# FIDELITY SPECIAL VALUES PLC

## Final Results for the year ended 31 August 2021

**Financial Highlights:**

- The Board of Fidelity Special Values PLC (the "Company") recommends a final dividend of 4.50 pence which together with the interim dividend payment of 2.17 pence per share (totalling 6.67 pence) represents an increase of 15% over the dividend of 5.80 pence paid in the prior year.
- The net asset value ("NAV") of the Company increased by +56.2% for the year ended 31 August 2021, outperforming the Benchmark Index, which returned +26.9%.
- As a result of the Company's +73.8% share price performance, the level of discount narrowed from 9.1% at the start of the reporting year to a premium of 1.2% as at 31 August 2021.
- Performance figures over Alex Wright's tenure as Portfolio Manager are also strong, with a NAV return of +196.2% and a share price return of +257.1%, compared to a Benchmark Index return of +90.8%. The strong long term performance of the Company has enabled it to expand the Shareholder base through the issuance of a significant number of shares.
- While the UK market has looked cheap over the past five years, the key differentiator in 2021 compared to prior years is that fundamentals on the ground look very good.

### Contacts

**For further information, please contact:**

Smita Amin
Company Secretary
01737 836347
FIL Investments International

## CHAIRMAN'S STATEMENT

The year under review was an extraordinary one, in terms of the global and external factors affecting the companies in which we invest, the broader market, the daily lives of our Shareholders, and their personal investments. This in turn led to extraordinary changes in investor confidence and sentiment leading to a remarkable, if uneven, recovery of asset prices.

Last year I wrote of the challenges posed by COVID-19, and it is therefore with a sense of relief, even hope, that we can reflect on improving prospects for a global recovery from the virus and its consequential social, economic and market impacts and how this may play out in the UK.

The Company aims to achieve long term capital growth for Shareholders by investing in 'special situations' and the last year has resulted in an abundance of such opportunities. The investment trust is primarily invested in UK equities, but may invest up to 20% of total net assets outside of UK companies. The portfolio consists of around 80-120 positions and the Portfolio Manager's strategy invests across the market capitalisation spectrum, usually with an overweight to medium sized and smaller companies. It is an actively managed contrarian strategy that seeks out undervalued opportunities – this typically means investing in companies that have underperformed and where there is little or no value ascribed to any recovery potential.

By building a portfolio of stocks that are at different stages of their recovery process, the intention is to deliver outperformance across different market environments.

### PERFORMANCE

The Company's performance for the reporting year has been extremely pleasing, with a net asset value ("NAV") return of 56.2% and a share price return of 73.8%, compared to a Benchmark Index return of 26.9%. Performance figures over Alex's tenure as Portfolio Manager are also strong, with a NAV return of 196.2% and a share price return of 257.1%, compared to a Benchmark Index return of 90.8%. (All performance data on a total return basis). The strong long term performance of the Company has enabled us to expand the Shareholder base through the issuance of a significant number of shares.

### OUTLOOK

As set out in his review that follows, Alex Wright, our Portfolio Manager, is still excited about the UK equity market even after the strong returns seen over recent months. He believes that the UK market still looks attractive versus other markets and that there are areas with real potential. It is a particularly exciting market for investors looking for 'value' opportunities – the UK is one of the world's cheapest major stock markets.

The improving economic backdrop has been reflected in a slew of positive earnings news from companies, which are yet to be reflected in valuations and which Alex believes in many cases may be sustainable trends particularly among UK consumer-facing and housing-related holdings.

We are likely to see some short term scares relating to both Brexit and COVID-19, such as the perceived petrol shortages leading to queues at petrol stations at the end of September. Given the strong performance run of global indices throughout the last year, we may also see a period of consolidation. However, longer term, with uncertainty surrounding Brexit reducing and a successful vaccination program, we expect to see companies and consumers increase their spending – and the UK and its companies are well placed to benefit from this.

### OTHER MATTERS

### REVISED MANAGEMENT FEE

I am very pleased to inform Shareholders that the Board agreed a reduced management fee with the Manager, FIL Investment Services (UK) Limited, which was effective from 1 January 2021. The previous tiered fee structure of 0.85% on the first £700 million of net assets reducing to 0.75% of net assets in excess of £700 million was replaced by a single fee of 0.60% of net assets. In addition, the fixed annual fee of £100,000 for services other than portfolio management was removed.

There is no change in the investment process as a result of the new fee arrangement.

### DISCOUNT/PREMIUM AND SHARE REPURCHASES/ISSUES

Under the Company's discount management policy, the Board seeks to maintain the discount in single digits in normal market conditions and will repurchase shares to help stabilise the share price discount.

The Board will approve the issuance of shares if the Company's shares are trading at a sufficient level of premium to ensure that it adds value for Shareholders and that the issue of shares is not dilutive. Issuing shares increases the size of the Company, making it more liquid and allowing costs to be spread over a larger pool of assets.

Over the reporting year, the Company's shares traded between a premium of 3.1% and a discount of 12.3%. The level of discount narrowed from 9.1% at the start of the reporting year to a premium of 1.2% as at 31 August 2021. The peer group average discount as at the year end was 5.2%.

During September and early October 2020, the Company's discount widened, and in order to maintain it in single digits, the Board approved the repurchase of 1,025,473 ordinary shares into Treasury. All of these shares were subsequently re-issued in late November and early December 2020 as the shares moved back to a premium. Since then and as at the date of this Annual Report, no further shares have been repurchased into Treasury or for cancellation.

In the reporting year, the Company's shares mostly traded at a premium and in order to meet demand, the Company issued a total of 24,024,913 ordinary shares from a combination of shares held in Treasury as above, and its block listing facilities. Since then and as at the date of this Annual Report, the Company has issued a further 500,000 shares.

The issuance of shares has been at a rate where, were it to continue, the remaining authority to issue shares approved by Shareholders at the Annual General Meeting ("AGM") on 14 December 2020 would be exhausted some time in advance of the Company's AGM on 14 December 2021. Therefore, the Board held a General Meeting on 15 September 2021 in order to renew the authority to allot shares and disapply pre-emption rights to enable the Company to allot up to 10 per cent. of the shares in issue as at 11 August 2021, in addition to the unused part of the authority granted at the Company's 2020 AGM.

The Board continues to monitor the discount/premium closely and will take action when it believes that it will be effective and to the benefit of Shareholders.

### GEARING

The Board has agreed with the Portfolio Manager that if he is able to find attractive opportunities in the market, then the Company's gearing should be allowed to rise. Combined with Alex's contrarian and value-focused investment philosophy, and also making good use of the Company's structural advantages over its open-ended counterparts, this should continue to add value for Shareholders over the long term.

It is the current intention of the Board that, in normal market conditions, the Portfolio Manager will maintain net gearing in the range of 0% to 25%. The Company remained within these levels throughout the reporting year. The maximum level of gross gearing allowed is 40%.

**DIVIDEND**

The Board's policy is to pay dividends twice yearly in order to smooth the dividend payments for the Company's reporting year. The Company's revenue return for the year to 31 August 2021 was 7.22 pence per share (2020: 4.81p), and an interim dividend of 2.17 pence per share was paid on 23 June 2021 (2020: 2.10p).

The Board recommends a final dividend of 4.50 pence per share for the year ended 31 August 2021 (2020: 3.70 pence) for approval by Shareholders at the AGM on 14 December 2021. The interim and final dividends (total of 6.67 pence) represent an increase of 0.87 pence (15%) over the 5.80 pence paid for the year ended 31 August 2020. In the prior year, the dividends of many companies in the portfolio were under pressure, with dividends either being cut or cancelled, and the Company therefore utilised revenue reserves built up in previous years to cover the final dividend. This year the Company has been able to return to paying dividends entirely from the revenue earned in the reporting year.

The final dividend will be payable on 12 January 2022 to Shareholders on the register at close of business on 3 December 2021 (ex-dividend date 2 December 2021).

**BOARD OF DIRECTORS**

Nicky McCabe, having served on the Board as a Non-Executive Director since December 2004, stepped down from the Board at the conclusion of the AGM on 14 December 2020.

Having served on the Board for 11 years, five of which have been as Chairman of the Board, it is my intention not to seek re-election at the AGM in 2022. A recruitment process will be carried out in due course as part of the Board's succession plan.

In accordance with the UK Corporate Governance Code for FTSE 350 companies, all Directors are subject to annual re-election at the AGM on 14 December 2021. The Directors' details can be found in the Annual Report, and between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

**ARTICLES OF ASSOCIATION**

Among the temporary measures forced upon us by the COVID-19 pandemic was the closed session AGM we held last year.

With the intention of providing the very best experience for Shareholders longer term and mindful of potential future restrictions, the Board is proposing amendments to the Articles of Association (the "Articles") to enable the Company to hold 'hybrid' general meetings. Hybrid meetings involve either the physical or electronic attendance and voting by Shareholders. By changing the Company's Articles, the Board will have the ability to determine whether a future AGM or general meeting should be held as a physical meeting or as a hybrid meeting.

My fellow Directors and I greatly enjoy the opportunity to meet and exchange views with Shareholders and a physical meeting will remain our preferred format provided Government guidance permits it, but we are keen to provide virtual facilities for future AGMs should it be necessary.

We have also taken the opportunity to update certain other provisions within the Articles, including for example, in relation to retirement of Directors, Directors' fees and regulatory restrictions and information. A full tracked version of all the changes proposed to the Articles is available at **www.fidelity.co.uk/specialvalues**. The principal changes proposed to the Articles are set out in more detail in the Directors' Report in the Annual Report.

