# THE INDEPENDENT INVESTMENT TRUST PLC

## INTERIM FINANCIAL REPORT

For the six months ended 31 May 2016

## **SUMMARY STATISTICS**

for the six months ended 31 May 2016

Net asset value per share of 400.3p up 2.6% (since 30 November 2015)

Revenue earnings per share 4.28p (4.79p)

Share price 387.25p up 6.7% (since 30 November 2015)

## **OBJECTIVE AND POLICY**

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in UK and international quoted securities and, if appropriate, index futures. The portfolio is constructed without reference to the composition of any stockmarket index. Although its investment policy allows gearing, including the use of derivatives, the Company is not permitted to employ gearing whilst it continues to be registered as a small UK Alternative Investment Fund Manager (AIFM). When appropriate, the directors will sanction a relatively concentrated portfolio structure and, depending on its AIFM status, relatively high levels of gearing.

## PRINCIPAL RISKS AND UNCERTAINTIES

Political risk has been added as a principal risk facing the Company as the board is of the view that political change in areas in which the Company invests or may invest may increasingly have practical consequences for the Company. To mitigate this risk, developments are closely monitored and considered by the board. The other principal risks facing the Company, which have not changed since the date of the Company's Annual Report and Financial Statements for the year to 30 November 2015, are financial risk, regulatory risk, custody risk, operational risk, discount/premium volatility risk and resource risk. An explanation of these risks and how they are being managed or mitigated is set out on pages 7 and 8 of that report, which is available on the Company's website: www.independentinvestmenttrust.co.uk. The Company's policy is designed to allow the Company an unusually high degree of freedom to exploit the directors' judgement. To the extent that the directors' judgement is flawed, future results could be unusually poor.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';
- b) the Chairman's Statement includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, their impact on the financial statements, and a description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the board

Douglas McDougall Chairman 12 July 2016

Past performance is not a guide to future performance.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. The Independent Investment Trust PLC, as a listed company, is subject to the requirements of the Listing Rules of the Financial Conduct Authority (FCA) and has been registered as a small UK Alternative Investment Fund Manager (AIFM). Its employees are not registered with the FCA as authorised persons. If you are in any doubt about the Company's regulatory status, you should consult your stockbroker or financial adviser.

### The Common Reporting Standard

In order to comply with The Common Reporting Standard, which came into effect on 1 January 2016, the Company is required to provide personal information annually to HMRC on the tax residencies of a number of non-UK based certificated shareholders and corporate entities. As a result, the Company will be contacting non-CREST shareholders who come on to the share register for the first time on or after that date in order to collect this information. For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders https://www.gov.uk/government/publications/exchange-of-information-account-holders.

The six month period ending 31 May 2016 saw our company produce a net asset value total return of 5.7%. The total returns notionally attributable to the FTSE All Share Index and the FTSE World Index were 0.1% and 3.9% respectively. Our net asset value per share rose from 390.1p to 400.3p over the period, and the share price from 363p to 387.25p, causing the discount to net asset value to fall from 6.9% to 3.3%. On the face of it this was a respectable outcome, but it has been overshadowed by the impact on our portfolio of the result of the referendum on membership of the EU. By 11 July 2016, our net asset value had fallen to 338.1p and our share price to 329.25p.

Earnings for the half year amounted to 4.28p (4.79p) and we have already paid an interim dividend of 5p (2p). As always, the outcome for the year will be influenced by our activity in the second half, but it is likely that any further payment will be weighted in favour of a special dividend rather than a regular one. Over the six months we bought back a total of 600,000 shares for cancellation at a discount of 4.3%.

In economic terms, the period represented a continuation of recent trends: growth remained disappointing in most parts of the world, including the USA – until recently a rare bright spot. Monetary policy remained highly stimulative, but there were signs that investors were beginning to behave like an addict who needs ever greater doses of stimulus to achieve a given level of satisfaction. Thus markets made little progress in local currency terms despite further substantial doses of monetary stimulus from the European and Japanese central banks. However, many of our companies enjoyed surprisingly buoyant trading conditions during the six months.

