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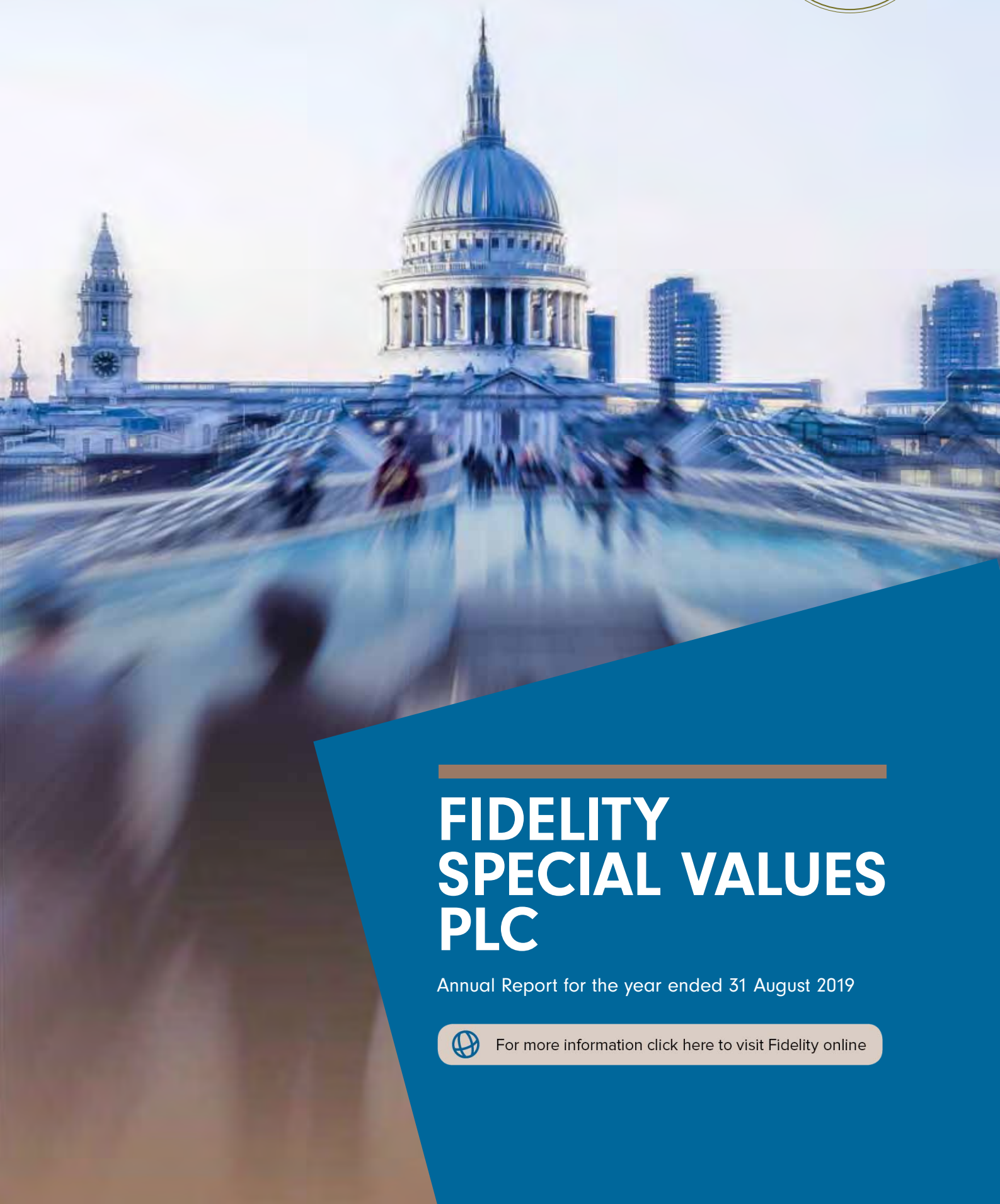
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# FIDELITY SPECIAL VALUES PLC

Annual Report for the year ended 31 August 2019



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# Investment Objective and Overview

The Company aims to achieve long term capital growth primarily through investment in equities (and their related financial instruments) of UK companies which the Investment Manager believes to be undervalued or where the potential has not been recognised by the market.

“Fidelity Special Values PLC aims to achieve long term capital growth for Shareholders by investing in special situations. It is an actively managed contrarian Investment Trust that seeks out undervalued opportunities and thrives on volatility and uncertainty.

The Portfolio Manager, Alex Wright’s, approach is very much in keeping with Fidelity Special Values PLC’s heritage and history – that of an actively managed, contrarian investment trust which the Board believes will be appealing to both existing and potential investors alike.

Alex focuses on buying unloved companies with the prospect of positive change, rather than those companies which are merely cheap. He invests in companies of all sizes and, in doing so, hopes to position the Company as the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns.

Whilst performance in the reporting year has been more challenging, long term

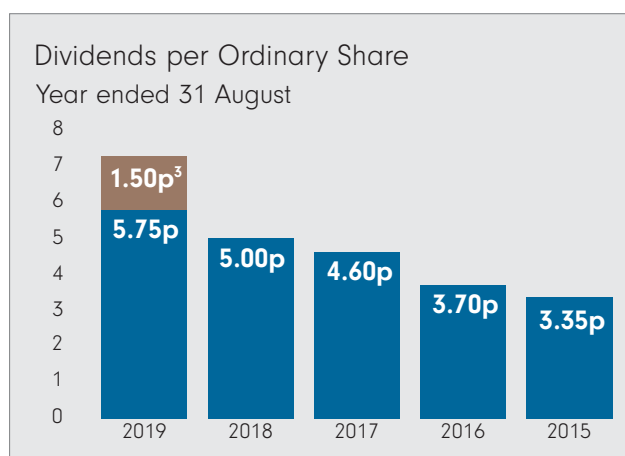
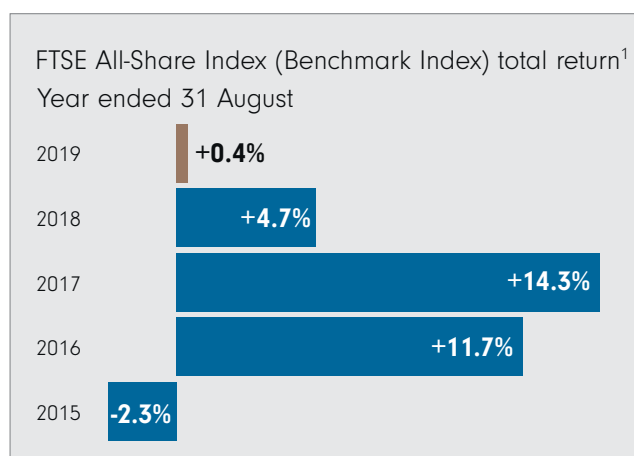
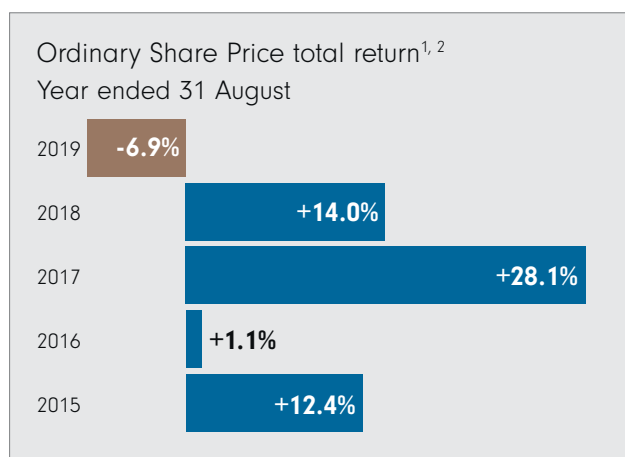
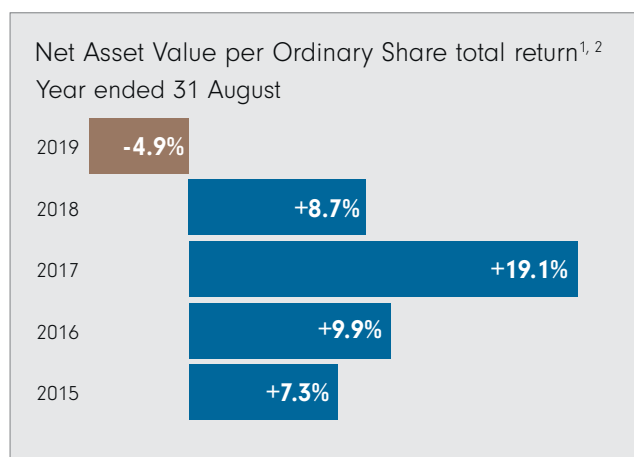
performance remains well ahead of the Benchmark Index over three and five years (the Company’s NAV total return has increased by 45.1% over five years and the share price total return by 54.5%, compared to a Benchmark Index return of 32.1%). The Company’s shares remain in demand and we continue to issue shares. We are also pleased to report that the Company has won several prestigious awards as can be seen from the logos below.”

Andy Irvine, Chairman



# At a Glance

**The Company's net asset value per ordinary share decreased by 4.9% and the share price by 6.9%, whilst the Benchmark Index rose by 0.4% (all performance data on a total return basis).**



<sup>1</sup> Includes reinvested income.

<sup>2</sup> Alternative Performance Measures (see Note 22 on page 66).

<sup>3</sup> Special dividend from the substantial income generated for the year ended 31 August 2019.

## As at 31 August 2019

### Shareholders' Funds

£698.7m

### Market Capitalisation

£694.6m

### Capital Structure

Ordinary Shares of 5 pence each

276,169,480

## Summary of the key aspects of the Investment Policy

The investment approach is flexible, with positions in large, medium and smaller sized companies, across all industries. The Company may make limited investments in companies outside of the UK.

The Company may also invest into other transferable securities, collective investment schemes, money market instruments, cash and deposits, and is also able to use derivatives for efficient portfolio management and investment purposes.

