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# Invesco Perpetual Select Trust plc

HALF-YEARLY FINANCIAL REPORT

SIX MONTHS ENDED 30 NOVEMBER 2016

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## The Company in Brief

### Nature of the Company

Invesco Perpetual Select Trust plc (the 'Company') is a public listed Investment Company which is intended as a long-term investment vehicle for investors and has an indefinite life.

The Company provides shareholders with a choice of investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios.

The Company's share capital comprises the following four classes of Shares each of which has its own separate Portfolio of assets and liabilities:

- UK Equity [www.invesco-perpetual.co.uk/selectuk](http://www.invesco-perpetual.co.uk/selectuk)
- Global Equity Income [www.invesco-perpetual.co.uk/selectglobal](http://www.invesco-perpetual.co.uk/selectglobal)
- Balanced Risk [www.invesco-perpetual.co.uk/selectbr](http://www.invesco-perpetual.co.uk/selectbr)
- Managed Liquidity [www.invesco-perpetual.co.uk/selectml](http://www.invesco-perpetual.co.uk/selectml)

### Investment Policy

The Company's Investment Policy, which includes the investment objectives, policies, risks and investment limits for the Company and the separate Portfolios, is disclosed in full on pages 28 to 31 of the 2016 annual financial report, which is available to view at or download from each of the above websites. Within this report, the investment objective of each Portfolio is shown at the start of the applicable Portfolio Manager's Report.

### Share Class Conversion

The Company enables shareholders to alter their asset allocation to reflect their view of prevailing markets through the opportunity to convert between share classes every three months on or around 1 February, 1 May, 1 August and 1 November each year. Notice from a shareholder to convert any class of Share on any conversion date will be accepted up to ten days prior to the relevant conversion date. Forms for conversion are available at each of the above websites and from the Company Secretary.

Conversion from one class of Shares into another will be on the basis of a ratio derived from the prevailing underlying net asset value of each class of relevant Share, calculated shortly before the date of conversion.

The Directors have been advised that conversion of one class of Share into another will not be treated as a disposal for the purposes of UK Capital Gains Tax.

**The Company's four share classes are each eligible for investment in an ISA and qualify to be considered as mainstream investment products suitable for promotion to retail investors.**

If you have any queries about Invesco Perpetual Select Trust plc or any of the other specialist funds managed by Invesco Perpetual, you can contact the Invesco Perpetual Client Services team on

☎ 0800 085 8677

🌐 [www.invesco-perpetual.co.uk/investmenttrusts](http://www.invesco-perpetual.co.uk/investmenttrusts)

Cover: *Close up of Mica Crystals*

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## FINANCIAL PERFORMANCE

## CUMULATIVE TOTAL RETURNS TO 30 NOVEMBER 2016

**UK Equity Portfolio**

|                      | SIX<br>MONTHS | ONE<br>YEAR | THREE<br>YEARS | FIVE<br>YEARS |
|----------------------|---------------|-------------|----------------|---------------|
| Net Asset Value      | 4.5%          | 3.0%        | 29.3%          | 105.5%        |
| Share Price          | 4.4%          | 1.5%        | 30.8%          | 135.7%        |
| FTSE All-Share Index | 9.6%          | 9.8%        | 15.7%          | 55.4%         |

**Global Equity Income Portfolio**

|                      | SIX<br>MONTHS | ONE<br>YEAR | THREE<br>YEARS | FIVE<br>YEARS |
|----------------------|---------------|-------------|----------------|---------------|
| Net Asset Value      | 17.3%         | 20.3%       | 38.8%          | 100.9%        |
| Share Price          | 19.2%         | 18.3%       | 39.3%          | 119.8%        |
| MSCI World Index (£) | 20.2%         | 24.3%       | 46.2%          | 101.6%        |

**Balanced Risk Portfolio**

The name and objective of this Portfolio were changed with effect from 8 February 2012. The strategy followed since 8 February 2012 is substantially different to the strategy in place prior to that date. The five year figures below are presented for consistency.

|                                   | SIX<br>MONTHS | ONE<br>YEAR | THREE<br>YEARS | SINCE<br>8 FEB<br>2012 | FIVE<br>YEARS |
|-----------------------------------|---------------|-------------|----------------|------------------------|---------------|
| Net Asset Value                   | 4.6%          | 10.6%       | 14.0%          | 24.5%                  | 22.8%         |
| Share Price                       | 6.9%          | 9.0%        | 15.6%          | 40.1%                  | 37.8%         |
| Merril Lynch 3 month LIBOR +5% pa | 2.8%          | 5.6%        | 16.7%          | 27.1%                  | 28.3%         |

**Managed Liquidity Portfolio**

|                 | SIX<br>MONTHS | ONE<br>YEAR | THREE<br>YEARS | FIVE<br>YEARS |
|-----------------|---------------|-------------|----------------|---------------|
| Net Asset Value | 0.0%          | 0.0%        | 0.0%           | 1.3%          |
| Share Price     | 0.2%          | -1.2%       | 0.5%           | 2.3%          |

Source: Thomson Reuters Datastream.

## PERIOD END NET ASSET VALUE, SHARE PRICE AND DISCOUNT

| SHARE CLASS          | NET ASSET<br>VALUE<br>(PENCE) | SHARE<br>PRICE<br>(PENCE) | DISCOUNT |
|----------------------|-------------------------------|---------------------------|----------|
| UK Equity            | 168.9                         | 166.8                     | 1.2%     |
| Global Equity Income | 183.8                         | 183.0                     | 0.4%     |
| Balanced Risk        | 128.4                         | 127.5                     | 0.7%     |
| Managed Liquidity    | 103.1                         | 101.3                     | 1.7%     |

# INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

## CHAIRMAN'S STATEMENT

### Investment Objective and Policy

The Company's investment objective is to provide shareholders with a choice of investment strategies and policies, each intended to generate attractive risk-adjusted returns.

The Company's share capital comprises four share classes: UK Equity Shares, Global Equity Income Shares, Balanced Risk Shares and Managed Liquidity Shares, each of which has its own separate portfolio of assets and attributable liabilities.

The Company enables shareholders to alter their asset allocation to reflect their view of prevailing market conditions. Shareholders have the opportunity every three months to convert between share classes free of capital gains tax.

### Performance

In NAV terms, with dividends reinvested, the UK Equity Portfolio returned +4.5% over the six months to the end of November 2016 compared with its benchmark, the FTSE All-Share Index's total return of +9.6%. The share price total return was +4.4%.

The Global Equity Income Portfolio returned +17.3% in NAV terms, and +19.2% on the share price, compared with its benchmark, the MSCI World Index's total return over the period of +20.2%.

The Balanced Risk Portfolio returned +4.6% in NAV terms, and +6.9% on the share price. The Portfolio's benchmark, 3 month LIBOR plus 5% p.a., returned +2.8%.

The Company's Managed Liquidity Shares, whose objective is derived from cash returns, had a nil return based on the NAV and +0.2% based on the share price.

The performance of the two equity oriented classes suffered from the very marked reversal of sector performance which began in the first quarter of 2016 and has broadly continued through the year. As a result the UK Equity class gave back some of its exceptional outperformance since inception. The Global Equity Income class was underweight in the US and overweight in the UK. This stance is much influenced by the value and opportunities available in those markets.

Balanced Risk continued to perform in line with its mandate and ahead of many "Absolute Return" funds. We are disappointed that it has not so far achieved the traction it deserves and remain convinced that it is a valid and logical component of the Company's structure, providing a relatively uncorrelated and lower risk alternative to the equity based share classes.

### UK Equity Portfolio Management Arrangements

I announced at the Company's Annual General Meeting on 4 October 2016 that, after managing the Company's UK Equity portfolio for the ten years since our launch, Mark Barnett had relinquished the management of the portfolio in favour of James Goldstone, one of the senior members of Invesco Perpetual's UK Equities team. James has 15 years' industry experience and has worked closely alongside Mark for the last four years. He has a similar philosophy to Mark, both managers being very valuation focused, having a long-term view in their investment process and regarding dividends as a key measure of a company management's discipline. However, they do not have exactly the same outlook or convictions and the profile of the portfolio has changed somewhat since James took it over. The NAV was not affected by the realignment process and, in the very short period since James took over, his changes have been beneficial for performance. We look forward to seeing the longer term effect.

### The Board

As part of the Board's succession policy, David Rosier retired from the Board on 4 October 2016 and we appointed a new non-executive Director, Craig Cleland, with effect from 1 November 2016. Craig is Head of Corporate Development: Investment Trusts at CQS (UK) LLP and has a wealth of experience in the investment trust sector.

# INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

continued

## Dividends

In accordance with the dividend policy that was implemented in 2015, the Board has declared equal first, second and third quarterly dividends for the current year for each of the equity share classes. For both the UK Equity shares and the Global Equity Income shares each of these dividends was 1.4p, making 4.2p declared to date. We continue to target annual dividends of at least 6.15p for the UK Equity shares and at least 6p for the Global Equity Income shares, these being the levels declared last year. Achieving these targets may require a contribution from capital, as was the case last year.

It continues to be the case that in order to maximise the capital return on the Balanced Risk Shares, the Directors only intend to declare dividends on the Balanced Risk Shares to the extent required, having taken into account the dividends paid on the other Share classes, to maintain the Company's status as an investment trust. None have been declared to date.

In consequence of the continued very low interest rates prevailing, the cumulative retained net revenue of the Managed Liquidity Portfolio continues to be minimal and the Directors have not declared any dividends on the Managed Liquidity Shares since 18 April 2012.

## Discount and Share Buy Backs

The Company has continued to operate a discount control policy for all four share classes through the period. In light of the uncertainty engendered by the EU referendum and the related weakness of sterling it was necessary to provide market liquidity and buy back some shares in connection with operating this policy. During the period the Company bought back 950,000 UK Equity shares at an average price of 165.0p, 250,000 Global Equity Income shares at a price of 157.5p, and 63,000 Managed Liquidity shares at a price of 101.1p.

## Outlook

Events on the political front were so striking in the reporting period that it is clearly very dangerous to make any predictions. It does, however, look as though a "Hard Brexit" has become more likely. This will have repercussions as it takes effect on the UK economy and, politically, may have material consequences. On the wider international front I find it impossible to assess to which of Donald Trump's many and varied statements I should attribute more weight, let alone how they will interact with the US political system and foreign governments. However, recent actions post inauguration suggest, depressingly, that protection and zero sum nationalism are key parts of the administration's policy.

Our portfolio managers have always stressed that their approach in equities is to pick attractive stocks based on their valuation and ability to generate free cash flow. Fortunately such opportunities continue to exist. Profitability may indeed improve as the US and Continental European economies grow a little faster and many British companies benefit from the weakness of sterling.

For the first time in several years inflation has become a concern in several countries. The US may be about to add a reflationary fiscal programme to an economy that is approaching capacity constraints. Similar policies are being proposed in the UK where their impact coincides with the inflationary effects of sterling weakness. As a result we have seen major, though partially reversed, rises in bond yields in those markets. Given the very low level of real yields, changes in inflationary expectations are likely to be more than reflected in bond yields. In consequence, the very benign conjunction of easy money and tight(ish) fiscal policy is changing and the overall balance of policy seems likely to be less favourable to securities markets than in the recent past.

**Patrick Gifford**

Chairman

31 January 2017

## Related Party Transactions

Under United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), the Company has identified the Directors as related parties. No other related parties have been identified during the period. No transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

## Principal Risks and Uncertainties

Explanations of the Company's principal risks and uncertainties are set out on pages 34 to 37 of the 2016 annual financial report, which is available on the Manager's website.

