BLACKROCK INCOME STRATEGIES TRUST PLC

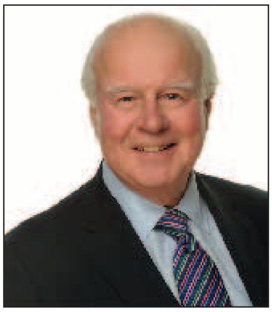
ANNUAL REPORT AND FINANCIAL STATEMENTS 30 SEPTEMBER 2016

BLACKROCK®

Board of Directors

JAMES M LONG, TD

Chairman,
Joined the Board in May 2006
Appointed Chairman 26 February 2015



JIMMY WEST

Senior Independent Director,
Appointed 22 June 1995

IAN RUSSELL

Audit Committee Chairman,
Joined the Board in June 2008
Appointed Audit Committee Chairman
on 26 February 2015

JIM GROVER

Director,
Appointed 25 June 2013

LYNN RUDDICK[1]

Director,
Appointed 1 October 2004

JULIAN SINCLAIR

Director,
Appointed 21 July 2015

[1] Ms Ruddick stood down as Chairman of the Company on 26 February 2015.

Additional details on Board composition and the Company's Corporate Governance Structure and Directors' Biographies are set out on page 27.

The Company's current investment objective is, over the medium term (5 to 7 years), to aim to preserve capital in real terms and to grow the dividend at least in line with inflation. The Company will target a total portfolio return of UK Consumer Price Index ("CPI") plus 4 per cent. per annum (before ongoing charges) over a 5 to 7 year cycle.

Shareholders should note that on 30 November 2016 the Board announced proposals in relation to a change in the investment objective and policy, fund management arrangements and a proposed merger with Aberdeen UK Tracker Trust plc. A copy of that announcement is set out overleaf. A circular in relation to these proposals is expected to be published in early March 2017.

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The Association of Investment Companies

A MEMBER OF THE ASSOCIATION OF INVESTMENT COMPANIES

Copy of announcement released on 30 November 2016

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BLACKROCK INCOME STRATEGIES TRUST PLC (THE "COMPANY" OR "BIST")

Proposed change of investment objective and policy, intention to appoint Aberdeen Asset Management and a proposed Merger with Aberdeen UK Tracker Trust plc

Further to the Company's announcements made on 1 August and 28 September 2016, the Board of Directors (the "Board") has now completed its strategic review. As part of that review it has undertaken a detailed analysis of the Company's investment performance and attribution since its move to a multi-asset portfolio in February 2015. It has carefully considered the Company's investment objective and policy, as well as the level and structure of its gearing, in the light of current market conditions, has consulted with numerous shareholders and has also sought and considered a number of proposals from other investment managers.

Having concluded this review process the Board has agreed heads of terms with Aberdeen Asset Management ("Aberdeen") and Aberdeen UK Tracker Trust plc ("AUKT") to propose the following changes to the Company:

- *Appointing Aberdeen's Diversified Multi-Asset team, with Mike Brooks and Tony Foster as new lead portfolio managers;*
- *Significantly enlarging the assets of the Company by a merger with AUKT and renaming the newly combined company Aberdeen Diversified Income and Growth Trust plc ("ADIGT");*
- *Managing ADIGT under a diversified multi-asset strategy with a change in investment objective to target returns of LIBOR+5.5 per cent. per annum (net of fees) over rolling five-year periods;*
- *Revising the dividend policy to include a reduction in the current dividend level that recognises the current low yield environment; and*
- *Replacing the current zero discount policy with a more flexible approach that recognises the constraints imposed by gearing and by the more illiquid nature of the future portfolio.*

As part of the overall changes, the Company will also be making a tender offer for up to 20 per cent. of the shares in issue at a tender price equal to NAV (cum income, debt at fair value) less 4 per cent. and the costs and expenses of the tender offer. The tender offer will be subject to shareholder approval and inter-conditional on shareholder approval of the change in investment objective and policy and the merger.

APPOINTMENT OF ABERDEEN ASSET MANAGEMENT

The Board is pleased to appoint Aberdeen Fund Managers Limited as the AIFM, conditional on relevant regulatory approvals and finalisation of the terms of the formal management agreement. The Company intends to continue its multi-asset investment strategy and will be managed by Aberdeen's Diversified Multi-Asset team. The Board takes confidence from:

- *the breadth and depth of resources of the Diversified Multi-Asset team;*
- *their track record and capabilities in this area;*
- *Aberdeen's continued commitment to the management, support and promotion of investment companies; and*
- *the competitive cost level at which these investment management services will be provided to ADIGT.*

The Company's new lead portfolio managers will be Mike Brooks and Tony Foster. Mike Brooks is the Head of Aberdeen's Diversified Multi-Asset team and is the co-lead manager of the Aberdeen Diversified Growth Fund. Mike joined Aberdeen in 2015 from Baillie Gifford and has 22 years of investment experience. Tony Foster is a Senior Investment Manager in the Diversified Multi-Asset team and joined Aberdeen in 2014 following the acquisition of Scottish Widows Investment Partnership.

Aberdeen currently has assets under management of approximately £312 billion with approximately £90 billion managed in multi-asset mandates. The Aberdeen Group manages over 90 investment companies and other closed-ended funds representing approximately £17.9 billion of assets under management, of which 19 are listed in London with a total AUM of £6.7 billion (all figures as at 30 September 2016).

Aberdeen's appointment will become effective upon termination of the Company's existing management arrangements with BlackRock Fund Managers Limited, which has been served protective notice. An announcement of the termination date is expected to be made in January 2017.

Aberdeen will be paid an annual management fee of 0.5 per cent. of net assets up to £300 million and 0.45 per cent. on the net assets above £300 million. This contrasts with the existing annual management fee of 0.4 per cent., payable on gross assets.

PROPOSED MERGER WITH ABERDEEN UK TRACKER TRUST PLC

Under the heads of terms, the Board has agreed a future merger with AUKT to be effected by way of a scheme of reconstruction under Section 110 of the Insolvency Act 1986 and a voluntary winding up of AUKT (the "Scheme").

Under the Scheme, which is to be recommended by the Boards of both companies, AUKT qualifying shareholders will be able to elect to receive new shares in ADIGT and therefore an exposure to a multi-asset strategy and/or cash. The cash exit offered to AUKT shareholders as part of the Scheme will be limited to 40 per cent. of the AUKT shares in issue. The Formula Asset Value ("FAV") of the new ADIGT shares will be calculated on the basis of NAV (cum income, debt at fair value) as at the calculation date less the costs of the Scheme (as reduced by the contribution from Aberdeen as set out below). AUKT is expected to transfer a portfolio of cash and cash equivalent investments to ADIGT under the Scheme.

The Boards of BIST and AUKT have agreed that the Board of ADIGT will comprise four directors from the current Board of BIST and three directors from the current Board of AUKT. James Long will continue as Chairman and Kevin Ingram (current Chairman of AUKT) will become the Senior Independent Director of ADIGT. Lynn Ruddick and Jimmy West have agreed to not stand for re-election at the next BIST annual general meeting, subject to shareholder approval of the Scheme.

The merger has a number of benefits for BIST shareholders:

- *Significantly increasing the size of BIST's asset base, while simultaneously reducing the current gearing level. AUKT had net assets of approximately £331 million as at 28 November 2016;*
- *Improving the liquidity of the BIST shares on the secondary market to benefit all shareholders as BIST will become a larger Company with more shares in issue;*
- *Introducing new investors into the Company; and*
- *Spreading the Company's fixed costs, such that the ongoing charges ratio of ADIGT should remain substantially unchanged from that of BIST today.*

The merger is conditional on regulatory and tax approvals being obtained and will be subject to approval by both BIST shareholders and AUKT shareholders.

The Company and AUKT will each pay for its own costs of implementing the Scheme. Aberdeen has agreed to make a contribution to BIST in relation to its costs of implementing the Scheme, thereby significantly reducing the costs of the scheme for existing BIST shareholders.

AMENDED INVESTMENT OBJECTIVE AND POLICY

The Board, in consultation with Aberdeen, proposes to adopt a new investment objective to target returns of LIBOR+5.5 per cent. per annum (net of fees) over rolling five-year periods.

The current investment objective of the Company is: "over the medium term (5 to 7 years), to aim to preserve capital in real terms and to grow the dividend at least in line with inflation" and to "target a total portfolio return of UK Consumer Price Index ("CPI") plus 4 per cent. per annum (before ongoing charges) over a 5 to 7 year cycle."

The Board has concluded that seeking to deliver this objective with an acceptable level of risk is imprudent in the current market conditions and hence, in conjunction with Aberdeen, decided upon the proposed changes.

Alongside the change in investment objective, the Board will also adopt a new investment policy, which targets a truly diversified multi-asset approach to generating highly attractive long-term income and capital returns. The focus of ADIGT will be on delivering greater capital stability over the medium term than a long-only equity strategy and with volatility significantly less than that of equities. The portfolio will include, but is not limited to, listed and unquoted equities, property, social and renewable infrastructure, emerging market bonds, loans, asset-backed securities, insurance linked securities, private equity, farmland and aircraft leasing. This builds on the experience and success of Mike Brooks and Tony Foster with similar open-ended portfolios but with the added benefit of being able to access, in an unconstrained approach, the entire asset class spectrum utilising the closed-end structure to its best advantage. It also fully harnesses the breadth and depth of Aberdeen's resources across a wide range of traditional and alternative asset classes, through a simple and transparent approach.

The Board and Aberdeen believe that this diversified multi-asset approach will be an appealing proposition to a wide range of investors, reinforced by the growth over the last ten years in the Investment Association's 'Mixed Asset' sector with funds under management growing from £55.4 billion to £177.1 billion (to September 2016 – source: Investment Association).

The proposed changes to the investment objective and policy are subject to FCA approval and approval by BIST shareholders.

DIVIDEND POLICY

Since the implementation of the existing objective and policy in February 2015, there has been a significant change in market conditions and an overall decline in the yield of many investments, notably instruments issued by governments (including gilts). In view of this change and having considered the increase in risk to capital of continuing the current dividend level (6.54 pence for the year ended 30 September 2016), the Board proposes to adopt a new dividend policy outlined overleaf.

The intention is to pay an interim dividend of at least 1.635 pence in respect of the quarter ending 31 December 2016 (a dividend of 1.635 pence was paid for the quarter ended 31 December 2015). In addition, the Board intends to declare a further dividend for the period from 1 January 2017 to the date of the implementation of the Scheme, prior to the Scheme becoming effective and thereafter to reduce the subsequent quarterly dividends by an amount equivalent to an annualised cut in the dividend level of approximately 20 per cent.

The revision of the investment objective together with the rebasing of the dividend as proposed will allow the Company to pay an attractive dividend consistent with the strong underlying portfolio yield, payable on a quarterly basis. The Board believes that the new dividend yield together with the aim to target total returns with lower volatility will continue to be appealing to existing shareholders, the shareholders of AUKT and future investors.

In line with good corporate governance the Board will continue to put the Company's dividend policy forward for shareholder approval at its annual general meetings.

TENDER OFFER
Prior to the date on which the Scheme becomes effective, the Company will propose a tender offer for up to 20 per cent. of its ordinary shares in issue (excluding any shares in treasury) at a tender price equal to NAV (cum income, debt at fair value) less 4 per cent. and the costs and expenses of the tender offer. The tender offer will be available to all existing BIST shareholders except those in Restricted Territories.

The tender offer will be subject to shareholder approval and inter-conditional on shareholder approval of the change in investment objective and policy and the merger.

DISCOUNT CONTROL POLICY
Prior to the strategic review, the Board had been implementing a nil discount control policy through share buybacks at a discount to NAV. In the year ended 30 September 2016 the Company purchased 7.6 million shares pursuant to this policy.

Having reviewed the investment objective and policy and as part of its overall strategic review, the Board has decided not to continue with a nil discount policy. Where appropriate the Board will consider implementing share buybacks to provide liquidity to shareholders from time to time and other forms of discount control deemed to be appropriate at that time, taking into account the more illiquid underlying portfolio mix.

GEARING
Under these proposals it is the Board's current intention to retain the existing 6.25 per cent. bonds 2031, valued at fair value.

BIST SHAREHOLDER SUPPORT
Aviva Investors Global Services Limited, acting on behalf of certain of its underlying clients which have appointed it as investment manager, have indicated an intention to support the proposals and to vote, or procure the vote, in favour of the proposals at any relevant general meetings of shareholders of both BIST or AUKT on behalf of the entire holding of shares over which they exercise control as discretionary investment manager.

EXPECTED TIMETABLE
It is currently envisaged that a shareholder circular, prospectus and notice of general meeting setting out details of the Scheme, the proposed new investment objective and policy and seeking shareholder approval for the tender offer will be sent to shareholders with the Annual Report and Accounts and notice of Annual General Meeting in January 2017.

The General Meeting to approve the proposals is expected to be convened in March 2017.

The Scheme will be conditional on, amongst other things, the recommendation of the Boards of both companies, the necessary shareholder approvals by the shareholders of both companies and the appropriate regulatory, notably FCA, and tax approvals in due course.

James Long, Chairman, commented:
"The Board is disappointed with the performance for shareholders over the past 19 months. The negative absolute returns delivered, coupled with our concerns over the sustainability of the dividend in the current low yield environment, led us to initiate the strategic review that we have now concluded. Our comprehensive review has re-affirmed our conviction that a well-managed multi-asset portfolio within an investment trust structure is an attractive proposition for shareholders and is highly relevant in the pensions and savings market.

We believe that the appointment of Aberdeen, with its proven multi-asset and promotion capabilities, the restructured investment portfolio designed to deliver an attractive investment objective and dividend policy and the enhanced scale of your Company as a result of the merger will make your re-shaped Company a distinctive, relevant and strong proposition for both sets of shareholders and for future investors.

We very much look forward to working with Aberdeen to deliver the performance that shareholders have a right to expect".

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

Note: The prospectus, circular and notice of Annual General Meeting (AGM) noted above do not accompany this document. Shareholders should expect to receive the circular and notice of AGM in early March 2017.

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Overview

Performance record

	30 September 2016	30 September 2015	Change %
Net Assets (£'000)[1,3]	351,521	374,832	-6.2[1,3]
Net Asset value per share (debt at market value)	123.62p	131.00p	-5.6
– with income reinvested	136.75p	137.28p	-0.4[2]
Ordinary share price	111.00p	130.50p	-14.9
– with income reinvested	123.20p	137.21p	-10.2[2]
(Discount)/premium to net asset value[4]	-9.0%	0.9%	

1 Net Assets at 30 September 2016 are before provision for the third interim dividend of 1.635p per share, paid on 10 October 2016; Net Assets at 30 September 2015 are before provision for the third interim dividend of 1.67p per share, paid on 9 October 2015.
2 Assumes that dividends are reinvested at the relevant share price or NAV prevailing at the ex-dividend date for NAV and share price return calculations respectively.
3 The change in net assets reflects market movements during the year and share buy backs.
4 The premium and discount to NAV in the table above have been calculated based on the ex-dividend NAV of 121.99 pence per share and 129.33 pence per share as at 30 September 2016 and 2015 respectively, and not the Company's NAV per share as disclosed on the Company's balance sheet and in the table above. This is because accounting standards do not permit interim quarterly dividends to be reflected in the accounts until they have been paid. As the third quarterly dividends for 2016 and 2015 respectively had gone ex-dividend in the Company's share price at 30 September as disclosed in the table above, any share rating calculated based on this ex-dividend price also needs to be calculated using an ex-dividend NAV.

	Year ended 30 September 2016	Year ended 30 September 2015	Change %
Net revenue return after taxation (£'000)	20,602	20,163	2.2
Revenue return per share	7.56p	7.07p	6.9
Dividends:			
First quarterly dividend	1.635p	1.500p	9.0
Second quarterly dividend	1.635p	1.670p	-2.1
Third quarterly dividend	1.635p	1.670p	-2.1
Fourth quarterly dividend	1.635p	1.700p	-3.8
Total dividends	6.540p	6.540p	0.0

Overview

Chairman's statement for the year ended 30 September 2016

OVERVIEW

2016 was a challenging and very disappointing year for your Company.

Two years ago, on 26 February 2015, shareholders overwhelmingly approved a new investment objective and policy for the Company. The core components of this new investment objective and policy were capital preservation and dividend growth in line with inflation. This was, in part, designed to generate demand from investors as a result of the changes in the UK savings and pensions market and also because we believed that the changes would be attractive for all of our shareholders. We appointed BlackRock Fund Managers Limited as the Alternative Investment Fund Manager (AIFM) at that time.

In July 2016 your Board became increasingly concerned about the Company's investment performance, the ability to achieve the investment objective and policy (with an acceptable level of risk) and the maintenance of the dividend. This followed a sharp fall in the NAV (cum income, debt at fair value) of the Company in June 2016 by 5.3% (4.0% with dividends reinvested). In addition there was an increasing dependency on derivative income to service both the interest payments on our Bonds and the Company's dividend. Throughout July 2016 the Board undertook a detailed review and analysis of the portfolio and its performance as well as the cost of our Bonds and the dividend. We focused, in particular, on the income generation capacity of the portfolio and also, looking forward, what it would take for BlackRock to deliver the investment objective and dividend.

This analysis, undertaken with our advisers and BlackRock, culminated in our announcement on 1 August 2016 of a review of our investment objective and policy and a subsequent announcement on 28 September 2016 that we were inviting fund management groups, with both established multi-asset management credentials and experience of managing listed closed-end funds, to present proposals to the Board.

On 30 November 2016, we announced, as set out on pages 2 to 5 the outcome of a comprehensive strategic review, which comprises a number of very significant actual and proposed changes, including the appointment of Aberdeen Asset Management as the new investment manager. Although it is extremely unusual to change an investment manager, and indeed investment objective and policy, so soon after appointment and adoption, we are confident that this is the right course of action and in our shareholders' best interests.

In early March 2017, subject to regulatory approval, shareholders should expect to receive a circular which will contain details of the various recommended proposals that require shareholder approval. However, in advance of that circular being sent to you I thought it would be helpful to summarise below the outcomes of the strategic review and to do so by highlighting to shareholders where we are making or proposing changes and what will continue unchanged.

What we are changing or proposing to shareholders that we change:

We will:

- Appoint Aberdeen's Diversified Multi-Asset team, with Mike Brooks and Tony Foster as new lead portfolio managers, and then rename the Company Aberdeen Diversified Income and Growth Trust plc ("ADIGT");
- Propose to change the investment objective to target returns of LIBOR+5.5% per annum (net of fees) over rolling five-year periods;
- Propose a merger with Aberdeen UK Tracker Trust plc ("AUKT") thereby significantly increasing the size of the Company;
- Revise the dividend policy to include a reduction in the current annual dividend level by approximately 20% (in recognition of the current low yield environment); and
- Replace the nil discount policy with a more flexible approach that recognises the constraints imposed by gearing and by the more illiquid nature of the investment portfolio.

As part of the overall changes, we will also be proposing a cash exit for all eligible shareholders via a tender offer for up to 20% of the shares in issue at a tender price equal to NAV (cum income, debt at fair value) less 4% and the costs and expenses of the tender offer. This tender offer will be subject to shareholder approval and inter-conditional on shareholders approving the above changes in the investment objective and policy and the merger.

What is unchanged

We will:

- Retain our commitment to, and confidence in, the ability of a multi-asset strategy to deliver returns that are attractive to shareholders and investors;
- Retain our commitment to generating an attractive income for our shareholders, even after the reduction of the dividend by approximately 20%;
- Retain our commitment to manage the supply/demand balance of our shares. We will seek to renew the Company's existing 14.99% buy-back authority at the forthcoming Annual General Meeting ("AGM"); and
- Retain our existing gearing.

PERFORMANCE

We are very disappointed by the performance that all shareholders have had to endure under the current investment objective and policy that has been pursued since February 2015, and hence our intervention with the strategic review.

Whilst we have declared attractive quarterly dividends totalling 11.58 pence per share since the current investment objective and policy was adopted, the NAV (cum income, debt at fair value without income reinvested) has declined by a clearly unacceptable 15.9% over the period from 27 February 2015 to 30 September 2016, contrary to our capital preservation objective.

In the 12 months to 30 September 2016, the Company's NAV (cum income, debt at fair value without income reinvested) fell by 5.6%. The share price over the same period fell by 14.9% as the discount to NAV widened to 9.0%.

EARNINGS AND DIVIDENDS

The Company's revenue return for the year to 30 September 2016 amounted to 7.56 pence per share, compared to 7.07 pence per share for 2015, an increase of 6.9%. The increase is primarily due to a higher level of derivative income, which generated 40.4% of the income in the year ended 30 September 2016 as compared to 26.9% in the year to 30 September 2015.

We paid total dividends for the year of 6.54 pence per share in equal quarterly instalments, in line with total dividends of 6.54 pence per share paid in respect of the year to 30 September 2015.

Since the implementation of the current objective and policy in February 2015, there has been an overall decline in the yield of many investments in the market. In view of the changes and having considered the increase in risk to capital of continuing the current dividend, the Board proposes to adopt a new dividend policy outlined below.

Our intention is to pay an interim dividend of at least 1.635 pence in respect of the first quarter ending 31 December 2016 (a dividend of 1.635 pence was paid for the quarter ended 31 December 2015). In addition, the Board intends to declare a further dividend for the period from 1 January 2017 to the date of the implementation of the merger with AUKT and thereafter to reduce the subsequent quarterly dividends by an amount equivalent to an annualised reduction in the current dividend level of approximately 20%.

The proposed revision to the investment objective and policy, together with the rebasing of the dividend, will allow the Company to continue to pay an attractive quarterly dividend. The Board believes that the new dividend policy, together with the aim to target total returns with lower volatility, will continue to be appealing to existing shareholders, the shareholders of AUKT and future investors.

In line with good corporate governance the Board will put the Company's dividend policy forward for shareholder approval at its AGM.

GEARING

As part of its review, the Board considered the balance sheet and, in particular, the cost and effect of the £60 million 6.25% Bonds due 2031 (the "Bonds"), and the merits of early repayment to reduce the level of gearing and interest costs payable by the Company. The terms of these Bonds require a repayment value priced with reference to UK Government Bonds ("Gilts"). At the time of our analysis in September 2016, Gilts were trading at the lowest yields experienced in their 300 year history, and as a result any early repayment would have been very expensive to shareholders. We therefore concluded that retaining the existing Bonds was in shareholders' best interests.

One of the benefits of the proposed merger is that it will bring greater strength to our balance sheet, reducing the Company's gearing ratio.

DISCOUNT CONTROL

Prior to the strategic review, the Board had been implementing a nil discount policy through share issuance and buy-backs at, or close to, NAV. In the year ended 30 September 2016 the Company purchased 7.6 million shares pursuant to this policy at a cost of £8.9 million (excluding stamp duty). In the same period, 200,000 shares were issued at a premium to NAV for total proceeds of £271,200, before the deduction of issue costs.

Having reviewed the investment objective and policy and as part of its overall strategic review, the Board has decided not to continue with a nil discount policy. The Board will consider implementing share buybacks to provide liquidity to shareholders from time to time and other forms of discount control deemed to be appropriate at that time.

The Board will therefore seek to renew the Company's existing 14.99% share buyback authority at the forthcoming AGM in 2017.

BOARD COMPOSITION

All the Directors will stand for re-election at the AGM, although Lynn Ruddick and Jimmy West will then retire from the Board if shareholders of both AUKT and the Company approve the proposed merger.

Assuming the merger becomes effective then Kevin Ingram, Paul Yates and Tom Challenor, each Directors of AUKT, will join the Board of ADIGT.

SAVINGS PLAN HOLDERS

Given the proposed changes to the Company and irrespective of the outcome of the vote to change the investment policy the Board will appoint Aberdeen Asset Management as its investment manager and, as a consequence, the Company's shares will cease to qualify for inclusion within the BlackRock Savings plan with effect from 13 February 2017. A letter from BlackRock to all its plan holders will be mailed in due course, setting out the available options for your shareholding in the Company.

Chairman's statement for the year ended 30 September 2016 continued

SHAREHOLDER CIRCULAR

We recommend that shareholders read the circular which we expect to be published in early March 2017 in relation to the proposed changes. Resolutions relating to the proposed changes will be put to shareholders at a separate general meeting expected to be held on the same date as the AGM.

AGM

The AGM will be held on 30 March 2017 to be held at Drapers' Hall, Throgmorton Avenue, London EC2N 2DQ. Shareholders should expect a notice of this AGM together with Forms of Proxy to be sent to you separately in early March 2017.

OUTLOOK

As I said at the outset of this statement, this has been a challenging and very disappointing year for the Company.

Looking forward, however, we believe that the combined set of changes, some of which require shareholder approval, will reposition us to be an attractive proposition for investors and a company which can successfully seize the opportunities created by the changing UK savings and pensions market. Importantly, our repositioning recognises the reality of the current macro-economic environment and, in particular, the low yield environment.

We remain steadfastly resolved and committed to generating the performance that you rightly expect and to drive the growth and success of Aberdeen Diversified Income and Growth Trust.

JAMES M LONG
Chairman
26 January 2017

Performance

Strategic Report

The Directors present the Strategic Report of the Company for the year ended 30 September 2016.

INTRODUCTION

The Company carries on business as an investment trust. Its Ordinary Shares are traded on the main market of the London Stock Exchange. The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate and gearing strategy, corporate governance procedures and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 27.

Change of Manager

Throughout the year under review, the Company's AIFM was BlackRock Fund Managers Limited ('BFM') ('the Manager'). A summary of the terms of the management agreement is contained in note 4 on page 57.

As set out in the Chairman's Statement on pages 8 to10, the Board has resolved to appoint Aberdeen Fund Managers Limited ('AFML' or 'Aberdeen'), a subsidiary of Aberdeen Asset Management plc as the Company's AIFM to provide it with discretionary portfolio management and risk management services with effect from 11 February 2017.

Aberdeen will be paid an annual management fee of 0.5% of net assets up to £300 million and 0.45% on the net assets above £300 million. This contrasts with the existing annual management fee of 0.4%, payable on gross assets.

Aberdeen has also agreed to make a contribution towards the costs of the proposals incurred by the Company. Any investments made in Aberdeen funds investing directly in alternative assets including, but not limited to infrastructure and property, will be charged at Aberdeen's lowest institutional rate. To avoid double charging these investments will be excluded from the calculation of the overall base management fee described above.

Under the terms of the existing investment management agreement, BlackRock is entitled to six months' notice. Protective notice to terminate the existing investment management agreement was served on BlackRock on 4 October 2016 and Aberdeen has agreed with the Company to meet any compensation payable to BlackRock in respect of the balance of its notice period, subject to Aberdeen being appointed as the Company's AIFM.

The Company will retain the right to terminate the new investment management agreement with Aberdeen on six months' notice, subject to an initial period of two years.

Additional details on the changes to the Company's investment objective and policy and other proposals will be set out in the circular which shareholders should expect to receive in early March 2017.

Current Investment Strategy

The Company's current investment strategy is set out in its objective and investment policy as set out below.

Current Objective

The Company's investment objective is, over the medium term (5 to 7 years), to aim to preserve capital in real terms and grow the dividend in line with inflation. The Company targets a total portfolio return of UK Consumer Price Index ('CPI') plus 4% per annum (before ongoing charges), over a five to seven year cycle.

Current Investment Policy

The Company invests globally using a flexible multi-asset approach. The Company has not set maximum or minimum exposures for any geographical regions or sectors and will achieve an appropriate spread of risk by investing in a diversified portfolio of securities and other assets. It is the current intention that approximately 40% of the portfolio will be invested in UK equity income stocks and the balance of the portfolio will be invested on a tactical asset allocation basis, including in pooled investment funds, but these allocations may change significantly over time.