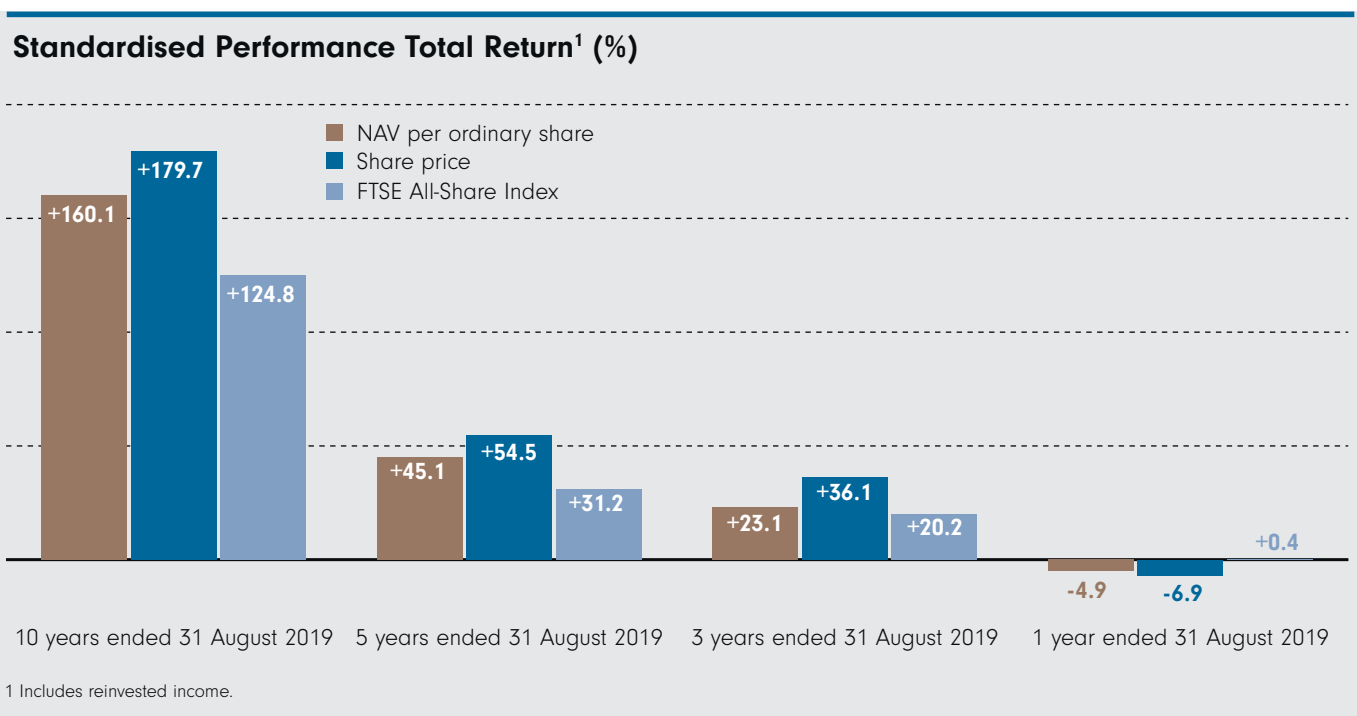
The Company is able to gear the portfolio and the Board takes the view that long term returns for Shareholders can be enhanced by the use of gearing in a carefully considered and monitored way.

# Financial Highlights

|   | 2019           | 2018    |
|---|----------------|---------|
| <b>Assets at 31 August</b>  |                |         |
| Shareholders' funds   | <b>£698.7m</b> | £725.0m |
| Net Asset Value ("NAV") per ordinary share                        | <b>252.99p</b> | 271.98p |
| <b>Dividends for the year to 31 August</b>                        |                |         |
| Final dividend proposed per ordinary share                        | <b>3.65p</b>   | 3.15p   |
| Special dividend proposed per ordinary share                      | <b>1.50p</b>   | n/a     |
| Interim dividend paid per ordinary share                          | <b>2.10p</b>   | 1.85p   |
| Total dividends for the year                                      | <b>7.25p</b>   | 5.00p   |
| <b>Share price and discount data for the year ended 31 August</b> |                |         |
| Share price at the year end                                       | <b>251.50p</b> | 276.00p |
| Share price: year high  | <b>277.00p</b> | 280.00p |
| Share price: year low   | <b>220.00p</b> | 236.75p |
| (Discount)/Premium at year end <sup>1</sup>                       | <b>(0.6%)</b>  | 1.5%    |
| Premium: year high  | <b>2.9%</b>    | 3.6%    |
| Discount: year high   | <b>(4.1%)</b>  | (6.3%)  |
| Ongoing Charges for the year ended 31 August <sup>1, 2</sup>      | <b>0.97%</b>   | 1.04%   |

<sup>1</sup> Alternative Performance Measures.

<sup>2</sup> Ongoing Charges (excluding finance costs and taxation) expressed as a percentage of the average net asset values for the year (prepared in accordance with methodology recommended by the Association of Investment Companies ("AIC")). A definition of Ongoing Charges is in the Glossary of Terms on page 77.



# Contents



## Chairman's Statement

Read more page 02



## Portfolio Manager's Review

Read more page 06



## Top 10 Holdings

Read more page 09

Share Price as at 31 August

|      |         |
|------|---------|
| 2019 | 251.50p |
| 2018 | 276.00p |
| 2017 | 246.50p |

## Ten Year Record

Read more page 21

## Strategy

|                               |    |
|-------------------------------|----|
| Chairman's Statement          | 02 |
| Portfolio Manager's Review    | 06 |
| Top 10 Holdings               | 09 |
| Strategic Report              | 11 |
| Portfolio Listing             | 16 |
| Distribution of the Portfolio | 19 |
| Ten Year Record               | 21 |
| Summary of Performance Charts | 22 |
| Attribution Analysis          | 24 |

## Governance

|  |    |
|--|----|
| Board of Directors                       | 25 |
| Directors' Report                        | 26 |
| Corporate Governance Statement           | 29 |
| Directors' Remuneration Report           | 33 |
| Statement of Directors' Responsibilities | 36 |
| Report of the Audit Committee            | 37 |

## Financial

|                                   |    |
|-----------------------------------|----|
| Independent Auditor's Report      | 39 |
| Income Statement                  | 44 |
| Balance Sheet                     | 45 |
| Statement of Changes in Equity    | 46 |
| Cash Flow Statement               | 47 |
| Notes to the Financial Statements | 48 |
| Financial Calendar                | 67 |

## Information for Shareholders

|  |    |
|--|----|
| Notice of Meeting                                | 68 |
| Shareholder Information                          | 71 |
| Alternative Investment Fund Manager's Disclosure | 74 |
| Glossary of Terms                                | 76 |

# Chairman's Statement



I have pleasure in presenting the Annual Report of Fidelity Special Values PLC for the year ended 31 August 2019.

**Andy Irvine**, Chairman

**£698.7m**

(As at 31 August 2019)  
Shareholders' Funds

**-4.9%**

(Year ended 31 August 2019)  
Net Asset Value per Ordinary Share  
total return

**-6.9%**

(Year ended 31 August 2019)  
Share Price total return

**+0.4%**

(Year ended 31 August 2019)  
Benchmark Index total return

Fidelity Special Values PLC aims to achieve long term capital growth for Shareholders by investing in special situations. It is an actively managed contrarian Investment Trust that seeks out undervalued opportunities and thrives on volatility and uncertainty.

The Portfolio Manager, Alex Wright's, approach is very much in keeping with Fidelity Special Values PLC's heritage and history – that of an actively managed, contrarian investment trust which the Board believes will be appealing to both existing and potential investors alike. Alex focuses on buying unloved companies with the prospect of positive change, rather than those companies which are merely cheap. He invests in companies of all sizes and, in doing so, hopes to position the Company as the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns.

Whilst performance in the reporting year has been more challenging, long term performance remains well ahead of the Benchmark Index over three and five years (the Company's NAV total return has increased by 45.1% over five years and the share price total return by 54.5%, compared to a Benchmark Index return of 32.1%). The Company's shares remain in demand and we continue to issue shares. We are also pleased to report that the Company has won several prestigious awards as can be seen from the logos on the inside front cover.

## Performance

The net asset value ("NAV") of the Company fell by 4.9% over the year and the share price by 6.9%, both below the 0.4% return of the Benchmark Index (all performance data on a total return basis).

Alex Wright completed his seventh year as the Portfolio Manager, and the NAV performance of the Company over his tenure continues to be impressive, having increased in absolute terms during this period at an annualised rate of 12.8%, well ahead of the Benchmark Index return of 8.1% per annum. On a cumulative basis over Alex's tenure, this represents a NAV total return of 132.7% compared to an Index return of 72.1%. The share price total return was an even more impressive 175.3%.

The reporting period has been challenging for UK equities in many ways. Global trade tensions have intensified and economic activity appears to be weakening, with global manufacturing PMIs (Purchasing Manager's Indices, which are a leading indicator of economic health) trending downwards. Uncertainty around Brexit has also led to a marked depreciation of the sterling exchange rate (see chart on the next page) and a more unfavourable environment for financial markets. Further, underlying

economic growth appears to have slowed since 2018 to a rate below potential, reflecting the impact of intensifying Brexit-related uncertainties on business investment and weaker global growth on trade.



Against this backdrop, the Company's performance has fallen behind that of the FTSE All-Share over the year, but Alex has laid the groundwork for future performance. He has used market volatility to recycle capital from mature holdings into earlier stage ideas at distressed valuations and focused on value opportunities in the more defensive segments of the market. Alex talks about this in more detail in his Portfolio Manager's Review. The Company's long term performance clearly demonstrates Alex's strong stock selection abilities. We feel confident that Alex's current approach will identify more winners than losers regardless of the Brexit outcome.

The contrarian nature of the Company's investment selection means that the Board does not expect a consistent outperformance against the Benchmark Index every single year, although it believes that the portfolio has the potential to outperform significantly over the longer term. As ever, the Board encourages Shareholders to take a similarly long term view of their investment in the Company's shares.