These are summarised as follows:

- Investment Objectives – the investment policies may not achieve the published investment objectives;
- Market Movements and Portfolio Performance – falls in stock markets will affect the performance of the individual Portfolios and securities held within the Portfolios;
- Risks Applicable to the Company's shares – the prices of shares in the Company may not appreciate and the level of dividends may fluctuate;
- Viability and Compulsory Conversion of a Class of Shares – lack of demand for one of the Company's share classes could result in the relevant portfolio becoming too small to be viable. If ownership of a class of shares becomes too concentrated the Directors may serve notice on holders of the affected class requiring them to convert to another class;
- Liability of a Portfolio for the Liabilities of Another Portfolio – in the event that any Portfolio was unable to meet its liabilities, the shortfall would become a liability of the other Portfolios;
- Gearing – borrowing will amplify the effect on shareholders' funds of gains and losses on the underlying securities;
- Hedging – where hedging is used there is a risk that the hedge will not be effective;
- Regulatory and Tax Related – whilst compliance with rules and regulations is closely monitored, breaches could affect returns to shareholders;
- Additional Risks Applicable to Balanced Risk Shares – the use of financial derivative instruments, in particular futures, forms part of the investment policy and strategy of the Balanced Risk Portfolio. The degree of leverage inherent in futures trading potentially means that a relatively small price movement in a futures contract may result in an immediate and substantial loss to the Portfolio; and
- Reliance on Third Party Service Providers – the Company has no employees, so is reliant upon the performance of third party service providers, particularly the Manager, for it to function.

In the view of the Board these principal risks and uncertainties are as equally applicable to the remaining six months of the financial year as they were to the six months under review.

## Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate as the Company has adequate resources to continue in operational existence for the foreseeable future, being 12 months after approval of the financial statements. In reaching this conclusion, the Directors took into account the value of net assets; the Company's Investment Policy; its risk management policies; the diversified portfolio of readily realisable securities which can be used to meet funding commitments; the credit facility and the overdraft which can be used for short-term funding requirements; the liquidity of the investments which could be used to repay the credit facility in the event that the facility could not be renewed or replaced; its revenue; and the ability of the Company in the light of these factors to meet all its liabilities and ongoing expenses.

## INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

continued

### DIRECTORS' RESPONSIBILITY STATEMENT

in respect of the preparation of the half-yearly financial report

The Directors are responsible for preparing the half-yearly financial report using accounting policies consistent with applicable law and UK Accounting Standards.

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

- the condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with the FRC's FRS 104 *Interim Financial Reporting*;
- the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FCA's Disclosure Guidance and Transparency Rules; and
- the interim management report includes a fair review of the information required on related party transactions.

The half-yearly financial report has not been audited or reviewed by the Company's auditor.

Signed on behalf of the Board of Directors.

**Patrick Gifford**

Chairman

31 January 2017



## UK EQUITY SHARE PORTFOLIO PERFORMANCE RECORD

### Total Return

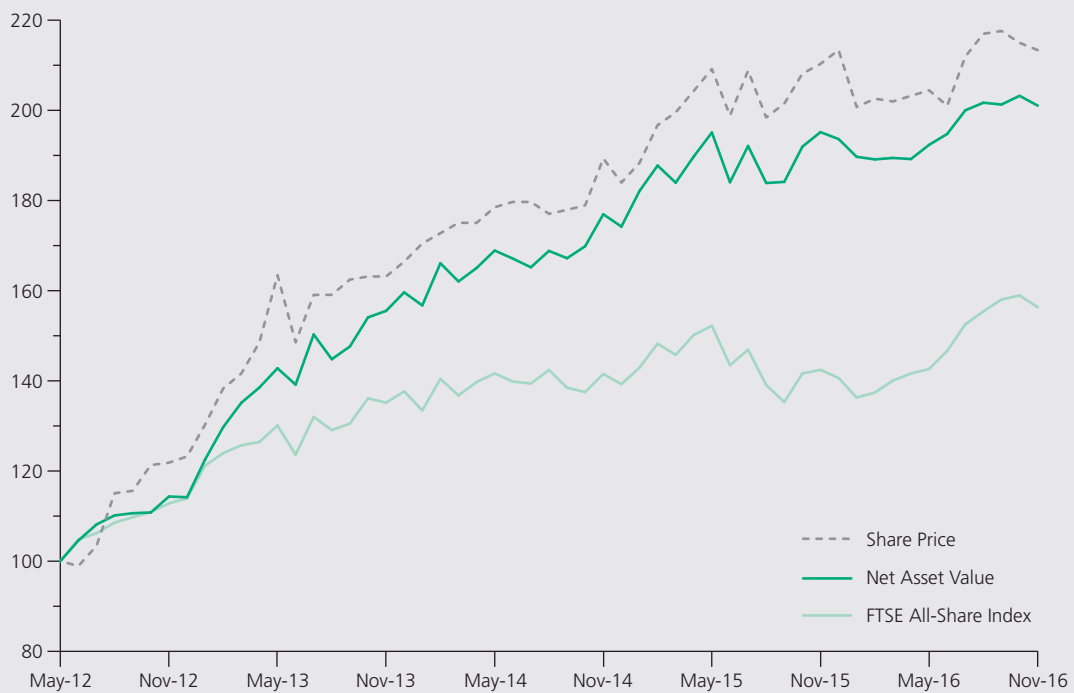
|                      | SIX MONTHS<br>TO 30 NOV<br>2016 | YEAR TO<br>31 MAY<br>2016 | YEAR TO<br>31 MAY<br>2015 | YEAR TO<br>31 MAY<br>2014 | YEAR TO<br>31 MAY<br>2013 |
|----------------------|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Net Asset Value      | 4.5%                            | -1.4%                     | 15.3%                     | 18.3%                     | 42.8%                     |
| Share Price          | 4.4%                            | -2.2%                     | 17.2%                     | 9.2%                      | 63.5%                     |
| FTSE All-Share Index | 9.6%                            | -6.3%                     | 7.5%                      | 8.9%                      | 30.1%                     |

Source: Thomson Reuters Datastream.

|                          |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|
| Revenue return per share | 2.20p | 5.81p | 6.38p | 5.40p | 5.48p |
| Dividends paid           | 2.80p | 6.15p | 6.15p | 5.30p | 5.55p |

### Total Return Graph

Rebased to 100 at 31 May 2012



## UK EQUITY SHARE PORTFOLIO MANAGER'S REPORT

### Investment Objective

The investment objective of the UK Equity Portfolio is to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities.

### Market and Economic Review

After a volatile start to 2016 the UK stock market rallied strongly during the six month period under review. There was significant divergence in sector performance, driven initially by rising commodity prices and "dovish" central bank monetary policy, then by the sharp fall in sterling following the EU referendum and, finally, by the US presidential election result.

The resources sectors (oil and mining) performed especially well over the period, as crude oil continued to rise from its February price lows, notably on proposed production cuts by OPEC members. Share price falls after the Referendum were seen most acutely in certain domestically focused sectors; the share prices of companies with US dollar denominated earnings rose strongly in anticipation of upgrades to forecast earnings.

The Bank of England's 0.25 per cent. cut in interest rates met expectations, but the broader language around monetary stimulus went further than many in the market had anticipated. UK equities and government bond yields rose in response to the surprise election of Donald Trump as the 45th US President and a Republican majority to Congress, expecting higher rates of government spending and lower taxes to provide some tailwinds to global economic growth. Following the election, US GDP data exceeded expectations with a 3.2 per cent. rise during the third quarter; on the last day of November, OPEC agreed its first production cut in eight years, strengthening crude oil prices.

### Portfolio Performance

The UK equity share portfolio's net asset value, including re-invested dividends, rose by 4.5% (£ NAV, total return) during the 6 months to the end of November 2016, compared to a rise of 9.6% (£, total return) in the FTSE All-Share index.

### Portfolio Review

The portfolio delivered a positive return against a volatile market backdrop, but failed to match the rise of the index. Relative performance was hurt by the portfolio's underweight in mining companies – where share prices rose strongly through the period, gaining from weakened sterling and recovering commodity prices.

Holdings in the tobacco sector were among the top contributors to performance, benefiting from international exposure and US dollar earnings, but also from continued positive news flow. British American Tobacco (BAT) continued the drive towards consolidation in the sector with a US\$47 billion bid for Reynolds American in the period, to buy out the 57.8% it does not already own. The merger was described by BAT chief executive Nicandro Durante as the "logical progression" for the two companies – a view with which we concur. Subsequent to the reporting period BAT revised its offer, increasing the cash element of a cash and share offer. The new offer values each Reynolds share at US\$59.64, up from US\$56.50 proposed in October. The deal should be earnings enhancing in its first full year, significantly improve BAT's cash flow generation profile and be accretive to dividends; it is expected to conclude in the third quarter of this year. It will provide BAT with direct access to the attractive and cash generative US market, balance the company's global cash flow streams between Emerging and Developing markets, and enhance BAT's global brand portfolio.

The holding in BP benefited from weakened sterling and rising oil prices through the period. Defence conglomerate BAE Systems' share price was buoyed by a series of US defence contracts announced through the Autumn, including a seven-year, US\$384 million contract to provide specialised weapon sights to the US Army.

Weighing on performance were the holdings in domestic sectors, notably those particularly exposed to the fall in sterling. The share prices of companies expected to be most impacted by emergent challenges to the UK economy performed poorly in the aftermath of the Referendum. The stock market was also inclined to de-rate companies which warned of lower profits – delivering a "double-whammy" impact in those instances.

Notable amongst these was the holding in Capita, which fell sharply in value as it downgraded full-year earnings forecasts, blaming a slow-down in specific trading businesses, one-off costs and

problems with a major contract with TFL - along with delayed client decision-making since the EU referendum.

Budget airline easyJet warned of the negative impact of weaker sterling and was also affected by concerns over terrorist activity and air traffic control strikes during the period. The share price of Circassia Pharmaceuticals fell sharply on news that its cat allergy drug had failed to meet the primary end point of Phase III trials. While this was very disappointing and surprising news – the drug had performed well in Phase II trials - it is noteworthy that Circassia retains significant cash on its balance sheet and that, over the past year, the company has also made significant diversification into respiratory drugs, devices and technologies.

### Change in Portfolio Manager

I took over as portfolio manager from Mark Barnett at the beginning of October, four months into the reporting period. I have implemented a series of changes in the portfolio reflecting my views on the implications of the steepening yield curve in an environment of rising interest rates and inflation. Most significant among these changes was the addition of Barclays; by period end the UK banking major was the largest holding in the portfolio with a weighting of just over 5 per cent. Elsewhere in the financial sector, other new additions to the portfolio included Lloyds Bank, Aviva and Aldermore. Cairn Homes and Hibernia have been added to gain exposure to the structural attractions of the Dublin real estate market. This was funded by disposals in the UK REIT sector.

I have built some exposure to gold via Randgold Resources and Acacia Mining, the portfolio's only exposure to the metals and mining sector. Portfolio holdings in London Stock Exchange, Capita, Bunzl, Shaftesbury and New River Retail were disposed of.

### Outlook & Strategy

The short term outlook for UK equities appears to me to be closely dependent upon wider macro and political factors, including global currency and interest rate trends. Despite recent currency-driven earnings upgrades, the UK market level looks quite fully valued, albeit punctuated by significant pockets of value.

Within what is a more volatile macro environment, I continue to be pragmatic in my investment approach. Ultimately, I look for undervalued shares and favour businesses with strong balance sheets, high barriers to entry, and the ability to expand market share and deliver real returns over the long-term.

