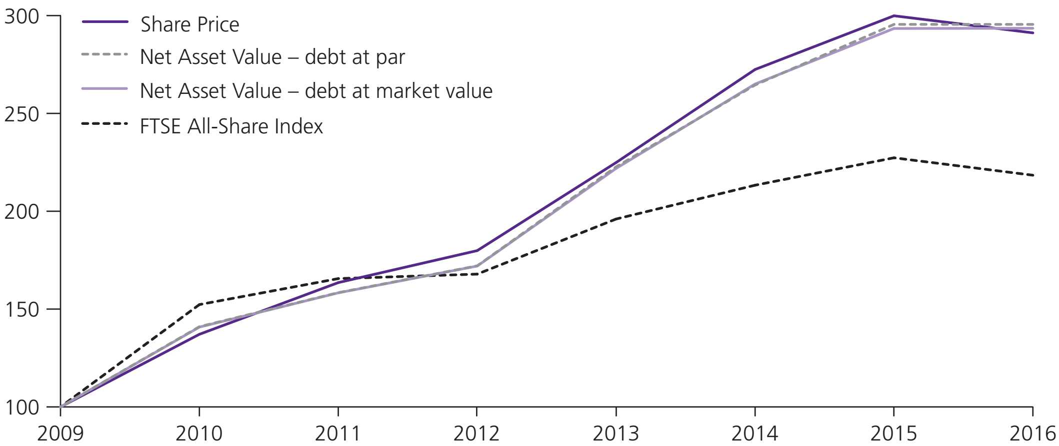
Director's fees were last revised with effect from 1 April 2014 following a review of the increasing demands and accountability of the corporate governance and regulatory environment and the additional workload that each Director had, and will continue, to experience. A similar review was conducted during the year and the Board concluded that the current level of remuneration is appropriate. No discretionary payments were made in the year, or the previous year.

## Report on Remuneration for the Year Ended 31 March 2016

### 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 seven years to 31 March 2016. 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:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | FEES | TAXABLE BENEFITS[1] | TOTAL | FEES | TAXABLE BENEFITS[1] | TOTAL |
| | £ | £ | £ | £ | £ | £ |
| Bill Alexander (Chairman of the Board) | 37,500 | — | 37,500 | 37,500 | — | 37,500 |
| Antony Hardy (Retired on 10 July 2015) | 8,050 | — | 8,050 | 29,650 | — | 29,650 |
| Sir Martyn Arbib (retired on 1 October 2015) | 12,550 | — | 12,550 | 25,000 | — | 25,000 |
| Vivian Bazalgette (Senior Independent Director)[2] | 27,900 | — | 27,900 | 25,000 | — | 25,000 |
| Bob Yerbury | 25,000 | — | 25,000 | 25,000 | — | 25,000 |
| Richard Laing (Chairman of the Audit Committee)[3] | 31,250 | 273 | 31,523 | 29,550 | 273 | 29,823 |
| Victoria Cochrane (appointed 28 October 2015) | 10,700 | — | 10,700 | — | — | — |
| Alan Giles (appointed on 6 November 2015) | 10,050 | — | 10,050 | — | — | — |
| Total | 163,000 | 273 | 163,273 | 171,700 | 273 | 171,973 |

(1) Taxable benefits relate to grossed up costs of travel.

(2) Vivian Bazalgette took over as Senior Independent Director on 10 July 2015, following the retirement of Antony Hardy.

(3) Richard Laing was appointed Chairman of the Audit Committee with effect from 10 July 2015, following the retirement of Antony Hardy.

# DIRECTORS' REMUNERATION REPORT
continued

**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 | 2016 ORDINARY SHARES | 2015 ORDINARY SHARES |
|---|---|---|
| Bill Alexander | 10,000 | 10,000 |
| Vivian Bazalgette | 10,000 | 10,000 |
| Victoria Cochrane | 10,000 | — |
| Alan Giles | 10,000 | — |
| 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 respect of the year to 31 March 2016 and the prior year:

| | 2016 £'000 | 2015 £'000 | CHANGE £'000 |
|---|---|---|---|
| Aggregate Directors' Emoluments | 163 | 172 | –9 |
| Aggregate Shareholder Distributions | 35,767 | 33,472 | +2,295 |

**Voting at Last Annual General Meeting**

At the Annual General Meeting of the Company held on 10 July 2015 resolutions approving the Directors' Remuneration Policy and Annual Statement and Report were passed. The votes cast (including votes cast at the Chairman's discretion) were as follows:

| | VOTES FOR | VOTES AGAINST | WITHHELD (NUMBER) |
|---|---|---|---|
| Directors' Remuneration Policy | 99.69% | 0.31% | 73,010 |
| Annual Statement and Report on Remuneration | 99.71% | 0.29% | 47,203 |

## Approval

This Directors' Remuneration Report was approved by the Board of Directors on 6 June 2016.

**Bill Alexander**
Chairman

*Signed on behalf of the Board of Directors*

# DIRECTORS' RESPONSIBILITIES STATEMENT
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 that law the Directors have elected to prepare financial statements in accordance with UK Accounting Standards, including FRS 102 '*The Financial Reporting Standard applicable in the UK and Republic of Ireland*'.

Under company law, the Directors must not approve the 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

The Directors 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 position and performance, business model and strategy.

