RNS Announcement: Preliminary Results

The Independent Investment Trust PLC

Chairman's Statement

During the year to 30 November 2014, our company produced an NAV total return of 10.4%. Theoretical investments in the FTSE All-Share Index and the FTSE World Index would have produced total returns of 4.7% and 13.7% respectively. A share price total return of 10.6% left the discount broadly unchanged over the year at 6.5%. While our characteristically high UK stake prevented us from matching the performance of the world index, we are pleased with its performance in relation to the UK market.

The second half of the year saw substantial changes to the disposition of our assets and these are described below. The net effect of these changes has been to restore a greater sense of purpose to the portfolio than we have seen at any time in the last seven years. It remains to be seen whether this turns out to be a good thing, but it has at least had the effect of putting a spring back in the step of our managing director.

The process of recovery from the financial crisis of 2008 remains painfully slow and marred by disappointments, such as the poor recent performance of the Japanese economy and of many European economies. Such disappointments have had a marked effect on commodity prices – particularly the oil price – but have merely encouraged stockmarkets to anticipate further doses of monetary stimulus. The biggest worry in the markets seems to be that some economies – notably those of the USA and the UK – might be strong enough to justify some trivial increase in interest rates. This still strikes us as a worrying world in which to invest, but we have resolved to ignore the forest in favour of the trees it comprises. Many of these, particularly the saplings, seem to us to be in good health and not unreasonably valued.

The major shift of emphasis during the year has been away from cash and defensive investments in favour of companies with apparently good growth prospects. Many of these have only recently floated (or refloated) on the stockmarket: almost a quarter of our portfolio at 30 November 2014 was invested in companies that were listed in 2014 and a further 7% was in companies listed in 2013. This part of our portfolio made a strong contribution to our overall performance in the year under review. Leaving aside our big non-life insurance stake, which we consider intrinsically attractive, the percentage of our portfolio invested in investments we have designated as defensive declined from 18.8% at 30 November 2013 to 2.9% at 30 November 2014 and our cash balances declined from 10% to 7%. The big sector changes were in energy (reduced from 16% to 4%), technology and telecommunications (increased from 11% to 27%) and housing (increased from 6% to 16%). Further comments on the portfolio can be found in the Managing Director's Report below.

The task of restoring our fortunes continues, but we remain pleased with our performance since flotation which, according to analysts at J. P. Morgan Cazenove, is superior to that of all other members of their global investment trust category for the period 18 October 2000 to 30 November 2014. Over the same period, we produced an NAV total return of 324%, equivalent to a rate of roughly 10.9% per annum, of which 2.9% 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 96%, or 4.9% per annum.

Earnings per share for the year were 7.35p (6.16p in 2013). As foreshadowed in our Interim Report, we are not reflecting this increase in earnings in our proposed final dividend, which is unchanged at 3p. Instead, we are proposing a special dividend of 2p (1p in 2013) in order to maintain the flexibility to vary the yield on the portfolio without threatening the regular dividend.

The increase in the value of our assets, together with our traditional frugality, has led to a further reduction in our ongoing expenses ratio – from 0.39% to 0.36%. This reinforces our position as one of the lowest cost providers in our industry.

We have once again bought back shares in order to help selling shareholders achieve a fair price. Limited demand for this service, together with favourable market conditions, has allowed us to pay keen prices: during the year we bought 231,000 shares at a weighted average discount of 7.5%. We should warn that in less favourable market conditions we would be unlikely to be able to justify buying back shares at such low discounts as our first priority must be to protect the interests of continuing shareholders.

With effect from 7 April 2014 the Company has been registered as a small UK Alternative Investment Fund Manager (AIFM) in accordance with the requirements of the European Union's Alternative Investment Fund Management Directive which came into effect in July 2014. A consequence of this is that we shall not be able to gear, including the use of derivatives, so long as we retain this level of registration. We feel that the immediate cost to us of this development is negligible.

We wrote last year that valuations were proving an impediment to our objective of moving back to the stock picking approach we pursued with such gusto in the early years of The Independent. Valuations are not as cheap as they were in those early years, but we think they are back to more reasonable levels than obtained at this time last year and, in amongst our purchases during the second half of the year, we think we found some bargains. The threats to peace and stability (political and financial) we have highlighted in recent years have not disappeared, but the companies in our portfolio seem well placed to ride out the weak markets that they might precipitate. In particular, many of our holdings have negligible levels of debt and highly cash generative characteristics. In an uncertain world, we consider them a better long term home than cash or dreary defensive investments.

