RNS Announcement: Preliminary Results

The Independent Investment Trust PLC

The following is the unaudited preliminary statement for the year to 30 November 2016 which was approved by the board on 19 January 2017.

Chairman's Statement

During the year to 30 November 2016, our company produced a net asset value (NAV) total return of 5.0%[1]. Theoretical investments in the FTSE All-Share Index and the FTSE World Index would have produced total returns of 9.8%[1] and 25.6%[1] respectively. A widening of the discount[2] - from 6.9% to 11.2% - led to a share price total return of 0%[1]. This is clearly a disappointing result and one that leaves us bottom of the Association of Investment Companies' Global sector of investment trusts for the year in terms of NAV total return. Fortunately, it follows a very good year and so we are still comfortably above median for the three and five year periods ending 30 November 2016.

For us the most important development of the year was the UK vote to leave the EU in the June referendum. Primarily through the ensuing depreciation of the pound, this caused two problems for us. First, in constant currency terms the UK stockmarket (in which the vast majority of our assets were invested throughout the year) lagged behind most other stockmarkets and thus the FTSE World Index. Secondly, within the UK stockmarket domestically orientated sectors (which were disproportionately represented in our portfolio) performed less well than those with international exposure. Particularly painful for us was the poor performance of our large housebuilding stake, which had been such a positive contributor to our results in 2015. A remarkable feature of the year has been that apart from companies coming into the portfolio through their initial public offerings (IPOs), we have only made one purchase – an addition to our large holding in Redrow. Our experience with IPOs continues to be good on balance, although Motorpoint is currently a notable exception.

The general economic background has changed little over the last year: growth has remained lacklustre in most countries; interest rates have remained at abnormally low levels by historic standards; and stockmarkets have been boosted by loose global monetary conditions. Towards the end of our year, there were signs that the long awaited correction in global bond markets might be starting. Perhaps the most interesting developments were on the political front, where referendum results in Europe and the election result in the USA signalled dissatisfaction with the established economic policies of recent years. The risk of a more protectionist world appears to have increased significantly.

The only significant change in our sectoral distribution over the year was a material reduction in our exposure to technology and telecommunications as we sold out of our Chinese internet holdings and took profits in FDM and Gamma Communications, two of our more successful IPO investments of recent years. We ended our year with cash balances of just under 5% (2% at 30 November 2015). Further comments on the portfolio can be found in the Managing Director's Report.

Despite the disappointing results in the year under review, our long term record continues to provide grounds for encouragement: for the period from inception to 30 November 2016, we produced an NAV total return of 476%[1], equivalent to a rate of roughly 11.6% per annum, of which 2.8% per annum can be offset by RPI inflation. By comparison, the notional return available from the FTSE All-Share Index over the period amounted to 117%[1], or 5.0% per annum.

---

[1] Total returns include the reinvestment of dividends on the date the shares are quoted ex-dividend. Source: Baillie Gifford/Thomson Reuters Datastream.

[2] The premium/discount is the positive/negative difference between the Company's quoted share price and its underlying NAV per share expressed as a percentage of the NAV per share.

Earnings per share for the year were 7.93p (8.3p in 2015). Having already paid an interim dividend of 5.0p, we have decided not to propose a final dividend for 2016, but instead to pay a special dividend of 2.5p (3p in 2015). This will be paid on 6 April with an ex-dividend date of 23 February. The regular dividend for the year is therefore maintained at 5p, while the total dividend for the year is reduced from 8p to 7.5p. For 2017 we plan to revert to a pattern of paying an interim and a final with any surplus income being distributed by way of special dividend.

Our ongoing expenses ratio[3] rose during the year – from 0.32% to 0.34%. Even so, we remain one of the lowest cost providers in our industry.

After a brief period of trading at a premium[2] to net asset value, our shares have reverted to trading at a discount[2]. As in the past, we stand ready to repurchase shares on terms that are fair to both departing and continuing shareholders. In the year under review we made a single purchase of 600,000 shares at a discount[2] of 4.3%.