Signed on behalf of the Board of Directors

**Bill Alexander**
*Chairman*
6 June 2016

## Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/pigit* which is the Company's section of 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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PERPETUAL INCOME AND GROWTH INVESTMENT TRUST PLC

## Our opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Perpetual Income and Growth Investment Trust plc's (the 'Company') affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## What we have audited

We have audited the financial statements of the Company for the year ended 31 March 2016 which comprise:

| |
|---|
| Income Statement for the year ended 31 March 2016 |
| Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2016 |
| Balance Sheet as at 31 March 2016 |
| Related notes 1 to 20 to the financial statements |

The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 and with the provisions of the Companies Act 2006.

## Overview of our audit approach

| | |
|---|---|
| **Risks of material misstatement** | • Income recognition<br>• Valuation of and entitlement to investments<br>• Management and performance fees |
| **Audit scope** | • We performed an audit of the complete financial information of Perpetual Income and Growth Investment Trust plc in accordance with applicable law and International Standards on Auditing (UK and Ireland). |
| **Materiality** | • Overall materiality of £9.6 million represents 1% of net assets. |

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

| Risk | Our response to the risk: |
|---|---|
| **Income recognition**<br>The Company has reported income of £40.2 million (2015: £37.6 million).<br>We focused on the recognition of revenue and its presentation in the financial statements given the importance of the revenue return to shareholders. We identified incomplete or inaccurate income recognition as a risk through failure to recognise proper income entitlements or apply appropriate accounting treatment. | **We performed the following procedures:**<br>Assessed the Manager's and Bank of New York Mellon's ("BNYM") systems and controls in this area and ascertained whether we could rely on them.<br>Agreed a sample of dividends received from the income report to an independent pricing source.<br>Agreed a sample of dividends paid by investee companies from an independent pricing source to the income report.<br>Agreed 100% of accrued dividends to an independent pricing source.<br>Performed a review of special dividends received. We assessed the appropriateness of the accounting treatment (i.e the classification between capital and income) with reference to the rationale put forward by the companies declaring the special dividend. |

**What we have reported to the Audit Committee**

- Having assessed the Manager's and BNYM's systems and controls in the area we adopted a controls based approach for our audit of income recognition.
- We noted no issues in agreeing the sample of dividend income from equity securities to and from the independent source and to the bank statement.
- We noted no issues in agreeing the accrued dividends to an independent source.
- We noted that the Company received £5 million of special dividends during the year all which have been treated as a revenue return. We considered that this treatment was appropriate.

| Risk | Our response to the risk: |
|---|---|
| **Valuation of and entitlement to investments**<br>The valuation of the portfolio of investments is comprised of listed investments in equity securities of £1,090.1 million (2015: £1,120.6 million) and unquoted investments of £27.5 million (2015: £7.9 million).<br>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return.<br>Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders. | **We performed the following procedures:**<br>Agreed 100% of the quoted investment valuations and exchange rates to an independent source using our proprietary pricing tool operated by our team of pricing specialists.<br>Reviewed pricing exception reports and investigated any discrepancies.<br>For all unquoted investments we discussed the valuation methodology with the Manager, considered the appropriateness of the valuation techniques used and agreed the valuations to independent third party valuation reports.<br>Ensured the unquoted valuations are performed in accordance with the Company's accounting policies as set out in note 1(c)(v) to the financial statements.<br>Performed a three way reconciliation of the investments held by the Company to the records of the administrator, custodian and depositary.<br>Obtained independent confirmation of all investments held from the custodian and depositary. |

**What we have reported to the Audit Committee**

- For all listed investments we noted no material differences in the fair value of the investments and identified no exceptions or discrepancies.
- For the portfolio of unquoted investments we read the independent third party valuation reports obtained by the Manager and the meeting minutes from the Invesco Pricing Committee as well as asking follow up questions to members of this Committee. Additionally, we discussed the valuation of the unquoted investments with the Audit Committee.
- We confirmed that the valuation techniques were in accordance with the Company's accounting policies as set out in note 1(c)(v) to the financial statements.
- We confirmed that all investments held by the Company agreed to the independent confirmations received from the custodian and depositary and that no discrepancies arose when performing a three way reconciliation of the investments held.

# INDEPENDENT AUDITOR'S REPORT

continued

| Risk | Our response to the risk: |
|---|---|
| **Management and performance fees**<br><br>The Company paid management fees of £5.6 million (2015: £5.3 million) and accrued a performance fee of £4 million (2015: £5.3 million) based on the terms of the Investment Management Agreement.<br><br>The performance 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 under performance.<br><br>There is a risk that management and performance fees are not calculated correctly or the methodology is open to misinterpretation. | **We performed the following procedures:**<br><br>• Recalculated the management and performance fees payable and ensured the calculations were in line with the Investment Management Agreement.<br>• Validated all key external inputs used in the calculations to third party source data.<br>• Agreed all management fees paid to invoices and subsequent bank payments, confirming the accuracy of the year end liabilities.<br>• Confirmed the accuracy of the year end liability in respect of the performance fee. |
| **What we have reported to the Audit Committee**<br><br>• We recalculated the management and performance fees payable and ensured that the calculations were in line with the Investment Management Agreement.<br>• We validated all key inputs to source documentation and agreed the management fees to supporting invoices and bank statements, and confirmed the accuracy of the year end liability in respect of management and performance fees.<br>• There were no areas of interpretation in respect of the management and performance fee calculation methodologies which required further discussion with the Manager or the Audit Committee. | |

## The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determines our audit scope for the Company. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, changes in the business environment, the organisation of the Company and effectiveness of company-wide controls, and other factors such as recent Service Organisation Control ('SOC') reporting when assessing the level of work to be performed.