#### **James Goldstone**

*Portfolio Manager*

31 January 2017

## UK EQUITY SHARE PORTFOLIO LIST OF INVESTMENTS

AT 30 NOVEMBER 2016

Ordinary shares listed in the UK unless stated otherwise

| COMPANY   | SECTOR†                             | MARKET         |                   |
|---|-------------------------------------|----------------|-------------------|
|   |                                     | VALUE<br>£'000 | % OF<br>PORTFOLIO |
| Bardays   | Banks                               | 4,056          | 5.3               |
| Reynolds American – US common stock             | Tobacco                             | 4,016          | 5.3               |
| BP  | Oil & Gas Producers                 | 3,236          | 4.3               |
| BAE Systems                                     | Aerospace & Defence                 | 3,016          | 4.0               |
| British American Tobacco                        | Tobacco                             | 2,574          | 3.4               |
| BT  | Fixed Line Telecommunications       | 2,445          | 3.2               |
| Lloyds Bank                                     | Banks                               | 2,192          | 2.9               |
| Legal & General                                 | Life Insurance                      | 2,124          | 2.8               |
| Aviva   | Life Insurance                      | 2,100          | 2.8               |
| Imperial Brands                                 | Tobacco                             | 1,796          | 2.4               |
| RELX  | Media                               | 1,795          | 2.4               |
| Acacia Mining                                   | Mining                              | 1,597          | 2.1               |
| AstraZeneca                                     | Pharmaceuticals & Biotechnology     | 1,558          | 2.0               |
| Babcock International                           | Support Services                    | 1,558          | 2.0               |
| Compass   | Travel & Leisure                    | 1,540          | 2.0               |
| BTG   | Pharmaceuticals & Biotechnology     | 1,455          | 1.9               |
| Centrica  | Gas, Water & Multiutilities         | 1,434          | 1.9               |
| Safestyle UK                                    | General Retailers                   | 1,423          | 1.9               |
| Novartis – Swiss common stock                   | Pharmaceuticals & Biotechnology     | 1,410          | 1.9               |
| SSE   | Electricity                         | 1,371          | 1.8               |
| Rentokil Initial                                | Support Services                    | 1,344          | 1.8               |
| Beazley   | Non-life Insurance                  | 1,337          | 1.8               |
| Dairy Crest                                     | Food Producers                      | 1,326          | 1.7               |
| Provident Financial                             | Financial Services                  | 1,293          | 1.7               |
| Roche – Swiss common stock                      | Pharmaceuticals & Biotechnology     | 1,286          | 1.7               |
| G4S   | Support Services                    | 1,196          | 1.6               |
| Ashtead   | Support Services                    | 1,195          | 1.6               |
| HomeServe                                       | Support Services                    | 1,128          | 1.5               |
| Cairn Homes                                     | Household Goods & Home Construction | 1,092          | 1.4               |
| Johnson Service                                 | Support Services                    | 1,033          | 1.4               |
| BCA Marketplace                                 | Financial Services                  | 1,008          | 1.3               |
| Sherborne Investors Guernsey B – A shares       | Financial Services                  | 1,006          | 1.3               |
| Thomas Cook                                     | Travel & Leisure                    | 953            | 1.3               |
| Next  | General Retailers                   | 920            | 1.2               |
| Drax  | Electricity                         | 908            | 1.2               |
| Derwent London                                  | Real Estate Investment Trusts       | 883            | 1.2               |
| Smith & Nephew                                  | Health Care Equipment & Services    | 879            | 1.1               |
| Aldermore                                       | Banks                               | 871            | 1.1               |
| Summit Germany                                  | Real Estate Investment & Services   | 822            | 1.1               |
| easyJet   | Travel & Leisure                    | 820            | 1.1               |
| A J Bell – Unquoted                             | Financial Services                  | 750            | 1.0               |
| Sigma Capital                                   | Financial Services                  | 734            | 1.0               |
| Hollywood Bowl                                  | Travel & Leisure                    | 681            | 0.9               |
| JD Sports Fashion (formerly JD Sports)          | General Retailers                   | 680            | 0.9               |
| Mears   | Support Services                    | 670            | 0.9               |
| Randgold Resources                              | Mining                              | 653            | 0.8               |
| Secure Trust Bank                               | Banks                               | 616            | 0.8               |
| McBride   | Household Goods & Home Construction | 610            | 0.8               |
| N Brown   | General Retailers                   | 606            | 0.8               |
| Hibernia REIT                                   | Real Estate Investment Trusts       | 582            | 0.8               |
| Zegona Communications                           | Non-equity Investment Instruments   | 580            | 0.8               |
| Harworth  | Real Estate Investment & Services   | 574            | 0.7               |
| Vectura   | Pharmaceuticals & Biotechnology     | 574            | 0.7               |
| P2P Global Investments                          | Equity Investment Instruments       | 528            | 0.7               |
| International Consolidated Airline              | Travel & Leisure                    | 525            | 0.7               |
| Chesnara  | Life Insurance                      | 494            | 0.6               |
| Hadrians Wall Secured Investments               | Equity Investment Instruments       | 491            | 0.6               |
| Coats   | General Industrials                 | 462            | 0.5               |
| Melrose Industries                              | Construction & Materials            | 362            | 0.4               |
| Howden Joinery                                  | Support Services                    | 309            | 0.4               |
| Circassia Pharmaceuticals                       | Pharmaceuticals & Biotechnology     | 269            | 0.3               |
| GAME Digital                                    | General Retailers                   | 197            | 0.3               |
| Tullet Prebon                                   | Financial Services                  | 189            | 0.2               |
| Nimrod Sea Assets                               | Equity Investment Instruments       | 14             | –                 |
| HaloSource                                      | Chemicals                           | 8              | –                 |
| Barclays Bank – Nuclear Power Notes 28 Feb 2019 | Non-equity Investment Instruments   | 1              | –                 |
|   |                                     | 76,155         | 100.0             |

†FTSE Industry Classification Benchmark.

## UK EQUITY SHARE PORTFOLIO INCOME STATEMENT

|  | SIX MONTHS ENDED<br>30 NOVEMBER 2016 |                  |                | SIX MONTHS ENDED<br>30 NOVEMBER 2015 |                  |                |
|--|--------------------------------------|------------------|----------------|--------------------------------------|------------------|----------------|
|  | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains/(losses) on investments  | –                                    | 1,951            | 1,951          | –                                    | (172)            | (172)          |
| Foreign exchange gains   | –                                    | 7                | 7              | –                                    | 5                | 5              |
| Income   | 1,066                                | 23               | 1,089          | 1,166                                | –                | 1,166          |
| Management fee – note 2  | (65)                                 | (152)            | (217)          | (65)                                 | (152)            | (217)          |
| Performance fee – note 2   | –                                    | 284              | 284            | –                                    | (574)            | (574)          |
| Other expenses   | (102)                                | –                | (102)          | (99)                                 | –                | (99)           |
| <b>Net return before finance costs and taxation</b>                          | <b>899</b>                           | <b>2,113</b>     | <b>3,012</b>   | <b>1,002</b>                         | <b>(893)</b>     | <b>109</b>     |
| Finance costs  | (16)                                 | (37)             | (53)           | (21)                                 | (49)             | (70)           |
| <b>Return on ordinary activities before taxation</b>                         | <b>883</b>                           | <b>2,076</b>     | <b>2,959</b>   | <b>981</b>                           | <b>(942)</b>     | <b>39</b>      |
| Tax on ordinary activities   | (14)                                 | –                | (14)           | (11)                                 | –                | (11)           |
| <b>Return on ordinary activities after taxation for the financial period</b> | <b>869</b>                           | <b>2,076</b>     | <b>2,945</b>   | <b>970</b>                           | <b>(942)</b>     | <b>28</b>      |
| <b>Basic return per ordinary share – note 4</b>                              | <b>2.20p</b>                         | <b>5.24p</b>     | <b>7.44p</b>   | <b>2.43p</b>                         | <b>(2.36)p</b>   | <b>0.07p</b>   |

## SUMMARY OF NET ASSETS

|   | AT<br>30 NOVEMBER<br>2016<br>£'000 | AT<br>31 MAY<br>2016<br>£'000 |
|---|------------------------------------|-------------------------------|
| Fixed assets  | 76,155                             | 73,579                        |
| Current assets  | 447                                | 1,106                         |
| Creditors – amounts falling due within one year, excluding borrowings | (1,737)                            | (1,808)                       |
| Bank loan   | (8,900)                            | (7,150)                       |
| <b>Net assets</b>   | <b>65,965</b>                      | <b>65,727</b>                 |
| <b>Net asset value per ordinary share – note 5</b>                    | <b>168.9p</b>                      | <b>164.3p</b>                 |
| Gearing:  |                                    |                               |
| – gross   | 13.5%                              | 10.9%                         |
| – net   | 13.1%                              | 9.9%                          |

## GLOBAL EQUITY INCOME SHARE PORTFOLIO PERFORMANCE RECORD

### Total Return

|                      | SIX MONTHS           |                           |                           |                           |                           |
|----------------------|----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                      | TO<br>30 NOV<br>2016 | YEAR TO<br>31 MAY<br>2016 | YEAR TO<br>31 MAY<br>2015 | YEAR TO<br>31 MAY<br>2014 | YEAR TO<br>31 MAY<br>2013 |
| Net Asset Value      | 17.3%                | -0.2%                     | 13.1%                     | 9.6%                      | 33.9%                     |
| Share Price          | 19.2%                | -2.8%                     | 16.1%                     | 8.3%                      | 40.4%                     |
| MSCI World Index (£) | 20.2%                | 0.7%                      | 16.2%                     | 7.4%                      | 29.7%                     |

Source: Thomson Reuters Datastream.

|                          |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|
| Revenue return per share | 2.07p | 5.51p | 4.68p | 4.22p | 3.28p |
| Dividends paid           | 2.80p | 6.00p | 4.60p | 3.55p | 3.40p |

### Total Return Graph

Rebased to 100 at 31 May 2012



# GLOBAL EQUITY INCOME SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the Global Equity Income Portfolio is 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.

## Market and Economic Review

A lack of clarity about the frequency and magnitude of US interest rate hikes and political events in the UK and the US dominated markets. Markets were completely wrong-footed by the decision of UK voters on 23 June to leave the European Union and investors' emotional response to the outcome was reflected in dramatic market moves. Equities sold off and bond markets – particularly core government bonds – went up. Sterling fell against the US dollar to a level last seen in the mid-1980s as investors reacted to the Brexit vote. The brunt of the equity sell-off was experienced by the UK, but other markets were also impacted to varying degrees. As the initial shock wore off, global equity markets – supported by assurances from major central banks to provide support and investors' returning to a risk-on mood – rallied over the summer months. Diminishing fears about Brexit-related volatility and encouraging economic data in the US, Europe and China supported investors' risk appetite and triggered a rotation away from perceived 'safer' bond-like (i.e. 'bond proxy') sectors and into the more cyclical and economically sensitive areas of the market over the summer months. These market segments tend to do well when the economy is stronger and bond yields are moving higher.

Growing disenchantment with the widening gap between the privileged minority and those left behind has been reflected in the rise of populism in many parts of the globe. In particular, the surprise outcomes of the EU referendum in the UK and the US presidential election in November are clear examples of electorates pushing back against the social and wealth inequality that they have experienced in recent years. Still, Donald Trump's unexpected US presidential success took investors by surprise. Mimicking market reactions post-Brexit, US equity markets rallied strongly to reach new all-time highs. Trump's pro-growth and reflationary views also accelerated the sector rotation away from 'bond proxies'. If realised, financials, defence-related and infrastructure-related industries are likely to be the primary beneficiaries of Trump's policies. Meanwhile, in November, crude oil prices received a boost after the Organization of the Petroleum Exporting Countries' (OPEC) confirmed its earlier agreement reached in September to cut production from 1 January 2017. With US economic growth gathering speed on the back of strengthening core economic and labour data, bond markets fully priced-in a December US interest rate rise by the end of November, and expectations are growing for further increases in 2017.

## Portfolio Performance

On a total return basis, the Global Equity Income Portfolio's net asset value returned 17.3% over the six months to the end of November 2016, compared to a return of 20.2% in the MSCI World Index (£, net of withholding tax).