No individual company exposure in the portfolio may exceed 10% of the Company's total assets at the time of investment, other than in money market funds, treasuries and gilts. No more than 15% of the Company's total assets, at the time of investment, may be invested in aggregate in unlisted alternative assets (including direct lending, commercial property, and renewable energy and mortgage strategies). The Company will not normally invest more than 2% of its total assets in the unlisted securities issued by any individual company at the time of investment, with the exception of pooled investment funds. The Company may invest in exchange-traded funds provided they are listed on a recognised investment exchange.

No more than 10% of the Company's total assets may be invested in aggregate in other listed closed-ended investment companies unless such investment companies themselves have published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Company may use derivatives to enhance portfolio returns (of a capital or income nature) and efficient portfolio management, that is, to reduce, transfer or eliminate risk in its investments, including protection against currency risks, or to gain exposure to a specific market. The Company uses gearing, through borrowings and derivatives, to enhance income and capital returns over the long term. The borrowings may be in sterling or other currencies. The Company's articles of association contain a borrowing limit equal to the value of its adjusted total of capital and reserves. However, borrowings would not normally be expected to exceed 20% of shareholders' funds. Total gearing, including net derivative exposure, would not normally be expected to result in a net economic equity exposure in excess of 120%.

Performance

Strategic Report continued

The Company may invest from time to time in funds managed by BlackRock. To the extent that management or performance fees are charged in respect of these holdings, the Company will be rebated these fees on a regular basis to ensure that no double charging occurs.

No material change will be made to the Company's investment policy without shareholder approval.

Current Investment Strategy

The Company invests in accordance with the objective given above. The Board is collectively responsible to shareholders for the long term success of the Company and is its governing body. There is a clear division of responsibility between the Board and the Manager. Matters for the Board include setting the Company's strategy, including its investment objective and policy, setting limits on gearing (both borrowings and the effect of derivatives), capital structure, governance, and appointing and monitoring of the performance of service providers, including the Manager.

Investment of Assets

The Board considers compliance with the Company's investment policy and other investment restrictions on a regular basis. An analysis of the portfolio at 30 September 2016 is set out in the Investment Manager's Report on pages 17 to 19.

Proposed Changes to Investment Objective and Policy

The proposed changes to the Company's investment objective and policy, as outlined in the announcement on pages 2 to 5, will be set out in more detail in the circular which shareholder should expect to receive in early March 2017.

Proposed Merger with Aberdeen UK Tracker Trust plc

As set out in the announcement on pages 2 to 5, the Board has entered into a 'heads of terms' agreement with Aberdeen and the Board of AUKT in relation to the future merger of AUKT.

The merger is conditional on regulatory and tax approvals being obtained and will be subject to approval by both BIST shareholders and AUKT shareholders.

The Company and AUKT will each pay for its own costs of implementing the merger. Aberdeen has agreed to make a contribution to BIST in relation to its costs of implementing the merger, thereby reducing the costs for existing BIST shareholders.

More information will be included in the circular that shareholders should expect to receive in early March 2017.

Dividend Policy

Details of the Company's dividend policy are set out in the Chairman's Statement on page 9.

Tender Offer

Prior to the date on which the merger becomes effective, the Company will propose a tender offer for up to 20% of its ordinary shares in issue (excluding any shares in treasury) at a tender price equal to NAV (cum income, debt at market value) less 4% and the costs and expenses of the tender offer. More details will be included in the circular that shareholders should expect to receive in early March 2017.

Discount Control Policy

Prior to the strategic review, the Board had been implementing a nil discount control policy through share buybacks at a discount to NAV. In the year ended 30 September 2016 the Company purchased 7.6 million shares pursuant to this policy at a cost of £8.9 million (excluding stamp duty). In the same period, 200,000 shares were issued at a premium to NAV for total proceeds of £271,200, before the deduction of issue costs.

Having reviewed the investment objective and policy and as part of its overall strategic review, the Board has decided not to continue with a nil discount policy. Where appropriate the Board will consider implementing share buybacks to provide liquidity to shareholders from time to time and other forms of discount control deemed to be appropriate at that time, taking into account the more illiquid underlying portfolio mix.

Full details of the proposed discount control policy will be set out in the circular that shareholders should expect to receive in early March 2017.

PERFORMANCE

Details of the Company's performance for the year are given in the Performance Record on page 7. The Investment Manager's Report on pages 17 to 19 includes information on investment activity within the Company's portfolio during the year.

RESULTS AND DIVIDENDS

The Company's revenue return for the year amounted to 7.56 pence per share (2015: 7.07 pence per share) an increase of 6.9%.

The Company's ongoing charges for the year were 0.6% of shareholders' funds (2015: 0.7%).

A first quarterly dividend of 1.635 pence per share was paid on 8 April 2016 to shareholders on the register on 11 March 2016; the second and third interim quarterly dividends of 1.635 pence per share were paid on 22 July 2016 and 10 October 2016 respectively. The fourth quarterly dividend of 1.635p per share was declared on 29 September 2016 and will be paid to shareholders on 27 January 2017. This brings the total dividends for the year to 6.54 pence per share, in line with total dividends of 6.54p per share paid in respect of the year to 30 September 2015,

KEY PERFORMANCE INDICATORS

The key performance indicators ("KPIs") used by the Directors to measure the progress and performance of the Company over time are set out below.

Comparative performance

The Board reviews the performance of the portfolio as well as the net asset value and share price for the Company over a range of time periods and compares this to the return on the Company's target of CPI plus 4%. The Board also reviews NAV and share price performance in comparison to the performance of other competitors in the Company's peer group, the Association of Investment Companies' Flexible Investment sector, and to a range of other opportunity sets in the marketplace to assess how the Company's performance compares in the shorter term, given the limited relevance of the target index over shorter periods. These opportunity sets include (but are not limited to) UK Equities, Global Equities, Gold, Commodities, Gilts, Index Linked Gilts, US 10 year Treasury Stock, German 10 year Bunds, UK Corporate Bonds, Global Corporate Bonds, Global High Yield Bonds, Emerging Market Debt, Real Estate Investment Trusts and Cash.

The Board also monitors the Company's yield and compares this to the yield generated by competitors in the Company's peer group and to the yield that investors can obtain from the opportunity set asset classes listed above. The Board reviews the sustainability of the Company's dividend policy and regularly reviews revenue forecasts and analysis provided by the Manager on the sources of portfolio income in order to monitor the extent to which dividends are covered by revenue.

The Company's performance has been as follows:

	Year to 30 Sep 2016	Period from 27 Feb to 30 Sep 2015	Period from 1 Oct to 26 Feb 2015
Manager	BlackRock	BlackRock	F&C
Change in NAV[1]	-5.6%	-10.9%	1.3%
Change in NAV (with income reinvested)[1,2]	-0.4%	-7.7%	3.7%
CPI plus 4%/change in target index[3]	4.9%	2.9%	7.6%

1 Calculations based on NAV with debt at market value.
2 With income reinvested.
3 The Company's benchmark prior to 27 February 2015 was a composite index of 80% FTSE All-Share Index and 20% FTSE World ex UK Index. With effect from 27 February 2015, the Company's objective is to return, on a NAV less costs basis, CPI plus 4% over a 5 to 7 year cycle.
Source: BlackRock and F&C.

Portfolio Risk

Risk analysis for a multi-asset portfolio is more complex due to the need to ensure that correlation of risk is appropriate across the various portfolio strategies as well as within individual portfolios. The Board reviews portfolio risk to ensure that the risks being taken within the portfolio are appropriately diversified and relevant to the Company's portfolio objective and market conditions.

The Portfolio Risk statistics, which the Board monitors, estimate the level of return above or below the return on cash (which is measured by the ML GBP 3 Month cash index) that the Company is expected to deliver in two out of any three years. For example, a Portfolio Risk percentage of 10.0% means that the Company's portfolio would be expected to deliver returns of up to 10.0% above or below the return that would be generated from cash (as measured by the ML GBP 3 Month cash index) two years out of three, or with a 2/3 probability. The Company's Portfolio Beta and Portfolio Risk statistics are set out in the table below.

	As at 30 Sep 2016	As at 30 Sep 2015
Portfolio Beta (vs MSCI World Index)	0.5	0.7
Portfolio Risk	10.0%	8.2%

Source: BlackRock.

The Board monitors the portfolio Beta relative to the MSCI World Index. As at 30 September 2016, the Company's portfolio had a Beta of 0.5 (30 September 2015: 0.7), meaning that for a movement of 1% in the MSCI World Index, the NAV of the Company would be expected to move in the same direction by 0.5%.

The Board also reviews portfolio attribution data to understand the impact on the Company's relative performance of the various components such as asset allocation, stock selection and gearing.

Premium/discount to net asset value ("NAV")

The Board monitors the level of the Company's premium or discount to NAV and considers strategies for managing this. Prior to the strategic review, the Board had been implementing a nil discount control policy through share buybacks at a discount to NAV. In the year ended 30 September 2016 the Company purchased 7.6 million shares pursuant to this policy at a cost of £8,934,698 (excluding stamp duty). These shares were bought back at an average discount of 4.2% per share (based on the latest published NAV at the time of purchase).

In the same period, 200,000 shares were issued at a premium to NAV for total proceeds of £271,200, before the deduction of issue costs. The shares were allotted to Cenkos Securities (the Company's brokers). Having reviewed the investment objective and policy and as part of its overall strategic review, the Board has decided not to continue with a nil discount policy. Further details of the Company's proposed discount control policy will be included in the circular that shareholders should expect to receive in early March 2017.

Information regarding the Company's share rating is set out in the table overleaf.

	As at 30 Sep 2016	As at 30 Sep 2015	As at 26 Feb 2015	As at 30 Sep 2014
(Discount)/ premium to NAV (debt at market value)	(9.0%)	0.9%	(6.6%)	(5.5%)

Source: BlackRock.

Ongoing charges

The ongoing charges ratio reflects those expenses which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective investment fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. The ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company. The Company's ongoing charges for the year to 30 September 2016 were 0.6% of net assets (2015: 0.7%).

PRINCIPAL RISKS

The key risks faced by the Company are set out below. The Board has in place a robust process to assess and monitor the principal risks of the Company. A core element of this is the Company's risk register, which identifies the risks facing the Company and assesses the likelihood and potential impact of each risk, and the quality of the controls operating to mitigate the risk. A residual risk rating is then calculated for each risk based on the outcome of this assessment. This approach allows the effect of any mitigating procedures to be reflected in the final assessment.

The register, its method of preparation and the operation of the key controls in the Manager's and third party service providers systems of internal control are reviewed on a regular basis by the Audit Committee. In order to gain a more comprehensive understanding of the Manager's and other third party service providers' risk management processes, and how these apply to the Company's business, BlackRock's internal audit department provided an annual presentation to the Audit Committee Chairman setting out the results of testing performed in relation to BlackRock's internal control processes. The Audit Committee also periodically receives presentations from BlackRock's Risk & Quantitative Analysis teams, and reviews Service Organisation Control (SOC 1) reports from BlackRock and from the Company's custodian (Bank of New York Mellon (International) Limited). The custodian is appointed by the Company's Depositary and does not have a direct contractual relationship with the Company.

The Board is confident that the procedures that the Company has in place are sufficient to ensure that the necessary monitoring of risks and controls has been carried out throughout the year ended 30 September 2016.

The principal risks and uncertainties faced by the Company in the year ended 30 September 2016, together with the potential effects, controls and mitigating factors, are set out below and on the following pages.

Performance risk – The Board is responsible for determining the investment policy to fulfil the Company's objectives and for monitoring the performance of the Company's investment manager ("Investment Manager") and the strategy adopted. An inappropriate policy or strategy may lead to poor performance, dissatisfied shareholders and a widening discount. The Company may invest in unlisted alternative investments (such as direct lending, commercial property, renewable power or mortgage strategies). These types of investments are expected to have a different risk and return profile to the rest of the Company's investment portfolio. They may be relatively illiquid and it may be difficult for the Company to realise these investments over a short time period, which may have a negative impact on performance. The Company may also use derivative instruments for the purposes of efficient portfolio management and/or to hedge market and currency risk. In addition, the Company may use complex derivative strategies in pursuit of the proposed investment policy including the creation of synthetic short positions to take advantage of negative investment views, using synthetic long positions to gain market exposure or a combination of long and short strategies to implement investment views in respect of one or more issuers, whilst neutralising market exposure within the transaction.

To manage these risks the Board regularly reviews the Company's investment mandate and long term strategy, and has put in place appropriate limits over levels of unlisted alternative assets, gearing and the use of derivatives. No more than 15% of the Company's total assets, at the time of investment, may be invested in aggregate in unlisted alternative assets. Total gearing, including net derivative exposure, would not normally be expected to result in net economic equity exposure in excess of 120%. Derivative strategies are only undertaken within guidelines established by the Board.

Levels of portfolio exposure through derivatives, including the extent to which the portfolio is geared in this manner and the value of any short positions, are reported regularly to the Board and monitored. The Board also reviews the controls put in place by the Investment Manager to monitor and to minimise counterparty exposure, which include intraday monitoring of exposures to ensure these are within set limits. The Investment Manager provides an explanation of significant stock selection decisions, the rationale for the composition of the investment portfolio and movements in the level of gearing. The Board monitors the maintenance of an adequate spread of investments in order to minimise the risks associated with particular countries or factors specific to particular sectors, based on the diversification requirements inherent in the Company's investment policy.

Gearing risk – The Company has the authority to borrow money or increase levels of market exposure through the use of derivatives (gearing) and does so when the Investment

Manager is confident that market conditions and opportunities exist to enhance investment returns. However, if the investments fall in value, any borrowings will magnify the extent of this loss. In addition, the Company has in place fixed borrowings in the form of a £60 million 6.25% Bond 2031. All borrowings require the approval of the Board and gearing levels are reviewed regularly by the Board and the Investment Manager. Borrowings (including the Bond) would not normally be expected to exceed 20% of shareholders' funds. Total gearing, including net derivative exposure, would not normally be expected to result in net economic equity exposure in excess of 120%.

Income/dividend risk – The amount of dividends will depend on the Company's underlying portfolio. Any change in the tax treatment of the dividends or interest received by the Company (including as a result of withholding taxes or exchange controls imposed by jurisdictions in which the Company invests) may reduce the level of dividends received by shareholders. The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each meeting. To the extent that underlying dividend income is insufficient to meet the Company's dividend policy, the Company has the ability to generate revenue through option writing. This may result in a reduction in capital return and the Board monitors the level of option writing and the total returns generated from option contracts to ensure that the level of option writing is appropriate and in line with the Company's investment objective and dividend policy.

Regulatory risk – The Company operates as an investment trust in accordance with Chapter 4 of Part 24 of the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on the profits realised from the sale of its investments. The Investment Manager monitors investment movements, the level and type of forecast income and expenditure and the amount of proposed dividends, if any, to ensure that the provisions of Chapter 4 of Part 24 of the Corporation Tax Act 2010 are not breached and the results are reported to the Board at each meeting. Following authorisation under the Alternative Investment Fund Managers Directive (AIFMD), the Company and its appointed Alternative Investment Fund Manager (AIFM) are subject to the risk that the requirements of this Directive are not correctly complied with. The Board and the AIFM also monitor changes in government policy and legislation which may have an impact on the Company.

Operational risk – In common with most other investment trust companies, the Company has no employees. The Company therefore relies upon the services provided by third parties and is dependent on the control systems of the Manager, BNY Mellon Trust & Depositary (UK) Limited (the Depositary) and the Bank of New York Mellon (International) Limited, who maintain the Company's accounting records. The security of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems. These have been regularly tested and monitored throughout the year which is evidenced through their SOC 1 reports to provide assurance regarding the effective operation of internal controls which are reported on by their reporting accountants and give assurance regarding the effective operation of controls. The Board also considers succession arrangements for key employees of the Investment Manager and the business continuity arrangements for the Company's key service providers.

Market risk – Market risk arises from volatility in the prices of the Company's investments. It represents the potential loss the Company might suffer through holding investments in the face of negative market movements. The Company invests in global equities across a range of countries, and changes in general economic and market conditions in certain countries, such as interest rates, exchange rates, rates of inflation, industry conditions, competition, political events and trends, tax laws, national and international conflicts, economic sanctions and other factors can also substantially and adversely affect the securities and, as a consequence, the Company's prospects and share price. The Board considers the diversification of the portfolio, the portfolio risk and portfolio beta, asset allocation, stock selection, unquoted investments and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Investment Manager. The Board monitors the implementation and results of the investment process with the Investment Manager.

Financial risks – The Company's investment activities expose it to a variety of financial risks which include foreign currency risk and interest rate risk. Further details are disclosed in note 17 to the financial statements, together with a summary of the policies for managing these risks.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the 2016 Code on UK Corporate Governance, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Board conducted this review for the period up to the AGM in 2022, being a five year period from the date that this Annual Report is due to be approved by shareholders. The five year review period was selected because it is aligned with the medium term performance period of five to seven years over which the Company is assessed in its objective of targeting a total portfolio return of CPI plus 4%. It is also aligned to the proposed new investment objective, which is to target returns of LIBOR +5.5% per annum (net of fees) over rolling five-year periods.

In making this assessment the Board has considered the following factors:

- The Company's principal risks as set out above;
- The relevance and attractiveness to existing shareholders and potential new investors of the proposed changes to the

Company's investment policy, which targets a truly diversified multi-asset approach to generate highly attractive long-term income and capital returns;

- The strength and experience of the new investment management team at Aberdeen; and
- The level of demand for the Company's shares.

The Board has also considered a number of financial metrics, including:

- The level of current and historic ongoing charges incurred by the Company;
- The premium or discount to NAV;
- The level of income generated by the Company;
- Future income forecasts; and
- The liquidity of the Company's portfolio.

As an investment Company with a relatively liquid portfolio and largely fixed overheads which comprise a very small percentage of net assets (0.6%), the Board has concluded that, even in exceptionally stressed operating conditions, the Company would be able to meet its ongoing operating costs as they fall due.

However, investment companies may face other challenges, such as a significant decrease in size through tenders or share buy-back activity resulting in the company no longer being of sufficient market capitalisation to represent a viable investment proposition and to continue in operation. The Board is proposing to offer a tender of up to 20% of the Company's share capital. In addition, the Company has in place the authority to buy back up to 14.99% of issued share capital. The Board has considered the potential impact of operating both of these discount control mechanisms on the Company's market capitalisation over the five year time horizon under review, and in particular has noted the following:

- The Company's proposed new investment policy (which offers both risk diversification through the use of a multi asset portfolio and an attractive dividend yield);
- The enhanced liquidity that is expected to be generated by the increase to the size of the Company's asset base as a result of the merger with the Aberdeen UK Tracker Trust plc;
- The enhanced liquidity and anticipated demand for the Company's shares on the secondary market as a result of the increased size of the Company post the merger; and
- The decision to replace the current nil discount policy with a more flexible approach.

The Board is confident that the proposed discount control mechanisms that the Company will have in place will not have a detrimental impact on the Company's viability. Based on the results of their analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

FUTURE PROSPECTS

Subject to shareholder approval in March 2017, the Board's main focus will be on the delivery of the new investment objective to target returns of LIBOR +5.5% per annum (net of fees) over rolling five-year periods and maintaining a steady dividend at an attractive but realistic yield (after reducing the current dividend payment by approximately 20%). The future of the Company is dependent upon the success of the investment strategy. The outlook for the Company is discussed in the Chairman's Statement.

MODERN SLAVERY ACT

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015. In any event, the Board considers the Company's supply chain, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

As an investment trust, the Company has no direct social or community responsibilities. However, the Company believes that it is in shareholders' interests to consider environmental, social and governance factors and human rights issues when selecting and retaining investments. Details of the Company's policy on socially responsible investment are set out on page 38.

DIRECTORS, GENDER REPRESENTATION AND EMPLOYEES

The Directors of the Company on 30 September 2016, all of whom held office throughout the year, are set out in the Directors' biographies on page 27. The Board consists of five men and one woman. The Company does not have any employees.

BY ORDER OF THE BOARD

BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
26 January 2017

Performance

Investment manager's report – BlackRock Investment Management (UK) Limited

This report covers the year ended 30 September 2016.

Performance

	Year to 30 September 2016	27 February – 30 September 2015
NAV[1]	-0.4%	-7.7%
Share price[1]	-10.2%	-0.2%
CPI + 4%[2]	+4.9%	+2.9%
Dividends paid	6.54p	6.54p

	As at 30 September 2016	As at 30 September 2015
NAV[3]	121.99p	129.30p
Share price	111.00p	130.50p
(Discount)/Premium	(9.0%)	0.9%
Yield[4]	5.9%	5.0%

[1] Performance calculations are based on the Company's NAV with debt at market value. Both NAV and share price performance calculations assume that dividends are reinvested on the ex-dividend date.
[2] The Company's investment objective is, over the medium term (5 to 7 years), to aim to preserve capital in real terms and to grow the dividend at least in line with inflation. The Company targets a total portfolio return of UK Consumer Price Index ("CPI") plus 4% per annum.
[3] Cum income NAV with debt at market value (adjusted to reflect the fact that the Q3 dividends for 2015 and 2016 had gone ex-div prior to 30 September.
[4] Yield calculations are based on dividends announced in the last 12 months as at the date of release of this announcement.

The Company's performance for the year ended 30 September 2016, details of which are summarised in the table above, has been disappointing, impacted by the challenges of navigating the various periods of heightened volatility that have characterised markets through the course of the year. As well as falling short on an absolute basis, the Company's multi-asset strategy has also lagged an investment in the stock market, justifiably adding to shareholder frustrations given the relatively recent change in approach with the transition of management from F&C to BlackRock in February 2015.

Although the portfolio return was negative in absolute terms, the revenue return of 7.56 pence per share delivered on the income objective of the Company. Revenues were comprised of approximately 40.4% option premium income (2015: 26.9%), and 44.6% dividend income (2015: 61.2%) with the balance relating mainly to fixed interest income. The increased focus on option premium income partly reflects the fact that for 2015 the Company's portfolio was managed under the previous investment objective for the first five months of the year, which had a heavier weighting to dividend income and no multi-asset component.

The market environment has been challenging for the portfolio's dynamic asset allocation strategy. During the year there have been several periods of short and sharp sell-offs followed by rapid recoveries. For example, in the first three months of 2016, markets were dominated by concerns around China, volatile oil price movements and greater divergence in central bank monetary policy. This resulted in a notable sell-off in equities and negative excess returns from credit as investors sought out more traditional 'safe-haven' assets such as developed market government bonds and precious metals. Risk sentiment remained fragile into February as concerns about negative interest rate policy (in Japan and Europe specifically) weighed heavily on financials. However, concerns abated somewhat in March as central banks vocalised a more accommodative stance towards monetary policy. This contributed to weakness in the US Dollar, a lift in the price of commodities, reduced liquidity concerns in China and ultimately an improvement in the performance of risk assets through March. In the summer months, we observed a similar dynamic around the period that markets began to focus on Brexit. In these two episodes of gyrating markets, our investment stance was to reduce equity exposure, fearing a larger correction due to increased political and economic uncertainty. This meant that the portfolio missed out on much of the subsequent strong equity and credit rallies that followed the sell-off.

We can identify three key drivers of our investment results over the past year. Firstly, the fall in interest rates to historic lows caused a significant hit to NAV from the Company's 6.25% 30 year Bonds ('the Bond'). The price of these reacts to movements in gilt yields and 2016 has seen a significant fall in these. Yields in the UK bond market have fallen due to large demand for the relative safety of government bonds, the resumption of a Bank of England bond buying programme and the Bank's decision to cut interest rates after the results of the EU referendum. The investment portfolio was not positioned for such a severe fall in bond yields; this meant that our fixed income holdings did not provide a sufficient 'hedge' and the Company's Bond hurt performance.

Secondly, in a period of strong returns from the domestic and global stock markets, our cautious positioning, which was largely expressed through equity market hedges, weighed on performance. The portfolio was positioned for a normalisation in monetary policy and a reduction in the extreme quantitative easing (QE) measures adopted by the Federal Reserve and the Bank of England. As this support was withdrawn, we expected a correction in equity markets. We also expected interest rates to rise as inflationary pressure increased. Our cautious equity allocations generated reasonable returns, but we undoubtedly gained less than a more aggressively positioned portfolio. Our currency hedging policy has also prevented the Company from enjoying some of the extraordinary performance experienced by Sterling-based investors who elected to leave their overseas holdings exposed to fluctuations in the currency. Our policy is to hedge the currency risk associated with overseas exposures back to Sterling by default and then take active currency positions in markets that are backed by our asset allocation views. As such, we hedged the vast majority of our overseas assets back to Sterling and did not benefit from the large falls in the value of the pound.

Performance

Investment manager's report continued

Finally, several of our asset allocation views have simply not paid off. In currencies, for instance, being long of the US Dollar versus the Euro, Japanese Yen and emerging market currencies was a source of negative performance. This view was based on the US dollar's status as a safe haven currency, loose monetary policy in Europe and Japan, slowing emerging market growth and the likelihood of rising rates in the US at a time when other large economies would be easing policy. However, the continued weakness of the US Dollar driven by ongoing expectations of unusually slow monetary tightening caused these positions to underperform and this was a meaningful detractor from portfolio returns. In equities, our exposure to European markets has hurt performance as well as our position in stocks that we expected to benefit from a weaker oil price. Our Portuguese government bond holdings were also negatively impacted by some of the volatility experienced in the early months of the year.

In summary, it should be noted that there have been a number of positive asset allocation views, such as the decision to buy gold related investments and our exposure to inflation linked bonds in the US. However, our asset allocation decisions overall have dampened the return potential of some of our longer-term income and growth holdings in UK equities and credit markets.

Portfolio Composition[1]

	2016 %	2015 %
UK Equity	29.8	42.9
Overseas Developed Market Equities	13.0	12.2
Emerging Market Equities	2.7	2.8
Volatility Strategies	5.4	11.8
Fixed Income	41.5	25.3
Alternatives	13.0	4.0
Commodities	7.6	–
Cash	-13.0	1.0

[1] All percentages reflect the value of each sector as a percentage of total investments as adjusted for the gross market exposure of derivative positions held to hedge each strategy.

UK Equities 29.8%

The UK equity portfolio, managed by BlackRock specialist Mark Wharrier, was the largest single contributor to overall total returns, and also a meaningful contributor to portfolio income. However, whilst the total return from the UK equity portfolio has been strongly positive, it has lagged behind the FTSE All-Share Index. At the sector level, the strong performance of the mining sector acted as a drag on relative performance given our low exposure to the sector. On the positive side, several of our positions performed very strongly, including ARM Holdings, Rentokil Initial and John Laing Group. We reduced exposure to financial stocks by selling Aviva, Legal & General Group and Barclays, reflecting the more challenging operating environment they face. Brexit created market volatility which we used as an opportunity to add to positions in ITV, BT Group and Sky at levels that we believed were pricing in a significant UK recession, which we felt to be an unlikely outcome.

Overseas Developed Market Equities 13.0%

Our globally diversified equity fund exposures were positive contributors to performance, driven predominantly by an improving American economy and the low interest rate environment. The portfolio also benefitted from our decision to increase US exposure over the period as we became more positive on the outlook for the economy and corporate earnings, especially relative to Europe and the UK. Our Japanese equity exposure was removed after experiencing some losses during the first quarter, and our decision to hedge global industrial equities also hurt performance as this sector outperformed broader developed market equities during the market rebound in February and March 2016.

Emerging Market Equities 2.7%

Our holdings in emerging market income stocks benefitted from the low yield environment as well as the strong performance of emerging market equities. Exposure was kept at low levels due to our caution around the long-term outlook for Chinese growth.

Volatility Strategies 5.4%

Over the year under review, total return swaps (TRS) were used within this category to express views on market volatility. TRS offer low transaction costs and high liquidity, and therefore are an efficient way to gain portfolio exposure. The view that oil prices would remain low was implemented through taking out TRS on a basket of global equities which were expected to benefit from structurally lower global oil prices; unfortunately this view did not play out and the position generated losses of approximately £1 million. In addition, TRS were used to implement a systematic volatility strategy designed to exploit the difference between implied volatility in US and European equity indices; this also generated losses for the portfolio of £2 million. Other TRS exploiting volatility pricing differentials and harvesting returns from the commodities futures market were more successful.