## Our application of materiality

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

### Materiality

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

We determined materiality for the Company to be £9.6 million, which is 1% of net assets. We have derived our materiality calculation based on a proportion of net assets as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that as this is our first year as auditor to the Company that performance materiality was 50% of our planning materiality, namely £4.8 million.

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £1.8 million for the revenue column of the Income Statement, being 5% of the return on ordinary activities before taxation.

## Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £480,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## 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 financial 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.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, 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.

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.

## 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

**ISAs (UK and Ireland) reporting**

We are required to report to you if, in our opinion, financial and non-financial information in the annual financial report is:

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

In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual financial report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual financial report appropriately

# INDEPENDENT AUDITOR'S REPORT

continued

addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.

*We have no exceptions to report.*

**Companies Act 2006 reporting**

We are required to report to you if, in our opinion:

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

*We have no exceptions to report.*

**Listing Rules review requirements**

We are required to review:

- the Directors' statement in relation to going concern set out on page 21, and longer-term viability, set out on page 14; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review

*We have no exceptions to report.*

## Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

**ISAs (UK and Ireland) reporting**

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual financial report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Disclosures in the annual financial report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the annual financial report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

*We have nothing material to add or to draw attention to.*

**Sarah Williams** *(Senior statutory auditor)*
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

6 June 2016

Note:

1. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 MARCH

| | NOTES | 2016 REVENUE £'000 | 2016 CAPITAL £'000 | 2016 TOTAL £'000 | 2015 REVENUE £'000 | 2015 CAPITAL £'000 | 2015 TOTAL £'000 |
|---|---|---|---|---|---|---|---|
| (Losses)/gains on investments at fair value | 9 | — | (23,335) | (23,335) | — | 81,118 | 81,118 |
| Foreign exchange gains | | — | 33 | 33 | — | 31 | 31 |
| Income | 2 | 40,246 | — | 40,246 | 37,611 | — | 37,611 |
| Investment management fees | 3 | (1,670) | (7,935) | (9,605) | (1,591) | (8,995) | (10,586) |
| Other expenses | 4 | (739) | (1) | (740) | (680) | (1) | (681) |
| **Net return before finance costs and taxation** | | 37,837 | (31,238) | 6,599 | 35,340 | 72,153 | 107,493 |
| Finance costs | 5 | (1,184) | (2,762) | (3,946) | (1,159) | (2,706) | (3,865) |
| **Return on ordinary activities before taxation** | | 36,653 | (34,000) | 2,653 | 34,181 | 69,447 | 103,628 |
| Tax on ordinary activities | 6 | (554) | — | (554) | (532) | — | (532) |
| **Return on ordinary activities after taxation for the financial year** | | 36,099 | (34,000) | 2,099 | 33,649 | 69,447 | 103,096 |
| **Return per ordinary share:** | | | | | | | |
| Basic | 7 | 15.12p | (14.24)p | 0.88p | 14.34p | 29.59p | 43.93p |

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The return on ordinary activities after taxation is the total comprehensive income and therefore no statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations. 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 2014** | 23,382 | 239,613 | 602,899 | 30,396 | 896,290 |
| Net return on ordinary activities | — | — | 69,447 | 33,649 | 103,096 |
| Dividends paid – note 8 | — | — | — | (32,817) | (32,817) |
| Net proceeds from issue of new shares | 305 | 11,553 | — | — | 11,858 |
| **At 31 March 2015** | 23,687 | 251,166 | 672,346 | 31,228 | 978,427 |
| Net return on ordinary activities | — | — | (34,000) | 36,099 | 2,099 |
| Dividends paid – note 8 | — | — | — | (34,599) | (34,599) |
| Net proceeds from issue of new shares | 356 | 14,067 | — | — | 14,423 |
| **At 31 March 2016** | 24,043 | 265,233 | 638,346 | 32,728 | 960,350 |

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

# BALANCE SHEET
## AS AT 31 MARCH

| | NOTES | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 9 | 1,117,576 | 1,128,511 |
| **Current assets** | | | |
| Debtors | 10 | 3,785 | 7,416 |
| **Creditors: amounts falling due within one year** | 11 | (101,570) | (98,102) |
| **Net current liabilities** | | (97,785) | (90,686) |
| **Total assets less current liabilities** | | 1,019,791 | 1,037,825 |
| **Creditors: amounts falling due after more than one year** | 12 | (59,441) | (59,398) |
| **Net assets** | | 960,350 | 978,427 |
| **Capital and reserves** | | | |
| Share capital | 13 | 24,043 | 23,687 |
| Share premium | 14 | 265,233 | 251,166 |
| Capital reserve | 14 | 638,346 | 672,346 |
| Revenue reserve | 14 | 32,728 | 31,228 |
| **Shareholders' funds** | | 960,350 | 978,427 |
| **Net asset value per ordinary share** | | | |
| Basic | 15 | 399.4p | 413.1p |

These financial statements were approved and authorised for issue by the Board of Directors on 6 June 2016.

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

*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 in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies and Venture Capital Trusts*, issued by the Association of Investment Companies in November 2014. Accordingly, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* applies for these financial statements for the year ended 31 March 2016 and has been applied for the first time. The financial statements are issued on a going concern basis.

