Caledonia Investments plc

Final results for the year ended 31 March 2017

Strong annual return drives continued ten year outperformance and 50th consecutive year of annual dividend increases

Financial highlights

	31 Mar 2017	*31 Mar 2016*	*Change*
Net asset value per share total return	18.0%	2.6%	
Net asset value per share	3395p	2890p	17.5%
Net assets	£1,899m	£1,644m	15.5%
Annual dividend per share	54.8p	52.6p	4.2%
Special dividend per share	100.0p		

Highlights

- NAV total return of 18.0% for the year
- Annual dividend up 4.2% to 54.8p per share proposed, the 50th consecutive annual increase
- Special dividend of 100.0p per share proposed
- Continued outperformance against the FTSE All-Share over ten years
- Strong double-digit returns from all four investment pools
- £247m invested, including £74m in Liberation Group
- £433m realised, including the sale of Park Holidays for £197m (2.9x on investment, IRR of 44%)
- Cash of £207m and unutilised committed facilities of £175m at year end

Will Wyatt, Chief Executive, commented:

"This has been a strong performance with double digit returns across all four of our investment pools, further extending our long term market outperformance.

"We are proposing a 4.2% increase in the dividend for our shareholders, the 50th year of unbroken increases in annual dividend. In addition, following a number of successful realisations during the year, the board is proposing an additional 100p per share special dividend.

"While global markets have witnessed recent significant gains, we remain mindful of political and economic uncertainties in key regions. We will remain disciplined in our investment decisions but are confident that the portfolio will continue to perform well over the long term."

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Chairman's and Chief Executive's report

Results

Caledonia's net asset value per share total return ('NAVTR') was 18.0% for the year ended 31 March 2017, following 2.6% for the previous year. All four of the investment pools produced double digit returns. Investment income for the year was £47.3m, a fall of £3.4m compared with the unusually high level of the previous year. Additionally, following a number of portfolio realisations, in particular the successful sale of Park Holidays, the board is proposing a special dividend of 100p per share to be paid alongside an increased final dividend for the year. The latter would mark the 50th year of consecutive increases of our annual dividend. We are both proud of this achievement and determined to extend the record for many years to come.

Background to the year

The year under review was dominated by two important events. First, the vote by the United Kingdom to leave the European Union and second, the presidential election in the United States of America. These events were key drivers of both stock market and currency movements across the world. Caledonia's strategy of owning a balanced investment portfolio of both UK and overseas based companies and funds proved to be a sound hedge against what turned out to be a period of considerable volatility. Macro-economic factors, particularly the devaluation of sterling against most other currencies, produced a tail-wind for our portfolio, with currency gains contributing 6% of the 18% total return for the year. Private equity markets have also been buoyant, as demand for high quality businesses from funds with huge available resources have driven prices to levels not seen since before the financial crisis. We took advantage of this by selling several of our holdings, most notably Park Holidays, which netted £197m for Caledonia and gave us an overall return of three times the capital invested in 2013.

Caledonia's strategy and business model

We aim to grow our shareholders' capital over the long term and to provide an increasing annual dividend, both in real terms. We are attracted to the higher returns provided by equity investments and particularly in the unlisted or private equity markets. However, we are aware of the portfolio limitations and risks presented by only investing in private equity markets. We therefore currently have half our net assets in listed companies, focusing on long term international compounding equities and income stocks, together with quoted market funds, which give us the balanced exposure that we seek in terms of geography, sectors and liquidity.

Quoted equities	Portfolio %	Target yield %
International compounders	25	2.5
Income stocks	11	4.5
Quoted funds	9	–
Total	45	

Private equity	Portfolio %	Target yield %
Direct private investments	30	5.0
Private equity funds	12	–
	42	

One of the consequences of investing in larger private equity investments is that, when sold, large capital sums are returned on an irregular basis as demonstrated by the £207m of cash on our balance sheet at the year end.

Caledonia's objective is to ensure that its annual dividend payment is set at a level that is covered by income. However we recognise that shareholders are rewarded with a relatively low annual yield, which we address through the occasional payment of special dividends when appropriate. This year's proposed special dividend will have the effect of increasing the yield averaged over the past five years from 2.9% to 3.6%, and to 3.2% averaged from 1987, a period that included several business cycles and special dividends paid to shareholders.

Geographic exposure
Caledonia takes a global approach to investment, actively seeking exposure to markets that grow faster and are less mature than the UK. We access these in two ways. First by investing in companies that themselves operate across the globe and second by selecting funds that specialise in the regions and sectors to which we wish to be exposed. In particular, we gain access to the US and Asian private equity markets via specialist funds operating there. These offer attractive returns, even after paying fees to the managers, and provide good diversification to the UK based majority owned businesses within our portfolio.

Risk
Our approach to risk stems from an understanding that shareholders' capital is a precious commodity which we are not required to grow at an unsustainable rate. Instead, we aim to produce steady rates of capital return over the long term, underpinned by increasing annual receipts of dividend. We therefore invest in companies that have strong competitive positions in their markets and can generate consistently high margins, which in turn drive strong returns on capital over long time periods. This capital is recycled into their businesses, further driving growth. Valuations will fluctuate over time, but by being invested in companies that compound their earnings in this way and which are not at risk through excessive gearing, we are confident that our returns over the long term will be at least as good as the market, but with less risk.

We carefully review the composition of our portfolio to ensure that we are not overexposed to individual sectors, geographies or currencies. We also consider valuations, gearing and volatility as well as the continuing health of the underlying businesses and their sectors in assessing their place in the portfolio. We tend not to be a frequent buyer or seller of shares and the turnover of shares within our portfolio is very low compared with market funds.

