F&C Investment Trust PLC

Report and Accounts
31 December 2018

Formerly Foreign & Colonial Investment Trust PLC

F&C Investment Trust
ESTABLISHED 1868

BMO

Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in F&C Investment Trust PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of shares, you should retain these documents.

Company Overview

Our objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

F&C Investment Trust PLC ("FCIT" or the "Company") was founded in 1868 as the first ever investment trust, and continues to evolve; keeping pace with new investment opportunities and maintaining its relevance in today's world.

Our approach is designed to provide investors with the performance benefits of having concentrated individual investment portfolios together with the diversification benefits of lower risk and lower volatility that derive from being managed as part of a larger combined portfolio. Offering investors a globally diversified portfolio, FCIT aims to be at the core of an investor's portfolio.

FCIT is suitable for retail investors in the UK, professionally advised private clients and institutional investors who seek growth in capital and income from investment in global markets and who understand and are willing to accept the risks, as well as the rewards, of exposure to equities.

Visit our website at **fandcit.com**

The Company is registered in England and Wales with company registration number 12901
Legal Entity Identifier: 213800W6B18ZHTNG7371

Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Financial Highlights

-0.6%

Share price total return* of -0.6%; ahead of the benchmark of -3.4%

-3.3%

Net Asset Value total return* of -3.3% with debt at market value

11.0p

Annual dividend† per share up 5.8% to 11.0p, our 48th consecutive annual increase

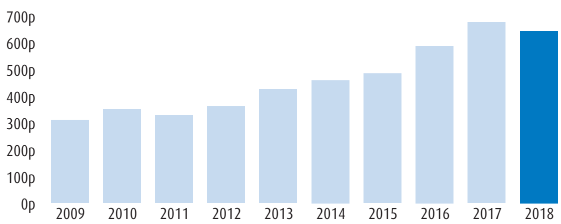
1.5%

Discount* of 1.5%, our lowest year end level for over 20 years

Delivering long-term growth in capital and income

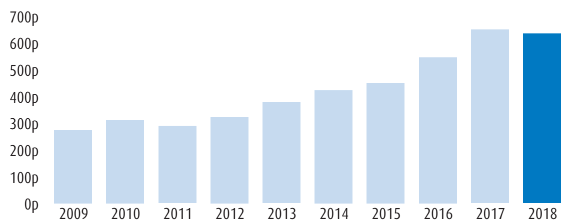
In the last ten years FCIT has turned a £1,000 investment, with dividends reinvested, into £3,475. The dividend has increased every year for the past 48 years and over the last ten years is up 70.5% or 5.5% compound per annum, compared with inflation of 25.3% or 2.3% compound per annum.

Net asset value* per share at 31 December – pence



Source: BMO GAM

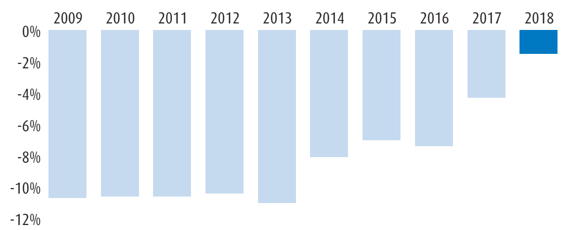
Mid-market price per share at 31 December – pence



Source: BMO GAM

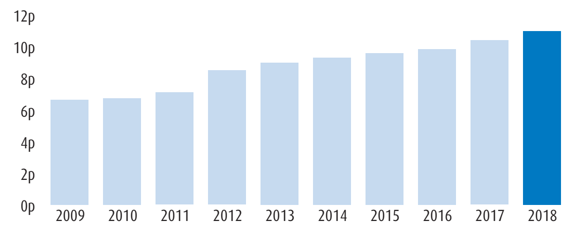
Our discount has narrowed in recent years enhancing shareholder returns.

Share price discount* to net asset value* at 31 December – %



Source: BMO GAM

Dividends† – pence per share



Source: BMO GAM

Potential investors are reminded that the value of investments and the income from dividends may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

* See Alternative Performance Measures on page 95.
† The final dividend for 2018 is subject to shareholder approval at the Annual General Meeting.

Chairman's Statement

"Our 150th anniversary year saw our long-held aspiration of the Company's shares trading at or close to NAV per share being reached and our first issue of shares since 1959."

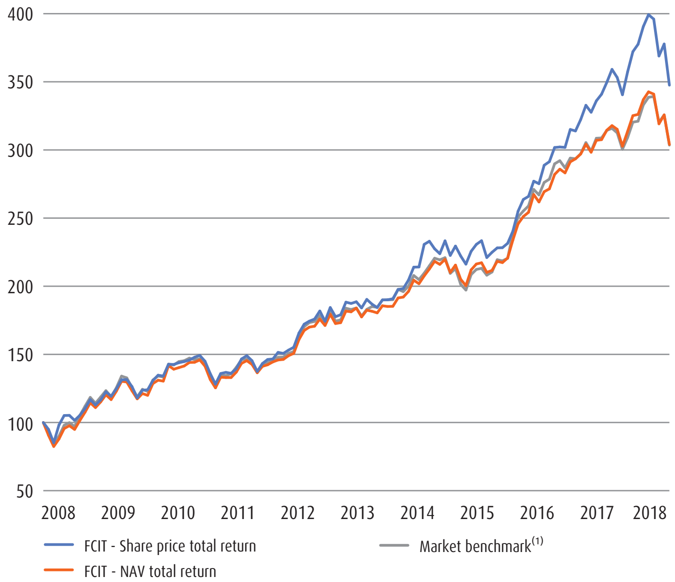
Simon Fraser, Chairman

Dear Shareholder,

After enjoying several years of double digit returns, our 150th anniversary year turned out to be the most challenging for equity markets since the Global Financial Crisis. Despite these headwinds our total shareholder return of -0.6% was better than the -3.4% from the FTSE All-World Index, which we use as our benchmark. Our Net Asset Value ("**NAV**") total return, with debt at market value, was -3.3%.

Our NAV per share with debt at market value fell from 675.8 pence to 642.9 pence per share and our share price declined from 647 pence to 633 pence. These had both reached record highs during the year, but a change in sentiment led the US to joining other markets in ending down and resulted in a fall in the value of most of our investment portfolios. Despite the turn in sentiment our US investment portfolio performed relatively well. This, along with good relative returns from our Emerging Markets exposure and very strong absolute gains from our Private Equity portfolio, which is strategically positioned to provide higher returns than the listed equity portfolios over the longer term, helped in our modest outperformance of the benchmark.

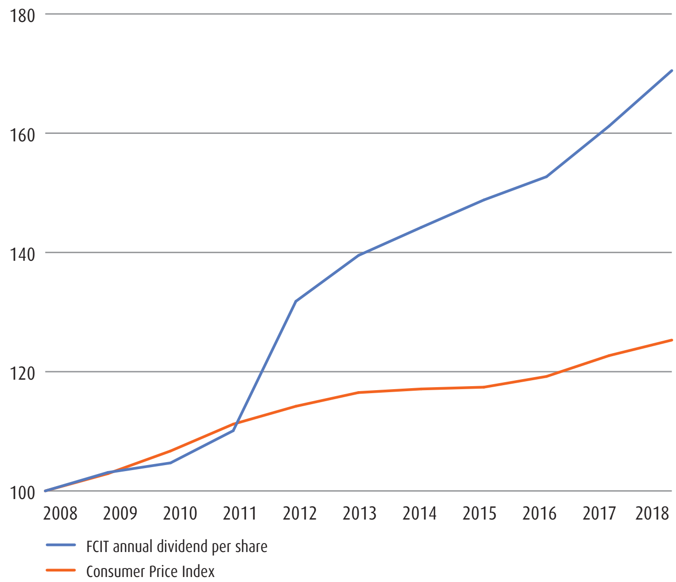
FCIT NAV and share price performance vs market benchmark[1] over 10 years



Source: BMO GAM & Refinitiv Eikon

[1] See Glossary of terms on pages 96 and 98 for explanations of "benchmark" and "market benchmark"

FCIT annual dividend per share vs Consumer Price Index over 10 years



Source: BMO GAM & Refinitiv Eikon

A focus on the longer term

While our one-year performance numbers are important, our overriding investment objective centres on the delivery of longer term growth of capital and income rather than the short-term. I am pleased to say that over ten years the share price total return is 247.5% which is equivalent to 13.3% per annum. Over twenty years it is 406.9%, which equates to 8.4% per annum. Dividend growth has also been strong, with an annualised rise of 5.5% in payments over the past decade and 7.1% over the past twenty years.

Earnings and Dividends

It was another good year for our income. This rose to £87.9m, helped in part by £3.9m of special dividends, with Net Revenue Return per share up to 12.8 pence per share from 11.7 pence per share in 2017. Subject to shareholder approval at the Annual General Meeting ("**AGM**"), shareholders will receive a final dividend of 2.8 pence per share on 8 May 2019 bringing the total dividend for the year to 11.0 pence. This rise of 5.8% compares with the 2.1% rise in the Consumer Price Index. This adds to our long record of rises in real terms; will be our forty-eighth consecutive annual dividend increase; and, remarkably, will add to our record of paying a dividend in each year since 1868.

The total dividend proposed for the year is fully covered by earnings, and we remain confident that your Company will continue to deliver sustainable real rises in dividend per share to shareholders. After payment of the final dividend our revenue reserve will continue to exceed one year's worth of dividends.

Further improvement in the Company's rating

Our 150th anniversary year saw our long-held aspiration of the Company's shares trading at or close to NAV per share being reached and our first issue of shares since 1959. We started the year on a discount of 4.3% but, due to improved investor demand, this narrowed to 1.5% by its end. Our average discount was 1.3% and for much of the second half of the year our share price traded at a premium to NAV. The share issue was made in November and took the form of a resale of shares that had been held in treasury as part of our progressive discount control strategy announced in May 2015.

This issuance is believed to be the first that the Company has made at a premium to NAV in its 150-year history. Adherence to a discount control policy for nearly twenty years and the narrowing of the discount more recently has helped to enhance returns for continuing shareholders. For the first time since 2002, no shares were bought back. Nevertheless, we are firmly committed to the use of buybacks in normal market conditions for the benefit of shareholders in the event of a re-emergence of the discount.

Name changes

In considering our desire to continue to grow the Company and the optimal delivery of its investment proposition to future investors in a rapidly changing digital world, we have reviewed how the Company is best identified and recognised on investment platforms and in other forums. The review led us to change the Company's name by resolution of the Board on 9 November 2018 from Foreign & Colonial Investment Trust PLC to F&C Investment Trust PLC in accordance with approval given by shareholders at last year's AGM. We believe prospective investors will now find it easier and quicker to find us.

At the same time as our name change, BMO Financial Group changed the name of our management company from F&C Investment Business Limited to BMO Investment Business Limited (the "**Manager**") and rebranded the F&C Savings Plans to "BMO".

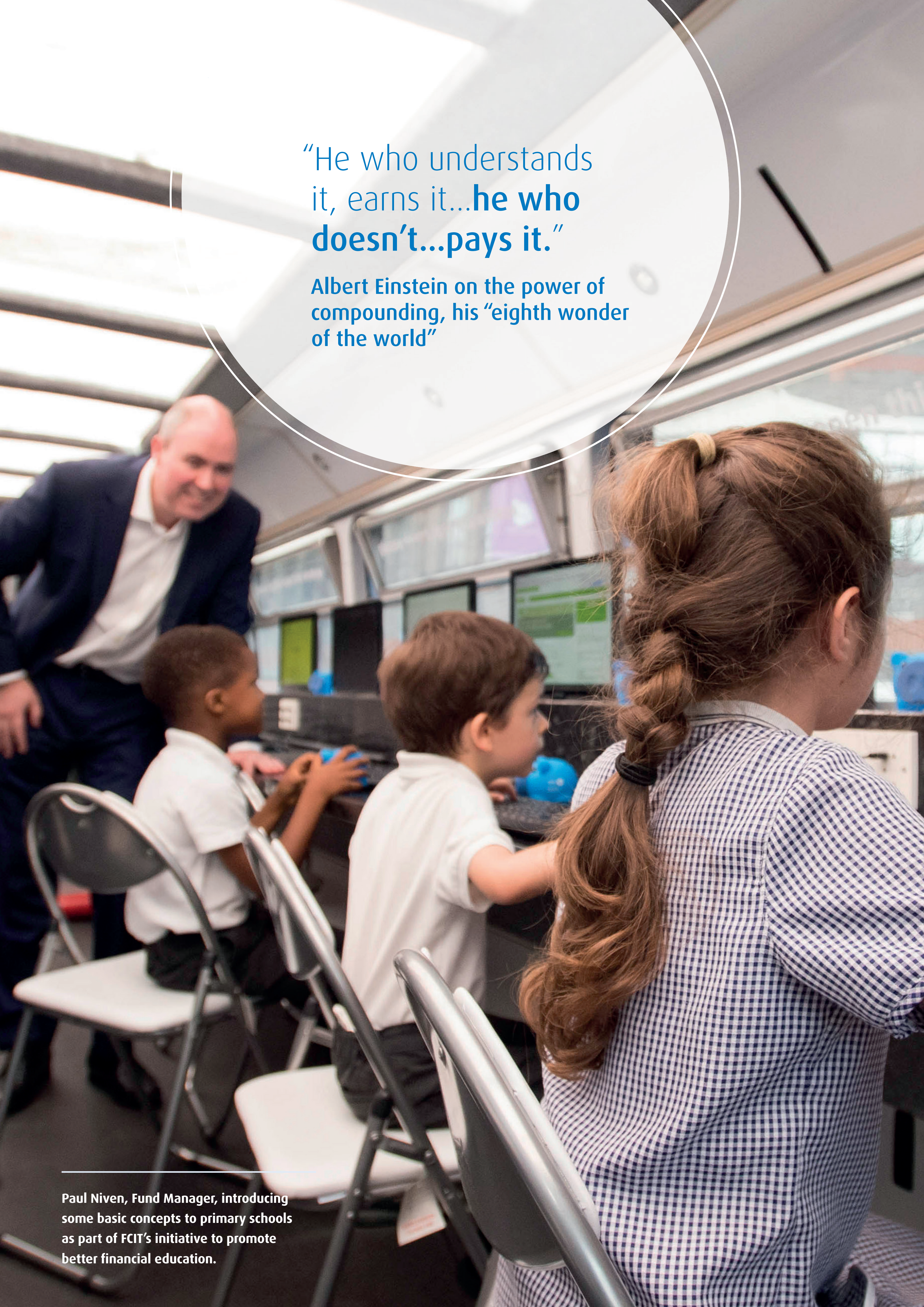
Cost efficiency and Manager fee review

One of our Key Performance Indicators is cost efficiency as cost control is an important factor in the delivery of long-term growth to shareholders. We therefore keep costs under scrutiny and review and report two measures to shareholders. Our Total Costs ratio fell from 1.06% to 1.01% for 2018 while our Ongoing Charges figure, which is more forward looking, declined from 0.79% to 0.65%. The reduction in these ratios reflect the benefits of scale obtained as a large investment trust and lower investee funds charges following a strategic switch out of the Global Multi-Manager funds portfolio in the latter part of the year.

We have also put in place, with effect from 1 January 2019, a tiered fee structure under which our Manager's fee will now be based on a rate of 0.35% per annum of the market capitalisation of the Company up to £3.0 billion, 0.30% between £3.0 and £4.0 billion, and 0.25% above £4.0 billion. This will help bring down our cost ratios further as the Company grows with the benefits of scale being passed on to shareholders.

Financial and corporate reporting

As we explain in the Report and Accounts, we take our investment responsibilities very seriously and hold companies to the highest governance standards. It is therefore imperative that we take our own governance seriously and follow best practice requirements as closely as we can. We were pleased that a routine review of our Report and Accounts 2017 by the Conduct Committee of the Financial Reporting Council raised no questions or queries from a legal and accounting perspective. We were also very pleased to receive the AIC's Best Report and Accounts award in the Generalist category.



"He who understands it, earns it...**he who doesn't...pays it.**"

Albert Einstein on the power of compounding, his "eighth wonder of the world"

Paul Niven, Fund Manager, introducing some basic concepts to primary schools as part of FCIT's initiative to promote better financial education.

We are adopting early key aspects of the revised UK Code of Corporate Governance published in 2018 and have, for the first time, included in our Strategic Report a separate statement as to how we, as Directors, have fulfilled our duties in taking into account the wider interests of stakeholders in promoting the success of the Company. As part of this we have provided more information on our approach towards environmental, social and governance issues and some insight into shareholder engagement activities carried out by our Manager. We will continue to aspire to the very highest standards of corporate reporting.

AGM and succession planning

The AGM will return to its usual venue this year, Merchant Taylors' Hall on Thursday 2 May 2019 at 12 noon. I will stand for re-election along with my colleagues on the Board but, as announced in October 2018, intend to retire as a Director during the course of the year. It has certainly been a great privilege to have been so closely involved with F&C Investment Trust during its 15th decade. The search for a new Chairman has commenced under the leadership of our Senior Independent Director, Sir Roger Bone. In terms of succession planning generally, and in accordance with the Board's tenure policy, the implementation of a sequence of other directorship changes can be expected to follow the appointment of the new Chairman and continue over the next few years.

Past, present and future

On the morning of our birthday in March last year we were given the honour of opening trading at the London Stock Exchange and were acknowledged as being not only the first investment trust, but also the company with its longest continuous listing. Throughout the year we were able to acknowledge the pioneering spirit and relentless focus of our Boards and Fund Managers over the last fifteen decades on our core purpose of providing the investor of moderate means access to an internationally diversified portfolio. The consistency of our approach has delivered amazing returns for our shareholders through the power of long-term compounding of returns. We have calculated that an original investment of £100 with dividends reinvested compounding at 8.1% per annum has grown to around £12m.

While it is important to recognise and celebrate the Company's past and present successes there will be no complacency about the future. Be assured that your Board continues to work hard towards ensuring that the foundations, structure and resources for the continuing longer term sustainable success of the Company are in place, that the investment and marketing propositions are fit for purpose and our diversified portfolio provides great value.

Building educational foundations

We also recognise that we have our own part to play within the financial services industry in helping people to understand the benefits of using their savings to invest for the longer term. This is becoming increasingly important as today individuals must plan much better if they are to secure their own financial wellbeing. We are particularly focused on the younger generations by partnering with a number of financial and educational organisations. We are working with students of leading educational institutions who are about to enter the workforce, with a view to helping them appreciate and understand the value of investing for their long-term future. Through our schools roadshow, we are introducing primary-level children to the idea of saving; helping them understand basic concepts such as inflation and compound interest. We intend to build on these initiatives to create a lasting educational legacy from our 150th anniversary year.

Outlook

The future political and economic environment is perhaps even more uncertain than ever with only a few weeks until we are expected to leave the European Union but still no clarity as to how we are going to do so. Globally, as well, there are question marks on the major trading relationships between China and the US. Additionally the speed with which technology is disrupting traditional industries continues to accelerate.

While this extraordinary uncertainty presents considerable risks, it also creates significant opportunities for new economic activity and new companies. While traditional global trade routes are under threat, new ones are developing. Through its diversified approach to investing around the world in both private and public companies both new and old, F&C Investment Trust is well positioned to take advantage of these opportunities while weathering the storms. For over 150 years the Company has endured rapid inflation as well as deflation, world wars as well as economic booms and busts but by taking a long-term approach to prudent risk taking across a well diversified portfolio of stocks and shares it has continued to deliver for its individual shareholders. I have great confidence that it will continue to do so in the years ahead.

Simon Fraser
Chairman
11 March 2019

Strategic Report*

Our purpose is to provide our shareholders with long-term growth in capital and income. We do this by investing mainly in public and private equity markets, using borrowings to enhance returns and by controlling costs. Our investments are held in a number of portfolios that are individually concentrated, but are managed as a whole to provide global diversification, lower volatility and lower risk.

Investment and business strategy

With values embedded around the needs of investors of moderate means over many generations, our investment strategy outlined above produces outperformance and real rises in dividends over the longer term as reported on page 19. In a changing environment in which there is greater need for individuals to take control of their future financial wellbeing, our wider business strategy aims to position us as a clear and core investment choice through all available channels, particularly for smaller investors.

Business model

The Directors have a duty to promote the success of FCIT. As an investment company with no employees, we believe that the optimum basis for doing this and achieving our objective is a strong working relationship with our appointed Manager. Within policies set and overseen by the Board of Directors, our Manager has been given overall responsibility for the management of FCIT's assets, asset allocation, gearing, stock and sector selection and risk. As part of this, it has the flexibility to blend its expertise with those of other fund managers by delegating the management of some investment portfolios externally. These include the North America publicly listed equities portfolios and some of the long-established Private Equity holdings that are held in funds of funds. Engagement on environmental, social and governance matters are undertaken through BMO Global Asset Management Limited. Our Manager and its sister company, BMO Global Asset Management Limited (together "**BMO GAM**"), are subsidiaries of BMO Global Asset Management (Holdings) PLC, which is owned by Bank of Montreal ("**BMO**").

To provide a breadth of sources of return, the individual investment portfolios are managed on a global or regional basis. While we invest in equities, we retain complete investment flexibility to invest in other types of securities or assets depending on the return prospects and in consideration of the implications for the broader portfolio. Furthermore, as a closed-ended listed investment company we are not constrained by asset sales to meet redemptions. Our share capital structure gives us the flexibility to take a longer term view and stay invested while taking advantage of illiquidity throughout normal and volatile market conditions. Having the ability to borrow to invest gives us a significant advantage over a number of other investment fund structures.

The Board remains responsible for decisions over corporate strategy; corporate governance; risk and control assessment; setting policies detailed on pages 16 and 17; setting limits on gearing and asset allocation; monitoring investment performance; and setting and monitoring marketing budgets.

Environmental, Social and Governance ("ESG") impact

Our ESG policies are set out on page 12 and are aligned towards the delivery of sustainable investment performance over the longer term. The direct impact of FCIT's activities is minimal as it has no employees, premises, physical assets or operations either as a producer or a provider of goods or services. Neither does it have customers. Its indirect impact occurs through the investments that it makes and this is mitigated through BMO GAM's Responsible Ownership policy as explained on pages 12 to 15.

Manager evaluation

Investment performance and responsible ownership are fundamental to delivering sustainable long-term growth in capital and income for our shareholders and therefore an important responsibility of the Directors is exercising a robust annual evaluation of our Manager's

* Further to the provisions of the Companies Act 2006 (the "**Act**") relating to the preparation of a Strategic Report, which have been amended to implement EU Directive 2014/95/EU (on non-financial and diversity information) we have integrated the information required for a Non-Financial Information Statement ("**NFIS**") into this Strategic Report with a view to cohesive reporting. The NFIS requirements are explained on page 98 together with a guide to the location of the embedded information.

"Investment performance and responsible ownership are fundamental to delivering sustainable long-term growth in capital and income for our shareholders........."

performance. This is an essential element in the mitigation of risk, as outlined under Principal Risks on page 20, and the strong governance that is carried out by the Board of Directors, all of whom are independent and non-executive.

The process for the evaluation of our Manager for the year under review and the basis on which the decision to reappoint it for another year are set out on page 41. The management fee is based on the market capitalisation of FCIT, thus fully aligning the Manager's interests with shareholders through share price performance.

Fund Manager and management of the assets

As Fund Manager on behalf of our Manager, Paul Niven is responsible for developing and implementing the investment strategy with the Board and for the day to day management of the total portfolio covering the entire range of individual investment portfolio strategies. His role covers tactical decisions over the allocation of assets between the different investment portfolios as well as decisions over levels and timing of gearing within the prescribed range. He has responsibility for overall portfolio composition but delegates stock selection decisions. The underlying specialist portfolio management teams are responsible and accountable to him and ultimately to the Board for their investment performance.

Shareholder communication and marketing

We foster good working relationships with our key stakeholders; our Manager, as described above, and our shareholders. With approximately 90% of our shareholder register in the hands of tens of thousands of retail investors, and savings or execution-only platforms representing an increasingly significant and growing element of the shareholder base, we remain focused with our Manager on the optimal delivery of FCIT's investment proposition. All available channels are used including the internet and social media as well as the BMO Savings Plans, which remain a cost effective and flexible way to invest in FCIT.

Managing risks and opportunities

We look to make good use of our corporate structure and the investment opportunities that lead to long-term growth in capital and income for our shareholders. Like all businesses, these opportunities do not come without risks and uncertainties and so the performance of our Manager is monitored at each Board meeting on a number of levels. In addition to managing the investments, the ancillary functions of administration, secretarial, accounting and marketing services are all carried out by the Manager. It reports on the investment portfolios; the wider portfolio structure; risks; compliance with borrowing covenants; income, dividend and expense forecasts; errors; internal control procedures; marketing; shareholder and other stakeholder issues, including FCIT's share price discount or premium to NAV; and accounting and regulatory updates. The performance of each individual investment portfolio is reviewed through a series of presentations given by each specialist management team throughout the year.

Shareholders can assess our financial performance from the Key Performance Indicators that are set out on page 19 and, on page 20, can see what the Directors consider to be the Principal Risks that we face. The risk of not achieving FCIT's objective, or of consistently under-performing its benchmark or competitors, may arise from any or all of inappropriate asset allocation, poor market conditions, ineffective or expensive gearing, poor cost control, loss of assets and service provider governance issues. In addition to monitoring our Manager's performance, commitment, available resources and its systems and controls, the Directors also review the services provided by other principal suppliers. These include the Custodian and Depositary in their duties towards the safeguarding of the assets.

The principal policies that support our investment and business strategy are set out on page 16, whilst the Fund Manager's review of activity in the year can be found on page 22. In the light of FCIT's strategy, investment processes and control environment (relating to both the oversight of its service providers and the effectiveness of the risk mitigation activities), we have set out on page 21 our reasonable expectation that FCIT will continue in operation for at least the next ten years.

Promoting the success of FCIT

Directors of large companies will now have to explain more fully how they have discharged their duties under section 172(1) of the Companies Act 2006 (the "**Act**") in promoting the success of their companies for the benefit of members as a whole. This will include the likely consequences of their decisions in the longer term and how they have taken wider stakeholders' needs into account.

Our main working relationship is with the management company that we hold to account in managing shareholder assets. With recognition of the need for sustainability as a fundamental element in achieving longer term success, we continued to work very closely with our Manager throughout the year in further developing our investment strategy and underlying policies. This is not simply for the purpose of achieving FCIT's investment objective but to do so in an effective, responsible and sustainable way in the interests of shareholders, future investors and, not least, society at large.

We have an unrestricted global mandate, but have long recognised that the ethical and sustainability issues the world is facing cannot be ignored by asset managers and investment companies alike. We have therefore included on pages 12 to 15 additional information on our approach towards responsible investment. We are very supportive of BMO GAM's approach, which focuses on engagement with the investee companies on ESG issues and how these link with the United Nations Sustainable Development Goals ("**SDGs**").

The portfolio activities undertaken by our Manager, including the specific strategic decisions concerning a reallocation away from the Global Multi-Manager portfolio towards the US and Global Smaller Companies, can be found in the Fund Manager's Review on page 26. We also took the decision to raise by private placement £75m 30-year loan notes to augment our longer term structural gearing at historically low rates for the purpose of enhancing returns for many years to come.

One of our long-term strategic aspirations has been that the Company's shares should trade consistently at a price close to the NAV per share. For much of the second half of the year, and beyond, the shares traded at a small premium enabling the first share issue in decades.

Another decision taken that will be of benefit over the longer term relates to a reduction of the Manager's fee rate as explained in the Chairman's Statement and on pages 41 and 42. Costs can eat away at investment returns so we have put in place a tiered structure which will mean that, as FCIT grows over time, the benefits of scale will effectively be passed on to shareholders.

As long-term investors we always look to the future and to the role and success of FCIT in that context. We recognise that, more than ever before, the financial services industry needs to create simple to use, transparent investment products that help everybody in society invest for the longer term and secure their financial future. We believe that FCIT provides a clear investment choice, particularly for smaller investors. We therefore took the opportunity in the 150th anniversary year to promote the Company through marketing and public relations initiatives and, at a wider social level, by supporting broader financial education across schools and universities. We plan to continue and develop these initiatives and will continue to work towards the optimal delivery of the Company's investment proposition and to promote the success of FCIT for the benefit of all shareholders, stakeholders and the community at large.

Simon Fraser (Chairman), Richard Wilson (CEO of BMO GAM), Sir Roger Bone (Senior Independent Director) and Joan Mohammed (Chief Operating Officer of BMO GAM) mark 150 years since launch and as the oldest continuously listed company on the London Stock Exchange with the ringing of the opening bell in March 2018.

Sustainability and our ESG policies

As stewards of over £3.7 billion of shareholder assets, and a voice as a shareholder in many companies, we have a duty through our Manager to influence and support positive change.

Our approach

Environmental, social and governance issues can present both opportunities and threats to the long-term investment performance we aim to deliver to our shareholders. We are therefore committed to taking a responsible approach to ESG matters in ensuring that we have appointed a manager that applies the highest standards of ESG practice in managing FCIT's investments on behalf of shareholders. Our approach covers our own responsibilities on matters such as the composition of the Board, and also the impacts we have via the investments made on our behalf by our Manager and its sub-managers, which we recognise as the most material way in which we have an impact.