As a result of the first time adoption of FRS 102 and the revised SORP, comparative figures and presentation have been revised where required. The net return attributable to ordinary shareholders and shareholders' funds remain unchanged. As an investment fund the Company has the option, which it has taken, not to present a cash flow statement. A cash flow statement is not required when an investment fund meets all the following conditions: substantially all investments are highly liquid and are carried at market value, and where a statement of changes in equity (in these financial statements it is called the Reconciliation of Movements in Shareholders' Funds) is provided. The accounting policies applied to these financial statements are consistent with those applied for the year ended 31 March 2015, apart from a revision to cash which is now defined as cash and cash equivalents. Note 1(d) sets out the accounting policy for cash and cash equivalents. No other accounting policies have changed as a result of the application of FRS 102, amendments to FRS 102 (see below) and the revised SORP.

Amendments to FRS 102 – Fair value hierarchy disclosures (March 16) amends paragraphs 34.22 and 34.42 of FRS 102, revising the disclosure requirements for financial instruments held at fair value to align these with the disclosure requirements of EU-adopted IFRS. These amendments become effective for accounting periods beginning on or after 1 January 2017. The Company has chosen to early adopt these paragraphs. There are no accounting policy or disclosure changes as a result of this adoption.

### (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 reserve, 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.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 1. Principal Accounting Policies (continued)

### (c) Financial Instruments (continued)

(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) Cash and Cash Equivalents

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

### (e) Hedging 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.

### (f) 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.

### (g) Expenses and Finance Costs

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

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

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.

### (h) 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 and losses on loan relationships, as the Company is unlikely to have sufficient future taxable revenue to offset against these.

### (i) 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.**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Income from investments** | | |
| UK dividends – ordinary | 27,127 | 25,696 |
| UK dividends – special | 3,495 | 3,293 |
| Overseas dividends – ordinary | 6,332 | 5,462 |
| Overseas dividends – special | 1,609 | 2,525 |
| Scrip dividends | 1,002 | 487 |
| Unfranked investment income | 632 | 148 |
| | 40,197 | 37,611 |
| **Other income** | | |
| Underwriting commission | 49 | — |
| **Total income** | 40,246 | 37,611 |

No special dividends have been recognised in capital (2015: £nil).

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 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.**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Investment management fee (i) | 1,670 | 3,895 | 5,565 | 1,591 | 3,713 | 5,304 |
| Performance-related management fee (ii) | — | 4,040 | 4,040 | — | 5,282 | 5,282 |
| | 1,670 | 7,935 | 9,605 | 1,591 | 8,995 | 10,586 |

Details of the Investment Management Agreement can be found on page 26.

(i) At 31 March 2016 £1,368,000 (2015: £1,383,000) 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 2016 £4,040,000 (2015: £5,282,000) 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.**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Directors' emoluments (i) | 163 | — | 163 | 172 | — | 172 |
| Fees payable to the Company's auditor for (ii): | | | | | | |
| – audit of the financial statements | 27 | — | 27 | 29 | — | 29 |
| Other expenses (iii) | 549 | 1 | 550 | 479 | 1 | 480 |
| | 739 | 1 | 740 | 680 | 1 | 681 |

(i) The Directors' Remuneration Report provides further information on Directors' emoluments.

(ii) Fees payable to the Company auditor are shown excluding VAT, which is included in other expenses.

(iii) Included within other expenses is £11,000 (2015: £12,000) of employer's National Insurance paid on Directors' fees. As at 31 March 2016, the amounts outstanding on Directors' fees and employer's National Insurance was £18,000 (2015: £18,000). Other expenses charged to capital arise from custodian transaction charges.

## 5. Finance costs

**Finance costs arise on any borrowing the Company has, being in this case the £60 million notes and the overdraft facility.**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | 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 | 385 | 896 | 1,281 | 285 | 666 | 951 |
| Debenture stock repayable within 1 year, not by instalments | — | — | — | 159 | 372 | 531 |
| Notes repayable after 5 years, not by instalments | 799 | 1,866 | 2,665 | 715 | 1,668 | 2,383 |
| | 1,184 | 2,762 | 3,946 | 1,159 | 2,706 | 3,865 |

Notes and debenture issue costs are amortised on an effective interest basis.

## 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) Tax Charge

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 | REVENUE £'000 | CAPITAL £'000 | TOTAL £'000 |
| Overseas taxation | 554 | — | 554 | 532 | — | 532 |

### (b) Reconciliation of Tax Charge

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Return on ordinary activities before taxation | 2,653 | 103,628 |
| Theoretical tax at UK Corporation Tax rate of 20% (2015: 21%) | 530 | 21,762 |
| Effects of: | | |
| – non-taxable gains on investments | 4,667 | (17,035) |
| – non-taxable gains on foreign exchange movements | (7) | (6) |
| – non-taxable UK dividends | (5,836) | (5,941) |
| – non-taxable scrip dividends | (200) | (102) |
| – non-taxable overseas dividends | (1,588) | (1,677) |
| – expenses in excess of taxable income | 2,434 | 2,999 |
| – irrecoverable overseas tax suffered | 554 | 532 |
| | 554 | 532 |

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 6. Taxation (continued)