Fixed Income 41.5%

Our fixed income exposure reflected our preference for corporate bonds (both high yield and investment grade) with limited UK Gilts held within the portfolio. We began to build some exposure to emerging market debt towards the end of the summer as we expected investors to begin to search further afield for income. Within credit markets, our European credit index strategy benefitted from the European Central Bank's efforts to lower borrowing costs for European companies. Our actively managed high yield credit portfolio benefitted from exposure to high yield bonds and some modest additional performance generated from exposure to financial credit and asset-backed securities. The largest detractor during the period by a large margin was exposure to Novo Banco, after the Portuguese central bank decided to impose losses on the securities in December 2015. BlackRock is leading a group of Novo Banco bondholders suing the Bank of Portugal and has chosen to participate in this suit in the best interests of our clients. We added some exposure to UK corporate bonds, which help manage some of the risks associated with the Company's 6.25% Bonds as well as being supported by the Bank of England's purchasing programme.

Alternatives 13.0%

Our portfolio of alternative assets broadly performed strongly over the year. Funding Circle SME Income Fund and Bluefield Solar Income Fund both produced strong returns, as well as a meaningful contribution to income. We began the process of increasing our exposure to long-term, unlisted alternative assets over the year and early signs are encouraging, with particularly strong returns coming from our small investment in the Forward Partners early-stage venture capital fund. We also added exposure to UK mortgages over the period, although at this early stage returns are minimal. The one significant detractor was our small position in the Woodford Patient Capital Trust, which struggled as share prices in the biotech sector fell.

Commodities 7.6%

Our exposure to commodities is predominantly through a holding in the iShares Gold Trust, a vehicle that tracks the price of gold. We added a significant exposure early in 2016, noting that the diversification and growth potential would be supported in a period of uncertainty around the impact of negative rates on the banking sector, near term political risks and volatile investor sentiment. Gold has been a successful position over this period, contributing positively to performance.

Negative Cash after adjusting for derivative exposures -13.0%

The Company had a small overdraft representing approximately 1% of net assets as at 30 September 2016. In addition, the Company had a range of derivative instruments which, to the extent that the Company had gained similar levels of market exposure through direct investment instead, would have resulted in physical cash balances being lower by approximately 12% and the Company being geared through the use of derivatives and negative cash balances by approximately 13%.

ADAM RYAN
BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
26 January 2017

Performance

Ten largest equity investments as at 30 September 2016

iShares Gold Trust[1]: 6.3% (2015: Nil) is an exchange traded fund that seeks to reflect generally the performance of the price of gold. The fund is managed by BlackRock.

BlackRock Impact World Equity Fund[1]: 3.9% (2015: Nil) seeks to achieve exposure to equity securities with a measurable positive societal impact. The fund will seek to achieve this investment objective by taking long and synthetic long exposures. The fund will seek to gain at least 80% of its investment exposure directly through equities and equity-related securities (including derivatives) of, or giving exposure to, companies domiciled in or exercising the predominant part of their economic activity in developed markets. The fund is managed by BlackRock.

BlackRock Throgmorton Trust plc[1]: 2.5% (2015: 2.6%) is an investment trust company with an investment objective to provide shareholders with capital growth and an attractive total return by investing primarily in UK smaller companies and mid-capitalisation companies listed on the main market of the London Stock Exchange. The company's benchmark is the Numis Smaller Companies excluding AIM (excluding Investment Companies) Index. The fund is managed by BlackRock.

Funding Circle SME Income Fund: 2.2% (2015: Nil) seeks to generate income through investments in UK residential mortgages.

BGF Emerging Markets Equity Income Fund[1]: 2.1% (2015: 1.6%) is a diversified portfolio of predominantly emerging market equities selected for their ability to generate income from dividends. The fund can also hold developed market securities that have significant business operations in emerging markets. The fund is managed by BlackRock.

MAS Mortgage Holdings[1,2]: 2.1% (2015: Nil) is a holding company set up to hold investments in UK buy-to-let mortgages, which are managed by BlackRock's in-house mortgage team. These investments are designed and managed to provide a high and sustainable level of income with conservative levels of capital risk.

British American Tobacco: 2.0% (2015: 2.5%) is one of the world's leading tobacco groups, with more than 200 brands in the portfolio selling in approximately 180 markets worldwide.

Unilever: 1.7% (2015: 1.3%) is a global consumer products group with strong market positions in emerging markets and a growing bias towards personal care.

AstraZeneca: 1.7% (2015: 2.5%) is a global pharmaceutical company, operating in the research, development, manufacture and marketing of pharmaceutical products.

Scottish Mortgage Investment Trust: 1.5% (2015: 1.1%) is an investment trust company with an investment objective to invest in a high conviction global portfolio of companies with the aim of maximising its total return over the long term. The managers look for strong businesses with above-average returns and aim to achieve a greater return than the FTSE All-World Index (in sterling terms) over a five year rolling period.

Largest fixed income investments (included within top ten overall portfolio holdings)

iShares Core GBP Corporate Bond Fund[1]: 7.0% (2015: Nil) is an exchange traded fund that seeks to track the performance of an index composed of Sterling denominated investment grade corporate bonds. The fund is managed by BlackRock.

BGF Global Corporate Bond Fund[1]: 6.2% (2015: 5.8%) aims to maximise returns through a combination of capital growth and income from the fund's assets. The fund invests globally, and at least 70% of its total assets are held in fixed income securities. These include bonds and money market instruments. At least 70% of the fund's total assets will be issued by companies and will be investment grade at the time of purchase. The fund is managed by BlackRock.

US Treasury 0.375% 15 July 2025: 4.1% (2015: Nil) is a debt security issued by the United States of America Government, used to access US government bonds.

Turkey 10.7% 17 February 2021: 2.8% (2015: Nil) is a debt security issued by the Turkish Government, used to access Turkish government bonds.

BlackStone GSO Loan Financing: 2.7% (2015: 2.4%) is a United Kingdom-based closed-ended investment company. The company's investment objective is to provide shareholders with stable and growing income returns, and to grow the capital value of the investment portfolio by exposure predominately to floating rate senior secured loans directly and indirectly through collateralized loan obligation income notes. The company invests in sectors, such as healthcare and pharma; business services; chemical, plastic and rubber; capital equipment; construction and building; broadcast and subscription; retail; beverage, food and tobacco; hotel, gaming and leisure, and banking and finance.

UK Government 2% 7 September 2025: 2.2% (2015: Nil) is a debt security issued by the United Kingdom Government, used to access UK government bonds.

1 Denotes BlackRock managed products
2 Unquoted holding
All percentages reflect the value of the holding as a percentage of total investments. Percentages in brackets represent the value of the holding as at 30 September 2015. Together, the ten largest investments represent 26.1% of the Company's portfolio (ten largest investments at 30 September 2015: 24.5%).

Performance

Portfolio valuation as at 30 September 2016

Company	Sector	Market value £'000	Market value as a % of net assets	Gross market exposure[1] £'000
Equities				
UK Equities				
BlackRock Throgmorton Trust*	Financials	10,456	3.0	10,456
British American Tobacco	Consumer Goods	8,515	2.4	8,515
Unilever	Consumer Goods	7,296	2.1	7,296
AstraZeneca	Health Care	7,258	2.1	7,258
BT Group	Telecommunications	5,614	1.6	5,614
John Laing Group	Financials	5,245	1.5	5,245
Vodafone	Telecommunications	5,221	1.5	5,221
Sky	Consumer Services	5,095	1.4	5,095
RELX	Consumer Services	4,799	1.4	4,799
Royal Dutch Shell 'B'	Oil & Gas	4,671	1.3	4,671
GlaxoSmithKline	Health Care	4,569	1.3	4,569
Lloyds Banking Group	Financials	4,450	1.3	4,450
HSBC Holdings	Financials	3,995	1.1	3,995
Rentokil Initial	Industrials	3,619	1.0	3,619
Carnival	Consumer Services	3,472	1.0	3,472
Wolseley	Industrials	3,449	1.0	3,449
BP Group	Oil & Gas	3,432	1.0	3,432
Altria Group	Consumer Goods	3,430	1.0	3,430
Intercontinental Hotels Group	Consumer Services	3,155	0.9	3,155
Inchcape	Consumer Services	3,127	0.9	3,127
Tesco	Consumer Services	3,079	0.9	3,079
Imperial Brands	Consumer Goods	3,023	0.8	3,023
BAE Systems	Industrials	2,987	0.8	2,987
Stagecoach Group	Consumer Services	2,969	0.8	2,969
RPC Group	Industrials	2,813	0.8	2,813
Hays	Industrials	2,693	0.7	2,693
Shire	Health Care	2,534	0.7	2,534
Admiral Group	Financials	2,494	0.7	2,494
Smith (DS)	Industrials	2,455	0.7	2,455
Provident Financial	Financials	2,361	0.7	2,361
ITV	Consumer Services	2,095	0.6	2,095
Hargreaves Lansdown	Financials	2,075	0.6	2,075
Kier Group	Industrials	2,075	0.6	2,075
Direct Line Insurance	Financials	2,061	0.6	2,061
Dixons Carphone	Consumer Services	2,010	0.6	2,010
Cineworld Group	Consumer Services	1,894	0.5	1,894
Compagnie Financiere Richemont	Consumer Goods	1,645	0.5	1,645
Next	Consumer Services	1,314	0.4	1,314
Foxtons Group	Financials	1,093	0.3	1,093
Elementis	Basic Materials	1,058	0.3	1,058
Total		**145,596**	**41.4**	**145,596**
UK Equity Hedges		**(618)**	**(0.2)**	**(23,239)**
Total		**144,978**	**41.2**	**122,357**

Performance

Portfolio valuation as at 30 September 2016 continued

Company	Sector	Market value £'000	Market value as a % of net assets	Gross market exposure[1] £'000
Overseas Developed Market Equities				
BlackRock Impact World Equity Fund*	Financials	16,386	4.7	16,386
Scottish Mortgage Investment Trust	Financials	6,168	1.8	6,168
Goodyear Tire & Rubber	Consumer Goods	524	0.2	524
Amazon.com	Consumer Services	513	0.2	513
Accenture 'A'	Industrials	506	0.2	506
Edwards Lifesciences	Health Care	501	0.2	501
MasterCard 'A'	Financials	498	0.2	498
Varian Medical Systems	Health Care	498	0.2	498
CBS Corporation 'B'	Consumer Services	496	0.2	496
S&P Global	Financials	495	0.2	495
Fedex	Industrials	490	0.2	490
Facebook 'A'	Technology	487	0.2	487
Equifax	Financials	485	0.2	485
Verisign	Technology	482	0.2	482
International Paper	Basic Materials	482	0.2	482
Tripadvisor	Consumer Services	477	0.2	477
General Dynamics	Industrials	477	0.2	477
Harris Corporation	Technology	477	0.2	477
L-3 Communications	Industrials	476	0.1	476
FMC	Basic Materials	476	0.1	476
Yum! Brands	Consumer Services	474	0.1	474
Cummins	Industrials	473	0.1	473
Motorola Solutions	Technology	473	0.1	473
Southern Company	Utilities	471	0.1	471
Texas Instruments	Technology	471	0.1	471
Eli Lilly	Health Care	471	0.1	471
Alaska Air Group	Consumer Services	467	0.1	467
American Airlines	Consumer Services	466	0.1	466
United Parcel Service	Industrials	466	0.1	466
Fluor	Industrials	465	0.1	465
Dow Chemical	Basic Materials	463	0.1	463
Total System Services	Industrials	463	0.1	463
Textron	Industrials	463	0.1	463
Northrop Grumman	Industrials	462	0.1	462
Du Pont (E.I) De Nemours	Basic Materials	461	0.1	461
Pitney Bowes	Technology	459	0.1	459
Intuit	Technology	458	0.1	458
Philip Morris	Consumer Goods	457	0.1	457
Boeing	Industrials	457	0.1	457
Monsanto	Consumer Goods	454	0.1	454
Davita Healthcare	Health Care	453	0.1	453
Raytheon	Industrials	451	0.1	451
Occidental Petroleum	Oil & Gas	449	0.1	449
Brown-Forman 'B'	Consumer Goods	446	0.1	446
21st Century Fox	Consumer Services	445	0.1	445
Block (H&R)	Consumer Services	444	0.1	444
Lockheed Martin	Industrials	437	0.1	437
Viacom 'B'	Consumer Services	416	0.1	416
Mallinckrodt	Health Care	412	0.1	412
Vertex Pharmaceuticals	Health Care	408	0.1	408

Company	Sector	Market value £’000	Market value as a % of net assets	Gross market exposure[1] £’000
Overseas Developed Market Equities continued				
Hershey	Consumer Goods	402	0.1	402
Overseas Developed Market Hedges		(5,566)	(1.6)	(23,753)
Total		**39,885**	**11.4**	**21,698**
Emerging Market Equities				
BGF Emerging Markets Equity Income Fund*		8,785	2.5	8,785
BGF ASEAN Leaders Fund*		2,553	0.7	2,553
Total		**11,338**	**3.2**	**11,338**
Total Equities		**196,201**	**55.8**	**155,393**

	Market value £’000	Market value as a % of net assets	Gross market exposure[1] £’000
Volatility Strategies			
Commodity Strategies			
TRS – MLBX Commodity Volatility Carry Total Return	(82)	0.0	1,469
TRS – MLBX Commodity Volatility Carry Total Return	(237)	(0.1)	5,073
TRS – GS Vol of Vol Carry Excess Return Strategy	(805)	(0.2)	3,789
Other			
TRS – BAML Vortex Strategy	715	0.2	11,345
USD MXN Put Option	56	0.0	46
USD MXN Put Option	54	0.0	45
FX Volatility Swap EUR USD @ 10.15	(17)	0.0	–
FX Volatility Swap EUR USD @ 10.1	(18)	0.0	–
FX Volatility Swap GBP USD @ 12.5	(19)	0.0	–
FX Volatility Swap GBP USD @ 11.1	(42)	0.0	–
Total Volatility Strategies	**(395)**	**(0.1)**	**21,767**

	Market value £’000	Market value as a % of net assets	Gross market exposure[1] £’000
Fixed Income			
International Government Bonds			
US Treasury 0.375% 15 Jul 2025	17,029	4.8	17,029
Turkey 10.7% 17 Feb 2021	11,579	3.3	11,579
Mexico 10% 05 Dec 2024	7,889	2.2	7,889
Poland 2.5% 25 Jul 2026	4,854	1.4	4,854
Mexico 8% 11 Jun 2020	3,859	1.2	3,859
US Treasury 0.625% 15 Jan 2026	2,607	0.7	2,607
Ireland 7.375% 29 Dec 2049	165	0.0	165
International Government Bond Hedges	(69)	0.0	7,945
Total	**47,913**	**13.6**	**55,927**
UK Government Bonds			
UK Government 2% 7 Sep 2025	9,259	2.6	9,259
Total	**9,259**	**2.6**	**9,259**
Investment Grade Corporate Bonds			
BGF Global Corporate Bond Fund*	25,844	7.4	25,844
Fiat Finance 5.625% 12 Jun 2017	30	0.0	30

Performance

Portfolio valuation as at 30 September 2016 continued

	Market value £'000	Market value as a % of net assets	Gross market exposure[1] £'000
Fixed Income continued			
iShares Core GBP Corporate Bond Fund*	29,264	8.3	29,264
Total	**55,138**	**15.7**	**55,138**
High Yield Bonds			
Aroundtown Property 3% 05 May 2020	462	0.1	462
Orange 5.875% 28 Feb 2049	406	0.1	406
Telefonica 5.875% 31 Mar 2049	374	0.1	374
Allied Irish Banks 4.125% 26 Nov 2025	333	0.1	333
Matterhorn Telecom 3.875% 01 May 2022	321	0.1	321
BBVA 6.75% Perpetual	321	0.1	321
Ibercaja Banco 5% 28 Jul 2025	317	0.1	317
UPCB Finance 4% 15 Jan 2027	317	0.1	317
Trinseo 6.375% 01 May 2022	316	0.1	316
Progroup 5.125% 01 May 2022	312	0.1	312
Softbank 4.75% 30 Jul 2025	307	0.1	307
Belden 5.5% 15 Apr 2023	305	0.1	305
Altice 7.25% 15 May 2022	305	0.1	305
SGD 5.625% 15 May 2019	303	0.1	303
LGE Holdco 7.125% 15 May 2024	302	0.1	302
Telecom Italia Finance 7.75% 24 Jan 2033	296	0.1	296
UBS 7% Perpetual	295	0.1	295
Pfleiderer 7.875% 01 Aug 2019	293	0.1	293
Wind Acquisition Finance 7% 23 Apr 2021	280	0.1	280
PSPC Escrow 6% 01 Feb 2023	275	0.1	275
Virgin Media 5.5% 15 Sep 2024	274	0.1	274
BNP Paribas 7.375% Perpetual	269	0.1	269
Swissport 6.75% 15 Dec 2021	268	0.1	268
Banco Popular Espanol 11.5% convertible bond	265	0.1	265
Bankia 4% 22 May 2024	258	0.1	258
Cadogan FRN 25 May 2029	256	0.1	256
Unicredit 6.95% 31 Oct 2022	255	0.1	255
Unique Pub Finance 6.464% 30 Mar 2032	255	0.1	255
Veritas 7.5% 01 Feb 2023	245	0.1	245
AA Bond 5.5% 31 Jul 2043	243	0.1	243
Enel Spa 6.625% 15 Sep 2076	241	0.1	241
International Game Technology 4.75% 15 Feb 2023	235	0.1	235
Verisure 6% 01 Nov 2022	233	0.1	233
Banco Santander 6.25% Perpetual	232	0.1	232
Voyage Care Bond Co 6.5% 01 Aug 2018	231	0.1	231
Logistics FRN 20 Aug 2025	230	0.1	230
Annington Finance 13% 15 Jan 2023	228	0.1	228
United Group 7.875% 15 Nov 2020	225	0.1	225
Ineos Finance 4% 01 May 2023	224	0.1	224
Numericable 5.625% 15 May 2024	212	0.1	212
Unitymedia KabelBW 4% 15 Jan 2025	211	0.1	211
Cognita 7.75% 15 Aug 2021	210	0.1	210
Senvion 6.625% 15 Nov 2020	209	0.1	209
Virgin Media 5.125% 15 Jan 2025	205	0.1	205
Harvest CLO FRN 15 Oct 2029	198	0.1	198
Telenet Finance 6.75% 15 Aug 2024	190	0.1	190
BHP Billiton 4.75% 22 Apr 2076	187	0.1	187
JH-Holding Finance 8.25% 01 Dec 2022	186	0.1	186
Tullow Oil 6.625% 12 Jul 2021	184	0.1	184
Origin Energy 7.875% 16 Jun 2071	183	0.1	183

	Market value £’000	Market value as a % of net assets	Gross market exposure[1] £’000
High Yield Bonds continued			
Rabobank – Cooperatieve 6.625% Perpetual	182	0.1	182
Portaventura Entertainment 7.25% 01 Dec 2020	180	0.1	180
XPO Logistics 5.75% 15 Jun 2021	176	0.1	176
Areva 4.875% 23 Sep 2024	175	0.1	175
OTE 3.5% 9 Jun 2020	175	0.1	175
Punch Taverns 5.267% 30 Mar 2024	175	0.0	175
Bilbao 10.5% 01 Dec 2018	172	0.0	172
Anglo American 2.5% 29 Apr 2021	172	0.0	172
Carlyle FRN 21 Sep 2029	172	0.0	172
WFS Global Holdings 9.5% 15 Jul 2022	171	0.0	171
Credit Agricole 4.5% 31 Oct 2049	171	0.0	171
Avis Budget 4.125% 15 Nov 2024	169	0.0	169
Avoca Clothing FRN 15 Jan 2029	163	0.0	163
Gates Global LLC 5.75% 15 Jul 2022	160	0.0	160
Intesa Sanpaolo 7% 29 Dec 2049	159	0.0	159
CPUK Finance 7% 28 Feb 2042	158	0.0	158
Assicurazioni Generali Spa 6.416% Perpetual	152	0.0	152
Novafives 4.5% 30 Jun 2021	151	0.0	151
Ardagh Packaging Finance 4.25% 15 Jan 2022	151	0.0	151
Société Générale 7.375% 29 Dec 2049	151	0.0	151
Onorato Armatori 7.75% 15 Feb 2023	150	0.0	150
Jerrold Finco 6.25% 15 Sep 2021	150	0.0	150
Arbour CLO FRN 15 Jan 2030	149	0.0	149
Norske Skogindustrier 11.75% 15 Dec 2019	146	0.0	146
Credit Suisse 6.25% 29 Dec 2049	146	0.0	146
Adagio CLO FRN 15 Oct 2029	139	0.0	139
Tullow Oil 6% 01 Nov 2020	139	0.0	139
Ardagh Packaging Finance 6.75% 15 May 2024	136	0.0	136
Intesa Sanpaolo 7.7% Perpetual	135	0.0	135
Schaeffler 3.25% 15 Sep 2023	129	0.0	129
Cirsa Funding Luxembourg 5.875% 15 May 2023	119	0.0	119
Schaeffler 2.75% 15 Sep 2021	108	0.0	108
Schaeffler 3.75% 15 Sep 2026	108	0.0	108
Vougeot Bidco 7.875% 15 Jul 2020	104	0.0	104
Garfunkel 8.5% 01 Nov 2022	102	0.0	102
Virgin Media Secured Finance 4.875% 15 Jan 2027	100	0.0	100
Repsol International Finance 4.5% 25 Mar 2075	100	0.0	100
Enel Spa 5.625% 12 Jan 2075	92	0.0	92
Telefonica 5% 31 Mar 2049	90	0.0	90
Euro Gala FRN 10 Nov 2030	85	0.0	85
HBOS Capital Funding 6.85% 29 Mar 2049	78	0.0	78
Banco Espirito Santo 4% 21 Jan 2019	76	0.0	76
Banco Espirito Santo 4.75% 15 Jan 2018	57	0.0	57
Gemgarto FRN 16 Feb 2054	46	0.0	46
iTraxx Xover Super Senior Tranche CDS	(90)	0.0	30,092
Total	**19,211**	**5.5**	**49,393**
Total Fixed Income	**131,521**	**37.4**	**169,717**

Performance

Portfolio valuation as at 30 September 2016 continued

	Market value £'000	Market value as a % of net assets	Gross market exposure[1] £'000
Alternatives			
Listed Alternatives			
Blackstone GSO Loan Financing	11,409	3.2	11,409
Funding Circle SME Income Fund	9,307	2.6	9,307
Foresight Solar Fund	4,916	1.4	4,916
iShares UK Property*	4,354	1.2	4,354
JP Morgan Global Convertibles Income Fund	3,686	1.1	3,686
NB Distressed Debt Investment Fund	3,489	1.0	3,489
Woodford Patient Capital Trust	3,001	0.9	3,001
Total	**40,162**	**11.4**	**40,162**
Unlisted Alternatives			
MAS Mortgage Holdings*	8,721	2.5	8,721
Forward Partners 1	4,400	1.2	4,400
Total	**13,121**	**3.7**	**13,121**
Total Alternatives	**53,283**	**15.1**	**53,283**

	Market value £'000	Market value as a % of net assets	Gross market exposure[1] £'000
Commodities			
iShares Gold Trust*	26,658	7.6	26,658
iShares Physical Gold*	4,874	1.4	4,874
Total Commodities	**31,532**	**9.0**	**31,532**

	Market value £'000	Market value as a % of net assets
Total Forward Currency Contracts	**(368)**	**(0.1)**
BlackRock's Institutional Cash Series plc – Sterling Liquidity Fund*	**1,248**	**0.4**
Add: Derivatives	**6,738**	**1.9**
Add: Forward Currency Contracts	**368**	**0.1**
Total investments	**420,128**	**119.5**
Cash and cash equivalents	**(15,881)**	**(4.5)**
Net other liabilities	**(52,726)**	**(15.0)**
Net assets	**351,521**	**100.0**

1 Gross market exposure is the market value of the underlying shares to which the portfolio is exposed via the contract.
* Denotes BlackRock managed products.

Governance

Governance structure and directors' biographies

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an Investment Company it has no employees and outsources investment management and administration to the Manager and other external service providers.

The Board

Six non-executive Directors (NEDs), all independent of the Investment Manager[1]

Chairman: James Long | **5 scheduled meetings per annum**

Objectives:

- To frame and execute the Company's strategy including investment policy and investment guidelines;
- To assess and monitor risk and to safeguard the Company's assets by ensuring a framework of prudent and effective controls are in place to achieve this; and
- To examine and assess the delivery of all outsourced activities to ensure optimal performance.
- To monitor the performance of the company and investment manager, and ultimately be accountable for the Company's performance.

Committees

Audit Committee

2 scheduled meetings per annum

Membership: Ian Russell, Jim Grover, Julian Sinclair

Chairman: Ian Russell

Key objectives:

- To oversee financial reporting;
- To consider the adequacy of the control environment;
- To review and form an opinion on the effectiveness of the external audit process; and
- To review other service providers.

Nomination Committee

1 scheduled meeting per annum

The Board as a whole performs this function

Key objectives:

- To regularly review the Board's structure and composition;
- To make recommendations for any new appointments; and
- To review the Directors' conflicts of interest.

Management Engagement Committee

1 scheduled meeting per annum

The Board as a whole performs this function

Key objective:

- To review the performance of the Manager.
- To review the terms of the Management Agreement and ensure these are competitive, in accordance with industry practice and in the best interests of shareholders.

Directors

James Long

Chairman, Appointed May 2006 and appointed Chairman on 26 February 2015

formerly Director of Risk and Compliance for AstraZeneca Europe, Corporate Finance Director of Inchcape plc and Managing Director, Asia and Emerging Markets, for the ESAB Group. Mr Long is Chairman of JPMorgan Asian Investment Trust plc.

Attendance record:
Board: 15/15
Management Engagement Committee: 1/1
Nomination Committee: 1/1

Jimmy West

Senior Independent Director, Appointed 22 June 1995

formerly a Managing Director of Lazard Brothers and Co Ltd and Chief Executive of Lazard Asset Management Ltd. He is Chairman of CQS New City High Yield Fund Ltd and a non-executive director of JPMorgan Income & Capital Trust plc and Threadneedle UK Select Trust plc. He is Chairman of Associated British Foods Pension Fund Ltd.

Attendance record:
Board: 15/15
Management Engagement Committee: 1/1
Nomination Committee: 1/1

Ian Russell

Audit Committee Chairman, Appointed 1 June 2008

formerly Chief Executive of Scottish Power plc and a non-executive Chairman of Johnston Press plc. He is currently a non-executive director of the Mercantile Investment Trust plc and Chairman of HICL Infrastructure Company Limited. He was previously a non-executive director of British Polythene Industries plc and an adviser to the Clyde Bergemann Power Group.

Attendance record:
Board: 15/15
Audit Committee: 2/2
Management Engagement Committee: 1/1
Nomination Committee: 1/1

Jim Grover

Appointed 25 June 2013

he is a Senior Advisor to OC&C Strategy Consultants, and was, until September 2013, Group Strategy Director of Diageo plc and a member of its Executive Committee. He was formerly a Senior Adviser to the Consumer Markets group of KPMG LLP.

Attendance record:
Board: 15/15
Audit Committee: 2/2
Management Engagement Committee: 1/1
Nomination Committee: 1/1

Lynn Ruddick

Appointed 1 October 2004

a fellow of the Chartered Association of Certified Accountants. She is a member of the Investment Committee of the Pearson Group Pension Plan and Chairman of the Western Provident Association Pension Plans. She was formerly a non-executive director of Standard Life UK Smaller Companies Trust plc, a non-executive chairman of Fidelity Special Values plc and a non-executive director of BlackRock Frontiers Investment Trust plc as well as Chairman of the Scottish and Newcastle Pension Scheme trustee board. Before retiring from Merrill Lynch Investment Managers in 2004 she headed their investment trust business unit.