As responsible investment and sustainability are integral to the longer term delivery of growth in capital and income, we believe that our disclosures should go beyond minimum standards. Our aim is to be proactive in reporting our ESG approach and to promote best practice in reporting by investment trusts generally. In setting and reporting on our ESG policies, we have considered the impacts of our activities and followed the relevant regulatory guidance including the requirements of section 172(1) of the Act and, in so far as they apply, the non-financial reporting requirements[1] in sections 414CA and 414CB of the Act. Although FCIT does not fall within the scope of these two sections, we believe that it will provide shareholders and stakeholders with a greater level of insight and transparency by so reporting. We have also reported under the UK Corporate Governance Code (the "**UK Code**") published in 2016 as well as a number of the key aspects of the revised UK Code issued in 2018 and fully applicable from 1 January 2019.

Responsible ownership

We support BMO GAM in its belief that good governance and sustainability practices create value. BMO GAM is a signatory to the United Nations Principles for Responsible Investment ("**UNPRI**") under which signatories contribute to the development of a more sustainable global financial system. As such it aims to systematically incorporate ESG factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term. Investee company boards are expected to disclose to shareholders that they are applying appropriate oversight, on material issues such as labour standards, environmental management and tax policies.

We believe that engaging with companies is best in the first instance rather than simply divesting or excluding investment opportunities. Engagement with companies on significant ESG matters, so as to reduce risk, improve performance, encourage best practice and underpin long-term investor value forms an important part of BMO GAM's approach towards responsible investment.

Voting on portfolio investments

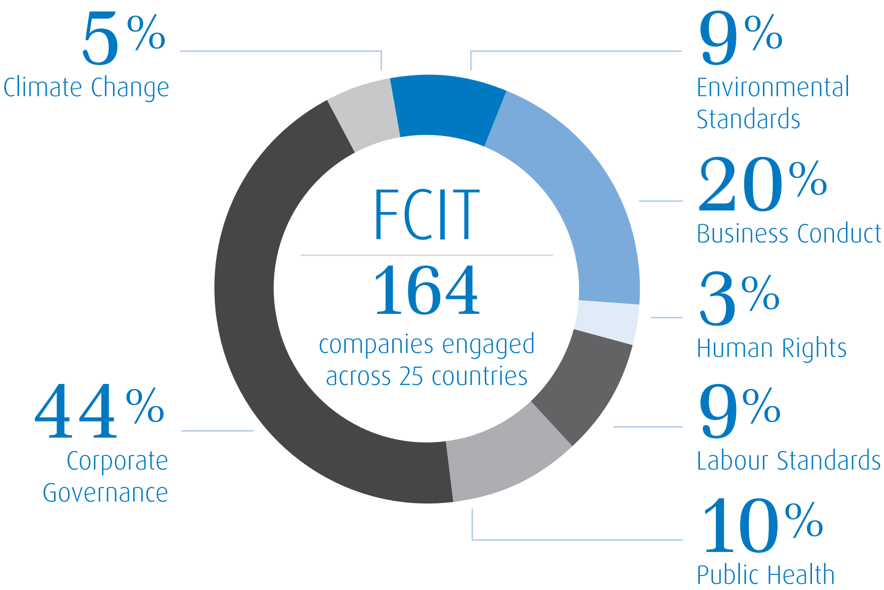
BMO GAM's Corporate Governance Guidelines set out expectations of the boards of investee companies in terms of good corporate governance. We expect to be informed by our Manager of any sensitive voting issues involving FCIT's investments. In the absence of explicit instructions from the Board, our managers are empowered to exercise discretion in the use of FCIT's voting rights. All shareholdings are voted at all listed company meetings worldwide where practicable in accordance with the managers' own corporate governance policies. A brief summary of voting in 2018 is set out on page 14.

BMO GAM's statement of compliance with the UK Stewardship Code has been reviewed and endorsed by the Board, which encourages and supports BMO GAM on its voting policy and its stance towards ESG issues. The statement has been awarded Tier 1 status by the FRC for its Stewardship Code Compliance Statement, the highest possible ranking. It is available on BMO GAM's website.

> "...engaging with companies is best in the first instance rather than simply divesting or excluding investment opportunities."

[1] See Glossary of terms on page 98 for an explanation of the Non-Financial Information Statement and where the information is referenced within the Strategic Report.

Engagement



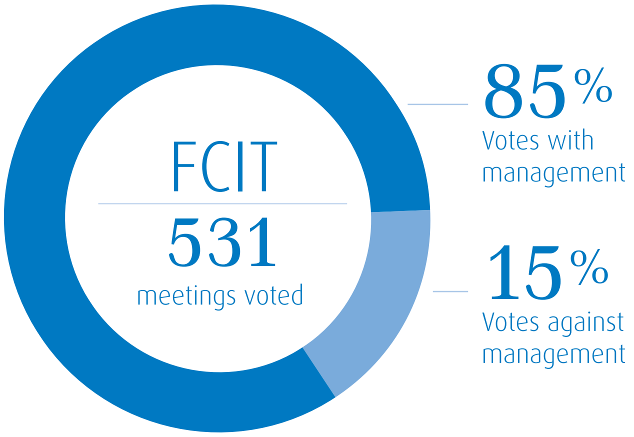
In 2018, BMO GAM engaged 164 companies in the FCIT portfolio, across 25 countries. This engagement is aimed both at addressing material risks, and also at promoting more sustainable practices with investee companies, in line with the SDGs; a set of 17 goals for a more sustainable future by 2030.

The most common topic for discussion was corporate governance, where BMO GAM pressed for improvements in areas including executive pay, board diversity and the balance of independent directors. 2018 saw a particular focus on business conduct issues, where topics included responsible tax policies and cybersecurity. With the protection of data becoming a high priority both for regulators and consumers, BMO GAM encouraged companies to put in place strong governance structures including board-level oversight. Environmental issues were prominent in the engagement with extractives companies in particular, where the objective has been to press companies to develop and disclose long-term strategies taking into account different future climate scenarios.

Examples of engagement in practice

Company	Topic	Engagement
Amazon.com	**Labour Standards**	In 2017 BMO GAM assembled an investor coalition representing US$2.3 trillion and wrote to the CEO, calling for stronger policies and disclosure to protect labour standards for workers and contractors. This resulted in dialogue with Amazon.com and in 2018 we were pleased to see steps taken to raise wages for US workers, but BMO GAM believe further progress is still needed and will continue to engage.
Royal Dutch Shell	**Climate Change**	BMO GAM has engaged intensively with Royal Dutch Shell including 10 meetings with its board and senior executives over the past three years. In 2018 we saw significant progress, with the company adopting strong ambitions to cut the net carbon footprint of its operations and its products, and committing to link this to pay policy.
GlaxoSmithKline ("GSK")	**Responsible Drug Pricing**	A key issue for pharmaceutical companies is affordability of drugs, not only in emerging markets but also amongst lower-income consumers in developed markets. BMO GAM hosted an event with 11 pharmaceutical companies on the topic in 2017 and has collaborated with the Access to Medicine Foundation to press for companies, including GSK, to improve their policies and disclosure. In the latest Access to Medicine Index, GSK was ranked in first place.

Voting

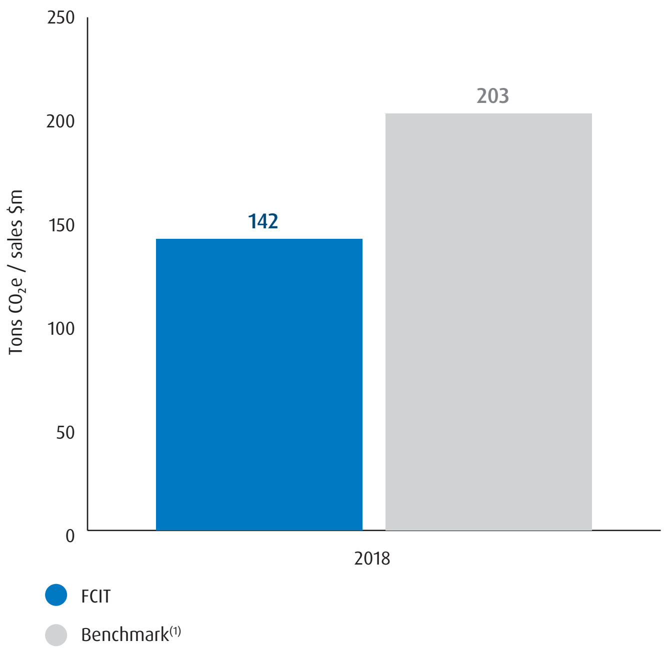


Voting

We expect our shares to be voted on all holdings where possible. In 2018 BMO GAM and the US sub-managers in total voted in favour of 85% of resolutions at 531 shareholder meetings.

One of the most contentious voting issues was remuneration. Either by voting against or abstaining, BMO GAM did not support over 35% of all management resolutions relating to pay, often due to either poor disclosure or a misalignment of pay with long-term performance. In the case of concerns relating to decision-making on company boards, lack of genuinely independent directors or directors overcommitted through other directorships, BMO GAM cast votes against 17% of those standing for election.

Climate change



[1] See Glossary of terms on page 96 for explanations of "benchmark"

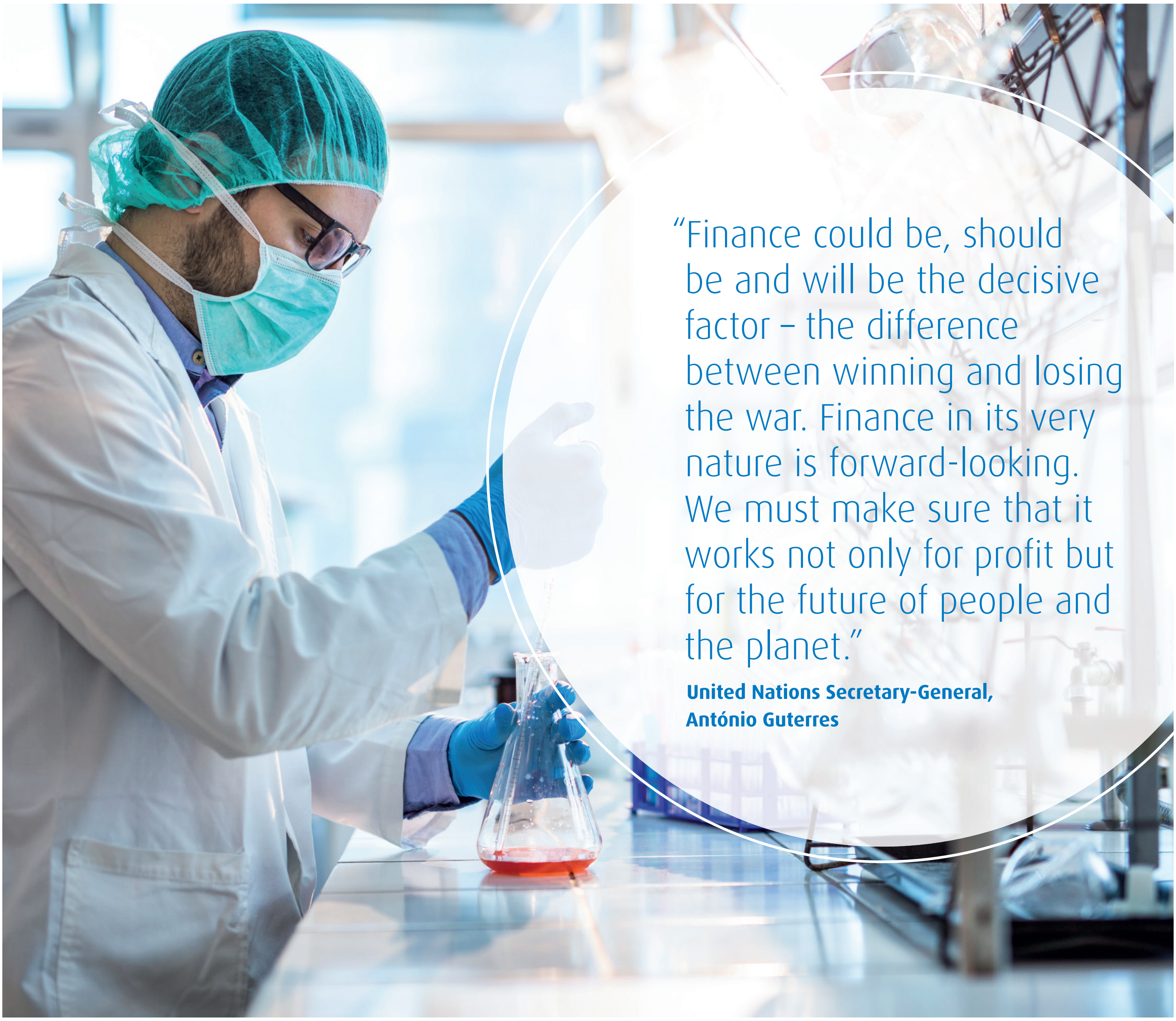
Climate change

Of all the ESG issues our managers consider, climate change is one of the most important both in terms of the scale of potential impact and in how widespread this impact could be across sectors and regions. We expect our managers to incorporate considerations around climate change risks and opportunities in their investment processes.

This year we are disclosing the carbon footprint of FCIT's investments, in line with the recommendations of the Task force on Climate-related Financial Disclosures. This measures the amount of greenhouse gas emissions produced by each investee company, per US$1m of revenue they generate. This is then aggregated for FCIT as a whole, using the portfolio weights of the companies, and compared with the benchmark.

The carbon footprint is a measure of the carbon intensity of the companies we invest in. Whilst it does not provide a full picture of climate risks – since it does not, for instance, capture the innovation that companies may be undertaking to find solutions – it is a valuable starting point both for analysis and for shareholder dialogue.

In 2018 FCIT's carbon footprint was 30% below the benchmark. The main reason for this was that compared with the benchmark, FCIT has a relatively smaller share of its overall holdings in two sectors which have a high emissions intensity – energy and utilities. We will continue to monitor this metric.



> "Finance could be, should be and will be the decisive factor – the difference between winning and losing the war. Finance in its very nature is forward-looking. We must make sure that it works not only for profit but for the future of people and the planet."
>
> **United Nations Secretary-General, António Guterres**

Investing in sustainability leaders

ESG issues present opportunities as well as risks. FCIT has investments in a number of companies which BMO GAM has identified as being leaders in providing sustainable solutions, through the products and services they provide.

We believe that companies such as these can provide both sound long-term financial returns hand in hand with a positive sustainability impact. As challenges such as climate change, water shortages and population growth intensify, companies able to provide solutions to these issues should find their goods and services in ever greater demand.

Notable examples include:

Clicks Group: Clicks Group owns South Africa's largest pharmacy chain, as well as the country's leading pharmaceutical wholesaler. This company has a commitment to support the government's agenda to increase access to affordable medicines. Through its retail chain, it runs over 200 clinics, which provided almost 900,000 primary healthcare services in 2018. It is also addressing the undersupply of pharmacists in South Africa through funding bursaries and providing internships; and has been outspoken in calling for action by regulators to overcome barriers to the provision of cheaper generic drugs.

HDFC Bank: HDFC is one of India's largest banks, with almost 5,000 branches. It has a substantial rural lending business and, alongside this, a sustainability programme which includes a focus on rural development, where activities have included the installation of irrigation projects and solar lamps.

Novo Nordisk: Danish pharmaceutical company Novo Nordisk focuses on treatments for diabetes, a condition which already affects over 400 million people and is growing rapidly. It has extensive programmes to ensure the affordability of diabetes treatment, including its Access to Insulin commitment, which guarantees provision of affordable insulin to patients in low-income countries.

Principal Policies

FCIT's principal policies support the Company's investment and business strategies towards the attainment of long-term sustainable growth for our shareholders.

Investment

FCIT is required to have a publicly stated Investment Policy from which shareholders, prospective investors and stakeholders can understand the scope of its investment remit and constraints imposed under it. Any material changes to the stated policy can only be made with shareholder approval.

FCIT's remit is global. Risk diversification is achieved through geographic asset allocation and industry sector and stock selection across a wide range of markets. Within the general policy of maintaining a diversified portfolio, there are no specific geographic or industry sector exposure limits for the publicly listed equities. The Board has placed a limit of 5% of the value of the total portfolio on unlisted securities, at the time of acquisition and excluding private equity investments. Any unlisted investment requires specific Board approval with the exception of new private equity investments, responsibility for which has been delegated to our Manager. Shareholder approval would be sought in the event that the Board considers that the long-term exposure to Private Equity investments should exceed a figure of 20%.

Under FCIT's articles of association, with limited exceptions, no single investment may be made by FCIT which exceeds 10% of the value of the total portfolio at the time of acquisition. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Board has placed a limit of 5% of the value of the total portfolio on investment funds managed by BMO GAM at the time of acquisition, and any such investment requires specific Board approval.

FCIT will typically remain fully invested in equities, but is not prohibited from investing in other types of securities or assets. Derivatives may be used for the purpose of income enhancement and portfolio management covering tactical asset allocation and risk mitigation including protection against currency risks within strict limits.

The Board carries out due diligence with regard to the Investment Policy and underlying policies at each of its Board meetings receiving regular reports from the Fund Manager. Confirmation of adherence to the investment restrictions and limitations set by the Board are required at each meeting. The Fund Manager's Review on pages 22 to 27 provides an overview of the outcome from the application of the Investment Policy and the underlying policies during the course of the year.

Borrowing

Using its closed-ended investment company structure, FCIT has a long record of successfully using gearing to enhance shareholder returns although this was a marginal detractor in 2018. FCIT's policy is to borrow in sterling or foreign currency over short, medium or long-term periods and normally within a range of 0 – 20% of shareholders' funds. The Board monitors borrowing levels and covenant headroom at each Board meeting.

Dividend

FCIT's revenue account is managed with a view to delivering a rising income stream in real terms for shareholders. Prudent use of revenue reserves established over many decades is made whenever necessary to help meet any revenue shortfall. Dividends can also be paid from capital reserves although the Board has no current need or intention of doing so.

The Board applies due diligence and determines payments by taking account of timely income forecasts, brought forward distributable reserves, prevailing inflation rates, the dividend payment record and Corporation Tax rules governing investment trust status. Risks to the dividend policy have been considered as part of the Principal Risks and Future Prospects reviews noted on page 20. They include: worldwide financial and political instability leading to significant deterioration in the level of income received by FCIT; and unforeseen and significant changes to FCIT's regulatory environment. FCIT has sufficient liquid resources to fund any envisaged level of dividend payment.

The consistent application of this policy has enabled FCIT to pay an increased dividend every year for the past 48 years and the total proposed payment for 2018 is fully covered by earnings.

Discount/premium

Over many years the Board has consistently applied a discount control, or "buyback", policy. Under this policy the Board buys back shares for the benefit of shareholders where it sees value and, importantly, in pursuit of a sustainably low deviation between the share price and NAV per share in normal market conditions. The policy and the levels within which it has operated have continually been reviewed with the aim of achieving the long-held aspiration of FCIT's shares trading at or close to NAV. Shares held in treasury can be sold, or new shares issued, in order to satisfy shareholder demand and, conversely, to moderate the premium to which the share price can rise in relation to the NAV per share. The Board reviews the discount and premium levels at each meeting. For the first time in many years it was unnecessary to buy back any shares in 2018. For much of the second half of the year the shares traded at a premium and new shares were issued by way of a sale from treasury.

"...there is much to be done and gained in helping people to understand the concepts and benefits of saving and investing for the longer term."

Supporting financial education in the community

As a company founded on the principle of providing stockmarket access and diversified risk to investors of moderate means, FCIT's role is perhaps even more relevant today. While investors face a world in which they are having to take greater control of their own future financial well-being, there is much to be done and gained in helping people to understand the concepts and benefits of saving and investing for the longer term. In recognising this need and the benefits of its alignment in terms of FCIT's own future shareholder base, the Board has adopted a policy of supporting broader financial education across schools and universities. In implementing this policy, a programme of initiatives was carried out by FCIT during the year often with the direct participation of Board members. The results of these initiatives are being measured and assessed with the intention of developing this further with the aim of building lasting educational foundations that will be of benefit to shareholders and stakeholders and, not least, younger generations and the community at large.

Taxation

As an investment trust, it is essential that FCIT retains its tax status by complying at all times with Section 1158 of the Corporation Tax Act 2010 ("**Section 1158**") such that it does not suffer UK Corporation Tax on capital gains; ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due; and ensures that it claims back in a timely manner, where possible, all taxes suffered in excess of taxation treaty rates on non-UK dividend receipts. The Board's policy towards taxation is one of full commitment to complying with applicable legislation and statutory guidelines. In applying due diligence towards the retention of Section 1158 status and adhering to its tax policies, the Board receives regular reports from the Manager. FCIT has received approval from HMRC as an investment trust under Section 1158 and has since continued to comply with the eligibility conditions.

Board diversity

The Board's policy towards the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including gender and contributions from an international perspective. The policy is always to appoint the best person for the job and, by way of this policy statement, it is confirmed that there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

The overriding aim of the policy is to ensure that the Board is composed of the best combination of people for ensuring the delivery of investment out-performance for shareholders over the longer term in the form of sustainable growth in both capital and income. The policy is applied for the purpose of appointing individuals that, together as a board, will continue to achieve that aim as well as ensuring optimal promotion of the Company's investment proposition in the marketplace. In terms of progress in achieving diversity, the gender balance of five men and three women Directors exceeds the target of 33% of women on FTSE 350 company boards by 2020 set under The Hampton-Alexander Review. This is the independent review body which aims to increase the number of women on FTSE 350 boards. The Board notes the recommendations of the Parker Review Committee for each FTSE 250 company to have at least one director from an ethnic minority background by 2024 as part of the drive to improve the ethnic and cultural diversity of UK company boards.

Integrity and business ethics

The Board applies a strict anti-bribery and anti-corruption policy insofar as it applies to any directors or employee of BMO GAM or of any other organisation with which FCIT conducts business. The Board also ensures that adequate procedures are in place and followed in respect of third-party appointments, acceptance of gifts and hospitality and similar matters.

"F&C Investment Trust will celebrate its 200th anniversary in 2068.... There could be no greater testament to F&C Investment Trust's democratic, diligent and disruptive tradition, built over the course of two centuries, than for this to be the case."

Millennials expert, Dr Eliza Filby, speaking at the F&C Investment Trust lecture at the Guildhall, London, in March 2018.

Overview | Chairman's Statement | Strategic Report | Governance Report | Auditor's Report | Financial Report | Notice of Meeting | Other Information

Key Performance Indicators

The Board assesses the efficacy of its strategy by comparing the Company's long-term performance against the following four key measures (Performance, Dividend, Discount and Efficiency). Detailed commentary on these measures can be found in the Chairman's Statement and Fund Manager's Review.

Performance: Total returns(1)

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT share price	(0.6)	48.9	84.3	247.5
FCIT NAV (with debt at market value)	(3.3)	39.9	65.2	202.0
Market benchmark(2)	(3.4)	42.4	64.9	203.6
AIC Global Sector Median share price (investment companies)(3)	(7.2)	38.6	58.1	236.8
AIC Global Sector Median NAV (investment companies)(3)	(6.3)	35.5	55.3	203.9
IA Global Sector Median (open-ended funds)(3)	(6.2)	33.0	47.8	158.9
Consumer Prices Index	2.1	6.8	7.6	25.3

The Board's policy is to secure long-term growth in capital and income

This compares the Company's share price and NAV total return against those produced by the constituents of the market benchmark and our peer group, and against inflation.

The market benchmark takes into account the change in January 2013 from a composite benchmark (40% FTSE All-Share/60% FTSE WI World Index ex UK) to the FTSE All-World Index as the new benchmark.

Source: BMO GAM, Morningstar UK Limited and Refinitiv Eikon

Dividend: Dividend Growth per annum

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT dividend	5.8	4.6	4.1	5.5
Consumer Prices Index	2.1	2.2	1.5	2.3

The Board's long-term policy is to deliver a rising dividend stream in real terms.

This shows the Company's compound annual dividend growth rate and compares it to the Consumer Prices Index.

Source: BMO GAM and Refinitiv Eikon

Discount: Share price discount to NAV

Year ended:	31 Dec 2018 %	31 Dec 2017 %	31 Dec 2016 %	31 Dec 2015 %	31 Dec 2014 %
Discount at 31 December	1.5	4.3	7.4	7.0	8.1
Average discount in year	1.3	6.7	9.7	7.3	10.3

The Board's discount policy aspiration is to see the Shares trading at or close to NAV per share.

A "Discount" arises when the share price is lower than the NAV per share (with debt at market value). A high discount may indicate the need for shares to be bought back.

Source: BMO GAM

Efficiency: Costs

Year to:	31 Dec 2018 %	31 Dec 2017 %	31 Dec 2016 %	31 Dec 2015 %	31 Dec 2014 %
Ongoing charges(1)	0.65	0.79	0.79	0.80	0.87
Total costs(1)	1.01	1.06	n/a	n/a	n/a

The Board's policy is to control the costs of running the Company

This data measures the running costs as a percentage of the average net assets in the year. Total Costs are inclusive of interest expense and transaction charges.

Source: BMO GAM

Data tracking is being developed to measure the marketing and promotional initiatives designed to deliver the Company's investment proposition and help improve access to the investment channels through which the Company's shares can be bought.

(1) See Alternative Performance Measures on page 95 for explanation
(2) See Glossary of terms on pages 96 and 98 for explanations of "benchmark" and "market benchmark"
(3) These are considered by the Board to be the most relevant and reliable industry-standard peer group performance measures.

Principal Risks and Future Prospects

The Board has carried out a comprehensive robust assessment of the principal risks as well as the uncertainties that could threaten FCIT's success. The consequences for its business model, liquidity, future prospects and viability form an integral part of this assessment.

The principal risks, both perceived and observed, together with their mitigations are set out in the table below. The Board's processes for monitoring them and identifying emerging risks are set out on page 48 and in note 25 on the accounts. The risks are unchanged from those reported in the prior year. The principal risks identified as most relevant to the assessment of FCIT's future prospects and viability were those relating to potential investment portfolio under-performance and its effect on share price discount and dividends, as well as threats to security over FCIT's assets. Our risk evaluation forms an inherent part of our strategy determination described on page 8.

Principal Risks	Mitigation
Business strategy fails to meet investor needs or access the targeted market leading to significant pressure on the share price. **Reduced throughout the year under review**	The Board assesses investor needs through targeted research and marketing, the effectiveness of which is kept under continuous review. Overall business strategy is formally discussed annually with the Manager and is monitored by the Board throughout the year against their own objectives. A discount control mechanism has operated over many years. **The Company's discount is a KPI measured by the Board on a continual basis.**
Unfavourable markets or inappropriate asset allocation, sector and stock selection, currency exposure and use of gearing and derivatives may give rise to investment under-performance as well as impacting capacity to pay dividends to investors. Political risk factors could also impact performance. **Increased during the year under review**	Underlying investment strategies, performance, gearing and income forecasts are reviewed with the Fund Manager at each Board meeting. Cash, borrowing and derivative limits, as well as dividend paying capacity, are monitored. BMO GAM's Performance and Risk Oversight team provides independent oversight on investment risk management for the directly managed portfolios. The portfolio is diversified and FCIT's structure enables it to take a long-term view of countries, markets and currencies. FCIT has a Revenue Reserve which can be used to pay growing dividends in years when income receipts fall as a result of poor market conditions. **The performance of FCIT relative to its market benchmark, its peers and inflation is a KPI measured by the Board on a continual basis.**
Failure of BMO GAM to continue to operate effectively through loss of key staff, inadequate investment and support capability, systems or resource. **Unchanged throughout the year under review**	The Board regularly reviews the strength of the Manager's investment management and client services resources with BMO GAM and meets their risk management team to review internal control and risk reports. The Manager's appointment is reviewed annually and can be terminated at six months' notice. A business continuity plan is in place. The Manager structures its recruitment and remuneration packages in order to retain key staff and works closely with the Board on any significant management changes. **Performance KPIs and Manager errors are monitored by the Board for indications of continuity or other Manager issues.**
Errors, fraud or control failures at service providers or loss of data through business continuity failure or cyber-attacks could damage reputation or investors' interests or result in loss. Cyber risks remain heightened. **Unchanged throughout the year under review**	The Board receives regular control reports from BMO GAM covering risk and compliance, including oversight of third party service providers. The Board has access to BMO GAM's Head of Business Risk and their Group Information Security Officer, International and requires any significant issues directly relevant to FCIT to be reported immediately. The Depositary is liable for loss of any of FCIT's securities and cash held in custody unless resulting from an external event beyond its reasonable control. **The Board additionally monitors efficiency of service providers' processes through efficiency KPIs.**

Through a series of connected stress tests ranging from moderate to extreme scenarios and based on historical information, but forward-looking over the ten years commencing 1 January 2019, the Board assessed the effects of:

- Potential illiquidity of the Company's portfolio during substantial market falls when needing to fund private equity commitments.
- Substantial falls in investment values on the ability to maintain loan covenants and to repay and re-negotiate funding.
- Significant falls in income on the ability to continue paying steadily-rising dividends and maintaining adequate revenue reserves.
- The impact of substantial fluctuations in exchange rates on asset values and dividend income.

In concluding that ten years is a reasonable period over which to assess future prospects of the Company, the Board considers that this approximates the periods relating to:

- its private equity commitments;
- its borrowings, repayable beyond ten years; and
- the corporate governance principles relating to the Directors' tenure.