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

The Company has excess management expenses and loan relationship deficits of £164,858,000 (2015: £152,690,000) that are available to offset future taxable revenue. A deferred tax asset, measured at the standard rate of corporation tax of 18% (2015: 20%), of £29,674,000 (2015: £30,538,000) 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.**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | PENCE | £'000 | PENCE | £'000 |
| Returns after tax: | | | | |
| – revenue | 15.12 | 36,099 | 14.34 | 33,649 |
| – capital | (14.24) | (34,000) | 29.59 | 69,447 |
| – total | 0.88 | 2,099 | 43.93 | 103,096 |
| Weighted average number of ordinary shares in issue during the year: | | | | |
| – basic | | 238,793,640 | | 234,687,535 |

## 8. Dividends on Ordinary Shares

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

Dividends on equity shares paid in the year:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | PENCE | £'000 | PENCE | £'000 |
| Fourth interim in respect of previous year | 3.90 | 9,238 | 3.70 | 8,651 |
| First interim paid | 2.90 | 6,940 | 2.80 | 6,547 |
| Second interim paid | 2.90 | 6,947 | 2.80 | 6,554 |
| Third interim paid | 2.90 | 6,973 | 2.80 | 6,632 |
| | 12.60 | 30,098 | 12.10 | 28,384 |
| Special dividend paid in respect of previous year | 1.90 | 4,501 | 1.90 | 4,443 |
| | 14.50 | 34,599 | 14.00 | 32,827 |
| Return of unclaimed dividends from previous years | — | — | — | (10) |
| | 14.50 | 34,599 | 14.00 | 32,817 |

Dividends on equity shares payable in respect of the year:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | PENCE | £'000 | PENCE | £'000 |
| First interim paid September | 2.90 | 6,940 | 2.80 | 6,547 |
| Second interim paid December | 2.90 | 6,947 | 2.80 | 6,554 |
| Third interim paid March | 2.90 | 6,973 | 2.80 | 6,632 |
| Fourth interim payable June | 4.10 | 9,858 | 3.90 | 9,238 |
| Total interim dividends | 12.80 | 30,718 | 12.30 | 28,971 |
| Special dividend payable June | 2.10 | 5,049 | 1.90 | 4,501 |
| | 14.90 | 35,767 | 14.20 | 33,472 |

## 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 are either:**

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

### (a) Investments

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Investments listed on a recognised stock exchange | 1,090,088 | 1,120,601 |
| Unlisted investments | 27,488 | 7,910 |
| Total investments | 1,117,576 | 1,128,511 |
| Opening valuation | 1,128,511 | 1,026,821 |
| Movements in year: | | |
| Purchases at cost | 191,566 | 124,223 |
| Sales – proceeds | (179,166) | (103,651) |
| – net realised profits on sales | 43,672 | 23,285 |
| Movement in investment holding gains | (67,007) | 57,833 |
| Closing valuation | 1,117,576 | 1,128,511 |
| Closing book cost | (865,283) | (809,211) |
| Closing investment holding gains | 252,293 | 319,300 |
| Net realised gains based on historical cost | 43,672 | 23,285 |
| Movement in investment holding gains | (67,007) | 57,833 |
| (Losses)/gains on investments | (23,335) | 81,118 |

### (b) Transaction Costs

The transactions costs included in gains on investments consisted of £805,000 (2015: £445,000) on purchases and £250,000 (2015: £97,000) on sales.

### (c) Significant holdings

At 31 March 2016 the Company had holdings of 3% or more of the following investments:

| NAME OF UNDERTAKING | COUNTRY OF INCORPORATION | INSTRUMENT | % HELD |
|---|---|---|---|
| Napo Pharmaceuticals[UQ] | United States | US common stock | 21.7 |
| PuriCore | England and Wales | Ordinary shares | 16.8 |
| Motif Bio | England and Wales | Ordinary shares | 15.2 |
| Nimrod Sea Assets | Guernsey | Ordinary shares | 9.9 |
| Diurnal | England and Wales | Ordinary shares | 9.9 |
| Lombard Medical | United States | US common stock | 9.5 |
| SciFluor Life Sciences[UQ] | United States | 'A' convertible preferred shares | 9.3 |
| Mayair | Jersey | Ordinary shares | 9.3 |
| Infirst Healthcare[UQ] | England and Wales | "D" shares | 6.8 |
| Damille Investments II | England and Wales | Ordinary shares | 6.2 |
| Macau Property Opportunities Fund | Guernsey | Ordinary shares | 5.6 |
| Marwyn Value Investors | Cayman Islands | Ordinary shares | 5.1 |
| Horizon Discovery | England and Wales | Ordinary shares | 5.0 |
| Silence Therapeutics | England and Wales | Ordinary shares | 4.8 |
| GAME Digital | England and Wales | Ordinary shares | 3.8 |
| Harworth | England and Wales | Ordinary shares | 3.7 |
| KCOM | England and Wales | Ordinary shares | 3.2 |

UQ: unquoted investment.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 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.**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts due from brokers | — | 1,125 |
| Tax recoverable | 1,185 | 1,130 |
| Prepayments and accrued income | 2,600 | 5,161 |
| | 3,785 | 7,416 |

## 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 (as shown in this note) and those due after that time (as shown in the next note).**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Bank overdraft | 93,942 | 90,221 |
| Amounts due to brokers | 1,022 | — |
| Performance-related fee | 4,040 | 5,282 |
| Accruals | 2,566 | 2,599 |
| | 101,570 | 98,102 |

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 £140 million (2015: £110 million). The facility is due for renewal on 29 May 2016. Interest is payable at 0.7% over LIBOR. During the year, the covenant under the facility requiring total assets to not fall below £440 million, was increased to £620 million. There were no other changes to the facility agreement.

