29 May 2012

Foreign & Colonial Investment Trust

12 months Ending	Total Share Price Return* (%)	Total NAV return* (%)	Total Return Composite B'mark* (%)	Total Return FTSE All-Share* (%)	Total Return FTSE World Ex-UK* (%)
28/05/09	(20.6)	(24.4)	(20.8)	(24.4)	(18.1)
28/05/10	20.5	27.0	27.0	23.8	29.2
28/05/11	16.1	14.9	14.6	19.3	11.4
28/05/12	(6.0)	(5.5)	(5.8)	(6.8)	(5.1)

Note: *12 month rolling discrete performance. Composite Benchmark index comprises 40% FTSE All-Share Index and 60% FTSE World Ex UK Index

Investment summary: Dividend growth

Launched in 1886, Foreign & Colonial Investment Trust (FRCL) was the first global equity trust. Today it is one of the largest and most liquid trusts in the UK, with assets of c £2.3bn and managed by Jeremy Tigue since 1997. FRCL's focus is growth rather than income, but it can boast a 41-year record of uninterrupted dividend growth. For the year ended 31 December 2011, FRCL paid a total annual dividend of 7.10p, providing annual growth of 5.2% and growth over 10 years of 115%, both appreciably above the rate of inflation. FRCL has significant exposure (c 18%) to a maturing portfolio of listed private equity funds that have supported capital performance over the past five years and will provide flexibility to invest in higher yielding listed equities as realisations are made.

Investment strategy: Both sides of the balance sheet

FRCL has a highly diversified portfolio with exposure to c 500 direct equity positions. Jeremy Tigue is responsible for the whole portfolio but focuses primarily on strategic asset allocation and balance sheet management (the amount of debt and the borrowing currency). Thereafter, selection of individual securities is delegated to sub-managers, mainly from within F&C but externally where it is believed this will enhance performance, with specific expertise in countries, regions and asset classes.

Outlook: Pockets of opportunity

The manager is positive on global equities over the medium to long term, but less so than when he increased gearing amid the market gloom of September 2011. Far from passive, FRCL has made a number of significant strategic decisions (eg the move into private equity in 2002). The manager currently sees pockets of opportunity across markets but the next major theme is yet to materialise.

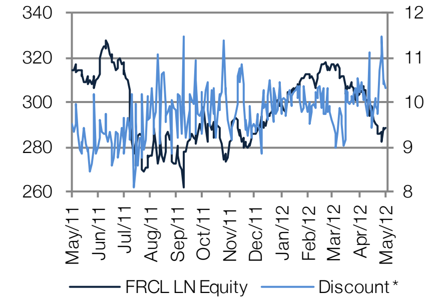
Valuation: Discount above long-term averages

The current discount, with debt at market, of 10.4% is marginally above its longer-term averages of 9.8%, 9.7% and 9.0% over one, three and five years respectively but slightly higher than the AIC peer group (9.9%), whilst the dividend yield is slightly larger (2.5% vs. 2.1%). Over five years NAV total return is slightly below the peer group as asset allocation success has been tempered by stock selection. Maturing private equity investment should give flexibility and support income. FRCL has good liquidity with an average daily volume of 530k shares traded over the last 12 months.

Price	288.4p
Market Cap	£1.68bn
AUM	£2.31bn
NAV	325.18p*
Discount to NAV	11.3%*
NAV	321.82p**
Discount to NAV	10.4%**
Yield	2.5%

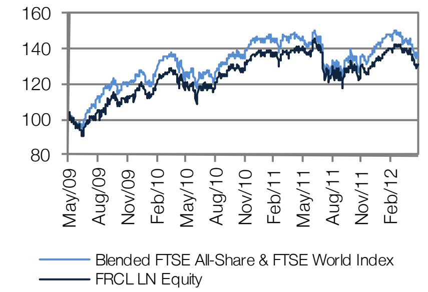
** Adjusted for debt at par value and excluding income, as at 25 May 2012.*
*** Adjusted for debt at market value, excluding income, as at 25 May 2012.*

Share price/discount graph



** Positive values indicate a discount; negative values indicate a premium.*

3-year cumulative performance graph



Share details

Code	FRCL
Listing	LSE
AIC Sector	Global Growth
Shares in issue	582.6m

Price

52 week	High	Low
Price	327.90p	261.50p
NAV*	365.41p	298.80p

** Adjusted for debt at market value, excluding income*

Gross gearing	14.4%
Net gearing	14.0%

Analysts

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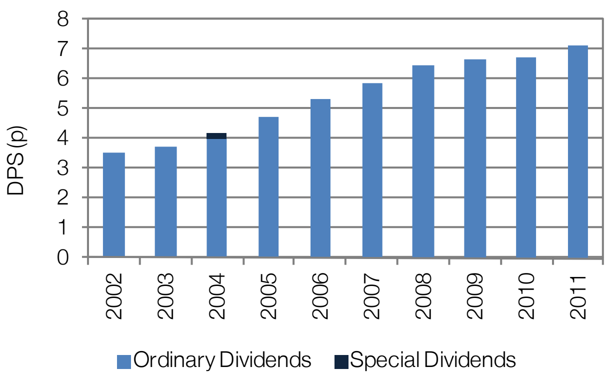
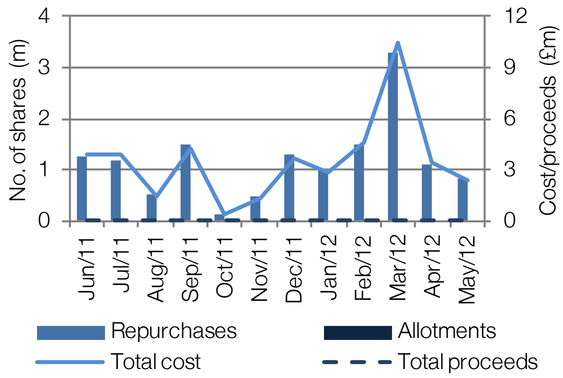
Exhibit 1: Trust at a glance

