

THE INDEPENDENT INVESTMENT TRUST PLC

HALF-YEARLY FINANCIAL REPORT

For the six months ended 31 May 2014

SUMMARY STATISTICS

for the six months ended 31 May 2014

Net asset value per share of 298.1p up 3.8% (since 30 November 2013)

Revenue earnings per share 4.13p (3.26p)

Share price 272.5p up 1.5% (since 30 November 2013)

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. When appropriate, the directors will sanction relatively high levels of gearing and a relatively concentrated portfolio structure. No gearing has been employed since 2007 and none is in prospect. The portfolio is constructed without reference to the composition of any stockmarket index.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 of the Company's Annual Report and Financial Statements for the year to 30 November 2013. The principal risks and uncertainties have not changed since the publication of the Annual Report which is available on the Company's website: www.independentinvestmenttrust.co.uk. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage); operational/financial risk (failure of service providers' accounting systems could lead to inaccurate reporting or financial loss); the risk that the discount can widen; political risk (the Scottish referendum vote introduces elements of political uncertainty which may have practical consequences); and resource risk (reliance on key personnel). 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 the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- 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
- c) the Half-Yearly 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

8 July 2014

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) with effect from 7 April 2014 under the Alternative Investment Fund Managers Regulations 2013. 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 six month period ending 31 May 2014 saw our Company produce a net asset value total return of 5.2%. The total returns notionally attributable to the FTSE All Share Index and the FTSE World Index were 4.8% and 4.0% respectively. By the standards of recent accounting periods market returns have been subdued, which has made our cash and defensive investments less of a handicap in the race for relative performance.

Our net asset value per share rose from 287.2p to 298.1p over the period, and the share price from 268.5p to 272.5p, causing the discount to net asset value to rise from 6.5% to 8.6%. Over the six months we bought back a total of 231,000 shares at a weighted average discount of 7.5%. Earnings for the half year amounted to 4.13p (3.26p) and we are paying an unchanged interim dividend of 2p. Current indications are that earnings for the full year will be ahead of last year's earnings, but the board is unlikely to propose an increased final dividend. Instead, it expects to propose a special dividend to accompany a maintained final. Low interest rates mean that any move to increase cash balances would be likely to have a significant adverse effect on the revenue account, which is already artificially boosted by a surprisingly high level of special dividends from the portfolio.

The economic background has generally been favourable to equity markets with some developed economies showing signs of improvement and the peripheral European bond markets responding enthusiastically to the reduced danger of the imminent break-up of the eurozone. Progress in the UK economy has been particularly heartening: a solid acceleration in growth has gone hand in hand with low levels of inflation and has generated good profits growth for many domestically orientated companies, particularly housebuilders. Businesses with more of an international spread, especially those with exposure to emerging markets, have tended to suffer from the strength of sterling.

Turnover remained quite low by historical standards and changes to the shape of the portfolio were modest. The two principal ones were an increase in our non-life insurance stake and the purchase of two renewable energy funds, complementing our holding in John Laing Infrastructure. We regard infrastructure and renewable energy funds as suitable alternatives to cash in a low interest rate environment. Our cash balances fell from £17.0m, or 10.2% of shareholders' funds, at 30 November 2013 to £7.9m, or 4.6% of shareholders' funds, at 31 May 2014.

It has been an encouraging period for our large energy stake which, undisturbed by transactions, grew in value from £26.3m at 30 November 2013 to £30.0m at 31 May 2014. An unusually cold winter in North America provoked a strong recovery in the gas price, which appears to be rekindling interest in drilling for gas. Meanwhile, the number of rigs drilling for shale oil continues to grow, reflecting the fact shale oil production remains a highly profitable activity at current oil prices. Our service companies are already enjoying increased levels of activity and our hope is that pricing will begin to firm in the near future. If this happens, we believe there is scope for their stock prices to rise further. The immediate outlook for Noble, the last of our offshore drillers, is more subdued: a large number of brand new rigs coming onto the market is making it difficult for older rigs to find work at acceptable prices. This prospect now seems fairly reflected in its stock price.

As mentioned above, we have made further additions to our non-life insurance stake. We have extolled the attractions of the industry – its relative insulation from fluctuations in economic activity and its prodigious capacity to generate income – in previous reports. Its capacity to generate income looks particularly strong following an excellent year for the industry in 2013, but has been overshadowed in investors' eyes by a progressive weakening of insurance rates. This is an entirely predictable consequence of the industry's strong results last year and, in our opinion, has no bearing on its long term attractions. Between 30 November 2013 and 31 May 2014, the value of the stake increased from £16.3m to £24.0m with £7.5m of the increase being attributable to our additions.