The Board also took into consideration the perceived viability of its principal service providers, potential effects of anticipated regulatory changes and the potential threat from competition.

The Board's conclusions are set out under the Ten-Year Horizon.

Actions taken on Principal Risks in the year

The Board has continued to develop the overall business strategy as outlined on page 8 in conjunction with the Manager. Marketing campaigns continued throughout the year and while the share price total return was down slightly, as reported under the Key Performance Indicators on page 19, the average discount was 1.3% with no buybacks being necessary. As such, this risk is categorised as reduced.

Portfolio activities over the year are outlined in the Fund Manager's Review starting on page 22 along with his views concerning any economic and earnings downturn. As set out in note 25(c) on the accounts, a portion of non-sterling exposure was hedged through the purchase of £100m to offset the potential impact on valuations in the event of a breakthrough in Brexit negotiations and substantial rise in the value of sterling. As reported in the Key Performance Indicators on page 19, long-term performance remains in line with expectations and the dividend for the year is again fully covered. Nevertheless, the overall level of uncertainty indicates that this risk has increased.

The Board has reviewed BMO GAM's controls and risk management structure as part of its annual assessment. The Board met senior management as part of the reappointment process described on page 41. The viability, systems and staffing capabilities of the Manager were fully reviewed by the Board and a decision was taken to continue with its services. Thorough review and challenge of the Manager were provided through the Audit Committee, the Management Engagement Committee and the Board. As such, this risk is unchanged.

The Audit Committee regularly reviews FCIT's risk management framework with the assistance of the Manager. Supervision of third party service providers has been maintained by BMO GAM and includes assurances regarding IT security and increasing cyber-threats. The Depositary maintained oversight of custody of investments and cash and its regular reports to the Board indicated no matters of concern. The Board engaged with the Manager and other data processors to implement, comply and embed the necessary safeguards under the General Data Protection Regulations introduced in May 2018. As such, this risk is unchanged.

Ten Year Horizon

Based on its assessment and evaluation of FCIT's future prospects, the Board has a reasonable expectation that FCIT will be able to continue in operation and meet its liabilities as they fall due over the coming ten years; FCIT's business model, strategy and the embedded characteristics listed below have helped define and maintain the stability of FCIT over many decades. The Board expects this to continue over many more years to come.

- FCIT has a long-term investment strategy under which it invests mainly in readily realisable, publicly listed securities and which restricts the level of borrowings.
- FCIT's business model and strategy are not time limited and, as a global investment trust, are unlikely to be adversely impacted as a direct result of Brexit and other political uncertainties.
- FCIT is inherently structured for long-term outperformance, rather than short-term opportunities, with ten years considered as a sensible time-frame for measuring and assessing long-term investment performance.
- FCIT is able to take advantage of its closed-ended investment trust structure such as securing long-term borrowings and has the ability to secure additional finance in excess of ten years.
- FCIT has the ability to hold a proportion of long-term less liquid private equity investments with ten years typically being the period over which commitments are made and realisations are expected to be received.
- There is rigid monitoring of the headroom under FCIT's bank borrowing financial covenants.
- Regular and robust review of revenue and expenditure forecasts is undertaken throughout the year against a backdrop of large revenue and capital reserves.
- FCIT retains title to all assets held by the Custodian which are subject to further safeguards imposed on the Depositary.
- FCIT maintains a business continuity plan including increased awareness on preventing cyber attacks.

Fund Manager's Review

Our NAV total return of -3.3% was slightly better than the benchmark total return of -3.4%. Shareholder returns were -0.6%, with losses partly mitigated by a reduction in our share price discount to NAV, which ended the year at 1.5%.

Paul Niven, Fund Manager

Investment Performance in 2018

Following a period of unusually smooth progress 2018 saw a return of volatility and the steepest declines in equity markets for a decade. All major regions suffered losses in local currency terms and, at some point during the year, most indices globally fell into a 'bear market'; defined as a greater than 20% decline from peak.

Early in the year stocks were boosted from optimism over the impact of US tax cuts on corporate profits but this positive sentiment soon receded, giving way to numerous concerns which built as the year progressed. Indeed, 2018 was remarkable in that corporate earnings rose strongly, gaining over 20% in the US, while stock prices there fell by over 6%. Part of the reversal in fortunes for stockholders reflected a reassessment of warranted valuation levels, particularly amongst the 'disruptors' which had previously led the market.

The US Federal Reserve delivered four quarter point rate rises over the year while signalling intent to continue their programme of stepping back from 'quantitative easing' and shrinking their balance sheet. Recent years have seen central banks moving away from the accommodative monetary stance which has supported markets since the Global Financial Crisis. This environment of abundant but tightening liquidity presented a challenge for markets. Indeed, rising interest rates led to concern that central banks might be making a mistake by tightening policy at a time when the economy was already losing momentum.

Responding to these concerns some closely watched market indicators began to reach worrying levels for investors. The US yield curve moved close to inversion (where long-dated interest rates are lower than short-term interest rates) for the first time since 2007. Such a

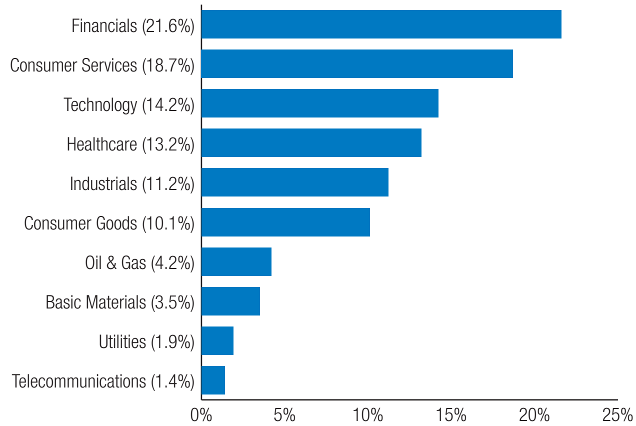
FCIT share price 2018

Source: BMO GAM

Contributors to total returns in 2018	%
Portfolio return	(2.2)
Management fees	(0.4)
Interest and other expenses	(0.2)
Buy-backs	0.0
Change of value of debt	(0.1)
Gearing/other	(0.4)
NAV total return	**(3.3)**
Decrease in discount	2.7
Share price total return	**(0.6)**
FTSE All-World total return	(3.4)

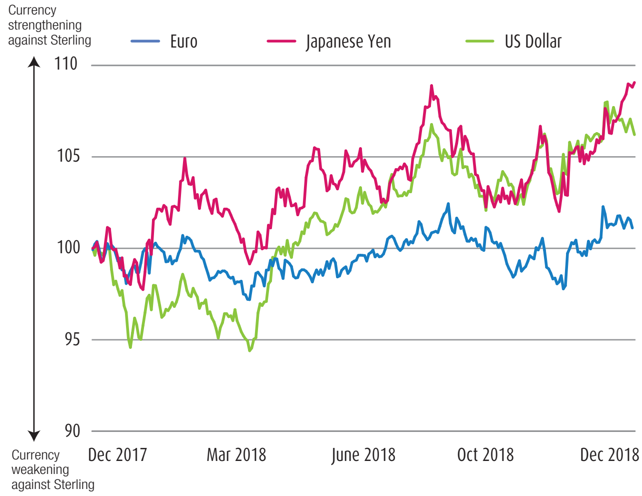
Source: BMO GAM

Underlying Sector Classification of Listed Investment Portfolio as at 31 December 2018



Source: BMO GAM

Currency movements vs Sterling in 2018



Source: BMO GAM

signal has historically been an accurate predictor of a future recession, albeit with a variable lag. Recessions tend to end bull markets in equities and investors anxiety levels rose in response.

As explained on page 8, our investment strategy remains one of managing the exposure of our assets across a range of diversified investment portfolios, each with their own individual strategies. Each individual portfolio invests on a global or a regional basis using a wide range of skills and resources available from the Manager or, in the case of the majority of our US exposure, from external third-party managers. We invest into both listed and unlisted equity opportunities from across the world and seek to use the benefits of diversification across different areas to smooth returns for investors.

Given the challenging backdrop, it was a negative year in absolute terms for most of our individual investment portfolios. Our investment portfolio delivered a return of -2.2%, ahead of the benchmark drop of -3.3%. Amongst our exposure to listed equities, it was only North America which produced a positive return for the year, and this was largely due to strength in the US dollar relative to sterling. Our private equity exposure produced an excellent return which, at 19.7%, comfortably exceeded returns from listed global equities. By contrast, Europe, Emerging Markets and Japan, which had been amongst the strongest performing areas in 2017, lagged global markets and suffered material declines in value over the year. Being overweight in these poorly performing areas relative to our benchmark over the year was a modest negative in the attribution of our overall return. Year-end allocations and underlying geographic exposures are shown in the table below.

Weighting, stock selection and performance over one year in each investment portfolio strategy and underlying geographic exposure versus Index at 31 December 2018

Investment Portfolio Strategy	Our portfolio strategy weighting %	Underlying geographic exposure[(1)] %	Benchmark weighting %	Our strategy performance in Sterling %	Index performance in Sterling %
North America	42.0	53.4	56.0	4.7	0.8
Europe inc UK[(2)]	14.4	22.4	19.6	(15.1)	(9.9)
Japan	8.6	9.9	8.4	(10.0)	(7.6)
Emerging Markets	10.5	11.9	12.0	(5.3)	(8.9)
Developed Pacific	–	2.4	4.0	–	(5.6)
Global Strategies[(3)]	16.6			(4.0)	(3.4)
Private Equity	7.9			19.7	

(1) Represents the geographic exposure of the portfolio, including underlying exposures in private equity and fund holdings.
(2) Performance prior to 30 June 2018 represents Europe ex UK.
(3) The Global Strategies allocation consisted of Global Income and Global Smaller Companies as at 31 December but performance also includes the historic allocation to Global Multi-Manager.

Source: BMO GAM

Our private equity portfolio produced the strongest returns of any of our strategies in 2018. This added to the long-term record of outperformance over listed markets (shown in the table on the opposite page) and was particularly helpful in a year when most listed markets declined in sterling terms.

Our private equity portfolio contains a mix of historic holdings in private equity funds of funds which continue to be managed by specialists, HarbourVest and Pantheon, as well as more recent direct fund and co-investments, selected by BMO GAM. Our historic holdings are mature in nature, producing strong cashflow over the year as underlying investments were realised at a premium to their carrying value. These historic holdings produced gains of over 20% in the year. In addition, while it is still early to judge the performance of our newer private equity investments we saw encouraging progress over the year, with gains of close to 19%. We also made commitments to a new vehicle, managed by BMO GAM, which invests into secondary fund opportunities and co-investments. A number of holdings within this structure saw an uplift in valuations, including Wavecrest, a co-investment into a cloud-based customer relationship management software provider for financial services firms. The carrying value in Wavecrest rose by 50% due to an increase in annual recurring revenue. We also made good progress in NEM Impresse III, a secondary Italian based fund which we bought at a discount and which enjoyed a good valuation uplift over the year. In terms of some of our more recent primary investments, our US private equity growth equity holdings performed strongly while our Chinese exposure, through Warburg Pincus, also gained. In addition to our new and existing investments in private equity funds and co-investments, we also maintained our holding in Syncona, which is transforming into a life sciences company. Syncona posted returns of 34% over the year with a number of underlying holdings conducting successful clinical trials.

Our North American equity allocation produced good relative returns. Despite a mid-year reversal in the fortunes of 'growth stocks' the gain of 9.1% from our growth oriented manager, T Rowe Price, was the highest return from all of our listed equity strategies, comfortably exceeding returns from growth indices. US stocks have led global markets in recent years with a narrow group of stocks driving overall returns. We had some exposure to each of the 'Faangs' (Facebook, Apple, Amazon, Netflix, and Google/Alphabet) which had seen strong gains in the lead up to 2018. Close to the mid-point of the year, this basket of stocks had risen by nearly 40% but it ended 2018 with a healthy, but more modest, 8% gain. Each of these companies faced a different set of challenges but, in each case, upwards progress in their respective share prices came to an abrupt halt. Investors worried whether growth rates would continue to support lofty valuation levels and increasing discussion of the potential regulatory impact on business models led to investor unease. As an example, while Amazon ended up delivering a return in excess of 25% for the year the stock ended more than a quarter below its record price achieved in the period, at which point it had briefly surpassed a market value of over US$ 1trillion. Apple also reached this valuation milestone during the year but similarly fell sharply.

After a long period of lagging growth-based investment styles there was a modest revival in fortunes for value-based styles and our policy of blending our US exposure proved beneficial as the year progressed. Our value and growth-based holdings both produced positive absolute and relative gains in 2018 leading to a pleasing outcome for our exposure in this area. Our overall exposure to North American strategies delivered a return of 4.7%, comfortably ahead of the benchmark gain of 0.8%.

In contrast the European strategy delivered poor relative returns over the year, with a loss of 15.1% against the benchmark fall of 9.9%. Tensions rose once again as populist parties became stronger, for example, in Italy Five Star and the League topped the March election and formed a coalition government in May. Italian bond yields rose as investors worried over the government's spending plans while the EU planned disciplinary measures against Rome for breaking fiscal rules.

The rotation within the European equity market was pronounced. In the period spanning the latter part of the year, we performed poorly as there was a sharp rotation into Telecoms, Utilities, and Mining, where we had little exposure. These sectors had been amongst the worst performing sectors during the earlier months of the year. Stock selection was detrimental to returns with Cairn Homes, the Irish Homebuilder, suffering from negative sentiment surrounding Brexit and concern over build cost inflation. Another holding, the UK company Sophos, fell sharply after a moderation in earnings growth.

Japan also produced disappointing returns, with our strategy return of -10.0% lagging the -7.6% return from the benchmark over the year. During the year exposure to some of the more cyclical, global trade exposed names was reduced in favour of companies that combine long-term growth opportunities with more defensive qualities.

Our Emerging Market strategy dropped 5.3% over the year but this was less than the 8.9% loss from the benchmark index. Rising interest rates and ongoing strength in the US dollar, combined with some specific issues in areas such as Turkey and Argentina led to a poor year for Emerging Market assets. Turkey suffered a currency crisis and the Argentine peso fell by over 50%. In addition, trade tensions harmed sentiment. President Trump again demonstrated that he should be taken literally in terms of his pre-election pledges and set out to take on China on global trade practices. Through a series of escalating steps on trade tariffs designed to 'protect' US jobs and interests, the President raised alarm over potential disruption to global supply chains and corporate profitability.

Investment portfolio strategies attribution in Sterling						
		1 year %		3 years %		5 years %
Region	Return	Index return	Return	Index return	Return	Index return
North America	4.7	0.8	55.1	50.4	101.5	89.5
Europe inc UK(1)	(15.1)	(9.9)	15.6	26.4	26.2	34.0
Japan	(10.0)	(7.6)	31.4	29.7	66.8	56.7
Emerging Markets	(5.3)	(8.9)	50.8	52.6	47.8	43.8
Global Strategies(2)	(4.0)	(3.4)	43.7	42.4	-	-
Private Equity	19.7	-	58.0	-	111.7	-

The Company's benchmark is the FTSE All-World Index whereas for the purposes of this table the relevant regional sub-indices are used for comparison, except in the case of Emerging Markets where the MSCI Emerging Markets Index is used.
(1) Performance prior to 30 June 2018 represents Europe ex UK.
(2) The Global Strategies consist of Global Income, Global Multi-Manager and Global Smaller Companies and have been in existence for less than five years.
Source: BMO GAM

Private Equity portfolio		Commitment outstanding 31 December 2018 £'000s	Value of holding 31 December 2018 £'000s
Total Private Equity portfolio(1)	Brought forward	69,354	225,294
Committed in 2018(2)		198,352	-
Cash drawn in 2018(2)		(68,392)	68,392
Cash returned in 2018(2)		-	(69,088)
Valuation movements(3)		-	33,422
Exchange movements		3,227	8,544
Total Private Equity portfolio(3)	Carried forward	202,541	266,564

(1) At exchange rates ruling at 31 December 2017
(2) At actual exchange rates in 2018
(3) At exchange rates ruling at 31 December 2018
Source: BMO GAM

In relation to our Emerging Markets holdings, exposures in Mexico, Hong Kong/China, South Africa and Malaysia added most value while security selection in Russia, a lack of exposure in Brazil and our holding in Vietnam cost most relative performance. Our Emerging Markets strategy had little exposure to large Chinese technology stocks which, after an extraordinary run up in 2017, corrected heavily in 2018.

Our combined Global Strategies slightly underperformed the benchmark over the year, falling by 4.0%. By the end of the year this area of the portfolio contained an Income Strategy and an allocation to Global Smaller Companies. While our Global Smaller strategy performed better than index comparators this segment lagged larger capitalisation stocks and so was detrimental to our returns.

Portfolio Activity

Asset allocation changes were relatively modest though we adjusted exposure to some of our underlying strategies over the year. We have no domestic bias to the portfolio and therefore, as noted in recent years, our UK equity exposure has been reduced to historically low levels as part of a specific strategic move. Reflecting the reduced importance of UK listed stocks in our portfolio (which do typically have global exposure anyway), we merged our UK and European strategies into a combined pan-European approach.

A low allocation to UK equities has been beneficial to our portfolio returns in recent years from a stockmarket and currency perspective and there will be sensitivity to future movements in sterling. The outlook is partly dependent on how Brexit unfolds. A decline in

sterling would be a boost to our portfolio returns and, while perhaps in response to concerns over Brexit, this would likely be beneficial for the value of our overseas holdings. Conversely, a rise in sterling would serve to depress portfolio returns, even if associated with market friendly news on Brexit. We decided, therefore, to hedge some of our overseas exposure by buying £100m of sterling as highlighted under Principal Risk action on page 21 as, in the event that sterling rises sharply, this would help to mitigate losses on our overseas holdings arising from currency appreciation. We will continue to monitor the appropriate size of the hedge.

Within the global component of our portfolio we divested from our global multi-manager allocation, largely redeploying the capital towards the US and global smaller companies, while also raising cash to pay off a short-term loan. We funded a US growth strategy, managed by BMO GAM in Chicago, which will complement our existing manager in the US, T Rowe Price and also added to a value strategy, also managed by BMO. These moves had the effect of reducing our exposure to third party funds and has the added benefit of reducing our overall cost ratio.

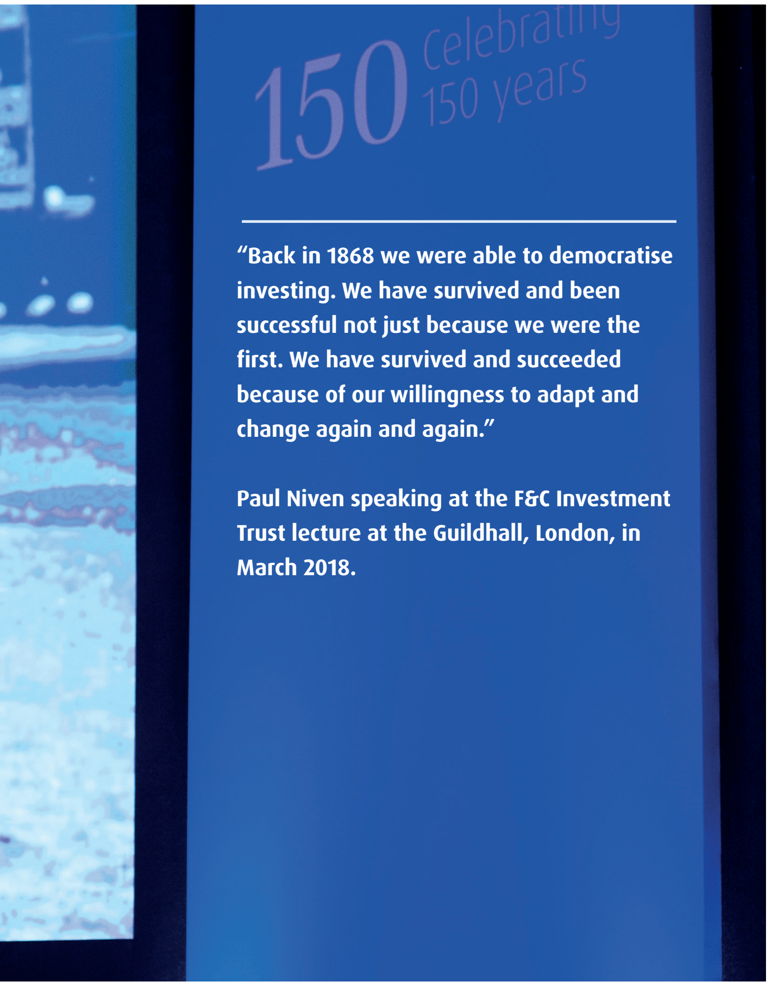
We made £198.4m of new commitments to Private Equity investments in 2018 and realised £69.1m of cashflow returned from existing investments. Our exposure to Pantheon and HarbourVest now comprises only 4.3% of the overall portfolio exposure.

Revenue Returns

While capital gains were negative in 2018 it was another good year for our income. We remain focused on balancing our approach such that we can deliver across these twin objectives over the longer term. Our gross income grew by 11.2% over the year and our net income per share gained by 9.8% for the full year from 11.67 pence per share to 12.81 pence per share. We benefited from £3.9m of special dividends over the year, up from the £2.7m received in 2017. There has been little net impact of exchange rate movements in the year on income.

Gearing

Our gearing was 6.6% of net assets at the end of the year, down modestly from the 7.2% level at the start of the year. In a year of declining markets our gearing was a -0.4% detractor from our NAV returns.



"Back in 1868 we were able to democratise investing. We have survived and been successful not just because we were the first. We have survived and succeeded because of our willingness to adapt and change again and again."

Paul Niven speaking at the F&C Investment Trust lecture at the Guildhall, London, in March 2018.

We have a mix of short, medium and longer term borrowing arrangements and during the year took advantage of low long-term borrowing rates to undertake another private placement, borrowing £75m for 30 years at an annual rate of 2.92%. In aggregate, our total borrowings at the end of 2018 were £325.2m and we paid an average blended rate of 2.85% across all of our debt.

Current market perspective

There are challenges for markets as we enter 2019 and we have factored this into our risk monitoring as noted on page 20. Rising interest rates and the exit and reversal of accommodative monetary policy by central banks was always likely to create greater volatility but many other issues are troubling investors. Trade tensions, rising stress in peripheral Europe as well as rising populism are all reasons for caution. Nonetheless, the greatest challenge for equity markets in coming years will likely be driven by the direction of the US and global economy. There are now some troubling market signs that growth rates are slowing and that the long economic cycle is in its final stages.

An economic and earnings downturn remains the most significant risk for equity investors. Indeed, while markets have begun to display concern of slowdown they are yet to fully embrace the risk of a serious decline in prospects for corporate earnings. However, recession is neither imminent nor inevitable, as many investors fear. If the cycle can extend further then growth in earnings should prove supportive for equities.

Aside from the near-term outlook for macro and markets there is little doubt that 2018 represented a transition period for investors from one where supportive policy helped to fuel the long bull market to an environment with more risks without (necessarily) a commensurate increase in rewards. This upturn in volatility is likely to persist, even if markets do grind higher.

In the UK negotiations over Brexit are reaching a crescendo. Many scenarios are possible, including a cliff-edge departure, some form of deal, a second referendum, a general election, a crisis-induced National Government or even the unilateral revoking of Article 50. There is unlikely to be near term clarity and UK equities can therefore be expected to continue to be priced at a discount for the foreseeable future, reflecting the extraordinary levels of uncertainty.

Conclusion

Our ability to invest with a long-term perspective while taking advantage of short-term opportunities has served shareholders well over our history. In our assessment, the next twelve months are unlikely to see the end of the growth cycle for the global economy or for corporate earnings. Globally, markets have essentially priced in the numerous risks to growth. A bullish earnings and growth outturn in 2018, combined with falling equity prices has resulted in materially lower forward-looking valuation measures on equities. There is little doubt that the earnings growth in the coming year will be lower than that seen in 2018 but it should remain supportive for investors.

Longer term, disruptive trends across and within industries are accelerating and a small number of companies are emerging as dominant market players. Future leaders and growth opportunities may not be the present incumbents and, given the pace and extent of change, investors need to look across a wide opportunity set in both listed and unlisted markets. In addition, as we have seen many times before, while disruptive trends give rise to real societal, economic and corporate change (and benefits) they can also give rise to market mispricing of both the perceived winners and losers. For this reason, we continue to adopt a flexible and diversified approach to investment.

Paul Niven
Fund Manager
11 March 2019

Twenty Largest Listed Equity Holdings

1. Amazon.com (1)

US Listed e-commerce and cloud computing company. Largest listed internet retailer in the world based on market capitalisation.

2.11% Total investments
£78.3m Value

2. Microsoft (2)

US listed technology company focused on software products and cloud computing. The company also designs and sells hardware devices.

1.78% Total investments
£66.0m Value

3. Alphabet (3)

US listed parent company of Google. Google's primary business is focused on internet related services and products, including its internet search engine and its Android smartphone operating system.

1.31% Total investments
£48.7m Value

4. UnitedHealth (4)

US listed company offering healthcare products and insurance services. One of the largest healthcare companies in the world by revenue.

1.22% Total investments
£45.5m Value

5. Anthem (8)

US listed health benefits and insurance company providing health, dental, vision and pharmacy services across employer, individual and Medicaid/Medicare markets in the US.

1.10% Total investments
£40.9m Value

6. Pfizer (21)

US listed pharmaceutical company operating worldwide. One of the world's largest research based pharmaceutical firms and offers medicines, vaccines and medical devices across a broad range of therapeutic areas.

0.91% Total investments
£33.7m Value

7. Boeing (37)

US listed and the largest aerospace company in the world. Boeing manufactures commercial aircraft, defence, space and security systems and offers support services.

0.82% Total investments
£30.6m Value

8. JPMorgan Chase (10)

US listed bank and financial services company with a significant asset management and custody business.

0.82% Total investments
£30.4m Value

9. Novo Nordisk (26)

Denmark listed pharmaceutical company operating worldwide. Develops, produces and markets healthcare products and educational and training materials with a focus on diabetes related medicines and devices.

0.79% Total investments
£29.5m Value

10. Visa (23)

US listed financial services company operating a worldwide retail electronic payments network as well as offering credit and debit cards and internet payment systems.

0.78% Total investments
£29.1m Value

The value of the twenty largest listed equity holdings represents 18.7% (2017: 16.20%) of the Company's total investments.
The figures in brackets denote the position within the portfolio at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2018 was £nil or 0.0% of total assets less current liabilities (2017: £896,000 or 0.0% of total assets less current liabilities).
These are the largest listed equity holdings excluding collective investment schemes. If the whole portfolio was considered then PE Investment Holdings 2018 LP (£62.0m), Syncona (£27.1m), Utilico Emerging Markets (£25.2m) and Pantheon Europe VA LP (£23.5m) would have been included in the list.
The Company's full list of investments exceeds 450 and is published monthly on the website at fandcit.com. Copies are also available on request from the Secretary.

11. Lowe (22)

US listed home improvement retailer distributing building supplies and materials through its stores across the US.

0.78% Total investments
£28.9m Value

12. Facebook (5)

US listed operator of social media sites and social networking services.

0.78% Total investments
£28.9m Value

13. Comcast (35)

US listed provider of media and television broadcasting services. The company also offers video streaming, television programming, Internet and communication services to customers worldwide.

0.78% Total investments
£28.8m Value

14. Dollar General (64)

US listed operator of discount retail stores across primarily the southern, southwestern, midwestern and eastern US. It offers a broad range of merchandise including both consumables and non-consumables.

0.74% Total investments
£27.6m Value

15. Chevron (44)

US listed integrated energy company producing and transporting crude oil and natural gas worldwide. The company also has interests in chemical and mining operations, fuel refining and distribution and other power and energy services.

0.69% Total investments
£25.7m Value

16. Mastercard (52)

US listed financial services company providing financial transaction procession services worldwide.

0.64% Total investments
£23.9m Value

17. Apple (11)

US listed technology company predominantly involved in design, development and sale of consumer electronics and software worldwide.

0.63% Total investments
£23.4m Value

18. CVS (77)

US listed pharmacy healthcare provider offering pharmacy services as well as operating retail and specialty drugstores predominantly across the US.

0.62% Total investments
£23.0m Value

19. GlaxoSmithKline (138)

UK listed pharmaceutical company with a focus on research. The company is one of the largest pharmaceutical firms worldwide and develops, produces and markets a broad range of medicines including vaccines, prescription and over-the-counter products to a global market.

0.59% Total investments **£22.1m** Value

20. Booking Holdings* (18)

US listed Company that, through its websites, acts as an intermediary for travel related purchases.

0.59% Total investments
£21.9m Value

* Previously called Priceline

On behalf of the Board, Simon Fraser, Chairman, 11 March 2019

Directors

Simon Fraser[2], **Chairman.** Appointed to the Board on 22 September 2009 and as Chairman in May 2010. He also chairs the Nomination Committee and the Management Engagement Committee. He is also Chairman of the Investor Forum, an investor led organisation established for the purpose of improving long-term returns from investment through collective shareholder engagement. Most of his career was at Fidelity International, where he started as an analyst and spent a number of years in Japan, latterly as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. He is also Chairman of The Merchants Trust PLC, Fidelity Funds (Luxembourg) and McInroy and Wood.