Attendance record:
Board: 15/15
Management Engagement Committee: 1/1
Nomination Committee: 1/1

Julian Sinclair

Appointed 21 July 2015

the Chief Investment Officer at Talisman Global Asset Management Limited. Prior to joining Talisman, he was a Senior Portfolio Manager at BlueBay Asset Management plc and a Partner at Altima Partners LLP. He started his career at Gartmore as an analyst and portfolio manager.

Attendance record:
Board: 15/15
Audit Committee: 2/2
Management Engagement Committee: 1/1
Nomination Committee: 1/1

[1] As at 30 September 2016, Ms Ruddick also served as a Director of another BlackRock-managed investment trust (the BlackRock Frontiers Investment Trust plc), and therefore under the terms of the Listing Rules she was not deemed to be independent of the Investment Manager. She retired as a Director of this trust on 22 November 2016.

Governance

Directors' report

The Directors present the Annual Report and Financial Statements of the Company for the year ended 30 September 2016.

STATUS OF THE COMPANY

The Company carries on business as an investment trust. It has been approved by HM Revenue & Customs as an investment trust in accordance with sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

The Company is domiciled in the UK as an investment company within the meaning of section 833 of the Companies Act 2006. It is not a close company and has no employees.

As an investment company that is managed and marketed in the United Kingdom, the Company is an Alternative Investment Fund ("AIF") falling within the scope of, and subject to the requirements of the Alternative Investment Fund Managers' Directive. The Company is governed by the provisions of the European Union (Alternative Investment Fund Managers) Regulations 2013 ("The Regulations") and is required to be authorised by the FCA and must comply with a number of obligations, including the appointment of an Alternative Investment Fund Manager (AIFM) and a Depositary to carry out certain functions. The AIFM must also comply with the Regulations in respect of leverage, outsourcing, conflicts of interest, risk management, valuation, remuneration and capital requirements and must also make additional disclosures to both shareholders and the FCA. Further details are set out on the Company's website at blackrock.co.uk/bist, the Regulatory Disclosures section on pages 82 and 83 and in the notes to the accounts on pages 64 to 77.

The Company is a qualifying company for the purposes of Stocks & Shares Individual Savings Accounts.

FUTURE PROSPECTS

Perspectives on future prospects for the Company are set out in the Chairman's Statement on page 10.

RESULTS AND DIVIDENDS

The results for the year are set out in the attached accounts. Details of dividends paid and payable in respect of the year are set out in the Strategic Report on page 12.

CAPITAL STRUCTURE

The Company's capital structure is set out on page 62.

DIRECTORS

The Directors of the Company as at 30 September 2016 and their biographies are set out on page 27. Details of Directors' interests in the ordinary shares of the Company are set out on page 34 of the Directors' Remuneration Report. All the Directors held office throughout the year under review. The Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. Ms Ruddick and Mr West will seek re-election at the next Annual General Meeting in 2017, but they both intend to retire shortly afterwards as Directors of the Company if the proposed merger with AUKT is approved by shareholders.

All Directors, are deemed to be independent as at the date of this report. Ms Ruddick was previously deemed to be non-independent under the Listing Rules by virtue of the fact that she was also a Director of another BlackRock managed investment trust; however she retired as a Director of this company with effect from 22 November 2016. The Board has considered this and concluded that this did not compromise her independence prior to her retirement from this board, and that Ms Ruddick demonstrates a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. It is the Board's opinion that all the Directors retiring at the forthcoming AGM bring both extensive knowledge and commercial experience to the Board, and the Board, having considered the retiring Directors' performance within the annual Board performance evaluation process, hereby recommends that shareholders vote in favour of each Director's proposed re-election.

There were no contracts subsisting during the year under review or up to the date of this report in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business. None of the Directors is entitled to compensation for loss of office on the takeover of the Company. None of the Directors has a service contract with the Company. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the registered office of the Company and will be available at the Annual General Meeting.

DIRECTORS' INDEMNITY

In addition to Directors' and Officers' liability insurance cover, the Company's Articles of Association provide, subject to the provisions of applicable UK legislation, an indemnity for Directors in respect of costs incurred in the defence of any proceedings brought against them by third parties arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour. The Company has entered into deeds of indemnity with Directors individually which are available for inspection at the Company's registered office and will also be available at the Annual General Meeting.

CONFLICTS OF INTEREST

The Board has put in place a framework in order for Directors to report conflicts of interests or potential conflicts of interest. All Directors are required to notify the Company Secretary of any situations, or potential situations where they consider that they have or may have a direct or indirect interest or duty that conflicted or possibly conflicted with the interests of the Company. The Board has considered that the framework worked effectively throughout the period under review. All such situations were reviewed by the Board and duly authorised. Directors were also made aware that there remains a continuing obligation to notify the Company Secretary of any new situation that may arise, or any change to a situation previously notified. It is the Board's intention to continue to review all notified situations on a regular basis.

DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report is set out on pages 32 to 34. An ordinary resolution to approve this report will be put to shareholders at the Company's AGM in 2017. More details will be given in the notice of AGM which will be posted to shareholders in early March.

SUBSTANTIAL SHARE INTERESTS

As at 30 September 2016, the Company had received notification in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Number of ordinary shares	% of issued share capital
Aviva plc	35,874,812	13.4
Brown Shipley	10,817,897	4.1

As at 24 January 2017, the Company had received the following notifications of interests in 3% or more of the voting rights attaching to the Company's ordinary shares.

	Number of ordinary shares	% of issued share capital
Aviva plc	35,874,812	13.4
Brown Shipley	10,224,942	3.8

SHARE CAPITAL, ORDINARY SHARE ISSUES AND REPURCHASES

Details of the Company's issued share capital are given in note 15 to the Financial Statements on page 62. Details of shares issued and bought back in the year are given in the Strategic Report on page 13.

The Directors are seeking renewal of the existing authority to issue shares or sell shares out of treasury up to 5% of issued share capital with pre-emption rights disapplied.

MANAGEMENT

BlackRock Fund Managers Limited ('BFM') was appointed as the Company's AIFM on 27 February 2015 and acted in this capacity for the year under review, with investment management services and Company Secretarial services delegated to BlackRock Investment Management (UK) Limited under a delegation agreement with BFM.

A summary of the terms of the management agreement and fees paid during the year is contained in note 4 to the accounts.

BFM and BIM (UK) are subsidiaries of BlackRock, Inc. which is a publicly traded corporation on the New York Stock Exchange operating as an independent firm. The PNC Financial Services Group, Inc. has a significant economic interest in BlackRock, Inc. PNC Financial Services Group, Inc. is a U.S. public company.

CHANGE OF MANAGER AND INVESTMENT OBJECTIVE

As described in the Chairman's Statement on pages 8 to 10, and subject to obtaining the necessary regulatory approvals, the Board has resolved to appoint Aberdeen Fund Managers Limited as AIFM to manage the Company's investments. Subject to approval by shareholders, the new manager will continue its multi-asset investment strategy, but will adopt a new investment objective to target returns of LIBOR +5.5% per annum (net of fees) over rolling five-year periods.

The portfolio will be managed by Aberdeen's Diversified Multi-Asset team. Aberdeen is a leading global investment manager, with assets under management of approximately £312 billion with approximately £90 billion managed in multi-asset mandates. The Aberdeen Group manages over 90 investment companies and other closed-ended funds representing approximately £17.9 billion of assets under management, of which 19 are listed in London with a total AUM of £6.7 billion (all figures as at 30 September 2016).

The Company's new lead portfolio managers will be Mike Brooks and Tony Foster. Mike Brooks is the Head of Aberdeen's Diversified Multi-Asset team and is the co-lead manager of the Aberdeen Diversified Growth Fund. Mike joined Aberdeen in 2015 from Baillie Gifford and has 22 years of investment experience. Tony Foster is a Senior Investment Manager in the Diversified Multi-Asset team and joined Aberdeen in 2014 following the acquisition of Scottish Widows Investment Partnership.

Aberdeen's appointment is expected to become effective on 11 February 2017.

APPOINTMENT OF THE MANAGER AND THE INVESTMENT MANAGER

The Board considers the arrangements for the provision of management services to the Company on an ongoing basis and a formal review is conducted annually. For the year under review, this exercise was performed as part of the wider strategic review, and the conclusions are as set out above. As part of the annual review the Board considered the quality and continuity of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date. The Board believes that the proposed transfer of the investment management mandate to Aberdeen as AIFM on the terms disclosed above, is in the interests of shareholders as a whole given Aberdeen's proven track record in the Multi-Asset sector and the synergies afforded by the proposed merger with the Aberdeen UK Tracker Trust plc.

DEPOSITARY AND CUSTODIAN

The Company is required under the AIFMD to appoint an AIFM Directive compliant depositary. The Company appointed BNY Mellon Trust & Depositary (UK) Limited ("the Depositary") in this role with effect from 27 February 2015. Their duties and responsibilities are outlined in the investment fund legislation (as defined in the FCA AIF Rulebook). The main role of the Depositary under AIFMD is to act as a central custodian with additional duties to monitor the operations of the Company, including monitoring cash flows and ensuring that the Company's assets are valued appropriately in accordance with the relevant regulations and guidance. The Depositary is also responsible for enquiring into the conduct of the AIFM in each annual accounting period. For the year under review, the Depositary received a fee payable at 0.0115% of the net assets of the Company. The Company has appointed the Depositary in a tripartite agreement, to which the AIFM is also a signatory. The Depositary is also liable for the loss of financial instruments held in custody.

Under the depositary agreement, custody services in respect of the Company's assets have been delegated to the Bank of New York Mellon (International) Limited. BNYM receives a custody fee payable by the Company at rates depending on the number of trades effected and the location of securities held. The depositary agreement is subject to 90 days' notice of termination by any party.

REGISTRAR

Computershare Investor Services PLC acts as the Company's Registrar. The principal duty of the Registrar is the maintenance of the register of shareholders (including registering transfers). It also provides services in relation to any corporate actions, dividend administration and shareholder documentation.

COUNTERPARTIES

The Company may use derivatives to enhance portfolio returns (of a capital or income nature) and efficient portfolio management, that is, to reduce, transfer or eliminate risk in its investments, including protection against currency risks, or to gain exposure to a specific market. Bank of America, Citigroup, Goldman Sachs, JP Morgan, Morgan Stanley and Société Générale act as derivative counterparties to the Company under separate International Swaps and Derivatives Association ("ISDA") master agreements. The ISDA agreements are terminable subject to 30 days' notice by either party.

CHANGE OF CONTROL

There are no agreements to which the Company is a party that might be affected by a change in control of the Company.

EXERCISE OF VOTING RIGHTS IN INVESTEE COMPANIES

The exercise of voting rights attached to the Company's portfolio has been delegated to the Investment Manager by BFM. BIM (UK)'s approach to voting at shareholder meetings, engagement with companies and corporate governance is framed within an investment context. BIM (UK) believes that sound corporate governance practices by companies contribute to their long term financial performance and thus to better risk-adjusted returns. BIM (UK)'s proxy voting process is led by its Corporate Governance and Responsible Investment team, located in six offices around the world. In addition to its own professional staff, the Corporate Governance and Responsible Investment team draws upon the expertise of BIM (UK)'s portfolio managers, researchers and other internal and external resources globally.

BIM (UK)'s global corporate governance and engagement principles are published on the website blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment/engagement-and-proxy-voting. The principles set out BIM (UK)'s views on the overarching features of corporate governance that apply in all markets. For each region, BIM (UK) also publishes market-specific policies, which are updated every year to ensure that they remain relevant.

The voting guidelines are principles-based and not prescriptive because BIM (UK) believes that each voting situation needs to be assessed on its merits. Voting decisions are taken to support the outcome that BIM (UK) believe in their professional judgement will best protect the economic interests of their clients.

PRINCIPAL RISKS

The key risks faced by the Company are set out in the Strategic Report on pages 14 and 15.

GOING CONCERN

The financial statements of the Company have been prepared on a going concern basis. The forecast projections and actual performance are reviewed on a regular basis throughout the period and the Directors believe that this is the appropriate basis and the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of twelve months from the date that these financial statements were approved) and is financially sound. The Company is able to meet all of its liabilities from its assets and the ongoing charges are approximately 0.6% of the net assets.

The Company's longer term viability is considered in the viability statement on pages 15 and 16.

TENDER OFFERS

In addition to renewing the share buyback authority, the Board has the authority to implement future tender offers at its absolute discretion, for up to 20% of the shares in issue, if it considers such action to be appropriate taking into account the interests of shareholders as a whole and the market conditions at the time. This authority was approved by Shareholders at the Annual General Meeting on 22 February 2016. The Board has not exercised its discretion to implement a tender for the period since this authority was approved to the date of this report.

The current tender authority will expire at the date of the AGM on 30 March 2017. The Notice of Meeting for the Annual General Meeting will be posted to shareholders along with the circular in February 2017.

TREASURY SHARES

As described above, the Company is authorised to purchase its own ordinary shares to be held in treasury for reissue or cancellation at a future date. The Company bought back 7,600,000 shares into treasury during the year under review and currently holds 24,075,000 ordinary shares in treasury (8.3% of the Company's issued share capital including shares held in treasury).

The Board intends only to authorise the sale of shares from treasury at prices at or above the prevailing NAV per share (plus costs of the relevant sale). This should result in a positive overall effect on existing shareholders.

The Board will continue to limit the number of shares held in treasury to no more than 10% of the issued share capital of the Company.

GLOBAL GREENHOUSE GAS EMISSIONS FOR THE PERIOD 1 OCTOBER 2015 TO 30 SEPTEMBER 2016

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

ANNUAL GENERAL MEETING

It is expected that the Company's Annual General Meeting will be held on 30 March 2017. More details will be provided in the Notice of Meeting which will be posted separately to shareholders along with the circular in early March 2017.

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement on pages 35 to 39. The Corporate Governance Statement forms part of this Directors' Report.

AUDIT INFORMATION

As required by section 418 of the Companies Act 2006 the Directors who held office at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

The Auditor, Ernst & Young LLP, has indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be submitted at the AGM.

The Directors' Report was approved by the Board at its meeting on 26 January 2017.

BY ORDER OF THE BOARD

BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
26 January 2017

Directors' remuneration report

The Board presents the Directors' remuneration report for the year ended 30 September 2016 which has been prepared in accordance with sections 420-422 of the Companies Act 2006. The future remuneration policy which is subject to a triennial binding vote is set out in the policy table on page 33.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 45 to 48.

STATEMENT BY THE CHAIRMAN

The Board's policy on remuneration is set out in the policy table on page 33. A key element is that fees payable to Directors should be sufficient to attract and retain individuals with suitable knowledge and experience, and that consideration is given to the value and amount of time committed. The Board's focus is on setting the strategy for the successful progression of the Company and monitoring performance against the strategic objectives set. In order to do this effectively, Directors spend a substantial amount of time preparing for the five scheduled Board meetings and two scheduled Audit Committee meetings held each year. At these meetings, the Directors review the Company's portfolio and the valuation of the Company's unlisted investments, monitor investment performance in line with agreed key performance indicators and review compliance with investment guidelines. The Board also reviews and monitors the Company's ongoing operating costs to ensure that these represent optimal value and are in line with agreed budgets. Directors are also responsible for establishing and maintaining the Company's control systems to manage risk effectively, and a register of these controls and the risks facing the Company are reviewed at each Audit Committee meeting, along with control reports from external auditors.

As well as this usual business, Directors also spend additional time as and when required in ad hoc meetings to address other issues as they arise. Over the year under review the strategic review implemented by the Board has placed a very substantive workload on the Board. In addition to the five scheduled meetings, ten additional Board meetings were also held and Board members have devoted a significant additional amount of time to addressing the company's performance issues.

For the year ended 30 September 2016, the Chairman's annual remuneration was £41,250, the remuneration of the Audit Committee Chairman was £28,250 and the remuneration of the Senior Independent Director was £26,250. Each Director received annual remuneration of £24,250. No increases are proposed for the year to 30 September 2017.

REMUNERATION COMMITTEE

The Board as a whole fulfils the function of the Remuneration Committee and considers any change in the Directors' remuneration policy. A separate Committee has therefore not been established. The Company's Directors are all non-executive and, as at the date of this report, are independent of the Investment Manager (Ms Ruddick was previously deemed to be non-independent due to her position as a Director on the board of another BlackRock managed investment trust; however she retired from the Board of that company with effect from 22 November 2016).

POLICY REPORT

The Board considers the level of Directors' fees at least annually. Its policy is that the remuneration of Directors should reflect the experience of the Board as a whole, the responsibilities of the role, the time commitment required, and be fair and comparable to that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances. There were no changes to the policy during the year.

REMUNERATION/SERVICE CONTRACTS

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is an aggregate of £300,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrear. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The non-executive Directors do not have service contracts, but each Director has a letter of appointment setting out the terms and conditions of his or her appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting. The Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

Voting at Annual General Meeting

The Director's Remuneration Policy is subject to a tri-annual shareholder approval vote, and was last approved at the Company's Annual General Meeting held on 27 January 2014. At this meeting, 95.1% of votes were in favour of the resolution and 4.9% were against. Accordingly, a resolution to seek approval of the Directors' Remuneration Policy will be put to shareholders for approval at the Annual General Meeting to be held in March 2017.

At the Company's Annual General Meeting in 2016, the Directors' Annual Report on Remuneration was approved by shareholders, with 98.17% votes in favour of the resolution and 1.83% against. The resolution to approve this Remuneration Report is put to shareholders on an annual basis. An ordinary resolution for the approval of the Annual Report on Directors' Remuneration for the year ended 30 September 2016 will be put to shareholders at the forthcoming Annual General Meeting in 2017. A copy of the Notice of Meeting will be posted to shareholders along with the Circular in early March 2017.

The Board has received communication from one shareholder of the Company setting out their views in respect of the levels of Directors' remuneration.

POLICY TABLE

Purpose and link to strategy		Remuneration of Directors should reflect the experience of the Board as a whole, the responsibilities of the role, the time commitment required, and be fair and comparable to that of other similar companies. The level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances.
Description		Current levels of fixed annual fee: Chairman – £41,250 Audit Committee Chairman – £28,250 Senior Independent Director – £26,250 Directors – £24,250 All reasonable expenses to be reimbursed.
Maximum and minimum levels		Remuneration consists of a fixed fee each year, set in accordance with the stated policies and any increase granted must be in line with the stated policies. The Company's Articles of Association set a limit of £300,000.
Policy on share ownership		Directors are not required to own shares in the Company, although all Directors are currently shareholders.
Operation	Fixed fee element	The Board reviews the quantum of Directors' pay each year to ensure this is appropriate and in line with the policy as set out above.
	Taxable benefits	Taxable benefits comprise expenses incurred by the Directors in the course of travel to attend Board and Committee meetings, and which are reimbursed by the Company and therefore treated as a benefit in kind and are subject to tax and national insurance. The Company's policy in respect of this element of remuneration is that all reasonable costs of this nature will be reimbursed as they are incurred.

REMUNERATION IMPLEMENTATION REPORT

A single figure for total remuneration of each Director is set out in the table below for the year ended 30 September 2016:

	Year ended 30 September 2016			Year ended 30 September 2015			
	Base Salary £	Taxable Benefits[1] £	Total £	Base Salary £	Payments for additional transition work £	Taxable Benefits[1] £	Total £
James Long (Chairman)[2]	41,250	–	41,250	35,188	13,875	713	49,776
Ian Russell[2]	28,250	7,177	35,427	26,083	11,875	8,523	46,481
Jimmy West	26,250	1,380	27,630	25,750	12,875	1,356	39,981
Lynn Ruddick[3]	24,250	4,532	28,782	30,729	20,250	4,452	55,431
Jim Grover	24,250	–	24,250	23,750	11,875	–	35,625
Julian Sinclair[4]	24,250	38	24,288	4,620	–	–	4,620
Total	168, 500	13,127	181,627	146,120	70,750	15,044	231,914

1 Taxable benefits relate to travel and subsistence costs.
2 James Long was Audit Committee Chairman up until 26 February 2015, when he was appointed Chairman of the Company. Ian Russell took over the role of Audit Committee Chairman on 27 February 2015.
3 Lynn Ruddick stood down as Chairman of the Company on 26 February 2015.
4 Appointed a non-executive Director on 21 July 2015.

The information in the above table has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

At 30 September 2016, fees of £Nil (2015: £14,000) were outstanding to Directors in respect of their annual fees.

Directors' remuneration report continued

RELATIVE IMPORTANCE OF SPEND ON DIRECTORS' REMUNERATION

As the Company has no employees, the table above also comprises the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of spend on Directors' remuneration, this has been shown in the table below compared to the Company's net profit on ordinary activities after taxation and dividend distributions.

	2016 £	2015 £	Change £
Directors' annual remuneration	181,627	161,164	+20,463
Directors' additional remuneration for extra duties[1]	–	70,750	-70,750
Directors' total remuneration	181,627	231,914	-50,287
Total dividends paid and payable	17,653,000	18,395,000	-742,000
Buy back of ordinary shares	9,003,000	20,256,000	-11,253,000

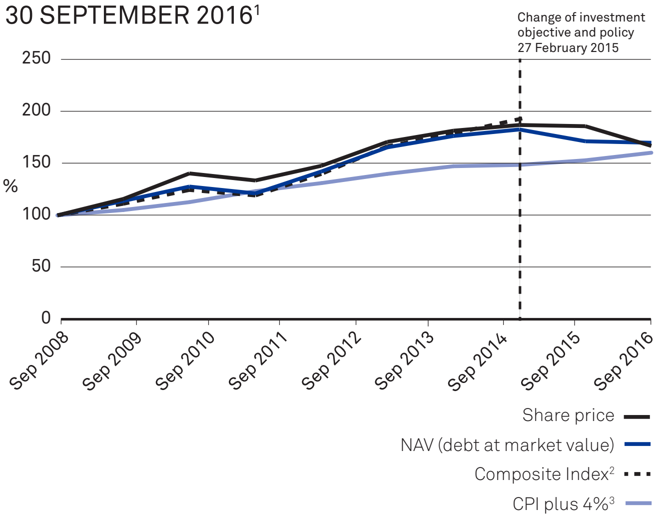
1 Relates to extra duties undertaken relating to the implementation of new investment strategy.

No payments were made in the period to any past Directors (2015: nil).

PERFORMANCE

The graph below compares the Company's NAV and share price total returns with the total return on an equivalent investment in the composite index for the period from 1 October 2008 to 26 February 2015, and to CPI +4% for the period thereafter up to 30 September 2016. These indices represent the relevant target indices that the Company's performance has been assessed against over the respective periods.

PERFORMANCE FOR THE EIGHT YEARS ENDED 30 SEPTEMBER 2016[1]



1 All performance data with income reinvested where relevant
2 Composite index comprised of 80% FTSE All Share index and 20% FTSE World (Ex UK) Index. From the date of transfer of management to BlackRock on 27 February 2015, the composite index is no longer the benchmark for the Company.
3 Since 27 February 2015 the benchmark of the Company has been the CPI index +4%

Sources: ONSTAT, BlackRock.

SHAREHOLDINGS

The interests of the Directors in the ordinary shares of the Company at 30 September 2016 are set out in the table below. None of the Directors has an interest in any share options in the Company.

	2016	2015
James Long (Chairman)[1]	38,914	29,802
Ian Russell[2]	27,500	27,500
Jimmy West	63,400	63,400
Lynn Ruddick[3] – beneficial	165,598	165,482
– non-beneficial	7,041	6,874
Jim Grover	27,500	27,500
Julian Sinclair[4]	36,200	36,200

1 Appointed Chairman with effect from 27 February 2015; previously Audit Committee Chairman.
2 Appointed Chairman of the Audit Committee with effect from 27 February 2015.
3 Ms Ruddick was Chairman up to 26 February 2015. Her holding includes 63,290 shares held by Ms Ruddick's husband, Mr Dewar.
4 Appointed a non-executive Director on 21 July 2015.

The information in the table above has been audited.

Subsequent to the year end, Mr Long purchased an additional 562 shares (as part of a dividend reinvestment plan), bringing his total holding to 39,476 shares. Ms Ruddick purchased an additional 103 shares (as part of a dividend reinvestment plan), bringing her total beneficial holding to 165,598 shares and non-beneficial holding to 7,144 shares.

All of the holdings of the Directors are beneficial unless otherwise disclosed. No changes to these holdings have been notified up to the date of this report.

No Director had an interest in the Company's 6.25% Bonds 2031 during the year ended 30 September 2016 or has acquired an interest since the year end.

RETIREMENT OF DIRECTORS

All Directors retire annually each year and subsequently stand for re-election. Further details are given in the Directors' Report on page 28.

ON BEHALF OF THE BOARD

James M Long
26 January 2017

Governance

Corporate governance statement

CHAIRMAN'S INTRODUCTION

Corporate governance is the process by which the Board seeks to look after shareholders' interests and protect and enhance shareholder value. Shareholders hold the Directors responsible for the stewardship of the Company, delegating authority and responsibility to the Directors to manage the Company on their behalf and holding them accountable for its performance.

The Board is ultimately responsible for framing and executing the Company's strategy and for closely monitoring risks. We seek to ensure that the Company is managed in a manner which is responsible and consistent with our belief in honesty, transparency and accountability. In our view, good governance means managing our business well and engaging effectively with investors. We consider the practice of good governance to be an integral part of the way we manage the Company and we are committed to maintaining high standards of financial reporting, transparency and business integrity.

The Board is accountable to shareholders for the governance of the Company's affairs. The Directors have considered the principles and recommendations of the 2014 AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2014 UK Corporate Governance Code ("UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

COMPLIANCE

The Board has made the appropriate disclosures in this report to ensure that the Company meets its continuing obligations. It should be noted that, as an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the Directors are non-executive. Therefore, not all of the provisions of the UK Code are directly applicable to the Company.

The Board considers that the Company has complied with the recommendations of the AIC Code and the provisions contained within the UK Code that are relevant to the Company throughout this accounting period, except the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function as set out in the Corporate Governance Statement on page 38.

The AIC Code is available from the Association of Investment Companies (theaic.co.uk). The UK Code is available from the Financial Reporting Council website (frc.org.uk).

Information on how the Company has applied the principles of the AIC Code and UK Code is set out below.

BOARD COMPOSITION

At the end of the year the Board consisted of five independent Directors and one non-independent non-executive Director. James Long is the Chairman and Jimmy West is the Senior Independent Director. All the Directors have been issued with letters of appointment, which are available upon request at the Company's registered office. The Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. Ms Ruddick and Mr West will seek re-election at the next Annual General Meeting in 2017, but they both intend to retire shortly afterwards as Directors of the Company if the proposed merger with AUKT is approved by shareholders.

The Directors' biographies, on page 27, demonstrate a breadth of investment knowledge, business and financial skills which enables them to provide effective strategic leadership and proper governance of the Company. All Directors receive relevant training, collectively or individually, as necessary.

The composition of the Board is kept under review and further details of the role of the Nomination Committee in this process is provided on page 37.

TENURE AND INDEPENDENCE

The Board's independence, including that of the Chairman, has been considered, and all the Directors, were deemed to be independent in character and have no relationships or circumstances which are likely to affect their judgement. As Ms Ruddick also served during the year as a Director of a BlackRock-managed investment trust (the BlackRock Frontiers Investment Trust plc), under the terms of the Listing Rules she was not considered to be independent of the Manager; however, notwithstanding Ms Ruddick's position on the Board of two BlackRock-managed investment trusts, the Board deems her to be independent in character and judgement. With effect from November 2016, Ms Ruddick retired from the Board of the BlackRock Frontiers Trust and is no longer considered non-independent from this date.

The Board subscribes to the view expressed in the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that the length of a Director's tenure reduces his or her ability to act independently. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed, although the Board believes in the merits of periodic and progressive refreshment of its composition.