**ANNUAL GENERAL MEETING – TUESDAY, 14 DECEMBER 2021 AT 11.30 AM**

The AGM of the Company will be held at **11.30 am on Tuesday, 14 December 2021** at Fidelity's offices at **4 Cannon Street, London EC4M 5AB** (nearest tube stations are St. Paul's or Mansion House). Full details of the meeting are given in the Notice of Meeting in the Annual Report. Appropriate social distancing and hygiene measures will be in place and under the circumstances it is unlikely that we will be able to offer the usual catering service. As the pandemic continues, we anticipate limited numbers in attendance and guests of Shareholders will not be permitted. For those Shareholders who would prefer not to travel or attend in person, for the first time this year we will live-stream the formal business and presentations of the meeting online. A registration link may be found on the Company's website **www.fidelity.co.uk/specialvalues**.

Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and these will addressed on their behalf at an appropriate juncture during the meeting.

It will not be possible for those viewing online to participate in voting on the proposed resolutions this year, pending approval of the changes to the Articles of Association as set out above.

Alex Wright, the Portfolio Manager, will be making a presentation to Shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. He and the Board will be very happy to answer any questions that Shareholders may have. Copies of the Portfolio Manager's presentation can be requested by email at **investmenttrusts@fil.com** or in writing to the Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Although we intend to resume our normal format for the AGM this year, if anything changes due to the ongoing pandemic, we will advise investors via the Company's website at **www.fidelity.co.uk/specialvalues** about alternative arrangements for the Portfolio Manager's presentation. The formal business of the meeting will still be carried out in person on 14 December 2021.

We urge all Shareholders to vote and make use of the proxy form provided. If you hold shares through the Fidelity Platform, other platforms or a nominee (and not directly in your own name), proxy forms are not provided, and you are advised to contact the company with which you hold your shares in order to lodge your voting instructions.

We thank you for your cooperation.

**ANDY IRVINE**
**Chairman**
5 November 2021

# PORTFOLIO MANAGER'S REVIEW

**QUESTION**
**How has the Company performed in the period under review?**

**ANSWER**
After what proved to be a challenging period last year, we are pleased to report a much-improved performance this financial year. The Company recorded a share price total return of 73.8% and a NAV total return of 56.2% for the reporting year, both of which were meaningfully ahead of the FTSE All-Share Index (Benchmark Index) which returned 26.9%. It has been the best financial year in the Company's history, both in terms of NAV and share price total returns. This handsomely rewarded Shareholders for their patience after the disappointing returns seen last year, and reflects our belief that it is often with the greatest disappointments that come the best investment opportunities, a principle that typically informs our search for new ideas among individual stocks. Over the period, UK equities continued to bounce back amid increasing optimism on the back of an acceleration in vaccination rollouts and the relaxation of restrictions. A sharp pick-up in corporate earnings also boosted investor sentiment, as did a flurry of takeover bids for UK companies, including ten portfolio holdings. Thanks to the strong returns and Shareholders' willingness to back us, the Company is also close to the £1 billion market capitalisation mark for the first time in its history.

**QUESTION**
**What were the key factors behind the Company's outperformance?**

**ANSWER**
Stock selection was the primary driver of returns over the year, reflecting the strong underlying earnings picture, particularly at some of our consumer facing businesses. Among the largest contributors, bicycle and motoring retailer Halfords Group reported a big jump in profits after sales of electric bikes and scooters almost doubled over the last year. Car distributor Inchcape and vehicle rental business Redde Northgate also performed strongly benefiting from supply chain shortages affecting new car production. Among our housing related holdings, estate agency and surveying firm LSL Property Services was another leading contributor, as it reported strong trading momentum.

Mergers and acquisition (M&A) activity was a key feature over the period and boosted several of our key holdings, notably private healthcare provider Spire Healthcare Group (in this case, we voted against the bid, as we believed that the offer undervalued the business) and UK aerospace equipment supplier Meggitt (which attracted an offer at a 70% premium to the prior closing price). Support services group Mitie Group was another notable contributor, boosted by a major acquisition and refinancing in the year and strong operational performance. Within financials, banking group AIB Group rose on the back of a positive outlook and news of bolt-on acquisitions amid the recently announced withdrawal decisions from a number of competitors in the Irish market.

Key detractors were primarily defensive businesses, including support services groups Serco Group and DCC. Serco's share price weakness has been particularly surprising given the business has performed strongly since the onset of the pandemic, resulting in significant earnings upgrades and better long term growth prospects thanks to closer relationships with governments. Similarly, DCC is a long term compounder that is focused on deploying capital in businesses that generate high return on capital and strong cash conversion with low capital intensity. The holding in power generation company ContourGlobal also lagged amidst unfavourable investor sentiment for utilities due to rising bond yields during the period.

**QUESTION**
**Smaller companies have outperformed large-cap stocks this year – is there still value there?**

**ANSWER**
While most investors were focusing on the large cap beneficiaries of an eventual market recovery following the COVID-19 dislocation, we have found many opportunities in the smaller companies space. Small-cap stocks are typically under-researched and ignored in periods of uncertainty. Those investors who do focus on the segment tend to favour high growth businesses. Due to a lack of broker coverage, we note that many good quality smaller companies are falling under the radar. While small-cap stocks have bounced back strongly since the beginning of the COVID-19 crisis, and indeed we have taken profits in some holdings, we still see significant value and upside potential available. This value opportunity is reflected in the number of recent takeover bids involving small and mid-cap stocks.

**QUESTION**
**How do you avoid value traps?**

**ANSWER**
Although we look for undervalued companies, we are very selective in our approach. We look for two key elements before investing in a stock: downside protection and positive change catalysts. We focus on companies where we believe further downside is limited. These will often be companies that have underperformed, but that have some form of asset or defensive revenue stream which gives their share price downside protection. As well as downside protection, we look for companies with positive change dynamics. This could be external changes expected to benefit the business (such as a change in the competitor landscape or a structural change in market demand), internal changes (such as a new management team restructuring the business, a new product line or expansion into new areas), or preferably both.

In order to assess the prospect of a material change in the earnings power of the business, we undertake thorough due diligence. Not only do we meet with the management team to fully understand their corporate strategy, our analysts will also speak to competitors, customers, suppliers and industry experts to validate the information received from management and build conviction in the anticipated change. Subsequent to this, we closely monitor the company's results and updates as well as industry trends to check whether the investment thesis is playing out. As we gain conviction in the change story, we gradually add to the position until the change starts being recognized by the market by which time we will start reducing the position and recycling the proceeds into new investment opportunities.

**QUESTION**
**Has the UK's recovery from COVID-19 played out the way that you expected? Is this a risk or an opportunity moving forward?**

**ANSWER**
The UK economy was one of the worst affected by the pandemic given its dependence on services and face-to-face interaction. The lockdown restrictions caused a very unusual recession whereby companies were unable to operate for varying lengths of time depending on their industries and consumers were not able to spend as much as they normally would, thus leaving them with more disposable income. This has resulted in pent up demand but also supply bottlenecks. Overall, it has translated into very strong corporate fundamentals, as the economy gradually reopened. Through our research and frequent conversations with individual companies, we were able to pick up early on new spending patterns, which favoured areas such as housing, DIY and some specialist retailers, and this benefited performance.

Looking ahead, there are risks but also opportunities. Thanks to the swift vaccine rollout, the Government has now lifted the last domestic COVID-19 restrictions, and fortunately hospitalisations have remained relatively low, as vaccines continue to prove effective in reducing the number of individuals needing treatment. Those fully vaccinated are no longer required to self-isolate if they come in contact with someone testing positive for the virus, which should help reduce staff absences highlighted recently. However, many companies are reporting input cost pressures due to supply chain issues and skill shortages, and these are areas that we are carefully monitoring.

Conversely, the market has been quick to dismiss some of the corporate results and consumption trends seen recently as being temporary, but we believe some of these will be longer lasting and therefore are yet to be fully reflected in share prices. For instance, we believe the need for more space, hybrid working, lower rate mortgages and an expected pick up in the build-to-rent market will continue to support house builders and building materials suppliers. Public outsourcers such as Serco have performed strongly since the onset of the pandemic, but its shares have underperformed despite winning new long term contracts and coming out of the pandemic much stronger. In fact, across many industries, the pandemic has accelerated restructuring plans, cost cutting and the introduction of new digital/online solutions, as well as significantly shrinking some of the supply in some industries (as companies have ceased trading). As a result, some businesses are emerging from the pandemic in a stronger competitive position.

**QUESTION**
**There are growing concerns about supply chains – what does this mean for the portfolio?**

**ANSWER**
As economies have reopened and pent up demand is being released, supply chains shortages have become more apparent and input cost pressures are rising as a result. This is because manufacturers have not recovered the lost COVID-19 shutdown production, and transport disruption and staff shortages have made matters worse. This is something we have been monitoring for a while both as a threat and as an opportunity. Having previously added to our housebuilders and building materials exposure to capitalise on the recovery of the housing market, earlier this year we initiated positions in brick distributor Brickability Group and brick manufacturer Forterra to take advantage of the fact that bricks were in short supply. Both companies have since been reporting very strong demand and their outlook remains robust for the coming year. The supply of new cars has also been severely hindered by semiconductor chip shortages, and we have benefited from this through our holdings in Inchcape, a global retailer of new and used cars, and Redde Northgate, a commercial vehicle rental business. The pent up demand from people who were forced to delay their purchases and the lack of stock is pushing up both new and used car prices, and this should also benefit rentals. Overall, our preference for businesses operating in areas where supply has shrunk should also help, as market leaders typically have more robust supply chains and should more easily be able to pass on input cost pressures and capitalise on limited supply. This is an area we are monitoring closely and is a key focus in our company meetings, concerns over rising margin pressure have led us to sell or trim a couple of holdings recently.