Investment objective and fund background	Developments last quarter
The trust's investment objective is long-term growth in capital and income from a portfolio of primarily listed global equities but also including unlisted investments. The performance benchmark is a composite index comprising 40% FTSE All Share Index and 60% FTSE All World Index. Gearing is an important element of the strategy.	11 May 2012: Month end portfolio info released. 8 May 2012: AGM – all resolutions passed. 8 May 2012: Interim management statement released.

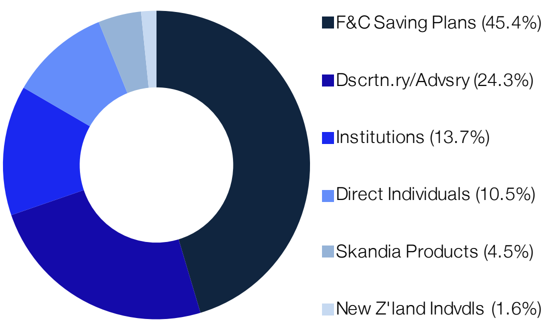
Forthcoming		Capital structure		Fund details	
AGM	May 2013	Total expense ratio	0.50%	Group	FCAM/F&C Mgmt
Preliminary	March 2013	Net gearing	14.0%	Manager	Jeremy Tigue
Year end	31 December	Annual mgmt fee	See Pg. 9	Address	Exchange House, Primrose Street, London EC2A 2NY
Dividend paid	September, May	Performance fee	None		
Launch date	1868	Trust life	Indefinite	Phone	0151 906 2461/2475
Wind-up date	None	Loan facilities	See Pg. 9	Website	www.foreignandcolonial.com

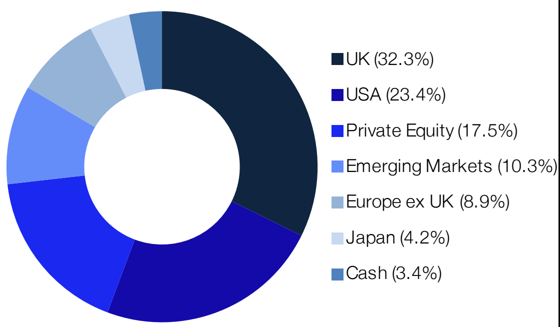
Dividend policy and history	Share buyback policy and history
Two dividends annually, interims paid in September and finals in May. FRCL has a progressive dividend policy.	Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 5% of issued share capital.



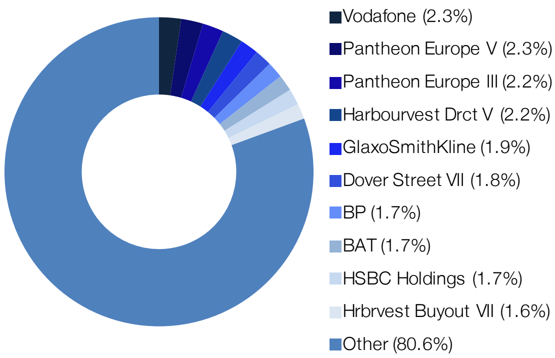


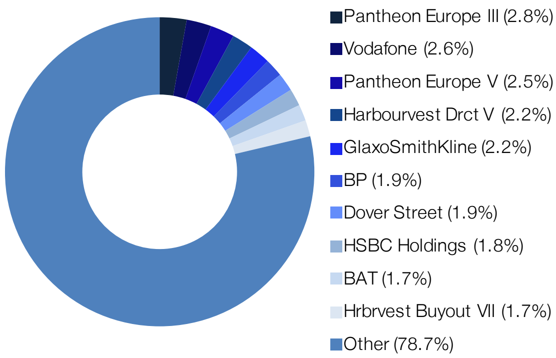
Shareholder base (as at 31 December 2011)	Geographic distribution of portfolio (as at 30 April 2012)





Portfolio composition (as at 30 April 2012)	Portfolio composition (as at 31 October 2011)