Diversity

The Board's policy on diversity, including gender, is to take this into account during the recruitment and appointment process. However, the Board is committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity and therefore no targets have been set against which to report.

Directors' appointment, retirement and rotation

The rules concerning the appointment, retirement and rotation of Directors are discussed in the Directors' Report on page 28.

The Board believes that it has a good balance of investment knowledge, business, financial skills and experience which enable it to provide effective strategic leadership and proper governance of the Company, as demonstrated by the Directors' biographies on page 27.

The Board recognises the value of progressive renewing of, and succession planning for, company boards. The refreshment of the Board will remain as an ongoing process to ensure that the Board is well balanced through the appointment of new Directors with the skills and experience necessary. Directors must be able to demonstrate commitment to the company, including in terms of time.

Directors' training and induction

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and his or her duties and responsibilities as a Director. In addition, a new Director will also spend some time with representatives of the Manager, including the Portfolio Managers and the Company Secretary, whereby he or she will become familiar with the various processes which are considered necessary for the performance of their duties and responsibilities.

The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, amongst others, the Auditor and the Company Secretary regarding any proposed developments or changes in law or regulations that could affect them or the Company.

Directors' liability insurance

The Company has maintained appropriate Directors' liability insurance cover throughout the year.

THE BOARD'S RESPONSIBILITIES

The Board's responsibilities are set out on page 27 along with information on the schedule of meetings held in the year which is set out on page 27. The Board may have additional meetings to consider strategy and other issues and between meetings there is regular contact with the Investment Manager. A formal schedule of matters specifically reserved for decision by the Board has been defined. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Strategic issues including corporate and gearing strategy, investment and dividend policies and all operational matters of a material nature are determined by the Board. The Directors also have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with applicable rules and regulations. Where necessary, in the furtherance of their duties, the Directors may seek independent professional advice at the expense of the Company.

The Board has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable it to ensure that the financial statements comply with the Companies Act 2006. It is the Board's responsibility to present a balanced and understandable assessment, which extends to interim and other price-sensitive public reports. The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PERFORMANCE EVALUATION

The performances of the Board, its committees and individual Directors are evaluated on an annual basis through a review process led by the Chairman. This process involves discussions between the Chairman and individual Directors and feedback from the Chairman to the Board and individual Directors. The performance of the Chairman is evaluated in the same way by the Senior Independent Director. The results of the evaluation process for the year to 30 September 2016 were presented to and discussed by the Board and it was agreed that the current composition of the Board reflected a suitable mix of skills and experience, and that the Board, as a whole, continues to function effectively.

DELEGATION OF RESPONSIBILITIES

The Board has delegated the following areas of responsibility:

Management and administration

During the year ended 30 September 2016, and up to and including the date that AFML will take on the management of the portfolio (expected to be 11 February 2017), the management of the investment portfolio and the administration of the Company have been delegated to BlackRock Fund Managers Limited (BFM) as the Company's AIFM. BFM (with the permission of the Company) has delegated certain investment management and other ancillary services to BIM (UK) ("the Investment Manager"). It is anticipated that with effect from 11 February 2017 AFML will be appointed the Company's AIFM. The contractual arrangements with, and assessment of the Manager are summarised on pages 11 and 29. It is also anticipated that Aberdeen will provide company secretarial and administration services from 11 February 2017.

The Investment Manager, operating under guidelines determined by the Board, has direct responsibility for the decisions relating to the day-to-day running of the Company and is accountable to the Board for the investment, financial and operating performance of the Company.

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting. In addition, a formal review is undertaken annually, details of which are set out on page 29 of the Directors' Report.

The assets of the Company have been entrusted to the Depositary for safekeeping. The Depositary is BNY Mellon Trust & Depositary (UK) Limited. The address at which this business is conducted is given on page 76.

The Board has delegated the exercise of voting rights attaching to the securities held in the portfolio to the Investment Manager. Details of the Investment Manager's voting policy are set out on page 30.

COMMITTEES OF THE BOARD

Much of the Board's corporate governance responsibility is discharged through the Audit, the Management Engagement and the Nomination Committees. These Committees all operate within clearly defined written terms of reference which are available upon request at the Company's registered office. More detail is given below in respect of the individual Committees.

Audit Committee

The Audit Committee, which is chaired by Ian Russell, includes Mr Grover and Mr Sinclair. The Report of the Audit Committee is contained on pages 40 to 43.

Management Engagement Committee

The Management Engagement Committee, chaired by James Long, comprises the full Board. The committee reviews the appropriateness of the Manager's continuing appointment, together with the terms and conditions thereof, on a regular basis. In addition to total return performance, the Manager is also judged in relation to management of the revenue account, the quality of the fund management and administration teams, commitment to their investment trust business, strength of relationships with shareholders and the appropriateness of the management contract, including fees. As part of the strategic review the Board held a number of meetings at which the performance of the Manager was reviewed in detail.

Remuneration Committee

As stated in the Directors' Remuneration Report on pages 32 to 34, the full Board determines the level of Directors' fees and accordingly there is no separate Remuneration Committee.

Nomination Committee

The Nomination Committee, chaired by James Long, comprises the full Board. The committee is convened for the purpose of considering the appointment of additional Directors as and when appropriate. Any appointments to the Board are based on merit, but in considering appointments, the Nomination Committee also takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. The Directors have not set any measureable objectives in relation to the diversity of the Board. New Directors receive an induction from the Manager on joining the Board. The Nomination Committee did not meet during the year.

INTERNAL CONTROLS

The Board is responsible for establishing and maintaining the Company's systems of internal controls and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of investment trusts. This is achieved through a Risk Register, which sets out the risks relevant to the Company and describes the controls that the Board has in place as well as the internal controls that are in place at the AIFM, the Investment Manager and other third party service providers to mitigate these risks. The Board has delegated the review of this register to the Audit Committee, who review the effectiveness of the internal control systems on an ongoing basis to identify, evaluate and manage the Company's significant risks.

As part of that process, there are procedures designed to capture and evaluate any failings or weaknesses. Should a significant Issue be identified, procedures exist to ensure that necessary action is taken to remedy the failings. The Committee is not aware of any significant failings or weaknesses arising in the year under review.

Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the operations of the Company. There is a formal monitoring and reporting process to review these controls, which has been in place throughout the year under review and up to the date of this report, carried out by the Manager's corporate audit department. This accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Company's risk register sets out the risks relevant to the Company and describes, where relevant, the internal controls that are in place at the AIFM, the Investment Manager and other third party service providers to mitigate these risks. The Audit Committee (the Committee) formally review this register on a semi-annual basis and BFM as the Company's AIFM reports on any significant issues that have been identified in the period.

In addition, BlackRock's internal audit department provides an annual presentation to the Audit Committee Chairman setting out the results of testing performed in relation to BlackRock's internal control processes. The Depositary also reviews the

Corporate governance statement continued

control processes in place at the custodian, the fund accountant and the AIFM and reports formally to the Committee twice yearly. Both the AIFM and the Depositary will escalate issues and report to the Committee outside of these meetings on an ad hoc basis to the extent this is required.

The Audit Committee also receives annual and quarterly Service Organisation Control (SOC 1) Reports respectively from BlackRock and Bank of New York Mellon on the internal controls of their respective operations, together with the opinion of their reporting accountants.

The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and relies on the operating controls established by the Investment Manager and the Depositary.

The Fund Accountant prepares revenue forecasts and management accounts which allow the Board to assess the Company's activities and review its performance. The Board and the Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are submitted to the Board at each meeting. These reports form part of the documentation used by the Board to determine the appropriateness of adopting the going concern basis for the production of the Company's annual report and accounts. Conclusions on going concern and the Company's longer term viability are set out on pages 15 to 16 and on page 30.

The Company does not have its own internal audit function, as all the administration is delegated to the Manager. The Board monitors the controls in place through BlackRock's internal audit department and feels that there is currently no need for the Company to have its own internal audit function although this matter is kept under review.

There are no agreements between the Company and its Directors concerning compensation for loss of office. Powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

FINANCIAL REPORTING

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements is set out on page 44, the Independent Auditor's Report on pages 45 to 48 and the statement of Going Concern on page 30.

SOCIALLY RESPONSIBLE INVESTMENT

Investment trusts do not employ staff and accordingly have no direct impact on social matters but can be significant investors in the economies of the regions in which they invest. The Company invests globally using a flexible multi-asset approach and may consequently have portfolio exposure to a wide range of countries with varying degrees of political and corporate governance standards. The Company has not set maximum or minimum exposures for any geographical regions or sectors. BlackRock's evaluation procedures and financial analysis of the companies within the portfolio take into account environmental policies and other business issues.

The Company invests primarily on financial grounds to meet its stated objectives. The Investment Manager's policies on Socially Responsible Investment and Corporate Governance are detailed on the website at blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment-reports. The Investment Manager is supportive of the UK Stewardship Code, which is voluntary and operates on a "comply or explain basis".

BRIBERY PREVENTION POLICY

The provision of bribes of any nature to third parties in order to gain a commercial advantage is prohibited and is a criminal offence. The Board has a zero tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly. The Board takes its responsibility to prevent bribery by the Company's Manager on its behalf very seriously and BlackRock has anti-bribery policies and procedures in place which are high level, proportionate and risk based. The Company's service providers have been contacted in respect of their anti-bribery policies and, where necessary, contractual changes are made to existing agreements in respect of anti-bribery provisions.

COMMUNICATION WITH SHAREHOLDERS

All shareholders have the opportunity to attend and vote at the Annual General Meeting. The Notice of Annual General Meeting which is sent out at least 20 working days in advance of the meeting sets out the business of the Meeting and will be posted to shareholders along with the Circular in February 2017.

In addition, regular updates on performance are available to shareholders and can be accessed on the London Stock Exchange website. The Board and representatives of the Manager will be available to answer shareholders' queries at the Annual General Meeting. Proxy voting figures will be announced to shareholders at the Annual General Meeting and will be made available on the Investment Manager's website shortly after the meeting.

The Company's willingness to enter into discussions with institutional shareholders is also demonstrated by the programmes of institutional presentations made by the Investment Manager. The Board discusses with the Investment Manager at each Board meeting any feedback from meetings with shareholders and it also receives reports from its corporate broker. The Board is also available to meet shareholders without the Manager being present.

There is a section within this report entitled “Shareholder Information”, on pages 77 to 79 which provides an overview of useful information available to shareholders.

The Company’s accounts, regular factsheets and other information are also published on the BlackRock website at blackrock.co.uk/bist. The work undertaken by the auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

DISCLOSURE AND TRANSPARENCY RULES

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules has been placed in the Directors’ Report on pages 28 to 31 because it is information which refers to events that have taken place during the course of the year. The following is a list of that information:

- Substantial share interests;
- Share capital;
- Share issues;
- Share repurchases; and
- Greenhouse gas emissions.

In addition, information on Directors’ shareholdings is given on page 34 in the Directors’ Remuneration Report.

FOR AND ON BEHALF OF THE BOARD

JAMES M LONG
Chairman
26 January 2017

Report of the Audit Committee

As Chairman of the Audit Committee I am pleased to present the Committee's report to shareholders for the year ended 30 September 2016.

COMPOSITION

Myself, Mr Grover and Mr Sinclair are members of the Committee, and the relevant Directors' biographies are given on page 27. The Board considers that at least one member of the Committee has competence in accounting and/or auditing and the Committee as a whole has competence relevant to the sector in which the Company operates and is able to discharge its responsibilities effectively.

ROLE AND RESPONSIBILITIES

The Committee meets at least twice a year. The two planned meetings are held prior to the Board meetings to approve the half yearly and annual results and the Committee receives information from the Manager's corporate audit and compliance departments. The requirement for additional meetings to be held is kept under review.

The Committee operates within written terms of reference detailing its scope and duties and these are available on the Company's website at blackrock.co.uk/bist. The Committee's principal duties, as set out in the terms of reference, are set out below. In accordance with these duties, the principal activities of the Committee during the year included:

Internal controls, financial reporting and risk management systems

- ensuring the adequacy and effectiveness of the Company's internal financial controls and the internal control and risk management systems;
- reasonably satisfying itself that such systems meet relevant legal and regulatory requirements;
- monitoring the integrity of the financial statements;
- reviewing the consistency of, and any changes to, accounting policies;
- reviewing the half yearly and annual report and financial statements to ensure that the Company's results and financial position are represented accurately and fairly to shareholders;
- evaluating the need for an internal audit function;
- reviewing semi-annual reports from the Manager on its activities as AIFM; and
- reviewing semi-annual reports from the Depositary on its activities.

Narrative reporting

- reviewing the content of the annual report and financial statements and advising the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Internal audit

- considering the need for an internal audit function, as set out in the Corporate Governance Statement on page 38.

External audit

- reviewing the scope, execution, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing and approving the audit and non-audit fees payable to the external auditor and the terms of its engagement;
- reviewing and approving the external auditor's plan for the financial year, with a focus on the identification of areas of audit risk and consideration of the appropriateness of the level of audit materiality adopted;
- reviewing the efficiency of the external audit process and the quality of the audit engagement partner and the audit team, and making a recommendation with respect to the reappointment of the auditor;
- reviewing the role of the Manager and third party service providers in an effective audit process;
- considering the quality of the formal audit report to shareholders; and
- overseeing the relationship with the external auditor.

Third party service providers

- considering the appointment of other third party service providers; and
- ensuring that third party service providers comply with the terms of their agreements and that the provisions of such agreements remain competitive.

Reporting responsibilities

- reporting to the Board on its proceedings and how it has discharged its responsibilities, making whatever recommendations it deems appropriate on any area within its remit; and

SIGNIFICANT AREAS OF AUDIT FOCUS

Significant issue	How the issue was addressed
The accuracy of the valuation of the investment portfolio	Listed investments are valued using stock exchange prices provided by third party vendors. Unquoted or illiquid investments, if any, are valued by the Directors based on recommendations from BlackRock's Pricing Committee. The Board reviews detailed portfolio valuations on a regular basis throughout the year and receives confirmation from the Manager that the pricing basis is appropriate, in line with relevant accounting standards as adopted by the Company, and that the carrying values are materially correct. The Board also relies on the Manager's and Fund Accountant's controls which are documented in annual internal control reports and reviewed by the Committee. The valuation basis for derivative instruments, including the basis for allocating returns between income and capital, is agreed with the Company's auditors and approved by the Board in advance.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income	The Committee reviews income forecasts, including special dividends, and receives explanations from the Investment Manager for any variations or significant movements from previous forecasts and prior year figures. The Committee also reviews a summary of option transactions and receives confirmation from the portfolio manager for the rationale behind entering into each option transaction, to ensure that returns are allocated appropriately. The valuation basis for derivative instruments, including the basis for allocating returns between income and capital, is agreed with the Company's Auditor and approved by the Board in advance.
The risk of misappropriation of assets and unsecured ownership of investments	The Depositary is responsible for financial restitution for loss of financial investments held in custody. The Committee reviews, to its satisfaction, reports from its Manager, Custodian and Registrar on key controls over the assets of the Company. Any significant issues are reported by the Manager to the Committee. The Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Company's assets.

- compiling a report on its activities to be included in the annual report and financial statements.

Whistleblowing and fraud

- reviewing the adequacy and security of the Manager's arrangements for its employees and contractors to raise concerns, in confidence about possible wrongdoing in financial reporting or other matters insofar as they affect the Company.

INTERNAL AUDIT

The Company does not have its own internal audit function, as all the administration is delegated to the Manager. The Board considers that it is sufficient to rely on the internal audit department of BlackRock. The requirement for an internal audit function is kept under review.

WHISTLEBLOWING POLICY

The Committee has also reviewed and accepted the "whistleblowing" policy that has been put in place by the Investment Manager under which its staff, in confidence, can raise concerns about possible improprieties in matters of financial reporting or other matters, in so far as they affect the Company.

SIGNIFICANT ISSUES CONSIDERED REGARDING THE ANNUAL REPORT AND FINANCIAL STATEMENTS

During the year, the Committee considered a number of significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified in the audit plan and that suitable audit procedures had been put in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements. The table above sets out the key areas of risk identified and also explains how these were addressed by the Committee.

The provision of portfolio valuation, fund accounting and administration services is delegated to BIM (UK), which sub-delegates fund accounting to a third party service provider, and the provision of Depositary services is contracted to BNY Mellon Trust & Depositary (UK) Limited (BNYMTD). The Committee has reviewed the Service Organisation Control Reports (SOC) prepared by BlackRock, the Custodian and the Fund Accountants to ensure that the relevant control procedures are in place to cover these areas of risk as identified above and are adequate and appropriate and have been designated as operating effectively by the reporting auditor.

The Audit Committee also considered internal control reports issued by other service providers during the year under review; no significant failings or weaknesses were identified.

AUDITORS AND AUDIT TENURE

The Company's current auditor, Ernst & Young LLP (EY), has acted in this role for more than twenty years. The Audit Committee review the performance of the auditor on a regular basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. Following professional guidelines, the audit partner rotates after five years, and the current partner is in the second year of his appointment. On the basis of the Auditor's

Report of the Audit Committee continued

performance, the Audit Committee has recommended its continuing appointment to the Board.

The fees paid to the external auditor are set out in note 5 on page 57. An explanation of how auditor objectivity and independence is safeguarded is reported under 'Assessment of the efficiency of the external audit process' on pages 42 and 43.

The Committee is mindful of the EU regulations on mandatory auditor rotation which require the appointment of a new auditor or an audit tender every ten years, although this can be extended by up to ten additional years if tenders are carried out at the decade mark or another audit firm is appointed to do a joint audit. In view of this change, the Company will put its audit contract out to tender by no later than 2020.

The EU legislation also prohibits certain non-audit consulting services and caps the amount of additional fees auditors can charge their clients. The Audit Committee monitors the level of non-audit work carried out by the Auditor and seeks assurances from the auditor that they maintain suitable policies and processes ensuring independence and monitors compliance with the relevant regulatory requirements on an annual basis. The Company operates on the basis whereby the provision of non-audit services by the Auditor is permissible where no conflict of interest arises, where the independence of the auditor is not likely to be impinged by undertaking the work and the quality and objectivity of both the non-audit work and audit work will not be compromised.

The non-audit work carried out during the year and the fees paid in relation to this are summarised in the table below.

	2016 £	2015 £
Interim review of half yearly report	6,500	6,500
Review of transition of financial records as a result of the change of Manager	–	5,000
Certification of Bond compliance certificate	1,000	1,000

The Audit Committee does not consider that the provision of such non-audit services compromises the independence and objectivity of the conduct of the audit.

The Audit Committee also considers the risks associated with audit firms withdrawing from the market and the relationship with the Company's auditor. There are no contractual obligations that restrict the Company's choice of auditor.

The Auditor has indicated its willingness to continue in office and resolutions proposing its reappointment and authorising the Directors to determine its remuneration for the ensuing year will be proposed at the AGM.

ASSESSMENT OF THE EFFICIENCY OF THE EXTERNAL AUDIT PROCESS

To assess the effectiveness of the external audit, members of the Committee work closely with the Manager to obtain a good understanding of the progress and efficiency of the audit. The Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality. This includes a review of the following areas:

- the quality of the audit engagement partner and the audit team;
- the expertise of the audit firm and the resources available to it;
- identification of areas of audit risk;
- planning, scope and execution of the audit;
- consideration of the appropriateness of the level of audit materiality adopted;
- the role of the Committee, the Manager and third party service providers in an effective audit process;
- communications by the Auditor with the Committee;
- how the Auditor supports the work of the Committee and how the audit contributes added value;
- a review of the independence and objectivity of the audit firm; and
- the quality of the formal audit report to shareholders.

Feedback in relation to the audit process and the effectiveness of the Manager in performing its role is also sought from relevant involved parties, notably the audit partner and team.

The external auditor attends the Committee meetings on at least one occasion at which they have the opportunity to meet with the Committee without representatives of the Manager being present. The effectiveness of the Board and the Manager in the external audit process is assessed principally in relation to the timely identification and resolution of any process errors or control breaches that might impact the Company's net asset values and accounting records. It is also assessed by reference to how successfully any issues in respect of areas of accounting judgement are identified and resolved, the quality and timeliness of papers analysing these judgements, the Board and the Investment Manager's approach to the value of independent audit and the booking of any audit adjustments arising, and the timely provision of draft public documents for review by the Auditor and the Committee.

To form a conclusion with regard to the independence of the external Auditor, the Committee considers whether the skills and experience of the Auditor make them a suitable supplier of non-audit services and whether there are safeguards in place to ensure that there is no threat to their objectivity and independence in the conduct of the audit resulting from the provision of any such services. On an annual basis, EY review the independence of their relationship with the Company and report to the Committee, providing details of any other relationship with the Manager.

As part of this review, the Committee also receives information about policies and processes for maintaining independence and monitoring compliance with relevant requirements from the Company's Auditor, including information on the rotation of audit partners and staff, the level of fees that the Company pays in proportion to the overall fee income of the firm, and the level of related fees, details of any relationships between the audit firm and its staff and the Company as well as an overall confirmation from the Auditor of their independence and objectivity. As a result of their review, the Committee has concluded that EY is independent of the Company.

CONCLUSIONS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion that the Annual Report and Financial Statements are fair, balanced and understandable, the Board has requested that the Committee advise on whether these criteria are satisfied. In so doing, the Committee has given consideration to the following:

- the comprehensive control framework over the production of the Annual Report and Financial Statements, including the verification processes in place to deal with the factual content;
- the extensive levels of review that are undertaken in the production process by the Manager, the Depositary and the Committee;
- the controls that are in place at the Manager and third party service providers to ensure the completeness and accuracy of the Company's financial records and the security of the Company's assets; and
- the existence of satisfactory Service Organisation Control Reports that have been reviewed and reported on by external auditors to verify the effectiveness of the internal controls of BlackRock, the Depositary, the Custodian and the Fund Accountants.

In addition to the work outlined above, the Committee has reviewed the Annual Report and Financial Statements and is satisfied that, taken as a whole, they are fair, balanced and understandable. In reaching this conclusion, the Committee has assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment trust industry. The Committee has reported on these findings to the Board who affirm the Committee's conclusions in the Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements on page 44.

IAN RUSSELL
Chairman
Audit Committee
26 January 2017

Governance

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the financial statements under UK Generally Accepted Accounting Practice (UK Accounting Standards and Applicable Law).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules. The Directors have delegated responsibility to the Investment Manager and the AIFM for the maintenance and integrity of the Company's corporate and financial information included on BlackRock's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on page 27 of the Annual Report, confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, net return and cash flows of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The 2014 UK Corporate Governance Code also requires Directors to ensure that the Annual Report and Accounts are fair, balanced and understandable. In order to reach a conclusion on this matter, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Accounts fulfils these requirements. The process by which the Audit Committee has reached these conclusions is set out in the Audit Committee's report on pages 40 to 43. As a result, the Board has concluded that the Annual Report for the year ended 30 September 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

FOR AND ON BEHALF OF THE BOARD
JAMES M LONG
Chairman
26 January 2017

Financial statements

Independent auditor's report to the members of BlackRock Income Strategies Trust plc

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of BlackRock Income Strategies Trust plc's (the 'Company') affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including FRS 102, the Financial Reporting Standard in the United Kingdom and Republic of Ireland ("FRS 102"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT WE HAVE AUDITED

We have audited the financial statements of the Company for the year ended 30 September 2016 which comprise:

Company
Income Statement for the year ended 30 September 2016
Statement of Changes in Equity for the year ended 30 September 2016
Balance Sheet as at 30 September 2016
Statement of Cash Flows as at 30 September 2016
Related notes 1 to 20 to the financial statements

The financial statements of the Company have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including FRS 102, as applied in accordance with the provisions of the Companies Act 2006.

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	▸ Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income. ▸ Incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements or failure to assess stock liquidity appropriately.
Audit scope	▸ All audit work was performed directly by the audit engagement team.
Materiality	▸ Overall materiality of £3.515m represents 1% of net assets.

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk
Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income Revenue streams include UK and overseas dividends and income from derivatives to the investment portfolio, including option premium income (with potential transfers between income and capital). We focused on the recognition of revenue and its presentation in the financial statements given the importance of the total return to shareholders.	**We performed the following procedures:** ▸ Obtained an understanding of the Administrator's systems and controls in this area to ensure the accurate recording of revenue. ▸ Agreed a sample of dividends received from the underlying financial records to an independent pricing source and agreed to bank statements as supporting documentation. ▸ For this sample, we agreed the exchange rates used to convert the dividend income received in foreign currencies to Sterling. ▸ Performed a review of all material special dividends received during the year and assessed the appropriateness of the accounting treatment adopted. ▸ To test for completeness, we checked a sample of dividends announced to an independent source to confirm that these were recorded in the correct accounting period. ▸ Reviewed and agreed the classification of option premium income between income and capital and, for a sample of option premium income items agreed these to broker statements and confirmed that the income was amortised over the correct period.
What we reported to the Audit Committee Based on the work performed we had no matters to report to the Audit Committee.	
Incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements or failure to assess stock liquidity The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and investment return. Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We performed the following procedures:** ▸ Obtained an understanding of the Administrator's systems and controls in this area to ensure the accurate recording of security pricing and units held. ▸ Agreed all of the investment holding prices at the year end to a relevant independent source. ▸ Agreed the valuation of unquoted investments to valuation workings, challenged any assumptions made by management in the valuation of these investments and considered whether the valuation of these investments was within a reasonable range. We consulted with our specialist valuations team in performing this work. ▸ Agreed all of the foreign exchange rates used to an independent source. ▸ Agreed the number of shares held for each security to confirmations of legal title received from the Company's custodian, Bank of New York Mellon (International) Limited.
What we reported to the Audit Committee Based on the work performed we had no matters to report to the Audit Committee.	

THE SCOPE OF OUR AUDIT

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determines our audit scope for the Company. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, changes in the business environment, the organisation of the Company and effectiveness of company-wide controls, and other factors such as recent Service Organisation Control ('SOC') reporting when assessing the level of work to be performed.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £3.515m, which is 1% of net assets. We have derived our materiality calculation based on a proportion of net assets as we consider it to be the key measurement of the Company's performance.

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments and our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £2.636m. Our objective in adopting this approach was to ensure that total undetected and uncorrected audit differences in all accounts did not exceed our planning materiality level.

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £1.033m for the revenue column of the Income Statement, being 5% of the return on ordinary activities before taxation.

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Management Engagement Committee that we would report to them all uncorrected audit differences in excess of £175k, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK AND IRELAND)

We are required to report to you if, in our opinion, financial and non-financial information in the annual financial report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual financial report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual financial report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.

We have no exceptions to report.

COMPANIES ACT 2006 REPORTING

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report.

LISTING RULES REVIEW REQUIREMENTS

We are required to review:

- the directors' statement in relation to going concern set out on page 30, and longer-term viability, set out on pages 15 and 16; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have no exceptions to report.

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE COMPANY

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual financial report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual financial report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual financial report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

ASHLEY COUPS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP
Statutory Auditor
London

26 January 2017

Financial statements

Income statement for the year ended 30 September 2016

	Notes	Revenue 2016 £'000	Revenue 2015 £'000	Capital 2016 £'000	Capital 2015 £'000	Total 2016 £'000	Total 2015 £'000
Gains/(losses) on investments held at fair value through profit or loss	11	–	–	11,623	(35,518)	11,623	(35,518)
(Losses)/gains on foreign exchange		–	–	(25,019)	6,444	(25,019)	6,444
Income from investments held at fair value through profit or loss	3	23,198	23,024	–	–	23,198	23,024
Other income	3	67	96	–	–	67	96
Total income		23,265	23,120	(13,396)	(29,074)	9,869	(5,954)
Expenses							
Investment management fees	4	(486)	(624)	(902)	(1,159)	(1,388)	(1,783)
Operating expenses	5	(758)	(957)	(209)	(24)	(967)	(981)
Total operating expenses		(1,244)	(1,581)	(1,111)	(1,183)	(2,355)	(2,764)
Net profit/(loss) on ordinary activities before finance costs and taxation		22,021	21,539	(14,507)	(30,257)	7,514	(8,718)
Finance costs	7	(1,346)	(1,410)	(2,492)	(2,616)	(3,838)	(4,026)
Net profit/(loss) on ordinary activities before taxation		20,675	20,129	(16,999)	(32,873)	3,676	(12,744)
Taxation	8	(73)	34	–	–	(73)	34
Net profit/(loss) on ordinary activities after taxation	10	20,602	20,163	(16,999)	(32,873)	3,603	(12,710)
Earnings/(loss) per ordinary share	10	7.56p	7.07p	(6.24)p	(11.52)p	1.32p	(4.45)p

The total column of this statement represents the profit or loss of the Company.