## Outlook

The good news for contrarian investors is that the negative sentiment towards the UK is creating an unforgiving environment where investors' behavioural biases cause them to avoid companies in uncertain or complex situations, resulting in valuation discounts for certain stocks. Alex's process is designed to identify the most attractive of these and build a portfolio driven by positive change in companies and industries. He will continue to focus on strong stock picking opportunities and risk management and aims to deliver a positive relative performance of the Company's NAV. The Board feels that the strategy in place is well aligned with the long term interests of the Company's Shareholders.

## OTHER MATTERS

### Investment Objective

As reported in last year's Annual Report and effective from 31 October 2018, the Board amended the Company's investment objective from:

"The investment objective of Fidelity Special Values PLC is to achieve long term capital growth predominantly through investment in UK listed companies"

to

**"The Company aims to achieve long term capital growth primarily through investment in equities (and their related financial instruments) of UK companies which the Investment Manager believes to be undervalued or where the potential has not been recognised by the market."**

This change to the Company's investment objective and the minor consequential changes to the investment policy are not material changes and were made to make the objective more consistent with the phraseology of the Key Information Document (KID), a new regulatory requirement since the start of 2018. The changes did not alter the way that the Portfolio Manager invests on your behalf but better reflects the Company's investment process. A summary of the key aspects of the investment policy can be found on the "At a Glance" page inside the front cover of this report.

### Management Fee

I am pleased to report that the Ongoing Charge (the costs of running the Company) has fallen to 0.97% of net assets in the reporting year. Ten years ago, this number was 1.32% and last year it was 1.04%. This reduction is because of two key factors. Firstly, the Company has issued more shares and therefore the total costs are spread over a larger pool of assets and secondly, the Company has benefited from a new reduced management fee which was introduced on 1 September 2018. The previous fee of 0.875% of net assets has been replaced by a tiered fee basis which is 0.85% on the first £700 million of net assets, reducing to 0.75% of net assets in excess of £700 million. In addition, the fixed annual fee of £600,000 for services other than portfolio management reduced to £100,000 per annum. The total fees paid for the year ended 31 August 2019 have resulted in a saving of £786,000 compared to the prior year. Further details are in Note 5 on page 52. There is no change to the investment process as a result of the revised 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. As the Company's shares have mostly traded at a premium, the Company did

# Chairman's Statement continued

not carry out any share repurchases in the reporting year and up to the date of this Annual Report.

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

I am pleased to say that in the reporting year, the Company issued 9,620,000 ordinary shares from a combination of shares held in Treasury and its block listing authorities. Since then and as at the date of this Annual Report, the Company has issued a further 3,300,000 shares in order to meet demand.

The level of premium narrowed from 1.5% at the start of the reporting year to a discount of 0.6% as at 31 August 2019. This change gave rise to a share price total return of -6.9% for the year, behind the NAV total return of -4.9%. Over the year to 31 August 2019, the Company's shares traded within a range of a 2.9% premium and a 4.1% discount. Notably, as can be seen in the table on page 12, our discount level five years ago was 6.3%, slightly above our peer group which was at 5.7%. At this year end, our discount had reduced to 0.6%, compared to 8.4% for the peer group.

The Board continues to monitor the discount/premium closely and will take action when it feels it will be effective.

## 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, and stay geared, as long as the opportunities remain. Combined with Alex's contrarian and value-focused investment philosophy, and 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 20%. The Company remained within these levels throughout the reporting year. The maximum level of gross gearing is 40%.

## Dividends

The revenue generated from the investments held in the portfolio during the year ended 31 August 2019 has been considerably higher than in prior years. The Company's revenue return was 8.65 pence per share compared to 5.70 pence per share in the prior year. In order to retain Investment Trust tax status, the Company must pay out the majority of its income as a dividend to Shareholders. As

Shareholders will be aware, the Company is not driven by income, however it has paid an increased dividend year on year for the last ten years as can be seen from the chart on page 21.

The Board is therefore recommending a final dividend of 3.65 pence per share for the year ended 31 August 2019 (2018: 3.15 pence). An interim dividend of 2.10 pence per share (2018: 1.85 pence) was paid on 26 June 2019 so the interim and final dividends (totalling 5.75 pence) represent a total increase of 15% over the 5.00 pence paid for the year ended 31 August 2018.

As the income generated for the year to 31 August 2019 is substantially higher than in previous years, the Board also recommends the payment of a special dividend of 1.50 pence per share from this increased income. Shareholders should note that the Company is less likely to pay special dividends in future years unless there are special circumstances.

Subject to Shareholder approval at the Annual General Meeting ("AGM") on 12 December 2019, both the final and special dividends, totalling 5.15 pence and representing an increase of 63% over the 3.15 pence paid last year, will be paid on 15 January 2020 to all Shareholders who are on the share register as at 6 December 2019 (ex-dividend date 5 December 2019).

Shareholders may choose to reinvest their dividends for additional shares in the Company. Details of the Dividend Reinvestment Plan are set out on page 71.

## Board of Directors

Sharon Brown, having served on the Board for over nine years as a Non-Executive Director and as Chair of the Audit Committee and over three years as the Senior Independent Director, will step down from the Board at the conclusion of the AGM on 12 December 2019. I would like to take this opportunity to thank her on behalf of the Board and all of the Company's stakeholders for all that she has accomplished, for her unfailing dedication and attention to detail, her wisdom and good humour. She takes with her our very best wishes for the future.

I am pleased to welcome Claire Boyle as a Non-Executive Director who joined the Board on 24 June 2019. She will take over as Chair of the Audit Committee when Sharon steps down from the Board on 12 December 2019. Claire is a chartered accountant and has over 17 years' experience working in finance and equity investment management running portfolios over a wide range of sectors for international corporate, Government, State and retail clients, including unit and investment trusts. Claire is a Non-Executive Director and Chair of the Audit Committee of Aberdeen Japan Investment Trust PLC. She was a

Partner at Oxburgh Partners LLP with responsibility for their European Equity Hedge Fund. Prior to that, she was a European Equity Fund Manager at American Express Asset Management where her role included both portfolio management and business development. She started her investment career with Robert Fleming Investment Management.

Dean Buckley will succeed Sharon as Senior Independent Director with effect from 12 December 2019.

As part of the Board's future succession plan, I am also pleased to announce the appointment of Alison McGregor as a Non-Executive Director of the Company with effect from 1 January 2020. Alison is a Non-Executive Director of the Confederation of British Industries ("CBI"), Scottish Power Energy Networks Holdings and Beatson Cancer Charity and is an Advisor to the Board at Glasgow University Adam Smith Business School. She is also Co-Chair of the Scottish Apprenticeship Advisory Board. In 2018, Alison received the Women in Banking and Finance UK award for Achievement and was recognised by Action for Children as Woman of Influence in Business. In 2017, she was awarded the Scotland Corporate Leader of the Year Award at The Scottish Women's Awards. Previously, Alison was the CEO of HSBC Scotland from 2014 to December 2018, the Chair of CBI Scotland and a Non-Executive Director of Scottish Enterprise.

In accordance with the UK Corporate Governance Code for FTSE 350 companies, I together with Dean Buckley, Nigel Foster and Nicky McCabe are subject to annual re-election at the AGM on 12 December 2019. Claire Boyle, being newly appointed, is subject to election at the forthcoming AGM. Alison McGregor will be subject to election at the AGM in December 2020. Biographical details for all the Directors standing for election and re-election can be found on page 25 to assist Shareholders when considering their votes. The Directors, between them, have a wide range of appropriate skills and experience to form a balanced Board for the Company.

### Continuation Vote

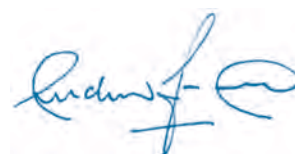
In accordance with the Company's Articles of Association, the Company is subject to a continuation vote every three years. The next such vote is at this year's AGM on 12 December 2019. The Company's performance record has been strong since it launched on 17 November 1994. An investment of £1,000 at launch would be worth £19,000 as at 31 August 2019 (with dividends reinvested). Although the one year NAV and share price returns have underperformed the Benchmark Index, performance over three and five years remains well ahead of the Index. In addition, the prospects of the Company over a five year investment horizon can be found in the Viability Statement on page 14. Therefore, your Board recommends

that Shareholders vote in favour of the continuation. (All performance data is on a total returns basis.)

### Annual General Meeting – Thursday, 12 December 2019

The AGM of the Company will be held at 11.30 am on Thursday, 12 December 2019 at Fidelity's offices at **4 Cannon Street, London EC4M 5AB** (nearest tube stations are St. Paul's or Mansion House). Shareholders should note that the AGM is in a new location and the new building is over the road from the building where previous AGMs were held. Full details of the meeting are given on pages 68 to 70.

It is the most important meeting that we, the Directors of your Company, have with our Shareholders each year. 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 will be very happy to answer any questions that Shareholders may have. We hope as many of you as possible are able to come and join us for this occasion.



**Andy Irvine**

Chairman

1 November 2019

# Portfolio Manager's Review



Alex Wright was appointed as Portfolio Manager of Fidelity Special Values PLC on 1 September 2012. He joined Fidelity in 2001 as a research analyst and covered a number of sectors across the market cap spectrum, both in the UK and developed and emerging Europe. He is also Portfolio Manager of Fidelity Special Situations Fund.

## Question

How has the Company performed over the year under review?

## Answer

In difficult market conditions for UK stocks in general, the Company recorded a share price return of -6.9% and a NAV return of -4.9% (both on a total return basis) for the year that were below the FTSE All-Share Index (Benchmark Index) which returned 0.4%. In an increasingly risk-averse environment, the portfolio's holdings in selected financials and consumer-facing stocks weighed down performance, while industrials were among the main positive contributors to performance.

## Question

And what about the market environment more broadly?