After performing strongly over our last financial year, our two technology holdings, Herald and Baidu, both saw modest declines in their share prices over the six months. In the case of Herald, this was entirely attributable to a rise in the discount to net asset value at which its shares trade. We have no explanation for the decline in the Baidu price. Indeed, we were sufficiently encouraged by news of the progress the company is making in the crucial field of mobile search to add to our holding. Overall the value of our technology holdings rose from £18.9m at 30 November 2013 to £20.5m at 31 May 2014, but this was after spending £1.9m on the addition to our Baidu holding.

We made our first investment in John Laing Infrastructure in June last year. We were attracted both by the overall return that appeared to be on offer and by the apparently predictability of the income stream behind that return. Logic, and the behaviour of the share price since the company's flotation, encouraged us to believe that this would be a defensive investment in difficult markets. As such, we have tended to regard it as an attractive alternative to cash as we wait for markets to offer more exciting investments at sensible prices. Similar arguments have lain behind our two investments in renewable energy funds, although both the returns on offer and the uncertainty surrounding the income streams behind them are higher than in the case of standard infrastructure funds. Our aggregate investment in both types of fund rose from £8.0m at 30 November 2013 to £15.9m at 30 May 2014 with £7.8m of the increase being attributable to net purchases.

Led by a strong performance from our big holding in the plant hire company, Ashtead, our industrial stake performed well over the period: although its value fell from £14.8m at 30 November 2013 to £12.0m at 31 May 2014, this fall was more than covered by the £5.1m proceeds from the sale of our holding in Croda. Croda is struggling to generate significant earnings growth in a hostile exchange rate environment, which makes its premium valuation appear anomalous to us.

Our tobacco holdings, our housing holdings, our utility holdings and our one remaining recruitment company, SThree, all made good contributions to performance, but our mining holdings showed little change in value over the period while the performance of our retail stake was affected by a poor showing from Games Workshop before it was sold. New holdings in HSBC and Thomas Cook made modest contributions, as did IG Group and Domino's Pizza. We sold our remaining property holding, British Land, at a good profit, but took a painful loss on our holding in Partnership Assurance when proposals damaging to its business were announced in the Budget. Finally, GlaxoSmithKline was hurt by allegations of bribery in China and Asian Citrus once again provided a surprisingly poor performance.

The Financial Conduct Authority has confirmed our entry in the Register of Small Registered UK AIFMs under the Alternative Investment Fund Managers Regulations.

With the advent of better economic conditions and growing signs of recovery in the North American oilfield services market, we have become more confident about the outlook for our portfolio. We remain worried by the possibility that many of the factors that have driven equity markets up to their current levels may either be less potent in future or even go into reverse, but we are finding more buying ideas than in recent times and the funding of these has led to a significant reduction in the defensive component of the portfolio since the end of May.

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
8 July 2014

LIST OF INVESTMENTS AS AT 31 MAY 2014

Sector	Name	Value £'000	%
Housing	Berkeley Group	2,254	1.3
	Persimmon	5,348	3.1
	Rightmove	2,292	1.3
		9,894	5.7
Industrials	Aggreko	3,171	1.8
	Ashtead Group	8,805	5.1
		11,976	6.9
Retailing	Dunelm Group	9,130	5.3
Travel and Leisure	Domino's Pizza	3,372	2.0
	Thomas Cook Group	1,640	0.9
		5,012	2.9
Recruitment	SThree	5,280	3.1
Technology and Telecommunications	Baidu – China	6,919	4.0
	Herald Investment Trust	13,560	7.9
		20,479	11.9
Mining	BHP Billiton	1,401	0.8
	BlackRock World Mining Trust	2,288	1.3
		3,689	2.1
Oil and Gas Producers	Bankers Petroleum – Canada	1,427	0.8
	Ultra Petroleum – USA	1,611	0.9
		3,038	1.7
Offshore Drillers	Noble Corporation – USA	3,750	2.2
Oilfield Services	Baker Hughes – USA	4,204	2.4
	C & J Energy Services – USA	3,281	1.9
	Halliburton – USA	7,705	4.5
	Schlumberger – USA	8,062	4.7
		23,252	13.5
Food Producers	Asian Citrus Holdings – China	397	0.2
Tobacco	British American Tobacco	3,600	2.1
	Imperial Tobacco	4,038	2.4
	Philip Morris – USA	3,695	2.1
		11,333	6.6
Pharmaceuticals	GlaxoSmithKline	3,202	1.9
Utilities	SSE	3,110	1.8
	Telecom Plus	3,798	2.2
		6,908	4.0
Banks	HSBC	5,033	2.9
Non Life Insurance	Amlin	8,458	4.9
	Beazley	3,669	2.1
	Brit Insurance	4,860	2.8
	Catlin Group	4,184	2.5
	Polar Capital Global Insurance Fund	2,803	1.6
		23,974	13.9
Miscellaneous Financials	IG Group Holdings	2,406	1.4
Infrastructure and Renewable Energy Funds	Bluefield Solar Income	5,075	3.0
	John Laing Infrastructure	5,740	3.3
	John Laing Environmental Assets Group	5,063	2.9
		15,878	9.2
TOTAL INVESTMENTS		164,631	95.4
Net liquid assets		7,905	4.6
SHAREHOLDERS' FUNDS		172,536	100.0