As always, there are plenty of things to worry about in the general economic and stockmarket background. Of particular concern to us at the moment are: the uncertainties surrounding the Brexit negotiations; the high levels of debt around the world; the impact of the economic policies of the new US administration; the outlook for interest rates and bond yields; and general stockmarket valuations, which appear high by historic standards. These concerns notwithstanding, we continue to be pleased with the quality of the companies in our portfolio and optimistic about their ability both to exploit favourable developments and to cope with unfavourable ones. This is particularly the case with our housebuilding holdings, around a quarter of assets, most of which delivered exemplary trading performances in 2016 and all of which are in excellent shape to withstand even a major deterioration in trading conditions should it occur. The rest of the portfolio is invested largely in smaller companies, including several recent issues, which are seeing strongly growing demand for their products or services.

Once again, we should like to encourage you to come to the AGM, which is to be held in the Baillie Gifford offices at Calton Square at 4.30pm on 23 March 2017. It will help our planning if we know how many shareholders are likely to attend, and I shall be grateful if you will mark the proxy form accordingly and return it to the Company's registrars. I look forward to seeing as many of you as possible there.

Douglas McDougall
19 January 2017

3 Ongoing charges represents administrative expenses as a percentage of average shareholders' funds.

Managing Director's Report

Our performance over the year has been covered in the Chairman's Statement.

One of the hazards confronting the long-term investor in housebuilding shares is the difficulty of forecasting the industry's short-term outlook. As battle-hardened industry enthusiasts we accept with stoicism the pain this characteristic sometimes inflicts upon us, but we do consider ourselves a little unlucky when housebuilding share prices fall dramatically in anticipation of developments that do not materialize, which is what happened to us in the middle of 2016. In the immediate aftermath of the referendum on British membership of the EU, a number of industry experts, many of them in the employment of large London investment banks owned overseas, reached the conclusion – apparently independently – that the decision to leave would have devastating short-term implications for housing volumes and house prices. The resulting stockmarket panic was impressive, even by the industry's exalted standards: most of our holdings experienced price declines of the order of 40% during the fortnight beginning 24 June. To date and with the sole exception of McCarthy and Stone, none of them has experienced any significant adverse effects from the vote, but many of the experts are clinging to the hope that this is disaster deferred rather than disaster averted, a hope that is still generously reflected in valuations. Our principal worries are more to do with government policy and the outlook for interest rates. The government has shown signs of wanting to interfere with the industry on the grounds, which we consider spurious, that it is deliberately hoarding land that could be used for building; and it can be argued that mortgage rates have already begun to rise. We do not believe that either issue has the capacity to undermine the long-term argument for investing in housebuilders – which is built on a chronic shortage of supply and high barriers to entry – but each clearly has the potential to hurt sentiment, already fragile, towards the sector. This is one of those occasions when we think it right to concentrate on the long-term picture and to ignore the shocks delivered by an increasingly febrile stockmarket.

The scale of our existing position in the industry made us slow to capitalize on the eye-catching values thrown up by the panic, but we did eventually add £3.4m to our Redrow holding. This had a mitigating influence on a most disappointing overall performance: despite the addition, the value of our stake declined from £56.5m at 30 November 2015 to £51.0m at 30 November 2016.

Fortunately, we fared better with our large commitment to technology and telecommunications: a stake worth £62.3m at 30 November 2015 had fallen in value to £44.6m by 30 November 2016, but this was after net sales of £23.2m. We made profitable disposals of our two Chinese internet companies, Alibaba and Baidu, and took further profits in FDM and Gamma Communications. Kainos, the software consultancy, had a disappointing year as profits were hit by investment in new markets, but our longstanding holding in Herald made good progress despite the persistence of a discount that gives no credit for the fund's excellent long-term performance. Finally, we made a small investment in Blue Prism, a leading player in the emerging field of software process automation. To date, this investment has been surprisingly profitable as the company's revenues have exceeded all expectations by a considerable margin. The company, by contrast, has yet to make a profit.

The feature of our stake in the travel and leisure industries has been the strong performance of On the Beach, which we bought at IPO in September 2015. Despite difficult conditions in the package holiday market, it produced sparkling results and appears set to make further progress in the years ahead. Gym Group had a disappointing share price performance, but this may have been more to do with its high valuation at the start of our year than with its trading performance, which appears to be in line with expectations. Finally, a new holding in Hollywood Bowl, an operator of ten pin bowling centres, made a satisfactory debut. Overall, a stake worth £15.3m at 30 November 2015 had risen in value to £24.7m by 30 November 2016 after net purchases amounting to £6.1m.

