The Scottish Investment Trust PLC

Results for the six months to 30 April 2017

Highlights

- Share price total return 5.0%
- NAV total return 3.0%
- Dividend increase of 4.8%, ahead of inflation
- Move to quarterly dividend
- Successful repurchase of shares from Aviva

The Scottish Investment Trust PLC invests internationally and is independently managed. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. Today it announces its results for the six months to 30 April 2017. It is categorised as a global trust by the Association of Investment Companies.

Chairman's Statement

Performance
I am pleased to report another period of positive total returns over the six months to 30 April 2017.

The share price total return was 5.0% and the net asset value per share (NAV) total return was 3.0% (with borrowings at market value).

The Company does not have a formal benchmark but, by way of comparison, the sterling total return of the international MSCI All Country World Index (ACWI) was 5.5% while the UK-based MSCI UK All Cap Index total return was 7.0%.

Investment approach
The high conviction, global contrarian investment approach adopted by Alasdair McKinnon and his team differentiates the Company from our global growth investment trust peers and from the plethora of passive investment products that now exist.

The approach reflects the investment team's natural style as independent thinkers and active, long-term investors. The main premise of the investment approach is a belief that the inherent human desire to be part of the crowd creates an opportunity for profit as unfashionable companies eventually become undervalued.

The portfolio is constructed to reflect this contrarian philosophy and the number of holdings has been progressively reduced to the current 54 listed equity holdings, which compares with 68 at the year-end and 96 two years ago. The Manager believes that the best long-term returns will be generated by having the conviction to back the best investment ideas but the number of portfolio holdings will vary as the team unearths new opportunities.

The portfolio is not constructed with reference to any index or benchmark and, as such, we expect that returns will deviate from broad equity indices but deliver above-average returns over the longer-term.

Process of change
In previous statements, I have discussed the changes which have been made to position the Company for future success. A key element was the introduction of the above-mentioned high conviction, global contrarian investment approach.

The reorganisation of the investment team and the outsourcing of the majority of our company secretarial and back office operations have reduced our costs on an ongoing basis and enhanced our decision-making ability.

We have continued to develop our approach to marketing and communications during the period and shareholders may have observed some of our efforts to lift our profile as we have featured in a number of prominent publications. A selection of these articles, as well as our new newsletter, 'The Contrarian', are available to view at our website, **www.thescottish.co.uk**

We think it is important to seek to raise the Company's profile, as we believe that it is an attractive investment vehicle which should appeal to a broad range of potential investors. I would reiterate that we have adopted this new approach at a very reasonable cost and within our longstanding marketing budget.

Aviva share repurchase
In March, the Company completed the repurchase and cancellation of the shareholding of Aviva, representing 11.9% of the Company's issued share capital at that time. Aviva had gained control of this substantial shareholding in November 2015 through its purchase of Friends Life. Aviva had not previously been a long-term investor in the Company, did not have a history of holding investment trusts and had indicated that it did not plan to retain this shareholding.

At a specially convened General Meeting, shareholders approved the repurchase for cancellation of 11.4m shares from Aviva at a 10.75% discount to the cum-income NAV (with borrowings at market value). The Board considered this transaction to be in the best interests of the Company and shareholders as it removed a known seller of a large block of shares and enhanced this NAV for the ongoing shareholders by 1.4%.

Income and dividends
The Board has declared an interim dividend of 5.50p per share (2016: 5.25p), an increase of 4.8%.

As I noted in my last statement, the Board wishes to maintain both the long track record of dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer-term. The Board does not wish the composition of the portfolio to be dictated by income requirements and therefore considers that our healthy revenue reserve, which covers in excess of four years of the last annual regular dividend, should be utilised, if required, in the future.

The Board also considers that income generated in excess of the requirement of the regular dividend should be distributed as a special dividend.

The Board believes that distributing income on a more regular basis is desirable for the majority of shareholders, who are retail investors. The current schedule of dividend payments will continue for the current fiscal year but, thereafter, dividends will be paid on a quarterly basis. Further details will be provided in the Annual Report.

Discount and share buybacks
The Company currently follows a policy that aims, in normal market conditions, to maintain the discount to the ex-income NAV (with borrowings at market value) at or below 9%.

During the period, 12.8m shares were purchased for cancellation (2016: 4.1m) at an average discount of 10.0% and a cost of £101m. Excluding the repurchase of the Aviva shares, 1.4m shares were repurchased at an average discount of 9.5% and a cost of £10.7m.