The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies (AIC). All items in the above statement derive from continuing operations and no operations were acquired or discontinued during the year. All income is attributable to the equity holders of the Company.

The net profit for the year disclosed above represents the Company's total comprehensive income.

The notes on pages 53 to 76 form part of these financial statements.

Financial statements

Statement of changes in equity for the year ended 30 September 2016

	Note	Called up share capital	Capital redemption reserve	Capital reserves	Revenue reserve	Total
		£'000	£'000	£'000	£'000	£'000
For the year ended 30 September 2016						
At 30 September 2015		72,778	15,563	249,811	36,680	374,832
Total comprehensive income:						
(Loss)/profit for the year		–	–	(16,999)	20,602	3,603
Transactions with owners, recorded directly to equity:						
Ordinary shares purchased into treasury		–	–	(9,003)	–	(9,003)
Ordinary shares issued from treasury		–	–	270	–	270
Tender offer costs		–	–	(8)	–	(8)
Dividends paid (a)	9	–	–	–	(18,173)	(18,173)
At 30 September 2016		72,778	15,563	224,071	39,109	351,521
For the year ended 30 September 2015						
At 30 September 2014		72,778	15,563	302,990	35,534	426,865
Total comprehensive income:						
(Loss)/profit for the year		–	–	(32,873)	20,163	(12,710)
Transactions with owners, recorded directly to equity:						
Ordinary shares purchased into treasury		–	–	(20,256)	–	(20,256)
Tender offer costs		–	–	(50)	–	(50)
Dividends paid (b)	9	–	–	–	(19,017)	(19,017)
At 30 September 2015		72,778	15,563	249,811	36,680	374,832

(a) Third quarterly interim dividend of 1.67p per share for the year ended 30 September 2015, paid on 9 October 2015. Final dividend of 1.70p per share for the year ended 30 September 2015, paid on 29 January 2016. First quarterly interim dividend of 1.635p per share for the year ended 30 September 2016, paid on 8 April 2016. Second quarterly interim dividend of 1.635p per share for the year ended 30 September 2016, paid on 22 July 2016.

(b) Third quarterly interim dividend of 1.53p per share for the year ended 30 September 2014, paid on 10 October 2014. Final dividend of 1.895p per share for the year ended 30 September 2014, paid on 30 January 2015. First quarterly interim dividend of 1.50p per share for the year ended 30 September 2015, paid on 10 April 2015. Second quarterly interim dividend of 1.67p per share for the year ended 30 September 2015, paid on 10 July 2015.

The notes on pages 53 to 76 form part of these financial statements.

Financial statements

Balance sheet as at 30 September 2016

	Notes	30 September 2016 £'000	30 September 2015 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	420,128	411,230
Current assets			
Debtors	12	6,347	4,128
Derivative financial instruments	11	2,652	3,792
Collateral pledged with brokers		11,497	17,524
Cash & cash equivalents		2,203	14,678
		22,699	40,122
Creditors – amounts falling due within one year			
Bank overdraft		(18,084)	–
Collateral received from brokers		(770)	(884)
Derivative financial instruments	11	(9,758)	(12,157)
Other creditors	13	(3,088)	(3,900)
		(31,700)	(16,941)
Net current (liabilities)/assets		(9,001)	23,181
Total assets less current liabilities		411,127	434,411
Creditors - amounts falling due after more than one year	14	(59,606)	(59,579)
Net assets		351,521	374,832
Capital and reserves			
Called up share capital	15	72,778	72,778
Capital redemption reserve	16	15,563	15,563
Capital reserves	16	224,071	249,811
Revenue reserve	16	39,109	36,680
Total shareholders' funds	10	351,521	374,832
Net asset value per ordinary share (bonds at par value)	10	131.64p	136.58p
Net asset value per ordinary share (bonds at market value)	10	123.62p	131.00p

The financial statements were approved by the Board of BlackRock Income Strategies Trust plc on 26 January 2017 and were signed on its behalf by James M Long, Chairman.

BlackRock Income Strategies Trust plc.

Registered in Scotland, No. 3721.

The notes on pages 53 to 76 form part of these financial statements.

Financial statements

Statement of cash flows for the year ended 30 September 2016

	Notes	Year ended 30 September 2016	Year ended 30 September 2015
		£'000	£'000
Operating activities			
Net profit/(loss) before taxation		3,676	(12,744)
Interest expense		3,838	4,026
(Gains)/losses on investments held at fair value through profit or loss		(11,623)	33,380
Net losses/(gains) on foreign exchange		(1,860)	(4,320)
Sales of investments held at fair value through profit or loss		408,256	602,681
Purchase of investments held at fair value through profit or loss		(408,381)	(550,639)
(Increase)/decrease in debtors		(434)	387
Increase in other creditors		814	585
Movement in forward currency contracts		(1,802)	2,138
Tax on investment income		(62)	–
Net movement in collateral balances		5,913	(16,640)
Net cash (expended)/generated from operating activities		(1,665)	58,854
Financing activities			
Shares purchased to be held in treasury		(9,003)	(20,256)
Tender offer costs paid		(8)	(50)
Proceeds from share issue		270	–
Interest paid		(3,840)	(3,987)
Repayment of loan		–	(19,962)
Dividends paid	9	(18,173)	(19,017)
Net cash used in financing activities		(30,754)	(63,272)
Decrease in cash and cash equivalents		(32,419)	(4,418)
Cash and cash equivalents at the start of the year		14,678	14,790
Effect of foreign exchange rate changes		1,860	4,306
Cash and cash equivalents at the end of the year		(15,881)	14,678
Comprised of:			
Bank overdraft		(18,084)	–
Cash at bank		2,203	14,678
		(15,881)	14,678

Dividends and interest received in the year amounted to £10,429,000 and £3,012,000 (2015: £9,497,000 and £1,755,000) respectively.

The notes on pages 53 to 76 form part of these financial statements.

Financial statements

Notes to the financial statements

1. PRINCIPAL ACTIVITY

The principal activity of the Company is that of an investment trust company within the meaning of section 1158 of the Corporation Tax Act 2010.

2. ACCOUNTING POLICIES

(a) Basis of preparation

This is the first year that the Company has presented its results and financial position under FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of revised Generally Accepted Accounting Practice (New UK GAAP) issued by the Financial Reporting Council (FRC) in 2013 and which came into effect for accounting periods beginning on or after 1 January 2015. The last financial statements prepared under the previous UK GAAP were for the year ended 30 September 2015.

The financial statements have been prepared on a going concern basis in accordance with FRS 102 and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014.

As a result of the first time adoption of New UK GAAP and the revised SORP, comparative amounts and presentation formats have been amended where required. The changes to accounting policies relate to the composition of cash and cash equivalents and the change in the presentation of cash flows (see below). There were no adjustments to the Company's Income Statement for the financial year ended 30 September 2015 and the total equity as at 1 October 2014 and 30 September 2015 between UK GAAP as previously reported and FRS 102 as a result of changes to accounting policies.

The Company's Statement of Cash Flows reflects the presentation requirements of FRS 102, which are different to that prepared under previous UK GAAP. In addition, the Statement of Cash Flows reconciles to cash and cash equivalents, whereas under previous UK GAAP the Statement of Cash Flows reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash in hand and demand deposits, bank overdrafts repayable on demand and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in previous UK GAAP as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The Company's investment in BlackRock's Institutional Cash Series plc – Sterling Liquidity Fund of £1,248,000 (2015: £57,637,000) is managed as part of the Company's investment management policy and, accordingly, this investment along with purchases and sales of this investment has been classified in the Balance Sheet as an investment and not as a cash equivalent as defined under FRS 102. As a result of this policy there is no change to the Statement of Cash Flows.

Expenses which are allocated to capital are available to reduce the Company's liability to corporation tax. The SORP recommends that the benefit of that tax relief should be allocated to capital and a corresponding charge made to revenue. This is known as the 'marginal method' of allocating tax relief between capital and revenue. The Company does not adopt the marginal method for two reasons. Firstly, the Company has only one class of share and any allocation of tax relief between capital and revenue would have no impact on shareholders' funds. Secondly, the significant unutilised management expenses and interest carried forward make it unlikely that the Company will be liable to corporation tax in the foreseeable future. Had this allocation been made, the charge to revenue and corresponding credit to capital for the year ended 30 September 2015 would have been £2,249,000 (2015: £1,403,000).

The principal accounting policies adopted by the Company are set out below. Unless specified otherwise, the policies have been applied consistently throughout the year and are consistent with those applied in the preceding year. All of the Company's operations are of a continuing nature.

The Company's financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand pounds (£'000) except where otherwise stated.

(b) Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and a capital nature has been presented alongside the Income Statement.

2. ACCOUNTING POLICIES continued

(c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being investment business.

(d) Income

Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Fixed returns on non equity securities are recognised on a time apportionment basis. Interest income is accounted for on an accruals basis.

Special dividends are recognised on an ex-dividend basis and are treated as capital or revenue items depending on the facts or circumstances of each dividend.

Dividends are accounted for in accordance with Section 29 of FRS 102 on the basis of income actually receivable, without adjustment for tax credits attaching to the dividend. Dividends from overseas companies continue to be shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the cash equivalent of the dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares over the amount of the cash dividend is recognised in capital reserves.

Options may be written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the generation of income, the premium is treated as a revenue item. Where the purpose of the option is the maintenance of capital, the premium is treated as a capital item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices.

Option premium income is recognised as revenue evenly over the life of the option contract and included in the revenue column of the Income Statement unless the option has been written for the maintenance and enhancement of the Company's investment portfolio and represents an incidental part of a larger capital transaction, in which case any premia arising are allocated to the capital column of the Income Statement. Where the premium is taken to revenue, an appropriate amount is shown as capital return such that the total return reflects the overall change in the fair value of the option. When an option is closed out or exercised the gain or loss is accounted for as capital and any unamortised premium is also retained in capital.

Credit Default Swaps (CDS) may be held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the CDS is the generation of income (i.e. sell protection), the premium received is treated as a revenue item. Where the purpose of the CDS is the maintenance of capital (buy protection), the premium paid is treated as a capital item. The value of the CDS is subsequently modelled to reflect the fair value of the CDS option based on available financial sources.

CDS premium income is recognised as revenue evenly over the life of the CDS contract and included in the revenue column of the Income Statement unless the CDS has been written for the maintenance and enhancement of the Company's investment portfolio, in which case any premia arising are allocated to the capital column of the Income Statement. When a CDS is closed out the gain or loss is accounted for as capital.

Collateralized Loan Obligations (CLO) may be held in the portfolio for generating or maintaining revenue returns. The income stream is treated as a revenue item and is recognised evenly over the life of the instrument and is included in the revenue column of the Income Statement. The value of the CLO is subsequently marked to market to reflect the fair value of the CLO based on traded prices.

Total Return Swaps (TRS) may be held in the portfolio for generating or protecting capital returns, or potentially for generating or maintaining revenue returns. Where the purpose of the TRS is the generation of income, the premium received is treated as a revenue item. Where the purpose of the TRS is the maintenance of capital, the premium paid is treated as a capital item. The value of the TRS is subsequently marked to market to reflect the fair value of the TRS based on traded prices.

The Company also invests in Equity Index Futures and Forward Currency Contracts but no income component can be derived in these instruments and, as such, they are marked to market to reflect their fair value with the gains and losses taken to the capital column of the Income Statement as per policy (h).

Deposit interest receivable is accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses have been treated as revenue except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital. Details of transaction costs on the purchases and sales of investments are disclosed in note 11, on page 61;
- the investment management fee has been allocated 65% to the capital column and 35% to the revenue column of the Income Statement in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio.

(f) Borrowings and finance costs

Borrowings are measured initially at the fair value of proceeds received less transaction costs and subsequently at amortised cost using the effective interest rate. Finance costs are accounted for on an accruals basis. Finance costs are allocated, insofar as they relate to the financing of the Company's investments, 65% to the capital column and 35% to the revenue column of the Income Statement, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

Deferred taxation is recognised in respect of all temporary differences at the financial reporting date, where transactions or events that result in an obligation to pay more taxation in the future or right to less taxation in the future have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. This is subject to deferred taxation assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted.

(h) Investments designated as held at fair value through profit or loss

The Company's investments are classified as held at fair value through profit or loss in accordance with Section 11 and 12 of FRS102 and are managed and evaluated on a fair value basis in accordance with its investment strategy.

All investments are designated upon initial recognition as held at fair value through profit or loss. Purchases of investments are recognised on a trade date basis. Sales are recognised at the trade date of the disposal and the proceeds are measured at fair value, which is regarded as the proceeds of the sale less any transaction costs.

The fair value of the financial investments is based on their quoted bid price at the balance sheet date on the exchange on which the investment is quoted, without deduction for the estimated future selling costs. Unquoted investments are valued by the Directors at fair value using International Private Equity and Venture Capital Valuation Guidelines. This policy applies to all current and non current asset investments of the Company.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'Gains on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments.

Amendments to FRS 102 - Fair value hierarchy disclosures amends paragraphs 34.22 and 34.42 of FRS 102, revising the disclosure requirements for financial instruments held at fair value and aligning the disclosures with those required by EU-adopted IFRS. The Company has chosen to early adopt these amendments to FRS 102: however, there were no changes to the classification within the fair value hierarchy. There are no accounting policy or disclosure changes as a result of this adoption.

The fair value hierarchy consists of the following three levels:

Level 1 – Quoted market price for identical instruments in active markets

Level 2 – Valuation techniques using observable inputs

Level 3 – Valuation techniques using significant unobservable inputs

Financial statements

Notes to the financial statements continued

2. ACCOUNTING POLICIES continued

(i) Valuation of derivative financial instruments

Derivatives are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the Income Statement. The sources of the return under the derivative contract (e.g. notional dividends, financing costs, interest returns and capital charges) are allocated to the revenue and capital columns of the Income Statement in alignment with the nature of the underlying source of income and in accordance with the guidance given in the AIC SORP.

(j) Dividends payable

Under Section 32 of FRS 102, final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date.

Dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they have been approved by shareholders and have become a liability of the Company. Interim dividends are only recognised in the financial statements in the period in which they are paid.

(k) Foreign currency translation

In accordance with Section 30 of FRS 102, the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The functional and reporting currency is sterling, reflecting the primary economic environment in which the Company operates. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the Balance Sheet date. Profits and losses of a capital nature are recognised in the capital column of the Income Statement and taken to the capital reserve. Profits and losses of an income nature are recognised in the revenue column of the Income Statement and taken to the revenue reserve.

(l) Shares repurchased and held in treasury

The full cost of shares repurchased and held in treasury is charged to capital reserves. Where treasury shares are subsequently reissued, any surplus is taken to the share premium account.

(m) Debtors

Debtors include sales for future settlement, other debtors and pre-payments and accrued income in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Debtors are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

(n) Creditors

Creditors include purchases for future settlements, interest payable, share buyback costs and accruals in the ordinary course of business. Creditors are classified as creditors – amounts due within one year if payment is due within one year or less. If not, they are presented as creditors – amounts falling due after more than one year. Creditors are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

(o) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents includes bank overdrafts repayable on demand and short term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

3. INCOME

	2016 £'000	2015 £'000
Investment Income:		
UK listed dividends	6,461	10,619
Overseas listed dividends	3,911	3,522
Fixed interest income	2,871	2,566
Derivative income	9,955	6,317
	23,198	23,024
Other income:		
Deposit interest	25	77
Underwriting commission	42	19
	67	96
Total	23,265	23,120

Special dividends of £642,000 have been recognised in capital and deducted from investment cost (2015: £364,000).

4. INVESTMENT MANAGEMENT FEES

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee – F&C	–	–	–	287	523	810
Investment management fee – BlackRock	486	902	1,388	337	636	973
Total	486	902	1,388	624	1,159	1,783

The investment management fee is levied at a rate of 0.4% per annum of the Company's total assets less current liabilities (excluding loans) and is allocated 65% to the capital column and 35% to the revenue column of the income statement.

BlackRock waived the management fees payable to the Company up to the level of transition and restructuring costs, which were estimated to be in the region of £762,000 for the year ended 30 September 2015. The fees in the above table that are shown as accrued to BlackRock have been credited to a payables account on the Company's balance sheet, offsetting amounts debited to the same account in respect of transition costs. As at 30 September 2016, £28,000 of transition costs were still outstanding. Adjustments to the waived total costs of £762,000 will be made as and when these accruals are cleared.

The Company has incurred legal and advisory costs in relation to the review of the Company's investment objective and policy (as announced on 1 August 2016), which included consideration of a number of factors including the performance of the investment portfolio, the optimal structure of the Company, the cost of the Company's debt, the cost of paying the dividend and its discount management policy. These costs amounted to approximately £193,750 (excluding VAT). BlackRock has agreed to contribute to these costs to the sum of £83,000 by way of a fee waiver which has been applied to the management fees invoiced for the year to 30 September 2016 in the same way as set out above. In addition, the Company's broker (Cenkos Securities) have agreed to waive the corporate broking fee of £17,500 for the six months to 30 September 2016 (excluding VAT).

The Company also receives a rebate on the management fees levied on its underlying investments in other BlackRock managed funds in the normal course of business to ensure that no double counting occurs. These are recognised on an accruals basis and are treated as reduction in management fee expense and allocated between revenue and capital in accordance with the Company's policy for allocation of management fees. Additional information is given in note 18.

5. OPERATING EXPENSES

	2016 £'000	2015 £'000
Taken to revenue:		
Custody fee	26	12
Auditor's remuneration:		
– statutory audit	44	34
– taxation compliance services	6	1
– other audit services:		
Review of Bond compliance certificate	1	1
Review of transition	–	5
Review of interim report	7	7
Depositary fees	50	47
Registrar's fees	82	98
Marketing fees	94	107
Directors' emoluments	182	232
Other administrative costs	266	413
	758	957
Taken to capital:		
Transaction costs	32	24
Other costs	177	–
	967	981
The Company's ongoing charges – calculated as a percentage of average shareholders' funds and including management fees, operating expenses, finance costs and taxation were:	0.62%	0.68%

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6. DIRECTORS' EMOLUMENTS

Details of the directors emoluments are given in the Directors' Remuneration Report on page 33.

7. FINANCE COSTS

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Debt repayable within 5 years						
– Revolving advance facility	–	–	–	80	148	228
– Overdraft interest	21	31	52	8	14	22
Debt repayable in more than 5 years						
– 6.25% Bonds 2031	1,325	2,461	3,786	1,322	2,454	3,776
	1,346	2,492	3,838	1,410	2,616	4,026

Finance costs have been allocated in the ratio 35% to revenue and 65% to capital.

8. TAXATION

(a) Analysis of charge for the year

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Irrecoverable overseas tax	81	–	81	209	–	209
Overseas tax recovered	(8)	–	(8)	(243)	–	(243)
Total taxation (note 8(b))	73	–	73	(34)	–	(34)

(b) Factors affecting current taxation charge for the year

The tax assessed for the year is lower than the standard rate of corporation taxation in the UK for a large company of 20% (2015: 20.50%). The differences are explained below:

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) on ordinary activities before taxation	20,675	(16,999)	3,676	20,129	(32,873)	(12,744)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax of 20.00% (2015: 20.50%)	4,135	(3,400)	735	4,126	(6,739)	(2,613)
Effects of:						
Non taxable (gains)/losses on investments held at fair value through profit or loss	–	(2,325)	(2,325)	–	6,843	6,843
Exchange gain not taxable	–	5,005	5,005	–	(883)	(883)
Non taxable UK dividend income	(1,288)	–	(1,288)	(2,177)	–	(2,177)
Non taxable overseas dividend income	(598)	–	(598)	(546)	–	(546)
Disallowable expenses	–	42	42	–	5	5
Irrecoverable overseas tax	81	–	81	209	–	209
Overseas tax recovered	(8)	–	(8)	(243)	–	(243)
Utilisation of excess management expenses brought forward	–	(1,571)	(1,571)	–	(629)	(629)
Effect of not applying the marginal method of allocation of tax relief	(2,249)	2,249	–	(1,403)	1,403	–
	(4,062)	3,400	(662)	(4,160)	6,739	2,579
Total corporation tax charge/(credit) (note 8(a))	73	–	73	(34)	–	(34)

Investment trusts are exempt from corporation tax on capital gains provided the Company obtains agreement from HMRC that the tests in section 1158 of the Corporation Tax Act 2010 have been met.

(c) At 30 September 2016 the Company had net surplus management expenses of £9,085,000 (2015: £16,939,000), and a non-trade loan relationship deficit of £36,744,000 (2015: £36,744,000). A deferred tax asset has not been recognised in respect of these losses as the Company is not expected to generate taxable income in the future in excess of the deductible expenses of that future period and, accordingly, it is unlikely the Company will be able to reduce future tax liabilities through the use of the existing excess expenses and loan relationship deficits. There was an unrecognised tax asset of £7,187,000 at the reporting date (2015: £10,737,000).

9. DIVIDENDS

Dividends paid on equity shares	Record date	Payment date	2016 £'000	2015 £'000
– third quarterly dividend of 1.67p (2014: 1.53p)	10 September 2015	9 October 2015	4,583	4,428
– fourth quarterly dividend of 1.70p (2014: 1.895p)	31 December 2015	29 January 2016	4,669	5,465
– first quarterly dividend of 1.635p (2015: 1.50p)	11 March 2016	8 April 2016	4,478	4,326
– second quarterly dividend of 1.635p (2015: 1.67p)	24 June 2016	22 July 2016	4,443	4,817
– unclaimed dividends from previous years			–	(19)
			18,173	19,017

The total dividends payable in respect of the year which form the basis of determining retained income for the purposes of section 1158 of the Corporation Tax Act 2010 and section 833 of the Companies Act 2006, and the amounts proposed meet the relevant requirements as set out in this legislation.

Dividends paid or proposed on equity shares in respect of the financial year to 30 September 2016:	2016 £'000	2015 £'000
First quarterly dividend of 1.635p (2015: 1.50p)	4,478	4,326
Second quarterly dividend of 1.635p (2015: 1.67p)	4,443	4,817
Third quarterly dividend of 1.635p (2015: 1.67p)	4,366	4,583
Fourth quarterly dividend of 1.635p* (2015: 1.70p)	4,366	4,669
	17,653	18,395

* Based upon 267,037,282 ordinary shares (excluding treasury shares) in issue on 30 September 2016.

10. EARNINGS AND NET ASSET VALUE PER ORDINARY SHARE

Revenue and capital earnings per share are shown below and have been calculated using the following:

	2016	2015
Net revenue profit attributable to ordinary shareholders (£'000)	20,602	20,163
Net capital loss attributable to ordinary shareholders (£'000)	(16,999)	(32,873)
Total profit attributable to ordinary shareholders return (£'000)	3,603	(12,710)
Equity shareholders' funds (£'000)	351,521	374,832
The weighted average number of ordinary shares in issue during the year, on which the earnings per ordinary share was calculated, was:	272,290,493	285,283,310
The actual number of ordinary shares in issue at the year end, on which the net asset value per ordinary share was calculated, was:	267,037,282	274,437,282
The number of ordinary shares in issue, including treasury shares, at the year end, was:	291,112,282	291,112,282

	2016			2015		
	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Earnings per share						
Calculated on weighted average number of ordinary shares	7.56	(6.24)	1.32	7.07	(11.52)	(4.45)
Calculated on actual number of ordinary shares at 30 September	7.72	(6.37)	1.35	7.35	(11.98)	(4.63)
Net asset value per share (Bonds at par value)			131.64			136.58
Net asset value per share (Bonds at market value)*			123.62			131.00

* The fair value of the 6.25% Bond using the last available quoted offer price from the London Stock Exchange as at 30 September 2016 was 135.02p per bond, a total of £81,010,000 (30 September 2015: 124.84p, a total of £74,904,000).

11. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 £'000	2015 £'000
UK equity listed investments held at fair value	198,879	207,919
Overseas equity listed investments held at fair value	88,321	61,320
Fixed interest investments held at fair value	131,680	84,354
BlackRock's Institutional Sterling Liquidity Fund	1,248	57,637
	420,128	411,230
Total Return Swaps – assets	747	310
Other derivative investments held at fair value – assets	1,905	3,482
Derivative investments held at fair value – assets	2,652	3,792
Credit Default Swap – liability	(90)	(321)
FX Swaps – liabilities	(96)	–
Total Return Swaps – liabilities	(3,145)	(4,561)
Other derivative investments held at fair value – liabilities	(6,427)	(7,275)
Derivative investments held at fair value – liabilities	(9,758)	(12,157)
Total investments	413,022	402,865
Valuation brought forward	402,865	490,658
Investment holding gains	34,785	(28,686)
Opening cost of investments	437,650	461,972
Additions at cost	408,549	549,467
Disposals	(461,106)	(573,789)
Cost carried forward	385,093	437,650
Closing investment holding gains/(losses)	27,929	(34,785)
Closing valuation of investments	413,022	402,865

During the year, the Company incurred purchase transaction costs of £486,000 (2015: £1,061,000) and sale transaction costs of £152,000 (2015: £425,000).

Gains/(losses) on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Realised (losses)/gains on sales	(51,091)	27,953
Changes in investment holding gains/(losses)	62,714	(63,471)
	11,623	(35,518)

12. DEBTORS

	2016 £'000	2015 £'000
Sales for future settlement	4,315	2,519
Prepayments and accrued income	1,904	1,470
Taxation recoverable	128	139
	6,347	4,128

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13. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Purchases for future settlement	1,273	2,870
Interest on 6.25% Bonds 2031	214	204
Finance charges	–	39
Accrued expenditure	1,601	787
	3,088	3,900

The Company had a £50 million committed unsecured multi-currency revolving advance facility which matured on 31 March 2016. No amounts were drawn down between 30 September 2015 and 31 March 2016.

14. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £'000	2015 £'000
6.25% Bonds 2031*	59,606	59,579
	59,606	59,579

* The market value of the 6.25% Bonds using the last available quoted offer price from the London Stock Exchange as at 30 September 2016 was 135.02p per bond, a total of £81,010,000 (30 September 2015: 124.84p, a total of £74,904,000.)

The Company has in issue £60 million Bonds 2031 which was issued at 99.343%. The bonds have been accounted for in accordance with accounting standards, which require any discount or issue costs to be amortised over the life of the bonds. The bonds are secured by a floating charge over all of the assets of the Company.

Under the covenants relating to the bonds, the Company is to ensure that, at all times, the aggregate principal amount outstanding in respect of monies borrowed by the Company does not exceed an amount equal to its share capital and reserves.

15. CALLED UP SHARE CAPITAL

	Ordinary shares (number)	Treasury shares (number)	Total shares (number)	£'000
Allotted, called up and fully paid share capital comprised:				
Ordinary shares of 25p each				
At 30 September 2015	274,437,282	16,675,000	291,112,282	72,778
Shares purchased and held in treasury	(7,600,000)	7,600,000	–	–
Shares issued from treasury	200,000	(200,000)	–	–
At 30 September 2016	267,037,282	24,075,000	291,112,282	72,778

During the year 7,600,000 ordinary shares were purchased and held in treasury (2015: 14,975,000) for a consideration of £8,934,698 (excluding stamp duty). 200,000 shares were re-issued from treasury (2015: nil) for a consideration of £271,200. The number of ordinary shares in issue at the year end, excluding treasury shares, was 267,037,282.