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 26 March 2015. 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
13 January 2015

Managing Director's Report

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

Having had energy as our largest industry position since 2006, we have had a major change of view in the year under review. The origin of our big commitment to energy lay in a fear that oil production might not be able to grow fast enough to meet demand. The shape of the stake, and the rationale for owning it, changed when it became apparent that North American shale oil had the potential to become a major contributor to global oil production. The prospect of strong growth in drilling activity, accompanied by the intensive use of oilfield services that goes with hydraulic fracturing, led us to take a big position in the service companies. This appeared to be working well at the time of our interim results, but out of an apparently clear blue sky has come a devastating collapse in the oil price as OPEC have declined to cut their production simply to accommodate the strong growth in North American production. The realization that lower oil prices would lead to reduced drilling activity and a considerable surplus of capacity in a service industry that had been busy gearing up for strong growth in demand prompted us to sell the bulk of our oilfield services stake. We were not as quick to do this as we should have been (it took two bites), but the pain would have been much greater had we not done it. An energy stake worth £26.3m at 30 November 2013 had fallen in value to £8.0m by 30 November 2014 after sales amounting to £16.3m.

Other than our longstanding, and highly successful, holding in Herald, technology and telecommunications has not been an area for which we have exhibited much enthusiasm in the past. But this year has seen big additions to our holding in Baidu (it is now our largest holding) and new purchases of FDM and Gamma Communications. Our purchases of Baidu have been triggered by the extraordinary growth exhibited by its mobile revenues, which now account for over a third of its total revenues. FDM has built an intriguing business model round the idea of training IT technicians and then placing them as contractors with big blue chip clients and Gamma Communications has used the advent of the fibre network in the UK to build a leading position in "next generation" telecommunications services. Baidu, FDM and Gamma all made strong contributions to our performance during the year, but Herald has suffered from neglect as its discount has moved to surprisingly high levels. Overall, an industry stake worth £18.9m at 30 November 2013 had grown in value to £49.2m by 30 November 2014 after purchases amounting to £23.1m.

In contrast to technology, housing is an industry in which we have often had form in the past – but not to any significant extent in recent years. Shareholders may wonder why we have waited until the sector has recorded three years of strong outperformance before we have returned it to a position of prominence within the portfolio. The answer is that we have been slow to recognize the extent of the fundamental change in the outlook for quoted housebuilders. A plentiful supply of land at attractive prices and a relatively stable interest rate outlook provide an ideal background for medium sized companies with ambitious volume aspirations. Crest Nicholson and Redrow are two such and we have taken big positions in each (part of our current Redrow holding has been bought since 30 November). We have also bought some more Berkeley Group at a valuation which discounts a very difficult outlook for London house prices. After additions amounting to £16.2m, the value of our housing stake (which includes the property website Rightmove) has increased from £9.5m at 30 November 2013 to £28.0m at 30 November 2014.

A combination of generous dividend yields (our direct holdings in the sector generated an underlying yield of around 6% during the year) and modest capital appreciation produced a satisfactory total return from our large non-life insurance stake. Another year of strong profitability has, in our view, increased the security of the sector's dividends, but has been overshadowed in the eyes of many investors by the continuing fall in premium rates. We think this provides an opportunity and we have added Brit to our portfolio. We have recently been encouraged by the emergence of a bid for Catlin at an implied valuation well above that prevailing at 30 November 2014. Overall, our stake in the industry increased in value from £16.3m at 30 November 2013 to £22.2m at 30 November 2014 after net purchases of £5.2m.

In our retail portfolio, we replaced our holding in Games Workshop with two overseas flash sales retailers, Zulily (USA) and MySale (Australia). These did not perform well in the year under review, which also saw an uncharacteristically lacklustre share price performance from our old favourite, Dunelm. Since 30 November, the holding in MySale has been sold at a substantial loss following the publication of a disappointing trading statement.

Among our industrial holdings, a well timed sale of Croda and a strong performance from Ashtead were easily enough to offset a disappointing showing from Aggreko, which lost both its chief executive and its finance director during the year. In the utilities sector, we took advantage of a weak share price to add to our holding in Telecom Plus and sold our holdings in National Grid and SSE. We also sold all our holdings in the pharmaceutical, tobacco, commercial property and mining sectors. In the case of the mining holdings and Philip Morris we realized losses, but the other sales all yielded a satisfactory return on cost.