All holdings are in equities listed in the UK unless otherwise stated.

INCOME STATEMENT
(unaudited)

For the six months ended 31 May 2014

	<i>Notes</i>	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on sales of investments		–	1,942	1,942
Changes in investment holding gains and losses		–	4,343	4,343
Currency (losses)/gains		–	(91)	(91)
Income from investments and interest receivable		2,701	–	2,701
Other income		12	–	12
Administrative expenses		(312)	–	(312)
Net return on ordinary activities before taxation		2,401	6,194	8,595
Tax on ordinary activities		(8)	–	(8)
Net return on ordinary activities after taxation		2,393	6,194	8,587
Net return per ordinary share:	3	4.13p	10.68p	14.81p
Note:				
Dividends per share paid and payable in respect of the period	4	2.00p		

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 Total Recognised Gains and Losses 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 2013			For the year ended 30 November 2013		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
-	(726)	(726)	-	4,269	4,269
-	20,164	20,164	-	21,408	21,408
-	152	152	-	(893)	(893)
2,226	-	2,226	4,220	-	4,220
7	-	7	18	-	18
(312)	-	(312)	(617)	-	(617)
1,921	19,590	21,511	3,621	24,784	28,405
(7)	-	(7)	(15)	-	(15)
1,914	19,590	21,504	3,606	24,784	28,390
3.26p	33.32p	36.58p	6.16p	42.35p	48.51p
2.00p			6.00p		

BALANCE SHEET
(unaudited)

		At 31 May	At 31 May	At 30 November
	Notes	2014 £'000	2013 £'000	2013 £'000
Fixed assets				
Investments held at fair value through profit or loss		164,631	130,655	149,870
Current assets				
Debtors		384	781	274
Cash at bank and in hand		7,737	30,645	18,148
		8,121	31,426	18,422
Creditors				
Amounts falling due within one year		(216)	(20)	(1,402)
Net current assets		7,905	31,406	17,020
Total net assets		172,536	162,061	166,890
Capital and reserves				
Called up share capital		14,467	14,612	14,525
Share premium		15,242	15,242	15,242
Special distributable reserve		24,413	25,926	25,036
Capital redemption reserve		2,065	1,920	2,007
Capital reserve		111,546	100,158	105,352
Revenue reserve		4,803	4,203	4,728
Shareholders' funds		172,536	162,061	166,890
Net asset value per ordinary share		298.1p	277.3p	287.2p
Ordinary shares in issue	5	57,869,000	58,450,000	58,100,000

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
(unaudited)

For the six months ended 31 May 2014

	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 2013	14,525	15,242	25,036	2,007	105,352	4,728	166,890
Net return on ordinary activities after taxation	-	-	-	-	6,194	2,393	8,587
Shares bought back for cancellation (note 5)	(58)	-	(623)	58	-	-	(623)
Dividends paid (note 4)	-	-	-	-	-	(2,318)	(2,318)
Shareholders' funds at 31 May 2014	14,467	15,242	24,413	2,065	111,546	4,803	172,536

For the six months ended 31 May 2013

	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 2012	14,787	15,242	27,545	1,745	80,568	5,234	145,121
Net return on ordinary activities after taxation	-	-	-	-	19,590	1,914	21,504
Shares bought back for cancellation (note 5)	(175)	-	(1,619)	175	-	-	(1,619)
Dividends paid (note 4)	-	-	-	-	-	(2,945)	(2,945)
Shareholders' funds at 31 May 2013	14,612	15,242	25,926	1,920	100,158	4,203	162,061

For the year ended 30 November 2013

	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 2012	14,787	15,242	27,545	1,745	80,568	5,234	145,121
Net return on ordinary activities after taxation	-	-	-	-	24,784	3,606	28,390
Shares bought back for cancellation (note 5)	(262)	-	(2,509)	262	-	-	(2,509)
Dividends paid (note 4)	-	-	-	-	-	(4,112)	(4,112)
Shareholders' funds at 30 November 2013	14,525	15,242	25,036	2,007	105,352	4,728	166,890

* The Capital Reserve balance at 31 May 2014 includes investment holding gains on fixed asset investments of £41,332,000 (31 May 2013 – gains of £35,745,000; 30 November 2013 – gains of £36,989,000).