**QUESTION**
**You publicly rejected a private takeover bid for Spire Healthcare Group this year – what drove the decision?**

**ANSWER**
We are not against bids if they recognise the true value of individual businesses and pay a fair price. In fact, given our focus on attractively valued companies which are ignored or underappreciated by the market, takeover bids can greatly help speed up the recognition of the value of these businesses and give us a welcome opportunity to recycle the proceeds into new investment opportunities with greater upside potential. However, we are equally happy to take a public stance and vote against a bid if we think the offer undervalues the business, as we recently did with the bid for private hospital group Spire Healthcare. In that case, we felt the offer materially undervalued the business, and the premium failed to recognise the big improvements in clinical quality that the current management team has put in place. This puts them in a very strong position to now benefit from unprecedented waiting lists for elective surgeries post COVID-19 and higher NHS outsourcing to help clear backlogs.

**QUESTION**
**There is continuing focus on ESG matters. How do you think about ESG?**

**ANSWER**
Corporate governance has always been a key consideration for me as contrarian investor. I look for unloved companies where things are changing for the better, and therefore how well a company is managed, whether management are likely to deliver on their plans, that they are appropriately incentivised and that their interests are aligned with shareholders. These are absolutely key to the investment thesis. The social and environmental aspects of ESG have been the focus of public attention recently, and these are also factors our analysts take into account in their overall assessment of the business. ESG has been a key focus area at Fidelity, and our research team is about to introduce an enhanced ESG framework which will provide us with more granularity and data points to help monitor the progress companies are making on key indicators.

When my Co-Portfolio Manager, Jonathan Winton, and I consider a new investment, it is important for us to have a good understanding of any potential ESG issues that could increase the downside risk on an investment. This will inform us as to whether we are prepared to invest in the company and also the valuation multiple we are looking to achieve from that investment. Rather than excluding companies based on prior ESG records, we consider whether the market's perception is correct or if actions have been taken to address issues that have the potential to lead to a re-rating of the shares. As shareholders, we engage and maintain constructive dialogue with companies' management and directors on ESG matters, make efficient use of proxy voting and shareholder resolutions, and collaborate in coalition with stakeholders for greater impact if required.

**QUESTION**
**What is your outlook for the next twelve months?**

**ANSWER**
UK equities remain significantly undervalued compared to global markets, and reasonably valued in absolute terms on 13x 2022 earnings estimates. While the UK market has looked cheap over the past five years, the key differentiator in 2021 compared to prior years is that fundamentals on the ground look very good. This is evidenced by the very strong profit recovery from COVID-19 that we have seen in 2021, with many companies already looking to produce profits in 2021 greater than in 2019. UK equities are well positioned not only to benefit from a recovery from the pandemic, but also from the lifting of the Brexit uncertainty which is starting to translate into companies finally committing to making new investments in the country, but also consumers (now with extra savings) more willing to buy big ticket items. The catch-up opportunity in terms of consumer spending after lockdown restrictions is significant and could be longer lasting than generally anticipated.

The removal of the Brexit uncertainty and attractive valuation levels explains the number of M&A bids which we are currently seeing. Private equity groups and other corporates are recognising the value on offer in the UK market. We are likely to see more bids if valuation discounts compared to overseas companies do not close.

Given this positive backdrop and the number of opportunities on offer, we have continued to take advantage of the Company's ability to gear. We used the market weakness seen in September to add to some of our most attractively valued holdings, maintaining the gearing level at the upper end of our historic range.

Based on 2022 and 2023 earnings estimates, the Company's portfolio trades on a 10 to 20% discount to the UK market, which as previously mentioned is itself attractively valued both in relative and absolute terms. We remain comfortable with how the Company's portfolio looks from a valuation, return on capital and risk perspective, and continue to see meaningful upside potential for our holdings.

**ALEX WRIGHT**
**Portfolio Manager**
5 November 2021

## PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

As required by provisions 28 and 29 of the 2018 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/ the "Manager"), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties that the Company faces. The Audit Committee continues to identify any new emerging risks and take any action necessary to mitigate their potential impact. The risks identified are placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of existing and emerging risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal and emerging risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks faced by the Company.

### EXTERNAL RISKS

| Principal Risks | Description and Risk Mitigation |
|---|---|
| **Market, Economic and Political Risks** | The Company's portfolio is mainly made up of listed securities. The principal risks are therefore market related such as market downturn, interest rate movements and deflation/inflation. The Company may also be impacted by concerns over global economic growth and major political events affecting the UK market and economy and the consequences of this.<br><br>COVID-19 continues to be a global pandemic with severe market and economic impacts. The risk of the likely effects of COVID-19 on the markets is discussed in the Chairman's Statement and in the Portfolio Manager's Review above. These risks are somewhat mitigated by the Company's investment trust structure which means no forced sales need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon.<br><br>The Board reviews market, economic and political risks and legislative changes at each Board meeting.<br><br>Risks to which the Company is exposed to in the market risk category are included in Note 18 to the Financial Statements below together with summaries of the policies for managing these risks. |
| **Cybercrime Risk** | The operational risk from cybercrime is significant. Cybercrime threats evolve rapidly and consequently the risk is regularly re-assessed and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager's technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk is frequently re-assessed by Fidelity's information security teams and has resulted in the implementation of new tools and processes, including improvements to existing ones. Fidelity has established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance.<br><br>Risks are increased due to the COVID-19 crisis, primarily related to phishing, remote access threats, extortion and denial of services attacks. The Manager has a dedicated detect and respond resource specifically to monitor the cyber threats associated with COVID-19. The Company's third party service providers also have similar measures in place. |
| **Environmental, Social and Governance ("ESG") Risk** | There is a risk that the value of the assets of the Company are negatively impacted by ESG related risks, including climate control. Fidelity International has embedded ESG factors in its investment decision making process. ESG integration is carried out at the fundamental research analyst level within its investment teams, primarily through Fidelity's Proprietary Sustainability Rating which is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities based on sector-specific key performance indicators across 99 individual and unique sub-sectors. The Portfolio Manager is also active in analysing the effects of ESG when making investment decisions. The Board continues to monitor developments in this area and reviews the positioning of the portfolio considering ESG factors.<br><br>Further detail on ESG considerations in the investment process and sustainability investment is in the Annual Report. |
| **Regulatory Risk** | The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active engagement with regulators and trade bodies by the Manager. |
| **Key Person Risk** | There is a risk that the Manager has an inadequate succession plan for key individuals. The loss of the Portfolio Manager or key individuals could lead to potential performance, operational or regulatory issues. The Manager identifies key dependencies which are then addressed through succession plans, particularly for portfolio managers. |
| **Discount Control Risk** | Due to the nature of investment companies, the price of the Company's shares and its premium or discount to NAV are factors which are not totally within the Company's control. The Board has a discount management policy in place and some short term influence over the discount may be exercised by the use of share repurchases at acceptable prices within the parameters set by the Board. The demand for shares can be influenced through good performance and an active investor relations program.<br><br>The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly. |
| **Competition Risk** | Threats facing the Company are loss of Shareholders if the demand for investment trusts declines, and the demand for passive funds and active ETFs continue to increase. The Board reviews the strategic direction of the Company on an ongoing basis to ensure that it offers a relevant product to Shareholders. It also regularly reviews the Shareholder profile of the Company with the Company's broker. |
| **Investment Management Risk** | The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the asset value of the portfolio against the Company's Benchmark Index and its competitors and also considers the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long term investment performance as there is a risk for the Company of volatility of performance in the shorter term.<br><br>Derivative instruments are used to protect and enhance investment returns. There is a risk that the use of derivatives may lead to higher volatility in the NAV and the share price than might otherwise be the case. The Board has put in place policies and limits to control the Company's use of derivatives and exposures. Further details on derivative instruments risk is included in Note 18 to the Financial |

| | |
|---|---|
| | Statements below.<br><br>The Company gears through the use of long CFDs. The principal risk is that the Portfolio Manager fails to use gearing effectively, resulting in a failure to outperform in a rising market or underperform in a falling market. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Manager must operate. |
| **Pandemic Risk** | With the pandemic continuing to evolve and variants of COVID-19 appearing, it is evident that although COVID-19 is being tackled by the arrival of vaccines, risks remain. The roll-out of vaccines globally is slow and the effectiveness against the variants is uncertain. There continues to be increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The Manager follows Government recommendations and guidance and carries on reviewing its business continuity plans and operational resilience strategies on an ongoing basis. The Manager continues to take all reasonable steps in meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. PricewaterhouseCoopers LLP has also confirmed in the AAF Internal Controls report issued to Fidelity International that there have not been any significant changes to Fidelity International's control environment as a result of COVID-19. Further to this, the Manager has provided the Board with assurance that the Company has appropriate business continuity plans in place and the provision of services has continued to be supplied without interruption during the pandemic.<br><br>Investment team key activities, including portfolio managers, analysts and trading/support functions, are continuing to perform well despite the operational challenges posed when working from home or when split team arrangements were in place.<br><br>The Company's other third party service providers have also confirmed the implementation of similar measures to ensure no business disruption. |
| **Operational Risks –Service Providers** | The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. The Registrar, Custodian and Depositary are all subject to a risk-based program of internal audits by the Manager. In addition, service providers' own internal control reports are received by the Board on an annual basis and any concerns investigated. Risks associated with these services are generally rated as low, although the financial consequences could be serious, including reputational damage to the Company. |

**CONTINUATION VOTE**

A continuation vote takes place every three years. There is a risk that Shareholders do not vote in favour of continuation during periods when performance of the Company's NAV and share price is poor. At the AGM held on 12 December 2019, 99.90% of Shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at the AGM in 2022.

