



RNS Announcement: Preliminary Results

The Independent Investment Trust PLC

Chairman's Statement

During the year to 30 November 2013, our company produced an NAV total return of 20.2%. Theoretical investments in the FTSE All Share Index and The FTSE World Index would have produced total returns of 19.8% and 22.5% respectively. A narrowing of the discount from 13.2% to 6.5% led to a share price total return of 29.8% for the year. We note with due humility that we have, for a second year in succession, failed to capitalize properly on market conditions whose exuberance is reflected in notional total returns of over 30% for both the FTSE 250 and the FTSE Small Companies indices. Our judgement proved to be too cautious: we held substantial amounts of cash over the period, and the equity portfolio had a more defensive bias than we might normally be associated with.

Once again, markets have been driven largely by the activities of the world's central banks. In the early part of our year, lacklustre economic statistics promoted expansive monetary policies and strong stockmarkets. By early summer, there were signs of improvement in a number of important economies, including that of the USA, and the Federal Reserve Bank began to ruminate in public about a move to a less stimulatory policy. It was clearly taken aback by the strength of market reaction to these ruminations and subsequently surprised markets by delaying even the mildest tightening of policy until December. Markets were thus able to end our year at or close to their recent peaks.

It has been another year of low turnover in our equity portfolio with little change in the overall shape of the portfolio beyond the decline in our energy stake that followed on from the reduction in our holding in Noble. Perhaps the most significant change has been our investment in the John Laing Infrastructure Fund. We think infrastructure funds can offer attractive long term returns with less risk than most other equities; as such, they seem a sensible home for a proportion of our cash balances. These last amounted to 10% of funds at 30 November 2013 (16% at 30 November 2012 including a short dated gilt). Comments on the portfolio can be found in the managing director's report.

It remains a source of regret to us that we have yet to regain the heights reached in 2007, but our performance since flotation remains eminently satisfactory. Between 18 October 2000 and 30 November 2013, we produced an NAV total return of 285%, equivalent to a rate of roughly 10.9% per annum, of which 3.0% 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 87%, or 4.9% per annum.

Earnings per share for the year were 6.16p (5.81p in 2012). Our revenue account has turned out better than we had expected at the time of our Interim Report, a reflection of reduced cash balances and an unexpectedly high level of special dividends. As promised at that time we are proposing a final dividend of 3p to give a regular dividend of 5p (5p in 2012). In addition, we are proposing a special dividend of 1p to reflect the substantial contribution of one off payments to our earnings for the year. Subject to approval, both dividends will be payable on 8 April 2014.

The combination of a tight control of costs and a buoyant capital account has produced a welcome reduction in our ongoing charges ratio – from 0.43% to 0.39%. We continue to be proud of the fact that, despite our modest size, we have one of the lowest, if not the lowest, ongoing charges ratios in the industry.

For some years now, we have followed an opportunistic policy of buying back our own shares. The level of discount at which this can be done without prejudicing the interests of continuing shareholders varies according to market conditions. In the year under review we have felt able to buy at lower levels of discount than in previous years and have ended up buying 1.05m at a weighted average discount of 11.7%. We recognize the importance to shareholders who might wish to sell of receiving a price as close as possible to the underlying net asset value.

From July 2014 we shall have to meet the requirements of the European Union's Alternative Investment Fund Management Directive. Our current view is that full scale authorisation would be excessively burdensome for a company such as The Independent, important features of whose policy are to remain small and low cost. We have

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therefore applied for smaller company registration, which takes account of these considerations. A consequence of this is that, as the rules stand, we shall not be able to gear so long as we retain this level of registration. It is our belief that the regulations were drawn up with higher levels of gearing in mind than we should be likely to contemplate, and we hope that there might at some point be some easing of the opening restriction. In the meantime, we feel that the immediate cost to us of being unable to borrow is negligible.

The difficulty we have had in coming to terms with markets driven by central banks has imposed a significant cost on us in terms of missed opportunities. We are constantly looking for individual companies with good prospects, but time and again we are deterred by the prices at which such businesses are on offer in the market. Until this changes, it is likely that we shall continue to operate with a relatively cautious disposition of our assets.