## Answer

The UK stock market witnessed divergent trends over the year as investor sentiment was undermined by continuing political uncertainty and fear about a slowing global economy, partly due to ongoing trade friction between the US and China. The markets did witness some positive momentum in the first quarter, mainly driven by the accommodative monetary policy stance by central banks across developed markets, particularly the US Federal Reserve, while a delay in the implementation of Brexit also proved supportive.

## Question

How has Brexit impacted the UK markets and the Company?

## Answer

Political uncertainty has made UK shares unpopular both at home and abroad. Sentiment towards domestic UK businesses such as banks and retailers is particularly weak. There is a large contrarian opportunity set in the UK equity market. However, we must be selective and proceed with caution. Although there are some very attractive valuations on offer in the UK, the environment is a risky one, and the market is right to be sceptical in many cases.

## Question

What were the drivers of performance?

## Answer

Our value bias was a performance headwind over the period. Weaker growth, and expectations and guidance

for interest rate cuts over the period, led to growth style outperforming value, with 'quality' global large cap companies being seen as something of a safe haven in the UK market. Our lack of exposure to these well-liked companies held back relative returns.

At a stock level, outsourcing group Serco Group was the biggest contributor to returns during the period, as the group saw continued strong earnings growth in the first half of 2019 following several years of decline. Within the health care sector, the holding in Roche Holdings advanced as investors focused on the more defensive sectors, while its shares also benefited from regulatory approvals for a couple of its drugs. Defense engineering group Ultra Electronics Holdings was another notable contributor after it reported strong profit growth in the first six months of the year and increased its interim dividend. The company, which derives a large proportion of its revenue from the US defence market, has started to reap the benefit of an increase in spending on the sector by the US government in the last two years. The allocation to peer group Meggitt also added value. However, financials were among the major detractors. Irish banking group AIB Group fell as its shares were weighed down by lower earnings forecasts, higher costs and lower interest rate expectations. The holding in sub-prime lender International Personal Finance also detracted after Poland proposed to reduce the cap on non-interest costs that lenders can charge consumers on loans.

#### Question

And what about your exposure to financials?

#### Answer

Financials account for almost 31% of the portfolio (compared to 25% in the Index), spread across banks, financial services and diversified financials. I have been trimming exposure to cyclicals, particularly banks, where fundamentals have deteriorated markedly. The significant move down in global bond yields will put major pressures on the net interest margin for banks. For most banks there are few avenues left to offset this margin pressure. Most have little room left to cut costs and provisions are already at record lows. Unlike in 2009, all banks are well capitalised. It is therefore not an option to simply raise borrowing rates to compensate. I have now sold out of Lloyds Banking Group. In line with our original thesis, the company was successful in cutting costs and driving efficiencies, but I saw limited upside. The bank has now become a bellwether for the UK economy with its future performance tightly linked to the performance of the UK mortgage market and interest rates. I look to own companies in control of their own fate, able to drive positive change from the inside. By contrast, I continue to

hold Royal Bank of Scotland Group which is at an earlier stage of its recovery and still has room to go in its evolution towards becoming a high return bank with excess capital. I have also sold out of Bank of Ireland Group and Discover Financial Services and trimmed the Citigroup position.

#### Question

Where do you see value in the market?

#### Answer

Although I see a broad spread of value across the market, worsening fundamentals mean I am increasingly finding value in defensive stocks which I have increased to their highest overweight in history in the portfolio. I believe there is potential within an ever-changing universe of struggling/unloved companies. The UK market is a good source of defensive companies, both classically defensive and others with more hidden defensive qualities. Amongst the "classic" defensives, I have added to Imperial Brands. Tobacco companies have de-rated significantly with Imperial now trading at an attractive 7.2 times price/earnings multiple and offering a well-supported 9.1% dividend yield. I hold it in preference to British American Tobacco due to its stronger balance sheet and its promising new vapour innovations which are underappreciated by the market. ContourGlobal is another new classical defensive position in the utility space. Amongst the "hidden" defensives, I have added to Pearson which continues its transformation from print to digital and is countercyclical; it performs well in a US economic downturn as education enrolment picks up. I remain positive on some financials, and have increased exposure to life insurance names. The long term portfolio returns illustrate that actively managed and contrarian investing can yield material outperformance over the long term despite headwinds for the value style. A repeatable, risk-aware and detail-orientated research process underpins the strategy.

#### Question

How have you used gearing and derivatives over the year?

#### Answer

During parts of the year, the Company continued to use contracts for difference ("CFDs") to gear portfolio long exposure: I increased gearing during the market falls in the last quarter of 2018 as valuations became more attractive. However, following the recovery that markets have witnessed since January this year, gearing has once again fallen. Short positions were contracted in the reporting year but were closed by the year end. In the medium term, I do not anticipate opening new stock specific short positions, as currently, my preference is to

# Portfolio Manager's Review continued

allocate time and research resources to long positions. The hedged position on the FTSE 250 Index Future was maintained. An index hedge allows us to increase the effect of stock selection on portfolio returns.

## Question

Have there been any major changes to your investment process?

## Answer

No. My process continues to target unloved stocks which are undergoing positive change that has not yet been recognised by the market. Given the sheer number of small and medium sized companies, and lower levels of scrutiny among other investors, I expect the portfolio will always have a significant weighting to small and medium sized companies. However, I am acutely aware of the uncertainty surrounding the UK and do not want to overemphasise any stocks in the portfolio exposed to whatever is the Brexit outcome.

## Question

How do you manage liquidity in the portfolio?

## Answer

Liquidity conditions are closely monitored as part of the day to day portfolio management process, with further oversight coming from Fidelity's management structure and risk teams. Whilst the Company invests in companies of all sizes, these investments are almost exclusively in listed companies (only one holding at the year end was in an unlisted company). Further, the closed-ended structure of the Company ensures that portfolio activity is not disturbed by significant redemptions or inflows.

## Question

What is your outlook for the next twelve months?

## Answer

Ongoing political chaos, US-China trade tensions and weakening fundamentals have created a challenging environment for UK equities. A cautious approach is needed, but attractive valuation opportunities are out there. These sizeable risks and the uncertain outlook mean that the UK remains very much out of favour with both global and domestic investors. The valuation of the UK market reflects this with a price/earnings multiple that is low both relative to history and to other equity markets globally. The Company's portfolio trades at a further 13% discount to an already cheap market making for a good valuation starting point for investments.

However, market averages do not tell the full story and hide a significant divergence in relative valuations between value and growth stocks. Despite value stocks having underperformed for a number of years, they have suffered further significant underperformance this year as interest rate expectations globally have fallen even further from already low levels. This has left long duration and steady growth stocks trading at high valuations, whilst stocks with uncertainty or without growth characteristics are very cheap. It is not clear what will trigger a reversal in this growth over value trade but it is clear that investors in growth equities are taking on much more risk than they have done in the past, given the prices they are paying. This increased dispersion in valuations together with a weak pound has driven increased mergers and acquisition activity in the UK and the portfolio has been a beneficiary of this.

As ever, I remain focused on building a portfolio of unloved stocks with potential for positive change. There is certainly a plentiful supply of unloved companies in the UK market today, and my task is to identify those with the strongest margin of safety and the best chances of positive change.

## Alex Wright

Portfolio Manager  
1 November 2019



# Top 10 Holdings

as at 31 August 2019

(based on Gross Asset Exposure expressed as a percentage of Shareholders' Funds)

## Industry Industrials



### CRH

#### Gross Asset Exposure

5.6%

CRH is a global leader in building materials, with strong local market positions across a number of different categories. Following a series of judicious acquisitions in the past, the company made a strategic decision to sell its European distribution business in July 2019, which should help to create a simpler and more focused group going forward.

## Industry Oil & Gas



### Royal Dutch Shell

#### Gross Asset Exposure

5.1%

Royal Dutch Shell is a global energy company. The company has the strongest upstream portfolio of the European majors with leading market share in liquified natural gas (LNG), the highest exposure to long-life Brazilian deepwater resource and a differentiated position in the Permian Basin. It has a clear plan and incentive to buy back stock, reduce share count and lower the fixed dividend cost. Full cash dividend and buyback programme will see over \$125 billion (about 50% of the company's market cap) returned to shareholders across 2021-25.

## Industry Pharmaceuticals & Biotechnology



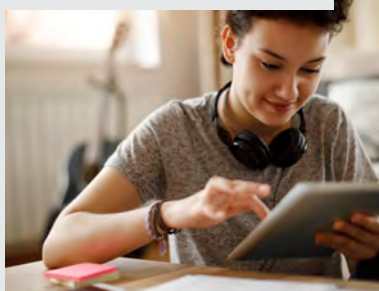
### Roche Holdings

#### Gross Asset Exposure

5.0%

Roche benefits from the largest mid to late stage pipeline of the EU Pharma majors. The pharmaceuticals major has a number of best-in-class newly launched assets that have the potential to drive strong revenue growth.

## Industry Consumer Services



### Pearson

#### Gross Asset Exposure

4.7%

FTSE 100 education provider Pearson has been making large investments into digital education services which is likely to have a positive effect in the long term. While the transition away from physical text books towards digital services will take time and will have further ups and downs, investors willing to be patient could see a transformation of the value of their shareholding. While the UK market lacks many technology leaders, in Pearson it may soon be able to boast being the world's leading digital education provider.

## Industry Financials



### Citigroup

#### Gross Asset Exposure

4.0%

A global bank focused on North and South America, with a strong balance sheet that allows profits to be returned to shareholders as share buybacks. Citigroup stands out globally as a very attractively valued stock in a strong end-market, with opportunities to cut costs and grow market share.

# Top 10 Holdings continued

## Industry Aerospace & Defense



### Meggitt

#### Gross Asset Exposure

**4.0%**

The long term growth outlook remains positive for Meggitt, an engineering business specialising in aerospace equipment, with more than 50% of revenues coming from growth in the civil aerospace market and 35% from the improving defense sector. In addition, over 40% of revenue is derived from high-margin recurring aftermarket activity. End-markets are improving, with headwinds from new product investment and civil aerospace, as well as persistent weakness in energy-related markets, abating.