## Portfolio Strategy and Review

The Portfolio's underperformance of the benchmark MSCI World index during the six months was primarily attributable to holdings in the UK post-Brexit, especially within the telecommunications sector, and mixed performances from positions in the more economically sensitive areas of the equity market. Whilst the Portfolio's holdings in these market segments, such as industrials and materials, managed to generate strong absolute returns, they underperformed relative to the benchmark index. In particular, our industrials sector holdings weighed on relative performance, with most of the performance deficit stemming from our airline holding easyJet, which was impacted by the post-Brexit environment, terror-related events and strike action (especially in France). However, easyJet has remained resilient, reporting a record number of passengers year-on-year to the end of September 2016 and expecting renewed growth in key markets, both in the UK and across Europe. Relative weakness also came from our industrials positions in the professional services sectors, including Nielsen and publisher and information provider RELX. Within the materials sector, a position in UK-based international packaging company DS Smith and lack of exposure to the metals and mining sector weighed on returns.

Among so called 'bond proxies', the relative weakness of our telecommunication services position in BT, and to a lesser degree in mobile communications provider Orange, weighed strongly on performance during the review period. This was primarily attributed to investor concerns around the regulatory environment in the UK and Europe, as well as BT's growing pension liability. However, we remain confident of the dividend paying capacity of both companies.

GLOBAL EQUITY INCOME SHARE PORTFOLIO  
MANAGER'S REPORT

continued

Over the review period, our large weighting in financials enjoyed robust performance as the sector benefited from the rotation into previously 'out-of-favour' areas of the equity market and an apparent policy shift, notably in the US, towards more expansionary fiscal policies. With the prospects of a US interest rate rise firming up, a steepening yield curve and strong quarterly corporate earnings results for banks especially in the US, our financials holdings in aggregate generated strong absolute returns. Dutch financial services group ING, JPMorgan Chase and PNC Financial Services were our top three performers in this sector, with Citigroup also contributing. Nonetheless, our holdings in the sector underperformed versus the benchmark index. This was in part due to the exposure to the UK financial industry through our holding in Legal & General. Our holding in Italian lender Intesa Sanpaolo, despite its own strong market position and balance sheet, was impacted by sentiment because of the weak state of many other Italian banks. Relative softness among our insurance and capital markets positions also countered some of our otherwise good performance in the sector. We remain of the view that financials appear undervalued and offer attractive dividend prospects.

On a more positive note, our consumer discretionary holdings outperformed the benchmark performance of that sector. In particular, our holding in gaming and resort company, Las Vegas Sands, benefited from strong share performance after the opening of their new resort, The Parisian Macau, on Macau's Cotai Strip in mid-September and was among the top 5 individual contributors to performance over the review period. Elsewhere, our information technology holdings in strongly performing Taiwan Semiconductor Manufacturing and Microsoft helped the outperformance.

Performance support also came from holdings in the energy sector. Whilst the oil price has remained fairly stable since the initial lows at the start of the year, both oil prices and oil company stocks received a boost from OPEC's agreements in September and November. However, scepticism remains about the group's ability to deliver output cuts outside OPEC's 14 members. This was underpinned by the International Energy Agency, which highlighted in its report the significant task faced by OPEC if the oil cartel is to cut its production and boost the price of the commodity. The agency pointed out that output was actually increasing in Russia, Brazil, Canada and Kazakhstan. Among our energy positions, US-based Chevron, BP and Norway's Statoil were among the top 20 individual performers. We continue to be impressed by the commitment of companies in the sector to lower their operating costs, limit capital expenditure and to protect dividends.

### Outlook

Our global outlook remains one of a slow and prolonged economic recovery, against a backdrop of heightened market uncertainty. With the European economic recovery continuing to gain ground, we remain optimistic that a number of European companies offer compelling valuation opportunities and should benefit from the combined tailwinds of a weaker euro and loose monetary policy. However, whilst fiscal austerity in the developed world has dominated much of the post global financial crisis period, we are starting to see signs of a shift towards more expansionary fiscal policies. Overall, our strategy remains constant, to invest in high quality companies at attractive valuations. We view high quality companies as those that can sustain profit margins and deliver positive returns through the economic cycle. We view growing and sustainable dividends as clear evidence of these sorts of companies. In aggregate, therefore, we target companies that offer attractive yields, sustainable income and capital upside.

**Nick Mustoe**  
*Portfolio Manager*

31 January 2017



## GLOBAL EQUITY INCOME SHARE PORTFOLIO LIST OF INVESTMENTS

AT 30 NOVEMBER 2016

Ordinary shares unless stated otherwise

| COMPANY                               | INDUSTRY GROUP <sup>†</sup>                   | COUNTRY <sup>†</sup> | MARKET         | % OF      |
|---------------------------------------|---|----------------------|----------------|-----------|
|                                       |   |                      | VALUE<br>£'000 | PORTFOLIO |
| JPMorgan Chase                        | Banks   | US                   | 2,438          | 3.8       |
| Chevron                               | Energy  | US                   | 2,172          | 3.4       |
| PNC Financial Services                | Banks   | US                   | 2,038          | 3.2       |
| Microsoft                             | Software & Services                           | US                   | 1,983          | 3.1       |
| Novartis                              | Pharmaceuticals Biotechnology & Life Sciences | Switzerland          | 1,824          | 2.8       |
| ING                                   | Banks   | Netherlands          | 1,715          | 2.7       |
| Pfizer                                | Pharmaceuticals Biotechnology & Life Sciences | US                   | 1,711          | 2.7       |
| BP                                    | Energy  | UK                   | 1,689          | 2.6       |
| Legal & General                       | Insurance                                     | UK                   | 1,657          | 2.6       |
| BT                                    | Telecommunication Services                    | UK                   | 1,651          | 2.6       |
| Statoil                               | Energy  | Norway               | 1,567          | 2.5       |
| United Technologies                   | Capital Goods                                 | US                   | 1,552          | 2.4       |
| British American Tobacco              | Food Beverage & Tobacco                       | UK                   | 1,538          | 2.4       |
| Airbus                                | Capital Goods                                 | France               | 1,520          | 2.4       |
| Taiwan Semiconductor<br>Manufacturing | Semiconductors & Semiconductor Equipment      | Taiwan               | 1,495          | 2.3       |
| Orange                                | Telecommunication Services                    | France               | 1,415          | 2.2       |
| Amgen                                 | Pharmaceuticals Biotechnology & Life Sciences | US                   | 1,411          | 2.2       |
| Nielsen                               | Commercial & Professional Services            | US                   | 1,367          | 2.1       |
| Total                                 | Energy  | France               | 1,361          | 2.1       |
| Deutsche Post                         | Transportation                                | Germany              | 1,326          | 2.1       |
| Citigroup                             | Banks   | US                   | 1,292          | 2.0       |
| Roche                                 | Pharmaceuticals Biotechnology & Life Sciences | Switzerland          | 1,219          | 1.9       |
| RELX                                  | Commercial & Professional Services            | Netherlands          | 1,212          | 1.9       |
| Aon – A shares                        | Insurance                                     | US                   | 1,210          | 1.9       |
| Intesa Sanpaolo                       | Banks   | Italy                | 1,182          | 1.8       |
| Philip Morris International           | Food Beverage & Tobacco                       | US                   | 1,175          | 1.8       |
| Deutsche Boerse                       | Diversified Financials                        | Germany              | 1,159          | 1.8       |
| Allianz                               | Insurance                                     | Germany              | 1,107          | 1.7       |
| Gilead Sciences                       | Pharmaceuticals Biotechnology & Life Sciences | US                   | 1,101          | 1.7       |
| Centrica                              | Utilities                                     | UK                   | 1,082          | 1.7       |
| China Mobile – R                      | Telecommunication Services                    | Hong Kong            | 1,066          | 1.7       |
| Las Vegas Sands                       | Consumer Services                             | US                   | 1,057          | 1.6       |
| Royal Dutch Shell – A shares          | Energy  | Netherlands          | 1,030          | 1.6       |
| Adecco                                | Commercial & Professional Services            | Switzerland          | 986            | 1.5       |
| Hiscox                                | Insurance                                     | UK                   | 981            | 1.5       |
| UBS                                   | Diversified Financials                        | Switzerland          | 954            | 1.5       |
| Nordea                                | Banks   | Sweden               | 935            | 1.5       |
| Amcor                                 | Materials                                     | Australia            | 935            | 1.5       |
| Honda Motor                           | Automobiles & Components                      | Japan                | 903            | 1.4       |
| Williams-Sonoma                       | Retailing                                     | US                   | 899            | 1.4       |
| easyJet                               | Transportation                                | UK                   | 852            | 1.3       |
| Union Pacific                         | Transportation                                | US                   | 833            | 1.3       |
| BAE Systems                           | Capital Goods                                 | UK                   | 819            | 1.3       |
| Booker                                | Food & Staples Retailing                      | UK                   | 804            | 1.3       |
| Canadian Natural Resources            | Energy  | Canada               | 672            | 1.0       |
| Zurich Insurance                      | Insurance                                     | Switzerland          | 644            | 1.0       |
| Nasdaq                                | Diversified Financials                        | US                   | 623            | 1.0       |
| Yue Yuen Industrial                   | Consumer Durables & Apparel                   | Hong Kong            | 603            | 0.9       |
| American Express                      | Diversified Financials                        | US                   | 595            | 0.9       |
| Canon                                 | Technology Hardware & Equipment               | Japan                | 589            | 0.9       |
| Zhejiang Expressway – H               | Transportation                                | Hong Kong            | 551            | 0.9       |
| DS Smith                              | Materials                                     | UK                   | 442            | 0.7       |
| CK Hutchison                          | Capital Goods                                 | Hong Kong            | 423            | 0.7       |
| London Stock Exchange                 | Diversified Financials                        | UK                   | 420            | 0.7       |
| BASF                                  | Materials                                     | Germany              | 338            | 0.5       |
|                                       |   |                      | 64,123         | 100.0     |

<sup>†</sup>MSCI and Standard & Poor's Global Industry Classification Standard.

H: H-Shares – shares issued by companies incorporated in the People's Republic of China (PRC) and listed on the Hong Kong Stock Exchange.

R: Red Chip Holdings – holdings in companies incorporated outside the PRC, listed on the Hong Kong Stock Exchange, and controlled by PRC entities by way of direct or indirect shareholding and/or representation on the board.