Investment performance
The construction of the portfolio as described means that we do not seek to correlate our performance with the market. The board believes that it is better to compare returns with inflation to our measure short term performance. Over short periods, we use a target range of RPI+3% to RPI+6%, but over ten years it is appropriate to benchmark our performance against the FTSE All-Share.

The table below shows a summary of performance against RPI for periods up to ten years and against the FTSE All-Share for ten years:

	1 year %	3 years %	5 years %	10 years %
NAV total return	18.0	38.3	89.4	80.6
Annualised				
NAV total return	18.0	11.4	13.6	6.1
Retail Prices Index	3.1	1.9	2.3	2.8
Performance vs RPI	14.9	9.5	11.3	3.3
FTSE All-Share Total Return				5.7
Performance vs FTSE				0.4

Currency
The contribution of foreign currency gains to our overall return for the year was 6.0%, accounting for one-third of our overall return. We have intentionally positioned the portfolio to gain a balanced exposure to different currencies and geographies. In general, we do not think that it is wise to speculate as to the future movement of currencies, nor do we intend to reposition the portfolio to 'lock in' currency gains made this year. We will continue to maintain a balanced exposure to the world's leading economic zones (US, Asia and Europe) and their currencies over the long term.

Income and expenses
Investment income for the year was £47.3m, a fall of some 7% compared with the previous year. The reduction for the year is principally accounted for by the unusually high level of dividends received from the Unquoted pool portfolio last year. Underlying investment income remains in line with our expectations and we are confident our more recent acquisitions will compensate for the loss of income from the sale of Park Holidays.

Our ongoing charges ratio for the year was 1.07%, compared with 1.01% in 2016, reflecting slightly higher staff costs. This includes the costs of a direct unquoted market investment team.

Balance sheet and cash

At the year end, our balance sheet was ungeared with a net cash position of £207m, compared with an opening balance of £23m. We are in the process of renewing our banking facilities to ensure that they remain appropriate for a company with net assets of £1.9bn. Whilst we have used these facilities sparingly in the past, it is important that we have the flexibility to cover larger transactions in the unquoted arena, the timing of which can be difficult to anticipate. They also provide an excellent way to take advantage of market downturns and ensure we have capital available for private equity fund drawdowns.

Review of portfolio

The investment pools returned 20.7% for the year under review. It was a year of net divestment, with £418m of sales excluding movements within the Income pool. Alongside the £197m received from the sale of Park Holidays, we received significant proceeds from the sales of Bowers & Wilkins, Close Brothers and Capital Today China, the Chinese private equity fund that backed JD.com from a start-up. Excluding movements within the Income pool, we invested £230m over the past year, including £74m in the Liberation Group, the Channel Islands and UK based pub and brewing company. In addition, over £100m was invested in our private equity and quoted market funds in Asia and the US.

	Value 2016 £m	Invest-ments £m	Realis-ations £m	Gains/ losses £m	Value 2017 £m	Income £m	Return %
Pool							
Quoted	449.3	42.0	(95.1)	71.7	467.9	10.7	20.6
Income	194.1	14.6	(15.1)	22.3	215.9	9.7	17.0
Unquoted	646.3	85.1	(243.4)	79.8	567.8	18.6	20.8
Funds	308.4	103.3	(79.4)	72.0	404.3	1.9	23.1
Total pools	1,598.1	245.0	(433.0)	245.8	1,655.9	40.9	20.7
Non-pool	11.1	2.1	(0.4)	19.9	32.7	6.4	(1.0)
Investments	1,609.2	247.1	(433.4)	265.7	1,688.6	47.3	20.2
Cash etc	35.1				210.2		
Net assets	1,644.3				1,898.8		18.0

1. Gains and losses included the reclassification from Unquoted to Non-pool of £26.7m relating to dividends received by a subsidiary investment entity.

As can be seen from the table above, all the investment pools made good and broadly similar contributions to our overall return. The table below compares actual with pre-forex returns, that is returns assuming no exchange rate movements over the year. In all cases bar the Funds pool, pre-forex returns for the year exceeded target returns. Despite the immature private equity portfolio and its exposure of over 90% to the US dollar, the Funds pool still managed a creditable pre-forex 10% return.

Pool	Actual return %	Pre-forex return %	Target return %
Quoted	20.6	13.1	10.0
Income	17.0	10.5	7.0
Unquoted	20.8	18.6	14.0
Funds	23.1	9.9	12.5

Asset allocation

The table below shows the strategic return and allocation targets for the investment pools:

	Annual return targets			Target	Current
Pool	Income %	Capital %	Total %	allocation %	allocation %
Quoted	2.5	7.5	10.0	25-40	24.6
Income	4.5	2.5	7.0	15-20	11.4
Unquoted	5.0	9.0	14.0	35-45	29.9
Funds	–	12.5	12.5	15-20	21.3
Liquidity				(10)-10	12.8

The Funds pool was a net investor for the year. Both the Quoted and Unquoted pools were net divestors, which at the year end drove our cash deposits to 11% of NAV. As a consequence, both pools are at the lower end or below their strategic allocation ranges. The Income pool is also below its target, though we do not feel under pressure to rectify this with markets at current high valuations. We will deploy capital into businesses which fit our strategy when they are available at acceptable valuation levels. The Funds pool strategy includes a programme of commitments to invest in private equity funds. These are drawn down when the funds find suitable investments, though are reasonably predictable over the long run on a portfolio basis. This programme is still relatively immature, such that we predict that we will be net investors for a further three to four years before returns of capital start to match new drawdowns.