## Industry Financials



### John Laing Group

#### Gross Asset Exposure

**3.9%**

John Laing develops, owns and operates infrastructure assets such as toll roads and windfarms. With a growing pipeline of international development opportunities, we believe that the market's perception of the company should change significantly. A company which develops infrastructure assets deserves a higher valuation than one which simply owns them.

## Industry Financials



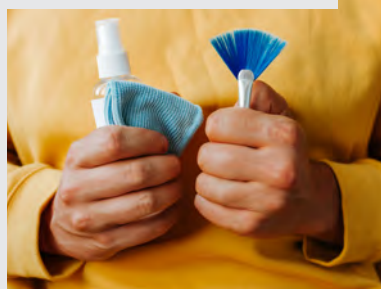
### Phoenix Group Holdings

#### Gross Asset Exposure

**3.5%**

Phoenix Group Holdings is a consolidator of closed life insurance books. Phoenix can drive shareholder value as the leading player in closed life fund consolidation, an industry where the supply-demand dynamic is in favour of the consolidators. The market underestimates the durability of cash generation, the ongoing potential from management actions and the likelihood of future deals.

## Industry Support Services



### Serco Group

#### Gross Asset Exposure

**3.2%**

Outsourcing group Serco is now seeing earnings growth after several years of decline. Progress has stepped up and the share price has responded accordingly. We feel that this is just the beginning of a process of sustainably creating value, supported by visibility on positive organic growth for the foreseeable future, continued scope for margin upside, cash generation finally turning positive, and a respected management team displaying an appetite for opportunistic acquisitions.

## Industry Beverages



### C&C Group

#### Gross Asset Exposure

**3.0%**

A leading manufacturer, marketer and distributor of premium branded cider, beer, wine and soft drinks. The market does not seem to have fully ascribed value to the transformational Matthew Clark acquisition. Not only does it diversify the business, but it is a totally unique asset (one of the UK's largest distributors to pubs and restaurants) acquired at a very attractive valuation. Moreover, C&C's core business (Ireland & Scotland) has finally started to show signs of stabilisation and we believe the worst of the earnings deterioration is behind us.

# Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and the Portfolio Manager's Review on pages 2 to 8 form part of the Strategic Report.

## Business and Status

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

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and its ordinary shares are listed and traded on the London Stock Exchange. It is not a close company and has no employees.

## Objective

The Company's objective is to achieve long term capital growth primarily through investment in equities (and their related financial instruments) of UK companies which the Investment Manager believes to be undervalued or where the potential has not been recognised by the market.

## Strategy

In order to achieve this objective, the Company operates as an investment company and has an actively managed portfolio of special situation investments, consisting primarily of UK listed companies. It has the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns. As an investment company, it is able to gear the portfolio and the Board takes the view that long term returns for Shareholders can be enhanced by using gearing in a carefully considered and monitored way.

As part of the strategy, the Board has delegated the management of the portfolio and certain other services to Fidelity. The Portfolio Manager aims to achieve a total return on the Company's assets over the longer term in excess of the equivalent return on the FTSE All-Share Index, the Company's Benchmark Index. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving this objective. The Board recognises that investing in equities is a long term process and the Company's returns will vary from year to year.

The Company's stated objective was modified on 31 October 2018 in order to better align it with the phraseology of the Key Information Document, a regulatory requirement introduced at the start of 2018. The strategy and principal activity have remained unchanged throughout the year ended 31 August 2019.

## Investment Management Philosophy, Style and Focus

Fidelity's distinctive investment approach is "bottom up" stock picking – investing in companies on the basis of their underlying strengths, facilitated by extensive research capabilities. Fidelity's analysts evaluate companies, meet their management and speak to suppliers, competitors and customers in order to build up a picture of the true state of a company's fundamentals. This first hand research is fundamental to Fidelity's ability to form a view of a company's future profitability and ultimately for the Portfolio

Manager to decide if he considers it an attractive investment for our Shareholders. The Portfolio Manager works closely with the Fidelity analyst team and also has access to a wide range of research produced by third parties.

## Investment Policy

The Company seeks to meet its investment objective through investment in a diversified portfolio of securities and instruments issued by or related primarily to UK companies.

The Company will have a blend of investments in larger, medium and smaller sized companies and be guided by a contrarian philosophy.

The Portfolio Manager has a contrarian style which focuses on significant valuation anomalies in stocks which are out of favour with other investors, yet show potential for change. The Portfolio Manager believes these opportunities exist across the market capitalisation spectrum, and the investment approach is flexible, with positions in large, medium and smaller sized companies. The proportions in each size category may vary over time, as investment opportunities are selected on a bottom up basis.

Investments typically have the following characteristics:

- Unrecognised potential for positive change: The Portfolio Manager wants to see evidence of the company embarking upon a period of positive change. Once this change begins to be recognised by the market, there is potential for substantial upside.
- Limited downside risk: The Portfolio Manager invests in companies where market expectations are low. They will have some asset or characteristic that should prevent significant falls in the share price.

The Benchmark of the Company against which performance is measured is the FTSE All-Share Index.

The Company may invest directly in the shares of companies or indirectly through equity-related instruments (such as derivative contracts, warrants or convertible bonds) and in debt instruments. The Company may also invest in unquoted securities, subject to the investment restrictions set out on page 12.

## Derivatives

The Company may utilise derivative instruments, including index-linked notes, CFDs, covered options and other equity-related derivative instruments as a tool to meet the investment objective of the Company.

Derivatives usage will focus on, but not be limited to the following investment strategies:

- As an alternative form of gearing to bank loans or bonds. The Company will purchase long CFDs that achieve an equivalent effect to bank gearing but normally at lower financing costs.
- To hedge equity market risks where the Portfolio Manager considers that suitable protection can be purchased to limit the downside of a falling market at a reasonable cost; and

# Strategic Report continued

- By taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Company will not undertake any naked shorts.

## Gearing

The Company may use gearing to enhance long term capital growth. The maximum level of gross gearing (defined in the Glossary of Terms on page 76) is 40%. Within this limit the Portfolio Manager has the discretion to use a range of instruments for gearing, such as debt and CFDs, depending on the relative cost and availability of those instruments. It is the current intention of the Board that, in normal market circumstances, the Portfolio Manager will maintain net gearing (defined in the Glossary of Terms on page 76) in the range of 0% to 20%. The level of gearing is considered by the Board at each of its meetings.

## Investment Restrictions

The Company will invest and manage its assets with an objective of spreading risk through the following investment restrictions:

- No single investment (excluding cash and cash equivalents), nor the aggregate investment in any one company, shall represent more than 10% of the Company's portfolio, measured as at the time of investment.
- No more than 20% of the portfolio will be invested in companies listed on overseas exchanges.
- The Company will not invest more than 5% of its gross assets in unquoted securities.
- The Company will not invest more than 15% of its gross assets at the time of investment in listed investment companies (including listed investment trusts), including no more than 10% of its gross assets at the time of investment in funds that do not have stated policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

## Dividend Policy

The portfolio is managed actively in pursuit of capital growth. Hence, in any one year the dividend income received from investments will vary according to which stocks are owned during the reporting period and so will the dividend that will be paid. In order to continue to qualify as an investment company, the Company is required by Section 1159 of the Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of its net income in any reporting year.

## Performance, Results and Dividends

The Company's performance for the year ended 31 August 2019 and a summary of the year's activities and indications of trends and factors that may impact the future performance of the Company are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 8. The Portfolio Listing, the Distribution of the Portfolio, the Ten Year Record, the Summary of Performance Charts and the Attribution Analysis are set out on pages 16 to 24.

The Company's results for the year ended 31 August 2019 are set out in the Income Statement on page 44. The revenue return was

8.65 pence and the capital loss was 21.95 pence, giving a total loss of 13.30 pence per ordinary share.

The Board recommends that a final dividend of 3.65 pence per ordinary share be paid on 15 January 2020 to Shareholders who appear on the register as at the close of business on 6 December 2019 (ex-dividend date 5 December 2019). This is in addition to the interim dividend of 2.10 pence paid on 26 June 2019. In addition to the final dividend of 3.65 pence per share, the Board also recommends the payment of a special dividend of 1.50 pence per share as mentioned in the Chairman's Statement on page 4. Subject to Shareholder approval, this special dividend for the year ended 31 August 2019, will also be paid on 15 January 2020 to all Shareholders who are on the share register as at 6 December 2019.

## Key Performance Indicators

The key performance indicators ("KPIs") used to determine the performance of the Company and which are comparable to those reported by other investment companies are set out in the tables below.

### Shareholder Total Returns

| Share price total return for the year ended 31 August | 1 year (%) | 3 years (%) | 5 years (%) |
|---|------------|-------------|-------------|
| Fidelity Special Values PLC <sup>1</sup>              | -6.9       | +36.1       | +54.5       |
| Short term savings rate <sup>2</sup>                  | +0.8       | +1.8        | +3.0        |
| Benchmark Index <sup>1,3</sup>                        | +0.4       | +20.2       | +31.2       |
| Peer group <sup>4</sup>                               | -10.2      | +16.1       | +26.5       |

### NAV Total Returns

| Net asset value total return for the year ended 31 August | 1 year (%) | 3 years (%) | 5 years (%) |
|---|------------|-------------|-------------|
| Fidelity Special Values PLC <sup>1</sup>                  | -4.9       | +23.1       | +45.1       |
| Benchmark Index <sup>1,3</sup>                            | +0.4       | +20.2       | +31.2       |
| Peer group <sup>4</sup>                                   | -8.8       | +15.6       | +28.8       |

### Discount

| Discount as at 31 August    | 2019 (%) | 2016 (%) | 2014 (%) |
|-----------------------------|----------|----------|----------|
| Fidelity Special Values PLC | 0.6      | 10.0     | 6.3      |
| Peer group <sup>4</sup>     | 8.4      | 8.6      | 5.7      |

### Ongoing charges

| Ongoing charges for the year ended 31 August <sup>5</sup> | 2019 (%) | 2016 (%) | 2014 (%) |
|---|----------|----------|----------|
| Fidelity Special Values PLC                               | 0.97     | 1.10     | 1.12     |

<sup>1</sup> Total returns include reinvested income.