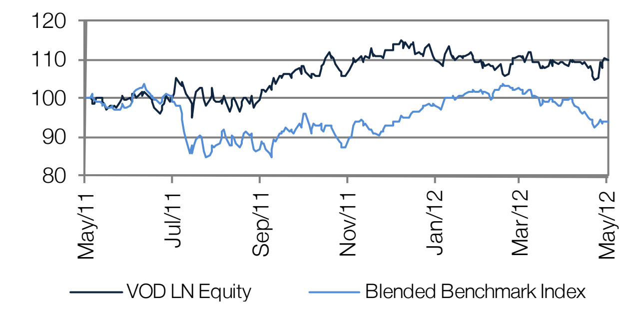




Source: Foreign & Colonial Investment Trust, Edison Investment Research

Exhibit 2: Top five quoted equity positions at a glance as at 30 April 2012

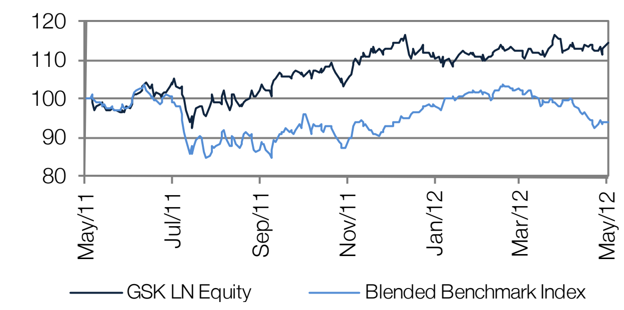
Vodafone — Code: VOD LN — Market Cap: £85,180.7m



Div Yield (trailing 12 m'ths)	5.52%
Industry/Sector	Mobile Telecommunications/Mobile
Listing	UK – FULL
Website	www.vodafone.com

Vodafone (VOD) is one of the world's largest mobile telecommunications companies. It has 323 million customers and interests in over 40 licensed network operators, located in 31 countries, spanning Europe, the Middle East, Africa, Asia-Pacific and the United States. The manager believes VOD is cash generative, offers a good yield and is well positioned to benefit from emerging market growth.

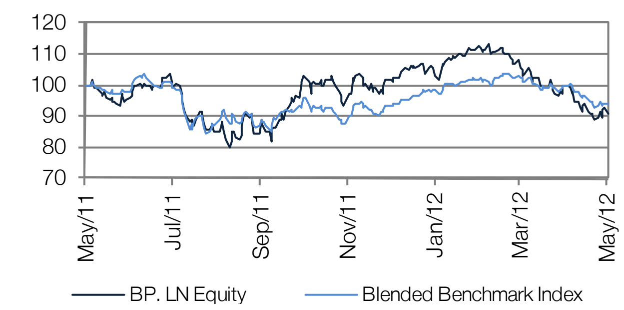
GlaxoSmithKline — Code: GSK LN — Market Cap: £71,907.5m



Div Yield (trailing 12 m'ths)	4.96%
Industry/Sector	Pharmaceuticals & Tech./Pharma
Listing	UK – FULL
Website	www.gsk.com

Headquartered in the UK, GlaxoSmithKline (GSK) is a global healthcare company engaged in the discovery, development, manufacture and marketing of pharmaceutical and health related consumer products. GSK employs over 97,000 people in over 100 countries. The manager considers that GSK is a strong multinational business that is well managed, cash generative, is well financed and offers good yield.

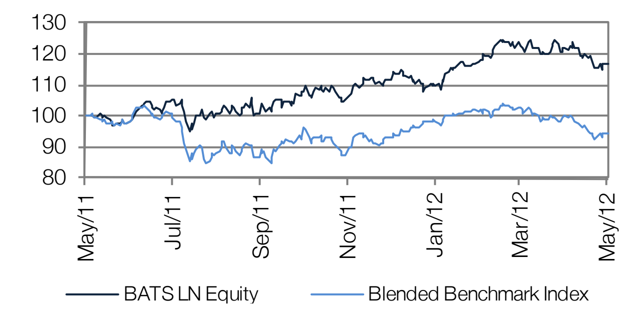
BP — Code: BP. LN — Market Cap: £76,029.6m



Div Yield (trailing 12 m'ths)	4.73%
Industry/Sector	Oil & Gas Producers/Integrated
Listing	UK – FULL
Website	www.bp.com

One of the world's largest integrated oil companies, BP employs 96,000 people in over 100 countries. BP is structured around two main business segments: Exploration and Production, and Refining and Marketing. BP has proven reserves of 18.1bn barrels of crude, 22,600 service stations, interests in 17 refineries and exploration activities in 29 countries. The manager believes BP offers a decent yield and offers good growth prospects

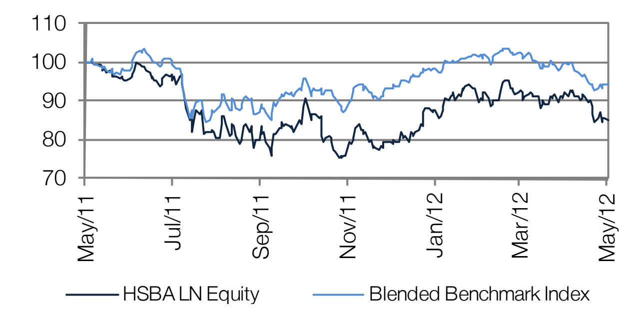
British American Tobacco — Code: BAT LN — Market Cap: £59,683.3m



Div Yield (trailing 12 m'ths)	4.15%
Industry/Sector	Tobacco/Tobacco
Listing	UK – FULL
Website	www.bat.com

. British American Tobacco (BAT) is the world's second largest quoted tobacco company, by market share. It has over 200 brands sold in over 180 countries and 46 factories in 39 countries. Its four main brands are Dunhill, Kent, Lucky Strike and Pall Mall. The manager thinks BAT has good management, is very cash generative and well positioned to benefit from emerging market growth.