It has been an excellent year for our industrial holdings. Our old favourite Ashtead has traded well and has been singled out by investors as a beneficiary of the US infrastructure spending promised by Donald Trump. A new holding in Luceco, bought in October, has got off to a good start. Luceco is a manufacturer of electrical equipment and LED lighting products with its own factory in China. Prospects for its LED lighting products appear particularly good. Overall, a stake worth £15.3m at 30 November 2015 had grown in value to £21.4m by 30 November 2016 after net sales of £0.2m.

Our retail holdings have had a disappointing year: a stake worth £11.1m at 30 November 2015 had only grown in value to £15.2m by 30 November 2016 despite net purchases of £9.6m. A new holding, the nearly new car retailer Motorpoint, saw trading badly affected by consumer uncertainty around the time of the referendum. Our old friend Dunelm had a quiet year in trading terms and suffered a derating in consequence, and we realized a small loss on our sale of SCS. On a happier note, the clothing retailer Joules, also a new holding, made a satisfactory debut.

Our consumer services holdings also had a difficult time with the Gama Aviation share price being hit particularly hard by soft trading conditions in Europe and NAHL being affected by proposed changes to the system for personal injury litigation. The AA had a dull year as earnings were affected by a major investment programme and we made a poor decision to sell our holding in BCA Marketplace. Overall, a stake worth £22.2m at 30 November 2015 had fallen in value to £10.7m by 30 November 2016 after net sales of £6.7m.

Our holding in the soft drinks company, Fever-Tree, has once again done enough to merit a paragraph to itself with the share price almost doubling over the twelve months. Despite a further reduction early in the year (we have now realized the full value of our original investment in the company), this led to its becoming our biggest holding at 30 November 2016. The valuation is a source of concern, but the scale of the opportunity facing the company and the lack of obvious competitive threats persuade us that it is worth running our position.

Elsewhere in the portfolio, Telecom Plus saw a modest recovery in its share price as energy prices started to rise, but the value of our SThree holding fell significantly as trading conditions in the recruitment market remained tough. The distributor of audio visual equipment, Midwich, staged a rather disappointing debut despite producing better results than we were expecting. Polar Capital Insurance Fund had an excellent year, extending its fine long-term record while Bluefield Solar Income delivered a good yield and a relatively stable share price. Finally, our small holding in the Canadian oil company, Bankers Petroleum, was sold after the announcement of a Chinese bid for the company.

Max Ward
19 January 2017

The Independent Investment Trust PLC

List of Investments as at 30 November 2016 (unaudited)

Sector	Name	Value 2015 £'000	Net transactions £'000	Gains/ (losses) £'000	Value 2016 £'000	%
Housing	Bellway	5,230	-	(348)	4,882	2.2
	Berkeley Group	6,414	-	(1,462)	4,952	2.2
	Crest Nicholson	16,065	-	(2,952)	13,113	5.9
	McCarthy and Stone	11,287	-	(2,972)	8,315	3.8
	Persimmon	3,830	-	(432)	3,398	1.5
	Redrow	13,626	3,426	(708)	16,344	7.4
		56,452	3,426	(8,874)	51,004	23.0
Industrials	Ashtead Group	15,302	(5,302)	5,640	15,640	7.1
	Luceco	-	5,080	664	5,744	2.6
		15,302	(222)	6,304	21,384	9.7
Retailing	Dunelm Group	9,760	(1,896)	(1,956)	5,908	2.7
	Joules Group	-	3,458	202	3,660	1.7
	Land of Leather*	-	-	-	-	-
	Motorpoint	-	9,312	(3,642)	5,670	2.6
	SCS Group	1,356	(1,279)	(77)	-	-
		11,116	9,595	(5,473)	15,238	7.0
Consumer Services	AA	5,388	-	(80)	5,308	2.4
	BCA Marketplace	6,920	(6,728)	(192)	-	-
	Gamma Aviation	5,400	-	(3,040)	2,360	1.1
	NAHL Group	4,496	-	(1,440)	3,056	1.4
		22,204	(6,728)	(4,752)	10,724	4.9
Travel and Leisure	Hollywood Bowl Group	-	6,444	236	6,680	3.0
	On the Beach Group	9,116	(375)	4,519	13,260	6.0
	The Gym Group	6,150	-	(1,380)	4,770	2.2
		15,266	6,069	3,375	24,710	11.2
Business Services	Midwich	-	5,002	(57)	4,945	2.2
	SThree	4,909	-	(784)	4,125	1.9
		4,909	5,002	(841)	9,070	4.1
Technology and Telecommunications	Alibaba Group – China	2,791	(4,187)	1,396	-	-
	Baidu – China	10,135	(7,795)	(2,340)	-	-
	Blue Prism	-	1,482	4,298	5,780	2.6
	FDM Group	20,800	(8,535)	860	13,125	5.9
	Gamma Communications	9,180	(4,117)	(328)	4,735	2.1
	Herald Investment Trust	14,720	-	1,780	16,500	7.5
	Kainos Group	4,690	-	(235)	4,455	2.0
		62,316	(23,152)	5,431	44,595	20.1
Oil and Gas Producers	Bankers Petroleum - Canada	309	(408)	99	-	-
Beverages	Fever-Tree Drinks	11,500	(1,256)	8,998	19,242	8.7
Utilities	Telecom Plus	6,774	(2,226)	452	5,000	2.3
Non Life Insurance	Polar Capital Global Insurance Fund – Ireland	3,469	-	939	4,408	2.0
Renewable Energy Funds	Bluefield Solar Income – Channel Islands	5,125	-	62	5,187	2.3
Total Investments		214,742	(9,900)	5,720	210,562	95.3
Net Liquid Assets		4,229	5,940	139	10,308	4.7
Shareholders' Funds		218,971	(3,960)	5,859	220,870	100.0