Sarah Arkle[1] Appointed to the Board on 2 March 2011. She was Vice Chairman of Threadneedle where she was Chief Investment Officer for ten years until her retirement at the end of December 2010. She was instrumental in establishing Threadneedle's investment process and recruiting a number of the firm's senior fund managers. In 1983 Sarah moved from stockbroker WI Carr to become a Far East Equity Manager and subsequently became a director at Allied Dunbar Asset Management, which became part of Threadneedle in May 1994. She is Chairman of JPMorgan Emerging Markets Investment Trust PLC.

Sir Roger Bone KCMG[1] [2], **Senior Independent Director.** Appointed to the Board on 6 March 2008. He was president of Boeing UK from 2005 to 2014. In earlier years he served as British Ambassador to Brazil from 1999 to 2004 and to Sweden from 1995 to 1999. He was an Assistant Under-Secretary of State in the Foreign and Commonwealth Office between 1991 and 1995, head of the Economic Relations Department there from 1989 to 1991 and Political Counsellor at the British Embassy in Washington DC from 1985 to 1989. He was a visiting fellow at Harvard University in 1984/85 and served as a private secretary to the Foreign Secretary between 1982 and 1984. He was one of the Prime Minister's honorary ambassadors for British business from 2010 to 2015. He is a non-executive director of ITM Power plc, and is also Chairman of Over-c-ltd, a small high-tech company in the telecoms sector.

Beatrice Hollond[1] Appointed to the Board on 1 September 2017. Beatrice spent 16 years at Credit Suisse Asset Management in Global Fixed Income and began her career as an equity analyst at Morgan Grenfell Asset Management. She is Chairman at Millbank Financial Services Limited and a member of the Board of Brown Advisory. Beatrice also holds non-executive directorships at Telecom Plus PLC, M&G Group Limited and Templeton Emerging Markets Investment Trust PLC, where she is Senior Independent Director. She is also Senior Independent Director and Chairman of the Audit Committee at Henderson Smaller Companies Investment Trust PLC.

Francesca Ecsery[2] Joined the Board on 1 August 2013. Francesca has extensive expertise in marketing, with over 25 years of experience in senior director roles, with both blue chip and start-up companies. She has worked across a broad range of consumer industries and previously held the role of Global Business Development Director at Cheapflights Media. She also held senior executive roles with STA travel, the Thomas Cook Group and Thorn EMI plc and is currently a non-executive director of Share Plc, Marshall Motor Holdings plc and Air France.

Jeffrey Hewitt[1], Chairman of the Audit Committee. Appointed on 15 September 2010 and as Chairman of the Audit Committee in November 2011. He was the Group Finance Director of Electrocomponents plc from 1996 to 2005 and Deputy Chairman from 2000 to 2005. Prior to that, he was the Finance Director of Unitech plc from 1991 to 1996. Between 1981 and 1991 he held directorships successively with Carrington Viyella, Vantona Viyella and Coats Viyella (where he was Group Strategy Director). He started his career with Arthur Andersen where he qualified as a chartered accountant, following which he spent seven years with The Boston Consulting Group. He is also acting Chairman of Cenkos Securities plc and Chairman of Electrocomponents Pension Trustees.

(1) Members of the Audit Committee
(2) Members of the Nomination Committee
All the Directors are members of the Management Engagement Committee
No Director has a shared directorship elsewhere with other Directors.

Edward Knapp[1] Appointed to the Board on 25 July 2016, Edward brings a combination of general management and operational experience worldwide, with expertise in the digital transformation of large scale organisations, Risk, Strategy and Cyber Security. He is Senior Advisor to the board of a global financial technology company. Prior to that he was a Managing Director at HSBC, where he was a Chief Operating Officer and Global Head of Business Management within the Technology function. He was a Chief Operating Officer and Head of Business Management at Barclays Bank within the Global Risk Function. Until 2012 he was at McKinsey & Company, providing extensive board and executive-level advisory to clients worldwide, focusing on banking operations, strategy, value creation and risk management and technology.

Nicholas Moakes[2] Appointed to the Board on 2 March 2011. He is a Managing Partner and Chief Investment Officer of the Investment Division at The Wellcome Trust. He was Head of the Asia Pacific investment team and Co-Head of Emerging Markets at BlackRock Investment Management until 2007. He has 25 years' experience of global equity markets and extensive experience of investing in private equity. Prior to joining BlackRock in 1997 he lived in Hong Kong for nine years, and is a Chinese speaker. He started his career in the Diplomatic Service, where he specialised in Hong Kong and China. He is Senior Independent Director of Jupiter Emerging & Frontier Income Trust PLC.

Directors' Report

The Directors submit the Report and Accounts of the Company for the year ended 31 December 2018. The Directors' biographies, Corporate Governance Statement; the Reports of the Management Engagement, Nomination and Audit Committees; and the Remuneration Report all form part of this Directors' Report.

Statement regarding Report and Accounts

The Directors consider that, following advice from the Audit Committee, the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit Committee had reviewed the draft Report and Accounts for the purpose of this assessment having also put in place, as explained on page 50, an arm's length process to provide additional comfort to the Directors in making this statement. The market outlook for the Company can be found on page 27. Principal Risks can be found on page 20 with further information in note 25 on the Accounts. There are no instances where the Company is required to make disclosures in respect of Listing Rule 9.8.4R other than in respect of Listing Rule 9.8.4(7)R concerning the issue of shares which is on page 33.

Results and dividends

The results for the year are set out in the attached accounts. The three interim dividends totalling 8.20 pence per share, together with the final dividend of 2.80 pence per share, which will be paid on 8 May 2019 to shareholders registered on 5 April 2019 subject to approval at the AGM (**Resolution 3**), will bring the total dividend for the year to 11.00 pence per share. This represents an increase of 5.8% over the comparable 10.40 pence per share paid in respect of the previous year.

Company status

The Company is a public limited company and an investment company as defined by section 833 of the Act. The Company is registered in England and Wales with company registration number 12901 and is subject to the Financial Conduct Authority's ("**FCA**") Listing Rules, UK and European legislation and regulations including company law, financial reporting standards, taxation law and its own articles of association.

Change of Name

At the annual general meeting in 2018, shareholders voted in favour of an amendment to the Company's articles of association to enable the Directors to change the corporate name from Foreign & Colonial Investment Trust PLC to F&C Investment Trust PLC. The Directors implemented this change on 9 November 2018. The Company's London Stock Exchange TIDM code ("ticker") also changed from FRCL to FCIT.

Taxation

As set out on page 17 and in note 7 on the Accounts, the Company is exempt from UK Corporation Tax on its worldwide dividend income and from UK Corporation Tax on any capital gains arising from the portfolio of investments, provided it complies at all times with Section 1158. Dividends received from investee companies domiciled outside the UK are subject to taxation in those countries in accordance with relevant double taxation treaties.

Prevention of the facilitation of tax evasion

The Board is committed to compliance with the UK's Criminal Finances Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates. The policy is based on a risk assessment undertaken by the Board and professional advice is sought as and when deemed necessary.

Accounting and going concern

The Financial Statements, starting on page 60, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the Financial Statements appears on page 53. Shareholders will be asked to approve the adoption of the Report and Accounts at the AGM (**Resolution 1**).

As discussed in note 24 on the Accounts, the Directors believe that, in light of the controls and monitoring processes that are in place, the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. Accordingly, it is reasonable for the financial statements to continue to be prepared on a going concern basis. The Company's longer term viability is considered in the "Ten Year Horizon" Statement on page 21.

Statement as to disclosure of information to the auditors

Each of the Directors confirms that, to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which Ernst & Young LLP ("**EY**" or the "**auditors**") is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that EY is aware of that information.

Reappointment of auditors

EY have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their reappointment and authorising the Audit Committee to determine their remuneration for the ensuing year will be put to shareholders at the AGM (**Resolutions 12 and 13**). Further information in relation to the reappointment can be found on page 50.

Capital structure

As at 31 December 2018 there were 561,819,016 ordinary shares of 25 pence each ("**ordinary shares**") in issue of which 19,538,304 were held in treasury. As at 6 March 2019 (being the latest practicable date before publication of this report) the number of shares in issue remained as 561,819,016 while the number held in treasury was 18,138,304.

All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 17 on the Accounts. The revenue profits of the Company (including accumulated revenue reserves), together with the realised capital profits of the Company, are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares. Full details are set out in the Company's articles of association.

Issue and buyback of shares

Subject to annual shareholder approval, the Company may purchase up to 14.99% of its own issued ordinary shares, (excluding any shares held in treasury) at a discount to NAV per share. The shares bought back can either be cancelled or held in treasury to be sold as and when the share price is at a premium. Shareholders renewed the Board's authority to make such purchases at the annual general meeting held on 23 April 2018. No shares were bought back during the year under review or since the year end to the date of this report.

Also at the annual general meeting held on 23 April 2018, shareholders authorised the Board to issue further ordinary shares or sell from treasury up to 5% of the number then in issue. On one occasion during the year, to satisfy demand, the Company sold from treasury 100,000 shares with a nominal value of £25,000 to JPMorgan Cazenove at a price of 667.5 pence for a total consideration of £667,500 before the deduction of issue costs. A further 1,400,000 shares were sold from treasury to the same entity between the date of the year end and 6 March 2019 (being the latest practicable date before publication of this report) at an average price of 666.0 pence.

Voting rights and proportional voting

At 6 March 2019 the Company's 561,819,016 ordinary shares in issue less the 18,138,304 shares held in treasury represented a total of 543,680,712 voting rights. As at 31 December 2018 and since that date no notifications of significant voting rights have been received under the FCA's Disclosure Guidance and Transparency Rules.

Approximately 45% of the Company's share capital is held on behalf of non-discretionary clients through the BMO savings plans. For those planholders who do not return their voting directions, the nominee company will vote their shares in proportion to those who do ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 610,000 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

The Company has a number of borrowing facilities and has in issue fixed rate senior unsecured private placement notes (the "**Notes**"). These include Notes of £75 million principal under a 30-year term issued on 24 May 2018. There is also a multi-currency overdraft facility with JPMorgan Chase Bank and the Company also has a perpetual debenture stock. Further reference is made on page 26 and in notes 13, 15 and 16 on the accounts.

Remuneration report

At the annual general meeting held on 23 April 2018, shareholders approved the Directors' remuneration policy. It is intended that this policy will continue for the three-year period ending at the annual general meeting in 2020, when shareholders will next be asked for their approval. The policy can be found on page 44. The Remuneration Report, which can be found on pages 44 to 46, provides detailed information on the remuneration arrangements for the Directors. Shareholders will be asked to approve the report at the AGM. (**Resolution 2**).

Director re-elections

The biographies of the Directors are set out on pages 30 and 31 and are incorporated into this report by reference. The skills and experience each Director brings to the Board for the long-term sustainable success of the Company are set out below. All the Directors held office throughout the year under review and will stand for re-election by shareholders at the meeting in accordance with the requirements of the UK Code as defined on page 12.

- **Resolution 4** relates to the re-election of Sarah Arkle who was appointed on 2 March 2011 and brings in-depth knowledge, expertise and experience in investment management as well as leadership skills, most notably from her time as Chief Investment Officer at Threadneedle Asset Management and as chairman of another investment trust.

- **Resolution 5** relates to the re-election of Sir Roger Bone who was appointed on 6 March 2008 and has therefore served for more than nine years. He brings a wider business perspective to the Board both from his current and recent business roles and from his distinguished career as a diplomat. As Senior Independent Director, he is leading the succession planning process with the Nomination Committee to ensure the smooth transition of the chairmanship.

- **Resolution 6** relates to the re-election of Francesca Ecsery who was appointed on 1 August 2013 and has special expertise in multi-platform consumer marketing, branding and commercial strategies which deliver growth and profits. She provides guidance to the Manager's marketing team in establishing the necessary infrastructure and initiatives for the effective delivery of the Company's investment proposition and access to its shares.

- **Resolution 7** relates to the re-election of Simon Fraser who was appointed on 22 September 2009. He brings leadership and much in-depth knowledge, expertise and experience in investment management at a senior level. Much of his career was as Chief Investment Officer at Fidelity International. He is founding chairman of the Investor Forum, which provides a platform for institutional investors to collectively engage with UK listed companies on long-term strategic issues. He has stated his intention to retire from the Board during the year.

- **Resolution 8** relates to the re-election of Jeffrey Hewitt who was appointed on 15 September 2010 and has a strong accounting and financial background. He held a number of senior roles and is an advocate of continuous improvement in the quality of corporate reporting.

- **Resolution 9** relates to the re-election of Beatrice Hollond who was appointed on 1 September 2017. She brings in-depth investment knowledge, expertise, experience in regard to both equities and global fixed income. She also brings leadership skills from her time as Managing Director of Credit Suisse Asset Management, LLC and from her other non-executive director and chairmanship roles.

- **Resolution 10** relates to the re-election of Edward Knapp who was appointed on 25 July 2016 and has extensive and ongoing experience in risk, strategy and cyber security. His current role is as an adviser to the board of a global financial technology company and has recently worked at senior level within large banking organisations.

- **Resolution 11** relates to the re-election of Nicholas Moakes who was appointed on 2 March 2011. He is Managing Partner and Chief Investment Officer at The Wellcome Trust with extensive investment knowledge, expertise and experience in global equity markets and private equity. Until recently, he was a director of the Investor Forum, which provides a platform for institutional investors to collectively engage with UK listed companies on long-term strategic issues.

The Nomination Committee has considered each Director and the Board has concurred with the Nomination Committee's assessment that each Director is independent, continues to make a valuable and effective contribution and remains committed in the role.

Directors' interests and indemnification

There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The Company has granted a deed of indemnity to the Directors in respect of liabilities that may attach to them in their capacity as Directors of the Company. This covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. This deed of indemnity is a qualifying third-party provision (as defined by section 234 of the Act) and has been in force throughout the period under review and remains in place as at the date of this report. It is available for inspection at the Company's registered office during normal business hours and at the AGM. The Company also maintains directors' and officers' liability insurance.

Safe custody of assets

The Company's listed investments are held in safe custody by JPMorgan Chase Bank (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager via BMO GAM in accordance with the provisions of the investment management agreement. The Custodian is paid a variable fee dependent on the number of trades transacted and location of the securities held.

Depositary

JPMorgan Europe Limited (the "**Depositary**") acts as the Company's Depositary in accordance with the Alternative Investment Fund Managers Directive ("**AIFMD**"). The Depositary's responsibilities, which are set out in an Investor Disclosure Document on the Company's website, include: cash monitoring; ensuring the proper segregation and safe keeping of the Company's financial instruments that are held by the Custodian; and monitoring the Company's compliance with investment and leverage limits requirements. The Depositary receives for its services a fee of one basis point per annum on the first £1 billion of the Company's net assets and 0.25 basis points per annum on net assets in excess of that amount, payable monthly in arrears.

Although the Depositary has delegated the safekeeping of all assets held within the Company's investment portfolio to the Custodian, in the event of loss of those assets that constitute financial instruments under the AIFMD, the Depositary will be obliged to return to the Company financial instruments of an identical type, or the corresponding amount of money, unless it can demonstrate that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

Management fees

Information on the management fees payable by the Company is set out in the Chairman's Statement on page 5 and Report of the Management Engagement Committee on page 41.

AGM

The AGM will be held at Merchants Taylors Hall, 30 Threadneedle Street, London, EC2 on Thursday, 2 May 2019 at 12 noon. The Notice of Meeting appears on pages 88 to 89 and includes a map of the venue. The Fund Manager will give a presentation and there will be an opportunity to ask questions during the meeting. Shareholders will be able to meet the Directors informally over refreshments afterwards.

Authority to allot shares and sell shares from treasury (Resolutions 14 and 15)

By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash or selling shares out of treasury, without first offering them to existing shareholders in proportion to their holdings.

Resolution 14 gives the Directors the necessary authority to allot securities up to an aggregate nominal amount of £6.7m, (27.1m ordinary shares), being equivalent to approximately 5% of the Company's current issued share capital (calculated exclusive of any shares held by the Company in treasury) as at 6 March 2019, being the latest practicable date before the publication of the notice of the AGM. The authority and power expires at the conclusion of the annual general meeting in 2020 or on 30 June 2020, whichever is the earlier.

Resolution 15 empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro rata basis and also to sell treasury shares without first offering them to existing shareholders in proportion to their holdings up to an aggregate nominal amount also of £6.7m (representing approximately 5% of the issued ordinary share capital of the Company at 6 March 2019, calculated exclusive of any shares held in treasury).

These authorities provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares or the sale of treasury shares, in accordance with the policies set out on page 17 or should any other favourable opportunities arise to the advantage of shareholders.

The Directors anticipate that they will mainly use them to satisfy demand from participants in the BMO Savings Plans when they believe it is advantageous to such participants and the Company's shareholders to do so. Under no circumstances would the Directors use them to issue shares or sell treasury shares at a price which would result in a dilution of NAV per ordinary share.

Authority for the Company to purchase its own shares (Resolution 16)

At the annual general meeting held in 2018 the Company was authorised to purchase approximately 14.99% of its own shares for cancellation or to be held in treasury. The number of shares remaining under that authority as at 31 December 2018 was 81,270,000 shares or 14.99% of the issued share capital exclusive of the number of shares held in treasury. Resolution 16 will authorise the renewal of such authority enabling the Company to purchase in the market up to a maximum of 81,270,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital exclusive of treasury shares) and the minimum and maximum prices at which they may be bought exclusive of expenses, reflecting requirements of the Act and the Listing Rules.

The Directors will continue to use this authority in accordance with the policy set out on page 17. Under the Act, the Company is allowed to hold its own shares in treasury following a buyback, instead of having to cancel them. This gives the Company the ability to reissue treasury shares quickly and cost-effectively (including pursuant to the authority under Resolution 15, see above) and provides the Company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the Board exercises the authority conferred by Resolution 16, the Company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue. Purchases of ordinary shares under the authority will be financed out of realised revenue and/or capital reserves and funded from the Company's own cash resources or, if appropriate, from short-term borrowings. The authority to purchase ordinary shares will continue until the annual general meeting in 2020 or on 30 June 2020, whichever is the earlier. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Form of proxy for AGM voting

If you are a registered shareholder you will find enclosed a form of proxy for use at the AGM. You will also have the option of lodging your proxy vote using the Internet. For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Please either complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions or, alternatively, lodge your proxy vote via the Internet or the CREST proxy voting system, whether or not you intend to be present at the AGM. This will not preclude you from attending and voting in person if you so wish.

All proxy appointments should in any event be returned or lodged so as to be received not later than 48 hours before the time appointed for holding the AGM.

Form of direction and proportional voting

If you are an investor in any of the BMO Savings Plans, you will have received a form of direction for use at the AGM and you will also have the option of lodging your voting directions using the Internet. BMO operates a proportional voting arrangement, which is explained on page 33.

All voting directions should be made as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 12 noon on 25 April 2019, so that the nominee company can submit a form of proxy before the 48 hour period begins.

Voting recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board
BMO Investment Business Limited
Secretary
11 March 2019

Corporate Governance Statement

Introduction

The Board has considered and supports the principles and recommendations of the UK Code published in 2016 and has also adopted key aspects of the revised version published in 2018. The Board believes that the Company has applied the principles and has complied with the 2016 UK Code during the period under review and up to the date of this report except as set out below. The UK Code includes provisions relating to:

- the role of the Chief Executive;
- executive directors' remuneration; and
- the need for an internal audit function.

The Board considers these provisions as not being relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day to day management and administrative functions have been delegated to the Manager. As a result, the Company has no executive directors, employees or internal operations. Therefore, with the exception of the need for an internal audit function, which is addressed on pages 48 and 49, the Company has not reported further in respects of these provisions.

The Board is also adhering to the principles and recommendations of the AIC Code of Corporate Governance (the "**AIC Code**") published in 2016 and has had regard to the latest version published in February 2019. The latest version of the AIC Code includes a significant departure from that of the UK Code, namely the removal of the nine year limit on chair tenure and the need for disclosure of the tenure policy in relation to that role. As noted on pages 38 and 43, Simon Fraser has served over nine years since appointment to the Board in September 2009 and it was announced in October 2018 that he intends to step down during this year. The search for his replacement is underway. The tenure policy relating to the Directors, including the chair, is set out on page 43.

Copies of the UK Code and AIC Code can be found on their respective websites: www.frc.org.uk and www.theaic.co.uk.

AIFMD

The Company is defined as an Alternative Investment Fund ("**AIF**") under the AIFMD issued by the European Parliament, and which has been implemented into UK law. This requires that all AIFs must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**"). The Board remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Manager is the Company's AIFM.

Articles of association

The Company's articles of association may only be amended by special resolution at a general meeting of shareholders.

The Board

The Board's responsibilities are outlined on page 52. More specifically, the Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision. These are categorised under strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, policies (set out on pages 12, 16 and 17) and corporate governance matters which are all reviewed regularly.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Fund Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has the right of veto over the appointment of sub-managers recommended by the Fund Manager. The Board has responsibility for the approval of all investments in in-house funds managed or advised by BMO GAM and any unlisted investments with the exception of new private equity investments, responsibility for which has been delegated to BMO GAM. The following table sets out the Directors' meeting attendance in 2018. The Board held a separate meeting in September 2018 to consider strategic issues and also met regularly in private session during the year, without any representation from the Manager.

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings.

Directors' attendance in 2018

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
No. of meetings	**8**	**4**	**3**	**1**
Simon Fraser*†	8	4	1	1
Sarah Arkle	8	4	n/a	1
Sir Roger Bone	8	4	3	1
Francesca Ecsery	8	n/a	3	1
Jeffrey Hewitt	8	4	n/a	1
Beatrice Hollond	8	4	n/a	1
Edward Knapp	8	4	n/a	1
Nicholas Moakes	8	n/a	3	1

*Attends but is not a member of the Audit Committee
† Two meetings of the Nomination Committee concerned the reappointment of the Chairman, which he did not attend.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the investment management agreement. The powers of the Board relating to the buying back or issuance of the Company's shares are explained on pages 17, 35 and 36.

Appointments

Under the articles of association of the Company, the number of Directors on the Board may be no more than fifteen. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next annual general meeting and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars. All the other Directors stand for re-election by shareholders annually.

Board effectiveness

The 2018 annual appraisal of the Board, the committees and the individual Directors has been carried out by the Chairman. This built on the objectives identified from the external appraisal for 2016 for which the Chairman was supported by independent consultants, the Board Advisory Partnership LLP, and from the objectives set following the internal appraisal in 2017 and during the course of 2018. The process included confidential unattributable one-to-one interviews between the Chairman and each Director. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. The Chairman's report on progress in 2018 was considered by the Board in February 2019 and the status of the objectives set for the current year were reviewed. These include building on the momentum generated and the positive results delivered under the 150th anniversary promotional campaign and implementation of the succession planning necessary for refreshment of the Board over the next few years. The appraisal determined that the Board continues to be effective, with appropriate skills and experience contributed by the Directors, as is the Chairman's leadership of the Board.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of their term of office and may by ordinary resolution appoint another person who is willing to act to be a Director in their place. The provisions under which a Director would automatically cease to be a Director are set out in the articles of association.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of the individual Directors. All the Directors have been assessed by the Board as remaining independent of BMO GAM and of the Company itself; none has a past or current connection with BMO GAM and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement. For these reasons and those set out on page 43, Sir Roger Bone's tenure of 11 years; Simon Fraser's tenure of over nine years; and Jeffrey Hewitt's tenure of nearly nine years are not considered to compromise their independence.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Directors. Limits can be imposed as appropriate.

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought. These authorisations were reviewed in January 2019, and each Director abstained from voting in respect of their own directorships. Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Committees

The Board has established an Audit Committee, Management Engagement Committee and Nomination Committee. The role and responsibilities of these committees are set out in their respective reports. As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a Remuneration Committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Remuneration Report on pages 44 to 46 and in note 5 on the Accounts.

Relations with shareholders and stakeholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly factsheets and general information are available on the Company's website at fandcit.com. A regular dialogue is maintained with the Company's institutional shareholders and with private client asset managers. Shareholders and any stakeholder wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 40.

To mark the 150th anniversary in March 2018, FCIT sponsored an informative lecture at the Guildhall in the City of London given by keynote speakers including bestselling author, Professor Yuval Harari. The lecture also provided the opportunity to hear first-hand from Paul Niven, the Fund Manager, on the history of investing for the last 150 years and Millennials expert Dr Eliza Filby. The audience included shareholders who had engaged with the Board on investment and general issues over recent years.

All correspondence with shareholders on matters of investment policy, responsible investment and governance are submitted to the following Board meeting for consideration. All shareholders have the opportunity to meet and question the Board at the AGM, not only during the course of the meeting but also afterwards with refreshments. Those who attended last year were presented with a book on the history of FCIT published to mark the anniversary.

By order of the Board
BMO Investment Business Limited
Secretary
11 March 2019

Management and Advisers

The Management Company

F&C Investment Trust PLC, or "FCIT", is managed by BMO Investment Business Limited, a wholly-owned subsidiary of BMO Asset Management (Holdings) PLC which is ultimately owned by Bank of Montreal. BMO Investment Business Limited is appointed under an investment management agreement with FCIT, setting out its responsibilities for investment management, administration and marketing. The Manager undertakes ESG matters through BMO Asset Management Limited, which together are defined as BMO Global Asset Management ("**BMO GAM**"). They are both authorised and regulated by the Financial Conduct Authority.

The Manager also acts as the Alternative Investment Fund Manager.

Paul Niven Fund Manager and Head of Multi-Asset Investment and chair of BMO GAM's asset allocation committee. He has extensive experience in managing large diversified investment funds and has managed FCIT since July 2014. He joined in 1996.

Hugh Potter Represents the Manager as Company Secretary and is responsible for FCIT's statutory compliance. He joined BMO GAM in 1982.

Marrack Tonkin Head of Investment Trusts with responsibility for BMO GAM's relationship with FCIT. He joined in 1989.

Sub-managers (North America large and medium cap portfolio)

Barrow, Hanley, Mewhinney & Strauss, LLC – appointed July 2005
T. Rowe Price International Ltd – appointed February 2006

Private Equity funds of funds Managers

HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

Secretary and Company's Registered Office

BMO Investment Business Limited
Exchange House
Primrose Street
London EC2A 2NY

Telephone: 020 7628 8000
Facsimile: 020 7628 8188
Website: fandcit.com
Email: info@bmogam.com

Independent Auditors

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Custodian

JPMorgan Chase Bank
25 Bank Street
Canary Wharf
London E14 5JP

Depositary

JPMorgan Europe Limited
25 Bank Street
Canary Wharf
London E14 5JP

Share Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Telephone: 0800 923 1506
Facsimile: 0870 703 6143

Authorised and regulated in the UK by the Financial Conduct Authority.

New Zealand Share Registrars

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142

Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

Telephone: +64 9 488 8700
Facsimile: +64 9 488 8787

Solicitors

Norton Rose Fulbright LLP
3 More London Riverside
London SE1 2AQ

Stockbrokers

JPMorgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Report of the Management Engagement Committee

Role of the Committee

The primary role of the Management Engagement Committee is to review the investment management agreement and monitor the performance of the Manager for the investment, secretarial, financial, administration, marketing and support services that it provides under that agreement. It also reviews the terms of the agreement including the level and structure of fees payable, the length of notice period and best practice provisions generally. All of the Committee's responsibilities have been carried out over the course of 2018 and 2019 to date.

Composition of the Committee

All the Directors are members of the Committee. Its terms of reference can be found on the website at fandcit.com.

Manager evaluation process

The Committee met once during the year and again in January 2019 for the purpose of the formal evaluation of the Manager's performance (including the contribution from BMO GAM more widely). Its performance is considered by the Board at every meeting, with a formal evaluation by the Committee each year. For the purposes of its ongoing monitoring, the Board receives detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risk, together with quarterly presentations on the BMO GAM managed portfolio strategies. Quarterly updates are received from the US sub-managers. The Board also receives comprehensive performance measurement schedules, provided by Refinitiv Eikon and BMO GAM. These enable it to assess: the success or failure of the management of the total portfolio against the performance objectives set by the Board; the sources of positive and negative contribution to the portfolio in terms of gearing, asset allocation and stock selection; and the performance of each investment portfolio against its local index, where applicable, and the risk/return characteristics. Portfolio performance information, which is relevant in monitoring BMO GAM, the sub-managers and the Private Equity funds of funds managers, is set out on pages 22 to 27.

Manager reappointment

The annual evaluation that took place in January 2019 included presentations from the Fund Manager and BMO GAM's Head of Investment Trusts. This focused primarily on the objectives set by the Board and BMO GAM's contribution towards achieving those objectives particularly in regard to investment strategy and marketing. As part of the evaluation, the CEO of BMO GAM and their Head of Distribution presented to the Board on the strength of its business and the resources and opportunities for BMO GAM as part of the wider Bank of Montreal group of companies and their continued support for its investment trust business. With regard to performance, the share price total return outperformed the benchmark over one, three, five and ten years. The Committee met in closed session following the presentations and concluded that in its opinion the continuing appointment of the Manager on the terms agreed was in the interests of shareholders as a whole. The Board ratified this recommendation.