I should like to thank our secretaries, Baillie Gifford, for their continued excellent service, our managing director, Max Ward, and our office manager, Vivien Judge.

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 27 March 2014. 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

23 January 2014

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Managing Director's Report

Our performance over the year has been covered in the chairman's statement.

Our large energy stake has caused us considerable frustration over the years and the year under review has provided its fair share of disappointments. The overall performance of the stake has, however, been quite satisfactory: worth £27.6m at 30 November 2012, it had only fallen in value to £26.3m by 30 November 2013 despite sales of £7.3m.

The only change in the composition of our energy portfolio was a significant reduction in the size of our Noble holding, the last remnant of an offshore drilling stake that once amounted to 20% of the portfolio in its own right. We have been proved right in our belief that an environment of high oil prices would stimulate strong growth in offshore exploration and thus a high level of demand for offshore drilling rigs. But the triumph has been a hollow one as new safety standards have resulted in much higher levels of downtime than were anticipated in contract terms. This has led to disappointing earnings throughout the industry. Things are improving as new contracts are signed and Noble should enjoy good growth over the next few years, but our enthusiasm for the company is tempered by the knowledge that this is a cyclical industry which has already enjoyed several years of strong demand.

The bulk of our energy stake – £19.5m out of a total of £26m – is now accounted for by our service company holdings. These have been held back in recent years by the collapse in drilling for onshore gas in North America. The number of onshore rigs drilling for gas now appears to be bottoming out, while the number drilling for shale oil continues to rise. This has led many analysts to predict a strong recovery in service company earnings over the next few years. The improved performance of the stocks in the year under review goes some way towards recognizing this, but they still seem attractively valued in relation to their longer term prospects.

A combination of further purchases and good performance has led to non-life insurance becoming our third biggest sector (the second biggest, technology, is covered below). The attractions of the sector lie in the ability of the strong companies to earn good returns over the cycle and their willingness to pursue generous distribution policies. The long term benefits of good stock selection in this industry are well illustrated by the performance of our holding in the Polar Capital Global Insurance Fund: since our purchase in 2001, the unit price has risen by over 120%, outpacing most equity markets by a considerable margin. Overall, our non-life insurance stake rose in value from £10.8m at 30 November 2012 to £16.3m at 30 November 2013 after net purchases of £2.5m. An initial investment in the specialist annuity provider, Partnership Assurance, has proved less successful as the company has failed to meet expectations generated at the time of its flotation.

It has been a mixed year for our industrial holdings: a stake worth £12.4m at 30 November 2012 had risen in value to £14.8m by 30 November 2013, but £1.6m of that rise was accounted for by net purchases. We finally sold our very successful investment in IMI on grounds of valuation and we enjoyed a good performance from our new holding in the largely US based plant hire company, Ashtead. Ashtead's earnings are growing strongly on the back of a recovery in the US economy and a switch from ownership to rental of plant and equipment. Our two other holdings, Aggreko and Croda, fared less well. Aggreko was hit by a combination of poor levels of new business and the expiry of two large and unusually profitable contracts, while Croda has suffered disappointing levels of revenue growth. In each case the problem appears to have been more one of demanding market expectations than of fundamental flaws in the business. We have therefore retained both holdings.

In the year under review, our UK retail portfolio bounced back from its subdued performance the previous year: a stake worth £9.8m at 30 November 2012 had grown in value to £11.9m by 30 November 2013 despite net sales of £1.4m. The principal contributor to this outcome was our large holding in Dunelm. Regular readers of these commentaries will recognize this as a familiar refrain, along with the observation that we would be very much better off if we had never sold a share in the company. Topps and Halfords made modestly positive contributions ahead of their respective disposals. A new holding in Games Workshop performed well in the period under review, but has since been sold following a profit warning. We sold our one overseas retailer – Powerland – when the company's accounts were qualified by its auditors.