After the rather hectic activity of the last two years, the half year saw a welcome reduction in turnover. Indeed, only four purchases were made, all of them companies that made their initial public offerings (IPOs) during the period. The main change in sector weighting was the reduction in our technology and telecommunications stake. The increase in our retailing stake and the reduction in our consumer services stake owed much to our replacement of BCA Marketplace with a rather larger holding in Motorpoint. Although classified by us as being in different sectors, the two companies are both involved in the selling of cars and there is therefore a considerable overlap in the risks they face. Our cash balances rose from an abnormally low level of 2% at 30 November 2015 to 4% at 31 May 2016.

The reduction in our technology and telecommunications stake has allowed housebuilding to resume its place as our largest sectoral exposure. The news from our housebuilding holdings during the period was all good with earnings and dividends either in line with our expectations or, in most cases, significantly ahead of them. The housebuilding story developed very much as we had hoped: house prices (outside central London) and volumes were growing at rates that appeared sustainable for some years to come, and land was available in abundance at prices that looked very attractive in relation to predicted selling prices. Sentiment towards the sector fluctuated during the period, but we made no transactions. As a result, a stake worth £56.5m at 30 November 2015 had grown through market movements alone to one worth £58.3m at 31 May 2016.

The housebuilding industry has been singled out by investors as one of the most vulnerable to consequences of our forthcoming withdrawal from the EU. It is too early to assess the immediate impact, which may be negative, but we retain our longer term optimism about the industry's prospects: we believe that there is a chronic shortage of housing, that the beneficial impact of any short term weakness in land prices could ultimately be considerable and that, in contrast to the situation in 2008/9, the companies' balance sheets are strong enough to ride out a prolonged period of difficult trading conditions without the need for additional capital. That said, we recognize that the damage done to stockmarket sentiment may take time to repair.

Despite a strong showing from FDM (our biggest holding), our large position in technology and telecommunications suffered a small decline in underlying terms over the period: worth £62.3m at 30 November 2015, it had fallen in value to £47.9m by 31 May 2016 with net sales having accounted for £14.1m of the decrease. Baidu, a large holding at 30 November, ran into difficulties with the Chinese authorities over its relationship with a number of dubious websites, as a result of which we decided to sell out. Herald, Kainos and Gamma Communications, all of which have been successful investments for us, experienced some weakness in their share prices, but a new holding in the software robot company Blue Prism made an impressive start. Profit taking in FDM and Gamma reflected the success of these holdings since their purchase in 2014. Both companies continue to trade strongly.

Two new IPOs, Motorpoint and Joules, account for the big increase in our retail stake. Motorpoint is a retailer of nearly new cars which is notable for both its profitability and the high regard in which its customers hold it. Joules is a clothing retailer with a strong brand and scope for several years of physical expansion. We took some more profits on the holding in our longstanding favourite Dunelm and sold out of SCS. Overall, our retail holdings rose in value from £11.1m at 30 November 2015 to £23.0m at 31 May 2016 with net purchases having accounted for £10.3m of the increase. Retailing is another industry that has suffered from adverse stockmarket sentiment since the referendum and we recognize the uncertainties surrounding the outlook for many retailers. Our holdings are well managed, soundly financed and strong competitors within their market segments. We see no immediate reason to reject them.

A strong recovery in the share price of On The Beach was the main reason behind an excellent performance from our travel and leisure holdings, which increased in value from £15.3m at 30 November 2015 to £19.0m at 31 May 2016, despite sales of £1.7m. On The Beach is providing a clear demonstration of the strength of its customer proposition, but is inevitably vulnerable to the influence of terrorist incidents on the willingness of its customers to book holidays. It is also affected by exchange rate movements: sterling weakness makes overseas holidays more expensive. Gym Group, our other holding in the travel and leisure sector, appears to be making good fundamental progress, but its share price suffered latterly from speculation that a major competitor may be planning an IPO.