<sup>2</sup> UK Interbank 3 month bid rate (banks or building societies).

<sup>3</sup> FTSE All-Share Index.

<sup>4</sup> AIC UK All Companies sector.

<sup>5</sup> Defined in the Glossary of Terms on page 77.

Sources: Fidelity and Datastream.

The share price total return, the NAV total return, the discount and the ongoing charge for the year ended 31 August 2019 on page 12 are Alternative Performance Measures.

In addition to the KPIs set out on the previous page, the Board also monitors the factors contributing to investment results, as set out in the Attribution Analysis on page 24. Long term performance is also monitored and the Ten Year Record and Summary of Performance Charts showing this information are on pages 21 to 23.

### Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2016 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 risks that the Company faces. 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 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. There have been no changes to these since the prior year except for updating the "Market Risk" to include "Economic and Political Risk" and expanding on the "Cybercrime Risk".

### EXTERNAL RISKS

| Principal Risks                            | Description and Risk Mitigation   |
|--|---|
| <b>Market, Economic and Political Risk</b> | <p>The Company's assets consist mainly of listed securities and 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 Brexit related uncertainties affecting the UK market and economy.</p> <p>Risks to which the Company is exposed to in the market risk category are included in Note 18 to the Financial Statements on pages 58 to 63 together with summaries of the policies for managing these risks.</p> |
| <b>Share Price Risk</b>                    | <p>Share prices are volatile and volatility is a risk for the short term shareholder likely to want to sell in the near future. The Board does not believe that volatility would be a significant risk for the long term Shareholder.</p>   |
| <b>Discount Control Risk</b>               | <p>The price of the Company's shares and its discount to NAV are factors which are not within the Company's total control. However, the Board can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations program.</p> <p>The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.</p>  |
| <b>Regulatory Risk</b>                     | <p>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.</p>  |
| <b>Cybercrime Risk</b>                     | <p>The 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 and the Board is updated on these as part of the reporting it receives from the Manager.</p>   |

# Strategic Report continued

## INTERNAL RISKS

| Principal Risks                              | Description and Risk Mitigation  |
|--|--|
| <b>Investment Management Risk</b>            | 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.  |
| <b>Operational Risks – Service Providers</b> | 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 13 December 2016, 99.97% of Shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at this year's AGM on 12 December 2019.

### Viability Statement

In accordance with provision C.2.2 of the 2016 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 NAV and share price performance;
- The principal risks and uncertainties facing the Company, as set out above, and their potential impact;
- The 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 2019, with a NAV total return of 45.1% and a share price total return of 54.5%, compared to a Benchmark Index total return of 31.2%. 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, its investment strategy and asset allocation;
- 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 in the Directors' Report on page 26. The Company is also subject to a continuation vote at this year's AGM on 12 December 2019 and the Board expect that Shareholders will vote in favour of continuation.

### Board Diversity

The Board's search for new non-executive directors is based on the benefits of having a diverse range of skills, knowledge, experience, perspectives and background, including gender. In terms of diversity, there were three female and three male Directors on the Board as at 31 August 2019. This will change to two female and three male Directors when Sharon Brown steps down from the Board on 12 December 2019. It will change to three female and three male Directors when Alison McGregor joins the Board on 1 January 2020.

The Board's composition exceeds the target of 33% of women on FTSE 350 Boards by 2020 which has been set by the Hampton-Alexander Review.

#### **Employee, Social, Community and Human Rights Issues**

The Company has no employees and all of its Directors are non-executive and its day-to-day activities are carried out by third parties. There are therefore no disclosures to make in respect of employees.

The Fidelity group of companies (including the Manager, Fil Investment Services (UK) Limited and FIL Investments International) encourages Environmental, Social and Governance ("ESG") factors in its investment decision making process. It has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis.

The Company has not adopted a policy on human rights as it has no employees and its operational processes are delegated. As an investment company, the Company does not provide goods and services in the normal course of business and has no customers. Accordingly, the Board considers that the Company is not within the scope of the Modern Slavery Act 2015.

The Company's financial reports are printed by a company which has won awards for its environmental awareness and further details of this may be found on the back cover of this report.

#### **Socially Responsible Investment**

The Manager's primary objective is to produce superior financial returns for the Company's Shareholders. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in the Manager's view, these have a material impact on either investment risk or return.

#### **Greenhouse Gas Emissions**

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measureable carbon footprint. FIL Investment Services (UK) Limited and FIL Investments International are registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the Environment Agency.

#### **Corporate Engagement**

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. It delegates the responsibility for corporate engagement and Shareholder voting to the Manager who updates the Board on issues and activities. These activities are reviewed regularly by the Manager's corporate governance team. Further details of the Manager's policy on corporate engagement can be found at [www.fidelity.co.uk](http://www.fidelity.co.uk).

#### **Future Developments**

Some trends likely to affect the Company in the future are also common to many investment companies together with the impact of regulatory change. The factors likely to affect the Company's future development, performance and positions are set out in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 8.

By Order of the Board

**FIL Investments International**

Secretary

1 November 2019

# Portfolio Listing

as at 31 August 2019

The Gross Asset Exposures shown below and on pages 17 and 18 measure exposure to market price movements as a result of owning shares, derivative instruments and fixed interest securities. The Balance Sheet Value is the actual value of the portfolio. Where a contract for difference ("CFD") is held, the Balance Sheet Value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying share has moved.

|   | Gross Asset Exposure<br>£'000 | % <sup>1</sup> | Balance<br>Sheet Value<br>£'000 |
|---|-------------------------------|----------------|---------------------------------|
| <b>Long Exposures – shares unless otherwise stated</b>                                      |                               |                |                                 |
| <b>CRH (long CFD)</b> – Construction & Materials  | 39,008                        | 5.6            | 1,704                           |
| <b>Royal Dutch Shell (shares and long CFD)</b> – Oil & Gas Producers                        | 35,300                        | 5.1            | 23,422                          |
| <b>Roche Holdings</b> – Pharmaceuticals & Biotechnology                                     | 34,960                        | 5.0            | 34,960                          |
| <b>Pearson</b> – Media  | 32,533                        | 4.7            | 32,533                          |
| <b>Citigroup</b> – Banks  | 28,265                        | 4.0            | 28,265                          |
| <b>Meggitt</b> – Aerospace & Defense  | 27,651                        | 4.0            | 27,651                          |
| <b>John Laing Group</b> – Financial Services  | 27,221                        | 3.9            | 27,221                          |
| <b>Phoenix Group Holdings</b> – Life Insurance  | 24,475                        | 3.5            | 24,475                          |
| <b>Serco Group</b> – Support Services   | 22,393                        | 3.2            | 22,393                          |
| <b>C&amp;C Group</b> – Beverages  | 21,217                        | 3.0            | 21,217                          |
| <b>BP</b> – Oil & Gas Producers   | 21,057                        | 3.0            | 21,057                          |
| <b>Royal Bank of Scotland Group</b> – Banks   | 19,457                        | 2.8            | 19,457                          |
| <b>Legal &amp; General Group (long CFD)</b> – Life Insurance                                | 17,523                        | 2.5            | (344)                           |
| <b>Ultra Electronics Holdings</b> – Aerospace & Defense                                     | 17,373                        | 2.5            | 17,373                          |
| <b>Aviva (long CFD)</b> – Life Insurance  | 17,063                        | 2.4            | (5,114)                         |
| <b>Imperial Brands</b> – Tobacco  | 16,075                        | 2.3            | 16,075                          |
| <b>CLS Holdings</b> – Real Estate Investment & Services                                     | 15,295                        | 2.2            | 15,295                          |
| <b>ContourGlobal</b> – Electricity  | 14,280                        | 2.0            | 14,280                          |
| <b>Millennium &amp; Copthorne Hotels</b> – Travel & Leisure                                 | 13,624                        | 1.9            | 13,624                          |
| <b>ArcelorMittal</b> – Industrial Metals & Mining   | 11,536                        | 1.7            | 11,536                          |
| <b>DCC</b> – Support Services   | 10,806                        | 1.5            | 10,806                          |
| <b>Cairn Homes</b> – Household Goods & Home Construction                                    | 10,708                        | 1.5            | 10,708                          |
| <b>Chemring Group</b> – Aerospace & Defense   | 9,141                         | 1.3            | 9,141                           |
| <b>H&amp;T Group</b> – Financial Services   | 8,468                         | 1.2            | 8,468                           |
| <b>Sanofi</b> – Pharmaceuticals & Biotechnology   | 8,108                         | 1.2            | 8,108                           |
| <b>Semafo</b> – Mining  | 8,001                         | 1.1            | 8,001                           |
| <b>AIB Group (long CFD)</b> – Banks   | 7,930                         | 1.1            | (7,678)                         |
| <b>Kin + Carta</b> – Support Services   | 7,748                         | 1.1            | 7,748                           |
| <b>International Personal Finance (shares and fixed interest bond)</b> – Financial Services | 7,692                         | 1.1            | 7,692                           |
| <b>RHI Magnesita</b> – Industrial Engineering   | 7,602                         | 1.1            | 7,602                           |
| <b>Engie</b> – Gas, Water & Multiutilities  | 7,565                         | 1.1            | 7,565                           |