The Manager's fee

An important responsibility of the Committee is that relating to the management fee. The Manager receives an annual fee, which for the year under review was equal to 0.365% of the market capitalisation of the Company. The fee is calculated and paid monthly and is subject to a reimbursement for amounts earned from investments in other investment vehicles managed by BMO GAM. The amount paid was £13.4m, an increase of 13.6% from £11.8m last year reflecting the increase of the Company's average market capitalisation during the year. Note 4 on the Accounts provides detailed information in relation to the management fee.

Whilst the funds that were held in the Global Multi-Manager portfolio levy management fees, no fees were paid to the Manager for the selection of the funds. No additional fees (beyond the annual fees detailed above) are paid to the Manager for any future commitments made to Private Equity that fall within its remit. The Manager and certain individuals employed by the Manager are, however, entitled to participate in a performance fee arrangement in the form of carried interest over secondary or co-investments made within the Private Equity programme.

Review of the Manager's fee

The fee paid to the Manager is reviewed by the Committee every three years and became due in December 2018. Presentations were given by both BMO GAM and JPMorgan Cazenove, FCIT's stockbroker, which had provided an in-depth analysis of fees prevailing in the market place and trends both within the investment trust industry and more widely. The review also considered the effect of the ad valorem structure and hence the impact of exchange rate movements and share buybacks. The findings of the Committee were that while the existing structure and fee level were both sensible and aligned in the key areas there was scope to put in place a tiered structure. The Committee recommended a fee based on a rate of 0.35% per annum of the market capitalisation of the Company up to £3.0 billion, 0.30% between £3.0 and £4.0 billion, and 0.25% above £4.0 billion. The Board subsequently endorsed the recommendation and the change has taken effect from 1 January 2019.

Third Party Managers' fees

BMO GAM incurs investment management fees from the sub-managers appointed to manage the North America portfolio. The Company reimburses these fees, which in 2018 amounted to £3.7m (2017: £3.3m) (see note 4 on the Accounts). There were no changes in the year to the fee structures.

Private equity funds of funds managers' fees

The fees paid to Private Equity managers in respect of the Private Equity funds of funds amounted to £4.6m for 2018 (2017: £4.5m) (see note 4 on the accounts) all of which was incurred indirectly through the funds. Some of the funds have arrangements whereby these Private Equity managers share in the profits once certain "hurdle" rates of return to investors have been achieved. These arrangements are varied and complex, but are on normal commercial terms within the private equity funds of funds industry. Fees payable by the underlying funds are negotiated by each manager. The arrangements also vary from fund to fund, but management fees of 2% per annum and a 20% carried interest, once an agreed hurdle rate of return for investors has been achieved, would be normal.

Use of the "F&C" name

The Company owns the name "Foreign & Colonial" and BMO GAM owns the name "F&C". For many years the Company had rights to use the "F&C" name in accordance with provisions set out in the management agreement but did not exercise those rights to any meaningful degree. On 9 November 2018 the Company changed its name to F&C Investment Trust PLC and will use increasingly the "F&C" name for marketing purposes. The terms under which the Company can use the "F&C" name are set out in a separate trade mark licence agreement with BMO GAM dated 1 March 2018 which supersedes the provisions within the management agreement. The licence agreement is royalty free subject to there being no material change to the Company's management arrangements with BMO GAM within the next 14 years.

Committee evaluation

The activities of the Management Engagement Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 38. The conclusion from the process was that the Committee was operating effectively, with the right balance of membership and skills.

Simon Fraser
Management Engagement Committee Chairman
11 March 2019

Report of the Nomination Committee

Role of the Committee

The primary role of the Nomination Committee is to review and make recommendations with regard to Board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity and consider succession planning and tenure policy. All of the Committee's responsibilities have been carried out over the course of 2018 and 2019 to date. The Committee met on three occasions during the year and specifically considered, monitored and reviewed the following matters:

- the structure and size of the Board and its composition particularly in terms of succession planning and the experience and skills of the individual Directors and diversity across the Board as a whole;
- tenure policy;
- the criteria for future Board appointments and the methods of recruitment, selection and appointment;
- the recruitment of a new Chairman and the reappointment of those Directors standing for re-election at annual general meetings;
- the need for any changes in committee membership;
- the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;
- the question of each Director's independence prior to publication of the Report and Accounts; and
- the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Act and the policy and procedures established by the Board in relation to these provisions.

Composition of the Committee

Committee membership is disclosed on pages 30 and 31 and its terms of reference can be found on the website at fandcit.com.

Succession planning

No new appointments were made to the Board during the year, but this has been under active consideration. On 31 October 2018 it was announced that I intend to step down as Director and Chairman during the course of 2019. I was appointed in September 2009 as a Non-Executive Director and as Chairman in May 2010 and will have therefore served nine years in that capacity by the time of the AGM. The search for my replacement has begun using an independent search platform, Nurole Limited, the services of which are for the sole purpose of recruiting the eventual appointee; no other business relationship exists with that platform. The search is being led by the Senior Independent Director.

As part of the Board's annual setting of objectives, the implementation of a sequence of other directorate changes is expected to follow the appointment of a new chairman and continue over the next few years. The final decision on appointing new Directors always rests with the Board.

Diversity and tenure

The Board's diversity policy, objective and progress in achieving it are set out on page 17. The search for my replacement as chairman is being undertaken in accordance with this objective and policy with the recruitment process open to a diverse range of candidates by way of advertisement through the search agency platform.

The Board is also of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company or, indeed, its chairman. This is because continuity and experience can add significantly to the strength of the board and where the characteristics and relationships tend to differ from those of other companies. In normal circumstances the Chairman and Directors are expected to serve for a nine-year term, but this may be adjusted for reasons of flexibility and continuity.

Committee evaluation

The activities of the Nomination Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 38. The conclusion from the process was that the Committee was operating effectively, with the right balance of membership, experience and skills.

Simon Fraser
Nomination Committee Chairman
11 March 2019

Remuneration Report

Directors' Remuneration Policy

The Board's policy is to set Directors' remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the Company objective. Time committed to the Company's business and the specific responsibilities of the Chairman, Senior Independent Director, Directors and the chairmen and members of the various committees of the Board and their retention are taken into account. The policy aims to be fair and reasonable in relation to comparable investment trusts and other similar sized financial companies. This includes provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings, including those treated as a benefit in kind subject to tax and national insurance. The policy was approved by shareholders in April 2017 with 93.0% voting in favour and 7.0% against. Other than a letter from one individual shareholder, the Board has not subsequently received any views from shareholders in respect of the levels of Directors' remuneration. It is intended that the policy will continue for the three-year period ending at the annual general meeting in 2020.

The Company's articles of association limit the aggregate fees payable to the Board to a total of £500,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Board considers the level of Directors' fees annually. Towards the end of the year the Chairman carried out a review of fee rates in accordance with the policy. The Board agreed with his recommendation that commencing 1 January 2019, the base fee should be £37,000 representing an increase of 2.8% since the last increase on 1 January 2018. The Board also agreed to the Senior Independent Director's recommendation that an increase be made to the Chairman's fee commensurate with the increase in the base fee; an increase to £74,000. The Board also agreed to the Chairman's recommendation that an additional £1,000 be paid to the Chairman of the Audit Committee bringing the fee for that role to £13,000.

The Board is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. Each new Director is provided with a letter of appointment. There is no provision for compensation for loss of office. The letters of appointment are available for inspection at the Company's registered office during business hours and will be available for 15 minutes before and throughout the forthcoming AGM.

The dates on which each Director was appointed to the Board are set out under their biographies on pages 30 and 31. Under the terms of their respective letters of appointment, each Director's appointment is subject to election at the first annual general meeting and thereafter will continue subject to re-election at each subsequent annual general meeting in accordance with the provisions of the UK Code. The appointment can be terminated on one month's notice. All the Directors were last re-elected at the annual general meeting held on 23 April 2018 and will stand for re-election at the AGM on 2 May 2019.

The fees for specific responsibilities are set out in the table below. No fees are payable for membership of the Management Engagement Committee.

Annual fees for Board Responsibilities

	2019 £'000s	2018 £'000s
Board		
Chairman	74.0	72.0
Senior Independent Director	43.3	42.3
Director	37.0	36.0
Audit Committee		
Chairman	13.0	12.0
Members	5.0	5.0
Nomination Committee		
Chairman	3.0	3.0
Members	3.0	3.0

Directors' shareholdings

The interests of the Directors in the Company's ordinary shares at the beginning and end of the financial year are shown below:

Directors' share interests (audited)

At 31 December	2018	2017
Simon Fraser	37,104	37,004
Sarah Arkle	10,000	10,000
Sir Roger Bone	64,106	61,371
Francesca Ecsery	10,066	8,423
Jeffrey Hewitt	23,577	22,346
Beatrice Hollond	3,500	nil
Edward Knapp	7,788	7,575
Nicholas Moakes	78,624	77,407

The Company's register of Directors' interests contains full details of Directors' shareholdings.

Since the year end, the following Directors have acquired further ordinary shares: Simon Fraser 29, Edward Knapp 45, Sir Roger Bone 560, Jeffrey Hewitt 246, Francesca Ecsery 41 and Nicholas Moakes 315. There have been no changes in any of the other Directors' shareholdings detailed opposite. No Director held any interests in the issued stock or shares of the Company other than as stated above. There is no requirement for the Directors to hold shares in the Company.

As at 6 March 2019 the Fund Manager held 152,301 ordinary shares in the Company.

Policy implementation

The Directors' Remuneration Report is subject to an annual advisory vote and therefore an ordinary resolution for its approval will be put to shareholders at the forthcoming AGM. At the last meeting, shareholders approved the Remuneration Report in respect of the year ended 31 December 2017. 93.0% of votes were cast in favour of the resolution and 7.0% against.

Directors' emoluments for the year

The Directors who served during the year received the following amounts for services as non-executive Directors and can expect to receive the fees indicated for 2019 as well as reimbursement for expenses necessarily incurred.

Fees for services to the Company (audited)

	Fees £'000s (audited)		Taxable Benefits(1) £'000s (audited)		Total £'000s (audited)		Anticipated Fees(2) £'000s
Director	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2019**
Simon Fraser(3)	75.0	73.0	0.0	0.2	75.0	73.2	77.0
Sarah Arkle	41.0	40.0	0.0	0.3	41.0	40.3	42.0
Sir Roger Bone	50.3	49.3	0.0	0.2	50.3	49.5	51.3
Francesca Ecsery(4)	39.0	37.7	0.0	0.2	39.0	37.9	40.0
Jeffrey Hewitt	48.0	46.0	0.9	1.3	48.9	47.3	50.0
Beatrice Hollond(5)	41.0	12.6	0.0	0.0	41.0	12.6	42.0
Edward Knapp	41.0	40.0	0.1	0.1	41.1	40.1	42.0
Nicholas Moakes	39.0	38.0	0.0	0.1	39.0	38.1	40.0
Stephen Burley(6)	n/a	12.7	n/a	0.0	n/a	12.7	n/a
Total	374.3	349.3	1.0	2.4	375.3	351.7	384.3

(1) Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI contributions.
(2) Fees expected to be payable to the Directors during the course of the year ending 31 December 2019. Taxable benefits are also anticipated but are not currently quantifiable
(3) Highest paid Director Mr Fraser has stated his intention to retire during the course of the year. His anticipated fees for 2019 are therefore an indication of those for the role of Chairman, rather than for the individual.
(4) Appointed to the Nomination Committee on 24 January 2017
(5) Appointed to the Board on 1 September 2017 and to the Audit Committee on 30 October 2017
(6) Retired 25 April 2017

The information in the table above for the years 2017 and 2018 has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

The table below is shown to enable shareholders to assess the relative importance of spend on remuneration. It compares the remuneration, excluding taxable benefits, against the shareholder distributions of dividends and share buybacks.

Actual expenditure

	2018 £'000s	2017 £'000s	% Change
Aggregate Directors' Remuneration	374.3	349.3	7.2
Aggregate Dividends paid to Shareholders	58,556	55,260	6.0
Aggregate cost of ordinary shares repurchased*	0	25,661	-100.0

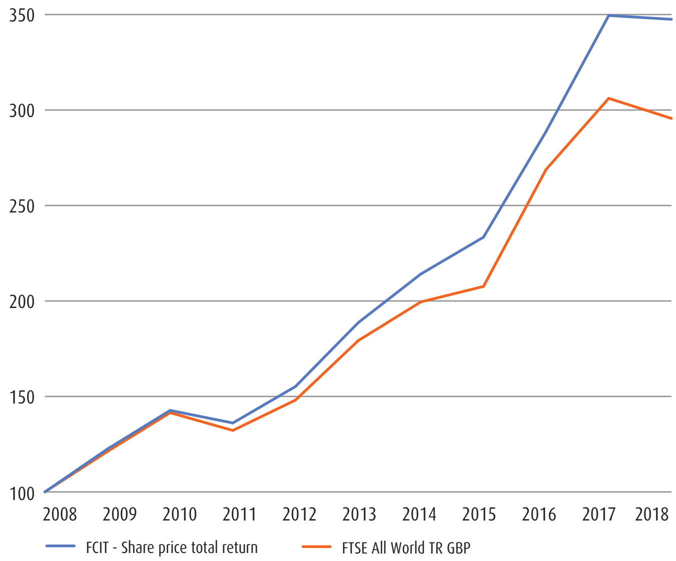
*No shares were repurchased during the year.

Company performance

The Board is responsible for the Company's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Manager. An explanation of the performance of the Company for the year ended 31 December 2018 is given in the Chairman's Statement and Fund Manager's Review.

A comparison of the Company's performance over the required ten-year period is set out on the graph opposite. This shows the total return (assuming all dividends are reinvested) to ordinary shareholders against the Company's benchmark.

Shareholder total return vs benchmark total return over ten years



Source: BMO GAM & Refinitiv Eikon

Annual statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) regulations 2013, it is confirmed that the above Remuneration Report summarises, as applicable, for the year to 31 December 2018:

- The major decisions on Directors' remuneration;
- Any substantial changes relating to Directors' remuneration made during the year; and
- The context in which the changes occurred and decisions have been taken.

On behalf of the Board
Simon Fraser
Chairman
11 March 2019

Report of the Audit Committee

I am pleased to present to you the Report of the Audit Committee for the year ended 31 December 2018. The Report and Accounts have been reviewed particularly in respect of the further requirements relating to the Strategic Report and to the UK Code of Corporate Governance. The Committee has also reviewed the Manager's preparations for new regulations including GDPR and related disclosures. Our focus on cyber-security measures has been maintained.

Role of the Committee

The primary responsibilities of the Audit Committee are to ensure the integrity of the financial reporting and statements of the Company, and to oversee: the preparation and audit of the annual accounts; preparation of the half yearly accounts and the internal control and risk management processes. The Committee met four times during the year with BMO GAM's Trust Accountant, Head of Investment Trusts, Risk Managers of BMO GAM and the Fund Manager in attendance. EY have attended all meetings and have met in private session with the Committee. The Board Chairman was invited to, and regularly attended, Committee meetings.

Specifically, the Committee considered, monitored and reviewed the following matters:

- The audited annual results statement and annual report and accounts and the unaudited half-yearly report and accounts, including advice to the Board as to whether the annual report and accounts taken as a whole are fair, balanced and understandable;
- The accounting policies of the Company;
- The Principal Risks faced by the Company and the effectiveness of the Company's internal control and risk management environment, including consideration of the assumptions underlying the Board's Principal Risks and Future Prospects statement on viability;
- The effectiveness of the external audit process and the current independence and objectivity of EY;
- The appointment, remuneration and terms of engagement of the auditor;
- The policy on the engagement of the external auditor to supply non-audit services and approval of any such services;
- The need for the Company to have its own internal audit function;
- The ISAE/AAF and SSAE16 reports or their equivalent from BMO GAM, the Custodian, Depositary, the Private Equity managers and the sub-managers and a due diligence report from the Company's Share Registrars;
- The performance of the Company's third-party service providers and administrators, other than BMO GAM, and the fees charged in respect of those services;
- Bank counterparty monitoring and BMO GAM's dealing efficiency and associated costs;
- The Company's trademarks and intellectual property rights; and
- The Committee's terms of reference for approval by the Board.

Comprehensive papers relating to each of these matters were prepared for discussion. These were debated by the Committee and any recommendations were fully considered if there was a judgement to be applied in arriving at conclusions. Recommendations were then made to the Board as appropriate.

The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information as is noted in the Statement of Directors' Responsibilities on page 52. On broader control policy issues, the Committee has reviewed, and is satisfied with BMO's Code of Conduct and their Criminal Risk Corporate Standard (the "**Standard**") to which BMO GAM and its employees are subject. The Standard is supported by BMO's Anti-Bribery and Anti-Corruption Operating Directive. The Committee has also reviewed BMO GAM's Whistleblowing Policy that has been put in place under which its directors and staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for communication by BMO GAM to this Committee where matters might impact the Company with appropriate follow-up action. In 2018 there were no such concerns raised with the Committee. The Committee has also considered and agreed the processes relating to new regulations particularly GDPR.

Composition of the Committee

The Board recognises the requirement for the Committee as a whole to have competence relevant to the sector in which the Company operates and at least one member with recent and relevant experience. The Committee comprises five independent non-executive Directors. I, Jeffrey Hewitt, am Chairman of the Committee and a Chartered Accountant and was for many years Group Finance Director of Electrocomponents plc, as well as currently or having recently been audit committee chairman of other listed companies. The other members of the Committee have a combination of financial, investment and business experience through the senior posts held throughout their careers. Several have wide experience of the investment trust sector. Details of the members can be found on pages 30, 31 and 34 and the Committee's terms of reference can be found on the website at fandcit.com.

Management of risk

BMO GAM's Business Risk Department provides regular control report updates to the Committee covering risk and compliance whilst any significant issues of direct relevance to the Company are required to be reported to the Committee and Board immediately.

A key risk "radar" summary is produced by BMO GAM in consultation with the Board to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix at each of its meetings and dynamically reviews the significance of the risks and the reasons for any changes.

The Board carried out a separate exercise in October 2018 during which each Director, the Fund Manager, Head of Investment Trusts and Company Secretary independently listed what they consider to be the top five risks that could impact the sustainable success of the Company. The purpose of the exercise was to identify any new emerging risks and take any necessary action to mitigate their potential impact. The combined list was then reconciled with the risks previously identified within the existing key risk "radar" and reviewed as part of the robust assessment of the Company's risk and controls described below.

The Company's Principal Risks are set out on page 20 with additional information given in note 25 on the Accounts. The Committee noted the robustness of the Board's review of Principal Risks and participated as Board members themselves. The integration of these risks into the analyses underpinning the "Ten Year Horizon" Statement on viability on page 21 was fully considered and the Committee concluded that the Board's statement was soundly based. The period of ten years was also agreed as remaining appropriate for the reasons given in the statement, whilst recognising that the period remains longer than that used by many other companies.

Internal controls

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations, which are managed by BMO GAM. The Committee has reviewed and reported to the Board on these controls, which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Committee through regular reports provided by BMO GAM. The reports cover investment performance, performance attribution, compliance with agreed and regulatory investment restrictions, financial analyses, revenue estimates, performance of the third-party administrators of the BMO savings plans and on other relevant management issues.

The systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, or loss or fraud. Further to the review by the Committee, the Board has assessed the effectiveness of the Company's internal controls. The assessment included a review of the BMO GAM risk management infrastructure and the report on policies and procedures in operation and tests for the year to 31 October 2018 (the "**ISAE/AAF Report**") and subsequent confirmation from BMO that there had been no material changes to the control environment in the period to 11 February 2019. This had been prepared by BMO GAM for all its investment trust clients to the International Standard on Assurance Engagement (ISAE) No. 3402 and to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). The ISAE/AAF Report from independent reporting accountants KPMG sets out BMO GAM's control policies and procedures with respect to the management of clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by BMO GAM's Group Audit and Compliance Committee, which receives regular reports from its Internal Audit department. Procedures are also in place to capture and evaluate any failings and weaknesses within BMO GAM's control environment and those extending to any outsourced service providers to ensure that action would be taken to remedy any significant issues. Any errors or breaches relating to the Company are reported at each Committee and Board meeting by BMO GAM. No failings or weaknesses material to the overall control environment and financial statements were identified in the year. The Committee also reviewed the control reports of the Custodian, the Depositary, T. Rowe Price and Barrow, Hanley, Private Equity funds of funds managers and the Share Registrar's due diligence report and were satisfied that there were no material exceptions.

Through the reviews noted above and by direct enquiry of BMO GAM and other relevant parties, the Committee and the Board have satisfied themselves that there were no material control failures or exceptions affecting the Company's operations during the year nor to the date of this Report.

Based on the processes and controls in place within BMO GAM, the Committee has concluded and the Board has concurred that there is no current need for the Company to have a separate internal audit function.

External audit process and significant issues considered by the Committee

In carrying out its responsibilities, the Committee has considered the planning arrangements, scope, materiality levels and conclusions of the external audit for 2018. The table below describes the significant judgements and issues considered by the Committee in conjunction with EY in relation to the financial statements for the year and how these issues were addressed. The Committee also included in their review the areas of judgements, estimates and assumptions referred to in note 2(c)(xii) on the Accounts and welcomes this increase in transparency on such issues. Likewise, the Committee reviewed the disclosure and description of Alternative Performance Measures provided on page 95 and is satisfied that the disclosure is fair and relevant.

Significant Judgements and Issues considered by the Committee in 2018	
Matter	**Action**
Investment Portfolio Valuation	
The Company's portfolio of investments comprises highly liquid securities quoted on recognised stock exchanges, held directly or through quoted open-ended funds, together with illiquid Private Equity funds of funds. The Private Equity vehicles, which are subject to signed agreements covering long-term commitments and funding, hold a diversity of unquoted investments whose values are subjective.	The Committee reviewed annual audited internal control reports from BMO GAM, the sub-managers and Private Equity funds of funds managers. These reports indicated that the relevant systems and controls surrounding daily pricing, cash and holdings reconciliations, security valuation and Private Equity funding had operated satisfactorily. In addition, with regard to Private Equity vehicles, the Committee: discussed controls directly with the managers; reviewed the managers' estimated valuations in detail at six monthly intervals; and performed a thorough review and comparison of each Private Equity fund's 31 December 2017 or most recent audited value versus the managers' estimated valuation adopted by the Company in its own reporting. The review indicated that the Private Equity funds of funds managers' estimated valuations could continue to be relied upon as being at fair value in accordance with the Company's accounting policy. The limited partnership agreement, under which the co-investments and secondaries investments are managed by BMO GAM, was reviewed by the Committee. The process for valuing the more recent direct private equity valuations was reviewed and agreed by the Committee.
Misappropriation of Assets	
Misappropriation of the Company's investments or cash balances could have a material impact on its NAV per share.	The Committee reviewed the annual audited internal control reports of BMO GAM and the Custodian. Neither of these reports indicated any failures of controls over the existence and safe custody of the Company's investments and cash balances. The Committee reviews regularly the list of banks which the Manager and sub-managers are authorised to place cash and deposits with. The Company's Depositary reported quarterly on the safe custody of the Company's investments and the operation of controls over the movement of cash in settlement of investment transactions. Through these reports the Committee is satisfied that the assets remained protected throughout the year.
Income Recognition	
Incomplete controls over, or inaccurate recognition of, income could result in the Company misstating its revenue receipts and associated tax, with consequences for overall performance, payment of dividends to shareholders, and compliance with taxation rules.	The Committee's review of BMO GAM's annual audited controls report indicated that there were no control failures in the year. The Committee reviewed that all special dividends had been correctly treated in accordance with the Company's accounting policy. Investment income was tested and reported on by BMO GAM.

Procedures for investment valuation and recognition of income were the main areas of audit focus and testing. For the long-held Pantheon and HarbourVest unlisted Private Equity investments in particular, the Committee questioned the funds of funds managers on their processes in meetings during the year. The year-end valuation is an estimate based on the September valuations extrapolated to the year-end by adjusting for cash flows and any known events (as described in notes 2(c)(ii) and 25(d) on the Accounts). The Committee reviewed prior year experience on the validity of this estimation process by comparing the estimated value with the actual audited values (which become known in May/June of the following year). The variances were not material. The process for valuing the more recent direct private equity valuations was reviewed and agreed by the Committee as being appropriate.

The Committee met in February 2019 to discuss the final draft of the Report and Accounts, with representatives of EY and BMO GAM in attendance. EY submitted their Year-End Report and confirmed that they had no reason not to issue an unqualified audit opinion in respect of the Report and Accounts. The Committee established that there were no material issues or findings arising which needed to be brought to the attention of the Board.

The increased focus on the Strategic Report by investors and regulators is welcomed by the Committee. The Committee has carefully considered the disclosures made in the Report and Accounts particularly in relation to the disclosures under section 172(1) of the Act including how wider stakeholder interests have been taken into account by the Directors while performing their duties and related disclosures with regard to ESG issues. The Committee has also had regard to the Non-Financial Reporting requirements in the Act. It is aware that this area of Non-Financial Reporting matters will evolve further in coming years.

The Committee also noted that an independent, objective and skilled third party had read the Report and Accounts and commented on fairness, balance and comprehension. The Committee recommended to the Board that the Report and Accounts were in its view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice.

The Independent Auditor's Report which sets out the unqualified audit opinion, the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 53 to 59.

Auditor assessment, independence and appointment

The Committee reviews the reappointment of the auditor every year and has been satisfied with the effectiveness of EY's performance on this, their third audit of the Company's accounts. EY have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating EY, the Committee has taken into consideration the standing skills and experience of the firm and the audit team. From direct observation and indirect enquiry of management, the Committee is satisfied that EY will continue to provide effective independent challenge in carrying out their responsibilities. The Committee also considered the evaluation of EY's audit performance through the Audit Service Quality Review. This is a formal Audit Service Quality Review process with an independent senior partner at EY. The level of the audit fee, which amounted to £85,000 excluding VAT (2017: £87,000), was carefully considered for value and effectiveness.

As part of its annual review, the Committee considers the need for putting the audit out to tender for reasons of quality or independence. As the Company is required to carry out a tender every ten years, the next one will be conducted no later than 2026.

Non-audit services

The Committee regards the continued independence of the external auditor to be a matter of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditors are not considered to be expert providers of the non-audit services;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- the services are considered to be likely to inhibit the auditor's independence or objectivity as auditors.

In particular, the Committee has a policy that the accumulated costs of all non-audit services sought from the auditors in any one year should not exceed 30% of the likely audit fees for that year and not exceed 70% cumulatively over three years and any individual service likely to exceed £5,000 is agreed by the Committee prior to the commencement of the services and are accompanied by terms regarding liability, cost and responsibilities. As set out in note 5 on the accounts, EY charged £8,000 excluding VAT for non-audit services during the year. This related to the testing of the Company's contingency planning arrangements.

Regulatory compliance

The Committee confirms that the Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of the policy on the provision of non-audit services.

Review by the Conduct Committee of the Financial Reporting Council ("FRC")

We strive to meet the highest standards in reporting to shareholders and aim to be a leader of best practice within the investment trust industry in that regard. The Conduct Committee of the FRC, which supports continuous improvement in the quality of corporate reporting, has carried out a routine review of the Company's Report and Accounts for the year ended 31 December 2017. Based on their review, the Conduct Committee has informed the Board that they had no questions or queries they wished to raise. It should be noted that whilst the Conduct Committee does not benefit from a detailed knowledge of the Company's business or an understanding of the underlying transactions entered, their review has nevertheless been conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. It is therefore very pleasing to report that no questions or queries have been raised from the review.

Committee evaluation

The activities of the Audit Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as noted on page 38. A full evaluation was undertaken on the effectiveness, roles and responsibilities of the Committee in accordance with the Financial Reporting Council's current guidance. The evaluation found that the Committee functioned well, with the right balance of membership and skills.

Jeffrey Hewitt
Audit Committee Chairman
11 March 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements. Further details can be found in notes 2 and 24 on the Accounts.