Elsewhere in the portfolio, Fever-Tree provided another sparkling performance as its growth continued to outpace lofty expectations, while Midwich, a distributor of audio visual products, made a strong start following its IPO. Holdings in The AA, Polar Capital Global Insurance, Bluefield Solar and SThree were little changed in value, but those in Ashtead, Gama Aviation, Telecom Plus and NAHL all suffered material falls. The weakness in the Ashtead share price was attributable to speculation that its earnings may be approaching a cyclical peak; Gama Aviation is being affected by weakness in its European operations; Telecom Plus has seen its competitive position undermined by weak wholesale energy prices; and NAHL's business is reflecting uncertainty about the future of small claims litigation. We sold our holding in BCA Marketplace at a satisfactory price to help fund our purchase of Motorpoint and we sold our small holding in Bankers Petroleum – our last energy holding – on the announcement of a cash bid from a Chinese buyer.

The job of making sense of economic and political developments seems to be getting harder. Over the last couple of years we have tended to concentrate rather on the individual opportunities available to us, an emphasis which had served us well until the day of the referendum. The period since has seen large, apparently arbitrary, moves in the prices of many of our holdings as liquidity has departed the universe of small and medium sized British companies. It is impossible to forecast when we shall see a resumption of normal stockmarket conditions, but in the meantime we are encouraged by the overall quality of the businesses in which we are invested and by the financial strength exhibited by the great majority of them.

The principal risks facing the Company are set out on the inside front cover of this report. We draw your attention, in particular, to the unusually important role of the directors' judgement in the success or failure of the Company's policy.

Douglas McDougall 12 July 2016

Sector	Name	Value 30 Nov 2015 £'000	Net transactions £'000	Gains/ (losses) £'000	Value 31 May 2016 £'000	%
Housing	Bellway Berkeley Group Crest Nicholson McCarthy and Stone Persimmon Redrow	5,230 6,414 16,065 11,287 3,830 13,626	- - - -	232 134 1,545 583 370 (1,005)	5,462 6,548 17,610 11,870 4,200 12,621	2.5 2.9 7.9 5.3 1.9 5.7
		56,452		1,859	58,311	26.2
Industrials	Ashtead Group	15,302		(1,645)	13,657	6.1
Retailing	Dunelm Group Joules Group Motorpoint SCS Group	9,760 - - 1,356	(1,896) 3,458 10,000 (1,279)	(236) 382 1,550 (77)	7,628 3,840 11,550	3.5 1.7 5.2
		11,116	10,283	1,619	23,018	10.4
Consumer Services	AA BCA Marketplace Gama Aviation NAHL Group	5,388 6,920 5,400 4,496	(6,727) - -	370 (193) (800) (488)	5,758 - 4,600 4,008	2.6 - 2.1 1.8
		22,204	(6,727)	(1,111)	14,366	6.5
Travel and Leisure	On the Beach Group The Gym Group	9,116 6,150	(1,744)	5,343 180	12,715 6,330	5.7 2.9
		15,266	(1,744)	5,523	19,045	8.6
Business Services	Midwich SThree	4,909	3,489	743 4	4,232 4,913	1.9
		4,909	3,489	747	9,145	4.1
Technology and Telecommunications	Alibaba Group – China Baidu – China Blue Prism FDM Group Gamma Communications Herald Investment Trust Kainos Group	2,791 10,135 - 20,800 9,180 14,720 4,690	(7,795) 1,482 (5,502) (2,246)	21 (2,340) 456 3,662 (236) (970) (935)	2,812 - 1,938 18,960 6,698 13,750 3,755	1.3 - 0.9 8.5 3.0 6.2 1.7
		62,316	(14,061)	(342)	47,913	21.6
Oil and Gas Producers	Bankers Petroleum – Canada	309	(408)	99		
Beverages	Fever-Tree Drinks	11,500	(1,256)	2,887	13,131	5.9
Utilities	Telecom Plus	6,774	(1,299)	(475)	5,000	2.2
Non Life Insurance	Polar Capital Global Insurance Fund – Ireland	3,469		154	3,623	1.6
Renewable Energy Funds	Bluefield Solar Income – Channel Islands	5,125		25	5,150	2.3
TOTAL INVESTMENTS  Net liquid assets		214,742 4,229	(11,723) 5,737	9,340 (18)	212,359 9,948	95.5 4.5
SHAREHOLDERS' FUNDS  All holdings are in equitie	es domiciled in the UK unless otherwise stated.	218,971	(5,986)	9,322	222,307	100.0