The Company was an early adopter of a buyback policy in 2006 and, since then, it has become more normal industry practice to calculate the discount with reference to the cum-income NAV rather than the ex-income NAV. The Board considers this is now a more appropriate basis and, henceforth, the buyback policy will aim, in normal market conditions, to maintain the discount to the cum-income NAV (with borrowings at market value) at or below 9%.

Gearing
Gearing ended the period largely unchanged at 5%. The Company briefly moved to a net cash position to facilitate the transaction with Aviva.

Outlook
Markets were electrified by the election of the new US President, Donald Trump, as investors reasoned that his campaign pledges would translate into investor-friendly policies. However, more recently, a concern has developed that President Trump's unorthodox style, which was crucial to his victory, may prove a barrier to garnering the necessary political support to enact change.

The recent UK election result, the election of President Trump and the earlier Brexit vote all embody a growing mood to reject the political status quo driven by a perceived decline in living standards. That said, the rejection of anti-EU candidates in elections in the Netherlands and France reassured markets about the political stability of the Eurozone.

Mainstream politicians have reacted to this change in mood and have shown a tendency to adopt some of the popular policies of their more maverick opponents, which is a trend that is likely to continue. Much has been written elsewhere about the Brexit negotiations and, by way of further observation, I only add that the process is likely to drag on for longer than expected as neither side seems to have a clear vision of what they want from the process.

The US Federal Reserve, which unofficially sets the cost of money for much of the world, took advantage of the improved mood engendered by rising markets and increased interest rates. Interest rates remain very low, but breaking an addiction to cheap money may prove traumatic. An important component in the outlook for markets is the perceived timetable and extent to which the Federal Reserve will tighten monetary policy. However, markets have taken some comfort from a view that politicians and officials remain keen to preserve investor confidence.

Politics and investment markets will doubtless continue to deliver surprises in the forthcoming period. The Board believes that the Company remains well-placed as a differentiated, low-cost investment vehicle focused on delivering above-average returns and dividend growth over the longer-term.

James Will
Chairman
16 June 2017

Manager's Review

Our contrarian approach
Before reviewing the interim period, I thought it would be useful to summarise our contrarian investment philosophy and the way in which we apply it to our investments. This will mainly serve as a reminder to most shareholders but I wished to ensure that new investors were informed about the way in which we invest.

At the heart of our philosophy is a belief that humans inherently prefer to be part of a crowd or a cohesive group. Humans have evolved to abide instinctively by the rules and norms of a group as, in a harsh physical environment, this state of affairs offers greater security and a higher standard of living.

However, when applied to financial markets, we believe that this crowding instinct works against the best interests of an investor and that a willingness to take a different stance is required to profit. This instinct can become particularly disadvantageous when investors, in their zeal to become part of the crowd, conduct their analysis to justify a pre-determined conclusion. The actions of company management teams serve to reinforce this crowding instinct as they are equally prone to excessive optimism and unjustified pessimism.

We believe the biggest challenge for an investor is to recognise when the beguiling views of the crowd no longer offer an acceptable balance between risk and reward. We do not attempt to follow investment fashions and instead seek investments in which we can foresee long-term upside. This requires lateral thinking, a willingness to question widely-held views and the confidence to adopt a contrarian point of view if we think an investment is mispriced.

Our style is distinct and, depending on market conditions, we would expect other investors to ebb and flow in their support for our way of thinking. We aim to achieve above-average long-term performance, although we do not expect this to be achieved in a linear manner.

To apply our approach, we divide the stocks in which we invest into three categories.

First, we have those that we describe as **ugly ducklings** – unloved shares that most investors shun. These companies have endured an extended period of poor operating performance and, for the majority, the near-term outlook continues to appear uninspiring. However, we see their out-of-favour status as an opportunity and can foresee the circumstances in which these investments will surprise on the upside.

The second category consists of companies where **change is afoot**. These companies have also endured a long period of poor operating performance but have recently demonstrated that their prospects have significantly improved. However, other investors continue to overlook this change for historical reasons.

In our third category, **more to come**, we have investments that are more generally recognised as good businesses with decent prospects. However, we see an opportunity as we believe there is scope for further improvement that is not yet fully recognised.

The interim period
During the period, markets demonstrated less concern about unexpected political events and embraced the election of the new US president, Donald Trump, and shrugged off other potentially destabilising events such as the resignation of the Italian prime minister, Matteo Renzi.