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

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

The Report and Accounts is published on the **fandcit.com** website, which is maintained by BMO GAM. The Directors are responsible for the maintenance and integrity of the Company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors listed on pages 30 and 31 confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.
- in the opinion of the Directors the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
Simon Fraser
Chairman
11 March 2019

Independent Auditor's Report

Opinion

We have audited the financial statements of F&C Investment Trust PLC ('the Company') for the year-ended 31 December 2018 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and the related Notes on the Accounts 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the annual report set out on page 20 that describe the principal risks and explain how they are being managed or mitigated.
- The directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity.
- The directors' statement set out on page 32 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- Whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The directors' explanation set out on page 21 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

- Incorrect valuation or defective title of the unquoted investment portfolio and resulting impact on the Income Statement.
- Incomplete or inaccurate revenue recognition through incorrect allocation of special dividends between revenue and capital.
- Incorrect valuation or defective title of the quoted investment portfolio.
- Overall materiality of £34.9m which represents 1% of net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or defective title of the unquoted investment portfolio and resulting impact on the Income Statement (£267.8m, 2017: £226.7m) Refer to the Audit Committee Report (page 49); Accounting policies (page 65); and Note 10 of the Financial Statements (page 73). The Company holds investments in Private Equity ('PE') through funds or partnerships which are managed by HarbourVest Partners LLC ('HarbourVest'), Pantheon Ventures (UK) LLP ('Pantheon') and various other managers selected by BMO Investment Business Limited ('the Manager') (together 'the PE Managers'); the latter are held either directly by the Company or indirectly through PE Investment Holdings 2018 LP ('PE LP'). For PE investments that are in the Manager's selected funds we make no distinction as to whether they are held directly by the Company or indirectly by PE LP. The net asset value ('NAV') of the PE funds is based on estimates and unaudited NAV statements produced by the PE Managers. The Manager applies various controls to the valuation process which are subject to oversight by the Board. Controls over the valuation process include: the reconciliation of cash movements to the NAV statements received, reading internal control reports from HarbourVest, Pantheon and the Manager, reading audited financial statements as well as the portfolio reports for the underlying PE fund investments and performing a reasonableness analysis of variances between prior years reported and audited NAVs. We focus on the valuation of unquoted investments because there is the risk that inaccurate judgments made in the assessment of fair value could materially misstate the value of the investment portfolio in the Balance Sheet, the unrealised gains or losses in the Income Statement and the NAV per share. For the unquoted investments, realised profits are calculated as the difference between distribution proceeds less return of capital. Specifically in relation to our procedures on management override, we considered the risk that the Manager or the Board may influence the unquoted investment valuations in order to meet market expectations of the overall NAV of the Company.	We obtained an understanding of the Company's and the PE Managers' processes and controls for the valuation of the unquoted investments by performing walkthrough procedures and inspecting the PE Managers' internal control reports. We obtained an understanding of the governance structure and protocols surrounding the valuation process from the Manager's Investment Trust Accounting team. This included the primary controls of reconciling cash movements in monthly reported NAVs to underlying notices of calls and distributions and bank statements, reading internal control reports of the PE Managers and performing a reasonableness analysis of variances between reported and audited NAVs. We observed the oversight at Board level through reading minutes and board packs from Audit Committee and Board meetings throughout the year. We performed a back-testing exercise to assess the historical accuracy of HarbourVest and Pantheon's estimated 2017 investment valuations. We compared the Company's investment values per the 2017 audited Company financial statements which were at the time estimates to the unquoted investment values subsequently reported within the audited HarbourVest and Pantheon fund financial statements for the same period. We held meetings with HarbourVest, Pantheon and the Manager to discuss and challenge: • The annual performance of the funds in which the Company held an investment at 31 December 2018. • The reasons for the variances noted between estimated and actual NAVs for the year-ended 31 December 2017. • Whether, based on any recently available information there should be any adjustments required to the estimated 31 December 2018 NAVs. We compared the Company's valuation methodology to the requirements of United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102'). We agreed the NAV of the HarbourVest and Pantheon funds per the Company to the estimated 31 December 2018 NAV statements. We agreed the NAV of the other Manager selected funds from the Company records at 31 December 2018 to the 30 September 2018 NAV statements from the underlying managers adjusted for 'quarter 4' cash flows and foreign exchange movements. As the 31 December 2018 NAV statements received show 'estimated' NAVs we considered the reasonableness of the fair value adjustments made to the 'actual' 30 September 2018 reported NAV and challenged any unusual variances being any variance other than foreign currency revaluations and cash flow movements. We recalculated the unrealised profits on the revaluation of all unquoted investments. For a sample of unquoted investments, we confirmed the realised gains or losses to the notices received from the relevant PE Manager. We recalculated the valuation of all unquoted investments in foreign currencies using third party exchange rates to gain assurance over the reasonableness of currency rates used. We agreed the total committed capital directly to the Limited Partnership Agreements of the PE funds and the 'drawn-down capital' to independent confirmations received directly from the PE Managers. To test for the risk of management override we tested a sample of manual journal entries posted in relation to unquoted investments during the year to relevant support.	The results of our procedures identified no material misstatement in the valuation or existence of the quoted investment portfolio. Based on the work performed we have no matters to report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition through incorrect allocation of special dividends between revenue and capital (£4.5m, 2017: £3.8m) Refer to the Audit Committee Report (page 49); Accounting policies (page 66); and Note 3 of the Financial Statements (page 68). Special dividends represent dividends paid by investee companies that are additional to the normal or expected dividend cycle for that Company. In accordance with the SORP, special dividends can be included within either the revenue or capital columns of the Income Statement, depending on the commercial circumstances behind the payments. As such, there is a manual and judgemental element in allocating special dividends between revenue and capital leading to a risk of incorrect allocation. The revenue column of the Income Statement is the main driver of the minimum dividend calculation. There is therefore a risk that an incorrect classification could potentially result in an under distribution of income and put the Company's investment trust status at risk. There is also a risk that the revenue column is overstated to increase the dividend paid to shareholders.	We obtained an understanding of the Manager's processes and controls for the recognition of investment income by performing walkthrough procedures and reading their internal control reports to understand the design effectiveness of controls. We agreed a sample of special dividends from the income received report to bank statements and to an external source to verify occurrence and measurement. We tested the recognition basis for a sample of special dividends to ensure that they were appropriately allocated between revenue and capital within the Income Statement. For the samples we tested, we have recalculated income received from overseas investments to gain assurance over the measurement and recognition of income in foreign currencies. To test for the risk of management override, we have tested a sample of manual journal entries posted to the income account and corroborated their business purpose.	The results of our procedures identified no issues with the accuracy or completeness of special dividends. We concurred with the accounting treatment for special dividends. Based on the work performed we have no matters to report.
Incorrect valuation or defective title of the quoted investment portfolio (£3,449.9m, 2017: £3,699.9m) Refer to the Audit Committee Report (page 49); Accounting policies (page 65); and Note 10 of the Financial Statements (page 73). The Company holds a portfolio of quoted investments both in the UK and Overseas. The quoted portfolio is managed by the Manager who in turn sub delegates the role of investment management for a proportion of the portfolio to T.Rowe Price International Ltd and Barrow, Hanley, Mewhinney and Strauss LLC (together 'the Sub- Managers') for their experience in the United States equities market. The fair value of investments within the portfolio is based on the quoted bid value at the Balance Sheet date. There is a risk of incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements and assessment of stock liquidity which could result in the Balance Sheet and Income Statement being materially misstated. The Directors are responsible for implementing systems and controls to ensure that the assets of the Company are not susceptible to misappropriation and other fraud or error. Certificates of investment ownership are held by JP Morgan Chase ('the Custodian') and not directly by the Company. JP Morgan Europe Limited ('the Depositary') has a legal obligation to reconcile the investment holdings stated by State Street Bank and Trust Company ('the Administrator') and the Custodian. There is a risk of assets being misappropriated and the ownership of investments being unsecured.	We obtained an understanding of the Manager's and the Administrator's processes and controls for the valuation of the quoted investments by performing walkthrough procedures and reviewing the Manager's and the Administrator's internal control reports. We agreed all of the quoted investment holding prices to relevant independent sources using a range of third party pricing vendors. We reviewed the stale pricing reports to assess the liquidity of investments held. We recalculated the value of all quoted investments in foreign currencies to verify the accuracy of the corresponding Sterling balances. We obtained an understanding of the Administrator's, Depositary's and the Custodian's processes and controls for asset recognition by inspecting their internal control reports. We inspected the year-end reconciliation of the Company's investment holdings stated in the accounting records to the Custodian's investment holdings report and corroborated any variances. We obtained confirmation from the Custodian and Depositary of all securities held at the period end and agreed these to the Company's records.	The results of our procedures identified no material misstatement in the valuation or existence of the quoted investment portfolio. Based on the work performed we have no matters to report.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

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

Materiality

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

We determined materiality for the Company to be £34.9m (2017: £36.7m), which is 1% (2017: 1%) of net assets. We believe that net assets is the most appropriate measure as it is the primary measure that investors use to assess the performance of the Company.

During the course of our audit, we reassessed initial materiality and made no changes to the basis of calculation from our original assessment at the planning stage.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £26.2m (2017: £27.5m). We have set performance materiality at this level based on our understanding of the control environment that indicates a lower risk of material misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for investment trusts we have also applied a separate testing threshold of £3.9m (2017: £3.5m) for the revenue column of the Income Statement, being 5% of the net return on ordinary activities before taxation.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.7m (2017: £1.8m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 100, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 52** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 47** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 37** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and directors' reports have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies Statement of Recommended Practice 2017 and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary in combination with a review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud and management override risk relating to the journal entries applied to the income account including for the categorisation of special dividends. We also identified the risk of management override with relation to journals used in the valuation of unquoted investments. Our audit procedures stated above for 'Incomplete or inaccurate revenue recognition through incorrect allocation of special dividends between revenue and capital' and 'Incorrect valuation or defective title of the unquoted investment portfolio and resulting impact on the Income Statement' are tailored to address this risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 26 April 2016 to audit the financial statements for the year-ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31 December 2016 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julian Young (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 March 2019

1. The maintenance and integrity of the F&C Investment Trust PLC page of the Bank of Montreal website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

Income Statement

Notes	for the year ended 31 December	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
10	(Losses)/gains on investments	-	(162,535)	(162,535)	–	486,348	486,348
19	Exchange movements on foreign currency loans and cash balances	199	(5,557)	(5,358)	(95)	3,328	3,233
3	Income	87,898	-	87,898	78,765	–	78,765
4	Management fees	(4,277)	(12,830)	(17,107)	(3,768)	(11,305)	(15,073)
5	Other expenses	(4,146)	(44)	(4,190)	(3,094)	(61)	(3,155)
	Net return before finance costs and taxation	79,674	(180,966)	(101,292)	71,808	478,310	550,118
6	Finance costs	(2,221)	(6,664)	(8,885)	(1,858)	(5,574)	(7,432)
	Net return on ordinary activities before taxation	77,453	(187,630)	(110,177)	69,950	472,736	542,686
7	Taxation on ordinary activities	(8,015)	(29)	(8,044)	(6,464)	(713)	(7,177)
8	**Net return attributable to shareholders**	69,438	(187,659)	(118,221)	63,486	472,023	535,509
8	**Net return per share – basic (pence)**	12.81	(34.61)	(21.80)	11.67	86.79	98.46

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

The net return attributable to shareholders is also the total comprehensive income.

The notes on pages 64 to 85 form an integral part of the financial statements.

Statement of Changes in Equity

Notes	for the year ended 31 December 2018	Share capital £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance brought forward 31 December 2017	140,455	122,307	3,313,941	91,320	3,668,023
9	Dividends paid	–	–	–	(58,556)	(58,556)
17	Shares issued by the Company from treasury	–	–	667	–	667
	Net return attributable to shareholders	–	–	(187,659)	69,438	(118,221)
	Balance carried forward 31 December 2018	140,455	122,307	3,126,949	102,202	3,491,913

Notes	for the year ended 31 December 2017	Share capital £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance brought forward 31 December 2016	140,455	122,307	2,867,579	83,094	3,213,435
9	Dividends paid	–	–	–	(55,260)	(55,260)
	Shares repurchased by the Company and held in treasury	–	–	(25,661)	–	(25,661)
	Net return attributable to shareholders	–	–	472,023	63,486	535,509
	Balance carried forward 31 December 2017	140,455	122,307	3,313,941	91,320	3,668,023

The notes on pages 64 to 85 form an integral part of the financial statements.

Balance Sheet

Notes	at 31 December	£'000s	2018 £'000s	£'000s	2017 £'000s
	Fixed assets				
10	Investments		3,717,610		3,926,558
	Current assets				
12	Debtors	38,698		12,663	
	Cash at bank and short-term deposits	96,439		31,136	
		135,137		43,799	
	Creditors: amounts falling due within one year				
13	Loans	(110,047)		(50,000)	
14	Other	(35,587)		(10,397)	
		(145,634)		(60,397)	
	Net current liabilities		(10,497)		(16,598)
	Total assets less current liabilities		3,707,113		3,909,960
	Creditors: amounts falling due after more than one year				
15	Loans	(214,625)		(241,362)	
16	Debenture	(575)		(575)	
			(215,200)		(241,937)
	Net assets		3,491,913		3,668,023
	Capital and reserves				
17	Share capital		140,455		140,455
18	Capital redemption reserve		122,307		122,307
19	Capital reserves		3,126,949		3,313,941
19	Revenue reserve		102,202		91,320
	Total shareholders' funds		3,491,913		3,668,023
20	**Net asset value per share – prior charges at nominal value (pence)**		643.93		676.53

The notes on pages 64 to 85 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 11 March 2019 and signed on its behalf by

Simon Fraser, Chairman **Jeffrey Hewitt, Director**

Statement of Cash Flows

for the year ended 31 December

Notes		2018 £'000s	2017 £'000s
21	**Cash flows from operating activities before dividends received and interest paid**	**(27,695)**	(26,226)
	Dividends received	**84,873**	77,631
	Interest paid	**(8,521)**	(7,344)
	Cash flows from operating activities	**48,657**	44,061
	Investing activities		
	Purchases of investments	**(1,840,994)**	(1,390,393)
	Sales of investments and derivatives	**1,886,950**	1,384,673
	Other capital charges and credits	**(57)**	(55)
	Cash flows from investing activities	**45,899**	(5,775)
	Cash flows before financing activities	**94,556**	38,286
	Financing activities		
	Equity dividends paid	**(58,556)**	(55,260)
	Repayment of loans	**(50,000)**	–
	Drawdown of loans	**75,000**	50,000
	Cash flows from share issues	**667**	–
	Cash flows from share buybacks for treasury shares	**(194)**	(25,952)
	Cash flows from financing activities	**(33,083)**	(31,212)
	Net increase in cash and cash equivalents	**61,473**	7,074
	Cash and cash equivalents at the beginning of the year	**31,136**	26,463
	Effect of movement in foreign exchange	**3,830**	(2,401)
	Cash and cash equivalents at the end of the year	**96,439**	31,136
	Represented by:		
	Cash at bank	**27,875**	3,461
	Short-term deposits	**68,564**	27,675
	Cash and cash equivalents at the end of the year	**96,439**	31,136

The notes on pages 64 to 85 form an integral part of the financial statements.

Notes on the Accounts

1. General information

F&C Investment Trust PLC is an Investment Company, incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company Registration number is 12901, and the Registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company has conducted its affairs so as to qualify as an Investment Trust under the provisions of Section 1158 of the Corporation Tax Act 2010. Approval of the Company under Section 1158 has been received. The Company intends to conduct its affairs so as to enable it to continue to comply with the requirements of Section 1158. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments and derivatives.

There have been no significant changes to the Company's accounting policies during the year ended 31 December 2018, as set out in note 2 below.

2. Significant accounting policies

(a) Going concern

As referred to in note 24 and the Statement of Directors' Responsibilities, the Directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

(b) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivatives at fair value, and in accordance with the Act, Financial Reporting Standard (FRS) 102 applicable in the United Kingdom and with the SORP issued in November 2014 and updated in February 2018. There has been no impact on the basis of accounting as a result of this update.

The functional and presentational currency of the Company is pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

All of the Company's operations are of a continuing nature.

The Company had no operating subsidiaries at any time during the years ended 31 December 2018 and 31 December 2017. Consequently, consolidated accounts have not been prepared.

The Directors are of the opinion that the Company's activities comprise a single operating segment, which is investing internationally in equities to secure long-term growth in income and capital.

In accordance with the SORP, the Income Statement has been analysed between a Revenue Account (dealing with items of a revenue nature) and a Capital Account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in notes 2(c)(vii) and 2(c)(viii)). Net revenue returns are allocated via the revenue account to the Revenue Reserve, out of which interim and final dividend payments are made. The amounts paid by way of dividend are shown in the Statement of Changes in Equity. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivatives and currency profits and losses on cash and borrowings. The Company may distribute net capital returns by way of dividend. It is the Board's current stated intention to continue paying dividends to equity shareholders out of the Revenue Reserve.

2. Significant accounting policies (continued)

(c) Principal accounting policies

The policies set out below have been applied consistently throughout the year ending 31 December 2018 and the prior year.

(i) Financial instruments

Financial instruments include fixed asset investments, derivative assets and liabilities, long-term debt instruments, cash and short-term deposits, debtors and creditors. FRS102 recognises a hierarchy of fair value measurements, for financial instruments measured at fair value in the Balance Sheet, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on the AIM Market in the UK.

Level 2 – Quoted prices for similar assets or liabilities or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be forward exchange contracts and certain other derivative instruments.

Level 3 – Where no active market exists and recent transactions for identical instruments do not provide a good estimate of fair value, the value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles, (see Notes 10 and 25(d) for further information).

(ii) Fixed asset investments

As an investment trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Purchases are recognised on the relevant trade date, less expenses which are incidental to the acquisition of the investments. Sales are also recognised on the trade date, after deducting expenses incidental to the sales. Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments are carried at cost less any provision for impairment.

With respect specifically to investments in Private Equity, whether through funds or partnerships, the Directors rely on unaudited valuations of the underlying unlisted investments as supplied by the investment advisers or managers of those funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they are in compliance with the above policies. Distributions from Private Equity funds are recognised when the right to distributions is established.

(iii) Derivative Instruments

Derivatives including forward exchange contracts, futures and options are accounted for as financial assets or liabilities. Where it can be demonstrated that the derivative is connected to the maintenance of the Company's investments, the change in fair value is recognised as capital and shown in the Capital column of the Income Statement. Where an option is written in the expectation that it will not be exercised, or that any losses on exercise will be outweighed by the value of the premiums received, the premiums are recognised in the Revenue column of the Income Statement. The value of the premium is usually the option's initial fair value and is recognised evenly over the life of the option. Subsequent changes to fair value are adjusted in the Capital column of the Income Statement such that the total amounts recognised within Revenue and Capital represent the change in fair value of the option.

2. Significant accounting policies (continued)

(iv) Debt Instruments

The Company's debt instruments include the 4.25% perpetual debenture stock included in the Balance Sheet at proceeds received, net of issue costs, and bank borrowings and overdrafts, initially measured at the amount of cash received less direct issue costs and subsequently measured at amortised cost using the effective interest rate method. No debt instruments held during the year required hierarchical classification.

The fair market value of the bank borrowings and perpetual debenture stock are set out in notes 13, 15 and 16 on the accounts respectively. Finance charges, including interest, are accrued using the effective interest rate method. See 2(c)(vii) below for allocation of finance charges within the Income Statement.

(v) Foreign currency

Foreign currency monetary assets and liabilities are expressed in Sterling at rates of exchange ruling at the Balance Sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the Capital Account. Exchange profits and losses on other currency balances are separately credited or charged to the Capital Account except where they relate to revenue items.

(vi) Income

Income from equity shares is brought into the Revenue Account (except where, in the opinion of the Directors, its nature indicates it should be recognised within the Capital Account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment. Dividends are accounted for on the basis of income actually receivable, without adjustment for any tax credit attaching to the dividends. Dividends from overseas companies are shown gross of withholding tax. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the Capital Account. Rebates on investee funds management fees are accounted for on a receipts basis.

(vii) Expenses, including finance charges

Expenses inclusive of associated value added tax (VAT) are charged to the Revenue Account of the Income Statement, except as noted below:

- expenses incidental to the acquisition or disposal of fixed assets investments are charged to Capital Reserves via the Capital Account;

- costs of professional advice relating to the capital structure of the Company are charged to Capital Reserves (see note 2(c)(xi));

- 100% of management fees, invoiced to the Company in respect of certain Private Equity investments, are allocated to Capital Reserves, via the Capital Account, in accordance with the Board's long-term expected split of returns from those investments;

- 75% of other management fees and finance costs (both net of applicable tax relief) are allocated to Capital Reserves via the Capital Account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding Private Equity investments) of the Company.

All expenses are accounted for on an accruals basis.

(viii) Taxation

Taxation currently payable is calculated using tax rules and rates in force at the year end, based on taxable profit for the period which differs from the net return before tax. Note 7(b) sets out those items which are not subject to UK Corporation Tax.

Deferred tax is provided for in accordance with FRS102 on all timing differences that have been enacted by the Balance Sheet date and are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the Revenue Account, then no tax relief is transferred to the Capital Account.

(ix) Dividends payable

Dividends are included in the financial statements on the date on which they are declared or, in the case of final dividends, when they are approved by shareholders.

(x) Capital Redemption Reserve

This is a non-distributable reserve. The nominal value of ordinary share capital repurchased for cancellation is transferred out of Share Capital and into the Capital Redemption Reserve, on a trade date basis. Where shares are repurchased into treasury, the transfer of nominal value to the Capital Redemption Reserve is made if and when the shares are cancelled.

(xi) Capital Reserves

These are distributable reserves which may be utilised for the repurchase of share capital and for distributions to shareholders by way of dividend.

Capital reserve – arising on investments sold

The following are accounted for in this reserve:
gains and losses on the disposal of fixed asset investments and derivatives;
realised exchange differences of a capital nature;
costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;
other capital charges and credits charged or credited to this account in accordance with the above policies; and
costs of repurchasing ordinary share capital into treasury or for cancellation, including related stamp duty, are recognised on a trade date basis.

Capital reserve – arising on investments held

The following are accounted for in this reserve:
increases and decreases in the valuation of fixed asset investments and derivatives held at the year end; and
unrealised exchange differences of a capital nature.

(xii) Use of judgements, estimates and assumptions

The presentation of the financial statements in accordance with accounting standards requires the Board to make judgements, estimates and assumptions that affect the accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on perceived risks, historical experience, expectations of plausible future events and other factors. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: accounting for the value of unquoted investments; recognising and classifying unusual or special dividends received as either revenue or capital in nature; and setting the level of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to Investment Trust status rules under Section 1158.

The policy for valuation of unquoted securities is set out in note 2(c)(ii) and further information on Board procedures is contained in the Report of the Audit Committee and note 25(d). The fair value of unquoted (Level 3) investments, as disclosed in note 10 on the accounts, represented 7.2% of total investments at 31 December 2018. Under foreseeable market conditions the collective value of such investments may rise or fall in the short term by more than 25%, in the opinion of the Directors. A fall of 25% in the value of the unlisted (Level 3) portfolio at the year-end would equate to £67m or 1.9% of net assets and a similar percentage rise should be construed accordingly.

Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine their allocation in accordance with the SORP to either the Revenue Account or Capital Account. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to Capital Account. Investee company dividends which appear to be paid in excess of current year profits will still be considered as revenue in nature unless evidence suggests otherwise. The value of dividends received in the year treated as capital in nature, as disclosed in note 19, was not material in relation to capital reserves or the revenue account. The value of special dividends receivable in any period cannot be foreseen as such dividends are declared and paid by investee companies and funds without prior reference to the Company.

Dividends paid and payable in respect of the year are set out in note 9. The amount estimated to be transferred to revenue reserve is less than the maximum allowed under rules in the Corporation Tax Act 2010. The Board assesses the minimum level of dividend payable in respect of any period in accordance with Section 1158 rules, after taking into account the audited annual net revenue available for distribution, and ensures that payments for each period comfortably exceed that minimum level.

3. Income

	2018 £'000s	2017 £'000s
Income from investments:		
UK dividends	**10,868**	12,601
Overseas dividends	**75,825**	65,333
	86,693	77,934
Other Income:		
Rebates relating to investee funds management fees	**656**	623
Interest on cash and short-term deposits	**536**	208
Underwriting commission	**13**	–
	1,205	831
Total income	**87,898**	78,765
Income from investments comprises:		
Quoted UK	**10,841**	12,555
Quoted overseas	**75,825**	65,333
Unquoted	**27**	46
	86,693	77,934

Included within income from investments is £3,880,000 (2017: £2,737,000) of special dividends classified as revenue in nature in accordance with note2(c)(xii).

4. Management fees

		2018 £'000s	2017 £'000s
Payable directly to BMO GAM:			
– in respect of management services provided by the Manager	(i)	**13,411**	11,806
– reimbursement in respect of services provided by sub-managers	(i)	**3,696**	3,267
Total directly incurred management fees		**17,107**	15,073
Incurred indirectly within funds managed by Private Equity managers	(ii)	**4,614**	4,491
Total direct and indirect management fees		**21,721**	19,564

(i) 75% of these fees allocated to capital reserve arising on investments sold. See note 2(c)(vii).
(ii) Indirectly incurred fees included within the value of the respective funds.

Directly incurred fees are analysed as follows:

Management fees	2018 £'000s	2017 £'000s
– payable directly to BMO GAM	**17,107**	15,073
Less: allocated to capital reserves (see note 19)	**(12,830)**	(11,305)
Allocated to revenue account	**4,277**	3,768

(a) Management fees payable to BMO GAM

The Manager provides investment management, company secretarial, financial, marketing and general administrative services to the Company under the terms of an agreement which may be terminated upon six months' notice given by either party. In the event of a change of control of the Manager, the Company may give three months' notice of termination.

The Manager's remuneration is based on a fee of 0.365% per annum of the market capitalisation of the Company, calculated at each month end on a pro rata basis (2017: same); the fee is adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager or other members of the BMO Group. Variable fees payable in respect of third party sub-managers are also reimbursed.

Changes to the management fee arrangements take effect from 1 January 2019 and are explained in the Chairman's Statement on page 5 and the Report of the Management Engagement Committee on pages 41 and 42.

(b) Management fees payable to the Private Equity funds of funds managers

At 31 December 2018 the Company had outstanding commitments in 36 Private Equity funds (2017: 28) (see note 22). Fees in respect of Private Equity funds are based on capital commitments and are charged quarterly against the underlying investments in those funds. The fees are not directly incurred by the Company and are disclosed for information purposes only. The fee rates applying during 2018 varied from 0.10% per annum to 2.50% per annum (2017: 0.10% to 2.50%).

PE Investment Holdings 2018 LP pays an annual fee of £1,000 to the General Partner. This is not directly incurred by the Company but included in the underlying value of the investment.

5. Other expenses

	2018 £'000s	2017 £'000s
Other revenue expenses		
Auditors' remuneration:		
for audit and audit-related assurance services[1]	**94**	96
for other services[2]	**9**	–
Custody fees	**502**	524
Depositary fees	**201**	179
Directors' emoluments (see Remuneration Report on pages 44 to 46):		
Fees for services to the Company	**374**	349
Subscriptions	**21**	21
Directors' and officers' liability insurance	**38**	19
Marketing	**1,722**	1,002
Loan commitment and arrangement fees[3]	**346**	293
Registrars fees	**150**	153
Professional charges	**256**	145
Printing and postage	**142**	153
Sundry	**291**	160
Total other revenue expenses	**4,146**	3,094
Capital expenses (see note 19)	**44**	61
Total other expenses	**4,190**	3,155

All expenses are stated gross of irrecoverable VAT, where applicable.

(1) Total auditors' remuneration for audit services, exclusive of VAT, amounted to £85,000 (2017: £87,000 exclusive of VAT of which £10,000 relates to prior year).

(2) Non-audit services paid to EY, exclusive of VAT, amounted to £8,000 in the year. This related to the testing of the Company's contingency planning arrangements (2017: £nil).

(3) Under loan facility agreements (see notes 13 and 15) the Company pays commitment fees on any undrawn portions of the facilities.

6. Finance costs

	2018 £'000s	2017 £'000s
Debenture stock	**24**	24
Loans	**8,749**	7,281
Overdrafts	**112**	127
	8,885	7,432
Less: allocated to capital reserves (see note 2(c)(vii) and note 19)	**(6,664)**	(5,574)
	2,221	1,858
The interest on the debenture stock, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments	**4,266**	324
Debenture and loans repayable after more than one year, not by instalments (see notes 15 and 16)	**4,619**	7,108
	8,885	7,432

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
Corporation Tax at 19.00% (2017: 19.25%)	–	–	–	–	–	–
Relief for overseas taxation	–	–	–	–	–	–
	–	–	–	–	–	–
Overseas taxation	8,015	–	8,015	6,464	–	6,464
Indian tax on capital gains	–	29	29	–	713	713
Total taxation (note 7(b))	8,015	29	8,044	6,464	713	7,177

The tax assessed for the year is higher (2017: lower) than the standard rate of Corporation Tax in the UK.

(b) Factors affecting the current tax charge for the year

	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
Net return on ordinary activities before taxation	77,453	(187,630)	(110,177)	69,950	472,736	542,686
Net return on ordinary activities multiplied by the standard rate of UK Corporation Tax of 19.00% (2017: 19.25%)	14,716	(35,650)	(20,934)	13,465	91,002	104,467
Effects of:						
Dividends(1)	(16,472)	–	(16,472)	(15,002)	–	(15,002)
Exchange (profits)/losses(1)	(38)	–	(38)	18	–	18
Capital returns(1)	–	31,937	31,937	–	(94,263)	(94,263)
Expenses not deductible for tax purposes	149	8	157	87	12	99
Expenses not utilised in the year	1,645	3,705	5,350	1,432	3,249	4,681
Overseas tax in excess of double taxation relief	8,015	–	8,015	6,464	–	6,464
Indian tax on capital gains(2)	–	29	29	–	713	713
Total taxation (note 7(a))	8,015	29	8,044	6,464	713	7,177

(1) These items are not subject to Corporation Tax within an investment trust company.

(2) The Company is liable to taxation in India on gains realised on the sale of securities within 12 months of purchase. The tax is allocated to Capital Reserve as it relates to capital transactions.

The Company has an unrecognised deferred tax asset of £59.5 million (2017: £55.1 million) in respect of unutilised expenses at 31 December 2018 which has not been recognised in the financial statements as it is unlikely to be utilised in the foreseeable future. Of this amount £22.2 million (2017: £20.8 million) relates to revenue expenses and £37.3 million (2017: £34.3 million) to capital expenses.