## GLOBAL EQUITY INCOME SHARE PORTFOLIO INCOME STATEMENT

|  | SIX MONTHS ENDED<br>30 NOVEMBER 2016 |                  |                | SIX MONTHS ENDED<br>30 NOVEMBER 2015 |                  |                |
|--|--------------------------------------|------------------|----------------|--------------------------------------|------------------|----------------|
|  | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains/(losses) on investments  | –                                    | 8,389            | 8,389          | –                                    | (1,814)          | (1,814)        |
| Foreign exchange losses  | –                                    | (7)              | (7)            | –                                    | (1)              | (1)            |
| Income   | 909                                  | –                | 909            | 785                                  | –                | 785            |
| Management fees – note 2   | (57)                                 | (134)            | (191)          | (49)                                 | (114)            | (163)          |
| Other expenses   | (87)                                 | (1)              | (88)           | (72)                                 | –                | (72)           |
| <b>Net return before finance costs and taxation</b>                          | <b>765</b>                           | <b>8,247</b>     | <b>9,012</b>   | <b>664</b>                           | <b>(1,929)</b>   | <b>(1,265)</b> |
| Finance costs  | (11)                                 | (25)             | (36)           | (12)                                 | (29)             | (41)           |
| <b>Return on ordinary activities before taxation</b>                         | <b>754</b>                           | <b>8,222</b>     | <b>8,976</b>   | <b>652</b>                           | <b>(1,958)</b>   | <b>(1,306)</b> |
| Tax on ordinary activities   | (81)                                 | –                | (81)           | (56)                                 | –                | (56)           |
| <b>Return on ordinary activities after taxation for the financial period</b> | <b>673</b>                           | <b>8,222</b>     | <b>8,895</b>   | <b>596</b>                           | <b>(1,958)</b>   | <b>(1,362)</b> |
| <b>Basic return per ordinary share – note 4</b>                              | <b>2.07p</b>                         | <b>25.25p</b>    | <b>27.32p</b>  | <b>1.88p</b>                         | <b>(6.17)p</b>   | <b>(4.29)p</b> |

## SUMMARY OF NET ASSETS

|   | AT<br>30 NOVEMBER<br>2016<br>£'000 | AT<br>31 MAY<br>2016<br>£'000 |
|---|------------------------------------|-------------------------------|
| Fixed assets  | 64,123                             | 57,669                        |
| Current assets  | 1,075                              | 1,271                         |
| Creditors falling due within one year, excluding borrowings | (612)                              | (397)                         |
| Bank loan   | (4,500)                            | (6,600)                       |
| <b>Net assets</b>   | <b>60,086</b>                      | <b>51,943</b>                 |
| <b>Net asset value per ordinary share – note 5</b>          | <b>183.8p</b>                      | <b>159.2p</b>                 |
| Gearing:  |                                    |                               |
| – gross   | 7.5%                               | 12.7%                         |
| – net   | 7.0%                               | 11.4%                         |

## BALANCED RISK SHARE PORTFOLIO PERFORMANCE RECORD

The name and objective of this Portfolio were changed with effect from on 8 February 2012.

### Total Return

|                      | SIX MONTHS TO<br>30 NOVEMBER<br>2016 | YEAR TO<br>31 MAY<br>2016 | YEAR TO<br>31 MAY<br>2015 | YEAR TO<br>31 MAY<br>2014 | YEAR TO<br>31 MAY<br>2013 |
|----------------------|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Net Asset Value      | 4.6%                                 | -0.3%                     | 4.1%                      | 5.5%                      | 8.8%                      |
| Share Price          | 6.9%                                 | -2.1%                     | 5.0%                      | 4.5%                      | 20.7%                     |
| 3 month LIBOR +5% pa | 2.8%                                 | 5.6%                      | 5.6%                      | 5.5%                      | 5.7%                      |

Source: Thomson Reuters Datastream.

### Total Return Graph

Rebased to 100 at 31 May 2012



## BALANCED RISK SHARE PORTFOLIO MANAGER'S REPORT

### Investment Objective

The investment objective of the Balanced Risk Portfolio is 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.

### Market and Economic Review

Government bonds started the period strongly, owing primarily to concerns about the UK's EU referendum and its aftermath and expectations that central banks would be forced to abandon rate hikes in the near term. Bond prices remained firm through the third quarter of 2016 as low growth and inflation kept central banks on hold from rising rates or revising existing accommodative policy. However, yields spiked at the end of the period as rate hike fears returned and demand for safe havens declined.

Equity performance was mixed at the beginning of the period, with Japan and Europe experiencing meaningful declines while other developed markets managed gains. The UK emerged as the leader in spite of the Brexit outcome of the EU referendum. Equities posted positive performance globally in the third quarter of 2016, due to dovish language from central banks as they continued to contend with low growth and below target inflation, which continued through to the end of the period, although results were not uniformly positive across individual markets.

The commodities rally that began in the first quarter of 2016 continued into the period under review. Performance began to pull back in the middle of the third quarter, but returns varied among the commodity complexes. In aggregate, commodity prices finished the period on a positive note while across the various complexes, cyclical areas such as industrial metals and energy performed well while precious metals and agricultural commodity prices fell.

### Portfolio Performance

The Balanced Risk Shares Portfolio outperformed the benchmark. The Portfolio return for the six months was 4.6%, compared with the benchmark, 3 month LIBOR plus 5%, return of 2.8%.

### Portfolio Strategy and Review

Strategic exposure to bonds led results in June as prices increased and yields declined – nervous investors sought refuge from volatility in equities early in the month as polling data indicated that “leave” had taken the lead amongst UK voters leading up to the EU referendum. After the Brexit vote later in the month, bond yields moved lower still in response to the uncertainty about what impact the UK leaving the European Union would have and the belief that central banks would be forced to postpone any hike in policy rates – German bund yields were driven into negative territory and other markets revisited or set historical lows. The positive bond price performance continued through the third quarter of 2016 as tepid economic growth and below trend inflation kept central banks on hold. Additionally, safe haven demand triggered by renewed volatility among commodities in July and August and fears that concerns about Deutsche Bank could lead to European banking contagion in September, helped to suppress yields. However, yields spiked across the board at the end of the period on the heels of Donald Trump's victory in the US presidential election as economic optimism and calls for a rate hike in the US, together with hints from the European Central Bank (ECB) about the potential to begin to taper asset purchases, reduced the demand for safe haven assets.

Equity markets had a bifurcated outcome in June with Japan and Europe selling off while the UK, US and Hong Kong markets enjoyed gains. Performance was positive for developed equities in the third quarter as they continued to levitate on dovish policies from central banks as they tried to generate real growth and inflation across their respective economies through a combination of extremely low rates and, in the case of the Bank of Japan and the ECB, outright asset purchases. Equity exposures ended the period on a positive note but performance was varied among markets. US small caps led results in November followed by Japanese equities and US large caps. European equities ended November flat, while share prices in Hong Kong and the UK ended in negative territory. The outsized gains for US small caps relative to the other markets may reflect a belief that economic policies under Trump will benefit US domiciled companies with a domestic customer base where US dollar strength or a tariff war will not have the negative impact that other markets may suffer.

# BALANCED RISK SHARE PORTFOLIO MANAGER'S REPORT

continued

Commodity performance was positive in June as the rally from earlier in the year continued. Precious metals increased as the US Federal Reserve (Fed) once again deferred making a second increase in interest rates. Then, safe-haven demand caused a second surge in prices on the outcome of the UK's Brexit vote. Agricultural commodities contributed by exposure to both grains and soft commodities. Industrial metals found aluminium outpacing copper as the sub-complex traded up on the subsidence of Chinese economic fears, along with some softness in the dollar pre-Brexit. The energy sub-complex was the sole detractor in June due to declines in unleaded gasoline as stocks remained at excessive levels. Commodity prices pulled back in the third quarter. Agriculture prices suffered as crop reports indicated improvement in expected yields, particularly in the soy complex. Energy prices remained depressed in response to the ongoing supply glut in crudes and distillates such as unleaded gasoline. Industrial metals had a neutral impact as weakness mid-quarter was offset by surprise strength in China manufacturing data in the later part of the period boosting prices of aluminium and copper. Precious metals were a mild contributor as silver traded in line with industrial metals. However, commodity performance improved at the end of the period as price gains in cyclical commodities outweighed the impact of price declines across agricultural commodities and precious metals. Industrial metals rose as Trump's election and strong Chinese manufacturing data sparked a surge in optimism that drove the complex to its best gain since 2012 and the single best month for copper since 2009. Energy prices surged on the last day of the month, as OPEC and Russia reached an agreement to cut production. Precious metals detracted in November as economic optimism and continued calls for a rate hike in December diminished demand for safe-havens. Agriculture prices were mixed in November with strong declines in coffee, sugar, wheat and corn leading to losses that were only partially offset by gains in soybeans and soybean oil.

## Outlook

As we start the year, investors are looking for hints about what policy direction the new Trump administration will take in the first 100 days in office. There are already signs of protectionist tendencies with the threat of tariffs for US companies who relocate production outside of the US as well as a number of cabinet appointees who are viewed as being hardliners when it comes to policy regarding trade deals with China. The degree of uncertainty that could result from policy announcements against already elevated equity valuations may cause difficulties later in the year.

**Scott Wolle**  
*Portfolio Manager*

31 January 2017

## TARGET ANNUALISED RISK

The targeted annualised risk (volatility of monthly returns) for the portfolio as listed above is analysed as follows:

| ASSET CLASS | RISK | CONTRIBUTION |
|-------------|------|--------------|
| Bonds       | 1.6% | 18.3%        |
| Equities    | 4.4% | 50.0%        |
| Commodities | 2.8% | 31.7%        |
|             | 8.8% | 100.0%       |

Derivative instruments held in the Balanced Risk Share Portfolio are shown on the next page. At the period end all derivative instruments held in this Portfolio were exchange traded futures contracts. Holdings in futures contracts that are not exchange traded are permitted as explained in the investment policy which is disclosed in full on page 30 of the 2016 annual financial report.

## BALANCED RISK SHARE PORTFOLIO LIST OF INVESTMENTS

AT 30 NOVEMBER 2016

|   | YIELD<br>% | MARKET<br>VALUE<br>£'000 | %<br>OF NET<br>ASSETS |
|---|------------|--------------------------|-----------------------|
| <b>Short Term Investments</b>                 |            |                          |                       |
| UK Treasury Bill 8 May 2017                   | 0.22       | 2,997                    | 32.9                  |
| UK Treasury Bill 27 Feb 2017                  | 0.21       | 2,499                    | 27.4                  |
| Short-Term Investment Company (Global Series) | 0.32       | 2,290                    | 25.1                  |
| <b>Total Short Term Investments</b>           |            | <b>7,786</b>             | <b>85.4</b>           |
| <b>Hedge Funds<sup>(1)</sup></b>              |            |                          |                       |
| Harbinger Class PE Holdings                   |            | 16                       | 0.2                   |
| Harbinger Class L Holdings                    |            | 2                        | –                     |
| <b>Total Hedge Funds</b>                      |            | <b>18</b>                | <b>0.2</b>            |
| <b>Total Fixed Asset Investments</b>          |            | <b>7,804</b>             | <b>85.6</b>           |

<sup>(1)</sup>The hedge fund investments are residual holdings of the previous investment strategy, which are awaiting realisation of underlying investments.

## LIST OF DERIVATIVE INSTRUMENTS

AT 30 NOVEMBER 2016

|  | NOTIONAL<br>EXPOSURE<br>£'000 | NOTIONAL<br>EXPOSURE<br>AS % OF<br>NET ASSETS |
|--|-------------------------------|---|
| <b>Government Bonds</b>                  |                               |   |
| Canada                                   | 1,655                         | 18.2  |
| Australia                                | 1,601                         | 17.6  |
| UK                                       | 863                           | 9.5   |
| US                                       | 724                           | 7.9   |
| <b>Total Bond Futures (4)</b>            | <b>4,843</b>                  | <b>53.2</b>                                   |
| <b>Equities Futures</b>                  |                               |   |
| Japan                                    | 723                           | 7.9   |
| Hong Kong                                | 707                           | 7.8   |
| UK                                       | 678                           | 7.4   |
| Europe                                   | 617                           | 6.8   |
| US small cap                             | 532                           | 5.8   |
| US large cap                             | 530                           | 5.8   |
| <b>Total Equity Futures (6)</b>          | <b>3,787</b>                  | <b>41.5</b>                                   |
| <b>Commodities Futures</b>               |                               |   |
| Agriculture                              |                               |   |
| Soybean meal                             | 230                           | 2.5   |
| Cotton                                   | 229                           | 2.5   |
| Soy bean                                 | 211                           | 2.3   |
| Sugar                                    | 211                           | 2.3   |
| Corn                                     | 88                            | 1.0   |
| Soybean oil                              | 54                            | 0.6   |
| Wheat                                    | 53                            | 0.6   |
| Coffee                                   | 46                            | 0.5   |
| Energy                                   |                               |   |
| Gasoline                                 | 199                           | 2.2   |
| Brent crude                              | 129                           | 1.4   |
| Natural gas                              | 110                           | 1.2   |
| WTI crude                                | 83                            | 0.9   |
| Gas-oil (diesel)                         | 72                            | 0.8   |
| New York Harbor ultra-low sulphur diesel | 54                            | 0.6   |
| Industrial Metals                        |                               |   |
| Copper                                   | 343                           | 3.8   |
| Aluminium                                | 241                           | 2.6   |
| Precious Metals                          |                               |   |
| Gold                                     | 376                           | 4.1   |
| Silver                                   | 199                           | 2.2   |
| <b>Total Commodities Futures (18)</b>    | <b>2,928</b>                  | <b>32.1</b>                                   |
| <b>Total Derivative Instruments (28)</b> | <b>11,558</b>                 | <b>126.8</b>                                  |