Markets were not necessarily enamoured by Donald Trump himself but more by the global shift that he represented – a challenge to the status quo and an opportunity to inject stimulus into economies perceived by many as moribund. Banks performed particularly strongly as they had previously been inexpensively valued and because they stood to benefit from the prospect of 'Trumpflation'. Towards the end of the period, doubts began to creep in about the ability of President Trump, or any other politician, to force through change without the support of the establishment. Investors sought the perceived safety of stocks with 'cycle-proof' growth prospects, although we intentionally limited our exposure to these stocks.

Turnover in the portfolio was elevated by the need to raise funds for the buyback transaction with Aviva and, rather than apply a blanket sale across the portfolio, we used this opportunity to reduce selectively the number of holdings in the portfolio.

Given our focus on individual stock ideas, I thought it would be more meaningful to discuss some of our notable gains and losses, in total return terms, within the context of our investment categories.

Within our **ugly ducklings**, our banks were notably good performers aided by the helpful backdrop outlined above. Two of the larger gains came from our holdings in **ING** (+£3.9m) and **BNP Paribas** (+£2.3m) with more modest gains from **Intesa Sanpaolo** (+£1.2m), **Citigroup** (+£1.1m) and **Bank of Ireland** (+£0.7m). **Marks & Spencer** (+£2.0m) has delivered the first tentative signs of operating improvement but remains an unloved stock and we continue to see upside from the changes that will be implemented by the new leadership. In contrast, our holding in **Tesco** (-£3.6m) produced a loss over the period as the turnaround strategy was obscured by a proposed acquisition. However, we still believe the company remains on a recovery track. We sold our entire holding in **Kingfisher** (-£2.0m), prompted by a need to raise funds for the Aviva transaction but also because we preferred the outlook for Marks & Spencer. **BT** (-£1.9m) also generated a loss as, despite having passed the nadir of concern about regulatory issues, investors were further depressed by a disappointing trading update in January.

Within our investments where we see **change is afoot**, our holding in **Rentokil Initial** (+£3.1m) appreciated as the company continued to demonstrate the merits of a refocused strategy. Likewise, **Treasury Wine Estates** (+£2.6m) continued to perform well as it maintained focus on a brand-led strategy. **Citizens Financial** (+£1.9m), which was until recently an underappreciated subsidiary of RBS, performed well in common with banks, but with the additional benefit of a management team able to focus on improving the business. **Roche** (+£1.7m) reported a successful outcome from an important clinical trial which gave credence to the corporate plan to sustain the core oncology franchise.

In our investments where we see **more to come**, our holding in **KDDI** (-£2.7m) declined in value, as investors sold more defensive investments in the aftermath of the US presidential election. Our investment in **Microsoft** (+£2.8m), continued to gain credit from a shift to a subscription model. However, we took some profits to help finance the Aviva transaction and have subsequently further reduced our holding as we believe that these prospects are now more widely appreciated. We sold our holding in **Comcast** (+£3.6m), which benefited from greater demand for high-speed broadband services, as we judged that the valuation adequately reflected these prospects.

Arguably, the political events of the past year represent the beginning of the end, or at least the end of the beginning, for a long period of economic policy that has favoured asset values over the general standard of living. Populations have become disgruntled while the compelling need to repair the financial system has, apparently, diminished.

A change in the policy backdrop, assuming it actually occurs, will undoubtedly change the investment environment and favour some companies and areas of the economy more than others. However, as I noted in my last review, our contrarian investment approach is designed to anticipate and benefit from change and we will continue to seek opportunities which we believe will profit a long-term investor.

Alasdair McKinnon
Manager
16 June 2017

For further information, please contact: 0131 225 7781

Financial Summary

	30 April 2017	31 October 2016	Change %	Total return %
NAV with borrowings at market value	**863.4p**	854.9p	+1.0	+3.0
NAV with borrowings at par	**896.4p**	881.2p	+1.7	+3.7
Ex-income NAV with borrowings at market value	**853.1p**	837.5p	+1.9	
Ex-income NAV with borrowings at par	**886.2p**	863.9p	+2.6	
Share price	**790.0p**	769.5p	+2.7	+5.0
Discount to ex-income NAV with borrowings at market value	**7.4%**	8.1%		
MSCI ACWI			+4.5	+5.5
MSCI UK All Cap Index			+5.0	+7.0
	£'000	£'000		
Equity investments	**793,139**	893,432		
Net current assets	**42,988**	42,502		
Total assets	**836,127**	935,934		
Long-term borrowings at par	**(83,690)**	(83,645)		
Pension liability	**(3,272)**	(3,272)		
Shareholders' funds	**749,165**	**849,017**		