**VIABILITY STATEMENT**

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term capital growth. The Board considers long term to be at least five years, and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's level of gearing;
- The Company's NAV and share price performance;
- The principal and emerging risks and uncertainties facing the Company, as set out above, and their potential impact;
- The expected future demand for the Company's shares;
- The Company's share price premium/discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance has been strong over the five year reporting period to 31 August 2021, with a NAV total return of 56.7% and a share price total return of 76.5% compared to a Benchmark Index total return of 33.3%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Investment Manager's compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The fact that the portfolio comprises sufficient readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and

- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement below.

**GOING CONCERN STATEMENT**

The Financial Statements of the Company have been prepared on a going concern basis.

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio and its expenditure and cash flow projections. The Directors, having considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable) and the projected income and expenditure, are satisfied that the Company is financially sound and has adequate resources to meet all of its liabilities and ongoing expenses and continue in operational existence for the foreseeable future. The Board has therefore concluded that the Company has adequate resources to continue to adopt the going concern basis for the period to 30 November 2022 which is at least twelve months from the date of approval of the Financial Statements. This conclusion also takes into account the Board's assessment of the ongoing risks from COVID-19 as set out in the Pandemic Risk above. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

**PROMOTING THE SUCCESS OF THE COMPANY**

Under Section 172(1) of the Companies Act 2006, the Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long term; the need to foster relationships with the Company's suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As an externally managed Investment Trust the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services to the Manager, but other professional service providers support the Company by providing administration, custodial, banking, depositary and audit services. The Board considers the Company's key stakeholders to be the existing and potential Shareholders, the external appointed Manager (Fidelity), and other third party professional service providers. The Board considers that the interest of these stakeholders are aligned with the Company's objective of delivering long term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings. In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out in the Annual Report.

The Board places great importance on communication with Shareholders. The Annual General Meeting provides the key forum for the Board and Portfolio Manager to present to the Shareholders on the Company's performance and future plans and, in normal circumstances, the Board encourages all Shareholders to attend, and raise questions and concerns. The Chairman and other Board members are available to meet Shareholders as appropriate. Shareholders may also communicate with Board members at any time by writing to them at the Company's registered office at FIL Investments International, Beech Gate, Millfield Lane, Tadworth, Surrey KT20 6RP or via the Company Secretary in writing at the same address or by email at **investmenttrusts@fil.com**. The Portfolio Manager meets with major Shareholders, potential investors, stock market analysts, journalists and other commentators throughout the year. These communication opportunities help inform the Board in considering how best to promote the success of the company over the long term.

The Board seeks to engage with the Manager and other service providers and advisers in a constructive and collaborative way, promoting a culture of strong governance, while encouraging open and constructive debate, in order to ensure appropriate and regular challenge and evaluation. This aims to enhance service levels and strengthen relationships with service providers, with a view to ensuring Shareholders' interests are best served, by maintaining the highest standards of commercial conduct while keeping cost levels competitive.

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance ("ESG") issues aligns with the objective to deliver long term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail in the Annual Report.

In addition to ensuring that the Company's investment objective was being pursued, key decisions and actions taken by the Directors during the reporting year, and up to the date of this report, have included:

– the decision to pay an interim dividend of 2.17 pence per share and a final dividend of 4.50 pence per share (a total of 6.67 pence per share), to maintain the 12 year track record of increasing dividends, while retaining funds for reinvestment, consistent with the objective of long term capital growth;

– the raising of over £64.8 million from share issuances, at a premium to net asset value, in order to satisfy investor demand over the year, also serving the interests of current Shareholders by reducing costs per share and helping to further improve liquidity;

– the decision to hold a General Meeting on 15 September 2021 in order to renew the Shareholder authority to issue new shares on a non pre-emptive basis. The reason for this was because the rate of issuance of shares from the authority granted at the AGM on 14 December 2020 was such that were it to continue, the Company was likely to run out of shares granted for issue under that authority. As a result of the resolutions approved at the General Meeting on 15 September 2021, the Company was given the authority to issue a further 31,167,880 shares;

– authorising the repurchase of 1,025,473 ordinary shares when the Company's discount widened into double digits during September and early October 2020, in line with the Board's long term intention that the share price should trade at a level close to the underlying net asset value of the shares, so that Shareholders are seeing the full benefit of the Company's investments; and

– agreeing a reduction in the management fee with effect from 1 January 2021, thus providing cost savings to the Company and reducing the Ongoing Charges to help the Company remain competitive. Details of the new fee arrangement can be found in the Chairman's Statement above.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- 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 ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to 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.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated the responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at **www.fidelity.co.uk/specialvalues** to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Annual 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 it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 5 November 2021 and signed on its behalf by:

**ANDY IRVINE**
**Chairman**

**INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2021**

| | | Year ended 31 August 2021 | | | Year ended 31 August 2020 | | |
|---|---|---|---|---|---|---|---|
| | | Revenue | Capital | Total | Revenue | Capital | Total |
| | Notes | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gains/(losses) on investments | 11 | – | 252,899 | 252,899 | – | (131,085) | (131,085) |
| Gains/(losses) on long CFDs | 12 | – | 55,323 | 55,323 | – | (11,820) | (11,820) |
| Losses on short CFDs and futures | 12 | – | – | – | – | (1,905) | (1,905) |
| Investment and derivative income | 3 | 27,890 | – | 27,890 | 20,282 | – | 20,282 |
| Other interest | 3 | 257 | – | 257 | 789 | – | 789 |
| Derivative expenses | 4 | – | – | – | (75) | – | (75) |
| Investment management fees | 5 | (5,098) | – | (5,098) | (5,627) | – | (5,627) |
| Other expenses | 6 | (669) | – | (669) | (718) | – | (718) |
| Foreign exchange losses | | – | (720) | (720) | – | (2,641) | (2,641) |
| **Net return/(loss) on ordinary activities before finance costs and taxation** | | 22,380 | 307,502 | 329,882 | 14,651 | (147,451) | (132,800) |
| Finance costs | 7 | (378) | – | (378) | (530) | – | (530) |
| **Net return/(loss) on ordinary activities before taxation** | | 22,002 | 307,502 | 329,504 | 14,121 | (147,451) | (133,330) |
| Taxation on return/(loss) on ordinary activities | 8 | (406) | – | (406) | (360) | – | (360) |
| **Net return/(loss) on ordinary activities after taxation for the year** | | 21,596 | 307,502 | 329,098 | 13,761 | (147,451) | (133,690) |
| **Return/(loss) per ordinary share** | 9 | 7.22p | 102.74p | 109.96p | 4.81p | (51.59p) | (46.78p) |

The Company does not have any other comprehensive income. Accordingly, the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes below form an integral part of these Financial Statements.

**BALANCE SHEET AS AT 31 AUGUST 2021 COMPANY NUMBER 2972628**

| | Notes | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 11 | 886,710 | 563,763 |
| **Current assets** | | | |
| Derivative instruments | 12 | 1,968 | 7,619 |
| Debtors | 13 | 6,674 | 3,921 |
| Amounts held at futures clearing houses and brokers | | 40 | 860 |
| Cash and cash equivalents | | 63,780 | 9,802 |
| | | 72,462 | 22,202 |
| **Current liabilities** | | | |
| Derivative instruments | 12 | (3,161) | (1,946) |
| Other creditors | 14 | (1,921) | (4,514) |
| | | (5,082) | (6,460) |
| **Net current assets** | | 67,380 | 15,742 |
| **Net assets** | | 954,090 | 579,505 |
| **Capital and reserves** | | | |
| Share capital | 15 | 15,651 | 14,501 |
| Share premium account | 16 | 205,466 | 144,306 |
| Capital redemption reserve | 16 | 3,256 | 3,256 |
| Other non-distributable reserve | 16 | 5,152 | 5,152 |
| Capital reserve | 16 | 702,637 | 394,572 |
| Revenue reserve | 16 | 21,928 | 17,718 |
| **Total Shareholders' funds** | | 954,090 | 579,505 |
| **Net asset value per ordinary share** | 17 | 304.79p | 199.81p |

The Financial Statements above and below were approved by the Board of Directors on 5 November 2021 and were signed on its behalf by:

**ANDY IRVINE**
**Chairman**

The Notes below form an integral part of these Financial Statements.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2021**

| | Notes | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other non-distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total Shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|---|
| **Total Shareholders' funds at 31 August 2020** | | 14,501 | 144,306 | 3,256 | 5,152 | 394,572 | 17,718 | 579,505 |
| New ordinary shares issued | 15 | 1,150 | 61,259 | – | – | – | – | 62,409 |
| Costs associated with the issue of new ordinary shares | | – | (123) | – | – | – | – | (123) |
| Issue of ordinary shares from Treasury | 15 | – | 24 | – | – | 2,383 | – | 2,407 |
| Repurchase of ordinary shares into Treasury | 15 | – | – | – | – | (1,820) | – | (1,820) |
| Net return on ordinary activities after taxation for the year | | – | – | – | – | 307,502 | 21,596 | 329,098 |
| Dividends paid to Shareholders | 10 | – | – | – | – | – | (17,386) | (17,386) |
| **Total Shareholders' funds at 31 August 2021** | | 15,651 | 205,466 | 3,256 | 5,152 | 702,637 | 21,928 | 954,090 |
| **Total Shareholders' funds at 31 August 2019** | | 13,808 | 109,897 | 3,256 | 5,152 | 542,023 | 24,532 | 698,668 |
| New ordinary shares issued | 15 | 693 | 34,409 | – | – | – | – | 35,102 |
| Net (loss)/return on ordinary activities after taxation for the year | | – | – | – | – | (147,451) | 13,761 | (133,690) |
| Dividends paid to Shareholders | 10 | – | – | – | – | – | (20,575) | (20,575) |
| **Total Shareholders' funds at 31 August 2020** | | 14,501 | 144,306 | 3,256 | 5,152 | 394,572 | 17,718 | 579,505 |

The Notes below form an integral part of these Financial Statements.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2021**

| | Notes | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Investment income received | | 17,825 | 18,960 |
| Net derivative income | | 7,930 | 4,236 |
| Interest received | | 24 | 695 |
| Underwriting commission received | | 16 | – |
| Investment management fee paid | | (5,059) | (5,714) |
| Directors' fees paid | | (163) | (179) |
| Other cash payments | | (567) | (512) |
| **Net cash inflow from operating activities before finance costs and taxation** | 21 | 20,006 | 17,486 |
| Finance costs paid | | (378) | (530) |
| Overseas taxation suffered | | (348) | (625) |
| **Net cash inflow from operating activities** | | 19,280 | 16,331 |
| **Investing activities** | | | |
| Purchases of investments | | (378,229) | (335,753) |
| Sales of investments | | 305,611 | 284,973 |
| Receipts on long CFDs | | 91,127 | 9,781 |
| Payments on long CFDs | | (28,938) | (41,630) |
| Payments on short CFDs and futures | | – | (2,400) |
| Movement on amounts held at futures clearing houses and brokers | | 820 | 17,142 |
| **Net cash outflow from investing activities** | | (9,609) | (67,887) |
| **Net cash inflow/(outflow) before financing activities** | | 9,671 | (51,556) |
| **Financing activities** | | | |
| Dividends paid | 10 | (17,386) | (20,575) |
| Net proceeds from issue of shares | | 64,356 | 35,486 |
| Costs associated with the issue of new ordinary shares | | (123) | – |
| Repurchase of ordinary shares | | (1,820) | – |
| **Net cash inflow from financing activities** | | 45,027 | 14,911 |
| **Net increase/(decrease) in cash and cash equivalents** | | 54,698 | (36,645) |
| **Cash and cash equivalents at the beginning of the year** | | 9,802 | 49,088 |
| **Effect of movement in foreign exchange** | | (720) | (2,641) |
| **Cash and cash equivalents at the end of the year** | | 63,780 | 9,802 |
| **Represented by:** | | | |
| Cash at bank | | 2,000 | 1,860 |
| Amount held in Fidelity Institutional Liquidity Fund | | 61,780 | 7,942 |
| | | 63,780 | 9,802 |

The Notes below form an integral part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 PRINCIPAL ACTIVITY

Fidelity Special Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2972628, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

### 2 ACCOUNTING POLICIES

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", issued by the Financial Reporting Council ("FRC"). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC") in October 2019.

**a) Basis of accounting** –The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence up to 30 November 2022 which is at least twelve months from the date of approval of these Financial Statements. In making their assessment the Directors have reviewed income and expense projections, reviewed the liquidity of the investment portfolio and considered the Company's ability to meet liabilities as they fall due. This conclusion also takes into account the Director's assessment of the continuing risks arising from COVID–19.

The Company's Going Concern Statement above takes account of all events and conditions up to 30 November 2022 which is at least twelve months from the date of approval of these Financial Statements.

**b) Significant accounting estimates and judgements** – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of level 3 financial instruments have a risk of causing an adjustment to the carrying amounts of assets. These judgements include making assessments of the possible valuations in the event of a listing or other marketability related risks.

**c) Segmental reporting** – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

**d) Presentation of the Income Statement** – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

**e) Income** – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex–dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case. Debt security interest is accounted for on an accruals basis and is credited to the revenue column of the Income Statement. Underwriting commission is recognised when the issue takes place and is credited to the revenue column of the Income Statement.

Derivative instrument income received from dividends on long contracts for difference ("CFDs") are accounted for on the date on which the right to receive the payment is established, normally the ex–dividend date. The amount net of tax is credited to the revenue column of the Income Statement.

Interest received on CFDs, bank deposits, collateral and money market funds are accounted for on an accruals basis and credited to the revenue column of the Income Statement. Interest received on CFDs represent the finance costs calculated by reference to the notional value of the CFDs.

**f) Derivative expenses** – Derivative expenses comprises interest paid on short CFDs, which is accounted for on an accruals basis, and dividends paid on short CFDs, which are accounted for on the date on which the obligation to incur the cost is established, normally the ex–dividend date. Derivative expenses are charged in full to the revenue column of the Income Statement.

**g) Investment management fees and other expenses** – Investment management fees and other expenses are accounted for on an accruals basis and are charged as follows:

- Investment management fees are allocated in full to revenue; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

**h) Functional currency and foreign exchange** – The functional and reporting currency of the Company is UK sterling, which is the currency of the primary economic environment in which the Company operates. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

**i) Finance costs** – Finance costs comprises interest on bank overdrafts and collateral, and finance costs paid on CFDs, which are accounted for on an accruals basis. Finance costs are charged in full to the revenue column of the Income Statement.

**j) Taxation** – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Where expenses are allocated between revenue and capital any tax relief in respect of the expenses is allocated between revenue and capital returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. Deferred tax assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

**k) Dividend paid** – Dividends payable to equity Shareholders are recognised when the Company's obligation to make payment is established.

**l) Investments** – The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed; and

- Unlisted investments which are not quoted, or are not frequently traded, are stated at the Directors' best estimate of fair value. The Manager's Fair Value Committee ('FVC'), which is independent of the Portfolio Manager's team, meets quarterly to determine the fair value of unlisted investments.

The FVC provide a recommendation of fair values to the Board using market-based approaches such as multiples, industry valuation benchmarks and available market prices. Consideration is given to the cost of the investment, recent arm's length transactions in the same or similar investments and the financial performance of the investment since purchase. This pricing methodology is subject to a detailed review and appropriate challenge by the Directors.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains/(losses) on investments in the capital column of the Income Statement and has disclosed these costs in Note 11 below.

**m) Derivative instruments** – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include long and short CFDs, futures, options and warrants. Derivatives are classified as other financial instruments and are initially accounted for and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long CFDs – the difference between the strike price and the value of the underlying shares in the contract;

- Futures – the difference between the contract price and the quoted trade price; and

- Options – valued based on similar instruments or the quoted trade price for the contract.

Where transactions are used to protect or enhance income, if the circumstances support this, the income and expenses derived are included in net income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the income and expenses derived are included: for long CFDs, as gains or losses on long CFDs, and for short CFDs, futures and options as gains or losses on short CFDs, futures and options in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or current liabilities.

**n) Debtors** – Debtors include securities sold for future settlement, accrued income, taxation recoverable, amounts receivable for issue of shares and other debtors and prepayments incurred 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. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

**o) Amounts held at futures clearing houses and brokers** – These are amounts held in segregated accounts as collateral on behalf of brokers and are carried at amortised cost.

**p) Cash and cash equivalents** – Cash and cash equivalents may comprise cash at bank and money market funds which are short term, highly liquid and are readily convertible to a known amount of cash. These are subject to an insignificant risk of changes in value.

**q) Other creditors** – Other creditors include securities purchased for future settlement, investment management fees and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non–current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

**r) Capital reserve** – The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;

- Changes in the fair value of investments and derivative instruments held at the year end;

- Foreign exchange gains and losses of a capital nature;

- Dividends receivable which are capital in nature; and

- Costs of repurchasing or issuing ordinary shares.

Technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL, guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, states that changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date the portfolio of the Company consisted of investments listed on a recognised stock exchange and derivative instruments contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of the level 3 investments which had unrealised investment holding gains of £181,000 (2020: gains of £40,000).

**3 INCOME**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| **Investment income** | | |
| UK dividends | 13,392 | 11,678 |
| Overseas dividends | 6,114 | 3,615 |
| Underwriting commission | 16 | – |
| Overseas scrip dividends | – | 274 |
| Debt security interest | – | 138 |
| | 19,522 | 15,705 |
| **Derivative income** | | |
| Dividends received on long CFDs | 8,368 | 4,577 |
| **Investment and derivative income** | 27,890 | 20,282 |
| **Other interest** | | |
| Interest received on long CFDs* | 233 | 94 |
| Interest received on bank deposits, collateral and money market funds | 24 | 695 |
| | 257 | 789 |
| **Total income** | 28,147 | 21,071 |

Special dividends of £1,730,000 (2020: £276,000) have been recognised in capital.

* Due to negative interest rates during the reporting year, the Company has received interest on some of its long CFD positions.

## 4 DERIVATIVE EXPENSES

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Dividends paid on short CFDs | – | 71 |
| Interest paid on short CFDs | – | 4 |
| | – | 75 |

## 5 INVESTMENT MANAGEMENT FEES

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Portfolio management services | 5,065 | 5,527 |
| Non–portfolio management services* | 33 | 100 |
| **Investment management fees** | 5,098 | 5,627 |

* Includes company secretarial, fund accounting, taxation, promotional and corporate advisory services.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FII"). Both companies are Fidelity group companies.