The ordinary shares (excluding any shares held in treasury) carry the right to receive any dividends and have one voting right per ordinary share. There are no restrictions on the voting rights of the ordinary shares or on the transfer of ordinary shares.

16. RESERVES

	Capital redemption reserve £'000	Capital reserve (arising on investments sold) £'000	Capital reserve (arising on revaluation of investments held) £'000	Revenue reserve £'000
At 1 October 2015	15,563	284,504	(34,693)	36,680
Movement during the year:				
Revenue profit for the year	–	–	–	20,602
Loss on realisation on investments	–	(51,091)	–	–
(Loss)/profit on foreign exchange movements	–	(26,705)	1,686	–
Change in investment holding gains	–	–	62,714	–
Ordinary shares purchased into treasury	–	(9,003)	–	–
Tender offer costs	-	(8)	–	–
Ordinary shares issued from treasury	-	270	–	–
Finance costs, transaction costs, investment management fee charged to capital	–	(3,603)	-	–
Dividends paid during the year	–	–	–	(18,173)
At 30 September 2016	15,563	194,364	29,707	39,109

17. RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's investment activities expose it to various types of risks which are associated with the financial instruments and markets in which it invests. The following information is not intended to be a comprehensive summary of all risks and shareholders should refer to the Alternative Investment Fund Managers' Directive Fund 3.2.2R Disclosures which can be found at www.blackrock.co.uk/bist for a more detailed discussion of the risks inherent in investing in the Company.

Risk management framework

The following information refers to the risk management framework of the Alternative Investment Fund Manager (AIFMD); however, as disclosed in the Corporate Governance Statement on pages 35 to 39 and in the Statement of Director's Responsibilities on page 44, it is the ultimate responsibility of the Board to ensure that the Company's risks are appropriately monitored, and to the extent that elements of this are delegated to third party service providers, the Board is responsible for reviewing whether the relevant parties are discharging their duties in accordance with the terms of relevant agreements and taking appropriate action to the extent issues are identified.

The Directors of the Alternative Investment Fund Manager (AIFM) review quarterly investment performance reports and receive semi-annual presentations in person from the Investment Manager covering the Company's performance and risk profile during the year. The AIFM has delegated the day-to-day administration of the investment programme to the Investment Manager. The Investment Manager is also responsible for ensuring that the Company is managed within the terms of its investment guidelines and limits set out in the Alternative Investment Fund Managers' Directive Fund 3.2.2R Disclosures which can be found at www.blackrock.co.uk/bist.

The AIFM is responsible for the investment performance monitoring, product risk monitoring and oversight and has the responsibility for the monitoring and oversight of regulatory and operational risk for the Company. The Directors of the AIFM have appointed a Risk Manager who has responsibility for the daily risk management process with assistance from key risk management personnel of the Investment Manager, including members of the Risk and Quantitative Analysis Group (RQA Group) which is a centralised group which performs an independent risk management function. The RQA Group independently identifies, measures and monitors investment risk. RQA tracks the actual risk management practices being deployed across the Company. By breaking down the components of this process RQA have the ability to determine if the appropriate risk management processes are in place across the Company. This captures the risk management tools employed, how the levels of risk are controlled, ensuring risk/return is considered in portfolio construction and reviewing outcomes.

The AIFM reports to the Board twice yearly on key risk metrics and risk management processes; in addition, the Depositary monitors the performance of the AIFM and reports to the Audit Committee. Any significant issues are reported to the Board on an ad hoc basis as they arise.

17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Risk exposures

The risk exposures of the Company are set out as follows:

(a) Market risk

Market risk arises mainly from uncertainty about future values of financial instruments influenced by other price, currency and interest rate movements. It represents the potential loss the Company may suffer through holding market positions in financial instruments in the face of market movements.

Value at Risk (VaR) is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis. In the Annual Report and Financial Statements for the year ended 30 September 2015, VaR was calculated with reference to the analytical parametric model (AVaR). With effect from 1 October 2015 the adjusted historical simulation model (HVaR) replaced the analytical parametric model in the calculation of VaR and has therefore been used in these financial statements. The risk profile of the Company has not changed although the values generated by the historical simulation model are lower than those previously generated by the analytical parametric model.

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than 1 day and a historical observation period of not less than 2 years (500 days). A VaR number is defined at a specified probability and a specified time horizon. A 99% 1 day VaR means that the expectation is that 99% of the time over 1 day the Fund will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk. It is noted that the use of VaR methodology has limitations, namely risk factor returns are normally distributed and that the use of historical market data as a basis for estimating future events does not encompass all possible scenarios, particularly those that are of an extreme nature and that the use of a specified confidence level (e.g. 99%) does not take into account losses that occur beyond this level. There is some probability that the loss could be greater than the VaR amounts. These limitations and the nature of the VaR measure mean that the Company can neither guarantee that losses will not exceed the VaR amounts indicated, nor that losses in excess of the VaR amounts will not occur more frequently.

The one-day VaR as of 30 September 2016 and 30 September 2015 (based on a 99% confidence level) was 1.51% and 2.16% respectively.

(i) Market risk arising from other price risk

Exposure to other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Company is exposed to market price risk arising from its equity investments, written/purchased options, total return swaps and futures. The movements in the prices of these investments result in movements in the performance of the Company.

Management of other price risk

By diversifying the portfolio, where this is appropriate and consistent with the Company's objectives, the risk that a price change of a particular investment will have a material impact on the NAV of the Company is minimised which is in line with the investment objectives of the Company.

(ii) Market risk arising from foreign currency risk

Exposure to foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency sensitivity risk has been covered by the VaR analysis under the market risk section.

The fair values of the Company's monetary items which have foreign currency exposure at 30 September 2016 and 30 September 2015 are shown below. Where the Company's equity investments which are not monetary items are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2016 Euro £'000	2016 USD £'000	2016 Other £'000	2015 Euro £'000	2015 USD £'000	2015 Other £'000
Debtors (due from brokers, dividends and other income receivable)	690	538	4,294	670	2,347	206
Cash and cash equivalents	2,754	552	–	562	10,635	2,197
Collateral pledged with brokers	1,036	68	–	–	–	–
Creditors	(568)	(7,208)	(9)	(811)	(2,059)	–
Total foreign currency exposure on net monetary items	3,912	(6,050)	4,285	421	10,923	2,403
Investments at fair value through profit or loss that are equities	11,409	72,691	1,645	17,244	26,716	–
Investments at fair value through profit or loss that are fixed interest	14,588	21,032	28,182	24,359	991	20,707
Derivatives:						
Options	158	(2,712)	–	(1,091)	503	(134)
Total return swaps	–	(2,398)	–	(1,738)	(2,513)	–
FX swaps	–	(96)	–	–	–	–
Credit default swaps	(90)	–	–	(321)	–	–
Forward currency contracts	36	104	132	(683)	–	(1,115)
Futures	(892)	(100)	–	–	(30)	(847)
Total net foreign currency exposure	29,121	82,471	34,244	38,191	36,590	21,014

Management of foreign currency risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board of the Company on a regular basis.

The Investment Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the exchange rate to which the Company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowing facilities are available, for specific lending periods, in the form of a multi-currency overdraft facility to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments.

The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt. The Company uses currency forwards to hedge the majority of unintended foreign currency risk.

Consequently, the Company is exposed to risks that the exchange rate of its reporting currencies relative to other currencies may change in a manner which has an adverse effect on the value of the portion of the Company's assets which are denominated in currencies other than their own currencies.

(iii) Market risk arising from interest rate risk

Exposure to interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk specifically through its cash holdings, its fixed/floating interest investments and its borrowing. Interest rate movements may affect the level of income receivable from any cash at bank and on deposits and the level of interest payable on variable rate borrowings. The effect of interest rate changes on the earnings of the companies held within the portfolio may have a significant impact on the valuation of the Company's investments.

17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Interest rate exposure

The Company's exposure at 30 September 2016 and 30 September 2015 of financial assets and liabilities to interest rate risk is shown by reference to:

- floating interest rates – when the interest rate is due to be reset; and
- fixed interest rates – when the financial instrument is due for repayment

	2016			2015		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to fixed interest rates:						
– Fixed interest investments	30	128,928	128,958	4,295	41,372	45,667
– 6.25% Bonds 2031	–	(59,606)	(59,606)	–	(59,579)	(59,579)
Exposure to floating interest rates:						
– Fixed interest investments	–	2,722	2,722	–	38,687	38,687
– Cash & cash equivalents	2,203	–	2,203	14,678	–	14,678
– Bank overdraft	(18,084)	–	(18,084)	–	–	–
– Net collateral pledged with brokers	10,727	–	10,727	16,640	–	16,640
– BlackRock's Institutional Sterling Liquidity Fund	1,248	–	1,248	57,637	–	57,637
Total exposure to interest rates	(3,876)	72,044	68,168	93,250	20,480	113,730

Interest rates received on GBP cash balances is approximately 0.0% and interest rates paid on GBP overdrawn positions is 3.25% (0.375% and 2.5% respectively on USD balances per annum).

Management of interest rate risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. Derivative contracts are not used to hedge against the exposure to interest rate risk. Interest rate sensitivity risk has been covered by the VaR analysis under the market risk section.

The Company finances part of its activities through borrowings at levels approved and monitored by the Board of the Company. The Company, generally, does not hold significant overdrawn balances, with short term borrowing used when required.

The Company's 2031 Bonds accrue interest at a fixed rate of 6.25% per annum. The Company expects to hold this stock to maturity, therefore it is not exposed to variations in interest rates.

(b) Counterparty credit risk

Credit risk is the risk that the issuer of a financial instrument will fail to fulfil an obligation or commitment that it has entered into with the Company.

The Company is exposed to counterparty credit risk from the parties with which it trades and will bear the risk of settlement default. Counterparty credit risk to the Company arises from transactions to purchase or sell investments.

Credit risk is monitored and managed by BlackRock's Risk & Quantitative Analysis Counterparty & Concentration Risk Team (RQA CCR). The team is headed by BlackRock's Chief Credit Officer who reports to the Global Head of RQA. Credit authority resides with the Chief Credit Officer and selected team members to whom specific credit authority has been delegated. As such, counterparty approvals may be granted by the Chief Credit Officer, or by identified RQA Credit Risk Officers who have been formally delegated authority by the Chief Credit Officer.

RQA CCR completes a formal review of each new counterparty, monitors and reviews all approved counterparties on a ongoing basis and maintains an active oversight of counterparty exposures and the collateral management process.

Depositary

The Company's Depositary is BNY Mellon Trust & Depositary (UK) Limited (the "Depositary") (Moody's long term credit rating as at 30 September 2016: Aa2). All of the equity assets, fixed income assets and cash of the Company are held within the custodial network of the Depositary. Bankruptcy or insolvency of the Depositary may cause the Company's rights with respect to its investments held by the Depositary to be delayed or limited. The maximum exposure to this risk at 30 September 2016 is the total value of investments held with the Depositary and cash and cash equivalents in the Balance Sheet.

In accordance with the requirements of the depositary agreement, the Depositary will ensure that any agents it appoints to assist in safekeeping the assets of the Company will segregate the assets of the Company. Thus, in the event of insolvency or bankruptcy of the Depositary, the Company's non-cash assets are segregated and this reduces counterparty credit risk. The Company will also be exposed to the counterparty credit risk of the Depositary in relation to the Company's cash held by the Depositary. In the event of the insolvency or bankruptcy of the Depositary, the Company will be treated as a general creditor of the Depositary in relation to cash holdings of the Company.

The Company's listed investments are held on its behalf by The Bank of New York Mellon (International) Limited as the Company's custodian. Bankruptcy or insolvency of the custodian may also cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

Counterparties/Brokers

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has made payment. Payment is made on a purchase once the securities have been delivered by the broker. The trade will fail if either party fails to meet its obligation.

Counterparty credit risk also arises on transactions with the broker in relation to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit rating and financial position of the brokers used to further mitigate this risk.

The Company may also be exposed to counterparty risk should there be any rehypothecation of pledged collateral. Collateral is received/paid where the client service agreement states that there should be collateral movements agreed with the counterparty, where there is a requirement for a mark-to-market process or collateralisation to ensure that the Company is protected against any counterparty default.

The Company may write and purchase both exchange traded and over-the-counter derivative contracts as part of its investment policy.

Financial Derivative Instruments

During the year ended 30 September 2016, the Company purchased over-the-counter total return swaps, credit default swaps and futures for efficient portfolio management. The Company also wrote covered call and put option contracts to generate both revenue for the Company and for efficient portfolio management. To the extent that cash positions are held to back derivative exposures, and therefore to the extent that the Company would not be geared if it had utilised these cash balances to gain comparable market exposure through direct investment, the Company is not considered to be geared through the use of derivative products. At 30 September 2016, the Company had notional gross exposures of £825,415,000 (2015: £542,837,000) through derivative products. After taking into account the fact that of this balance notional exposures of £411,555,000 related to short positions, the net market exposure through the use of derivatives amounts to £12,444,000, which means that the Company was marginally geared at the year end after taking into account the fact that cash of £2,203,000 and BlackRock's Institutional Cash Fund holdings of £1,248,000 was available to offset these exposures.

Where an income stream can be determined on the total return instruments the gain or loss will be included in the revenue column of the Income Statement.

Management of OTC financial derivative instruments

Exposures are monitored daily by the Investment Manager and its independent risk management team. The Company's Board also reviews the exposures regularly.

The derivative positions are diversified across geographical regions and comprise 12 option positions, 6 total return swap positions, 4 FX swaps, 8 futures and 72 forward currency positions and 1 credit default swap as at 30 September 2016 (2015: 23 option positions, 9 total return swap positions, 4 futures and 22 forward currency contracts).

The economic exposures can be closed out at any time by the Company with immediate effect.

Notes to the financial statements continued

17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

The gross underlying notional exposures within the derivatives portfolio at 30 September 2016 were:

	2016 £'000	% of gross assets	2015 £'000	% of gross assets
Options – gross exposure relating to short positions	33,463	8.1	43,398	10.0
Options – gross exposure relating to long positions	31,579	7.7	33,409	7.7
Credit default swaps – gross exposure relating to short positions	30,092	7.3	25,446	5.9
Total return swaps – gross exposure relating to long positions	32,863	8.0	76,091	17.5
Forward currency contracts – gross exposure relating to short positions	318,174	77.4	210,214	48.4
Forward currency contracts – gross exposure relating to long positions	317,806	77.3	96,968	22.3
Futures – gross exposure relating to short positions	29,826	7.3	39,960	9.2
Futures – gross exposure relating to long positions	31,612	7.7	17,351	4.0
Gross economic exposure	825,415	200.8	542,837	125.0
Net market exposure	12,444	3.0	(95,199)	(21.9)

Derivative instruments enable an investor to benefit from the price of a stock falling (short positions) as well as rising, and thus to benefit from negative as well as positive views on individual stocks. Market exposure gained through derivative instruments in the table above shows the total gross market value of the underlying securities to which the portfolio is exposed, irrespective of whether these are long or short positions. At 30 September 2016 the total market exposure through long and short derivative contracts amounted to £825,415,000. However it should be noted that short exposures provide a hedging effect, as long and short positions theoretically offset one another when the market moves in a particular direction. After taking into account the offsetting long and short positions into the portfolio, the net market exposure through these derivative positions was £12,444,000. As at 30 September 2015, the portfolio had a greater degree of short exposure to foreign currency forward contracts, and hence the net market exposure was negative.

During the year, the Company recognised losses of £7,151,000 in relation to total return swaps. No income was received during the period.

Collateral

The Company engages in activities which may require collateral to be provided to a counterparty ("pledged collateral") or may hold collateral received ("inbound collateral") from a counterparty. The Company uses inbound collateral received from a counterparty to reduce the counterparty credit risk associated with any trading activity in which the Company has engaged.

Cash collateral pledged by the Company is separately identified as an asset in the Balance Sheet and is not included as a component of cash and cash equivalents.

Inbound cash collateral received by the Company is reflected as a liability on the Balance Sheet as collateral received from brokers. The cash is subject to certain counterparty credit risk as the Company's access to its cash could be delayed should the counterparties become insolvent or bankrupt. Collateral pledged or received in the form of securities is also reflected on the Balance Sheet. The Company has the right to sell or re-pledge collateral received in the form of securities in circumstances such as default.

The fair value of inbound cash/securities collateral and cash/securities collateral pledged is reflected in the table below:

	Pledged collateral		Inbound collateral	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash collateral	9,932	17,524	(770)	(637)
Securities collateral	1,565	–	–	(247)
	11,497	17,524	(770)	(884)

Receivables

Amounts due from brokers are disclosed on the Balance Sheet as debtors. The counterparties included in debtors are the same counterparties discussed previously under counterparty credit risk and subject to the same scrutiny by the RQA CCR. The Company monitors the ageing of receivables to mitigate the risk of debtors balances becoming overdue.

In summary, the exposure to counterparty credit risk at 30 September 2016 was as follows:

	2016 3 months or less £'000	2015 3 months or less £'000
BlackRock's Institutional Sterling Liquidity Fund	1,248	57,637
Cash & cash equivalents	2,203	14,678
Collateral pledged with brokers	11,497	17,524
Other receivables (amounts due from brokers, dividends, and interest receivable)	6,347	4,128
	21,295	93,967

Offsetting disclosures

In order to better define its contractual rights and to secure rights that will help the Company mitigate its counterparty risk, the Company may enter into an ISDA Master Agreement or similar agreement with its OTC derivative contract counterparties. An ISDA Master Agreement is an agreement between the Company and the counterparty that governs OTC derivatives and foreign exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, the Company has a contractual right to offset with the counterparty certain derivative financial instruments payables and/or receivables with collateral held and/or posted and create one single net payment in the event of default including the bankruptcy or insolvency of the counterparty. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events.

For financial reporting purposes, the Company does not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Balance Sheet on the basis that it does not always intend to settle contracts on a net basis.

At 30 September 2016, the Company's derivative assets and liabilities (by type) are as follows:

	At 30 September 2016		At 30 September 2015	
Derivatives	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Options – short position	–	(3,952)	–	(3,810)
Options – long position	1,398	–	2,759	–
Credit default swaps – short position	–	(90)	–	(321)
Total return swaps – long position	747	(3,145)	310	(4,561)
FX Swaps – long position	–	(96)	–	–
Forward currency contracts – short position	–	(875)	–	(2,588)
Forward currency contracts – long position	507	–	418	–
Futures – short position	–	(1,600)	–	(877)
Futures – long position	–	–	305	–
Total derivative assets and liabilities in the Balance Sheet	2,652	(9,758)	3,792	(12,157)
Derivatives not subject to a master netting agreement	(507)	875	(418)	2,588
Total assets and liabilities subject to a master netting agreement	2,145	(8,883)	3,374	(9,569)

17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

The following table presents the Company's derivative assets and liabilities by counterparty, net of amounts available for offset, under a master netting agreement and net of any related collateral paid by the Company as at 30 September 2016. Forwards are excluded as they are not subject to ISDA Master Agreements.

Counterparty	Derivative assets subject to a master netting agreement £'000	Derivatives available for offset £'000	Non-cash collateral £'000	Inbound cash collateral £'000	Net amount of derivative assets £'000
As at 30 September 2016					
BNP Paribas	32	–	–	–	32
Merrill Lynch	715	–	–	(140)	575
Deutsche Bank AG	110	–	–	–	110
Goldman Sachs	1,084	–	–	–	1,084
Morgan Stanley	204	–	–	–	204
Total as at 30 September 2016	2,145	–	–	(140)	2,005
As at 30 September 2015					
Merrill Lynch	302	–	–	–	302
Citibank	278	–	–	–	278
Deutsche Bank AG	310	–	(247)	–	63
Goldman Sachs	2,484	–	–	–	2,484
Total as at 30 September 2015	3,374	–	(247)	–	3,127

Counterparty	Derivative liabilities subject to a master netting agreement £'000	Derivatives available for offset £'000	Non-cash collateral £'000	Pledged cash collateral £'000	Net amount of derivative assets £'000
As at 30 September 2016					
Merrill Lynch	(356)	–	–	–	(356)
Citibank	(60)	–	–	–	(60)
Deutsche Bank AG	(2,020)	–	1,797	–	(223)
Goldman Sachs	(6,074)	–	768	5,306	–
Morgan Stanley	(283)	–	254	–	(29)
Societe Generale	(90)	–	–	–	(90)
Total as at 30 September 2016	(8,883)	–	2,819	5,306	(758)
As at 30 September 2015					
Merrill Lynch	(471)	–	–	471	–
Citibank	(1,262)	–	–	900	(362)
Deutsche Bank AG	(229)	–	–	–	(229)
Goldman Sachs	(4,324)	–	–	4,324	–
JP Morgan	(2,294)	–	–	2,294	–
Morgan Stanley	(668)	–	–	668	–
Societe Generale	(321)	–	–	250	(71)
Total as at 30 September 2015	(9,569)	–	–	8,907	(662)

Management of counterparty credit risk

RQA are responsible for the risk management of the Company, with duties comprising identifying, monitoring and managing risk, including counterparty credit risk and are supported in this role by the Investment Manager.

RQA CCR is headed by BlackRock's Chief Credit Officer who reports to the Global Head of RQA. Credit authority resides with the Chief Credit Officer and selected team members to whom specific credit authority has been delegated. As such, counterparty approvals may be granted by the Chief Credit Officer, or by identified RQA Credit Risk Officers who have been formally delegated authority by the Chief Credit Officer.

The Company has a low level of counterparty / credit risk, which is managed as follows:

- transactions are only entered into with those counterparties approved by RQA CCR, with a formal review carried out for each new counterparty and with counterparties selected by RQA CCR on the basis of a range of risk mitigation criteria designed to reduce the risk of the Company of default;
- transactions involving derivatives are either exchange traded where the relevant exchange guarantees settlement or on an over-the-counter basis. Transactions are entered into with those counterparties approved by RQA CCR. Counterparties are selected on the basis of a number of risk mitigation criteria designed to reduce the risk to the Company of default;
- the Company's listed investments are held on its behalf by The Bank of New York Mellon (International) Limited as the Company's custodian (as sub-delegated by the Depositary). Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Company's risk by reviewing the Custodian's internal controls;
- RQA CCR monitors and reviews all approved counterparties on an ongoing basis and maintains an active oversight of counterparty exposures and the collateral management process;
- the creditworthiness of financial institutions with whom cash is held is reviewed regularly by RQA CCR;
- all transactions in quoted securities are settled on a payment against delivery basis using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has made payment. Payment is made on purchase once the securities have been delivered by the broker. The trade will fail if either party fails to meets its obligation. RQA CCR review the credit standard of the Company's brokers on a periodic basis, and set limits on the amount that may be due from any one broker;
- amounts due from debtors as disclosed on the Balance Sheet are subject to the same scrutiny by RQA CCR. BlackRock's Fund Administration team monitors the ageing of debtors to mitigate the risk of balances becoming overdue.

The Board monitors the Company's counterparty risk by reviewing:

- the semi-annual report from the Depositary, which includes the results of periodic site visits to the Company's Custodian where controls are reviewed and tested;
- the Custodian's Service Organisation Control (SOC1) Reports which include a report by the custodian's auditor. This report sets out any exceptions or issues noted as a result of the auditor's review of the custodian's control processes;
- the Manager's SOC1 Reports which include a report by the Manager's auditor. This report sets out any exceptions or issues noted as a result of the auditor's review of the Managers control processes;
- in addition the Depositary and the Manager report any significant reaches or issues arising to the Board as soon as these are identified.

(c) Liquidity risk

This is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company is also exposed to the liquidity risk for margin calls on derivative instruments. At the year end, the Company does not have a documented overdraft facility with the custodian (2015: £50 million facility with State Street), however the Company may from time to time have short term overdraft balances for the purposes of short term liquidity.

17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Liquidity risk exposure

The remaining undiscounted gross cash outflows of the financial liabilities as at 30 September 2016 and 2015, based on the earliest date on which payment can be required, were as follows:

	2016			2015		
	Within 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Within 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000
Creditors: amounts falling due in more than one year:						
6.25% Bonds 2031	–	–	59,606	–	–	59,579
Creditors: amounts falling due within one year:						
Bank overdraft	18,084	–	–	–	–	–
Amounts due to brokers, accruals and provisions	3,088	–	–	3,900	–	–
Amounts due to derivative counterparty in respect of collateral held on account	770	–	–	884	–	–
Derivative financial liabilities held at fair value through profit or loss	9,758	–	–	12,157	–	–
	31,700	–	59,606	16,941	–	59,579

* The future undiscounted cash flows due in respect of the 2031 6.25% Bonds which are not yet recognised in the Balance Sheet are as follows: Within 1 Year – £3,750,000; Between 1 and 5 Years – £15,000,000; More than 5 Years – £33,545,000.

Management of liquidity risk

Liquidity risk is minimised by holding sufficient liquid investments which can be readily realised to meet liquidity demands. Asset disposals may also be required to meet liquidity needs. However, the timely sale of trading positions can be impaired by many factors including decreased trading volume and increased price volatility. As a result, the Company may experience difficulties in disposing of assets to satisfy liquidity demands. Liquidity risk is not significant as the majority of the Company's assets are investments in listed securities that are readily realisable.

The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with established policies and procedures in place. The Portfolio Managers review daily forward-looking cash reports which project cash obligations. These reports allow them to manage their obligations.

The Board of Directors gives guidance to the Investment Manager as to the maximum amount of the Company's resources that should be invested in any one Company. The policy is that the Company should remain fully invested in normal market conditions and that short term borrowings be used to manage short term cash requirements.

For the avoidance of doubt, none of the assets of the Company are subject to special liquidity arrangements.

(d) Valuation of financial instruments

The Company has early adopted the amendments to FRS 102 'Fair Value Hierarchy disclosures' effective for the annual periods beginning on or after 1 January 2017. These amendments improve the consistency of fair value disclosures from financial instruments with those required by EU adopted IFRS.

Financial assets and financials liabilities are either carried in the Balance Sheet at their fair value (investments) or at an amount which is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash & cash equivalents and overdrafts). Section 11 of FRS 102 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The valuation techniques used by the Company are explained overleaf.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

The fair value hierarchy has the following levels:

Level 1 – Quoted market price for an identical instruments in active markets
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Company does not adjust the quoted price for these instruments.

Level 2 – Valuation techniques using observable inputs
This category includes instruments valued using quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Valuation techniques used for non-standardised financial instruments such as over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity specific inputs.

Level 3 – Valuation techniques using significant unobservable inputs
This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument's valuation.

This category also includes instruments that are valued based on quoted prices for similar instruments where significant entity determined adjustments or assumptions are required to reflect differences between the instruments and instruments for which there is no active market. The investment manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The table below is an analysis of the Company's financial instruments measured at fair value at the balance sheet date.