HSBC Holdings — Code: HSBA LN — Market Cap: £92,696.9m



Div Yield (trailing 12 m'ths)	5.10%
Industry/Sector	Banks/Banks
Listing	UK – FULL
Website	www.hsbc.com

Based in the UK, HSBC is one of the world's largest banking and financial services organisations. It operates in five main geographical areas: Europe, Hong Kong, North America, South America and Asia-Pacific – including the Middle East and Africa. HSBC has 8,500 offices across 86 countries. The manager considers that HSBC is well managed, offers an good yield and is well positioned to benefit from emerging market growth.

Source: Thomson Datastream, Edison Investment Research

Fund profile: Large, liquid global fund

FRCL was founded in 1868, the first-ever investment trust and a pioneer of the concept of collective investment to offer smaller investors the same opportunities for diversified investment as enjoyed by large institutions. Today, it is one of the largest global growth investment trusts (total assets of c £2.3bn) with a 41-year record of uninterrupted dividend growth. The trust objective is to generate long-term growth in both capital and income by investing primarily in a globally diversified portfolio of, primarily, listed equities, as well as unlisted securities and private equity, supported by the use of long-term structural gearing. FRCL's current portfolio is differentiated by a relatively high weighting (17.6%) of private equity investments, although given the maturity of these investments, the weighting is expected to fall as investments are realised.

FRCL is an independent company with its own board of directors. F&C Management Limited (a subsidiary of F&C Asset Management) is the appointed manager, and although F&C was once owned by FRCL, the companies are now completely independent entities. Jeremy Tigue has been the fund manager of FRCL on behalf of F&C since July 1997. He is also a shareholder in FRCL, owning 431,534 shares as at 2 March, 2012.

The F&C investment trust business is the second largest in the market (JP Morgan is the leader) with c£6bn in assets and 14 different trusts. It holds a leading position in investment trust savings schemes and 91,000 of FRCL's 110,000 shareholders invest through F&C savings plans, representing nearly 50% of all shares. With average daily volume, over the last twelve months, of 530k shares, FRCL is one of the larger more liquid investment trusts.

The fund manager, Jeremy Tigue, is accountable and responsible for the entire portfolio. He is particularly focused on asset allocation and balance sheet management (debt and foreign currency exposure) and is supported at the regional/asset class level by sub-managers. Most of these sub-managers sit within F&C but, where the board of FRCL and F&C believe it is in the interest of shareholders to do so, external sub-managers are employed. In the recent past, Japanese equities were managed externally. Currently, there are two North American external sub-managers and two private equity sub-managers. Despite this structure, FRCL maintains a relatively low level of fees, with a Lipper TER of 0.61% compared with a peer group (AIC global growth and income) of 0.78%.

Asset allocation

Investment process: Top-down strategic asset allocation

FRCL is managed using a predominantly top-down investment style supported by in-house and external specialist sub-managers of geographic sub-portfolios and funds. The manager is supported in his asset allocation decisions by the F&C asset allocation and strategy team, although given the size of the FRCL portfolio, the focus is on medium- to long-term market trends rather tactical asset allocation or trading. However, FRCL is not passive and over the years has shown itself prepared to make material and significant shifts in its portfolio to gain exposure to anticipated secular investment themes. Going back to the 1980s, before the secular bear market in Japanese equities set in, it was c 30% invested in Japan compared with less than 5% today. In the 1990s it invested heavily in the emergence of European markets. Earlier in this decade it substantially increased emerging market exposures (to c 15%, although this has now come down). As shown in Exhibit 6 on page 7, asset allocation has made a positive contribution to performance over one, three and five years (to 31 December 2011).

FRCL employs structural gearing that it believes will enhance shareholder returns over the long term. The level of gearing is varied over time, generally from 0-20% (in May 2007 it was c 5%, c 19% in September 2011, and c 15% now), and the manager seeks to add value by selecting borrowing in a suitable currency. A combination of low interest rates and a weak currency is ideal.

Once the asset allocation is decided, the stock selection is left to specialist country/regional sub-managers, the majority of whom are internal to F&C but who may also be external, as is the case with the two North American sub-managers and the private equity investments. The decision on whether to employ external sub-managers is simply based on whether the manager and board believe this is likely to lead to superior performance for the company. The decision is reviewed annually and in 2010 the management of Japanese equities was again internalised to F&C sub-management. The sub-managers are given complete discretion over stock selection, within the boundaries of the trust's investment objectives and guidelines. The manager does not impose specific sector weighting guidance on the sub-managers, in the belief that this may blur responsibility for decision making and make it more difficult to hold them to account and motivate them to produce the best performance.

The preparedness of FRCL to use external sub-managers when it feels this is appropriate arguably makes it easier for the trust to access a broader range of investment opportunities in areas where it may otherwise feel it lacks sufficient expertise. As a differentiator in this respect we would highlight the relatively large exposure to private equity, taken through private equity funds of funds.

FRCL is currently managed and reports performance split between UK equities, European (ex-UK) equities, North American equities, emerging market equities, Japanese equities, and private equity. The majority of the portfolio is made up of larger, more liquid, diversified companies with strong balance sheets within each region.