From 1 January 2021, FII charges portfolio management fees at an annual rate of 0.60% of net assets and the fee for non-portfolio management services of £100,000 per annum is no longer charged. Prior to this date, the portfolio management fees were charged on a tiered fee basis of 0.85% on the first £700 million of nets assets and 0.75% of net assets in excess of £700 million.

## 6 OTHER EXPENSES

| | Year ended 31.08.21 | Year ended 31.08.20 |
|---|---|---|

| | | |
|---|---|---|
| | £'000 | £'000 |
| AIC fees | 21 | 22 |
| Custody fees | 32 | 20 |
| Depositary fees | 56 | 54 |
| Directors' expenses | 2 | 21 |
| Directors' fees[1] | 162 | 179 |
| Legal and professional fees | 89 | 48 |
| Marketing expenses | 106 | 175 |
| Printing and publication expenses | 94 | 88 |
| Registrars' fees | 57 | 52 |
| Fees payable to the Company's Independent Auditor for the audit of the Financial Statements[2] | 29 | 34 |
| Sundry other expenses | 21 | 25 |
| | --------------- | --------------- |
| **Other expenses** | 669 | 718 |
| | ======== | ======== |

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report in the Annual Report.
2 The VAT payable on audit fees is included in sundry other expenses.

**7 FINANCE COSTS**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Interest paid on long CFDs | 370 | 525 |
| Interest on bank overdrafts and collateral | 8 | 5 |
| | --------------- | --------------- |
| | 378 | 530 |
| | ======== | ======== |

**8 TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| **a) Analysis of the taxation charge for the year** | | |
| Overseas taxation | 406 | 360 |
| | --------------- | --------------- |
| **Taxation charge for the year (see Note 8b)** | 406 | 360 |
| | ======== | ======== |

**b) Factors affecting the taxation charge for the year**
The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19% (2020: 19%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Net return/(loss) on ordinary activities before taxation | 329,504 | (133,330) |
| | --------------- | --------------- |
| Net return/(loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2020: 19%) | 62,606 | (25,333) |
| Effects of: | | |
| Capital (gains)/losses not taxable* | (58,425) | 28,016 |
| Income not taxable | (3,657) | (2,958) |
| Excess management expenses | (524) | 239 |
| Adjustment to brought forward excess management expenses | – | 36 |
| Overseas taxation | 406 | 360 |
| | --------------- | --------------- |
| **Total taxation charge for the year (see Note 8a)** | 406 | 360 |
| | ======== | ======== |

* The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

**c) Deferred taxation**
A deferred tax asset of £16,893,000 (2020: £13,362,000), in respect of excess expenses of £67,571,000 (2020: £70,327,000) available to be set off against future taxable profits has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

In the Spring Budget the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. This rate has been substantively enacted at the balance sheet date and has therefore been applied to calculate the unrecognised deferred tax asset for the current year (2020: 19%).

**9 RETURN/(LOSS) PER ORDINARY SHARE**

| | Year ended 31.08.21 | Year ended 31.08.20 |
|---|---|---|
| Revenue return per ordinary share | 7.22p | 4.81p |
| Capital return/(loss) per ordinary share | 102.74p | (51.59p) |
| **Total return/(loss) per ordinary share** | 109.96p | (46.78p) |

The return/(loss) per ordinary share is based on the net return/(loss) on ordinary activities after taxation for the year divided by the weighted average number of ordinary shares held outside Treasury during the year, as shown below:

| | £'000 | £'000 |
|---|---|---|
| Net revenue return on ordinary activities after taxation | 21,596 | 13,761 |
| Net capital return/(loss) on ordinary activities after taxation | 307,502 | (147,451) |
| **Net total return/(loss) on ordinary activities after taxation** | 329,098 | (133,690) |
| | Number | Number |
| Weighted average number of ordinary shares held outside Treasury | 299,297,599 | 285,790,149 |

**10 DIVIDENDS PAID TO SHAREHOLDERS**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| **Dividends paid** | | |
| Interim dividend of 2.17 pence per ordinary share paid for the year ended 31 August 2021 | 6,603 | – |
| Final dividend of 3.70 pence per ordinary share paid for the year ended 31 August 2020 | 10,783 | – |
| Interim dividend of 2.10 pence per ordinary share paid for the year ended 31 August 2020 | – | 6,091 |
| Final dividend of 3.65 pence per ordinary share paid for the year ended 31 August 2019 | – | 10,265 |
| Special dividend of 1.50 pence per ordinary share paid for the year ended 31 August 2019 | – | 4,219 |
| | 17,386 | 20,575 |
| **Dividends proposed** | | |
| Final dividend proposed of 4.50 pence per ordinary share for the year ended 31 August 2021 | 14,109 | – |
| Final dividend proposed of 3.70 pence per ordinary share for the year ended 31 August 2020 | – | 10,693 |
| | 14,109 | 10,693 |

The Directors have proposed the payment of a final dividend of 4.50 pence per ordinary share for the year ended 31 August 2021 which is subject to approval by Shareholders at the Annual General Meeting on 14 December 2021 and has not been included as a liability in these Financial Statements. The dividend will be paid on 12 January 2022 to Shareholders on the register at the close of business on 3 December 2021 (ex-dividend date 2 December 2021).

**11 INVESTMENTS**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|

| | | |
|---|---|---|
| Listed investments | 886,438 | 563,479 |
| Unlisted investments | 272 | 284 |
| **Total investments at fair value** | 886,710 | 563,763 |
| Opening book cost | 635,740 | 600,132 |
| Opening investment holding (losses)/gains | (71,977) | 35,407 |
| **Opening fair value** | 563,763 | 635,539 |
| **Movements in the year** | | |
| Purchases at cost | 375,614 | 339,800 |
| Sales – proceeds | (305,566) | (280,491) |
| Gains/(losses) on investments | 252,899 | (131,085) |
| **Closing fair value** | 886,710 | 563,763 |
| Closing book cost | 726,247 | 635,740 |
| Closing investment holding gains/(losses) | 160,463 | (71,977) |
| **Closing fair value** | 886,710 | 563,763 |

The Company received £305,566,000 (2020: £280,491,000) from investments sold in the year. The book cost of these investments when they were purchased was £285,107,000 (2020: £304,192,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

**Investment transaction costs**

Transaction costs incurred in the acquisition and disposal of investments, which are included in the gains/(losses) on investments above, were as follows:

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Purchases transaction costs | 1,570 | 1,481 |
| Sales transaction costs | 157 | 153 |
| | 1,727 | 1,634 |

The portfolio turnover rate for the year was 45.9% (2020: 52.1%).

**12 DERIVATIVE INSTRUMENTS**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| **Gains/(losses) on long CFDs** | | |
| Gains/(losses) on long CFD positions closed | 62,189 | (31,849) |
| Movement in investment holding (losses)/gains | (6,866) | 20,029 |
| | 55,323 | (11,820) |
| **Losses on short CFDs and futures** | | |
| Losses on short CFDs positions closed | – | (305) |
| Losses on futures contracts closed | – | (2,095) |
| Movement in investment holding gains on futures | – | 495 |
| | – | (1,905) |

| | 2021 Fair value £'000 | 2020 Fair value £'000 |
|---|---|---|
| **Derivative instruments recognised on the Balance Sheet** | | |
| Derivative instrument assets | 1,968 | 7,619 |
| Derivative instrument liabilities | (3,161) | (1,946) |
| | (1,193) | 5,673 |
| | ======== | ======== |

| | Fair value £'000 | 2021 Asset exposure £'000 | Fair value £'000 | 2020 Asset exposure £'000 |
|---|---|---|---|---|
| **At the year end the Company held the following derivative instruments** | | | | |
| Long CFDs | (1,193) | 206,266 | 5,673 | 96,890 |
| | ======== | ======== | ======== | ======== |

**13 DEBTORS**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Securities sold for future settlement | – | 41 |
| Accrued income | 5,430 | 3,078 |
| Overseas taxation recoverable | 686 | 744 |
| UK income tax recoverable | 37 | 37 |
| Amounts receivable for issue of shares | 460 | – |
| Other debtors and prepayments | 61 | 21 |
| | --------------- | --------------- |
| | 6,674 | 3,921 |
| | ======== | ======== |

**14 OTHER CREDITORS**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Securities purchased for future settlement | 1,304 | 3,919 |
| Creditors and accruals | 617 | 595 |
| | --------------- | --------------- |
| | 1,921 | 4,514 |
| | ======== | ======== |

**15 SHARE CAPITAL**

| | Number of shares | 2021 £'000 | Number of shares | 2020 £'000 |
|---|---|---|---|---|
| **Issued, allotted and fully paid ordinary shares of 5 pence each** | | | | |
| **Held outside Treasury** | | | | |
| **Beginning of the year** | 290,029,480 | 14,501 | 276,169,480 | 13,808 |
| Ordinary shares repurchased into Treasury | (1,025,473) | (51) | – | – |
| Ordinary shares issued out of Treasury | 1,025,473 | 51 | – | – |
| New ordinary shares issued | 22,999,440 | 1,150 | 13,860,000 | 693 |
| | --------------- | --------------- | --------------- | --------------- |
| **End of the year** | 313,028,920 | 15,651 | 290,029,480 | 14,501 |
| | ======== | ======== | ======== | ======== |
| **Held in Treasury*** | | | | |
| **Beginning of the year** | – | – | – | – |
| Ordinary shares repurchased into Treasury | 1,025,473 | 51 | – | – |

| | | | | |
|---|---|---|---|---|
| Ordinary shares issued out of Treasury | (1,025,473) | (51) | – | – |
| **End of the year** | – | – | – | – |
| **Total share capital** | 313,028,920 | 15,651 | 290,029,480 | 14,501 |

* Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

During the year, 24,024,913 ordinary shares (2020: 13,860,000 shares) were issued. The premium received in the year on the issue of new ordinary shares of £61,259,000 (2020: £34,409,000) and on the issue of ordinary shares out of Treasury of £24,000 (2020: £nil) was credited to the share premium account. From the issue of ordinary shares out of Treasury, £2,383,000 (2020: £nil) was credited to the capital reserve.