Overview of pool performance

Quoted (£468m, 25% of net assets)
We invest in high quality companies that have compounding business models and barriers to entry and which make good use of capital. Experience shows that a concentrated and risk managed portfolio containing this type of company will deliver better risk adjusted returns than the market over the longer term.

The Quoted pool produced a return of 20.6% for the year. Strong investment gains were made by nearly all of the 18 core holdings that make up the portfolio. UK engineers Spirax Sarco and Hill & Smith were beneficiaries of the fall in sterling but also produced excellent underlying results, which were reflected in strong share price performance over the year. Hill & Smith has finally gained the recognition of the market for its consistent growth in earnings and high margins. The US holdings, such as Microsoft, Philip Morris, Becton Dickinson and Flowserve, were notable performers, as was Jardine Matheson, which operates predominantly in Southeast Asia.

We sold our holdings in Close Brothers and LondonMetric Properties, amongst others. Close Brothers remains a high quality and well run bank, but we believe that the valuation and point in the cycle gave reasons for concern. We first invested in Close Brothers in 1987 and it became a outstanding creator of value for Caledonia's shareholders, producing an IRR over 30 years of 16.4%. Bristow Group, the US helicopter operator, had another year of poor investment returns. The oil and gas industry is currently in a cyclical downturn and, despite the company's search and rescue contracts, helicopter usage remains low. Two new holdings were instigated this year, but valuations remain high so other targeted companies in which we would like to invest continue to trade outside our price ranges.

Income (£216m, 11% of net assets)
A portfolio of global equities that produces a reliable and increasing income stream.

The Income pool produced a creditable return of 17.0% for the year, including a 4.8% dividend yield. Despite the increase in capital value which has led to a fall in the market yield, we have increased the running yield on the portfolio to 4.8% from 4.2% in the previous year. The portfolio consists of 22 companies and has produced an annualised return of 7.9% over the past two years and 9.6% since inception in 2011. The Brexit vote impacted a number of the portfolio companies that have businesses which operate solely in the UK, such as Royal Mail and Greene King. These are well balanced however by US and European holdings.

Unquoted (£568m, 30% of net assets)
We invest in unlisted businesses which require capital and an investor with a balance sheet who is able to provide a long term perspective. We invest in both majority and minority positions.

The Unquoted pool performance of 20.8% for the year comprised a capital return of 17.7% and an income return of 3.1%. The undoubted highlight was the sale of our 81.5% stake in Park Holidays to Intermediate Capital Group. We received cash proceeds of £197m which, when added to dividends received, represented 2.9x our original investment and an IRR of 44%. This company was a good fit with our investment criteria, was run by a very capable team of experienced managers and was one that, in normal circumstances, we might have held for considerably longer. However, we judged that the strong profits growth during the period of our ownership combined with high valuations for quality companies were compelling reasons to sell. We also sold our holding in Bowers & Wilkins and a number of smaller legacy assets during the year. Total sale proceeds and income received was £262m for the year.

We made one new investment – Liberation Group in July 2016. We invested an initial £71m for a 97.9% equity stake (management own the remainder), valuing the company at £118m in total. Liberation Group is a pub, restaurant and drinks business with its roots in the Channel Islands. In 2015, it purchased the Butcombe brewery together with a number of pubs in South West England. It had 100 pubs in total on acquisition and the strategy is to expand the number of pubs on the mainland from the Bath/Bristol area to the south west along the axis of the A303. We were attracted to the combination of a solid asset backed business in which we can continue to invest capital at a good rate of return in the future. It is managed by an experienced team from the industry and they have hit the ground running, buying nine pubs since our acquisition.

The existing Unquoted pool portfolio has traded broadly in line with budget during the year. Of particular note is the performance of Seven Investment Management, which has increased assets under management and profits ahead of budget, and Gala Bingo, which has traded in line with our expectations at the time of the acquisition 18 months ago. Cobepa produced a strong investment return for the year and, being euro denominated, we also saw a currency uplift. It is currently Caledonia's largest holding, albeit diversified through a portfolio of 14 businesses. Choice Care, the care homes operator, has almost completed a carefully managed expansion plan, adding about a third to its capacity. We are very aware of the danger of expanding too quickly and overstretching the capability to deliver top quality care, which remains, above all else, the number one priority. The pricing environment remains tough, with local authorities under great pressure to cut spending however, despite this, new bed spaces are being filled at acceptable margins. Sterling Industries is starting to see some recovery in its core markets of iron and steel and oil and gas, but had a difficult year with profits down sharply.

We reviewed well over 200 investment opportunities during the year, making two offers with one new investment and two follow-on investments. There is a significant amount of capital in the market chasing a small supply of high quality deals, which has inevitably led to increased valuations. We believe in buying the right business for the right price and try to use the competitive advantage over private equity funds brought by investing our own balance sheet (and thereby not being constrained by the period of time over which we can own a business), which management teams often find appealing.

Funds (£404m, 21% of net assets)
We invest in both private equity and quoted market funds, with an emphasis on providing exposure to areas of the world where we are less willing to invest directly.

The Funds pool produced an excellent return for the year of 23.1%. Quoted market funds, focused on Asia and the US, represented 42% of pool assets at the year end. We deployed capital into Asia when sentiment was very much against the region two years ago and the 31% return this year has vindicated this decision. It remains one of the few areas of the world that is not fully valued. The money is looked after by five different managers across the two regions in a mixture of strategies.