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

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| 4.37% senior secured notes 2029 | 60,000 | 60,000 |
| Unamortised issue costs | (559) | (602) |
| | 59,441 | 59,398 |

The senior secured notes (Notes) of £60 million were issued on 8 May 2014 and are secured by a floating charge over all the Company's assets and are redeemable at par on 8 May 2029. The Notes have a fixed interest rate of 4.37% per annum payable biannually on 8 May and 8 November. Issue costs are amortised over the life of the Notes using the effective interest method.

The Notes are secured by a first floating charge over the Company's assets. 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%.

## 13. Share Capital

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

| | 2016 NUMBER | 2016 £'000 | 2015 NUMBER | 2015 £'000 |
|---|---|---|---|---|
| **Allotted 10p ordinary shares:** | | | | |
| Brought forward | 236,874,251 | 23,687 | 233,816,175 | 23,382 |
| Issue of new shares | 3,558,099 | 356 | 3,058,076 | 305 |
| Carried forward | 240,432,350 | 24,043 | 236,874,251 | 23,687 |

During the year the Company issued 3,558,099 (2015: 3,058,076) ordinary shares at an average price (excluding costs) of 407.8p (2015: 389.2p). No shares have been issued or bought back subsequent to the year end.

The Directors' Report on page 20 sets out the share capital structure, restrictions and voting rights.

## 14. Reserves

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

The share premium comprises the net proceeds received by the Company following the issue of shares, after deduction of the nominal amount of 10 pence and any applicable issue costs. The share premium is non-distributable.

Capital investment gains and losses are shown in note 9(a), and form part of the capital reserve. The revenue reserve shows the net revenue retained after payment of any dividends. The capital and revenue reserves are distributable by way of dividend.

## 15. Net Asset Value

**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.**

The net asset value per share and the net asset values attributable at the year end were as follows:

| | NET ASSET VALUE PER SHARE | | NET ASSETS ATTRIBUTABLE (£'000) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Ordinary shares – basic | 399.4p | 413.1p | 960,350 | 978,427 |

The number of shares in issue at the year end are shown in note 13.

## 16. Contingencies, Guarantees and Financial Commitments

**Any liabilities the Company is committed to honour but which are dependent on future circumstances or events occurring would be disclosed in this note if any existed.**

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

## 17. Related Party Transactions and Transaction 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' emoluments and interests have been disclosed on pages 32 to 34 with additional disclosure in note 4. No other related parties have been identified. Details of the Manager's services and fees are disclosed in the Directors' Report on pages 26 and 27 and note 3.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 18. 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 shown on page 10. 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 23) 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 15 and 16) cash, borrowings (including overdraft and notes), debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. For the purpose of this note 'cash' should be taken to comprise cash and cash equivalents. 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. 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 and Swiss francs.

*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. During the year, no forward currency contracts were used by the Company (2015: none).

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

*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 2016 | | 31 MARCH 2015 | |
|---|---|---|---|---|
| | US DOLLAR £'000 | SWISS FRANC £'000 | US DOLLAR £'000 | SWISS FRANC £'000 |
| Foreign currency exposure on net monetary items | 444 | 715 | 426 | 835 |
| Investments at fair value through profit or loss that are equities | 79,379 | 49,616 | 73,371 | 60,012 |
| Total net foreign currency exposure | 79,823 | 50,331 | 73,797 | 60,847 |

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 and Swiss francs. It is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of any forward foreign exchange contracts, if used, that offset the effects of changes in currency exchange rates.

The possible change in exchange rates of ±3.4% (2015: ±4.5%) for US dollars and ±2.8% (2015: ±3.3%) for Swiss francs 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 2016 | | 31 MARCH 2015 | |
|---|---|---|---|---|
| | US DOLLAR £'000 | SWISS FRANC £'000 | US DOLLAR £'000 | SWISS FRANC £'000 |
| Income statement – profit/(loss) after taxation | | | | |
| Revenue return | (63) | (61) | (73) | (74) |
| Capital return | (2,714) | (1,409) | (3,321) | (2,008) |
| Total loss after taxation for the year | (2,777) | (1,470) | (3,394) | (2,082) |

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

## 18. Financial Instruments (continued)

### Risk Management Policies and Procedures (continued)

***Market Risk*** (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 £140 million (2015: £110 million). The Company uses the facility when required at levels approved and monitored by the Board. The Company also has in issue £60 million 4.37% senior secured notes 2029 (Notes).

At the year end drawings on the Company's overdraft were £93,942,000 (2015: £90,221,000) and the Notes had an amortised cost of £59,441,000 (2015: £59,398,000). At the maximum overdraft of £140 million, the effect of a ±1% in the interest rate would result in a decrease/increase to the Company's income statement of £1.4 million (2015: £1.1 million).

At the previous and current year ends the Company had no investment in, and thus exposure to, any debt securities.