Among the more defensive sectors of the portfolio, pharmaceuticals and telecommunications performed well, but utilities were mixed and tobacco performed poorly as weak volume trends and publicity given to proposals to introduce plain packaging undermined sentiment towards the sector.

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The strong recovery in the housing market has been good for our housebuilders and for the residential property website, Rightmove, which was added to the portfolio in March. The recruitment industry, however, suffered from subdued jobs markets in most parts of the world. We sold out of Michael Page – at a good profit – and reduced our holding in SThree. In property, we realized a good profit on a holding in SEGRO and retained a holding in British Land.

Elsewhere in the portfolio, our technology holdings, Herald and Baidu, had an excellent year, but our mining holdings, BHP Billiton and BlackRock World Mining, once again disappointed as metals prices performed poorly. Our one remaining transport holding, Go Ahead, was sold after a good performance in the year under review. IG Group enjoyed a strong recovery, but Domino's Pizza saw its share price knocked by disappointing progress in Germany and the departure of two senior executives. Finally, Asian Citrus, now a small holding, burnished its reputation for consistent disappointment.

Max Ward

23 January 2014

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Income statement

The following is the unaudited preliminary statement for the year to 30 November 2013 which was approved by the board on 23 January 2014. The directors of The Independent Investment Trust PLC are recommending to the Annual General Meeting of the Company to be held on 27 March 2014 the payment of a final dividend of 3.00p (5.00p 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 2013. A special dividend of 1.00p (nil last year) per share is also proposed. The total dividend of 4.00p, if approved, will be paid on 8 April 2014 to all shareholders on the register at the close of business on 28 February 2014.

	For the year ended 30 November 2013 (unaudited)			For the year ended 30 November 2012 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	-	25,677	25,677	-	9,463	9,463
Currency losses	-	(893)	(893)	-	(53)	(53)
Income (note 2)	4,238	-	4,238	4,122	-	4,122
Administrative expenses	(617)	-	(617)	(608)	-	(608)
Net return on ordinary activities before taxation	3,621	24,784	28,405	3,514	9,410	12,924
Tax on ordinary activities	(15)	-	(15)	(28)	-	(28)
Net return on ordinary activities after taxation	3,606	24,784	28,390	3,486	9,410	12,896
Net return per ordinary share: (note 3)						
Basic	6.16p	42.35p	48.51p	5.81p	15.68p	21.49p
Dividends paid and payable per ordinary share (note 4)	6.00p			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. 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.

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Balance sheet

	At 30 November 2013 (unaudited)		At 30 November 2012 (audited)	
	£'000	£'000	£'000	£'000
Fixed assets				
Investments held at fair value through profit or loss		149,870		136,308
Current assets				
Debtors	274		597	
Cash at bank and in hand	18,148		8,350	
	18,422		8,947	
Creditors				
Amounts falling due within one year	(1,402)		(134)	
Net current assets		17,020		8,813
Total net assets		166,890		145,121
Capital and reserves				
Called up share capital		14,525		14,787
Share premium		15,242		15,242
Special distributable reserve		25,036		27,545
Capital redemption reserve		2,007		1,745
Capital reserve		105,352		80,568
Revenue reserve		4,728		5,234
Shareholders' funds		166,890		145,121
Net asset value per ordinary share (note 5)		287.2p		245.3p

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Reconciliation of movements in shareholders' funds

For the year ended 30 November 2013 (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 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

*Capital reserve as at 30 November 2013 included an investment holding gain of £36,989,000.

For the year ended 30 November 2012 (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 2011	15,262	15,242	31,363	1,270	71,158	3,930	138,225
Net return on ordinary activities after taxation	-	-	-	-	9,410	3,486	12,896
Shares bought back for cancellation	(475)	-	(3,818)	475	-	-	(3,818)
Dividends paid during the year	-	-	-	-	-	(2,182)	(2,182)
Shareholders' funds at 30 November 2012	14,787	15,242	27,545	1,745	80,568	5,234	145,121

* Capital reserve as at 30 November 2012 included an investment holding gain of £15,581,000.