The private equity portfolio continues to grow with £79m invested this year into a portfolio now valued at £235m. We received £53m of distributions from private equity funds following portfolio sales, although half of this came from further sales of JD.com by Capital Today China. We have total outstanding commitments of £293m, about 80% of which we expect to be drawn down over the next seven or eight years depending on the nature of the cycle. The programme is anchored by several fund of funds relationships, especially in Asia, which has a nascent private equity market. We believe this to be a sensible risk mitigant, as well as a good way to stay fully informed of, and close to, the market.

Dividend
The board is recommending to shareholders a final dividend of 39.9p per share, giving a total for the year of 54.8p per share, an increase of 4.2% over 2016. This will be the 50th year of unbroken annual increases. The dividend is a vital component of our return to shareholders and, as explained earlier, the strategy of the company is focused on its maintenance and gradual increase. The proposed final dividend will amount to £29.1m.

The board is also proposing to pay a special dividend of 100p per share alongside the final dividend, at an amount of £54.9m. As explained earlier, the board considers it appropriate to augment the long term yield offered to investors through the payment of occasional special dividends when the company's long term business model delivers cash in excess of its strategic investment plans.

Discount
Over the year, the share price rose by 20% and the discount of the share price to NAV per share ranged between 13% and 26%. We review the valuations of our unquoted holdings in September and March each year and announce the NAV per share figures shortly after the relevant month end, which means that our discount can fluctuate in the few days in between until the share price adjusts to the updated NAV per share figures.

We did not buy back any shares during the year, but will again seek the necessary permissions from shareholders at the AGM to do so should they offer particular value.

Board
Rod Kent, who has been a member of the board since 2011 and Chairman since 2012, has decided to step down at the AGM. The company, shareholders and past management of Caledonia owe him an unrepayable debt of gratitude for his outstanding contribution over many, many years.

Rod first came into contact with Caledonia in the early 1980s when British & Commonwealth ('B&C') was its largest investment. He advised the company on its exit from B&C in 1987 and ensured that the proceeds from the sale were received in a form that was as good as cash. This proved prescient when B&C sadly went into administration in 1990 following the disastrous purchase of Atlantic Computers.

Caledonia had become a significant investor in Close Brothers, where Rod was managing director, in 1987 and increased its stake further over the next few years. Close Brothers became the cornerstone of Caledonia's investment success over the next 25 years and, combined with his continuing advice, the company has continued to thrive. He joined the board of Caledonia in 2011 and succeeded James Loudon as Chairman in 2012. We wish Rod the very best for a long, happy and peaceful retirement. David Stewart will succeed Rod as Chairman at the AGM in July.

Outlook
The valuations of equities, bonds, property and non-conventional assets have been driven to high levels by unusually low interest rates. Markets look to be reaching the final leg of a sustained bull run with valuations now looking stretched. The Federal Reserve has increased US interest rates twice recently, taking the first tentative steps towards normalising monetary policy in the world's largest economy. There are signs that the Bank of England is thinking along similar lines albeit with the additional complication of Brexit to negotiate. If monetary stimulus is removed and the cost of capital increases, there will be an equal and opposite effect on valuations. Despite this threat and events such as the Brexit vote in the UK, markets have held firm probably in part due to the promises Mr Trump made in his campaign to become President of the US. Caledonia's modus operandi is not to attempt to time market falls, but it guides our thinking in ensuring that our risk profile is appropriate for this stage in the cycle.

We continue to be invested in companies that will generate reliable cash flows in all market circumstances. Our long term outlook also makes us wary of excessive debt, which can be the downfall of a good business in a downturn of the economic cycle. We currently have a cushion of cash on the balance sheet which confirms our conservative stance, but is also there to take advantage of opportunities that we identify. We remain confident that we will be able to meet our shareholders' requirements for capital growth and income in the future, without needing to expose their capital to undue risk.

Rod Kent
Chairman

Will Wyatt
Chief Executive

Investments summary

Holdings over 1% of net assets at 31 March 2017 were as follows:

Name	Pool	Geography	Business	Value £m	Net assets %
Cobehold	Unquoted	Belgium	Investment company	130.6	6.9
Gala Bingo	Unquoted	UK	Bingo operator	104.2	5.5
Seven Investment Management	Unquoted	UK	Investment management	81.3	4.3
Liberation Group	Unquoted	Jersey	Pubs and restaurants	74.4	3.9
The Sloane Club	Unquoted	UK	Residential club	61.4	3.2
Choice Care Group	Unquoted	UK	Care homes provider	54.6	2.9
AG Barr	Quoted	UK	Soft drinks	47.4	2.5
British American Tobacco	Quoted/ Income	UK	Tobacco	47.3	2.5
NTAsset funds	Funds	Asia	Quoted market funds	42.3	2.2
Aberdeen US PE funds	Funds	US	Funds of funds	41.8	2.2
Arlington AVM Ranger fund	Funds	US	Quoted market fund	39.1	2.1
Macquarie Asia New Stars fund	Funds	Asia	Quoted market fund	38.2	2.0
Flowserve	Quoted	US	Industrial engineering	37.6	2.0
Bristow Group	Quoted	US	Helicopter services	36.2	1.9
Microsoft	Quoted	US	Infrastructure technology	35.4	1.9
Capital Today China Growth fund	Funds	China	Private equity fund	34.4	1.8
Jardine Matheson	Quoted	Singapore	Industrial engineering	32.5	1.7
Oracle	Quoted	US	Infrastructure technology	30.8	1.6
PVAM Perlus Microcap fund	Funds	US	Quoted market fund	30.4	1.6
Spirax Sarco	Quoted	UK	Steam engineering	30.0	1.6
Philip Morris	Quoted/ Income	US	Tobacco	29.5	1.5
Polar Capital	Quoted	UK	Fund manager	25.5	1.3
Hill & Smith	Quoted	UK	Infrastructure products	25.2	1.3
JF Lehman funds	Funds	US	Private equity funds	25.1	1.3
Becton Dickinson	Quoted	US	Medical technology	22.1	1.2
Asia Alternatives funds	Funds	Asia	Funds of funds	20.8	1.1
Nestlé	Quoted	Switzerland	Packaged foods	20.8	1.1
Sports Information Services	Unquoted	UK	Broadcasting services	20.0	1.1
Thermo Fisher Scientific	Quoted	US	Biotechnology development	19.9	1.0
Overlook Partners fund	Funds	Asia	Quoted market fund	19.1	1.0
Other investments				398.0	21.0
Total pool investments				1,655.9	87.2
Non-pool investments				32.7	1.7
Cash and other items				210.2	11.1
Net assets				1,898.8	100.0