## For the six months ended 31 May 2016

	Notes	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments		_	7,416	7,416
Changes in investment holding gains and losses		-	1,924	1,924
Currency (losses)/gains		-	(18)	(18)
Income from investments and interest receivable		2,740	_	2,740
Other income		14	-	14
Administrative expenses		(360)		(360)
Net return on ordinary activities before taxation		2,394	9,322	11,716
Tax on ordinary activities				
Net return on ordinary activities after taxation		2,394	9,322	11,716
Net return per ordinary share	3	4.28p	16.66р	20.94p
Note:				
Dividends per share paid and payable in respect of the period	4	5.00p		

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

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

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

For the six months ended 31 May 2015

(Audited)
For the year ended 30 November 2015

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T £	Capital £'000	Revenue £'000	Total £'000	Capital £'000	Revenue £'000
18,3	18,350	-	7,696	7,696	_
25,3	25,345	-	13,620	3,620	-
2	268	-	222	222	-
5,3	-	5,356	3,056	-	3,056
	-	26	13	-	13
(6		(635)	(316)		(316)
48,7	43,963	4,747	24,291	1,538	2,753
		(9)	(5)		(5)
48,7	43,963	4,738	24,286	1,538	2,748
85.3	<i>77</i> .01p	8.30p	42.32p	7.53p	4.79p

	At 31 May	(Audited) At 30 November
Notes	2016 £'000	2015 £'000
Fixed assets		
Investments held at fair value through profit or loss	212,359	214,742
Current assets		
Debtors	<i>7</i> 51	413
Cash at bank and in hand	9,224	3,851
	9,975	4,264
Creditors		
Amounts falling due within one year	(27)	(35)
Net current assets	9,948	4,229
Net assets	222,307	218,971
Capital and reserves		
Called up share capital	13,882	14,032
Share premium	15,242	15,242
Special distributable reserve	16,625	18,831
Capital redemption reserve	2,650	2,500
Capital reserve	171,445	162,123
Revenue reserve	2,463	6,243
Shareholders' funds	222,307	218,971
Net asset value per ordinary share	400.3p	390.1p
Ordinary shares in issue 5	55,530,000	56,130,000

## For the six months ended 31 May 2016

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve* £'000	Revenue Reserve £'000	Share- holders' Funds £'000
Shareholders' funds at 1 December 2015	14,032	15,242	18,831	2,500	162,123	6,243	218,971
Net return on ordinary activities after taxation	_	_	_	-	9,322	2,394	11,716
Shares bought back for cancellation (note 5)	(150)	-	(2,206)	150	-	_	(2,206)
Dividends paid (note 4)			_	_	_	(6,174)	(6,174)
Shareholders' funds at 31 May 2016	13,882	15,242	16,625	2,650	171,445	2,463	222,307

## For the six months ended 31 May 2015

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve* £'000	Revenue Reserve £'000	Share- holders' Funds £'000
Shareholders' funds at 1 December 2014	14,467	15,242	24,413	2,065	118,160	5,513	179,860
Net return on ordinary activities after taxation	_	_	_	_	21,538	2,748	24,286
Shares bought back for cancellation	(188)	-	(2,181)	188	-	-	(2,181)
Dividends paid (note 4)						(2,865)	(2,865)
Shareholders' funds at 31 May 2015	14,279	15,242	22,232	2,253	139,698	5,396	199,100

<sup>\*</sup> The Capital Reserve balance at 31 May 2016 includes investment holding gains on fixed asset investments of £66,473,000 (31 May 2015 – gains of £52,824,000).