8. Net return per share

	2018 pence	2018 £'000s	2017 pence	2017 £'000s
Total return	(21.80)	(118,221)	98.46	535,509
Revenue return	12.81	69,438	11.67	63,486
Capital return	(34.61)	(187,659)	86.79	472,023
Weighted average ordinary shares in issue, excluding shares held in treasury – number		542,191,397		543,844,221

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2018 £'000s	2017 £'000s
2016 Third interim of 2.45p	6-Jan-2017	1-Feb-2017	–	13,390
2016 Final of 2.70p	31-Mar-2017	2-May-2017	–	14,718
2017 First interim of 2.50p	7-Jul-2017	1-Aug-2017	–	13,583
2017 Second interim of 2.50p	29-Sep-2017	1-Nov-2017	–	13,569
2017 Third interim of 2.70p	5-Jan-2018	1-Feb-2018	**14,639**	–
2017 Final of 2.70p	3-Apr-2018	1-May-2018	**14,639**	–
2018 First interim of 2.70p	6-Jul-2018	1-Aug-2018	**14,639**	–
2018 Second interim of 2.70p	5-Oct-2018	1-Nov-2018	**14,639**	–
			58,556	55,260

A third interim dividend of 2.80p was paid on 1 February 2019 to all shareholders on the register on 4 January 2019.

The Directors have proposed a final dividend in respect of the year ended 31 December 2018 of 2.80p payable on 8 May 2019 to all shareholders on the register at close of business on 5 April 2019. The total dividends paid and payable in respect of the financial year for the purposes of the income retention test for Section 1159 of the Corporation Tax Act 2010 are set out below.

	2018 £'000s	2017 £'000s
Revenue available for distribution by way of dividends for the year	**69,438**	63,486
First interim dividend for the year ended 31 December 2018 – 2.70p per share (2017: 2.50p)	**(14,639)**	(13,583)
Second interim dividend for the year ended 31 December 2018 – 2.70p per share (2017: 2.50p)	**(14,639)**	(13,569)
Third interim dividend for the year ended 31 December 2018 – 2.80p per share (2017: 2.70p)	**(15,184)**	(14,639)
Proposed final dividend for the year ended 31 December 2018 – 2.80p per share (2017: 2.70p)	**(15,223)**	(14,639)
(estimated cost based on 543,680,712 shares in issue at 6 March 2019, excluding shares held in treasury)		
Estimated amount transferred to revenue reserve for Section 1159 purposes(1)	**9,753**	7,056

(1) Represents 11.1% of total income as stated in Note 3 (2017: 9.0%)

10. Investments and derivative financial instruments

	Level 1[1] £'000s	Level 3[1] £'000s	2018 Total £'000s	Level 1[1] £'000s	Level 3[1] £'000s	2017 Total £'000s
Cost at 1 January	**2,642,652**	**233,213**	**2,875,865**	2,262,356	225,866	2,488,222
Unrealised gains/(losses) at 1 January	**1,057,220**	**(6,527)**	**1,050,693**	904,205	40,255	944,460
Valuation at 1 January	**3,699,872**	**226,686**	**3,926,558**	3,166,561	266,121	3,432,682
Purchases at cost	**1,796,538**	**68,392**	**1,864,930**	1,362,594	33,933	1,396,527
Sales proceeds	**(1,842,255)**	**(69,088)**	**(1,911,343)**	(1,303,660)	(85,339)	(1,388,999)
Gains on investments sold	**347,271**	**49,679**	**396,950**	321,362	58,753	380,115
(Losses)/gains on investments held	**(551,546)**	**(7,939)**	**(559,485)**	153,015	(46,782)	106,233
Valuation at 31 December of investments	**3,449,880**	**267,730**	**3,717,610**	3,699,872	226,686	3,926,558
Analysed at 31 December						
Cost	**2,944,206**	**282,196**	**3,226,402**	2,642,652	233,213	2,875,865
Unrealised gains/(losses)	**505,674**	**(14,466)**	**491,208**	1,057,220	(6,527)	1,050,693
Valuation at 31 December of investments	**3,449,880**	**267,730**	**3,717,610**	3,699,872	226,686	3,926,558

(Losses)/gains on investments held at fair value	2018 £'000s	2017 £'000s
Gains on investments sold	**396,950**	380,115
(Losses)/gains on investments held at year end	**(559,485)**	106,233
Total (losses)/gains on investments	**(162,535)**	486,348

(1) The hierarchy of investments and derivative instruments is described in note 2(c)(i) and below.
No investments held in 2018 or 2017 were valued in accordance with Level 2.
Level 1 includes investments and derivatives listed on any recognised stock exchange or quoted on the AIM market in the UK and quoted open-ended funds.
Level 2 includes investments for which the quoted price has been suspended, forward exchange contracts and other derivative instruments.
Level 3 includes investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles, for which observable market data is not specifically available.

Investments managed or advised by BMO GAM

The portfolio of investments did not include at any time during the year any funds or investments managed or advised by BMO GAM (2017: none). Under the terms of the Company's Management Agreement with the Manager set out in note 4, the management fee is adjusted for fees earned by the Manager on all such holdings.

Unquoted investments

Unquoted investments include £266.5 million (2017: £225.3 million) of investments described as Private Equity, together with £1.2 million (2017: £1.4 million) of other partnerships, the underlying portfolios of which principally comprise unlisted investments. These are valued in accordance with the policies set out in note 2(c)(ii).

It is in the nature of Private Equity and similar unquoted investments that they may be loss making, with no certainty of survival, and that they may prove difficult to realise. The concept of "fair value" as applied to such investments is not precise and their ultimate realisation may be at a value materially different from that reflected in the accounts. Further details on the valuation process in respect of Private Equity investments can be found in note 25(d).

Derivative instruments

Derivative instruments included forward exchange contracts with a net exposure of £878,000 (2017: £nil) which were valued in accordance with level 2. See notes 14 and 25(c).

11. Substantial interests

At 31 December 2018 the Company held more than 3% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, provide the Company with significant influence.

Investment and share class	Country of registration, incorporation and operation	Number and class of shares held	Holding[(1)] %
Private Equity Funds			
Dover Street VI LP	USA	–	11.12
HarbourVest Partners VII – Buyout Partnership Fund LP	USA	–	3.86
HIPEP V – Direct Fund LP	USA	–	15.66
HarbourVest Partners V – Asia Pacific and Rest of World LP	USA	–	4.74
HIPEP VI – Emerging Markets Fund	USA	–	12.06
HIPEP VI – Asia Pacific Fund LP	USA	–	4.93
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.29
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Channel Islands	–	6.19
Pantheon Global Secondary Fund III LP	Scotland	–	3.50
Graycliff	USA	–	4.80
Volpi Capital	Europe	–	4.30
Maison Capital	China	–	4.80
PE Investment Holdings 2018 LP*	Scotland	–	100.00
Other Investments			
Esprit Capital Fund 1 LP	England	–	10.80
Utilico Emerging Markets Trust plc ord 1p	Bermuda	12,450,000	5.33

(1) The Company neither has a controlling interest nor significant influence in the management of any of these undertakings.

The Company had no subsidiaries at any time during the year.

*During the year the Company signed a Limited Partnership agreement in which it holds 100% of the Limited Partner share in PE Investment Holdings 2018 LP and BMO GAM holds the General Partner interest. The Partnership was set up to partake in Private Equity investments. The registered address of PE Investment Holdings 2018 LP is 6th Floor, Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG.

During the year 10 investments previously held directly by the Company were transferred into this LP at a value of £52m with no gain, no loss to the LP.

The profit for the year ended 31 December 2018 in the LP was £4,214,000 and the Capital and Reserves was £62,350,000.

The outstanding commitment is shown in note 22.

12. Debtors

	2018 £'000s	2017 £'000s
Investment debtors	**29,833**	5,442
Prepayments and accrued income	**5,232**	3,779
Overseas taxation recoverable	**3,633**	2,692
Other debtors	-	750
	38,698	12,663

13. Creditors: amounts falling due within one year

Loans Non-instalment debt payable on demand or within one year	2018 £'000s	2017 £'000s
$80 million repayable April 2019	62,814	-
¥6,600 million repayable April 2019	47,233	-
Sterling loan £50 million repaid January 2018	-	50,000
	110,047	50,000

In April 2012 the Company entered into a loan arrangement facility drawing loans in Yen and US dollars, equivalent at that date to £100 million, at commercial fixed interest rates, expiring April 2019. Early redemption penalties apply.

At 31 December 2018 there was £nil drawn down under the unsecured revolving credit facility. The facility is for £100 million with the option to extend the commitment by a further £100 million and expires in December 2019. Interest rate margins on the amounts drawn down are dependent upon commercial terms agreed with each bank. Commitment fees are payable on undrawn amounts at commercial rates. The Directors consider that the carrying value of the loan is equivalent to its fair value.

14. Creditors: amounts falling due within one year

Other	2018 £'000s	2017 £'000s
Investment creditors	30,757	6,820
Management fees payable to the Manager	1,858	1,734
Cost of ordinary shares repurchased	-	194
Foreign exchange contracts	878	-
Other accrued expenses	2,094	1,649
	35,587	10,397

15. Creditors: amounts falling due after more than one year

Loans Non-instalment debt payable after more than one year	2018 £'000s	2017 £'000s
$80 million repayable April 2019	-	59,139
¥6,600 million repayable April 2019	-	43,311
€72 million repayable July 2022	64,625	63,912
Loan notes £25 million repayable June 2028	25,000	25,000
Loan notes £50 million repayable June 2031	50,000	50,000
Loan notes £75 million repayable May 2048	75,000	-
	214,625	241,362

In July 2015 the Company entered into a loan arrangement facility drawing loans in Euros, equivalent at that date to £50 million, at commercial fixed interest rates, expiring July 2022. Early redemption penalties apply. In June 2016 the Company issued fixed rate senior unsecured notes in tranches of £25 million and £50 million sterling denominated loan notes expiring in June 2028 and June 2031 respectively. In May 2018 the Company issued fixed rate senior unsecured notes of £75 million sterling denominated loan notes expiring in May 2048. Interest rates applying to the notes are commercially competitive and fixed until the expiry dates.

At 6 March 2019, long-term borrowings comprised €72 million and £150 million loan notes (£212.0 million).

The market value of the long-term loans at 31 December 2018 was £220,534,000 based on the equivalent benchmark gilts or relevant commercially available current debt (2017: £245,595,000).

16. Creditors: amounts falling due after more than one year

Debenture	2018 £'000s	2017 £'000s
4.25% perpetual debenture stock – secured	575	575

The 4.25% perpetual debenture stock, which was issued in 1960, is listed on the London Stock Exchange and secured by floating charges over the assets of the Company. The market value of the debenture stock at 31 December 2018 was £429,000 (31 December 2017: £429,000).

17. Share capital

2018	Shares held in treasury Number	Shares entitled to dividend Number	Total shares in issue Number	Issued and fully paid nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	19,638,304	542,180,712	561,819,016	140,455
Shares sold from treasury	(100,000)	100,000	-	-
Balance carried forward	19,538,304	542,280,712	561,819,016	140,455

2017	Shares held in treasury Number	Shares entitled to dividend Number	Total shares in issue Number	Issued and fully paid Nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	15,246,154	546,572,862	561,819,016	140,455
Shares repurchased by the Company and held in treasury	4,392,150	(4,392,150)	–	–
Balance carried forward	19,638,304	542,180,712	561,819,016	140,455

During the year the Company issued 100,000 ordinary shares out of treasury raising proceeds of £667,000. The full proceeds of all shares issued is dealt with in Capital Reserve arising on investments sold.

Ordinary shares held in treasury have no voting rights and are not entitled to dividends.

Since the year end a further 1,400,000 shares have been issued, from treasury, raising proceeds of £9,324,000.

18. Capital redemption reserve

	2018 £'000s	2017 £'000s
Balance brought forward and carried forward	122,307	122,307

19. Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year:				
Gains on investments and derivatives sold (see note 10)	396,950	-	396,950	-
Losses on investments held at year end (see note 10)	-	(559,485)	(559,485)	-
Exchange movements on foreign currency loan and cash balances	(5,578)	21	(5,557)	-
Management fees (see note 4)	(12,830)	-	(12,830)	-
Finance costs (see note 6)	(6,664)	-	(6,664)	-
Other capital charges (see note 5)	(44)	-	(44)	-
Capital gains tax (see note 7)	(29)	-	(29)	-
Net revenue return attributable to shareholders	-	-	-	69,438
Total gains and losses transferred in current year	371,805	(559,464)	(187,659)	69,438
Proceeds from ordinary shares issued in year	667	-	667	-
Dividends paid in year (see note 9)	-	-	-	(58,556)
Balance brought forward	2,262,120	1,051,821	3,313,941	91,320
Balance carried forward	2,634,592	492,357	3,126,949	102,202

Included within the capital reserve movement for the year is £635,000 (2017: £1,122,000) of dividend receipts recognised as capital in nature. £2,191,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2017: £1,483,000). £685,000 of transaction costs on sales of investments are similarly included (2017: £798,000).

20. Net asset value per ordinary share

	2018 £'000s	2017 £'000s
Net asset value per share – pence	643.93	676.53
Net assets attributable at end of period – £'000s	3,491,913	3,668,023
Ordinary shares of 25p in issue at end of year, excluding shares held in treasury – number	542,280,712	542,180,712

Net asset value per share (with the debenture stock and long term loans at market value – see notes 15 and 16) was 642.87p (31 December 2017: 675.78p).

21. Reconciliation of net return before taxation to cash flows from operating activities

	2018 £'000s	2017 £'000s
Net return on ordinary activities before taxation	**(110,177)**	542,686
Adjust for non-cash flow items, dividend income and interest expense:		
Losses/(gains) on investments	**162,535**	(486,348)
Exchange losses/(profits)	**5,358**	(3,233)
Non-operating expenses of a capital nature	**44**	61
Decrease/(increase) in debtors	**782**	(793)
Increase/(decrease) in creditors	**324**	(201)
Dividends receivable	**(86,692)**	(77,934)
Interest payable	**8,885**	7,432
Tax on overseas income and Indian Capital Gains Tax	**(8,754)**	(7,896)
	82,482	(568,912)
Cash flows from operating activities (before dividends received and interest paid)	**(27,695)**	(26,226)

22. Capital commitments

The Company had the following outstanding capital commitments at the year end:

	2018 Currency	2017 Currency	2018 £'000s	2017 £'000s
Managed by HarbourVest:				
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	US$4.3m	US$4.3m	3,368	3,171
– Venture Partnership Fund LP	US$0.5m	US$0.5m	412	388
– Mezzanine Fund LP	US$0.7m	US$0.7m	565	532
Dover Street VI LP	US$3.1m	US$3.1m	2,440	2,297
Dover Street VII LP	US$3.2m	US$3.2m	2,503	2,356
HarbourVest Partners V – Asia Pacific and Rest of World LP	US$1.5m	US$1.5m	1,178	1,109
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	US$2.7m	US$2.7m	2,120	1,996
– Venture Partnership Fund LP	US$0.8m	US$0.8m	628	591
HIPEP V – Direct Fund LP	€3.0m	€3.0m	2,693	2,663
HIPEP VI – Asia Pacific Fund LP	US$1.5m	US$1.6m	1,178	1,201
HIPEP VI – Emerging Markets Fund	US$0.6m	US$1.6m	491	1,201
Managed by Pantheon:				
Pantheon Europe Fund III LP	€5.4m	€5.4m	4,811	4,758
Pantheon Europe Fund V LP	€6.3m	€6.3m	5,655	5,592
Pantheon Asia Fund IV LP	US$2.7m	US$3.0m	2,081	2,181
Pantheon Asia Fund V LP	US$4.1m	US$4.1m	3,239	3,049
Pantheon Global Secondary Fund III LP	US$2.4m	US$2.4m	1,924	1,811
Selected by BMO GAM:				
Esprit Capital Fund I LP	£0.27m	£0.27m	265	265
Astorg VI(1)	€2.8m	€4.8m	2,513	4,296
Inflexion Supplemental IV(1)	£0.5m	£1.4m	515	1,438
August Equity IV(1)	£3.8m	£4.8m	3,779	4,826
DBAG Fund VII(1)	€4.0m	€5.1m	3,573	4,506
DBAG Fund VII B(1)	€0.9m	€0.9m	820	816
Procuritas VI(1)	€5.6m	€6.1m	4,996	5,421
Warburg Pincus China Fund(1)	US$2.2m	US$5.2m	1,715	3,809
Stellex Capital(1)	US$2.2m	US$3.4m	1,744	2,480
Centana(1)	US$2.6m	US$3.3m	2,031	2,462
Graycliff(1)	US$2.8m	US$3.7m	2,196	2,766
Apposite Healthcare(1)	–	£1.6m	–	1,638
NEM Imprese III(1)	€3.0m	–	2,698	–
Volpi Capital(1)	€0.4m	–	384	–
MidOcean(1)	US$8.6m	–	6,753	–
Maison Capital(1)	US$6.1m	–	4,827	–
Inflexion Partnership Capital II(1)	£3.5m	–	3,491	–
Inflexion Buyout Fund V(1)	£3.8m	–	3,781	–
PE Investment Holdings 2018 LP(1)	£104.1m	–	104,147	–
Verdane Edda(1)	SEK 80.0m	–	7,085	–
MVM(1)	US$13m	–	10,207	–
		–	202,806	69,619

(1) BMO GAM is responsible for the selection and oversight of these funds, within the terms of its management agreement with the Company.

23. Related party transactions

The following are considered related parties: the Board of Directors and the Manager (including fellow members of BMO).

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Remuneration Report on page 45 and as set out in note 5. There were no outstanding balances with the Board at the year end. There were no transactions with the BMO group other than those detailed: in note 4 on management fees; in note 10, where investments managed or advised by BMO GAM are disclosed; in note 14 in relation to fees owed to the Manager at the Balance Sheet date; and in the Report of the Management Engagement Committee on page 41 regarding the Management agreement in respect of Private Equity fees and a trademark licence agreement, in respect of the "F&C" name.

24. Going Concern

The Company's investment objective, strategy and policy are subject to a process of regular Board monitoring and are designed to ensure that the Company is invested mainly in readily realisable, publicly listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by the Custodian and agreements cover its borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager and the Board.

The Directors believe that: the Company's objective and policy continue to be relevant to investors; the Company operates within a robust regulatory environment; and the Company has sufficient resources to continue operating within its stated policy for the 12 month period commencing from the date of this report. Accordingly, the financial statements have been drawn up on the basis that the Company is a going concern.

25. Financial Risk Management

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the UK as an investment trust under the provisions of Section 1158 of the Corporation Tax Act 2010. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and Private Equity, with the use of gearing. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board of Directors, together with the Manager, is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The significant accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice, and include the valuation of financial assets and liabilities at fair value except as noted in (d) below and in notes 15 and 16 in respect of loans and the perpetual debenture stock. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities, including any derivatives, held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies, interest rates and other macroeconomic, market and financial issues, including the market perception of future risks. The Board's policies for managing these risks within the Company's objective are set out on page 9. The Board meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

The Company's other assets and liabilities may be denominated in currencies other than Sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in foreign exchange rates. The debenture deed and loan contracts are agreed and signed by the Board and compliance with the agreements is monitored by the Board at each meeting. Gearing may be short- or long-term in Sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

Financial Risk Management (continued)

Currency Exposure

The carrying value of the Company's assets and liabilities at 31 December, by currency, are shown below:

2018	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,010	26,956	(575)	(150,000)	(2,254)	(124,863)	352,259	227,396
US Dollar	15,072	50,668	–	(62,814)	(14,050)	(11,124)	2,097,488	2,086,364
Euro	1,696	17,057	–	(64,625)	(403)	(46,275)	437,294	391,019
Yen	1,050	1,750	–	(47,233)	(4,407)	(48,840)	367,832	318,992
Other	19,870	8	–	–	(14,473)	5,405	462,737	468,142
Total	38,698	96,439	(575)	(324,672)	(35,587)	(225,697)	3,717,610	3,491,913

2017	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,911	(3,291)	(575)	(125,000)	(2,075)	(129,030)	452,800	323,770
US Dollar	2,987	27,617	–	(59,139)	(1,801)	(30,336)	1,969,588	1,939,252
Euro	1,644	3,932	–	(63,912)	(544)	(58,880)	543,830	484,950
Yen	814	1,597	–	(43,311)	(211)	(41,111)	417,635	376,524
Other	5,307	1,281	–	–	(5,766)	822	542,705	543,527
Total	12,663	31,136	(575)	(291,362)	(10,397)	(258,535)	3,926,558	3,668,023

The principal currencies to which the Company was exposed were the US Dollar, Euro and Yen. The exchange rates applying against Sterling at 31 December, and the average rates during the year, were as follows:

	2018	Average	2017
US Dollar	1.2736	1.3328	1.3527
Euro	1.1141	1.1291	1.1265
Yen	139.7330	147.1721	152.3873

Based on the financial assets and liabilities held, and exchange rates applying at each Balance Sheet date, a weakening or strengthening of Sterling against each of these currencies by 10% would have had the following approximate effect on annualised income after tax and on NAV per share:

Weakening of Sterling	US$ £'000s	€ £'000s	2018 ¥ £'000s	US$ £'000s	€ £'000s	2017 ¥ £'000s
Income Statement Return after tax						
Revenue return	2,485	1,496	814	1,983	1,370	708
Capital return	208,636	39,102	31,899	193,925	48,495	37,653
Total return	211,121	40,598	32,713	195,908	49,865	38,361
NAV per share – pence	38.93	7.49	6.03	36.13	9.20	7.08

25. Financial Risk Management (continued)

Strengthening of Sterling	US$ £'000s	€ £'000s	2018 ¥ £'000s	US$ £'000s	€ £'000s	2017 ¥ £'000s
Income statement return after tax						
Revenue return	**(2,485)**	**(1,496)**	**(814)**	(1,983)	(1,370)	(708)
Capital return	**(208,636)**	**(39,102)**	**(31,899)**	(193,925)	(48,495)	(37,653)
Total return	**(211,121)**	**(40,598)**	**(32,713)**	(195,908)	(49,865)	(38,361)
NAV per share – pence	**(38.93)**	**(7.49)**	**(6.03)**	(36.13)	(9.20)	(7.08)

These analyses are broadly representative of the Company's activities during the current and prior years as a whole, although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate risks at 31 December is shown below:

	Within one year £'000s	More than one year £'000s	2018 Total £'000s	Within one year £'000s	More than one year £'000s	2017 Total £'000s
Exposure to floating rates						
Cash	**27,875**	**–**	**27,875**	3,461	–	3,461
Exposure to fixed rates						
Deposits	**68,564**	**–**	**68,564**	27,675	–	27,675
Debentures	**-**	**(575)**	**(575)**	–	(575)	(575)
Other borrowings	**(110,047)**	**(214,625)**	**(324,672)**	(50,000)	(241,362)	(291,362)
Net exposures						
At year end	**(13,608)**	**(215,200)**	**(228,808)**	(18,864)	(241,937)	(260,801)
Maximum in year	**(95,115)**	**(214,421)**	**(309,536)**	(18,864)	(241,937)	(260,801)
Minimum in year	**(13,608)**	**(215,200)**	**(228,808)**	45,705	(253,741)	(208,036)

Exposures vary throughout the year as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management processes.

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rate applying on the debenture stock is set out in note 16. There were no material holdings in fixed interest investment securities during the year or at the year end.

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, except in respect of the debenture and loans (see notes 13, 15 and 16), on which the interest rates are fixed.

Based on the financial assets and liabilities held, and the interest rates pertaining, at each Balance Sheet date, a decrease or increase in interest rates by 2% would have the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV:

	2018 Increase in rate £'000s	2018 Decrease in rate £'000s	2017 Increase in rate £'000s	2017 Decrease in rate £'000s
Revenue return	**557**	**(557)**	69	(69)
Capital return	**–**	**–**	–	–
Total return	**557**	**(557)**	69	(69)
NAV per share – pence	**0.10**	**(0.10)**	0.01	(0.01)

Other market risk exposures

The portfolio of investments, valued at £3,717,610,000 at 31 December 2018 (2017: £3,926,558,000) is exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by region and major industrial sector is set out in the Fund Manager's Review.

Based on the portfolio of investments held at each Balance Sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV:

	2018 Increase in value £'000s	2018 Decrease in value £'000s	2017 Increase in value £'000s	2017 Decrease in value £'000s
Income statement capital return	**743,522**	**(743,522)**	785,312	(785,312)
NAV per share – pence	**137.11**	**(137.11)**	144.84	(144.84)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments, Private Equity investments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (over 450 at 31 December 2018); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio and the existence of ongoing overdraft and loan facility agreements. Cash balances are held with approved banks, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £400 million as set out in notes 13 and 15 on the accounts together with an option to extend by a further £100 million. The facilities limit the amount which the Company may borrow at any one time as a proportion of the relevant portfolio of investments and cash. The most onerous financial covenant limits total borrowings to 35% of the Company's adjusted net asset value, which at 31 December 2018 was £3,224 million. Actual borrowings at market value at 31 December 2018 were £330.6 million in loans (see notes 13 and 15) and £0.4 million in a debenture at market value (see note 16).

At 31 December 2018 the Company had £202.8 million outstanding commitments to Private Equity investments, payable over more than one year (see note 22).

25. Financial Risk Management (continued)

The contractual maturities of the financial liabilities at each balance sheet date, based on the earliest date on which payment can be required, were as follows:

2018	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Forward exchange contracts	878	-	-	878
Other creditors	35,633	110,283	-	145,916
Long-term liabilities[1] (including interest)	273	5,314	305,726	311,313
	36,784	115,597	305,726	458,107

(1) See notes 15 and 16 for maturity dates

2017	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Other creditors	60,425	–	–	60,425
Long-term liabilities[1] (including interest)	1,132	5,701	273,842	280,675
	61,557	5,701	273,842	341,100

(c) Credit risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. The Board reviews all counterparties used in such transactions, which must be settled on the basis of delivery against payment (except where local market conditions do not permit).

A list of pre-approved counterparties is maintained by the Manager. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Payments in respect of Private Equity investments are made only to counterparties with whom a contracted commitment exists. Cash and deposits are held with approved banks.

The Company has an ongoing contract with the Custodian for the provision of custody services. The contract was reviewed and updated in 2017. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The Depositary has regulatory responsibilities relating to segregation and safe keeping of the Company's financial assets, amongst other duties, as set out in the Directors' Report. The Board has direct access to the Depositary and receives regular reports from it via the Manager.

To the extent that the Manager carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk continuously through regular meetings with the management of BMO GAM (including the Fund Manager) and with its Risk Management function. In reaching its conclusions, the Board also reviews BMO GAM's annual Audit and Assurance Faculty Report.

The Company had no credit-rated bonds or similar securities in its portfolio at the year end (2017: none) and does not normally invest in them. None of the Company's financial liabilities is past its due date or impaired.

During the year the Company sold EUR 22.5m, USD 89.7m and JPY 1,444.0m for sterling resulting in a net exposure of £878,000 as at 31 December 2018. No derivative transactions were undertaken in 2017. The maximum exposure to credit risk on cash and debtors equates to their carrying amounts.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof, except for the long-term loans which are carried at amortised cost and the debenture which is carried at proceeds less costs, in accordance with Accounting Standards. The fair values of the long-term loans and debenture at 31 December 2018 are set out in notes 15 and 16. Borrowings under overdraft and short-term loan facilities do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchange rates ruling at each valuation date.

Financial Risk Management (continued)

The fair value of investments quoted on active markets is determined directly by reference to published price quotations in these markets.

Unquoted investments, including Private Equity investments, are valued based on professional advice and assumptions that are not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques including reference to: net assets; industry benchmarks; cost of investment; roll forward of calls and redemptions; and recent arm's length transactions in the same or similar investments. With respect specifically to investments in Private Equity funds or partnerships, the underlying investment advisers and managers provide regular estimated valuations to the Directors, based on the latest information available to the managers. The Directors review these valuations for consistency with the Company's own accounting policies and with fair value principles. The investment advisers' and managers' estimated valuations relating to the Private Equity funds' period ends are compared annually by the Directors to the final audited annual valuations of those funds to ensure that the managers' valuation techniques gave rise to valid estimates. The Directors were satisfied with the results of this annual review, which took place most recently in June 2018, indicating that the Company can, all things being equal, continue to place reliance on the Private Equity advisers' and managers' estimates and valuation techniques.

(e) Capital risk management

The objective of the Company is stated as being to secure long-term growth in capital and income. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to:

- issue and buy back share capital within limits set by the shareholders in general meeting;
- borrow monies in the short and long terms; and
- pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue and capital reserves.

Changes to ordinary share capital are set out in note 17. Dividend payments are set out in note 9. The Directors have no current intention to pay dividends out of capital reserves. Borrowings are set out in notes 13, 15 and 16.

26. AIFMD

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM are required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy and costs are available on the Company's website or from BMO on request.

The Company's maximum and actual leverage levels at 31 December 2018 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum permitted limit	200%	200%
Actual	109%	109%

The Leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

27. Securities financing transactions ("SFT")

The Company has not, in the year to 31 December 2018 (2017: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

Ten Year Record (unaudited)

All Company data are based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies and is unaudited but derived from the audited Accounts or specified third party data providers.