*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 £111.8 million (2015: £112.9 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 £140 million bank overdraft facility provides for additional funding flexibility.

| 2016 | THREE MONTHS OR LESS £'000 | MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000 | MORE THAN ONE YEAR £'000 | TOTAL £'000 |
|---|---|---|---|---|
| Bank overdraft | 93,942 | — | — | 93,942 |
| Accruals and performance-related fee (excluding amount accrued on Notes) | 6,594 | — | — | 6,594 |
| Notes | — | — | 60,000 | 60,000 |
| Interest on Notes | 1,311 | 1,311 | 32,775 | 35,397 |
| | 101,847 | 1,311 | 92,775 | 195,933 |

| 2015 | THREE MONTHS OR LESS £'000 | MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000 | MORE THAN ONE YEAR £'000 | TOTAL £'000 |
|---|---|---|---|---|
| Bank overdraft | 90,221 | — | — | 90,221 |
| Accruals and performance-related fee (excluding amount accrued on Notes) | 6,846 | — | — | 6,846 |
| Notes | — | — | 60,000 | 60,000 |
| Interest on Notes | 1,311 | 1,311 | 35,397 | 38,019 |
| | 98,378 | 1,311 | 95,397 | 195,086 |

***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 deposit taker, with only approved deposit takers 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 £60 million Notes, based on a comparable quoted debt security at the balance sheet date, is £68,710,000 (2015: £68,717,000).

### Fair Value Hierarchy Disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 102 as amended for fair value hierarchy disclosures (March 16). The three levels set out in FRS 102 follow.

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability. The valuation techniques used by the Company are explained in the accounting policies note.

| 2016 | LEVEL 1 £'000 | LEVEL 2 £'000 | LEVEL 3 £'000 | TOTAL £'000 |
|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss:** | | | | |
| Quoted investments – equities | 1,090,061 | — | — | 1,090,061 |
| Other securities | — | 27 | — | 27 |
| Unquoted investments | — | — | 27,488 | 27,488 |
| Total for financial assets | 1,090,061 | 27 | 27,488 | 1,117,576 |

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 18. Financial Instruments (continued)

### Risk Management Policies and Procedures (continued)

***Credit risk*** (continued)

### Fair Value Hierarchy Disclosures (continued)

| 2015 | LEVEL 1 £'000 | LEVEL 2 £'000 | LEVEL 3 £'000 | TOTAL £'000 |
|---|---|---|---|---|
| **Financial assets designated at fair value through profit or loss:** | | | | |
| Quoted investments – equities | 1,120,064 | — | — | 1,120,064 |
| Other securities | — | 537 | — | 537 |
| Unquoted investments | — | — | 7,910 | 7,910 |
| Total for financial assets | 1,120,064 | 537 | 7,910 | 1,128,511 |

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

| | £'000 |
|---|---|
| Opening fair value | 7,910 |
| Purchases at cost | 25,553 |
| Unrealised holding movement | (5,975) |
| Closing fair value of Level 3 | 27,488 |

## 19. Capital Management

The Company's total capital employed at 31 March 2016 was £1,113,733,000 (2015: £1,128,046,000) comprising borrowings of £153,383,000 (2015: £149,619,000) and equity share capital and other reserves of £960,350,000 (2015: £978,427,000).

The Company's total capital employed is managed to achieve the Company's investment objective and policy as set out on pages 10 and 11, 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 16.0% (2015: 15.3%) 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 Directors' Report under the 'Principal Risks and Uncertainties' section on pages 12 to 14. 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 lender. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Current year borrowings comprise a bank overdraft and senior secured notes, details of which are given in notes 11 and 12.

## 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.**

There are no 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 Tuesday, 12 July 2016 at 11.00am for the following purposes:

## Ordinary Business

1. To receive the Annual Financial Report for the year ended 31 March 2016.
2. To re-elect Bill Alexander a Director of the Company.
3. To re-elect Vivian Bazalgette a Director of the Company.
4. To re-elect Bob Yerbury a Director of the Company.
5. To re-elect Richard Laing a Director of the Company.
6. To elect Victoria Cochrane a Director of the Company.
7. To elect Alan Giles a Director of the Company.
8. To approve the Annual Statement and Report on Remuneration for the year ended 31 March 2016.
9. To appoint Ernst & Young LLP as auditor.
10. To authorise the Audit Committee to determine the auditor's 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 resolutions 11 and 12 will be proposed an Ordinary Resolutions and resolutions 13, 14 and 15 will be proposed as Special Resolutions:

11. THAT:

    in accordance with Article 155.1 of the Articles of Association of the Company, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene a General Meeting of the Company to be held before 12 November 2016 at which a special resolution for the reconstruction of the Company be proposed. Such a reconstruction would offer shareholders to elect either to continue their investment in a closed-ended company or receive a cash alternative.

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 £2,404,323, this being 10% of the Company's issued ordinary share capital as at 6 June 2016, 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:

# NOTICE OF ANNUAL GENERAL MEETING

continued

(a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal 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 £2,404,323, this being 10% of the Company's issued ordinary share capital as at 6 June 2016.

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 as amended from time to time prior to the date of the passing of this resolution (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 36,040,809 Shares, (being 14.99% of the issued ordinary share capital of the Company as at 6 June 2016);

(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 Act 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 Act) 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.

The resolutions are explained further in the Directors' Report on pages 21 and 22.

Dated this 6th June 2016

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 10 July 2016 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 6 June 2016 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 240,432,350 ordinary shares of 10p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 240,432,350.
11. A copy of this notice (contained within the 2015 annual financial report), and other information required by Section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/pigit*.
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 Independent 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 2015; or (ii) any circumstance connected with the auditor of the Company appointed for the financial year beginning on 1 April 2015 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.

# SHAREHOLDER INFORMATION

## 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.

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

## Savings Scheme 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 2016/17 is £15,240. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For full details of these schemes contact Invesco Perpetual's Client 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 and on the Company's section of the Manager's website at www.invescoperpetual.co.uk/pigit

## Manager's Website

Information relating to the Company can be found on the Company's section of the Manager's website at www.invescoperpetual.co.uk/pigit

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.