The fund manager: Jeremy Tigue

Manager's view

The manager remains optimistic about equity markets for 2012, supported by still rising company profits and dividends. He increased gearing in September 2011, to take advantage of the attractively priced stocks on offer amid the gloomy markets at that time and allowed it to naturally fall as the market rose earlier this year, fully aware of the potential for the eurozone instability that is once again impacting markets.

With its significant allocation to private equity funds (c 20%) FRCL's exposure to most major equity markets or regions inevitably appears as under-weight, with the exception of emerging markets. The manager does not currently hold strong regional or market preferences, viewing valuations as compressed, and therefore showing few clear anomalies. Within the sub-portfolios, the UK is focused on income, Europe (ex-UK) is defensively positioned to avoid growth stocks and financials that appear more exposed to the current problems, while the US reflects the respective strengths of the two external managers (in growth and in value). The Japanese portfolio struggled during 2011, with the portfolio impacts of last year's earthquake and an ill-timed shift towards growth stocks, but the manager reports that it has performed well so far during 2012.

Given the maturity of the private equity investments (most were acquired around 2002), the manager expects increasing amounts of cash to return to FRCL as the underlying funds increasingly realise their investments. If fund valuations have been sufficiently conservative, there is also the prospect of an up-lift to NAV as realisations occur. With the next major trend in investment markets elusive at this stage, the manager expects to reinvest this cash-flow in listed equities (allowing private equity to fall to c 10% of the portfolio over time, perhaps 5 years), which will have the effect of lifting FRCL income, as the private equity investments are non-yielding capital growth investments.

Exhibit 3: Sector allocations of listed equity portfolio, as at 30 April 2012

	Trust weight (%)	Blended Benchmark weight(%)	Trust active weight (%)	Trust weight/ Blended B'mark weight
Information technology	11.8	5.4	6.4	2.18
Healthcare	7.3	3.4	4.0	2.18
Financials	24.1	20.8	3.2	1.16
Industrials	9.0	8.1	0.8	1.10
Telecommunication services	5.5	5.7	(0.1)	0.98
Utilities	2.5	3.9	(1.4)	0.64
Consumer staples	11.4	13.6	(2.2)	0.84
Consumer discretionary	7.1	10.9	(3.8)	0.65
Materials	8.2	12.4	(4.1)	0.67
Energy	9.8	15.8	(6.0)	0.62
Other assets/liabilities inc cash	3.3	0.0	3.3	N/A
Total	100.0	100.0	0.0	N/A

Source: Foreign & Colonial Investment Trust/Edison Investment Research

Fund overview

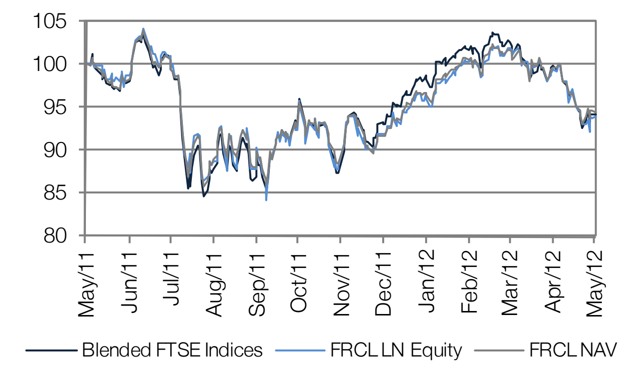
As at 30 April 2012, FRCL had exposure to c 500 direct equity investments (a full list is published quarterly). The top 10 holdings account for 19.4% of the portfolio. As illustrated in Exhibit 1, the UK accounts for 32.3%, the US 23.4%, private equity 17.5%, emerging markets 10.3%, Europe Ex-UK 8.9%, Japan 4.2% and cash 3.4% of the portfolio. The private equity and North American allocations are achieved via sub-managers. The rest of the equity portfolio is managed in house at F&C and its sectoral allocations, vs the benchmark, are provided in Exhibit 6. The manager does not publish look-through data including the underlying investments in the private equity funds. With its significant allocation to private equity funds (c 20%) FRCL's exposure to most major equity markets or regions appears as underweight, with the exception of emerging markets. Looking at the direct equity portfolio in isolation, FRCL has a more defensive positioning than its benchmark.