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

* Suspended Security.

Income statement

	For the year ended 30 November 2016 (unaudited)			For the year ended 30 November 2015 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	**-**	**5,720**	**5,720**	-	43,695	43,695
Currency gains	**-**	**139**	**139**	-	268	268
Income (note 2)	**5,139**	**-**	**5,139**	5,382	-	5,382
Administrative expenses	**(719)**	**-**	**(719)**	(635)	-	(635)
Net return on ordinary activities before taxation	**4,420**	**5,859**	**10,279**	4,747	43,963	48,710
Tax on ordinary activities	**-**	**-**	**-**	(9)	-	(9)
Net return on ordinary activities after taxation	**4,420**	**5,859**	**10,279**	4,738	43,963	48,701
Net return per ordinary share: basic (note 3)	**7.93p**	**10.51p**	**18.44p**	8.30p	77.01p	85.31p
Note: **Dividends per share paid and payable in respect of the year (note 4)**	**7.50p**			8.00p		

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are prepared under guidance published by the Association of Investment Companies.

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.

Balance sheet

	At 30 November 2016 (unaudited)		At 30 November 2015 (audited)	
	£'000	£'000	£'000	£'000
Fixed assets				
Investments held at fair value through profit or loss		**210,562**		214,742
Current assets				
Debtors	**115**		413	
Cash and cash equivalents	**10,247**		3,851	
	10,362		4,264	
Creditors				
Amounts falling due within one year	**(54)**		(35)	
Net current assets		**10,308**		4,229
Total net assets		**220,870**		218,971
Capital and reserves				
Called up share capital		**13,882**		14,032
Share premium account		**15,242**		15,242
Special distributable reserve		**16,625**		18,831
Capital redemption reserve		**2,650**		2,500
Capital reserve		**167,982**		162,123
Revenue reserve		**4,489**		6,243
Shareholders' funds		**220,870**		218,971
Net asset value per ordinary share (note 5)		**397.7p**		390.1p

Statement of changes in equity

For the year ended 30 November 2016 (unaudited)

	Called up share capital £'000	Share premium account £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' 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	-	-	-	-	5,859	4,420	10,279
Shares bought back for cancellation (note 5)	(150)	-	(2,206)	150	-	-	(2,206)
Dividends paid during the year (note 4)	-	-	-	-	-	(6,174)	(6,174)
Shareholders' funds at 30 November 2016	**13,882**	**15,242**	**16,625**	**2,650**	**167,982**	**4,489**	**220,870**

For the year ended 30 November 2015 (audited)

	Called up share capital £'000	Share premium account £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' 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	-	-	-	-	43,963	4,738	48,701
Shares bought back for cancellation	(435)	-	(5,582)	435	-	-	(5,582)
Dividends paid during the year (note 4)	-	-	-	-	-	(4,008)	(4,008)
Shareholders' funds at 30 November 2015	14,032	15,242	18,831	2,500	162,123	6,243	218,971

* The Capital Reserve balance at 30 November 2016 included an investment holding gain on fixed asset investments of £57,240,000 (2015 – gain of £64,549,000).