CONDENSED CASH FLOW STATEMENT
(unaudited)

	For the six months ended 31 May	For the six months ended 31 May	For the year ended 30 November
	2014 £'000	2013 £'000	2013 £'000
Net cash inflow from operating activities	2,273	2,018	4,098
Net cash (outflow)/inflow from financial investment	(9,940)	24,948	12,428
Equity dividends paid	(2,320)	(2,945)	(4,112)
Net cash (outflow)/inflow before financing	(9,987)	24,021	12,414
Net cash outflow from financing	(424)	(1,726)	(2,616)
(Decrease)/increase in cash	(10,411)	22,295	9,798
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period	(10,411)	22,295	9,798
Net funds at start of the period	18,148	8,350	8,350
Net funds at end of the period	7,737	30,645	18,148
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation	8,595	21,511	28,405
Gains on investments	(6,285)	(19,438)	(25,677)
Currency losses/(gains)	91	(152)	893
Amortisation of fixed interest book cost	–	167	167
Change in debtors and creditors	(120)	(63)	325
Overseas tax	(8)	(7)	(15)
Net cash inflow from operating activities	2,273	2,018	4,098

1. The condensed set of financial statements comprises the statements set out on pages 4 to 8 together with the related notes on page 9. They 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 2013 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' 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's assets, the majority of which are investments in quoted securities which are readily realizable, exceed its liabilities significantly. The Company has no loans. After making enquiries and considering the future prospects of the Company the financial statements have been prepared on the going concern basis as it is the directors' opinion that the Company will continue in operational existence for the foreseeable future.
2. The financial information contained within this Half-Yearly 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 2013 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	Year ended 30 November
	2014 £'000	2013 £'000	2013 £'000
Revenue return on ordinary activities after taxation	2,393	1,914	3,606
Capital return on ordinary activities after taxation	6,194	19,590	24,784
Total net return	<u>8,587</u>	<u>21,504</u>	<u>28,390</u>

The returns per share are based on the above returns and on 57,979,791 (31 May 2013 – 58,786,429; 30 November 2013 – 58,520,767) 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	Year ended 30 November
	2014 £'000	2013 £'000	2013 £'000
Amounts recognised as distributions in the period:			
Previous year's final dividend of 3.00p (2013 – 5.00p) paid 8 April 2014	1,739	2,945	2,945
Previous year's special dividend of 1.00p paid on 8 April 2014	579	–	–
Previous year's interim dividend of 2.00p paid 30 August 2013	–	–	1,167
	<u>2,318</u>	<u>2,945</u>	<u>4,112</u>
Amounts paid and payable in respect of the period:			
Interim dividend for the year ending 30 November 2014 of 2.00p payable 29 August 2014 (2013 – 2.00p)	1,157	1,169	1,167
Final dividend (2013 – 3.00p)	–	–	1,739
Special dividend (2013 – 1.00p)	–	–	579
	<u>1,157</u>	<u>1,169</u>	<u>3,485</u>

The interim dividend in respect of the six months to 31 May 2014 was declared after the period end date and has therefore not been included as a liability in the balance sheet. It is payable on 29 August 2014 to shareholders on the register at the close of business on 8 August 2014. The ex dividend date is 6 August 2014.

5. During the period the Company bought back 231,000 (31 May 2013 – 700,000; 30 November 2013 – 1,050,000) ordinary shares of 25p each at a cost of £623,000 (31 May 2013 – £1,619,000; 30 November 2013 – £2,509,000) for cancellation. At 31 May 2014, the Company had authority to buy back a further 8,612,505 ordinary shares as well as the authority to allot new shares up to an aggregate nominal amount of £5,154,068.
6. 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 £119,000 (31 May 2013 – £106,000; 30 November 2013 – £187,000) and transaction costs on sales amounted to £51,000 (31 May 2013 – £53,000; 30 November 2013 – £84,000).

DIRECTORS

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

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