|  | Gross Asset Exposure<br>£'000 | % <sup>1</sup> | Balance<br>Sheet Value<br>£'000 |
|--|-------------------------------|----------------|---------------------------------|
| <b>Brooks Macdonald Group</b> – Financial Services                           | 7,374                         | 1.1            | 7,374                           |
| <b>SIG</b> – Support Services  | 7,305                         | 1.0            | 7,305                           |
| <b>Johnson Matthey (long CFD)</b> – Chemicals                                | 7,028                         | 1.0            | 181                             |
| <b>Photo-Me International</b> – Leisure Goods                                | 6,441                         | 0.9            | 6,441                           |
| <b>Sylvania Platinum</b> – Mining  | 6,057                         | 0.9            | 6,057                           |
| <b>Glenveagh Properties</b> – Household Goods & Home Construction            | 6,053                         | 0.9            | 6,053                           |
| <b>CPL Resources (long CFD)</b> – Support Services                           | 6,033                         | 0.9            | (302)                           |
| <b>Summit Properties</b> – Real Estate Investment & Services                 | 5,947                         | 0.9            | 5,947                           |
| <b>Halfords Group</b> – General Retailers                                    | 5,946                         | 0.9            | 5,946                           |
| <b>Senior</b> – Aerospace & Defense  | 5,825                         | 0.8            | 5,825                           |
| <b>Sherborne Investors Guernsey</b> – Financial Services                     | 5,698                         | 0.8            | 5,698                           |
| <b>William Hill</b> – Travel & Leisure                                       | 5,667                         | 0.8            | 5,667                           |
| <b>Essentra</b> – Support Services   | 5,436                         | 0.8            | 5,436                           |
| <b>Keller Group</b> – Construction & Materials                               | 5,173                         | 0.7            | 5,173                           |
| <b>Quilter</b> – Financial Services  | 5,154                         | 0.7            | 5,154                           |
| <b>Cohort</b> – Aerospace & Defense  | 5,112                         | 0.7            | 5,112                           |
| <b>Central Asia Metals (long CFD)</b> – Mining                               | 5,068                         | 0.7            | (1,705)                         |
| <b>Balfour Beatty</b> – Construction & Materials                             | 4,852                         | 0.7            | 4,852                           |
| <b>Acacia Mining</b> – Mining  | 4,720                         | 0.7            | 4,720                           |
| <b>Kosmos Energy</b> – Oil & Gas Producers                                   | 4,569                         | 0.7            | 4,569                           |
| <b>Huntsworth</b> – Media  | 4,267                         | 0.6            | 4,267                           |
| <b>Mylan</b> – Pharmaceuticals & Biotechnology                               | 4,102                         | 0.6            | 4,102                           |
| <b>IFG Group (long CFD)</b> – Financial Services                             | 3,979                         | 0.6            | 1,144                           |
| <b>Hammerson</b> – Real Estate Investment Trusts                             | 3,803                         | 0.5            | 3,803                           |
| <b>Sports Direct International (shares and long CFD)</b> – General Retailers | 3,788                         | 0.5            | 1,784                           |
| <b>Smart Metering Systems</b> – Support Services                             | 3,740                         | 0.5            | 3,740                           |
| <b>Tharisa</b> – Mining  | 3,680                         | 0.5            | 3,680                           |
| <b>GVC Holdings</b> – Travel & Leisure                                       | 3,611                         | 0.5            | 3,611                           |
| <b>Base Resources</b> – Mining   | 3,459                         | 0.5            | 3,459                           |
| <b>Zegona Communications</b> – Fixed Line Telecommunications                 | 3,290                         | 0.5            | 3,290                           |
| <b>Studio Retail Group</b> – General Retailers                               | 2,843                         | 0.4            | 2,843                           |
| <b>Begbies Traynor Group</b> – General Retailers                             | 2,782                         | 0.4            | 2,782                           |
| <b>Gemfields Group (shares and long CFD)</b> – Mining                        | 2,780                         | 0.4            | 2,677                           |
| <b>Electra Private Equity</b> – Equity Investment Instruments                | 2,673                         | 0.4            | 2,673                           |
| <b>Norcros</b> – Construction & Materials                                    | 2,638                         | 0.4            | 2,638                           |

# Portfolio Listing continued

|   | Gross Asset Exposure<br>£'000 | % <sup>1</sup> | Balance<br>Sheet Value<br>£'000 |
|---|-------------------------------|----------------|---------------------------------|
| <b>Micro Focus International</b> – Software & Computer Services         | 2,532                         | 0.4            | 2,532                           |
| <b>Speedy Hire</b> – Support Services                                   | 2,490                         | 0.4            | 2,490                           |
| <b>Triam Investors 1</b> – Equity Investment Instruments                | 2,375                         | 0.3            | 2,375                           |
| <b>Indivior</b> – Pharmaceuticals & Biotechnology                       | 2,341                         | 0.3            | 2,341                           |
| <b>Wentworth Resources</b> – Oil & Gas Producers                        | 2,279                         | 0.3            | 2,279                           |
| <b>U &amp; I Group</b> – Real Estate Investment & Services              | 2,138                         | 0.3            | 2,138                           |
| <b>Charles Taylor</b> – Support Services                                | 1,972                         | 0.3            | 1,972                           |
| <b>Amerisur Resources</b> – Oil & Gas Producers                         | 1,958                         | 0.3            | 1,958                           |
| <b>Cairn Energy</b> – Oil & Gas Producers                               | 1,890                         | 0.3            | 1,890                           |
| <b>Morgan Advanced Materials</b> – Electronic & Electrical Equipment    | 1,841                         | 0.3            | 1,841                           |
| <b>Finsbury Food Group</b> – Food Producers                             | 1,823                         | 0.3            | 1,823                           |
| <b>Vivo Energy</b> – General Retailers                                  | 1,738                         | 0.2            | 1,738                           |
| <b>Tullow Oil</b> – Oil & Gas Producers                                 | 1,391                         | 0.2            | 1,391                           |
| <b>Connect Group</b> – Support Services                                 | 1,243                         | 0.2            | 1,243                           |
| <b>Marwyn Value Investors</b> – Equity Investment Instruments           | 1,136                         | 0.2            | 1,136                           |
| <b>Mothercare</b> – General Retailers                                   | 1,111                         | 0.2            | 1,111                           |
| <b>McColls Retail Group</b> – Food & Drug Retailers                     | 858                           | 0.1            | 858                             |
| <b>Spire Healthcare Group</b> – Health Care Equipment & Services        | 729                           | 0.1            | 729                             |
| <b>SolGold</b> – Mining   | 710                           | 0.1            | 710                             |
| <b>Synthomer</b> – Chemicals  | 483                           | 0.1            | 483                             |
| <b>AXA Property Trust</b> – Real Estate Investment & Services           | 378                           | 0.1            | 378                             |
| <b>TVC Holdings</b> – Financial Services                                | 287                           | –              | 287                             |
| <b>McBride</b> – Household Goods & Home Construction                    | 139                           | –              | 139                             |
| <b>Stanley Gibbons Group</b> – General Retailers                        | 104                           | –              | 104                             |
| <b>Total long exposures before hedges (89 holdings)</b>                 | <b>750,914</b>                | <b>107.5</b>   | <b>621,183</b>                  |
| <b>Less: hedging exposure</b> – FTSE 250 Index Future September 2019    | (34,568)                      | (5.0)          | (495)                           |
| <b>Gross Asset Exposure<sup>2</sup></b>                                 | <b>716,346</b>                | <b>102.5</b>   |                                 |
| <b>Portfolio Fair Value<sup>3</sup></b>                                 |                               |                | <b>620,688</b>                  |
| <b>Net current assets (excluding derivative assets and liabilities)</b> |                               |                | <b>77,980</b>                   |
| <b>Shareholders' Funds</b>  |                               |                | <b>698,668</b>                  |

1 Gross Asset Exposure is expressed as a percentage of Shareholders' Funds.

2 Gross Asset Exposure comprises market exposure to investments of £635,539,000 (per Note 11: Investments on pages 54 and 55) plus market exposure to derivative instruments of £80,807,000 (per Note 12: Derivative instruments on pages 55 and 56).

3 Portfolio Fair Value comprises Investments of £635,539,000 plus derivative assets of £3,028,000 less derivative liabilities of £17,879,000 (per the Balance Sheet on page 45).

# Distribution of the Portfolio

as at 31 August 2019

The table below and on page 20 details the Distribution of the Portfolio based on Gross Asset Exposure which measures the exposure of the portfolio to market price movements as a result of owning shares, derivative instruments and fixed interest securities.

