

Manager Commentary Philip Webster



Britain's stock market managed to isolate itself from the Italian political turmoil that jolted the European equity market for much of the month. The British index even touched an all-time high over the one-month period on the back of easing trade tensions between the US and China. A variety of mostly soft economic indicators and a decision on the part of the Bank of England to refrain from raising key rates weighed on sterling, and the weaker currency supported the equity market. Gains were broad-based, with seven of the eleven economic industries generating a positive performance. The information technology sector led the charge.

The trust enjoyed a positive month, adding 3.9% and outperforming the benchmark on the back of strong stock selection. The financials, consumer staples and information technology sectors were particularly strong. Among the trust's holdings that fared well during the month and contributed to the relative outperformance were cyber security provider Sophos Group (+17.4%), food distributor Greencore Group (+15.1%) and Just Eat (+8.9%). The latter's stock price extended its gains for a second straight month. The online restaurant delivery system provider has benefited from consumers' changing lifestyles, which seem to favour takeaway foods over cooking or eating out. That trend is driving Just Eat's revenue up. Even amid a growing competitive landscape, Just Eat is well positioned to deliver long-term profits and returns given its market-leading positions and strong customer loyalty. Specialist financial firm Close Brothers Group (-4.6%), British American Tobacco (-3.3%) and Prudential (-3.4%) limited the trust's overall performance. Close's stock price had fared well for much of May, benefiting

from solid loan book growth in its banking division and strong flows in its asset management business. However, profit-taking and a broker downgrade pressured the stock price down.

In our view, the investment environment remains somewhat uncertain, with geopolitical concerns abroad and political turmoil both at home and across the Channel. The rhetoric from the US White House, namely on trade, is also causing some uneasiness with investors. Despite the soft economic patch that the UK economy is living through, we remain encouraged by the abundance of quality opportunities in the UK market.

Key facts as at 31.05.2018

Trust aims: To provide an attractive return to shareholders each year in the form of dividends and/or capital returns, together with prospects for capital growth. In pursuit of this objective, the Company invests predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

Benchmark: FTSE All-Share Capped 5% Index

Fund type: Investment Trust

Launch date: 1 March 2007

Total assets: £141.0 million

Share price: 105.00p

NAV: 113.20p

Discount/Premium(-/+): -7.2%

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield†: 4.65%

Net gearing/Net cash*: 4.69%

Management fee rate:** 0.65%

Ongoing charges:** 0.93%

Year end: 31 March

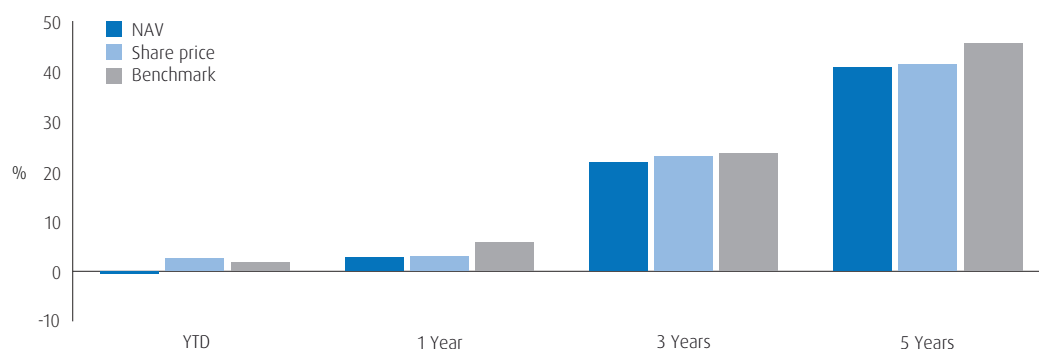
Sector: UK Equity Income

Currency: Sterling

Website: www.fandcukhit.co.uk

** Ongoing charges and management fee as at the end of 31 March 2018. Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations.

Fund performance as at 31.05.2018



Cumulative performance (%) as at 31.05.2018

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	3.95	-0.50	2.77	21.61	40.64
Share price	7.14	2.48	2.92	22.84	41.22
Benchmark	2.77	1.71	5.79	23.50	45.51

Discrete annual performance (%) as at 31.05.2018

	2018/2017	2017/2016	2016/2015	2015/2014	2014/2013
NAV	2.77	23.42	-4.12	5.71	9.40
Share price	2.92	25.45	-4.86	8.61	5.85
Benchmark	5.79	24.41	-6.16	7.95	9.14

Key risks

Stock market movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. A fund investing in a specific country carries a greater risk than a fund diversified across a range of countries. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. If markets fall, gearing can magnify the negative impact on performance.

Past performance is not a guide to future performance.

Source: Lipper and F&C. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling. The discrete performance table refers to 12 month periods, ending at the date shown.

Trust codes		
Stock exchange code	Sedol	
F&C UK High Income	FHI	B1N4G29
F&C UK High Income B	FHIB	B1N4H59
F&C UK High Income Units	FHIU	B1N4H93

Top 10 holdings (%)*				
	Equities Portfolio Weight %	Benchmark Weight %	Difference %	Sector
British American Tobacco	6.17	3.76	2.40	Consumer Goods
GlaxoSmithKline	5.46	3.13	2.33	Health Care
Royal Dutch Shell	5.05	5.51	-0.46	Oil & Gas
HSBC Holdings	5.00	4.85	0.15	Financials
RELX	4.47	0.74	3.73	Consumer Services
Rio Tinto	4.44	2.10	2.34	Basic Materials
Prudential	3.85	1.99	1.86	Financials
Just Eat	3.48	0.21	3.28	Consumer Services
National Grid	3.32	1.20	2.12	Utilities
Close Brothers Group	3.26	0.09	3.17	Financials

All figures are subject to rounding.

Net dividend distributions pence per share (paid)					
	2014	2015	2016	2017	2018
February	1.08	1.11	1.14	1.17	1.21
May	1.12	1.15	1.18	1.21	1.25
August	1.11	1.14	1.17	1.21	
November	1.11	1.14	1.17	1.21	
Total	4.43	4.54	4.66	4.80	2.46

All figures are subject to rounding.

Total summary		% assets
FTSE 100		54.64
FTSE 250		32.16
Non-Index		7.92
Overseas		4.40
Cash		0.88

Glossary

Bid price	Investment trust shares are sold via the stock exchange at the bid price. This price is determined by supply and demand.
Dividend	Income paid to shareholders by the company they invest in.
Net asset value	A key measure of the value of a company or trust – the total value of assets less liabilities, divided by the number of shares.

All data as at 31.05.2018 unless otherwise stated.

All information is sourced from F&C, unless otherwise stated. All percentages are based on gross assets, unless stated otherwise. † The yield is calculated using the actual dividends declared for the company's current financial year and the closing share price and exchange rate as at the end of the relevant month. *Net gearing is total assets less cash and cash equivalents divided by shareholders' funds and expressed as a percentage. Net cash is net exposure to cash and cash equivalents expressed as a percentage of shareholders funds after any offset against gearing. **Ongoing charges and management fee as at the end of 31 March 2018. Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations. The share price may either be below (at a discount) or above (at a premium) the NAV. Discounts and premiums vary continuously. The fact sheet is issued and approved by F&C Management Limited. Authorised and regulated in the UK by the Financial Conduct Authority. Registered office: Exchange House, Primrose Street, London EC2A 2NY. Registered in England No 517895. (06/18).