	Six months to 30 April 2017 £'000	Six months to 30 April 2016 £'000	Change %
Earnings per share	**9.28p**	10.12p	-8.3
Interim dividend per share	**5.50p**	5.25p	+4.8
UK Consumer Prices Index – annual inflation			+2.6
UK Retail Prices Index – annual inflation			+3.5

List of Investments

As at 30 April 2017

Listed equities

Holding	Country	Market value £'000	Cumulative weight %
Treasury Wine Estates	Australia	42,537	
Rentokil Initial	UK	32,915	
Sands China	Hong Kong	32,559	
Marks & Spencer	UK	27,169	
ING	Netherlands	26,786	
Standard Chartered	UK	26,706	
GlaxoSmithKline	UK	26,521	
Tesco	UK	24,189	
Severn Trent	UK	22,287	
Suncor Energy	Canada	22,252	35.8
Sumitomo Mitsui Financial	Japan	20,858	
Royal Dutch Shell	UK	20,730	
SAP	Germany	18,935	
United Utilities	UK	18,536	
BNP Paribas	France	17,514	
Microsoft	US	17,514	
Pepsico	US	17,230	
Roche	Switzerland	17,099	
Johnson & Johnson	US	16,963	
Cemex	Mexico	16,696	58.8
BHP Billiton	UK	15,979	
Sony	Japan	15,928	
Pfizer	US	15,340	
RSA Insurance	UK	14,435	
Nintendo	Japan	14,171	
British Land	UK	13,848	
Citigroup	US	13,671	
Total	France	13,416	
KDDI	Japan	13,108	
General Electric	US	12,823	76.7
National Oilwell Varco	US	12,176	
Baker Hughes	US	11,645	
BASF	Germany	11,210	
Vinci	France	10,967	
Verizon Communications	US	10,119	
Ambev	Brazil	9,845	
Chevron	US	9,432	
Adecco	Switzerland	9,025	
East Japan Railway	Japan	8,962	
BT	UK	8,781	89.6
IBM	US	8,168	
Newcrest Mining	Australia	8,150	
Gap	US	7,965	
Citizens Financial	US	7,909	
Hess	US	7,541	
Intesa Sanpaolo	Italy	7,515	
Bank of Kyoto	Japan	6,681	
Bank of Ireland	Ireland	6,065	
Exxon Mobil	US	5,294	
TGS NOPEC Geophysical	Norway	4,807	98.5
BorgWarner	US	3,819	
Tourmaline Oil	Canada	3,392	
Freehold Royalties	Canada	2,493	
Greggs	UK	1,030	
Total listed equities		**791,706**	**99.8**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Heritable property and subsidiary	UK	1,400	
Apax Europe V-B	UK	33	
Total unlisted		**1,433**	**0.2**
Total equities		**793,139**	**100.0**

Distribution of Assets

Distribution of Total Assets

By Sector	30 April 2017 %	31 October 2016 %
Energy	13.6	12.4
Materials	6.2	7.1
Industrials	8.9	10.5
Consumer Discretionary	10.6	12.4
Consumer Staples	11.2	10.4
Health Care	9.1	8.3
Financials	17.9	15.1
Information Technology	7.0	8.0
Telecommunication Services	3.8	5.1
Utilities	4.9	5.1
Real Estate	1.7	1.1
Net current assets	5.1	4.5
Total assets	**100.0**	**100.0**

By Region	30 April 2017 %	31 October 2016 %
UK	30.5	32.2
Europe (ex UK)	17.1	14.9
North America	24.6	24.9
Latin America	3.2	3.0
Japan	9.5	10.0
Asia Pacific (ex Japan)	10.0	10.5
Net current assets	5.1	4.5
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	30 April 2017 %
Total equities	**105**
Net cash and equivalents	6
Borrowings at par	(11)
Shareholders' funds	**100**
Gearing	105