Financial assets and liabilities at fair value through profit or loss at 30 September 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	274,079	–	13,121	287,200
Fixed interest instruments	131,680	–	–	131,680
Option – Financial assets	–	1,398	–	1,398
Option – Financial liabilities	–	(3,952)	–	(3,952)
Forward currency contracts – Financial assets	–	507	–	507
Forward currency contracts – Financial liabilities	–	(875)	–	(875)
Futures – Financial assets	–	–	–	–
Futures – Financial liabilities	–	(1,600)	–	(1,600)
Total return swaps – Financial assets	–	747	–	747
Total return swaps – Financial liabilities	–	(3,145)	–	(3,145)
FX swaps – Financial liabilities	–	(96)	–	(96)
Credit default swap	–	–	(90)	(90)
BlackRock's Institutional Cash Series plc – Sterling Liquidity Fund	1,248	–	–	1,248
Total	407,007	(7,016)	13,031	413,022

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17. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Financial assets and liabilities at fair value through profit or loss at 30 September 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	269,239	–	–	269,239
Fixed interest instruments	84,354	–	–	84,354
Option – Financial assets	–	2,759	–	2,759
Option – Financial liabilities	–	(3,810)	–	(3,810)
Forward currency contracts – Financial assets	–	418	–	418
Forward currency contracts – Financial liabilities	–	(2,588)	–	(2,588)
Futures – Financial assets	–	305	–	305
Futures – Financial liabilities	–	(877)	–	(877)
Total return swaps	–	(4,251)	–	(4,251)
Credit default swap	–	–	(321)	(321)
BlackRock's Institutional Cash Series plc – Sterling Liquidity Fund	57,637	–	–	57,637
Total	411,230	(8,044)	(321)	402,865

Level 3 Financial assets at fair value through profit or loss at 30 September	2016 £'000	2015 £'000
Opening fair value	(321)	–
Purchases at cost	12,468	–
Disposals	2	–
Total gains or losses included in gains/(losses) on investments in the Income Statement:		
– assets disposed of during the year	25	–
– assets held at the end of the year	857	(321)
Closing balance	13,031	(321)

Level 3 valuation techniques used by the Company are explained in the accounting policies in note 2(h). The Level 3 assets comprise MAS Mortgage Holdings, Forward Partners 1 and the Credit Default Swap.

There were no transfers between levels for financial assets and financial liabilities during the year recorded at fair value as at 30 September 2016 and 30 September 2015.

For all other assets and liabilities (i.e. those not included in the hierarchy table) carrying value approximates to fair value.

(e) Leverage

The Company may employ leverage and borrow cash in accordance with its stated investment policy or investment strategy. The Company may also employ leverage in its investment programme through various means including the use of financial derivative instruments. The use of borrowings and leverage has associated risks and can, in certain circumstances, substantially increase the adverse impact of which the Company's investment portfolio may be subject.

For the purposes of this disclosure, leverage is any method by which the Company's exposure is increased, whether through borrowings of cash and securities, or leverage embedded in derivative positions, or by any other means. The AIFMD requires that the leverage ratio be expressed as the ratio between a Company's exposure and its NAV, and prescribes two required methodologies, the gross methodology and the commitment methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure. Using the methodologies prescribed under the AIMFD, the leverage of the Company is disclosed in the table below:

Derivatives	Commitment Leverage* 30 September 2016	Gross Leverage* 30 September 2016	Commitment Leverage* 30 September 2015	Gross Leverage* 30 September 2015
Leverage ratio	2.60	3.82	2.07	2.67

* Further explanations regarding the basis of these calculations are given in the glossary on page 85.

(f) Capital management policies and procedures

The Company's capital management objectives are:

- to ensure it will be able to continue as a going concern; and
- secure long term capital growth primarily through investing globally using a flexible multi-asset approach.

This is to be achieved through an appropriate balance of equity capital and gearing. The policy is that gearing should not exceed 20% of net assets.

The Company's total capital at 30 September 2016 was £411,127,000 (2015: £434,411,000), £59,606,000 of 2031 Bonds at par value (2015: £59,579,000) and £351,521,000 (2015: £374,832,000) of equity share capital and other reserves.

The board with the assistance of the Investment Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Investment Manager's view on the market; and
- the need to buy back equity shares, either for cancellation or to be held in treasury, which takes account of the difference between the NAV per share and the share price (i.e. the level of share price discount or premium).

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restrictions tests imposed on investment companies by law.

During the year, the Company complied with the externally imposed capital requirements to which it was subject.

18. TRANSACTIONS WITH THE INVESTMENT MANAGER AND AIFM

BlackRock Fund Managers Limited (BFM) was appointed as the Company's AIFM with effect from 27 February 2015. BFM provides management and administrative services to the Company under a contract which is terminable on six months notice. BFM has (with the Company's consent) delegated certain portfolio and risk management services and other ancillary services, to BlackRock Investment Management (UK) limited (BIM (UK)). Further details of the investment management contract are disclosed in the Directors' Report on pages 29 and 30.

The management fee for the year was £1,388,000 (2015: £1,783,000 of which £810,000 was recognised as earned by F&C), as disclosed in note 4 to the Financial Statements on page 57. At the year end, an amount of £656,000 was outstanding in respect of these fees (2015: £227,000).

In addition to the above services, BlackRock has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 30 September 2016 amounted to £94,000 including VAT (2015: £107,000) of which £86,000 was outstanding at year end (2015: £107,000).

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18. TRANSACTIONS WITH THE INVESTMENT MANAGER AND AIFM continued

The Company also has investments in several funds managed by BlackRock and details of the amounts invested as at 30 September 2016 are set out in the table below. As disclosed in note 4 on page 57, management fees may be levied on some of these investments. To the extent that any such management fees have been charged in respect of these holdings, the Company is rebated these management fees on a regular basis to ensure that no double charging occurs. For the year to 30 September 2016, fees of £289,000 were levied in respect of these funds and were rebated in full to the Company (2015: £180,000).

Fund	Value at 30 September 2016 £'000	Value at 30 September 2015 £'000
iShares Core GBP Corporate Bond Fund	29,264	4,997
iShares Gold Trust	26,658	–
BGF Global Corporate Bond Fund	25,844	23,782
BlackRock Impact World Equity Fund	16,386	22,881
BlackRock Throgmorton Trust	10,456	10,315
BGF Emerging Markets Equity Income Fund	8,785	6,372
MAS Mortgage Holdings	8,721	–
iShares Physical Gold	4,874	–
iShares UK Property	4,354	–
BGF ASEAN Leaders Fund	2,553	1,760
BlackRock's Institutional Cash Series plc – Sterling Liquidity Fund	1,248	57,637
BGF Asian Dragon Fund	–	4,076
Total	139,143	131,820

19. RELATED PARTIES DISCLOSURES

Disclosures of the Directors' interests in the ordinary shares of the Company and fees and expenses payable to the Directors are given in the Directors' Remuneration Report on pages 33 and 34.

20. COMMITMENTS AND CONTINGENT LIABILITIES

At 30 September 2016, the Company had commitments of £21,500,000 of which £18,006,000 remained outstanding (2015: nil). Further details are given below. There were no contingent liabilities as at 30 September 2016 (2015: Nil).

The Company had a commitment of £4,500,000 in respect of an investment in Forward Partners 1, of which £3,494,000 was drawn down as at 30 September 2016. A further £47,000 has subsequently been drawn down since the year end, leaving a further liability of £959,000 outstanding.

The Company had a commitment of £8,500,000 in respect of an investment in BlackRock Infrastructure Funds plc - Renewable Income UK Sub Fund, of which £nil was drawn down as at 30 September 2016. Since the year end, £3,211,000 has been drawn down, leaving a further liability of £5,289,000 outstanding.

The Company had a commitment of £8,500,000 in respect of an investment in Cheyne Social Property Impact Holdings LP, of which £nil was drawn down as at 30 September 2016 and to date, leaving a liability of £8,500,000 outstanding.

Additional information

Analysis of ordinary shareholders as at 30 September 2016

BY TYPE OF HOLDER

Party type	Number of holders	%	Number of shares	%
Individuals	4,597	74.18	27,857,590	10.43
Bank or Nominees	1,509	24.35	237,200,058	88.83
Investment Trust	7	0.11	63,852	0.02
Insurance Company	14	0.23	232,728	0.09
Other Company	51	0.82	1,310,520	0.49
Pension Trust	1	0.02	1	0.00
Other Corporate Body	18	0.29	372,533	0.14
Total excluding treasury shares	6,197	100.00	267,037,282	100.00
Treasury shares	1		24,075,000	
Total including treasury shares			291,112,282	

BY SIZE OF HOLDING

Range	Number of holders	%	Number of shares	%
1-1,000	806	13.01	404,815	0.15
1,001-5,000	2,777	44.81	8,095,577	3.03
5,001-10,000	1,372	22.14	10,055,015	3.77
10,001-100,000	1,077	17.38	25,658,543	9.61
100,001-500,000	92	1.48	21,070,239	7.89
500,001-1,000,000	27	0.44	20,162,480	7.55
1,000,001 and above.	46	0.74	181,590,613	68.00
Total excluding treasury shares	6,197	100.00	267,037,282	100.00
Treasury shares	1		24,075,000	
Total including treasury shares			291,112,282	

Additional information

Directors, management and other service providers

Directors
James Long (Chairman)
Jim Grover
Lynn Ruddick
Ian Russell (Chairman of the Audit Committee)
Julian Sinclair
Jimmy West (Senior Independent Director)

Registered Office
(Registered in Scotland, No. 3721)
Exchange Place One
1 Semple Street
Edinburgh EH3 8BL

Alternative Investment Fund Manager[3]
BlackRock Fund Managers Limited[1]
12 Throgmorton Avenue
London EC2N 2DL

Investment Manager & Secretary[3]
BlackRock Investment Management (UK) Limited[1]
12 Throgmorton Avenue
London EC2N 2DL
Telephone: 020 7743 3000

Depositary
BNY Mellon Trust & Depositary (UK) Limited[1]
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Registrar
Computershare Investor Services PLC[2]
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Registrars' Shareholder Helpline:
0330 303 1184

Auditor
Ernst & Young LLP
Chartered Accountants and Statutory Auditors
25 Churchill Place
London E14 5EY

Stockbrokers
Cenkos Securities plc[1]
6.7.8 Tokenhouse Yard
London EC2R 7AS

Solicitors
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Savings Plan and NISA Administrator[3]
BlackRock Investment Management (UK) Limited[1]
Freepost RLTZ-KHUH-KZSB
PO Box 9036
Chelmsford CM99 2XD
Telephone: 0800 44 55 22

1 Authorised and regulated by the Financial Conduct Authority.
2 Computershare Investor Services PLC was appointed as the Company's registrar with effect from 16 November 2015. Prior to this date, registrar services were provided by Equiniti Limited.
3 It is anticipated that with effect from 11 February 2017, BlackRock will cease to be the Company's Alternative Investment Fund Manager and Aberdeen Fund Managers Limited will take over this role. It is expected that Aberdeen will also take over as the Company's Investment Manager and Secretary with effect from this date. The Savings Plan and NISA Administration will also move provider following the transition of the management contract to Aberdeen, and more information will be sent to Savings Plan and NISA members regarding these changes in due course.

Additional information

Shareholder information

FINANCIAL CALENDAR

The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

January

Annual results announced. Annual Report and Financial Statements published.

Fourth quarterly interim dividend paid.

February/March

Annual General Meeting.

April

First quarterly interim dividend paid.

May

Half yearly figures to 31 March announced and half yearly financial report published.

July

Second quarterly interim dividend paid.

October

Third quarterly interim dividend paid.

Ordinary share price

The Company's mid-market ordinary share price is quoted daily in The Financial Times and The Times under "Investment Companies" and in The Daily Telegraph under "Investment Trusts". The share price is also available on the BlackRock website at blackrock.co.uk/bist.

Payment of dividends

Ordinary dividends are paid quarterly in April, July, October and January each year. Cash dividends will be sent by cheque to the first-named shareholder at their registered address.

Dividends may also be paid direct into a shareholder's bank account via BACSTEL-IP (Bankers' Automated Clearing Service – Telecom Internet Protocol). This may be arranged by contacting the Company's registrar, Computershare Investor Services PLC, on 0330 303 1184 or by completing the Mandate Instructions section on the reverse of your dividend counterfoil and sending this to the Company's registrar, Computershare. Mandates may also be obtained from Computershare Investor Services PLC, The Pavilions, Bridgwater Road Bristol BS99 6ZZ. Tax vouchers will be sent to shareholders at their registered address, unless other instructions have been given, to arrive on the payment date.

Dividend Reinvestment Plan

Shareholders who wish to use their dividends to purchase further shares in the Company by participating in the Company's Dividend Reinvestment Plan can complete a mandate form which may be obtained from Computershare at the above address. Shareholders who have already joined the Company's Dividend Reinvestment Plan have been sent a new set of terms and conditions.

DIVIDENDS

The Board declared the following dividends in the year:

	Dividend rate	Record date	Pay date
First quarterly interim dividend	1.635p	11 March 2016	8 April 2016
Second quarterly interim dividend	1.635p	24 June 2016	22 July 2016
Third quarterly interim dividend	1.635p	16 September 2016	10 October 2016
Fourth quarterly interim dividend	1.635p	6 January 2017	27 January 2017

ISIN/SEDOL NUMBERS

The ISIN/SEDOL numbers and mnemonic codes for the Company's shares are:

ISIN	GB0001297562
SEDOL	0129756
Bloomberg code	BIST LN Equity
Ticker	BIST

SHARE DEALING

Investors wishing to purchase more shares in the Company or sell all or part of their existing holding may do so through a stockbroker. Most banks also offer this service. For existing shareholders the Company's registrar, Computershare Investor Services PLC, has both internet and telephone share dealing services. To access the internet share dealing service, log on to computershare.com/sharedealingcentre. The telephone share dealing service is available 0370 703 0084. To use these services, you will need your shareholder reference number, which is detailed on your form of proxy.

Internet dealing – The fee for this service is 1% of the value of each sale or purchase of shares (subject to a minimum of £30). Stamp duty of 0.5% is payable on purchases.

Additional information

Shareholder information continued

Telephone dealing – The fee for this service will be 1% of the value of the transaction plus £35. Stamp duty of 0.5% is payable on purchases.

CREST

The Company's shares may be held in CREST, an electronic system for uncertificated securities trading. Private investors can continue to retain their share certificates and remain outside the CREST system. Private investors are able to buy and sell their holdings in the same way as they did prior to the introduction of CREST, although there may be differences in dealing charges.

ELECTRONIC PROXY VOTING

Shareholders are able to submit their proxy votes electronically via Computershare's internet site at eproxyappointment.com using their shareholder reference number, control number and a unique identification PIN which will be provided with voting instructions and the Notice of Annual General Meeting.

CREST members who wish to appoint one or more proxies or give an instruction through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. More details are set out in the notes on the Form of Proxy and the Notice of Annual General Meeting.

NOMINEE CODE

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and
- that investors in the BIM (UK) Investment Trusts Savings Plan and NISA are automatically sent shareholder communications, including details of general meetings, together with a Form of Direction to facilitate voting and to seek authority to attend.

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

PUBLICATION OF NET ASSET VALUE/PORTFOLIO ANALYSIS

The net asset value (NAV) per share of the Company is calculated daily, with details of the Company's investments and performance being published monthly. The daily NAV per share and monthly information are released through the London Stock Exchange's Regulatory News Service and are available on the BlackRock website at blackrock.co.uk/bist and through the Reuters News Service under the code "BLRKINDEX", on page 8800 on Topic 3 (ICV terminals) and under "BLRK" on Bloomberg (monthly information only).

ONLINE ACCESS

Other details about the Company are available on the BlackRock website at blackrock.co.uk/bist. The financial statements and other literature are published on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction. Shareholders can also manage their shareholding online by using Investor Centre, Computershare's secure website, at investorcentre.co.uk. To access Computershare's website you will need your shareholder reference number (SRN) which can be found on your form of proxy. Listed below are the most frequently used features of the website.

- Holding enquiry – view balances, values, history, payments and reinvestments.
- Payments enquiry – view your dividends and other payment types.
- Address change – change your registered address.
- Bank details update – choose to receive your dividend payment directly into your bank account instead of by cheque.
- e-Comms sign-up – choose to receive email notification when your shareholder communications become available instead of paper communications.
- Outstanding payments – reissue payments using the online replacement service.
- Downloadable forms – including dividend mandates, stock transfer, dividend reinvestment and change of address forms.

SAVINGS PLAN

The Company currently participates in the BlackRock Savings Plan, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Savings Plan should call BIM (UK) free on 0800 44 55 22. It is expected that Aberdeen Fund Managers Limited will become the Company's Alternative Investment Fund Manager with effect from 11 February 2017, and consequently the Company will no longer be a permitted investment option under BlackRock's Savings Plan and NISA. More information will be provided in due course regarding the options available to Savings Plan and NISA investors regarding the options available to them with regard to their holdings.

STOCKS AND SHARES INDIVIDUAL SAVINGS ACCOUNTS (NISA)

ISAs are a tax-efficient method of investment and the Company's shares are eligible investments within the BIM (UK) Investment Trust Stocks and Shares NISA. In the 2016/2017 tax year investors will be able to invest up to £15,240 in New ISAs either as cash or shares. Details are available from BlackRock by calling free on 0800 44 55 22.

SHAREHOLDER ENQUIRIES

The Company's registrar is Computershare Investor Services PLC. Certain details relating to your holding can be checked through the Computershare Investor Centre website. As a security check, specific information needs to be input accurately to gain access to an individual's account. This includes your shareholder reference number, available from your form of proxy, share certificate, tax voucher or other electronic communications you have previously received from Computershare. The address of the Computershare website is investorcentre.co.uk. Alternatively, please contact the registrar on 0330 303 1184.

Changes of name or address must be notified in writing either through Computershare's website, or to the registrar at:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

GENERAL ENQUIRIES

Enquiries about the Company should be directed to:

The Secretary
BlackRock Income Strategies Trust plc
12 Throgmorton Avenue
London EC2N 2DL
Telephone: 020 7743 3000

Enquiries about the Savings Plan or NISA should be directed to:

BlackRock Investment Management (UK) Limited
Freepost RLTZ-KHUH-KZSB
PO Box 9036
Chelmsford CM99 2XD
Telephone: 0800 44 55 22

Regulatory disclosures

AIFMD disclosures

REPORT ON REMUNERATION

The Alternative Investment Fund Managers' Directive (the AIFMD) requires certain disclosures to be made with regard to the remuneration policy of the Company's Alternative Investment Fund Manager ('AIFM').

Details of the BlackRock AIFM Remuneration Policy are disclosed on the website at blackrock.co.uk/bist and have applied to the Manager since 1 January 2015, being the beginning of the first financial year of BlackRock following the Manager's authorisation as an AIFM.

QUANTITATIVE REMUNERATION DISCLOSURE

Disclosures in accordance with FUND 3.3.5, Article 22(2)(e) and 22(2)(f) of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the website at blackrock.co.uk/bist.

LEVERAGE

The Company may employ leverage and borrow cash in accordance with its stated investment policy or investment strategy. Consistent with its investment objectives and policy, the Company may utilise derivative instruments as part of its investment policy.

The use of derivatives may expose the Company to a higher degree of risk. In particular, derivative contracts can be highly volatile and the amount of initial margin is generally small relative to the size of the contract so that transactions may be leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard underlying bonds or equities. Leveraged derivative positions can therefore increase the Company's volatility. The use of borrowings and leverage has attendant risks and can, in certain circumstances, substantially increase the adverse impact to which the Company's investment portfolio may be subject.

For the purposes of this disclosure, leverage is any method by which the Company's exposure is increased, whether through borrowing of cash or securities, or leverage embedded in foreign exchange forward contracts or by any other means. The AIFMD requires that each leverage ratio be expressed as the ratio between a Company's exposure and its NAV, and prescribes two required methodologies, the gross methodology and the commitment methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure.

Using the methodologies prescribed under the AIFMD, the leverage of the Company is disclosed in the table below:

	Commitment Leverage as at 30 September 2016	Gross Leverage as at 30 September 2016
Leverage ratio	2.60	3.82

Further information on the calculation of leverage ratios is given in the glossary on page 85.

Other risk disclosures

The financial risk disclosures relating to risk framework and liquidity risk are set out in note 17 to the notes to the financial statements on pages 63 to 76.

PRE INVESTMENT DISCLOSURES

The AIFMD requires certain information to be made available to investors in Alternative Investment Funds ('AIFs') before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the website at blackrock.co.uk/bist.

There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

BlackRock Investment Management (UK) Limited
Company Secretary
26 January 2017

Regulatory disclosures

Information to be disclosed in accordance with Listing Rule 9.8.4

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

9.8.4 (1) The Company has not capitalised any interest in the period under review.

9.8.4 (2) The Company has not published any unaudited financial information in a class 1 circular or prospectus or any profit forecast or profit estimate.

9.8.4 (3) This provision has been deleted.

9.8.4 (4) The Company does not have any long term incentive schemes in operation.

9.8.4 (5) and (6) No director of the Company has waived or agreed to waive any current or future emoluments from the Company or any subsidiary undertaking.

9.8.4 (7) The Company issued 200,000 shares on 20 October 2015 with a nominal value of 25p at a price of 135.60 pence per share and total consideration of £271,200 before issue costs.

Listing Rules 9.8.4 (8) and 9.8.4 (9) are not applicable.

9.8.4 (10) There were no contracts of significance subsisting during the period under review to which the Company is a party and in which a Director of the Company is or was materially interested; or between the Company and a controlling shareholder.

9.8.4 (11) This provision is not applicable to the Company.

9.8.4 (12) and (13) There were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.

9.8.4 (14) This provision is not applicable to the Company.

BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
26 January 2017

Glossary

ALTERNATIVE ASSETS
Alternative investments include real estate, hedge funds, private equity and commodities. They are bought in order to enhance expected return and diversify a portfolio. Alternative assets are usually unquoted and therefore less liquid than equities and bonds.

ALTERNATIVE INVESTMENT FUND MANAGER
An Alternative Fund Manager is a term defined under the Alternative Investment Fund Managers Directive (AIFMD), a European financial directive which came into force in July 2011, and which was introduced in the aftermath of the 2008 credit crisis, to improve regulation of the management of pools of "alternative" assets such as hedge funds, real estate or private equity. The AIFMD applies to hedge fund managers, private equity fund managers, real estate fund managers, and managers of other alternative investments operating within, or marketing to investors in, the European Union. Nearly all financial vehicles, including UK listed investment trusts such as BlackRock Income Strategies Trust plc, fall into the technical definition of Alternative Investment Funds (AIFs) which have to be registered and managed by an AIF Manager (AIFM).

BETA
The Beta of a portfolio is a number describing the relation of the portfolio's returns with those of the financial market as a whole. A portfolio has a Beta of zero if its returns change independently of changes in the market's returns. A positive Beta means that the portfolio's returns have a degree of correlation to the market's returns. A negative Beta means that the portfolio's returns are negatively correlated to the market's returns.

CORRELATION
In portfolio management terms, correlation is a statistical measure of how two securities move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

CONSUMER PRICE INDEX (CPI)
The main measure of UK inflation. It forms the basis for the Government's inflation target.

DISCOUNT
Investment trust shares frequently trade at a discount to NAV. This occurs when the share price is less than the NAV. In this circumstance, the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets. The discount is the difference between the share price (based on mid-market share prices) and the NAV, expressed as a percentage of the NAV. For example, if the share price was 90 pence and the NAV 100 pence, the discount would be 10%.

DIVIDEND YIELD
The annual dividend on a share divided by the share price.

DURATION
The (Macaulay) duration is a measure of the average time until a bond's cash flows occur, and of the sensitivity of its price to interest rate changes. Technically speaking, the Macaulay duration is the sum of the time weighted discounted payments (coupons and principal) of a bond. Another way to think about duration is the average time period over which you will receive your payments. Hence, if two bonds have the same maturity, the bond with the higher coupon will have a shorter duration (the average time of repayment is less heavily weighted to the repayment of capital (principal) at maturity).

GEARING
When an investor has more than a 100% exposure to a market, or part of a market, typically resulting from the use of debt or derivatives (futures and options).

GROSS AND NET EXPOSURE
Market exposure gained through total return swaps or other derivative instruments refers to the gross market value of the underlying securities to which the investor is exposed through the relevant instrument. Gross exposure refers to the total exposure the investor has through both long and short positions added together. For example, an investor who has 110% long market exposure through derivative instruments and 20% short market exposure through derivative instruments has gross market exposure of 130%.

Net exposure refers to the exposure the investor has through long positions less any short positions. For example, an investor who has 110% long market exposure through derivative instruments and 20% short market exposure through derivative instruments has net market exposure of 90%; this method of measurement is looking at the net directional market exposure and takes into account the fact that long and short positions theoretically offset one another when the market moves in a particular direction.

LEVERAGE

Leverage is defined in the AIFM Directive as *"any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means".*

Leverage is measured in terms of 'exposure' and is expressed as a ratio of net asset value:

Leverage ratio = exposure: net asset value

The Directive sets out two methodologies for calculating exposure. These are the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except that, where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the entity's exposure is effectively reduced.

NET ASSET VALUE PER SHARE ("NAV")

This is the value of the Company's assets attributable to one ordinary share. It is calculated by dividing 'equity shareholders' funds' by the total number of ordinary shares in issue. For example, as at 30 September 2016 equity shareholders' funds were worth £351,521,000 and there were 267,037,282 ordinary shares in issue (excluding treasury shares); the undiluted NAV (with debt at par) was therefore 131.64 pence per ordinary share. Equity shareholders' funds are calculated by deducting from the Company's total assets its current and long-term liabilities and any provision for liabilities and charges.

OPTION

An option is a contract which gives the buyer the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date. The seller has the corresponding obligation to fulfill the transaction – that is to sell or buy – if the buyer 'exercises' the option. The buyer pays a premium to the seller for this right. An option that conveys to the owner the right to buy something at a specific price is referred to as a call; an option that conveys the right of the owner to sell something at a specific price is referred to as a put.

PREMIUM

A premium occurs when the share price is more than the NAV per share and investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets. For example, if the share price (based on mid-market share prices) was 100 pence and the NAV 90 pence, the premium would be 11.1%. Discounts and premia are mainly the consequence of supply and demand for the shares on the stock market.

SHORT AND LONG EXPOSURES

Derivative instruments enable an investor to benefit from the price of a stock falling as well as rising. This enables the investor to benefit from negative as well as positive views on individual stocks. Entering into a derivative contract that results in a profit where the share price movement falls is referred to as taking a short position. Entering into a derivative instrument that results in a profit if the price of the stock rises is referred to as taking a long position.

TOTAL RETURN

The income on an asset together with its capital appreciation, expressed as a proportion of the asset's initial price.

TOTAL RETURN SWAP

A swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index, loans, or bonds. This is owned by the party receiving the set rate payment.

Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it. These swaps are a useful investment instrument because they enable the investor to obtain significant market exposure with a minimal cash outlay.

VALUE AT RISK (VAR)

VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis.

For a given probability and a given time horizon, VaR indicates the maximum amount the portfolio will lose. For example, using a set probability of 99% and a defined historical observation period of 2 years, a VaR of £5m means that 99% of the time over a 2 year period the portfolio will fall by less than this amount.

It is noted that the use of VaR methodology has limitations, namely assumptions that risk factor returns are normally distributed and that the use of historical market data as a basis for estimating future events does not encompass all possible scenarios, particularly those that are of an extreme nature and that the use of a specified confidence level (e.g. 99%) does not take into account losses that occur beyond this level. There is some probability that the loss could be greater than the VaR amounts. These limitations and the nature of the VaR measure mean that the Company can neither guarantee that losses will not exceed the VaR amounts indicated, nor that losses in excess of the VaR amounts will not occur more frequently.

VOLATILITY

Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can change dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index.

A full glossary of definitions is available at blackrock.com/institutions/en-gb/resources/education/glossary.

Financial Conduct Authority

Be ScamSmart

Investment scams are designed to look like genuine investments.

In association with the Institute of Chartered Secretaries and Administrators Registrars Group

Spot the warning signs.

Have you been...

- **contacted out of the blue**
- **promised tempting returns and told the investment is safe**
- **called repeatedly, or**
- **told the offer is only available for a limited time?**

If so, you might have been contacted by fraudsters.

How to avoid share fraud

1. **Reject cold calls**
   If you've been cold called with an offer to buy or sell shares, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2. **Check the firm on the FS register at www.fca.org.uk/register**
   The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

3. **Get impartial advice**
   Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Remember: if it sounds too good to be true, it probably is!

Report a scam

If you suspect that you have been approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk.

Find out more at **www.fca.org.uk/scamsmart**

April 2015

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Paper from
responsible sources
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