1,025,473 ordinary shares (2020: nil) were repurchased and held in Treasury. The cost of repurchasing these shares was £1,820,000 (2020: £nil). This amount was charged to the capital reserve.

**16 CAPITAL AND RESERVES**

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other non-distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total Shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 September 2020** | 14,501 | 144,306 | 3,256 | 5,152 | 394,572 | 17,718 | 579,505 |
| Gains on investments (see Note 11) | – | – | – | – | 252,899 | – | 252,899 |
| Gains on long CFDs (see Note 12) | – | – | – | – | 55,323 | – | 55,323 |
| Foreign exchange losses | – | – | – | – | (720) | – | (720) |
| New ordinary shares issued | 1,150 | 61,259 | – | – | – | – | 62,409 |
| Costs associated with the issue of new ordinary shares | – | (123) | – | – | – | – | (123) |
| Issue of ordinary shares from Treasury | – | 24 | – | – | 2,383 | – | 2,407 |
| Repurchase of ordinary shares into Treasury | – | – | – | – | (1,820) | – | (1,820) |
| Revenue return on ordinary activities after taxation for the year | – | – | – | – | – | 21,596 | 21,596 |
| Dividends paid to Shareholders (see Note 10) | – | – | – | – | – | (17,386) | (17,386) |
| **At 31 August 2021** | 15,651 | 205,466 | 3,256 | 5,152 | 702,637 | 21,928 | 954,090 |

The capital reserve balance at 31 August 2021 includes investment holding gains of £160,463,000 (2020: losses of £71,977,000) as detailed in Note 11 above. See Note 2 (r) above for further details. The revenue and capital reserves are distributable by way of dividend.

**17 NET ASSET VALUE PER ORDINARY SHARE**

The calculation of the net asset value per ordinary share is based on the following:

| | 2021 | 2020 |
|---|---|---|
| Total Shareholders' funds | £954,090,000 | £579,505,000 |
| Ordinary shares held outside of Treasury at year end | 313,028,920 | 290,029,480 |
| Net asset value per ordinary share | 304.79p | 199.81p |

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

**18 FINANCIAL INSTRUMENTS**

**Management of risk**

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, economic and political, cybercrime, environmental, social and governance ("ESG"), regulatory, key person, discount control, competition, investment management, pandemic and operational risks. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown above.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares and bonds held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs, futures and options on listed stocks and equity indices; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

**MARKET PRICE RISK**
**Interest rate risk**
The Company finances its operations through its share capital and reserves. In addition, the Company has gearing through the use of derivative instruments. The Board imposes limits to ensure gearing levels are appropriate. The Company is exposed to a financial risk arising as a result of any increases in interest rates associated with the funding of the derivative instruments.

**INTEREST RATE RISK EXPOSURE**
The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Exposure to financial instruments that bear interest** | | |
| Long CFDs – exposure less fair value | 207,459 | 91,217 |
| | --------------- | --------------- |
| **Exposure to financial instruments that earn interest** | | |
| Amounts held at futures clearing houses and brokers | 40 | 860 |
| Cash and cash equivalents | 63,780 | 9,802 |
| | --------------- | --------------- |
| | 63,820 | 10,662 |
| | ======== | ======== |
| **Net exposure to financial instruments that bear interest** | 143,639 | 80,555 |
| | ======== | ======== |

Due to negative interest rates during the reporting year, the Company has received interest on some of its long CFD positions.

**FOREIGN CURRENCY RISK**
The Company does not carry out currency speculation. The Company's net return/(loss) on ordinary activities after taxation for the year and its net assets can be affected by foreign exchange movements because the Company has income and assets which are denominated in currencies other than the Company's functional currency which is UK sterling. The Company can also be subject to short term exposure to exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs.

Three principal areas have been identified where foreign currency risk could impact the Company:

- Movements in currency exchange rates affecting the value of investments and derivative instruments;
- Movements in currency exchange rates affecting short term timing differences; and
- Movements in currency exchange rates affecting income received.

The portfolio management team monitor foreign currency risk but it is not the Company's policy to hedge against currency risk.

**Currency exposure of financial assets**
The currency exposure profile of the Company's financial assets is shown below:

| | | | | | 2021 |
|---|---|---|---|---|---|
| **Currency** | Investments held at fair value £'000 | Long exposure to derivative instruments[1] £'000 | Debtors[2] £'000 | Cash and cash equivalents[3] £'000 | Total £'000 |
| Euro | 66,994 | 56,536 | 76 | 2 | 123,608 |
| US dollar | 13,088 | – | 77 | 13,036 | 26,201 |
| Swiss franc | 21,802 | – | 275 | – | 22,077 |
| Swedish krona | 14,353 | – | – | – | 14,353 |
| Australian dollar | 13,967 | – | – | – | 13,967 |
| Norwegian krone | 4,753 | – | – | – | 4,753 |
| South African rand | 3,351 | 84 | – | – | 3,435 |
| Danish krone | – | – | 71 | – | 71 |

| | | | | | |
|---|---|---|---|---|---|
| UK sterling | 748,402 | 149,646 | 6,215 | 50,742 | 955,005 |
| | --------------- | --------------- | --------------- | --------------- | --------------- |
| | 886,710 | 206,266 | 6,714 | 63,780 | 1,163,470 |
| | ======== | ======== | ======== | ======== | ======== |

1 The exposure to the market of long CFDs.
2 Debtors include amounts held at futures clearing houses and brokers.
3 Cash and cash equivalents are made up of £2,000,000 cash at bank and £61,780,000 held in Fidelity Institutional Liquidity Fund.

| | | | | | 2020 |
|---|---|---|---|---|---|
| **Currency** | Investments held at fair value £'000 | exposure to derivative instruments[1] £'000 | Debtors[2] £'000 | Cash and cash equivalents[3] £'000 | Total £'000 |
| Euro | 32,969 | 38,212 | 54 | 2 | 71,237 |
| US dollar | 26,043 | – | 11 | 9,794 | 35,848 |
| Swiss franc | 22,905 | – | 392 | 1 | 23,298 |
| Australian dollar | 14,417 | – | – | – | 14,417 |
| Swedish krona | 9,415 | – | – | – | 9,415 |
| Canadian dollar | 4,482 | – | – | – | 4,482 |
| Norwegian krone | 2,122 | – | – | – | 2,122 |
| South African rand | 1,984 | 49 | – | – | 2,033 |
| Danish krone | – | – | 74 | – | 74 |
| UK sterling | 449,426 | 58,629 | 4,250 | 5 | 512,310 |
| | --------------- | --------------- | --------------- | --------------- | --------------- |
| | 563,763 | 96,890 | 4,781 | 9,802 | 675,236 |
| | ======== | ======== | ======== | ======== | ======== |

1 The exposure to the market of long CFDs.
2 Debtors include amounts held at futures clearing houses and brokers.
3 Cash and cash equivalents are made up of £1,860,000 cash at bank and £7,942,000 held in Fidelity Institutional Liquidity Fund.

**Currency exposure of financial liabilities**
The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise other creditors. The currency profile of these financial liabilities is shown below:

| | | 2021 |
|---|---|---|
| **Currency** | Other creditors £'000 | Total £'000 |
| Norwegian krone | 13 | 13 |
| UK sterling | 1,908 | 1,908 |
| | --------------- | --------------- |
| | 1,921 | 1,921 |
| | ======== | ======== |

| | | 2020 |
|---|---|---|
| **Currency** | Other creditors £'000 | Total £'000 |
| Norwegian krone | 2,126 | 2,126 |
| UK sterling | 2,388 | 2,388 |
| | --------------- | --------------- |
| | 4,514 | 4,514 |
| | ======== | ======== |

**Other price risk**
Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile. Other price risks arising from derivative positions, mainly due to the

underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company's internal Derivative Risk Measurement and Management Document.

**Liquidity risk**
Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of a bank overdraft, if required.

**Liquidity risk exposure**
At 31 August 2021, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £3,161,000 (2020: £1,946,000) and creditors of £1,921,000 (2020: £4,514,000).

**Counterparty risk**
Certain derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's ("ISDA") market standard derivative legal documentation. These are known as Over the Counter ("OTC") trades. As a result, the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Manager employs, this risk is minimised by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and by evaluating derivative instrument credit risk exposure.

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. All collateral amounts are held in UK sterling and are managed on a daily basis for all relevant transactions. At 31st August 2021, £2,120,000 (2020: £8,590,000) was held by brokers in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised: J.P. Morgan Securities plc £1,270,000 (2020: £170,000), HSBC Bank plc £850,000 (2020: £7,775,000) and Morgan Stanley & Co International plc £nil (2020: £645,000). £40,000 (2020: £860,000), shown as amounts held at futures clearing houses and brokers on the Balance Sheet was held by the Company, in a segregated collateral account, on behalf of the brokers, to reduce the credit risk exposure of the brokers. This collateral comprised of: UBS AG £40,000 (2020: £840,000) in cash and Goldman Sachs International Ltd £nil (2020: £20,000) in cash.