## BALANCED RISK SHARE PORTFOLIO INCOME STATEMENT

|  | SIX MONTHS ENDED<br>30 NOVEMBER 2016 |                  |                | SIX MONTHS ENDED<br>30 NOVEMBER 2015 |                  |                |
|--|--------------------------------------|------------------|----------------|--------------------------------------|------------------|----------------|
|  | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains on investments   | –                                    | 4                | 4              | –                                    | 1                | 1              |
| Gains/(losses) on derivative instruments   | 15                                   | 307              | 322            | 39                                   | (512)            | (473)          |
| Foreign exchange gains   | –                                    | 118              | 118            | –                                    | 1                | 1              |
| Income   | 16                                   | –                | 16             | 20                                   | –                | 20             |
| Management fees – note 2   | (10)                                 | (24)             | (34)           | (10)                                 | (22)             | (32)           |
| Other expenses   | (21)                                 | –                | (21)           | (19)                                 | –                | (19)           |
| <b>Return before finance costs<br/>and taxation</b>                                  | –                                    | 405              | 405            | 30                                   | (532)            | (502)          |
| Finance costs  | –                                    | –                | –              | –                                    | –                | –              |
| <b>Return on ordinary activities<br/>before taxation</b>                             | –                                    | 405              | 405            | 30                                   | (532)            | (502)          |
| Tax on ordinary activities   | –                                    | –                | –              | –                                    | –                | –              |
| <b>Return on ordinary activities<br/>after taxation for the financial<br/>period</b> | –                                    | 405              | 405            | 30                                   | (532)            | (502)          |
| <b>Basic return per ordinary<br/>share – note 4</b>                                  | –                                    | 5.67p            | 5.67p          | 0.40p                                | (7.05)p          | (6.65)p        |

## SUMMARY OF NET ASSETS

|  | AT<br>30 NOVEMBER<br>2016<br>£'000 | AT<br>31 MAY<br>2016<br>£'000 |
|--|------------------------------------|-------------------------------|
| Fixed assets   | 7,804                              | 7,698                         |
| Derivative assets held at fair value through profit or loss      | 327                                | 388                           |
| Current assets   | 1,139                              | 845                           |
| Derivative liabilities held at fair value through profit or loss | (127)                              | (68)                          |
| Other creditors excluding borrowings                             | (30)                               | (26)                          |
| <b>Net assets</b>  | <b>9,113</b>                       | <b>8,837</b>                  |
| <b>Net asset value per ordinary share – note 5</b>               | <b>128.4p</b>                      | <b>122.8p</b>                 |
| <b>Notional exposure as % of net assets</b>                      | <b>126.8%</b>                      | <b>137.7%</b>                 |

## MANAGED LIQUIDITY SHARE PORTFOLIO PERFORMANCE RECORD

### Total Return

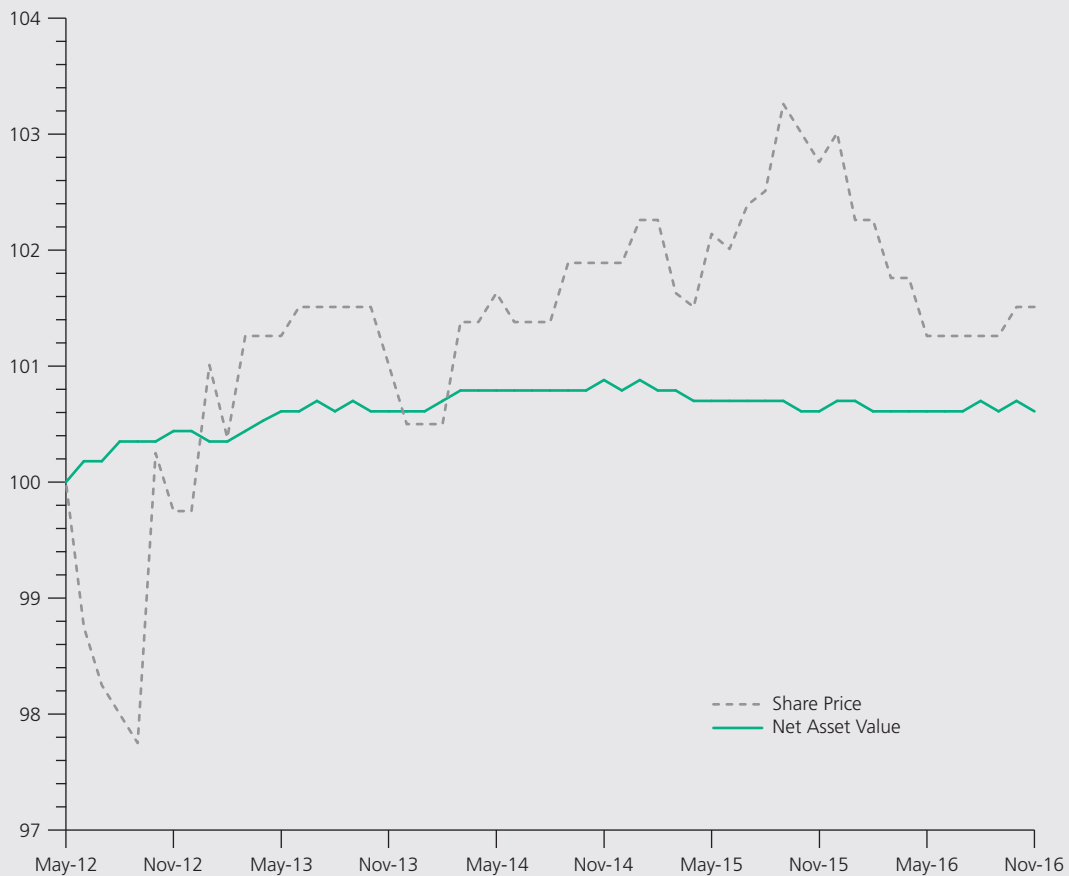
|                 | SIX MONTHS<br>TO<br>30 NOV<br>2016 | YEAR TO<br>31 MAY<br>2016 | YEAR TO<br>31 MAY<br>2015 | YEAR TO<br>31 MAY<br>2014 | YEAR TO<br>31 MAY<br>2013 |
|-----------------|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Net Asset Value | 0.0%                               | -0.1%                     | -0.1%                     | 0.2%                      | 0.5%                      |
| Share Price     | 0.2%                               | -0.9%                     | 0.5%                      | 0.4%                      | 1.3%                      |

Source: Thomson Reuters Datastream.

|                          |       |         |         |       |       |
|--------------------------|-------|---------|---------|-------|-------|
| Revenue return per share | 0.00p | (0.14)p | (0.12)p | 0.02p | 0.10p |
| Dividend                 | nil   | nil     | nil     | nil   | nil   |

### Total Return Graph

Rebased to 100 at 31 May 2012





# MANAGED LIQUIDITY SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the Managed Liquidity Share Portfolio is to produce an appropriate level of income return combined with a high degree of security.

## Market and Economic Review

For sterling bond markets, the six months to 30 November 2016 were dominated by the UK's vote to leave the European Union and subsequent decision by the Bank of England (BoE) to ease UK monetary policy further.

After pausing in July, the BoE loosened monetary policy in August. Amongst the measures announced was a 0.25% cut in Bank Rate. Sterling denominated bond yields moved sharply lower following the cut. More recently, an increase in inflation expectations, better than expected economic data and a potential shift toward fiscal stimulus has seen bond yields rise.

Over the six months to the end of November, 2 year Gilt yields fell 30 basis points (bps) ending the period at 0.13%. The majority of this fall occurred during the first week after the Brexit vote. Yields had risen to 0.52% on 23 June, as polls indicated a lead for the "remain" vote. In the following seven days, yields fell to 0.10% before then trading in a 10bps (0.01%) range to the end of October. During October, 2 year Gilt yields broke out of this range, peaking at 0.29% before then falling back to 0.13% by the end of November.

Interbank lending rates were also lower over the period. In line with Gilt yields, 3 month LIBOR fell from a peak of 0.59% on 23 June to 0.49% in the first few weeks following the vote. The cut in Bank Rate caused a second 10bps drop in LIBOR, which then traded between 0.38% and 0.41% until 30 November 2016.

## Portfolio Strategy and Review

Our investment strategy is achieved by investing in the Invesco Perpetual Money Fund and the Sterling Liquidity Portfolio of Short-Term Investments Company (Global Series) plc, each of which invests in a diversified portfolio of high quality sterling denominated short-term money market instruments.

The Invesco Perpetual Money Fund has positions in a number of government, quasi-government and corporate bonds. In order to limit the exposure to interest rate risk and credit risk (the likelihood of an issuer defaulting), these bonds are both short dated and of high quality. The fund also holds some floating rate notes, debt instruments whose interest rates are reset at regular intervals.

The Sterling Liquidity Portfolio of the Short-Term Investments Company (Global Series) plc invests in high quality sterling denominated money market instruments such as commercial paper, certificates of deposit, time deposits and floating rate notes. At 30 November 2016 the Sterling Liquidity Portfolio was rated AAAM by Standard and Poor's and AAAMmf by Fitch Ratings.

## Outlook

Inflation pressures in the UK have increased, albeit from a low level, and economic data has so far exceeded expectations post-referendum. Nonetheless, we continue to think that any upward adjustment in the Bank Rate will be gradual and to a lower level than in previous cycles.

**Stuart Edwards**  
*Portfolio Manager*

31 January 2017

## MANAGED LIQUIDITY SHARE PORTFOLIO LIST OF INVESTMENTS

|  | AT<br>30 NOVEMBER<br>2016<br>MARKET<br>VALUE<br>£'000 | AT<br>31 MAY<br>2016<br>MARKET<br>VALUE<br>£'000 |
|--|---|--|
| Invesco Perpetual Money Fund†                  | 4,899   | 4,894  |
| Short-Term Investments Company (Global Series) | 848   | 418  |
|  | 5,747   | 5,312  |

†At the period end the Managed Liquidity Share Portfolio held 6.2% (May 2016: 9.9%) of the shares in issue of the Invesco Perpetual Money Fund.