1. Geography is based on the country of listing, country of domicile for unlisted investments and underlying regional analysis for funds.

Pool distribution

Quoted	25%
Income	11%
Unquoted	30%
Funds	21%
Cash and other	13%

Geographic distribution

United Kingdom	38%
Continental Europe	11%
North America	25%
Asia	12%
Other countries	1%
Cash and other	13%

Asset class distribution

Listed equities	36%
Private companies	30%
Private equity funds	12%
Quoted market funds	9%
Cash and other	13%

1. Cash and other in the distributions above includes non-pool investments.

Risk management

Effective risk management is a key component of the company's business model and assists in ensuring that the different parts of the group operate within strategic risk parameters. The board has overall responsibility for setting and monitoring the company's risk appetite.

Principal risks	Mitigation	Key developments
Strategic		
Risks in relation to the appropriateness of the business model to deliver long term growth in capital and income and the effective communication and delivery of the business model. Strategic risks include the appropriate allocation of capital in relation to geographic, sector and currency exposures.	The company's business model and strategy are reviewed periodically, against market conditions and target returns. The performance of the company and its key risks are monitored regularly by management and the board.	Caledonia reviews its investment strategy annually, taking into consideration the current and potential future investing environment and discussions with executives. The investment strategy is reviewed and approved by the board.
Investment		
Risks in respect of specific investment and realisation decisions. Investment risks include the appropriate research and due diligence of new investments and the timely execution of both investments and realisations for optimising shareholder value.	Pool managers have well-developed networks through which they attract proprietary deal flow. Investment opportunities are subject to rigorous appraisals and multi-stage approval processes. Target entry and exit events and prices are monitored and updated regularly, in relation to market conditions and strategic aims.	Pool managers have significantly developed their own risk management processes during the year. The board regularly reviews investment risk at both pool and company portfolio level.
Market		
Risk of losses in value of investments arising from sudden and significant movements in market prices, particularly in highly volatile markets. Caledonia's principal market risks are therefore equity price volatility, foreign exchange rate movements and interest rate volatility.	Market risks and sensitivities are reviewed weekly and actions taken to balance appropriately risk and return. A regular review of market and investment volatility and value at risk is conducted by the board. Reviews also consider investment concentration, currency and liquidity exposures.	Caledonia benefited from its global focus during the Brexit period, but has remained significantly invested in the UK, largely through the Unquoted pool. Caledonia liaises closely with advisers to ensure that it understands the landscape arising from the impending Brexit and how this might impact its business.

Liquidity		
Risk that liabilities cannot be met or new investments made due to a lack of liquidity. Such risk can arise from not being able to sell an investment due to lack of a market or from not holding cash or being able to raise debt.	Detailed cash forecasting for six months ahead is updated and reviewed weekly, including the expected drawdown of capital commitments. Loan facilities are maintained to provide appropriate liquidity headroom. The liquidity of the portfolio is reviewed regularly.	We have continued to manage our investment process to ensure we minimise the need to access our available facilities. At 31 March 2017, we had net cash of £207m and undrawn, committed borrowing facilities of £175m, which are in place up to April 2018.
Operational		
Risks arising from inadequate or failed processes, people and systems or from external factors. Operational risks arise from the recruitment, development and retention of staff, systems and procedures and business disruption.	Systems and control procedures are developed and reviewed regularly. They are tested to ensure effective operation. Appropriate remuneration and other policies are in place to encourage the retention of key staff. Business continuity plans are maintained, using an offsite facility.	We have operated from our temporary offices in Stratton House throughout the year and plan to move back to our refurbished property in Buckingham Gate in summer 2017. The board has reviewed and approved our business continuity plans during the year.
Regulatory and legal		
Risk arising from exposure to litigation or fraud and adherence to the tax and regulatory environment. Caledonia operates across a number of jurisdictions and in an industry that has been subject to increasing regulation.	Caledonia has internal resources to consider all regulatory and tax matters as they arise. Use is made of advisers and the Association of Investment Companies, of which Caledonia is a member and on whose self-managed investment trust committee it is represented. Regular training is undertaken.	There have been no significant additional regulatory requirements in the year.