**Credit risk**
Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and derivative instrument contracts and cash at bank.

**Derivative instrument risk**
The risks and risk management processes which result from the use of derivative instruments, are set out in a documented Derivative Risk Measurement and Management Document. Derivative instruments are used by the Manager for the following purposes:

- To gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial flow of capital;
- To hedge equity market risk using derivatives with the intention of at least partially mitigating losses in the exposures of the Company's portfolio as a result of falls in the equity market; and
- To position short exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares which the Portfolio Manager believes to be over-valued. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

**RISK SENSITIVITY ANALYSIS**
**Interest rate risk sensitivity analysis**
Based on the financial instruments held and interest rates at 31 August 2021, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the Company's net return on ordinary activities after taxation for the year and decreased the net assets of the Company by £359,000 (2020: increased the net loss and decreased the net assets by £201,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

**Foreign currency risk sensitivity analysis**
Based on the financial instruments held and currency exchange rates at 31 August 2021, a 10% strengthening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have decreased the Company's net return on ordinary activities after taxation for the year and decreased the net assets of the Company by £18,950,000 (2020: increased the net loss and decreased the net assets by £14,618,000). A 10% weakening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £23,161,000 (2020: decreased the net loss and increased the net assets of the Company by £17,867,000).

**Other price risk– exposure to investments sensitivity analysis**
Based on the listed investments held and share prices at 31 August 2021, an increase of 10% in share prices, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £88,644,000 (2020: decreased the net loss and increased the net assets by £56,348,000). A decrease of 10% in share prices would have had an equal and opposite effect.

An increase of 10% in the valuation of unlisted investments held at the Balance Sheet date would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £27,000 (2020: decreased the net loss after taxation and increased the net assets by £28,000). A decrease of 10% in the valuation would have had an equal and opposite effect.

**Other price risk - net exposure to derivative instruments sensitivity analysis**
Based on the derivative instruments held and share prices at 31 August 2021, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £20,627,000 (2020: decreased the net loss and increased the net assets by £9,689,000). A decrease of 10% in share prices would have had an equal and opposite effect.

**Fair Value of Financial Assets and Liabilities**
Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Notes 2 (l) and (m) above, investments and derivative instruments are shown at fair value.

**Fair Value Hierarchy**
The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

| Classification | Input |
|---|---|
| **Level 1** | Valued using quoted prices in active markets for identical assets |
| **Level 2** | Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. |
| **Level 3** | Valued by reference to valuation techniques using inputs that are not based on observable market data |

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 valuation techniques used by the Company are explained in Notes 2 (l) and (m) above. The table below sets out the Company's fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | 2021 Total |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | £'000 | £'000 | £'000 | £'000 |
| Investments | 885,753 | – | 957 | 886,710 |
| Derivative instrument assets | – | 1,968 | – | 1,968 |
| | 885,753 | 1,968 | 957 | 888,678 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative instrument liabilities | – | (3,161) | – | (3,161) |

| | Level 1 | Level 2 | Level 3 | 2020 Total |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | £'000 | £'000 | £'000 | £'000 |
| Investments | 562,866 | – | 897 | 563,763 |
| Derivative instrument assets | – | 7,619 | – | 7,619 |
| | 562,866 | 7,619 | 897 | 571,382 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative instrument liabilities | – | (1,946) | – | (1,946) |

The table below sets out the movements in level 3 financial instruments during the year:

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| **Beginning of the year** | 897 | 1,423 |
| Sales – proceeds | (95) | (462) |
| Sales – gains/(losses) | 14 | (81) |
| Movement in investment holding gains | 141 | 17 |
| **End of the year** | 957 | 897 |

**Marwyn Value Investors**
Investors is a closed-ended fund incorporated in the United Kingdom. The fund is highly illiquid and the valuation at 31st August 2021 is based on the indicative bid price in the absence of a last trade price. As at 31 August 2021, its fair value was £685,000 (2020: £613,000).

**TVC Holdings**
TVC Holdings is an unlisted investment holding company incorporated in Ireland. The valuation at 31 August 2021 is based on the last trade price. As at 31 August 2021, its fair value was £272,000 (2020: £284,000).

**19 CAPITAL RESOURCES AND GEARING**
The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet above and any gearing, which is managed by the use of

derivative instruments. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report. The principal risks and their management are disclosed above and in Note 18 above.

The Company's gearing at the year end is set out below:

| | 2021 Asset exposure £'000 | 2021 %[1] | 2020 Asset exposure £'000 | 2020 %[1] |
|---|---|---|---|---|
| Investments | 886,710 | 93.0 | 563,763 | 97.3 |
| Long CFDs | 206,266 | 21.6 | 96,890 | 16.7 |
| | ------------- | ------------- | ------------- | ------------- |
| **Total asset exposure** | 1,092,976 | 114.6 | 660,653 | 114.0 |
| | ======== | ======== | ======== | ======== |
| **Shareholders' funds** | 954,090 | | 579,505 | |
| **Gearing[2]** | | 14.6 | | 14.0 |
| | ======== | ======== | ======== | ======== |

1 Asset exposure to the market expressed as a percentage of Shareholders' funds.
2 Gearing is the amount by which Asset Exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.

**20 TRANSACTIONS WITH THE MANAGER AND RELATED PARTIES**

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FII"). Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report and in Note 5 above. During the year, fees for portfolio management services of £5,065,000 (2020: £5,527,000), and fees for non-portfolio management services of £33,000 (2020: £100,000) were payable to FII. Non-portfolio management fees include company secretarial, fund accounting, taxation, promotional and corporate advisory services. At the Balance Sheet date, fees for portfolio management services of £474,000 (2020: £418,000) and fees for non-portfolio management services of £nil (2020: £17,000) were accrued and included in other creditors. FII also provides the Company with marketing services. The total amount payable for these services during the year was £106,000 (2020: £175,000). At the Balance Sheet date, marketing services of £13,000 (2020: £20,000) were accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Director's fees and taxable expenses relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £16,000 (2020: £19,000) of Employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £13,000 (2020: £15,000) were accrued and payable.

**21 RECONCILIATION OF NET RETURN/(LOSS) ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES BEFORE FINANCE COSTS AND TAXATION**

| | Year ended 31.08.21 £'000 | Year ended 31.08.20 £'000 |
|---|---|---|
| Net total return/(loss) on ordinary activities before finance costs and taxation | 329,882 | (132,800) |
| Net capital (return)/loss on ordinary activities before finance costs and taxation | (307,502) | 147,451 |
| | ------------- | ------------- |
| **Net revenue return on ordinary activities before finance costs and taxation** | 22,380 | 14,651 |
| | ======== | ======== |
| Scrip dividends | – | (274) |
| (Increase)/decrease in debtors | (2,392) | 3,163 |
| Increase/(decrease) in other creditors | 18 | (54) |
| | ------------- | ------------- |
| **Net cash inflow from operating activities before finance costs and taxation** | 20,006 | 17,486 |
| | ======== | ======== |

## ALTERNATIVE PERFORMANCE MEASURES

### TOTAL RETURN

Total return is considered to be an Alternative Performance Measure. NAV per ordinary share total return includes reinvestment of the dividend in the NAV of the Company on the ex-dividend date. Share price total return includes the reinvestment of the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 August 2021 and 31 August 2020.

| **2021** | Net asset value per ordinary share | Share price |
|---|---|---|
| 31 August 2020 | 199.81p | 181.60p |
| 31 August 2021 | 304.79p | 308.50p |
| Change in year | +52.5% | +69.9% |
| Impact of dividend reinvestment | +3.7% | +3.9% |
| | ------------- | ------------- |
| **Total return for the year** | +56.2% | +73.8% |
| | ======== | ======== |

| 2020 | Net asset value per ordinary share | Share price |
|---|---|---|
| 31 August 2019 | 252.99p | 251.50p |
| 31 August 2020 | 199.81p | 181.60p |
| Change in year | -21.0% | -27.8% |
| Impact of dividend reinvestment | +2.5% | +2.4% |
| | ------------- | ------------- |
| Total return for the year | -18.5% | -25.4% |
| | ======== | ======== |

### ONGOING CHARGES

Ongoing charges are considered to be an Alternative Performance Measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and other expenses expressed as a percentage of the average net asset values throughout the year.

| | 2021 | 2020 |
|---|---|---|
| Investment management fees (£'000) | 5,098 | 5,627 |
| Other expenses (£'000) | 669 | 718 |
| | ------------- | ------------- |
| **Ongoing charges (£'000)** | 5,767 | 6,345 |
| Average net assets (£'000) | 759,198 | 649,924 |
| **Ongoing charges ratio** | 0.76% | 0.98% |
| | ======== | ======== |

### GEARING

Gearing is considered to be an Alternative Performance Measure. See Note 19 above for details of the Company's gearing.

### DISCOUNT/PREMIUM

The discount/premium is considered to be an Alternative Performance Measure. Details of the Company's discount/premium are on the Financial Highlights in the Annual Report.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 August 2021 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2020 and 2021 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2020 is derived from the statutory accounts for 2020 which have been delivered to the Registrar of Companies. The 2021 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at: www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: www.fidelity.co.uk/specialvalues where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

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.

ENDS