Income Statement

	Six months to 30 April 2017 (unaudited)			Six months to 30 April 2016 (unaudited)			Year to 31 October 2016 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value through profit and loss	-	11,592	11,592	-	22,081	22,081	-	177,326	177,326
Net (losses) / gains on currencies	-	(531)	(531)	-	1,653	1,653	-	6,024	6,024
Income	11,474	-	11,474	13,719	-	13,719	28,440	-	28,440
Expenses	(959)	(666)	(1,625)	(1,129)	(784)	(1,913)	(2,407)	(1,673)	(4,080)
Net Return before Finance Costs and Taxation	10,515	10,395	20,910	12,590	22,950	35,540	26,033	181,677	207,710
Premium on repayment of secured bonds	-	-	-	-	(7,393)	(7,393)	-	(7,393)	(7,393)
Interest payable	(1,237)	(1,237)	(2,474)	(1,303)	(1,302)	(2,605)	(2,529)	(2,529)	(5,058)
Return on Ordinary Activities before Tax	9,278	9,158	18,436	11,287	14,255	25,542	23,504	171,755	195,259
Tax on ordinary activities	(704)	-	(704)	(750)	-	(750)	(1,534)	-	(1,534)
Return attributable to Shareholders	8,574	9,158	17,732	**10,537**	**14,255**	**24,792**	**21,970**	**171,755**	**193,725**
Return per share	9.28p	9.92p	19.20p	**10.12p**	**13.70p**	**23.82p**	**21.62p**	**169.04p**	**190.66p**
Weighted average number of shares in issue		92,338,349			**104,096,827**			**101,606,378**	

	£'000	£'000	£'000
Dividends payable	4,596	5,276	21,931
Income comprises:			
Dividends	11,418	13,666	28,347
Interest	56	53	93
	11,474	13,719	28,440

Balance Sheet

	As at 30 April 2017 (unaudited) £'000	As at 31 October 2016 (audited) £'000	As at 30 April 2016 (unaudited) £'000
Fixed Assets			
Equity investments	793,139	893,432	761,147
Current Assets			
Debtors	2,788	2,260	3,974
Cash	20,118	11,694	21,585
Cash equivalents	20,425	29,210	30,479
	43,331	43,164	56,038
Creditors: liabilities falling due within one year	(343)	(662)	(9,375)
Net current assets	42,988	**42,502**	**46,663**
Total assets less Current Liabilities	836,127	**935,934**	**807,810**
Creditors: liabilities falling due after more than one year			
Long-term borrowings at par	(83,690)	(83,645)	(83,598)
Pension liability	(3,272)	(3,272)	(2,550)
Net Assets	749,165	**849,017**	**721,662**
Capital and Reserves			
Called-up share capital	20,893	24,086	25,375
Share premium account	39,922	39,922	39,922
Other reserves			
Capital redemption reserve	49,968	46,775	45,486
Capital reserve	590,335	682,209	560,415
Revenue reserve	48,047	56,025	50,464
Shareholders' funds	749,165	**849,017**	**721,662**
NAV per share with borrowings at par	896.4p	**881.2p**	**711.0p**
Number of shares in issue at period end	**83,571,793**	**96,342,683**	**101,501,426**

Statement of Comprehensive Income

	Six months to 30 April 2017 (unaudited) £'000	Six months to 30 April 2016 (unaudited) £'000	Year to 31 October 2016 (audited) £'000
Total comprehensive income for the period	**17,732**	24,792	192,715
Total comprehensive income per share	**19.20p**	23.82p	189.67p

Statement of Changes in Equity

	Six months to 30 April 2017 (unaudited) £'000	Six months to 30 April 2016 (unaudited) £'000	Year to 31 October 2016 (audited) £'000
Opening shareholders' funds	**849,017**	733,056	733,056
Total comprehensive income	**17,732**	24,792	192,715
Dividend payments	**(16,552)**	(11,534)	(16,810)
Aviva share buyback	**(90,246)**	-	-
Regular share buybacks	**(10,786)**	(24,652)	(59,944)
Closing shareholders' funds	**749,165**	**721,662**	**849,017**