At the time of our Interim Report we had more than 9% of our assets invested in infrastructure and renewable energy funds, but by 30 November 2014 our exposure to the sector was limited to a single holding in Bluefield Solar. These holdings were always considered by us to be an attractive alternative to cash and, in aggregate, our sales in the sector generated a much better return than cash.

Elsewhere in the portfolio, we realized a good profit on IG Group and heavy losses on Partnership Assurance and Asian Citrus (at last). A brief investment in Thomas Cook also produced a loss when the company's chief executive departed unexpectedly. Domino's Pizza had a much better year, but the SThree share price fell despite a solid recovery in trading. Finally, a new holding in the premium soft drinks company, Fever-Tree, produced a good initial return.

Max Ward
13 January 2015

The Independent Investment Trust PLC

Income statement

The following is the unaudited preliminary statement for the year to 30 November 2014 which was approved by the board on 13 January 2015. The directors of The Independent Investment Trust PLC are recommending to the Annual General Meeting of the Company to be held on 26 March 2015 the payment of a final dividend of 3.00p (3.00p last year) per ordinary share, making a total regular dividend of 5.00p (5.00p last year) per ordinary share for the year ended 30 November 2014. A special dividend of 2.00p (1.00p last year) per share is also proposed. The total dividend of 5.00p, if approved, will be paid on 7 April 2015 to all shareholders on the register at the close of business on 27 February 2015.

	For the year ended 30 November 2014 (unaudited)			For the year ended 30 November 2013 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	**-**	**12,581**	**12,581**	-	25,677	25,677
Currency gains/(losses)	**-**	**227**	**227**	-	(893)	(893)
Income (note 2)	**4,894**	**-**	**4,894**	4,238	-	4,238
Administrative expenses	**(619)**	**-**	**(619)**	(617)	-	(617)
Net return on ordinary activities before taxation	**4,275**	**12,808**	**17,083**	3,621	24,784	28,405
Tax on ordinary activities	**(15)**	**-**	**(15)**	(15)	-	(15)
Net return on ordinary activities after taxation	**4,260**	**12,808**	**17,068**	3,606	24,784	28,390
Net return per ordinary share: (note 3) Basic	**7.35p**	**22.11p**	**29.46p**	6.16p	42.35p	48.51p
Dividends per share paid and payable in respect of the year (note 4)	**7.00p**			6.00p		

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. No operations were acquired or discontinued during the year.

A Statement of Total Recognized Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Balance sheet

	At 30 November 2014 (unaudited)		At 30 November 2013 (audited)	
	£'000	£'000	£'000	£'000
Fixed assets				
Investments held at fair value through profit or loss		**167,539**		149,870
Current assets				
Debtors	**2,813**		274	
Cash at bank and in hand	**9,541**		18,148	
	12,354		18,422	
Creditors				
Amounts falling due within one year	**(33)**		(1,402)	
Net current assets		**12,321**		17,020
Total net assets		**179,860**		166,890
Capital and reserves				
Called up share capital		**14,467**		14,525
Share premium		**15,242**		15,242
Special distributable reserve		**24,413**		25,036
Capital redemption reserve		**2,065**		2,007
Capital reserve		**118,160**		105,352
Revenue reserve		**5,513**		4,728
Shareholders' funds		**179,860**		166,890
Net asset value per ordinary share (note 5)		**310.8p**		287.2p

Reconciliation of movements in shareholders' funds

For the year ended 30 November 2014 (unaudited)

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' 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	-	-	-	-	12,808	4,260	17,068
Shares bought back for cancellation	(58)	-	(623)	58	-	-	(623)
Dividends paid during the year	-	-	-	-	-	(3,475)	(3,475)
Shareholders' funds at 30 November 2014	**14,467**	**15,242**	**24,413**	**2,065**	**118,160**	**5,513**	**179,860**

For the year ended 30 November 2013 (audited)

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' 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	(262)	-	(2,509)	262	-	-	(2,509)
Dividends paid during the year	-	-	-	-	-	(4,112)	(4,112)
Shareholders' funds at 30 November 2013	14,525	15,242	25,036	2,007	105,352	4,728	166,890