## MANAGED LIQUIDITY SHARE PORTFOLIO INCOME STATEMENT

|  | SIX MONTHS ENDED<br>30 NOVEMBER 2016 |                  |                | SIX MONTHS ENDED<br>30 NOVEMBER 2015 |                  |                |
|--|--------------------------------------|------------------|----------------|--------------------------------------|------------------|----------------|
|  | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000                     | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains on investments                                     | –                                    | –                | –              | –                                    | 2                | 2              |
| Income   | 13                                   | –                | 13             | 12                                   | –                | 12             |
| Management fees – note 2                                 | (3)                                  | –                | (3)            | (6)                                  | –                | (6)            |
| Other expenses   | (10)                                 | –                | (10)           | (10)                                 | –                | (10)           |
| <b>Return on ordinary activities<br/>before taxation</b> | –                                    | –                | –              | (4)                                  | 2                | (2)            |
| Tax on ordinary activities                               | –                                    | –                | –              | –                                    | –                | –              |
| <b>Return on ordinary activities<br/>after taxation</b>  | –                                    | –                | –              | (4)                                  | 2                | (2)            |
| <b>Basic return per ordinary share<br/>– note 4</b>      | –                                    | –                | –              | (0.08)p                              | 0.04p            | (0.04)p        |

## SUMMARY OF NET ASSETS

|   | AT<br>30 NOVEMBER<br>2016<br>£'000 | AT<br>31 MAY<br>2016<br>£'000 |
|---|------------------------------------|-------------------------------|
| Fixed assets  | 5,747                              | 5,312                         |
| Current assets  | 17                                 | 925                           |
| Creditors falling due within one year, excluding borrowings | (141)                              | (146)                         |
| <b>Net assets</b>   | 5,623                              | 6,091                         |
| <b>Net asset value per ordinary share – note 5</b>          | 103.1p                             | 103.1p                        |

## CONDENSED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 NOVEMBER

|  | 2016             |                  |                | 2015             |                  |                |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
|  | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains/(losses) on investments  | –                | 10,344           | 10,344         | –                | (1,983)          | (1,983)        |
| Gains/(losses) on derivative instruments                                     | 15               | 307              | 322            | 39               | (512)            | (473)          |
| Foreign exchange gains   | –                | 118              | 118            | –                | 5                | 5              |
| Income   | 2,004            | 23               | 2,027          | 1,983            | –                | 1,983          |
| Management fees – note 2   | (135)            | (310)            | (445)          | (130)            | (288)            | (418)          |
| Performance fees – note 2  | –                | 284              | 284            | –                | (574)            | (574)          |
| Other expenses   | (220)            | (1)              | (221)          | (200)            | –                | (200)          |
| <b>Net return before finance costs and taxation</b>                          | <b>1,664</b>     | <b>10,765</b>    | <b>12,429</b>  | <b>1,692</b>     | <b>(3,352)</b>   | <b>(1,660)</b> |
| Finance costs  | (27)             | (62)             | (89)           | (33)             | (78)             | (111)          |
| <b>Return on ordinary activities before taxation</b>                         | <b>1,637</b>     | <b>10,703</b>    | <b>12,340</b>  | <b>1,659</b>     | <b>(3,430)</b>   | <b>(1,771)</b> |
| Tax on ordinary activities   | (95)             | –                | (95)           | (67)             | –                | (67)           |
| <b>Return on ordinary activities after taxation for the financial period</b> | <b>1,542</b>     | <b>10,703</b>    | <b>12,245</b>  | <b>1,592</b>     | <b>(3,430)</b>   | <b>(1,838)</b> |
| <b>Basic return per ordinary share – note 4</b>                              |                  |                  |                |                  |                  |                |
| UK Equity Share Portfolio  | 2.20p            | 5.24p            | 7.44p          | 2.43p            | (2.36)p          | 0.07p          |
| Global Equity Income Share Portfolio   | 2.07p            | 25.25p           | 27.32p         | 1.88p            | (6.17)p          | (4.29)p        |
| Balanced Risk Share Portfolio  | –                | 5.67p            | 5.67p          | 0.40p            | (7.05)p          | (6.65)p        |
| Managed Liquidity Share Portfolio  | –                | –                | –              | (0.08)p          | 0.04p            | (0.04)p        |

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The return on ordinary activities after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period. Income Statements for the different Share classes are shown on pages 11, 16, 21 and 24 for the UK Equity, Global Equity Income, Balanced Risk and Managed Liquidity Share Portfolios respectively.

## CONDENSED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE SIX MONTHS ENDED 30 NOVEMBER

|  | SHARE<br>CAPITAL<br>£'000 | SHARE<br>PREMIUM<br>£'000 | SPECIAL<br>RESERVE<br>£'000 | CAPITAL<br>REDEMPTION<br>RESERVE<br>£'000 | CAPITAL<br>RESERVE<br>£'000 | REVENUE<br>RESERVE<br>£'000 | TOTAL<br>£'000 |
|--|---------------------------|---------------------------|-----------------------------|---|-----------------------------|-----------------------------|----------------|
| At 31 May 2016   | 1,062                     | 1,290                     | 85,252                      | 345                                       | 44,073                      | 576                         | 132,598        |
| Cancellation of<br>deferred shares                           | –                         | –                         | (2)                         | 2   | –                           | –                           | –              |
| Share conversions  | (1)                       | –                         | 1                           | –   | –                           | –                           | –              |
| Shares bought back<br>and held in treasury                   | –                         | –                         | (2,039)                     | –   | –                           | –                           | (2,039)        |
| Return on ordinary<br>activities per the<br>income statement | –                         | –                         | –                           | –   | 10,703                      | 1,542                       | 12,245         |
| Dividends – note 9   | –                         | –                         | –                           | –   | –                           | (2,017)                     | (2,017)        |
| <b>At 30 November 2016</b>                                   | <b>1,061</b>              | <b>1,290</b>              | <b>83,212</b>               | <b>347</b>                                | <b>54,776</b>               | <b>101</b>                  | <b>140,787</b> |
| At 31 May 2015   | 1,059                     | 1,290                     | 83,157                      | 343                                       | 49,326                      | 538                         | 135,713        |
| Cancellation of<br>deferred shares                           | –                         | –                         | (1)                         | 1   | –                           | –                           | –              |
| Net proceeds from<br>shares issued from<br>treasury          | –                         | –                         | 1,775                       | –   | –                           | –                           | 1,775          |
| Return on ordinary<br>activities per the<br>income statement | –                         | –                         | –                           | –   | (3,430)                     | 1,592                       | (1,838)        |
| Dividends – note 9   | –                         | –                         | –                           | –   | –                           | (1,847)                     | (1,847)        |
| <b>At 30 November 2015</b>                                   | <b>1,059</b>              | <b>1,290</b>              | <b>84,931</b>               | <b>344</b>                                | <b>45,896</b>               | <b>283</b>                  | <b>133,803</b> |

## CONDENSED BALANCE SHEET

AS AT 30 NOVEMBER 2016

REGISTERED NUMBER 5916642

|  | UK<br>EQUITY<br>£'000 | GLOBAL<br>EQUITY<br>INCOME<br>£'000 | BALANCED<br>RISK<br>£'000 | MANAGED<br>LIQUIDITY<br>£'000 | TOTAL<br>£'000 |
|--|-----------------------|-------------------------------------|---------------------------|-------------------------------|----------------|
| <b>Fixed assets</b>  |                       |                                     |                           |                               |                |
| Investments held at fair value through profit or loss            | 76,155                | 64,123                              | 7,804                     | 5,747                         | 153,829        |
| <b>Current assets</b>  |                       |                                     |                           |                               |                |
| Derivative assets held at fair value through profit or loss      | –                     | –                                   | 327                       | –                             | 327            |
| Debtors  | 167                   | 777                                 | 305                       | 4                             | 1,253          |
| Cash and cash equivalents  | 280                   | 298                                 | 834                       | 13                            | 1,425          |
|  | 447                   | 1,075                               | 1,466                     | 17                            | 3,005          |
| <b>Creditors: amounts falling due within one year</b>            |                       |                                     |                           |                               |                |
| Derivative liabilities held at fair value through profit or loss | –                     | –                                   | (127)                     | –                             | (127)          |
| Other creditors  | (10,637)              | (5,112)                             | (30)                      | (141)                         | (15,920)       |
| <b>Net current (liabilities)/assets</b>                          | (10,190)              | (4,037)                             | 1,309                     | (124)                         | (13,042)       |
| <b>Net assets</b>  | 65,965                | 60,086                              | 9,113                     | 5,623                         | 140,787        |
| <b>Shareholders' funds</b>                                       |                       |                                     |                           |                               |                |
| Share capital  | 460                   | 364                                 | 113                       | 124                           | 1,061          |
| Share premium  | –                     | –                                   | 1,290                     | –                             | 1,290          |
| Special reserve  | 39,989                | 32,989                              | 5,149                     | 5,085                         | 83,212         |
| Capital redemption reserve                                       | 73                    | 78                                  | 24                        | 172                           | 347            |
| Capital reserve  | 25,431                | 26,459                              | 2,644                     | 242                           | 54,776         |
| Revenue reserve  | 12                    | 196                                 | (107)                     | –                             | 101            |
| <b>Shareholders' funds</b>                                       | 65,965                | 60,086                              | 9,113                     | 5,623                         | 140,787        |
| <b>Net asset value per ordinary share</b>                        |                       |                                     |                           |                               |                |
| Basic – note 5   | 168.9p                | 183.8p                              | 128.4p                    | 103.1p                        |                |

## CONDENSED BALANCE SHEET

AS AT 31 MAY 2016

|   | UK<br>EQUITY<br>£'000 | GLOBAL<br>EQUITY<br>INCOME<br>£'000 | BALANCED<br>RISK<br>£'000 | MANAGED<br>LIQUIDITY<br>£'000 | TOTAL<br>£'000 |
|---|-----------------------|-------------------------------------|---------------------------|-------------------------------|----------------|
| <b>Fixed assets</b>   |                       |                                     |                           |                               |                |
| Investments held at fair value through<br>profit or loss            | 73,579                | 57,669                              | 7,698                     | 5,312                         | 144,258        |
| <b>Current assets</b>   |                       |                                     |                           |                               |                |
| Derivative assets held at fair value through<br>profit or loss      | –                     | –                                   | 388                       | –                             | 388            |
| Debtors   | 477                   | 570                                 | 191                       | 8                             | 1,246          |
| Cash and cash equivalents   | 629                   | 701                                 | 654                       | 917                           | 2,901          |
|   | 1,106                 | 1,271                               | 1,233                     | 925                           | 4,535          |
| <b>Creditors: amounts falling due<br/>within one year</b>           |                       |                                     |                           |                               |                |
| Derivative liabilities held at fair value through<br>profit or loss | –                     | –                                   | (68)                      | –                             | (68)           |
| Other creditors   | (8,958)               | (6,997)                             | (26)                      | (146)                         | (16,127)       |
| <b>Net current (liabilities)/assets</b>                             | (7,852)               | (5,726)                             | 1,139                     | 779                           | (11,660)       |
| <b>Net assets</b>   | 65,727                | 51,943                              | 8,837                     | 6,091                         | 132,598        |
| <b>Shareholders' funds</b>  |                       |                                     |                           |                               |                |
| Share capital   | 460                   | 361                                 | 114                       | 127                           | 1,062          |
| Share premium   | –                     | –                                   | 1,290                     | –                             | 1,290          |
| Special reserve   | 41,589                | 32,834                              | 5,277                     | 5,552                         | 85,252         |
| Capital redemption reserve  | 73                    | 78                                  | 24                        | 170                           | 345            |
| Capital reserve   | 23,355                | 18,237                              | 2,239                     | 242                           | 44,073         |
| Revenue reserve   | 250                   | 433                                 | (107)                     | –                             | 576            |
| <b>Shareholders' funds</b>  | 65,727                | 51,943                              | 8,837                     | 6,091                         | 132,598        |
| <b>Net asset value per ordinary share</b>                           |                       |                                     |                           |                               |                |
| Basic – note 5  | 164.3p                | 159.2p                              | 122.8p                    | 103.1p                        |                |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Accounting Policies

The condensed financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, FRS 104 *Interim Financial Reporting and 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. The financial statements are issued on a going concern basis.

In March 2016, the FRC published amendments to FRS 102 *Fair value hierarchy disclosures*. These amendments become effective for accounting periods beginning on or after 1 January 2017. The Company has chosen to adopt these amendments early. There are no accounting policy or disclosure changes as a result of this adoption.

The accounting policies applied to these condensed financial statements are consistent with those applied in the financial statements for the year ended 31 May 2016.