Cash Flow Statement

	Six months to 30 April 2017 (unaudited) £'000	Six months to 30 April 2016 (unaudited) £'000	Year to 31 October 2016 (audited) £'000
Operating activities			
Net revenue before finance costs and taxation	10,515	12,590	26,033
Expenses charged to capital	(666)	(784)	(1,673)
Increase in accrued income	(399)	(2,232)	(287)
Decrease in other payables	(186)	(3,875)	(403)
(Increase)/decrease in other receivables	(20)	3,424	81
Adjustment for pension funding	-	-	(288)
Tax on investment income	(813)	(939)	(1,919)
Net cash inflow from operating activities	8,431	8,184	21,544
Investing activities			
Purchases of investments	(53,911)	(69,258)	(162,884)
Disposals of investments	165,302	104,566	218,530
Cash flows from investing activities	111,391	35,308	55,646
Cash flows before financing activities	119,822	43,492	77,190
Financing activities			
Dividends paid	(16,552)	(11,534)	(16,810)
Repayment of secured bond	-	(28,241)	(28,241)
Share buybacks	(101,203)	(23,005)	(60,158)
Interest paid	(2,428)	(2,601)	(5,030)
Cash flows from financing activities	(120,183)	(65,381)	(110,239)
Net movement in cash and cash equivalents	(361)	(21,889)	(33,049)
Cash and cash equivalents at the beginning of period	40,904	73,953	73,953
Cash and cash equivalents at the end of period	40,543	52,064	40,904

Notes

The condensed set of Financial Statements for the six months to 30 April 2017 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014 and has not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The condensed set of Financial Statements for the six months to 30 April 2017 has been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Accounts for the year ended 31 October 2016.

It is the opinion of the Directors that, as most of the Company's assets are readily realisable and exceed its liabilities, it is expected that the Company will continue in operational existence for the foreseeable future.

The information contained in this Interim Report does not constitute statutory accounts as defined in sections 434-436 of the Companies Act 2006. Where applicable, the figures have been extracted from the Annual Report and Accounts for the year ended 31 October 2016 which has been filed with the Registrar of Companies and which contains an unqualified report from the Auditor. The financial information for the six months ended 30 April 2017 and 30 April 2016 has not been audited.

Based on the number of shares in issue at 30 April 2017, the interim dividend will cost £4,596,000 (2016: £5,329,000) and is payable on 28 July 2017 to shareholders registered at 30 June 2017. The shares will be traded 'ex' the interim dividend from 29 June 2017 and investors purchasing on or after that date will not be entitled to the interim dividend for 2016/17.

Equity investments include the unlisted portfolio of £1.4m (31 October 2016: £1.9m).

The weighted average number of shares in issue during the half-year was 92,338,349 (2016: 104,096,827) and this figure has been used in calculating the return per share shown in the income statement. The net asset value per share at 30 April 2017 has been calculated using the number of shares in issue on that date which was 83,571,793 (31 October 2016: 96,342,683).

Analysis of Changes in Net Debt

	31 October 2016 £'000	Cash flows £'000	Non-cash Movements £'000	**30 April 2017 £'000**
Cash	11,694	8,424	-	**20,118**
Short-term deposits	29,210	(8,785)	-	**20,425**
Long-term borrowings at par	(83,645)	-	(45)	**(83,690)**
	(42,741)	(361)	(45)	**(43,147)**

Principal risks and uncertainties

The principal risks and uncertainties facing the business are investment and market price risk, interest rate risk, liquidity risk, foreign currency risk, credit risk, discount volatility, custody and depositary risk and operational risk. These are listed on page 13 of the 2016 Annual Report and Accounts and they are unchanged from that year. An explanation of these risks and how they are managed is set out in Note 17 on pages 53 to 58 of the Annual Report and Accounts.

Responsibility statement

The Board of Directors confirms that to the best of its knowledge:

a) the condensed set of Financial Statements has been prepared on a going concern basis and in accordance with the Interim Financial Reporting Standard 104 applicable in the UK and Republic of Ireland ("FRS 104") and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2014 and gives a true and fair view of the assets, liabilities, financial position and return of the Company;
b) the Interim Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months, their impact on the condensed set of Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year);
c) the Interim Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein); and
d) the Interim Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the board,

James Will
Chairman

16 June 2017

Glossary

Borrowings at par is the nominal value of the Company's borrowings less any unamortised issue expenses.

Borrowings at market value is the Company's estimate of the 'fair value' of its borrowings. The current estimated fair value of the Company's borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

NAV is net asset value per share after deducting borrowings at par or market value, as stated.

Ex-income NAV is the NAV excluding current year revenue.

Discount is the difference between the market price of a share and the NAV, expressed as a percentage of the NAV.

Gross gearing is the geared position if all the borrowings were invested in equities: borrowings expressed as a percentage of shareholders' funds.

Gearing is the true geared position of the Company: borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

Total assets means total assets less current liabilities.