1. The condensed financial statements for the six months to 31 May 2016 comprise the statements set out on pages 4 to 7 together with the related notes below. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014 and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Company has adopted FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and has early adopted the amendments to Section 34 of FRS 102 regarding fair value hierarchy disclosures for its financial year ending 30 November 2016. The application of the new reporting standards and the AIC's Statement of Recommended Practice has had no impact on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported. A Condensed Cash Flow Statement has not been presented as a Statement of Changes in Equity has been provided and substantially all of the Company's investments are highly liquid and are carried at market value. The financial statements for the six months to 31 May 2016 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and financial statements at 30 November 2015.

#### Fair Value Hierarchy

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

- Level 1 using unadjusted quoted prices for identical instruments in an active market;
- Level 2 using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and
- Level 3 using inputs that are unobservable (for which market data is unavailable).

All of the Company's investments at 31 May 2016 and 30 November 2015, which are financial instruments held at fair value through the profit or loss account, are categorised as Level 1 in the above hierarchy. None of the Company's other assets or liabilities are financial instruments held at fair value through the profit or loss account.

#### **Going Concern**

Having considered the Company's current position, self-managed status, the nature of its assets, liabilities, projected income and expenditure together with the Company's investment objective and policy, dividend policy and principal risks and uncertainties, as set out on the inside front cover, it is the directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company's assets, the majority of which are investments in quoted securities which are readily realizable, exceed its liabilities significantly. The Company has no loans. Accordingly, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements and confirm that they are not aware of any material uncertainties which may affect its ability to continue to do so over a period of at least twelve months from the date of approval of these financial statements.

2. The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 30 November 2015 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

3.	Net return per ordinary share	Six months ended 31 May	Six months ended 31 May	(Audited) Year ended 30 November
		2016 £'000	2015 £'000	2015 £'000
	Revenue return on ordinary activities after taxation	2,394	2,748	4,738
	Capital return on ordinary activities after taxation	9,322	21,538	43,963
	Total net return	11.716	24.286	48.701

The returns per share are based on the above returns and on 55,946,394 (31 May 2015 – 57,394,185; 30 November 2015 – 57,087,403) shares being the weighted average number of shares in issue during each period.

There was no dilution of returns during any of the financial periods under review.

4. Dividends	Six months ended 31 May	Six months ended 31 May	(Audited) Year ended 30 November
	2016 £'000	2015 £'000	2015 £'000
Amounts recognised as distributions in the period:	-	-	
Previous year's second interim of 3.00p paid 15 February 2016 (2015 – final dividend of 3p)  Previous year's special of 3.00p paid 15 February 2016 (2015 – 2.00p)	1,684 1,684	1,719 1,146	1,719 1,146
Interim for the year ending 30 November 2016 of 5.00p paid 31 March 2016 (2015 – 2.00p)	2,806	_	1,143
	6,174	2,865	4,008
Amounts paid and payable in respect of the period:			
Adjustment of previous year's final/special dividends re shares brought back Interim for the year ending 30 November 2016 of 5.00p paid	-	(28)	(28)
31 March 2016 (2015 – 2.00p)	2,806	1,143	1,143
Second Interim (2015 – 3.00p)	-	_	1,684
Special (2015 – 3.00p)			1,684
	2,806	1,115	4,483

<sup>5.</sup> During the period the Company bought back 600,000 ordinary shares of 25p each at a cost of £2,206,000 for cancellation. At 31 May 2016, the Company had authority to buy back a further 7,813,887 ordinary shares as well as the authority to allot new shares up to an aggregate nominal amount of £4,774,939.

<sup>6.</sup> Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the period, transaction costs on purchases amounted to £6,000 (31 May 2015 – £125,000; 30 November 2015 – £202,000) and transaction costs on sales amounted to £66,000 (31 May 2015 – £86,000; 30 November 2015 – £162,000).

DIRECTORS
DCP McDougall OBE (Chairman)
MCB Ward (Managing Director)
JGD Ferguson (Non-executive)
The Hon. RJ Laing (Non-executive)

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