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Cash flow statement

	For the year ended 30 November 2013 (unaudited)		For the year ended 30 November 2012 (audited)	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		4,099		4,965
Capital expenditure and financial investment				
Acquisitions of investments	(39,565)		(33,013)	
Disposals of investments	52,886		37,298	
Realised currency loss	(893)		(53)	
Net cash inflow from capital expenditure and financial investment		12,428		4,232
Equity dividends paid		(4,112)		(2,182)
Net cash inflow before financing		12,415		7,015
Financing				
Shares bought back for cancellation		(2,617)		(3,806)
Net cash outflow from financing		(2,617)		(3,806)
Increase in cash		9,798		3,209
Reconciliation of net cash flow to movement in net funds				
Increase in cash in the year		9,798		3,209
Movement in net funds in the year		9,798		3,209
Net funds at 1 December		8,350		5,141
Net funds at 30 November		18,148		8,350
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities				
Net return before finance costs and taxation		28,405		12,924
Gains on investments		(25,677)		(9,463)
Amortisation of fixed interest book cost		167		796
Currency losses		893		53
Decrease in accrued income		319		685
Decrease/(increase) in debtors		5		(3)
Increase in creditors		2		1
Overseas tax		(15)		(28)
Net cash inflow from operating activities		4,099		4,965

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Notes (unaudited)

1. The financial statements for the year to 30 November 2013 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 2012.

2. Income	Year to 30 November 2013 £'000	Year to 30 November 2012 £'000
Income from investments and interest receivable	4,220	4,102
Other income	18	20
	4,238	4,122

3. Net return per ordinary share	Year to 30 November 2013			Year to 30 November 2012		
	Revenue	Capital	Total	Revenue	Capital	Total
Net return on ordinary activities after taxation (£'000)	3,606	24,784	28,390	3,486	9,410	12,896
Weighted average number of ordinary shares in issue during the year	58,520,767			60,020,591		
Net return per ordinary share: Basic	6.16p	42.35p	48.51p	5.81p	15.68p	21.49p

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 2013 and 30 November 2012 there was no dilution of returns.

4. Ordinary dividends	Year to 30 November 2013		Year to 30 November 2012	
	Pence	£'000	Pence	£'000
Amounts recognized as distributions in the year:				
Previous year's final dividend paid 9 April 2013	5.00	2,945	3.00	1,818
Previous year's special dividend paid 10 April 2012	-	-	0.60	364
Interim dividend paid 30 August 2013	2.00	1,167	-	-
	7.00	4,112	3.60	2,182

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 £3,606,000 (2012 - £3,486,000).

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4. Ordinary dividends (continued)	Year to		Year to	
	30 November 2013	30 November 2012	Pence	£'000
Amounts paid and payable in respect of the year:				
Interim dividend paid 30 August 2013	2.00	1,167	-	-
Proposed final dividend payable 8 April 2014	3.00	1,743	5.00	2,945
Proposed special dividend payable 8 April 2014	1.00	581	-	-
	6.00	3,491	5.00	2,945

If approved, the final and special dividends will be paid on 8 April 2014 to all shareholders on the register at the close of business on 28 February 2014. The ex-dividend date is 26 February 2014.

5. Net asset value per ordinary share	At 30 November 2013	At 30 November 2013
	£'000	£'000
Net asset value attributable to ordinary shares	166,890	145,121

Net asset value per share is based on net assets (as shown above) and on 58,100,000 shares (2012 – 59,150,000), being the number of shares in issue at the year end.

During the year the Company bought back 1,050,000 (2012 – 1,900,000) ordinary shares of 25p each at a cost of £2,509,000 (2012 – £3,818,000). At 30 November 2013 the Company had authority remaining to buy back a further 8,309,643 ordinary shares.

6. At 30 November 2013, the Company had no borrowings (30 November 2012 - 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 £187,000 (2012 - £79,000) and transaction costs on sales amounted to £84,000 (2012 - £37,000).
8. The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 November 2013. The financial information for 2012 is derived from the financial statements for 2012 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2012 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 2013 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 2014.
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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