Recent performance

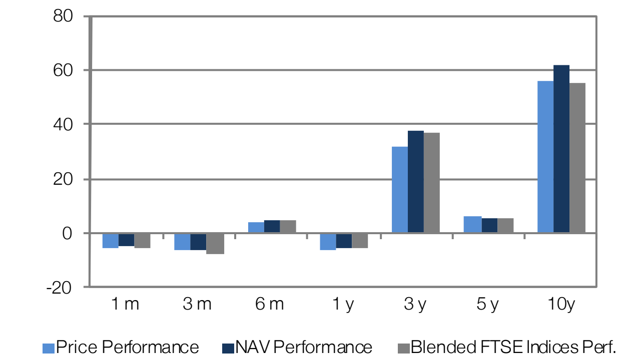
As Exhibits 4 and 5 illustrate, FRCL's performance has tended to follow that of its blended benchmark index quite closely. This reflects a number of off-setting factors within the portfolio rather an attempt to replicate or mimic the index performance. As we explain elsewhere, FRCL has not been shy to take significant strategic positions over the years and the clearest current example is the c 20% weighting to private equity. As illustrated in Exhibit 11, FRCL's NAV volatility as measured by standard deviation of NAV daily returns, over one year, annualised is 15.81% and its price volatility, as measured by standard deviation of price daily returns, over one year, annualised is 19.63%. These are comparable to the benchmarks volatility, as measured by the standard deviation of price daily returns, over 1 year annualised, of 18.13%. As Exhibit 5 illustrates, moderate deviations in returns versus the benchmark are possible. However, the long-term trend, measured by the 10-year figures, is one of mild outperformance. As Exhibit 6 illustrates, asset allocation has made the most significant contribution to performance, relative to the benchmark. Reflecting the weak trend in markets, the contribution of gearing has been mixed, and arguably small in magnitude. However, the board does believe that gearing is value enhancing over the longer term. An expensive tranche of fixed rate debt expires in 2014, which should boost portfolio net income. Ahead of this, the trust has begun to fix the cost of more of its current debt at existing low rates. As Exhibit 6 illustrates, stock selection has been a drag on performance over one and three years, and mildly positive over five years. Looking at the regional breakdown in Exhibit 7, it can be seen that much of this underperformance can be attributed to Japan. Reflecting this difficult performance, the management of the Japanese portfolio was brought back into F&C a year ago, although this change did not bear fruit immediately. The Japanese portfolio struggled during 2011 as 1) it included Tokyo Electric Power, owner of the Fukishima Daiichi Nuclear Power Plant, which was at the centre of the meltdown after the Japanese earthquake and 2) a subsequent shift towards growth stocks proved to be ill timed. However, the manager reports that the Japanese portfolio has so far performed well during 2012.

Exhibit 4: Investment trust performance

Price, NAV & benchmark total return performance 1 year rebased



Price, NAV & benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research

Exhibit 5: Share price and NAV total return performance (sterling adjusted), relative to benchmarks

	1 month	3 months	6 months	1 year	3 years	5 years	10 Years
Price relative to Blended benchmark	0.3	1.2	(1.1)	(0.2)	(5.6)	1.1	0.4
NAV relative to Blended benchmark	0.6	1.5	(0.3)	0.3	0.9	0.1	6.3
Price relative to FTSE All-Share Index	1.5	1.8	0.1	0.8	(6.2)	8.5	(3.1)
NAV relative to FTSE All-Share Index	1.9	2.0	0.9	1.3	0.2	7.4	2.8
Price relative to FTSE World Ex-UK	(0.6)	0.8	(1.9)	(0.9)	(5.1)	(4.8)	2.7
NAV relative to FTSE World Ex-UK	(0.3)	1.1	(1.2)	(0.4)	1.4	(5.8)	8.7

Source: Foreign & Colonial Investment Trust, Thomson Datastream, Edison Investment Research

Exhibit 6: Performance attribution analysis to 31 January 2012 - % total returns

Note: *Other comprises interest expense, management fees, other expenses and buybacks.

	1 Year	3 Years	5 Years
Asset Allocation	2.1	0.3	4.6
Stock Selection	(0.5)	(1.3)	0.8
Gearing	(0.4)	1.0	(1.1)
Other*	(0.9)	(2.7)	(5.5)
Benchmark	(5.1)	35.7	13.5
FRCL net asset value (debt at market)	(4.8)	33.0	12.3

Source: Foreign & Colonial Investment Trust, Edison Investment Research

Exhibit 7: Regional attribution analysis to 31 January 2012 - % total returns

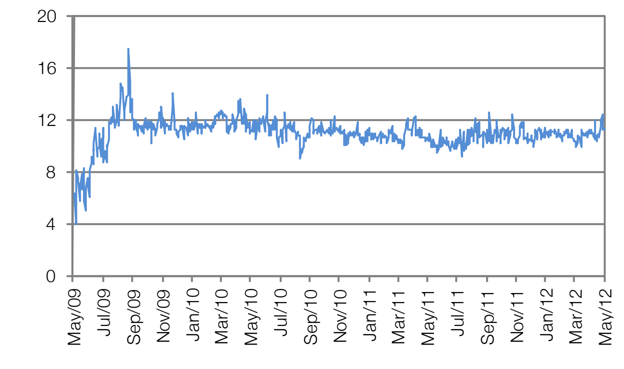
	1 Year		3 Years		5 Years	
	Portfolio Return	Index Return	Portfolio Return	Index Return	Portfolio Return	Index Return
UK	(6.2)	(3.5)	35.4	43.9	4.4	6.2
North America	3.8	1.2	47.8	38.4	33.9	26.6
Europe Ex-UK	(9.0)	(14.4)	19.6	8.5	1.8	(4.3)
Japan	(16.7)	(12.9)	(9.2)	(2.3)	(20.8)	(9.6)
Emerging Markets	(19.9)	(17.6)	51.4	61.6	35.7	43.9