Group statement of comprehensive income for the year ended 31 March 2017

	2017 Revenue £m	2017 Capital £m	2017 Total £m	2016 Revenue £m	2016 Capital £m	2016 Total £m
Revenue						
Investment income	47.3	–	47.3	50.7	–	50.7
Other income	0.2	–	0.2	0.7	–	0.7
Gains and losses on fair value investments	–	265.7	265.7	–	12.5	12.5
Gains on fair value property	–	0.1	0.1	–	0.2	0.2
Total revenue	47.5	265.8	313.3	51.4	12.7	64.1
Management expenses	(18.5)	(7.8)	(26.3)	(16.2)	(7.4)	(23.6)
Other non-recurring expenses	(0.4)	–	(0.4)	(3.0)	–	(3.0)
Performance fees	–	–	–	–	(0.1)	(0.1)
Guarantee obligation provided	–	(0.1)	(0.1)	–	–	–
Profit before finance costs	28.6	257.9	286.5	32.2	5.2	37.4
Treasury interest receivable	0.2	–	0.2	0.2	–	0.2
Finance costs	(1.7)	–	(1.7)	(1.8)	–	(1.8)
Exchange movements	(0.5)	–	(0.5)	0.4	–	0.4
Profit before tax	26.6	257.9	284.5	31.0	5.2	36.2
Taxation	4.2	1.4	5.6	3.2	1.7	4.9
Profit for the year	30.8	259.3	290.1	34.2	6.9	41.1
Other comprehensive income items never to be reclassified to profit or loss						
Re-measurements of defined benefit pension schemes	–	(2.7)	(2.7)	–	2.3	2.3
Tax on other comprehensive income	–	0.7	0.7	–	(0.6)	(0.6)
Total comprehensive income	30.8	257.3	288.1	34.2	8.6	42.8
Basic earnings per share	56.1p	472.1p	528.2p	62.0p	12.5p	74.5p
Diluted earnings per share	55.0p	463.4p	518.4p	60.8p	12.3p	73.1p

The total column of the above statement represents the group's statement of comprehensive income, prepared in accordance with IFRSs as adopted by the European Union.

The revenue and capital columns are supplementary to the group's statement of comprehensive income and are prepared under guidance published by the Association of Investment Companies.

The profit for the year and total comprehensive income for the year is attributable to equity holders of the parent.

Statement of financial position at 31 March 2017

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets				
Investments held at fair value through profit or loss	1,688.6	1,609.2	1,682.2	1,604.7
Investments in subsidiaries held at cost	–	–	0.8	0.8
Property, plant and equipment	35.5	25.7	–	–
Deferred tax assets	3.7	2.8	–	–
Employee benefits	2.8	3.2	–	–
Non-current assets	1,730.6	1,640.9	1,683.0	1,605.5
Current assets				
Trade and other receivables	7.8	8.3	29.0	22.4
Current tax assets	2.6	2.0	3.1	2.3
Cash and cash equivalents	207.3	23.8	205.6	23.8
Current assets	217.7	34.1	237.7	48.5
Total assets	1,948.3	1,675.0	1,920.7	1,654.0
Current liabilities				
Bank overdrafts	–	(0.9)	–	–
Trade and other payables	(39.5)	(14.1)	(25.5)	(7.9)
Employee benefits	(2.5)	(1.9)	–	–
Provisions	–	(9.0)	–	(9.0)
Current liabilities	(42.0)	(25.9)	(25.5)	(16.9)
Non-current liabilities				
Employee benefits	(7.3)	(4.5)	–	–
Deferred tax liabilities	(0.2)	(0.3)	–	–
Non-current liabilities	(7.5)	(4.8)	–	–
Total liabilities	(49.5)	(30.7)	(25.5)	(16.9)
Net assets	1,898.8	1,644.3	1,895.2	1,637.1
Equity				
Share capital	3.2	3.2	3.2	3.2
Share premium	1.3	1.3	1.3	1.3
Capital redemption reserve	1.3	1.3	1.3	1.3
Capital reserve	1,591.0	1,333.7	1,594.2	1,335.0
Retained earnings	332.9	325.0	326.1	316.5
Own shares	(30.9)	(20.2)	(30.9)	(20.2)
Total equity	1,898.8	1,644.3	1,895.2	1,637.1
Undiluted net asset value per share	3459p	2944p		
Diluted net asset value per share	3395p	2890p		

The financial statements were approved by the board and authorised for issue on 25 May 2017 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

Statement of changes in equity for the year ended 31 March 2017

	Share capital £m	Share premium £m	Capital redemp-tion reserve £m	Capital reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Group							
Balance at 31 March 2015	3.2	1.3	1.3	1,325.1	313.2	(17.2)	1,626.9
Total comprehensive income							
Profit for the year	–	–	–	6.9	34.2	–	41.1
Other comprehensive income	–	–	–	1.7	–	–	1.7
Total comprehensive income	–	–	–	8.6	34.2	–	42.8
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.7	0.7
Share-based payments	–	–	–	–	5.8	–	5.8
Own shares purchased	–	–	–	–	–	(3.7)	(3.7)
Dividends paid	–	–	–	–	(28.2)	–	(28.2)
Total transactions with owners	–	–	–	–	(22.4)	(3.0)	(25.4)
Balance at 31 March 2016	3.2	1.3	1.3	1,333.7	325.0	(20.2)	1,644.3
Total comprehensive income							
Profit for the year	–	–	–	259.3	30.8	–	290.1
Other comprehensive income	–	–	–	(2.0)	–	–	(2.0)
Total comprehensive income	–	–	–	257.3	30.8	–	288.1
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	6.4	–	6.4
Own shares purchased	–	–	–	–	–	(10.9)	(10.9)
Dividends paid	–	–	–	–	(29.3)	–	(29.3)
Total transactions with owners	–	–	–	–	(22.9)	(10.7)	(33.6)
Balance at 31 March 2017	3.2	1.3	1.3	1,591.0	332.9	(30.9)	1,898.8
Company							
Balance at 31 March 2015	3.2	1.3	1.3	1,328.6	304.5	(17.2)	1,621.7
Profit and total comprehensive income	–	–	–	6.4	34.4	–	40.8
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.7	0.7
Share-based payments	–	–	–	–	5.8	–	5.8
Own shares purchased	–	–	–	–	–	(3.7)	(3.7)
Dividends paid	–	–	–	–	(28.2)	–	(28.2)
Total transactions with owners	–	–	–	–	(22.4)	(3.0)	(25.4)
Balance at 31 March 2016	3.2	1.3	1.3	1,335.0	316.5	(20.2)	1,637.1
Profit and total comprehensive income	–	–	–	259.2	32.5	–	291.7
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	6.4	–	6.4
Own shares purchased	–	–	–	–	–	(10.9)	(10.9)
Dividends paid	–	–	–	–	(29.3)	–	(29.3)
Total transactions with owners	–	–	–	–	(22.9)	(10.7)	(33.6)
Balance at 31 March 2017	3.2	1.3	1.3	1,594.2	326.1	(30.9)	1,895.2