Assets
at 31 December

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Total assets less current liabilities (excl loans)	2,003	2,069	2,425	2,214	2,401	2,657	2,838	3,001	3,461	3,960	**3,817**
Prior charges	221	111	282	286	322	227	261	299	248	292	**325**
Available for ordinary shares	1,782	1,958	2,143	1,928	2,079	2,430	2,577	2,702	3,213	3,668	**3,492**
Number of ordinary shares (million)(1)	679	632	610	590	577	570	562	559	547	542	**542**

NAV
at 31 December

pence	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
NAV per share – with debt at par	262.5	309.8	351.2	326.6	360.2	426.1	458.4	483.4	587.9	676.5	**643.9**
NAV total return % – 5 years(2)											**65.3**
NAV total return % – 10 years(2)											**204.0**

Share Price
at 31 December

pence	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Middle market price per share	228.5	272.1	309.6	288.5	320.5	378.0	421.2	449.2	544.0	647.0	**633.0**
Share price High	319.0	275.3	311.0	327.9	321.6	383.0	425.9	465.0	544.0	649.0	**741.0**
Share price Low	209.0	185.8	251.4	261.5	282.5	320.5	363.0	401.6	391.2	542.0	**612.0**
Share price total return % – 5 years(2)											**84.3**
Share price total return % – 10 years(2)											**247.5**

Revenue
for the year ended 31 December

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Available for ordinary shares – £'000s	46,989	35,609	34,654	40,270	40,841	44,037	37,857	47,262(3)	58,393(3)	63,486(3)	**69,438(3)**
Net revenue return per share – pence	6.90	5.31	5.61	6.74	7.02	7.69	6.69	8.42	10.57	11.67	**12.81**
Dividends per share – pence	6.45	6.65	6.75	7.10	8.50	9.00	9.30	9.60	9.85	10.40	**11.00**

(1) Shares entitled to dividends.
(2) Source: Morningstar UK Limited.
(3) Management fees and finance costs allocated 25% to revenue account (previously 50%).

Performance

(Rebased to 100 at 31 December 2008)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV per share	100.0	118.0	133.8	124.4	137.2	162.3	174.6	184.2	224.0	257.7	**245.3**
Middle market price per share	100.0	119.1	135.5	126.3	140.3	165.4	184.3	196.6	238.1	283.2	**277.0**
Net revenue return per share	100.0	77.0	81.3	97.7	101.7	111.4	97.0	122.0	153.2	169.1	**185.7**
Dividends per share	100.0	103.1	104.7	110.1	131.8	139.5	144.2	148.8	152.7	161.2	**170.5**
Consumer Prices Index	100.0	102.9	106.7	111.2	114.2	116.5	117.1	117.4	119.2	122.7	**125.3**

Cost of running the Company

%	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expressed as a percentage of average net assets:											
Total Expense Ratio(4)	0.64	0.63	0.59	0.57	0.55	0.50	0.53	0.53	0.53	0.52	**0.56**
Ongoing Charges(4)(5)	–	–	–	0.92	0.90	0.86	0.87	0.80	0.79	0.79	**0.65**
Total Costs(4)(6)	–	–	–	–	–	–	–	–	–	1.06	**1.01**

Gearing(7)

at 31 December %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net gearing	12.2	6.0	13.2	15.8	14.3	8.0	8.9	8.6	6.9	7.2	**6.6**

(4) See Alternative Performance Measures on page 95 for explanation.
(5) Not calculated for years prior to 2011.
(6) Not calculated for years prior to 2017.
(7) See Glossary of Terms "Gearing", page 97.

Analysis of Ordinary Shareholders

Category	Holding % at 31 Dec 2018	Holding % at 31 Dec 2017
BMO Savings Plans	45.1	45.0
Discretionary/Advisory	17.9	17.7
Platforms (IFA(1) and Direct to Consumer)	20.2	15.8
Institutions	7.0	9.8
Direct Individuals	6.9	8.7
Old Mutual International	2.9	3.0
	100.0	100.0

Source: BMO GAM.
(1) Independent Financial Adviser products.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and fortieth Annual General Meeting of the Company will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Thursday 2 May 2019 at 12 noon for the following purposes:

Ordinary Resolutions:

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 31 December 2018.
2. To approve the Directors' annual report on remuneration (excluding the Directors' remuneration policy).
3. To declare a final dividend for the year ended 31 December 2018 of 2.8 pence per ordinary share.
4. To re-elect Sarah Arkle as a Director.
5. To re-elect Sir Roger Bone as a Director.
6. To re-elect Francesca Ecsery as a Director.
7. To re-elect Simon Fraser as a Director.
8. To re-elect Jeffrey Hewitt as a Director.
9. To re-elect Beatrice Hollond as a Director.
10. To re-elect Edward Knapp as a Director.
11. To re-elect Nicholas Moakes as a Director.
12. To re-appoint Ernst & Young LLP as auditors to the Company.
13. To authorise the Audit Committee to determine the remuneration of the auditors.
14. Authority to allot shares.

THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "relevant securities") up to an aggregate nominal amount of £6,700,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2020 or 30 June 2020 (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "relevant period") save that the Company may, at any time prior to the expiry of this authority, make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

Special Resolutions:

To consider and, if thought fit, pass the following resolutions as special resolutions:

15. Disapplication of pre-emption rights

THAT, subject to the passing of resolution 14 above and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby authorised, pursuant to sections 570 and 573 of the Companies Act 2006 (the "Act"), to allot equity securities (within the meaning of section 560 of the Act) either pursuant to the authority conferred by resolution 14 for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment or transfer, provided this authority shall be limited to:

(a) the allotment of equity securities in connection with an offer of equity securities:
    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
    (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and

(b) the allotment (otherwise than under paragraph (a) of this Resolution 15) of equity securities up to an aggregate nominal amount of £6,700,000, and shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 30 June 2020 (whichever is the earlier), unless extended by the Company in a general meeting (the "relevant period") save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.

16. Share buyback authority

THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 81,270,000 or, if less, 14.99% of the number of ordinary shares in issue (excluding treasury shares) as at the date of the passing of this resolution;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is the higher of:

(i) an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased, and

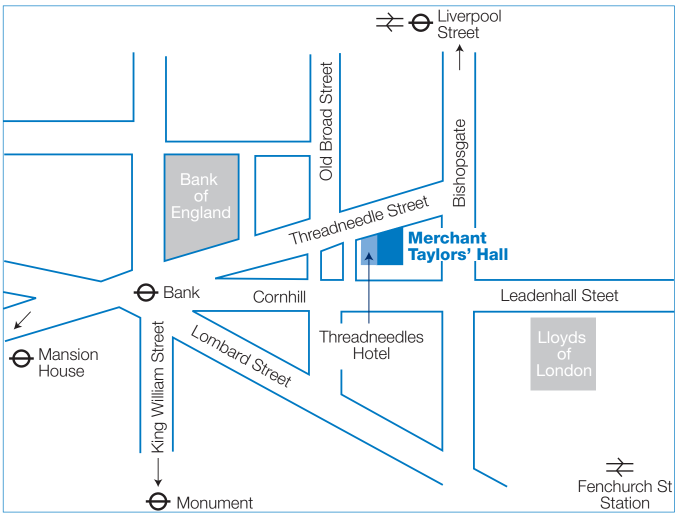
(ii) an amount equal to the higher of the price of the last independent trade for an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out;

(d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company after passing of this resolution or on 30 June 2020 (whichever is earlier) unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(e) the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or may be completed or executed wholly or partly after the expiration of such authority and the Company may purchase ordinary shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

By Order of the Board	**Registered office:**
BMO Investment	**Exchange House**
Business Limited	**Primrose Street**
Secretary	**London EC2A 2NY**
11 March 2019	
	Registered number: 12901

Meeting Location



Notes:

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.

2. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure Guidance and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority ("FCA"). As a result, any person holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Guidance and Transparency Rules need not make a separate notification to the Company and the FCA.

3. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such person complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.

4. A Form of Proxy is provided with this notice for members. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Computershare Investor Services PLC on 0800 923 1506. To be valid, the Form of Proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be received by post or (during normal business hours only) by hand at the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof. Completion and return of a Form of Proxy will not preclude members from attending and voting at the meeting should they wish to do so. Amended instructions must also be received by the Company's registrars by the deadline for receipt of Forms of Proxy.

5. Alternatively, members may register the appointment of a proxy for the meeting electronically, by accessing the website eproxyappointment.com where full instructions for the procedure are given. The Control Number, Shareholder Reference and PIN as printed on the Form of Proxy will be required in order to use the electronic proxy appointment system. This website is operated by Computershare Investor Services PLC. The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by Computershare Investor Services PLC not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. If you want to appoint more than one proxy electronically please contact Computershare Investor Services PLC on 0800 923 1506.

6. Investors holding shares in the Company through the BMO Investment Trust ISA, Junior ISA, Child Trust Fund, General Investment Account and/or Junior Investment Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 12 noon on 25 April 2019. Alternatively, voting directions can be submitted electronically at eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN as printed on the form of direction. Voting directions must be submitted electronically no later than 12 noon on 25 April 2019.

7. Any person receiving a copy of this notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in notes 1, 4 and 5 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.

8. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps, the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 (the "Act"), the Company has specified that only those members registered on the register of members of the Company at close of business on 30 April 2019 (the "Specified Time") (or, if the meeting is adjourned to a time more than 48 hours after the Specified Time, by close of business on the day which is two days prior to the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via euroclear.com/CREST). The message, regardless

of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by the latest time(s) for receipt of proxy appointments specified in notes 4 and 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

12. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (euroclear.com/CREST).

13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares.

15. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

(a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or

(b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act.

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

17. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. However, members should note that no answer need be given in the following circumstances:

(a) if to do so would interfere unduly with the preparation of the meeting or would involve a disclosure of confidential information;

(b) if the answer has already been given on a website in the form of an answer to a question; or

(c) if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

18. As at 6 March 2019, being the last practicable date prior to the printing of this notice, the Company's issued capital (less the shares held in Treasury) consisted of 543,680,712 ordinary shares of 25 pence each carrying one vote each. Therefore, the total voting rights in the Company as at 6 March 2019 are 543,680,712.

19. This notice, together with information about the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 6 March 2019 being the last practicable date prior to the printing of this notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at fandcit.com.

20. Any electronic address provided either in this notice or in any related documents (including the Form of Proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

21. Copies of the letters of appointment between the Company and its Directors; a copy of the articles of association of the Company; the register of Directors' holdings; and a deed poll relating to Directors' indemnities will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays,

Sundays and Bank Holidays excluded) until the date of the meeting and also on the date and at the place of the meeting from 15 minutes prior to the commencement of the meeting to the conclusion thereof.

22. No Director has a service agreement with the Company.

23. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections have the right to require the Company;

    (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

    (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

(a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise),

(b) it is defamatory of any person or

(c) it is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 20 March 2019, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Information for Shareholders

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in August and March respectively. More up-to-date performance information, including the full list of investments in the portfolio as at the most recent month end, is available on the Internet at fandcit.com. The website also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

Key Information Document

The Key Information Document relating to the Company's shares can be found on its website at fandcit.com. This document has been produced in accordance with the EU's PRIIPs Regulations.

Net asset value and share price

The Company's net asset value is released daily, on the working day following the calculation date, to the London and New Zealand Stock Exchanges. The current share price of FCIT is shown in the investment trust section of the stock market page in most leading newspapers. Investors in New Zealand can obtain share prices from leading newspapers in that country.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £11,700 in the tax year ended 5 April 2019 without incurring any tax liability.

A rate of CGT of 10% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£34,500 in 2018–19 tax year). A higher rate of 20% will apply to those whose income and gains exceed this figure.

Income tax

The final dividend of 2.80 pence per share is payable on 8 May 2019. Since 6 April 2018 the annual tax-free allowance to UK residents on dividend income received in their entire share portfolios is £2,000. Dividend income received in excess of this amount will be taxed at rates of 7.5% (basic rate taxpayers), 32.5% (higher rate taxpayers) or 38.1% (additional rate taxpayers).

Association of Investment Companies ("AIC")

FCIT is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk.

Unclaimed dividends

The Company has engaged the services of Georgeson (a subsidiary of Computershare) to locate shareholders, or their beneficiaries, who have lost track of or are unaware of their investments. The service is provided at no cost to the Company; Georgeson retain 10% of unclaimed dividends from the shareholder on completion of each successful claim. Alternatively, shareholders are given the option of contacting the Registrar themselves, thereby incurring no charges.

Common reporting standards

Tax legislation requires investment fund companies to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders, and corporate entities who have purchased shares in investment trusts. All new shareholders, excluding those whose shares are held in CREST, who are entered onto the share register are sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders gov.uk/government/publications/exchange-of-information-account-holders.

Registered in England and Wales with Company Registration No. 12901

How to invest

One of the most convenient ways to invest in F&C Investment Trust PLC is through one of the savings plans run by BMO.

BMO Investment Trust ISA
You can use your ISA allowance to make an annual tax-efficient investment of up to £20,000 for the 2019/20 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits.

BMO Junior ISA (JISA)*
You can invest up to £4,368 for the tax year 2019/20 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with BMO or another provider) to a BMO JISA.

BMO Child Trust Fund (CTF)*
If your child has a CTF you can invest up to £4,368 for the 2019/20 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to a BMO CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

BMO General Investment Account (GIA)
This is a flexible way to invest in our range of Investment Trusts. There are no maximum contributions, and investments can be made from £500 lump sum or £50 a month per Trust. You can also make additional lump sum top-ups at any time from £250 per Trust.

BMO Junior Investment Account (JIA)
This is a flexible way to save for a child in our range of Investment Trusts. There are no maximum contributions, and the plan can easily be set up under bare trust (where the child is noted as the beneficial owner) or kept in your name if you wish to retain control over the investment. Investments can be made from a £250 lump sum or £25 a month per Trust. You can also make additional lump sum top-ups at any time from £100 per Trust.

* The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18.

** Calls may be recorded or monitored for training and quality purposes.

A part of BMO Financial Group

Charges
Annual management charges and other charges apply according to the type of plan.

Annual account charge
ISA: £60+VAT
GIA: £40+VAT
JISA/JIA/CTF: £25+VAT
You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits)

Dealing charges
ISA: 0.2%
GIA/JIA/JISA: postal instructions £12, online instructions £8 per Trust.
Dealing charges apply when shares are bought or sold but not on the reinvestment of dividends or the investment of monthly direct debits for the GIA, JIA and JISA.
There are no dealing charges on a CTF but a switching charge of £25 applies if more than 2 switches are carried out in one year.
Government stamp duty of 0.5% also applies on the purchase of shares (where applicable).
There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan.
The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please ensure you have read the full Terms and Conditions, Privacy Policy and relevant Key Features documents before investing.
For regulatory purposes, please ensure you have read the Pre-sales cost disclosures related to the product you are applying for, and the relevant Key Information Documents (KIDs) for the investment trusts you are wanting to invest into.

HOW TO INVEST
To open a new BMO plan, apply online at bmogam.com/apply

Note, this is not available if you are transferring an existing plan with another provider to BMO, or if you are applying for a new plan in more than one name.

New Customers:
Call: 0800 136 420**
(8:30am – 5:30pm, weekdays.)
Email: info@bmogam.com

Existing Plan Holders:
Call: 0345 600 3030**
(9:00am – 5:00pm, weekdays)
Email: investor.enquiries@bmogam.com
By post: BMO Administration Centre
PO Box 11114
Chelmsford CM99 2DG

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include: **Alliance Trust Savings, Halifax, Hargreaves Lansdown, HSBC, Interactive Investor, LLoyds Bank, Selftrade, The Share Centre.**

Alternative Performance Measures

The Company uses the following Alternative Performance Measures ("**APMs**"):

Discount/Premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stockmarket. This price is not identical to NAV per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers of shares than buyers. Shares trading at a price above NAV per share are said to be at a premium, in which case there tend to be more buyers than sellers. The Board's discount policy is set out on page 17.

Net Asset Value (NAV) with Debt at Market Value – the Company's debt (debenture and loans) is valued in the Balance Sheet (on page 62) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as "Debt at Par". The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the "Debt at Market Value" or "Debt at Fair value". This Market Value is spelt out in notes 15 and 16 (pages 75 and 76) on the Accounts. The difference between market and par values of the debt is subtracted from or added to the Balance Sheet NAV on page 62 to derive the NAV with debt at market value. The NAV with debt at market value at 31 December 2018 was £3,486,150,000 (642.87p per share) and the NAV with debt at par was £3,491,913,000 (643.93p per share).

Ongoing Charges – all operating costs expected to be regularly incurred and that are payable by the Company or suffered within underlying investee funds (including Private Equity funds), expressed as a proportion of the average daily net asset values of the Company (valued in accordance with accounting policies) over the reporting year. The costs of buying and selling investments and derivatives are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares.

Total Costs – calculated in accordance with EU rules, comprise all operating costs actually incurred by the Company in the period, including transaction costs and interest on borrowings, together with costs suffered in the period within underlying investee funds and estimated implicit costs of dealing[1], expressed as a proportion of the average daily NAV of the Company over the period. Taxation expense and the costs of buying back or issuing ordinary shares are excluded from the calculation.

The principal reasons for the excess of Total Costs over Ongoing Charges are as follows:
Finance costs on loans, debenture and overdrafts – £8.9m or 0.25% of net assets
Transaction charges and implicit dealing costs – £2.6m or 0.07% of average net assets

Total costs for years prior to 2017 have not been calculated.

Total Expense Ratio (TER) – an alternative measure of expenses to Ongoing Charges. It comprises all operating costs incurred in the reporting period by the Company (see note 4 (page 69) and note 5 (page 70) on the Accounts), calculated as a percentage of the average daily net asset values (valued in accordance with accounting policies) in that year (see Ten Year Record). Operating costs exclude costs suffered within investee funds, costs of buying and selling investments and derivatives, interest costs, taxation and the costs of buying back or issuing ordinary shares.

Total Return – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV (with debt at market value) in the period. The dividends are assumed to have been re-invested in the form of shares or net assets, respectively, on the date on which the shares were quoted ex-dividend. Dividends paid and payable are set out in note 9 on the Accounts (on page 72).

(1) the cost differential between the mid-market price of the asset (before the order is placed in the market) and the price at which the deal is struck – as defined by PRIIPs regulations issued by the European Union (see Glossary of Terms, "PRIIPs" on page 99.

Glossary of Terms

AAF Report – Report prepared in accordance with Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

Administrator – The administrator is State Street Bank and Trust Company to which BMO has outsourced trade processing, valuation and middle office tasks and systems.

AGM – annual general meeting of the Company to be held on 2 May 2019.

AIC – Association of Investment Companies, the trade body for closed-ended Investment Companies.

AIFMD – the Alternative Investment Fund Managers Directive that requires investment vehicles in the European Union to appoint a Depositary and an Alternative Investment Fund Manager.

AIFM – the Alternative Investment Fund Manager appointed by the Board of Directors in accordance with the AIFMD is the Company's Manager, as defined below.

BMO – Bank of Montreal, which is the parent company of BMO Asset Management (Holdings) PLC which in turn owns BMO GAM.

BMO GAM – Together, the Manager and it's sister company, BMO Asset Management Limited, which operate under the trading name BMO Global Asset Management.

BMO savings plans – previously the F&C savings plans, these are now the BMO General Investment Account, BMO Junior Investment Account, BMO Investment Trust ISA, BMO Junior ISA and BMO Child Trust Fund operated by BMO Asset Management Limited, a company authorised by the Financial Conduct Authority.

Benchmark – the FTSE All-World (Total Return) Index is the benchmark against which the increase or decrease in the Company's net asset value is measured. The Index averages the performance of a defined selection of companies listed in stock markets around the world and gives an indication of how those markets have performed in any period. Divergence between the performance of the Company and the Index is to be expected as: the investments within this Index are not identical to those of the Company; the Index does not take account of operating costs; and the Company's strategy does not include replicating (tracking) this Index.

Closed-ended company – a company, including an Investment Company, with a fixed issued ordinary share capital, the shares of which are traded on an exchange at a price not necessarily related to the net asset value of the company and which can only be issued or bought back by the company in certain circumstances.

CMA – Competition and Markets Authority, an independent non-ministerial government department which promotes competition for the benefit of consumers.

Cum-dividend – shares are classified as cum-dividend when the buyer of a security is entitled to receive a dividend that has been declared, but not paid. Shares which are not cum-dividend are described as ex-dividend.

Custodian – The Custodian is JPMorgan Chase Bank. The custodian is a financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services.

Depositary – The Depositary is JPMorgan Europe Limited. Under AIFMD rules the Company must appoint a Depositary whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under the AIFMD rules, the Depositary has strict liability for the loss of the Company's financial assets in respect of which it has safe-keeping duties. The Depositary's oversight duties will include but are not limited to oversight of share buybacks, dividend payments and adherence to investment limits.

Derivative – a contract between two or more parties, the value of which fluctuates in accordance with the value of an underlying security. The contract is usually short-term (for less than one year). Examples of derivatives are Put and Call Options, Swap contracts, Futures and Contracts for Difference. A derivative can be an asset or a liability and is a form of gearing because the fluctuations in its value are usually greater than the fluctuations in the underlying security's value.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital (see notes 2(c)(xi), 17, 18 and 19 on the Accounts). Company Law requires that Share Capital and the Capital Redemption Reserve may not be distributed. The Company's articles of association allow distributions by way of dividend out of Capital Reserves. Dividend payments are currently made out of Revenue Reserve. The cost of all share buybacks is deducted from Capital Reserves.

Dividend Dates – Reference is made in announcements of dividends to three dates. The "record" date is the date after which buyers of the shares will not be recorded on the register of shareholders as qualifying for the pending dividend payment. The "payment" date is the date that dividends are credited to shareholders' bank accounts. The "ex-dividend" date is normally the business day prior to the record date (most ex-dividend dates are on a Thursday).

EY – The Company's auditors, Ernst & Young LLP.

FCIT – F&C Investment Trust PLC or "**the Company**" and previously named Foreign & Colonial Investment Trust PLC.

Fund Manager – Paul Niven, an employee of the Manager with overall management responsibility for the total portfolio.

GAAP – Generally Accepted Accounting Practice. This includes UK Financial Reporting Standards ("**FRS**") and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union).

Gearing – this is the ratio of the borrowings of the Company to its net assets. Borrowings have a "prior charge" over the assets of a company, ranking before ordinary shareholders in their entitlement to capital and/or income. They include: preference shares; debentures; overdrafts and short and long-term loans from banks; and derivative contracts. If the Company has cash assets, these may be assumed either to net off against borrowings, giving a "net" or" effective" gearing percentage, or to be used to buy investments, giving a "gross" or "fully invested" gearing figure. Where cash assets exceed borrowings, the Company is described as having "net cash". The Company's maximum permitted level of gearing is set by the Board and is described within the Strategic Report and Directors' Report.

General Data Protection Regulation (GDPR) – GDPR is a regulation that requires businesses to protect the personal data and privacy of EU citizens for transactions that occur within EU member states.

Investment Company (Section 833) – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made Capital losses in any year, provided the Company's assets remaining after payment of the dividend exceed 150% of the liabilities. An Investment Company is defined as investing its funds in shares, land or other assets with the aim of spreading investment risk.

Investment portfolios – sometimes referred to as strategies, the separate regional, global and Private Equity portfolios that together make up the total investment portfolio of the Company.

Investment Trust taxation status (Section 1158) – UK Corporation Tax law allows an Investment Company (referred to in Tax law as an Investment Trust) to be exempted from tax on its profits realised on investment transactions, provided it complies with certain rules. These are similar to Section 833 above but further require that the Company must be listed on a regulated stock exchange and that it cannot retain more than 15% of income received. The Directors' Report contains confirmation of the Company's compliance with this law and its consequent exemption from taxation on capital gains.

ISAE Report – Report prepared in accordance with the International Standard on Assurance Engagements.

Leverage – as defined under AIFMD rules, leverage is any method by which the exposure of an AIF (being an investment vehicle under the AIFMD) is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Manager (AIFM) – BMO Investment Business Limited, a subsidiary of BMO Asset Management (Holdings) PLC, which in turn is wholly owned by Bank of Montreal ("**BMO**"). Its responsibilities and fee are set out in the Business Model, Report of the Management Engagement Committee and note 4 on the accounts.

Market benchmark – the Company's existing benchmark, the FTSE All-World (Total Return) Index, from January 2013 and the Company's previous benchmark which was a composite of 40% FTSE All-Share (Total Return)/60% FTSE WI World ex UK (Total Return) prior to that date.

Market capitalisation – the stockmarket quoted price of the Company's shares, multiplied by the number of shares in issue. If the Company's shares trade at a discount to NAV, the market capitalisation will be lower than the NAV.

Net asset value (NAV) – the assets less liabilities of the Company, as set out in the Balance Sheet, all valued in accordance with the Company's Accounting Policies (see note 2 on the Accounts) and UK Accounting Standards. The Net Assets correspond to Total Shareholders' Funds, which comprise the capital account, capital redemption reserve and capital and revenue reserves.

Non-executive Director – a Director who has a contract for services, rather than a contract of employment, with the Company. The Company does not have any executive Directors. Non-executive Directors' remuneration is described in detail in the Remuneration Report. The duties of the Directors, who govern the Company through the auspices of a Board and Committees of the Board, are set out in the Corporate Governance Statement.

Non-Financial Information Statement (NFIS) – Under sections 414CA and 414CB of the Companies Act 2006 certain large companies within scope are subject to an additional layer of narrative reporting originally introduced under EU Non-Financial Reporting Directive (EU/2014/95) and implemented by amending the strategic report requirements in the Companies Act 2006 by the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016. The regulations require those companies to disclose to the extent necessary an understanding of the company's development, performance, position and impact of its activity, information relating to environmental, employee, social, respect for human rights, anti-corruption and anti-bribery matters. Although F&C Investment Trust PLC does not fall within the scope of these requirements, the Board has opted to do so and has integrated the disclosures into the Strategic Report. F&C Investment Trust PLC's Non-Financial Reporting disclosures that have been made in relation to the requirements are referenced in the following table to indicate in which part of the Strategic Report they appear.

Non-financial information	Section	Page
Business model	Strategic report and business model	8
Policies	Principal policies	16
Principal Risks	Principal risks and future prospects	20
Key performance Indicators	Key Performance Indicators	19

Open-ended Fund – a collective investment scheme which issues shares or units directly to investors, and redeems directly from investors, at a price that is linked to the net asset value of the fund.

Peer group – Investment Trusts and Funds investing in Global markets on behalf of investors, in competition with the Company and included within either the AIC Global Sector or the Investment Association (IA) Global Sector in the UK.

PRIIPs – Packaged Retail and Insurance-based Investment Products regulations that require generic pre-sale disclosure of investment "product" costs, risks and indicative future return scenarios. The Company's ordinary shares are defined as a product for the purposes of the regulations. Costs as calculated under PRIIPs are explained within Alternative Performance Measures on page 95, under "Total Costs".

Private Equity – an asset consisting of shares and debt in operating companies that are not publicly traded on a stock exchange. The holdings in such companies may be collected in a Fund which operates as a limited partnership, with Partners contributing capital to the Fund over a period of years and receiving proportional repayments of capital and income as and when the investments are sold.

Section 172(1) – Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he considers, in good faith, to be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to matters specified in that section. The directors are required to report on this in the Strategic Report section of the Report and Accounts each year.

Sustainable Development Goals (SDGs) – The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 goals, which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all the while tackling climate change and working to preserve our oceans and forests.

SSAE – Statement on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants.

SORP – Statement of Recommended Practice. The accounts of the Company are drawn up in accordance with the Investment Trust SORP, issued by the AIC, as described in note 2 on the Accounts.

Special Dividends – dividends received from investee companies which have been paid out of capital reconstructions or reorganisations of the investees are sometimes referred to as Special Dividends and may be allocated to Capital Reserves in accordance with the Company's accounting policies and the SORP. Dividends which are unusually large in terms of the investee companies' annual earnings or normal payment pattern are also sometimes referred to as special but are treated as revenue in nature unless the evidence suggests otherwise.

Treasury shares – ordinary shares previously issued by the Company that have been bought back from shareholders on the open market and kept in the Company's own treasury. Such shares may, at a later date, be re-issued for sale on the open market or cancelled if demand is insufficient. Treasury shares carry no rights to dividends and have no voting rights and hence are not included within calculations of earnings per share or net asset value per share.

UK Code of Corporate Governance (UK Code) – the standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders that all companies with a Premium Listing on the London Stock Exchange are required to report on in their annual report and accounts. It has been revised with effect from 1 January 2019.

The United Nations-supported Principles for Responsible Investment (UNPRI) – An international network of investors working together with the goal of understanding the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. The Principles offer a menu of possible actions for incorporating environmental, social and corporate governance issues into investment practices across asset classes.

Warning to Shareholders – Beware of Share Fraud.

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell to you shares that turn out to be worthless or non-existent, or to buy your shares at an inflated price in return for an upfront payment following which the proceeds are never received.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register from **fca.org.uk** to see if the person or firm contacting you is authorised by the FCA
- Call the Financial Conduct Authority ("**FCA**") on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at **fca.org.uk/scams**
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at **fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

F&C Investment Trust PLC
Report and Accounts 2018

Registered office:

Exchange House, Primrose Street, London EC2A 2NY

020 7628 8000 Fax: 020 7628 8188

fandcit.com

info@bmogam.com

Registrars:

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ

0800 923 1506 Fax: 0870 703 6143

computershare.com

web.queries@computershare.co.uk