Source: Foreign & Colonial Investment Trust, Edison Investment Research

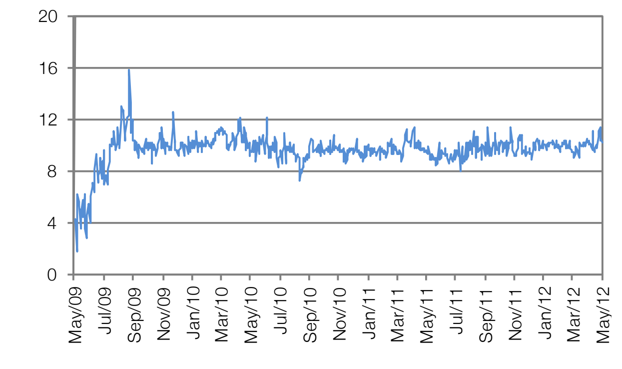
Discount

Exhibit 8: Discount through three years

Discount/Premium calculated using NAVs valuing debt at par



Discount/Premium calculated using NAVs valuing debt at market



Sources: Foreign & Colonial Investment Trust, Thomson Datastream, Edison Investment Research

In 2005 the board of FRCL set a clear objective to limit any discount of the share price to NAV to 10%. In pursuit of this, FRCL has an active share repurchase policy and has repurchased c 96m shares (14.1% of those outstanding at the beginning of the period) over the past three years. Repurchase activity during the last 12 months has seen 14.1m shares repurchased at a cost of £42.7m, as illustrated in Exhibit 1. As Exhibit 8 shows, the discount management strategy has been largely successful over the past three years. The first graph is produced using NAVs with debt valued at par whilst the second chart, which is arguably of more relevance to investors, values debt at market. The current discount, with debt at market value) of 10.4% is marginally above its longer-term averages of 9.8%, 9.7% and 9.0% over one, three and five years respectively, giving investors comfort that they will be able to enter and exit the trust at valuations around this level. It is interesting to observe that the discount is less than would be implied by comparing FRCL's listed private equity portfolio (c 20% of the total) with the average discount of listed private equity companies, and the balance (of listed global equities) with the global growth and income sector. The average discount on the LPX Europe Index is c 30% and that on the AIC global growth and income sector (with debt at fair value) is c 9%. The implied weighted average is c 14%. We see two very good reasons why FRCL's discount to NAV should not reflect the broader listed private equity discount. The first is that FRCL is a large and liquid company whereas listed private equity has generally failed to achieve the trading liquidity that is one of its key reasons for being. The other is that FRCL's portfolio is maturing and entering a phase of cash release and possible realisation gains.

Capital structure

FRCL is a conventional investment trust, having only one class of share in issue – 25p ords. The trust is able to gear up to 20% of net assets, and it uses a range of other debt instruments for this purpose: 4.25% perpetual debenture stock (par value £575k), 11.25% debenture stock expiring 2014 (par value £110m) as well as loan and overdraft facilities. The company maintains multi-currency credit facilities with Santander, National Australia Bank and Scotia Capital totalling £175m. In addition, a seven-year loan was taken out in April 2012, that was designed to lock in current interest rates on US$8m and JPY6bn, reflecting the manager's view that interest rates, inflation, dividends and share prices are all going up. The company also maintains a multi-currency overdraft with JPMorgan Chase. As at 30 April 2012 FRCL had gross and net gearing of 14.4% and 14.0% respectively.

Fees

Since 1 January 2011 the manager has received an annual fee of 0.365% pa of the market capitalisation of FRCL, for the provision of investment management, company secretarial, financial, marketing and general administrative services to the company. The fee is calculated and paid monthly and is subject to a deduction for any amounts earned from investments made into other vehicles managed by F&C. In 2011 the manager received £6,295,000 compared with the fixed fee of £6,520,000 earned in 2010. In addition, the manager is reimbursed for fees paid to sub-managers. In 2011 this was £1.3m for the two managers appointed to run the North American portfolio. For the private equity fund of fund investments, the managers were paid £0.6m directly, in addition to the £5.5m of fees generated within the funds themselves (reflected in NAV), generally on the basis of a c 2% management fee and c 20% carried interest (profit share) subject to performance hurdles. The board reviews F&C's performance as investment manager each year. The investment management agreement can be terminated, by either side, at six months' notice. The company may, however, give three months' notice in the event of a change in control of the manager. The total expense ratio (TER) was 0.50% for the year ended 31 December 2011 (0.54% for the year ended 31 December 2010). As illustrated in Exhibit 10, FRCL's Lipper TER at 0.61% ranks 6th out of 29 and is below the average for the global growth sector of 0.78%. This arguably reflects the economies of scale offered by a trust of this size.

Life

FRCL does not have a fixed life and there is no specific mechanism to wind up the company.

Dividend policy and record

Dividends are paid semi-annually, usually in May and September. FRCL is not among the highest yielding trusts but has a consistent record of dividend growth. In 2011 the dividend increased 5.2% to 7.1p, marking 41 years of uninterrupted dividend growth. Over the past 10 years the dividend has more than doubled (+115%) increasing at a compound annual rate of 7.8% compared with inflation at 3.3% pa.

Earlier in the decade FRCL made a conscious decision to build its income reserves. Aside from general caution, it was conscious of the "windfall" nature of its "carry-trade" earnings (the benefits of borrowing cheaply in Yen to invest in rising equity markets) as well as the fact that its private equity investments carried little yield. Income reserves peaked in 2008 at £125.6m, allowing the trust to continue dividend growth during the financial crisis by drawing on the reserve. With portfolio income now increasing again, the 2011 dividend was largely covered by income while the company has remaining revenue reserves of £86m or 18.8p per share.