Cash flow statement

	For the year ended 30 November 2014 (unaudited)		For the year ended 30 November 2013 (audited)	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		4,020		4,098
Capital expenditure and financial investment				
Acquisitions of investments	(92,334)		(39,565)	
Disposals of investments	83,578		52,886	
Realised currency gain/(loss)	227		(893)	
Net cash (outflow)/inflow from capital expenditure and financial investment		(8,529)		12,428
Equity dividends paid		(3,475)		(4,112)
Net cash (outflow)/inflow before financing		(7,984)		12,414
Financing				
Shares bought back for cancellation	(623)		(2,616)	
Net cash outflow from financing		(623)		(2,616)
(Decrease)/increase in cash		(8,607)		9,798

Reconciliation of net cash flow to movement in net funds				
(Decrease)/increase in cash in the year		(8,607)		9,798
Movement in net funds in the year		(8,607)		9,798
Net funds at 1 December		18,148		8,350
Net funds at 30 November		9,541		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		17,083		28,405
Gains on investments		(12,581)		(25,677)
Amortisation of fixed interest book cost		-		167
Currency (gains)/losses		(227)		893
(Increase)/decrease in accrued income		(239)		319
(Increase)/decrease in other debtors		(5)		4
Increase in creditors		4		2
Overseas tax		(15)		(15)
Net cash inflow from operating activities		4,020		4,098

Notes (unaudited)

1. The financial statements for the year to 30 November 2014 have been prepared on the basis of the same accounting policies set out in the Company's Annual Report and Financial Statements at 30 November 2013.

2. Income

	Year to 30 November 2014 £'000	Year to 30 November 2013 £'000
Income from investments and interest receivable	**4,870**	4,220
Other income	**24**	18
	4,894	4,238

3. Net return per ordinary share

	Year to 30 November 2014			Year to 30 November 2013		
	Revenue	Capital	Total	Revenue	Capital	Total
Net return on ordinary activities after taxation (£'000)	**4,260**	**12,808**	**17,068**	3,606	24,784	28,390
Weighted average number of ordinary shares in issue during the year			**57,924,245**			58,520,767
Net return per ordinary share: Basic	**7.35p**	**22.11p**	**29.46p**	6.16p	42.35p	48.51p

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.

For the years to 30 November 2014 and 30 November 2013 there was no dilution of returns.

4. Ordinary dividends

	Year to 30 November 2014		Year to 30 November 2013	
	Pence	£'000	Pence	£'000
Amounts recognized as distributions in the year:				
Previous year's final dividend paid 8 April 2014	**3.00**	**1,739**	5.00	2,945
Previous year's special dividend paid 8 April 2014	**1.00**	**579**	-	-
Interim dividend paid 29 August 2014	**2.00**	**1,157**	2.00	1,167
	6.00	**3,475**	7.00	4,112

Set out below are the total dividends paid and payable 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 £4,260,000 (2013 - £3,606,000).

4. Ordinary dividends (continued)	Year to 30 November 2014 Pence	Year to 30 November 2014 £'000	Year to 30 November 2013 Pence	Year to 30 November 2013 £'000
Amounts paid and payable in respect of the year:				
Interim dividend paid 29 August 2014	**2.00**	**1,157**	2.00	1,167
Proposed final dividend payable 7 April 2015	**3.00**	**1,736**	3.00	1,739
Proposed special dividend payable 7 April 2015	**2.00**	**1,157**	1.00	579
	7.00	**4,050**	6.00	3,485

If approved, the final and special dividends will be paid on 7 April 2015 to all shareholders on the register at the close of business on 27 February 2015. The ex-dividend date is 26 February 2015.

5. Net asset value per ordinary share	At 30 November 2014 £000	At 30 November 2013 £'000
Net asset value attributable to ordinary shares	**179,860**	166,890

Net asset value per share is based on net assets (as shown above) and on 57,869,000 shares (2013 – 58,100,000), being the number of shares in issue at the year end.

During the year the Company bought back 231,000 (2013 – 1,050,000) ordinary shares of 25p each at a cost of £623,000 (2013 – £2,509,000). At 30 November 2014 the Company had authority remaining to buy back a further 8,612,506 ordinary shares.

6. At 30 November 2014, the Company had no borrowings (30 November 2013 - nil).

7. 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 £336,000 (2013 - £187,000) and transaction costs on sales amounted to £185,000 (2013 - £84,000).

8. The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 November 2014. The financial information for 2013 is derived from the financial statements for 2013 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2013 accounts; their report was unqualified and did not contain a statement under sections 495 to 497 of the Companies Act 2006. The statutory accounts for 2014 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

9. The Report and Accounts will be available on the Company's website www.independentinvestmenttrust.co.uk† on or around 20 February 2015.

10. 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.

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