Notes (unaudited)

1. The Financial Statements for the year to 30 November 2016 have been prepared in accordance with The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') which the Company must adopt for its financial year ending 30 November 2016. Following the application of the new reporting standard and the AIC's issued Statement of Recommended Practice issued in November 2014, there has been no impact on the balances at 1 December 2014 or on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for the period previously reported. The Company has elected not to present a Statement of Cash Flows for the current year 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 Company has early adopted the amendments to section 34 of FRS 102 regarding fair value hierarchy disclosures.

2. **Income**

	Year to 30 November 2016 £'000	Year to 30 November 2015 £'000
Income from investments and interest receivable	**5,120**	5,356
Other income	**19**	26
	5,139	5,382

3. **Net return per ordinary share**

	Year to 30 November 2016			Year to 30 November 2015		
	Revenue	Capital	Total	Revenue	Capital	Total
Net return on ordinary activities after taxation (£'000)	**4,420**	**5,859**	**10,279**	4,738	43,963	48,701
Weighted average number of ordinary shares in issue during the year			**55,738,196**			57,087,403
Net return per ordinary share: Basic	**7.93p**	**10.51p**	**18.44p**	8.30p	77.01p	85.31p

Returns per ordinary share are based on the return for the financial year and on the weighted average number of ordinary shares in issue during the year as shown above. There are no dilutive or potentially dilutive shares in issue.

4. **Ordinary dividends**

	Year to 30 November 2016		Year to 30 November 2015	
	Pence	£'000	Pence	£'000
Amounts recognized as distributions in the year:				
Previous year's second interim (2015 – final) dividend paid 15 February 2016	**3.00**	**1,684**	3.00	1,719
Previous year's special dividend paid 15 February 2016	**3.00**	**1,684**	2.00	1,146
Interim dividend paid 31 March 2016	**5.00**	**2,806**	2.00	1,143
	11.00	**6,174**	7.00	4,008

Set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £4,420,000 (2015 - £4,738,000).

4. **Ordinary dividends (continued)**

	Year to 30 November 2016 Pence	Year to 30 November 2016 £'000	Year to 30 November 2015 Pence	Year to 30 November 2015 £'000
Amounts paid and payable in respect of the year:				
Adjustment to previous year's final dividends re shares bought back	**-**	**-**	-	(28)
Interim dividend paid 31 March 2016	**5.00**	**2,806**	2.00	1,143
Second interim dividend	**-**	**-**	3.00	1,684
Special dividend payable 6 April 2017	**2.50**	**1,388**	3.00	1,684
	7.50	**4,194**	8.00	4,483

The special dividend will be paid on 6 April 2017 to all shareholders on the register at the close of business on 24 February 2017. The ex-dividend date is 23 February 2017.

5. **Net asset value per ordinary share**

	At 30 November 2016 £000	At 30 November 2015 £'000
Net asset value attributable to ordinary shares	**220,870**	218,971

Net asset value per share is based on net assets (as shown above) and on 55,530,000 shares (2015 – 56,130,000), being the number of shares in issue at the year end. There are no dilutive or potentially dilutive shares in issue.

During the year the Company bought back 600,000 (2015 – 1,739,000) ordinary shares of 25p each at a cost of £2,206,000 (2015 – £5,582,000). At 30 November 2016 the Company had authority remaining to buy back a further 7,813,887 ordinary shares.

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 year, transaction costs on purchases amounted to £64,000 (2015 - £202,000) and transaction costs on sales amounted to £99,000 (2015 - £162,000).

7. The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 November 2016. The financial information for 2015 is derived from the financial statements for 2015 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2015 accounts; their report was unqualified and did not contain a statement under sections 498 (2), (3) or (4) of the Companies Act 2006. The statutory accounts for 2016 will be finalised on the basis of the financial information presented in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

8. The Report and Accounts will be available on the Company's website **www.independentinvestmenttrust.co.uk**† on or around 17 February 2017.

9. None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

† *Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.*

- ends –

Regulated Information Classification: Additional regulated information required to be disclosed under the laws of a Member State of the European Union