In future, the maturing of the private equity portfolio and the expected increase in realisations and cash return, discussed above, should increase the proportion of the portfolio invested in higher yielding listed equities. In addition, in 2014 the 11.25% fixed rate debenture stock (par value £110m) will mature which, if refinanced at current rates would likely save FRCL around £6m pa in interest payments. As illustrated in Exhibit 9, FRCL has over the last five years provided a 34.0% increase in the total dividend, 9.4% increase in revenue return per share and a 30.3% increase in revenue reserves per share, at each year end, after payment of the final dividend.

Exhibit 9: Revenue return, dividend payment and revenue reserves per share

Year ended 31 December	2006	2007	2008	2009	2010	2011
Revenue return pence per share	6.16	6.40	6.90	5.31	5.61	6.74
Total dividend payment pence per share	5.30	5.85	6.45	6.65	6.75	7.10
Revenue reserve pence per share, at year end, post final div.	11.83	13.63	14.99	13.85	14.42	14.68

Source: Foreign & Colonial Investment Trust, Thomson Datastream, Edison Investment Research

In terms of expense allocation, transaction costs relating to the purchase and sale of investments and exchange gains/losses are charged to the capital account. Management fees for certain private equity investments are charged 100% to the capital account reflecting the boards long term view that the returns from the private equity portfolio will largely come in the form of capital gains. Management fees for the non-private equity portfolio and finance costs are charged on a 50:50 split to the revenue and capital accounts, once again reflecting the boards long term view as to the distribution of returns. All other costs are charged to the revenue account. This allocation reflects FRCL's investment mandate, which aims to provide both income and capital growth. While this offers capital less protection than if all management fees and interest were charged predominantly or exclusively to the revenue account, it provides greater flexibility to smooth dividends.

Peer group comparison

As Exhibit 10 illustrates, the AIC global growth sector is a comprehensive peer group. There are 29 constituents (a sample is given below). FRCL is one of the larger trusts in this peer group and, when compared to the others, its relatively large allocation to private equity is a distinguishing feature. Within this peer group FRCL ranks 7th over one year, 21st over three years and 13th over five years when considering share price total return. In terms of dividend yield, FRCL ranks 12th. FRCL also ranks 13th for five-year dividend growth.

Exhibit 10: Global growth sector, as at 28 May 2012

Company	Share price total return on £100 1 year	3 year	5 year	Total Expense Ratio	(Disc)/ Prem	Net Gearing (100= no gearing)	5 Year Dividend Growth (%)	Div yield (%)
Sector average	90.3	135.1	107.8	0.78	(9.9)	108	4.2	2.1
Foreign & Colonial	94.0	131.2	106.2	0.61	(11.3)	117	4.0	2.5
Alliance Trust	91.9	131.3	102.5	0.63	(16.2)	110	3.5	2.6
Bankers	95.4	132.1	106.2	0.42	(10.8)	103	5.4	3.4
Edinburgh Worldwide	91.6	152.3	115.4	1.04	(11.9)	116	0.0	0.7
F&C Global Smaller Companies	100.5	185.0	130.1	0.78	2.5	102	1.2	0.9
Henderson Global	87.3	119.4	118.1	0.94	(13.4)	99	11.8	3.4
Independent	86.2	145.6	70.2	0.36	(15.2)	97	0.0	2.6
JPMorgan Overseas	81.3	142.5	121.5	0.65	(7.1)	101	6.2	1.9
Law Debenture	101.6	177.0	118.6	0.48	8.0	108	3.1	3.9
Martin Currie Global Portfolio	99.6	139.6	110.5	0.88	(9.6)	97	7.3	3.0
RIT Capital Partners	85.9	124.2	112.5	1.30	(1.3)	102	0.0	0.4
Witan	87.3	132.1	100.6	0.86	(12.7)	108	4.9	2.9

Source: The Association of Investment Companies

In terms of the volatility of NAV daily returns and volatility of price daily returns FRCL ranks 16th and 18th when compared to its peers. Daily NAV return volatility annualised at 15.81% is marginally below the sector average of 15.96%. Similarly, daily price return volatility annualised, at 19.63%, is marginally above the sector average of 18.81%.

Exhibit 11: Global growth & income volatility comparison, as at 28 May 2012

	Standard Deviation of NAV daily returns, over 1 year, annualised (%)	Standard Deviation of Price daily returns, over 1 year, annualised (%)
Foreign & Colonial	15.81	19.63
Alliance Trust	16.91	18.15
Bankers	17.71	22.93
Edinburgh Worldwide	26.62	29.45
F&C Global Smaller Companies	18.49	22.52
Henderson Global	17.99	24.80
Independent	17.88	18.31
JPMorgan Overseas	21.26	23.43
Law Debenture	19.10	22.17
Martin Currie Global Portfolio	15.79	21.90
RIT Capital Partners	9.37	22.50

Source: Thomson Datastream, Edison Investment Research

The board

All directors are non-executive and independent of the manager. They are Simon Fraser (chairman), Sarah Arkle, Sir Roger Bone, Stephen Burley, Jeffrey Hewitt, Christopher Keljik and Nicholas Moakes (directors). The average length of board member service is 3.2 years.

Edison Investment Research

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