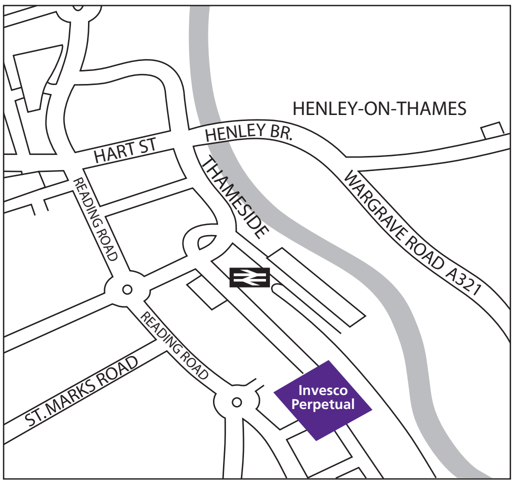
## Financial Calendar

The Company publishes information according to the following calendar:

| | |
|---|---|
| **Announcements** | |
| Annual Financial Report | June |
| Half-yearly Financial Report | November |
| **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 |
| **Senior Secured Notes** | |
| Interest payable on 4.37% Notes 2029 | May/November |

## Location of Annual General Meeting (AGM)

The AGM will be held at Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH on Tuesday, 12 July 2016 at 11.00am.



# ADVISERS AND PRINCIPAL SERVICE PROVIDERS

All of the following were in place throughout the year.

## Manager

Invesco Fund Managers Limited.

## Company Secretary

Invesco Asset Management Limited.

Company Secretarial contact: Kelly Nice

## Correspondence Address

6th Floor
125 London Wall
London EC2Y 5AS
☎ 020 3753 1000

## Registered Office

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

## Company Number

Registered in England and Wales
Number 03156676

## Invesco Perpetual Client Services

Invesco Perpetual has an Client 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

## Corporate Brokers

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

## Registrars

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

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

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

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

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

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

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

From outside the UK: +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open from 8.00 am to 4.30 pm, Monday to Friday (excluding Bank Holidays).

## Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

## Depositary

BNY Mellon Trust Depositary (UK) Limited
160 Queen Victoria Street
London EC4V 4LA

## 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/(Premium)
The amount by which the mid-market share price of an investment trust is lower than the 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.

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

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

## 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.

## 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, divided by 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 received by a shareholder are assumed to have been reinvested in either additional shares (i.e. share price total return) or in the Company's assets (i.e. NAV total return).

# ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURE

## Alternative Investment Fund Manager (AIFM) and the Alternative Investment Fund Managers Directive (the 'AIFMD', the Directive)

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

Amongst other things, regulations implementing AIFMD require certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invescoperpetual.co.uk/pigit) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information in the year to 31 March 2016 or up to the date of this report. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 63) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:

– the leverage calculated for the Company at its year end was 114.5% for both gross and commitment (2015: both 115.7%). The limits the AIFM has set for the Company remain unchanged at 250% and 200%, respectively;

– the AIFM remuneration policy is available from the Company's company secretary, on request (see contact details on page 62); and

– the AIFM remuneration paid for the year to 31 December 2015 is set out below.

**AIFM Remuneration**

The AIFM remuneration paid is based on the latest financial year of the AIFM, which was to 31 December 2015.

IFML does not employ any staff directly. All staff involved in the AIF related activities of IFML are employed and paid by Invesco UK Limited or other entities in the Invesco Limited Group. Remuneration for staff involved in AIF related activities has been apportioned based on the average assets under management of £3,759 million for the nine AIFs managed by IFML during the reporting period.

The aggregate total remuneration apportioned to IFML's AIF related activities for performance year 2015 is £6,899,615, of which £3,634,486 is fixed remuneration and £3,265,129 is variable remuneration. The number of beneficiaries is 40.

IFML has identified individuals considered to have a material impact on the risk profile of IFML or the AIFs it manages ('AIFMD Code Staff'), including Board members of IFML, senior management, heads of control functions and other risk takers whose professional activities can exert material influence on IFML's risk profile or on an AIF it manages.

The aggregate total remuneration paid to the AIFMD Code Staff of IFML for AIF related activities is £1,257,880 of which £368,220 is paid to senior management and £889,660 is paid to other AIFMD Code Staff. The total remuneration for AIFMD Code Staff excludes remuneration for staff employed by delegates.

The Manager of Perpetual Income and Growth Investment Trust plc is Invesco Fund Managers Limited.

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

Invesco is one of the largest independent global investment management firms, with assets under management of nearly US$783.7 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 2016.*

# INVESTMENT COMPANIES MANAGED BY INVESCO PERPETUAL

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

### 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.

### Keystone Investment Trust plc

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

### Perpetual Income and Growth Investment Trust plc

Aims to generate capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK and fixed interest markets. The Company has secured loan 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 in excess of the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

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

## Investing in Smaller Companies

### Invesco Perpetual UK Smaller Companies Investment Trust plc

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

## Investing Internationally

### Invesco Asia Trust plc

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

### Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

## Investing for Total Returns

### Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

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

## Investing in Multiple Asset Classes

### Invesco Perpetual Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk 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 Client Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invescoperpetual.co.uk/investmenttrusts

**Linkway Financial Printers**
Typeset and Printed in London (UK) 16562