Statement of cash flows for the year ended 31 March 2017

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Operating activities				
Dividends received	45.1	48.3	45.1	48.3
Interest received	2.3	1.3	1.6	0.7
Cash received from customers	0.3	0.2	–	–
Cash paid to suppliers and employees	(19.7)	(20.7)	(23.1)	(28.9)
Taxes received	–	0.5	–	0.5
Taxes paid	(0.1)	(0.4)	(0.1)	(0.4)
Group tax relief received	4.9	2.5	5.2	3.3
Net cash flow from operating activities	32.8	31.7	28.7	23.5
Investing activities				
Purchases of investments	(256.2)	(548.0)	(245.8)	(545.2)
Proceeds from disposal of investments	433.5	450.5	431.2	455.1
Purchases of property, plant and equipment	(9.7)	(6.6)	–	–
Net cash flow from/(used in) investing activities	167.6	(104.1)	185.4	(90.1)
Financing activities				
Interest paid	(1.2)	(1.5)	(1.1)	(1.1)
Dividends paid to owners of the company	(29.3)	(28.2)	(29.3)	(28.2)
Proceeds from bank borrowings	–	170.0	–	30.0
Repayment of bank borrowings	–	(179.0)	–	(30.0)
Loan receipts from subsidiaries	34.4	7.1	53.0	97.6
Loan payments to subsidiaries	(9.2)	(10.1)	(44.2)	(113.6)
Exercise of share options	0.2	0.7	0.2	0.7
Purchase of own shares	(10.9)	(3.7)	(10.9)	(3.7)
Net cash flow used in financing activities	(16.0)	(44.7)	(32.3)	(48.3)
Net increase/(decrease) in cash and cash equivalents	184.4	(117.1)	181.8	(114.9)
Cash and cash equivalents at year start	22.9	140.0	23.8	138.7
Cash and cash equivalents at year end	207.3	22.9	205.6	23.8

Notes to the final results announcement

1. General information

Caledonia Investments plc is an investment trust company domiciled in the United Kingdom and incorporated in England in 1928, under the Companies Acts 1908 to 1917. The address of its registered office is 2nd Floor Stratton House, 5 Stratton Street, London W1J 8LA. The ordinary shares of the company are premium listed on the London Stock Exchange.

The financial information included in this announcement has been prepared using accounting policies consistent with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In the current year the group has not adopted any new standards or interpretations.

2. Dividends

Amounts recognised as distributions to owners of the company in the year were as follows:

	2017		2016	
	p/share	£m	p/share	£m
Second interim dividend for the year ended 31 March 2016 (2015 final dividend)	38.3	21.1	36.8	20.3
Interim dividend for the year ended 31 March 2017 (2016)	14.9	8.2	14.3	7.9
	53.2	29.3	51.1	28.2

Amounts proposed or paid after the year end and not recognised in the financial statements:

Proposed final dividend for the year ended 31 March 2017 (2016 second interim dividend)	39.9	21.9	38.3	21.1
Proposed special dividend for the year ended 31 March 2017	100.0	54.9		
	139.9	76.8	38.3	21.1

The proposed final and special dividends for the year ended 31 March 2017 were not included as liabilities in these financial statements. These dividends, if approved by shareholders at the annual general meeting to be held on 20 July 2017, will be payable on 3 August 2017 to holders of shares on the register on 7 July 2017. The ex-dividend date will be 6 July 2017.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2017 are the interim, final and special dividends for that year, amounting to £85.0m (2016 – interim and second interim £29.0m).

3. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share of the group was based on the profit attributable to shareholders and the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share included an adjustment for the effects of dilutive potential shares.