### 2. Management Fees

The Manager is entitled to a basic fee which is calculated and payable quarterly. The fee is based on the net assets of each Portfolio, at the following percentages:

- 0.65% per annum in the case of the UK Equity and Global Equity Income Portfolios;
- 0.75% per annum for the Balanced Risk Portfolio; and
- 0.12% from 1 June 2016 (previously 0.25%) per annum for the Managed Liquidity Portfolio.

The Manager is also entitled to receive performance fees in respect of the UK Equity and Global Equity Income Portfolios of 12.5% of the increase in net assets per relevant Share in excess of a hurdle of the relevant benchmark plus 1% per annum. The amount of the performance fee that can be earned in any one year is limited to 0.65% of the net assets of the relevant Portfolio and payment is subject to a high water mark. Any underperformance of the benchmark, or performance above the cap, is carried forward to subsequent periods.

No performance fee was earned for the UK Equity Portfolio during the six months (30 November 2015: performance fee of £574,000 provided for). In addition, performance fee of £284,000 previously accrued was written back due to the current period's underperformance. The remaining performance fee accrued for past periods is £1,021,000 and, as it cannot be reduced by future underperformance, remains an obligation of the Company.

No performance fee was earned for the Global Equity Portfolio during the six months (30 November 2015: £nil). Any underperformance must be fully set off by over performance before any performance fee can be paid. As at the last year end, the underperformance carried forward was £607,000.

The management fees and finance costs are charged to the applicable Portfolio as follows, in accordance with the Board's expected split of long-term income and capital returns:

| PORTFOLIO            | REVENUE<br>RESERVE | CAPITAL<br>RESERVE |
|----------------------|--------------------|--------------------|
| UK Equity            | 30%                | 70%                |
| Global Equity Income | 30%                | 70%                |
| Balanced Risk        | 30%                | 70%                |
| Managed Liquidity    | 100%               | –                  |

Any entitlement to the investment performance fee which is attributable to the UK Equity or Global Equity Income Portfolio is allocated 100% to capital as it is directly attributable to the capital performance of the investments in those Portfolios.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

continued

3. Tax expense represents the sums of tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the period.

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies the conditions for approval as an investment trust company. Any company so approved is not liable for taxation on capital gains.

4. **Basic Return per Ordinary Share**

Basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation as shown by the income statement for the applicable Share class and on the following number of shares being the weighted average number of shares in issue throughout the period for each applicable Share class:

| SHARE                | WEIGHTED AVERAGE<br>NUMBER OF SHARES       |  |
|----------------------|--|--|
|                      | SIX MONTHS<br>ENDED<br>30 NOVEMBER<br>2016 | SIX MONTHS<br>ENDED<br>30 NOVEMBER<br>2015 |
| UK Equity            | 39,568,327                                 | 39,919,191                                 |
| Global Equity Income | 32,554,801                                 | 31,765,942                                 |
| Balanced Risk        | 7,137,292                                  | 7,545,881                                  |
| Managed Liquidity    | 5,801,765                                  | 5,214,241                                  |

5. **Net Asset Values per Ordinary Share**

The net asset values per ordinary share were based on the following Shareholders' funds and shares (excluding treasury shares) in issue at the period end:

|   | AT<br>30 NOVEMBER<br>2016<br>£'000 | AT<br>31 MAY<br>2016<br>£'000 |
|---|------------------------------------|-------------------------------|
| PORTFOLIO SHAREHOLDERS' FUNDS           |                                    |                               |
| UK Equity                               | 65,965                             | 65,727                        |
| Global Equity Income                    | 60,086                             | 51,943                        |
| Balanced Risk                           | 9,113                              | 8,837                         |
| Managed Liquidity                       | 5,623                              | 6,091                         |
| PORTFOLIO SHARES IN ISSUE AT PERIOD END |                                    |                               |
| UK Equity                               | 39,047,678                         | 40,013,223                    |
| Global Equity Income                    | 32,695,170                         | 32,627,852                    |
| Balanced Risk                           | 7,099,860                          | 7,199,116                     |
| Managed Liquidity                       | 5,451,474                          | 5,906,165                     |

6. **Classification Under Fair Value Hierarchy**

FRS102 as amended for fair value hierarchy disclosures (March 2016) sets out three fair value levels. These are:

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



The fair value hierarchy analysis for investments held at fair value at the period end is as follows:

|   | UK<br>EQUITY<br>£'000 | GLOBAL<br>EQUITY<br>INCOME<br>£'000 | BALANCED<br>RISK<br>£'000 | MANAGED<br>LIQUIDITY<br>£'000 |
|---|-----------------------|-------------------------------------|---------------------------|-------------------------------|
| <b>AT 30 NOVEMBER 2016</b>  |                       |                                     |                           |                               |
| Financial assets designated at fair value through profit or loss: |                       |                                     |                           |                               |
| Level 1   | 75,404                | 64,123                              | 5,496                     | –                             |
| Level 2   | 1                     | –                                   | 2,617                     | 5,747                         |
| Level 3   | 750                   | –                                   | 18                        | –                             |
| <b>Total for financial assets</b>                                 | <b>76,155</b>         | <b>64,123</b>                       | <b>8,131</b>              | <b>5,747</b>                  |
| Financial liabilities:  |                       |                                     |                           |                               |
| Level 2 – Derivative instruments                                  | –                     | –                                   | 127                       | –                             |

**AT 31 MAY 2016**

|   |               |               |              |              |
|---|---------------|---------------|--------------|--------------|
| Financial assets designated at fair value through profit or loss: |               |               |              |              |
| Level 1   | 72,827        | 57,669        | 5,490        | –            |
| Level 2   | 2             | –             | 2,578        | 5,312        |
| Level 3   | 750           | –             | 18           | –            |
| <b>Total financial assets</b>                                     | <b>73,579</b> | <b>57,669</b> | <b>8,086</b> | <b>5,312</b> |
| Financial liabilities:  |               |               |              |              |
| Level 2 – Derivative instruments                                  | –             | –             | 68           | –            |

- Level 1 This is the majority of the Company's investments and comprises quoted investments and Treasury bills.
- Level 2 This comprises the UK Equity Portfolio's holdings of Barclays Bank Nuclear Power Notes, liquidity funds held in the Balanced Risk and Managed Liquidity Portfolios, and any derivative instruments.
- Level 3 This includes the UK Equity Portfolio's holding of an unquoted stock, AJ Bell, and the remaining hedge fund investments of the Balanced Risk Portfolio.

**7. Movements in Share Capital and Share Class Conversion**

IN THE SIX MONTHS ENDED 30 NOVEMBER 2016

|                                    | UK<br>EQUITY      | GLOBAL<br>EQUITY<br>INCOME | BALANCED<br>RISK | MANAGED<br>LIQUIDITY |
|------------------------------------|-------------------|----------------------------|------------------|----------------------|
| <b>Ordinary 1p shares (number)</b> |                   |                            |                  |                      |
| At 31 May 2016                     | 40,013,223        | 32,627,852                 | 7,199,116        | 5,906,165            |
| Shares bought back into treasury   | (950,000)         | (250,000)                  | –                | (63,000)             |
| Arising on share conversion:       |                   |                            |                  |                      |
| – August 2016                      | (130,868)         | 231,149                    | (91,769)         | (55,664)             |
| – November 2016                    | 115,323           | 86,169                     | (7,487)          | (336,027)            |
| <b>At 30 November 2016</b>         | <b>39,047,678</b> | <b>32,695,170</b>          | <b>7,099,860</b> | <b>5,451,474</b>     |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

continued

7. Movements in Share Capital and Share Class Conversion *continued*

|   | UK<br>EQUITY | GLOBAL<br>EQUITY<br>INCOME | BALANCED<br>RISK | MANAGED<br>LIQUIDITY |
|---|--------------|----------------------------|------------------|----------------------|
| <b>Treasury Shares (number)</b>           |              |                            |                  |                      |
| At 31 May 2016                            | 5,973,000    | 3,418,000                  | 4,240,000        | 6,837,785            |
| Share bought back into treasury           | 950,000      | 250,000                    | –                | 63,000               |
| At 30 November 2016                       | 6,923,000    | 3,668,000                  | 4,240,000        | 6,900,785            |
| Total shares in issue at 30 November 2016 | 45,970,678   | 36,363,170                 | 11,339,860       | 12,352,259           |
| <b>Average buy back price</b>             | 165.0p       | 157.5p                     | n/a              | 101.1p               |

As part of the conversion process 192,231 deferred shares of 1p each were created. All deferred shares are cancelled before each period end and no deferred shares are in issue at the start or end of a period.

## 8. Share Prices

| PERIOD END       | UK<br>EQUITY | GLOBAL<br>EQUITY<br>INCOME | BALANCED<br>RISK | MANAGED<br>LIQUIDITY |
|------------------|--------------|----------------------------|------------------|----------------------|
| 30 November 2015 | 171.0p       | 160.5p                     | 117.0p           | 102.5p               |
| 31 May 2016      | 162.5p       | 156.0p                     | 119.3p           | 101.0p               |
| 30 November 2016 | 166.8p       | 183.0p                     | 127.5p           | 101.3p               |

## 9. Dividends on Ordinary Shares

The first and second interim dividends were paid on 15 August 2016 and 15 November 2016 respectively:

| PORTFOLIO            | NUMBER<br>OF SHARES | DIVIDEND<br>RATE | TOTAL<br>£'000 |
|----------------------|---------------------|------------------|----------------|
| UK Equity            |                     |                  |                |
| First interim        | 39,763,023          | 1.40p            | 557            |
| Second interim       | 39,317,155          | 1.40p            | 550            |
|                      |                     | 2.80p            | 1,107          |
| Global Equity Income |                     |                  |                |
| First interim        | 32,377,852          | 1.40p            | 453            |
| Second interim       | 32,609,001          | 1.40p            | 457            |
|                      |                     | 2.80p            | 910            |

Dividends paid for the six months to 30 November 2016 totalled £2,017,000 (six months to 30 November 2015: £1,847,000).

10. The financial information contained in this half-yearly financial report, which has not been reviewed or audited by the independent auditor, does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the half years ended 30 November 2016 and 30 November 2015 has not been audited. The figures and financial information for the year ended 31 May 2016 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and include the Independent Auditor's Report, which was unqualified and did not include a statement under section 498 of the Companies Act 2006.

By order of the Board  
Invesco Asset Management Limited  
Company Secretary

31 January 2017

## DIRECTORS, MANAGER AND ADMINISTRATION

### Directors

Patrick Gifford (Chairman of the Board and Nomination Committee)  
 Sir Michael Bunbury (Chairman of the Audit and Management Engagement Committees)  
 Craig Cleland (appointed 1 November 2016)  
 Alan Clifton (Senior Independent Director)  
 Victoria Muir

All the Directors are, in the opinion of the Board, independent of the management company and all Directors are members of the Audit, Management Engagement and Nomination Committees.

### Registered Office and Company Number

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

Registered in England and Wales No. 5916642

### Alternative Investment Fund Manager (Manager)

Invesco Fund Managers Limited

### Company Secretary

Invesco Asset Management Limited  
 Company Secretarial contact: Paul Griggs

### Correspondence Address

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

### Depository

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

### Registrar

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

If you hold shares directly and not through a savings scheme or ISA and have any queries relating to your shareholding you should contact the registrar on:

☎ 0371 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 UK will be charged at the applicable international rate. Lines are open from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Capita's website [www.capitashareportal.com](http://www.capitashareportal.com).

The registrar provides 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](http://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 8am to 4.30pm, Monday to Friday (excluding Bank Holidays).

### Invesco Perpetual Client Services

The Invesco Perpetual Client Services Team is available from 8.30am to 6pm Monday to Friday (excluding Bank Holidays). Current valuations, statements and literature can be obtained, however, no investment advice can be given.

☎ 0800 085 8677

🌐 [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)

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





# **Invesco Perpetual**

Perpetual Park  
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