The profit attributable to shareholders (basic and diluted) was as follows:

	2017	2016
	£m	£m
Revenue	30.8	34.2
Capital	259.3	6.9
Total	290.1	41.1

The weighted average number of shares was as follows:

	2017 000's	2016 000's
Issued shares at the year start	55,381	55,381
Effect of shares held by the employee share trust	(455)	(225)
Basic weighted average number of shares in the year	54,926	55,156
Effect of performance shares, share options and deferred bonus awards	1,035	1,035
Diluted weighted average number of shares in the year	55,961	56,191

4. Operating segments

The following is an analysis of the profit before tax for the year and assets analysed by primary operating segments:

	Profit before tax		Assets	
	2017 £m	2016 £m	2017 £m	2016 £m
Quoted pool	82.4	(33.9)	467.9	449.3
Income pool	32.0	(0.8)	215.9	194.1
Unquoted pool	125.1	79.2	567.8	646.3
Funds pool	73.9	18.6	404.3	308.4
Investment portfolio	313.4	63.1	1,655.9	1,598.1
Other investments	(0.1)	1.0	32.7	11.1
Total revenue/investments	313.3	64.1	1,688.6	1,609.2
Cash and cash equivalents	0.2	0.2	207.3	22.9
Other items	(29.0)	(28.1)	52.4	42.9
Reportable total	284.5	36.2	1,948.3	1,675.0

5. Share-based payments

In the year to 31 March 2017, participating employees in the performance share scheme were awarded options over 220,825 shares at nil-cost (2016 – 214,152 shares).

Also in the year to 31 March 2017, participating employees received deferred awards over 10,655 shares (2016 – 51,328 shares). Matching awards of 10,655 shares were granted (2016 – 51,328 shares), which depend on company performance.

The IFRS 2 expense included in profit or loss for the year was £6.4m (2016 – £5.8m).

6. Provisions

During the year, the solvency guarantee provision was increased based on a review of the obligations and fully utilised in settlement of those obligations. The solvency guarantee provision related to a subsidiary that had a claim against it, but insufficient resources to settle any such obligations. The provision was estimated based on the amount of the claim against the subsidiary.

During the prior year, the litigation provision was fully used against costs incurred as the legal claim was settled in full. The litigation provision related to a claim arising from the acquisition of a subsidiary in 2013.

With the exception of the litigation provision, these provisions were allocated to the capital reserve. As the matters that gave rise to the provisions were expected to be resolved over the next year, all provisions were classified as current liabilities.

7. Net asset value per share

The group's undiluted net asset value per share is based on the net assets of the group at the year end and on the number of ordinary shares in issue at the year end less ordinary shares held by the Caledonia Investments plc Employee Share Trust. The group's diluted net asset value per share assumes the exercise of all outstanding in-the-money share options and the calling of performance share and deferred bonus awards.

	2017			2016		
	Net assets £m	Number of shares 000's	NAV p/share	Net assets £m	Number of shares 000's	NAV p/share
Undiluted	1,898.8	54,894	3459	1,623.2	55,136	2944
Adjustments	0.3	1,044	(64)	0.5	1,057	(54)
Diluted	1,899.1	55,938	3395	1,623.7	56,193	2890

Net asset value per share is calculated in accordance with AIC guidance and, in particular, recognises dividends payable on the ex-dividend date. Net assets in 2016 are stated after deducting the second interim dividend of £21.1m, which had an ex-dividend date of 3 March 2016 and was paid on 1 April 2016.

8. Capital commitments

At the reporting date, the group and company had entered into unconditional commitments to limited partnerships, commitments to other investment funds and loan facilities to portfolio companies, as follows:

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Investments				
Contracted but not called	301.5	252.0	307.3	264.1
Conditionally contracted	27.5	30.6	27.5	30.6
	329.0	282.6	334.8	294.7

9. Performance measures

The measures below are deemed appropriate to assess the underlying operating results and enhance the comparability and understanding of the financial performance of Caledonia:

1. Net assets provides a measure of the value of the company to shareholders and is taken from the IFRS group net assets.
2. Net asset value ('NAV') per share is a measure of the value of the company per share, calculated by dividing net assets by the number of shares in issue, adjusting for shares held by the Employee Share Trust and for dilution by the exercise of share options and awards. NAV per share takes account of dividends on the ex-dividend date.
3. NAV total return is a measure showing how the NAV per share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. NAV total return assumes that dividends are reinvested at the NAV per share on the ex-dividend date.
4. Annual dividends are dividends declared as part of the company's recurring dividend cycle and are typically paid out of earnings in a financial year. Annual dividend growth is the geometric progression ratio that provides a constant rate of increases over the period. Special dividends are non-recurring dividends declared separate from annual dividends.
5. The modified Deitz method is used as a measure of the performance of an investment or pool over the year. This method divides the gain or loss in value, net of external cash flows, by the average capital over the period of measurement.
6. Internal rate of return ('IRR'), being the discount rate that makes the net present value of all cash flows from a particular investment equal to zero, and realisation multiples or money returns, being the cumulative returns from an investment divided by the total investment, are used as indicators of the performance of individual investments on exit.

10. Financial information

The information in this final results announcement does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006 (the 'Act'), but has been derived from the statutory accounts for the year ended 31 March 2017. The auditors have reported on those statutory accounts and their report was not qualified and did not contain statements under section 498 of the Act.

The statutory accounts for the year ended 31 March 2017 will be delivered to shareholders on 13 June 2017 and made available for download from the company's website on that date. Also, a copy will be delivered to the Registrar of Companies in accordance with section 441 of the Act, following approval by shareholders.

The statutory accounts for the year ended 31 March 2017 include a 'Directors' statement of responsibility' as follows:

We confirm that, to the best of our knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group

- the strategic report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the board by:

Will Wyatt
Chief Executive
25 May 2017

Stephen King
Finance Director
25 May 2017

This announcement contains inside information relating to Caledonia.

END

Copies of this statement are available at the company's registered office, 2nd Floor Stratton House, 5 Stratton Street, London W1J 8LA, United Kingdom, or from its website at www.caledonia.com. Neither the contents of the company's website nor the contents of any website accessible from hyperlinks on the company's website (or any other website) is incorporated into, or forms part of, this announcement.