| Shares, derivative instruments and fixed interest securities | UK<br>%     | Overseas<br>% | 2019<br>Gross Asset<br>Exposure <sup>1</sup><br>% | Index <sup>2</sup><br>% | 2018<br>Gross Asset<br>Exposure <sup>1</sup><br>% |
|--|-------------|---------------|---|-------------------------|---|
| <b>Financials</b>  |             |               |   |                         |   |
| Financial Services   | 9.4         | –             | 9.4   | 3.4                     | 9.8   |
| Banks  | 4.1         | 3.9           | 8.0   | 9.3                     | 16.1  |
| Life Insurance   | 8.5         | –             | 8.5   | 3.2                     | 6.4   |
| Real Estate Investment & Services                            | 3.4         | –             | 3.4   | 0.7                     | 3.5   |
| Equity Investment Instruments                                | 0.6         | 0.3           | 0.9   | 5.3                     | 0.8   |
| Real Estate Investment Trusts                                | 0.5         | –             | 0.5   | 2.0                     | 0.2   |
| Non-life Insurance   | –           | –             | –   | 1.0                     | 2.0   |
|  | <b>26.5</b> | <b>4.2</b>    | <b>30.7</b>                                       | <b>24.9</b>             | 38.8  |
| <b>Industrials</b>   |             |               |   |                         |   |
| Support Services   | 9.4         | 0.9           | 10.3  | 5.3                     | 11.8  |
| Aerospace & Defense  | 9.3         | –             | 9.3   | 2.1                     | 7.4   |
| Construction & Materials                                     | 7.4         | –             | 7.4   | 1.7                     | 6.2   |
| Industrial Engineering                                       | 1.1         | –             | 1.1   | 0.9                     | 1.5   |
| Electronic & Electrical Equipment                            | 0.2         | –             | 0.2   | 0.6                     | 1.5   |
| General Industrials  | –           | –             | –   | 0.9                     | –   |
| Industrial Transportation                                    | –           | –             | –   | 0.3                     | 2.3   |
|  | <b>27.4</b> | <b>0.9</b>    | <b>28.3</b>                                       | <b>11.8</b>             | 30.7  |
| <b>Consumer Services</b>                                     |             |               |   |                         |   |
| Media  | 5.3         | –             | 5.3   | 4.0                     | 4.7   |
| Travel & Leisure   | 3.3         | –             | 3.3   | 4.7                     | 2.8   |
| General Retailers  | 2.2         | –             | 2.2   | 1.7                     | 2.5   |
| Food & Drug Retailers  | 0.1         | –             | 0.1   | 1.6                     | 2.4   |
|  | <b>10.9</b> | <b>–</b>      | <b>10.9</b>                                       | <b>12.0</b>             | 12.4  |
| <b>Oil &amp; Gas</b>   |             |               |   |                         |   |
| Oil & Gas Producers  | 8.8         | 1.0           | 9.8   | 12.9                    | 9.7   |
| Oil Equipment, Services & Distribution                       | –           | –             | –   | 0.2                     | –   |
|  | <b>8.8</b>  | <b>1.0</b>    | <b>9.8</b>  | <b>13.1</b>             | 9.7   |
| <b>Consumer Goods</b>  |             |               |   |                         |   |
| Beverages  | 3.0         | –             | 3.0   | 4.0                     | 1.3   |
| Household Goods & Home Construction                          | 2.4         | –             | 2.4   | 3.2                     | 3.6   |
| Tobacco  | 2.3         | –             | 2.3   | 3.8                     | 1.0   |
| Leisure Goods  | 0.9         | –             | 0.9   | 0.1                     | 1.1   |
| Food Producers   | 0.3         | –             | 0.3   | 0.7                     | 1.7   |
| Personal Goods   | –           | –             | –   | 3.0                     | –   |
|  | <b>8.9</b>  | <b>–</b>      | <b>8.9</b>  | <b>14.8</b>             | 8.7   |

# Distribution of the Portfolio continued

| Shares, derivative instruments and fixed interest securities  | UK<br>%      | Overseas<br>% | 2019<br>Gross Asset<br>Exposure <sup>1</sup><br>% | Index <sup>2</sup><br>% | 2018<br>Gross Asset<br>Exposure <sup>1</sup><br>% |
|---|--------------|---------------|---|-------------------------|---|
| <b>Basic Materials</b>  |              |               |   |                         |   |
| Mining  | 3.3          | 1.6           | 4.9   | 6.2                     | 3.2   |
| Chemicals   | 1.1          | –             | 1.1   | 0.7                     | 1.8   |
| Forestry & Paper  | –            | –             | –   | 0.3                     | –   |
| Industrial Metals & Mining                                    | –            | 1.7           | 1.7   | 0.2                     | –   |
|   | <b>4.4</b>   | <b>3.3</b>    | <b>7.7</b>  | <b>7.4</b>              | 5.0   |
| <b>Health Care</b>  |              |               |   |                         |   |
| Pharmaceuticals & Biotechnology                               | 0.3          | 6.8           | 7.1   | 8.4                     | 6.2   |
| Health Care Equipment & Services                              | 0.1          | –             | 0.1   | 1.2                     | –   |
|   | <b>0.4</b>   | <b>6.8</b>    | <b>7.2</b>  | <b>9.6</b>              | 6.2   |
| <b>Utilities</b>  |              |               |   |                         |   |
| Electricity   | –            | 2.0           | 2.0   | 0.6                     | –   |
| Gas, Water & Multiutilities                                   | –            | 1.1           | 1.1   | 2.1                     | 0.9   |
|   | <b>–</b>     | <b>3.1</b>    | <b>3.1</b>  | <b>2.7</b>              | 0.9   |
| <b>Technology</b>   |              |               |   |                         |   |
| Software & Computer Services                                  | 0.4          | –             | 0.4   | 0.9                     | 3.9   |
| Technology Hardware & Equipment                               | –            | –             | –   | 0.1                     | –   |
|   | <b>0.4</b>   | <b>–</b>      | <b>0.4</b>  | <b>1.0</b>              | 3.9   |
| <b>Telecommunications</b>                                     |              |               |   |                         |   |
| Fixed Line Telecommunications                                 | 0.5          | –             | 0.5   | 0.7                     | –   |
| Mobile Telecommunications                                     | –            | –             | –   | 2.0                     | –   |
|   | <b>0.5</b>   | <b>–</b>      | <b>0.5</b>  | <b>2.7</b>              | –   |
| <b>Total Gross Asset Exposure before hedges</b>               | <b>88.2</b>  | <b>19.3</b>   | <b>107.5</b>                                      | <b>100.0</b>            | 116.3   |
| <b>Hedging Exposures</b>                                      | <b>(5.0)</b> | <b>–</b>      | <b>(5.0)</b>                                      |                         | <b>(5.9)</b>                                      |
| <b>Total Gross Asset Exposure after the netting of hedges</b> | <b>83.2</b>  | <b>19.3</b>   | <b>102.5</b>                                      |                         |   |
| Total Gross Asset Exposure after the netting of hedges – 2018 | 94.9         | 15.5          |   |                         | 110.4   |

<sup>1</sup> Gross Asset Exposure is expressed as a percentage of Shareholders' Funds.

<sup>2</sup> The FTSE All-Share Index which is the Company's Benchmark Index.

# Ten Year Record

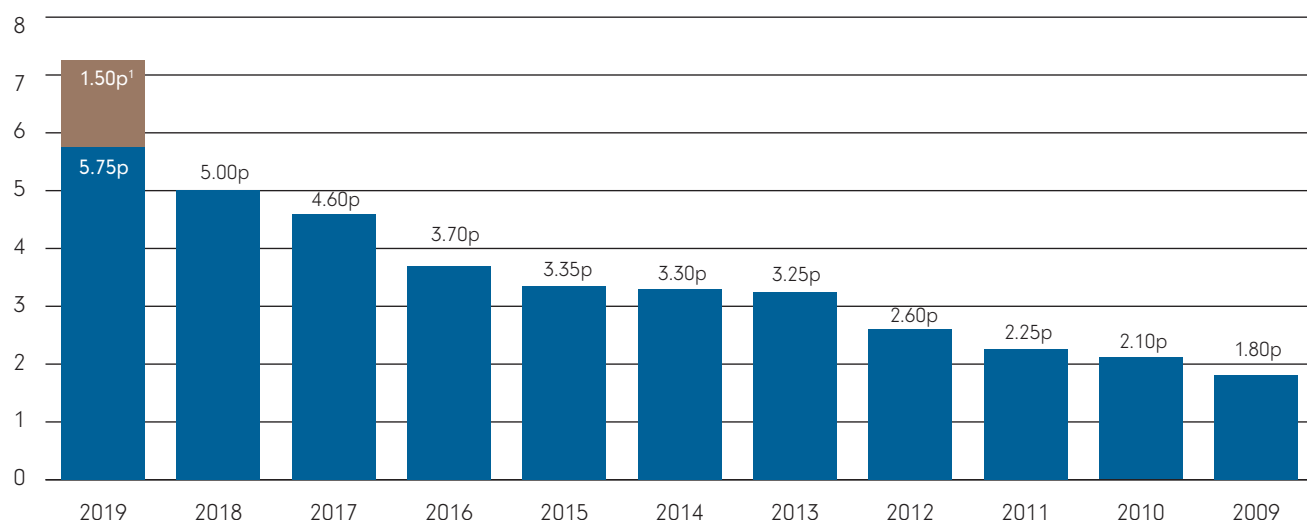
as at 31 August 2019

| As at 31 August   | 2019                    | 2018   | 2017   | 2016   | 2015   | 2014   | 2013   | 2012   | 2011   | 2010   | 2009   |
|---|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Capital</b>  |                         |        |        |        |        |        |        |        |        |        |        |
| Shareholders' funds (£m)  | <b>698.7</b>            | 725.0  | 673.5  | 578.3  | 537.3  | 519.2  | 478.5  | 338.6  | 312.5  | 333.8  | 334.5  |
| NAV per ordinary share (p) <sup>1</sup>                         | <b>252.99</b>           | 271.98 | 254.63 | 217.94 | 201.61 | 192.29 | 176.79 | 124.54 | 110.57 | 117.24 | 117.50 |
| Share price (p) <sup>1</sup>                                    | <b>251.50</b>           | 276.00 | 246.50 | 196.25 | 197.50 | 180.20 | 168.00 | 105.40 | 98.80  | 106.00 | 110.00 |
| (Discount)/premium to NAV (%) <sup>2</sup>                      | <b>(0.6)</b>            | 1.5    | (3.2)  | (10.0) | (2.0)  | (6.3)  | (5.0)  | (15.4) | (10.6) | (9.6)  | (6.4)  |
| <b>Revenue</b>  |                         |        |        |        |        |        |        |        |        |        |        |
| Revenue return per ordinary share (p) <sup>1</sup>              | <b>8.65</b>             | 5.70   | 5.33   | 4.15   | 3.39   | 3.10   | 3.40   | 2.65   | 2.29   | 2.15   | 1.75   |
| Dividends per ordinary share (p) <sup>1</sup>                   | <b>7.25<sup>3</sup></b> | 5.00   | 4.60   | 3.70   | 3.35   | 3.30   | 3.25   | 2.60   | 2.25   | 2.10   | 1.80   |
| Ongoing charges (costs of running the Company) (%) <sup>2</sup> | <b>0.97</b>             | 1.04   | 1.06   | 1.10   | 1.10   | 1.12   | 1.21   | 1.24   | 1.23   | 1.23   | 1.32   |
| <b>Gearing</b>  |                         |        |        |        |        |        |        |        |        |        |        |
| Gross gearing (%) <sup>4</sup>                                  | <b>2.5</b>              | 10.4   | 9.1    | 15.5   | 23.8   | 21.0   | 24.8   | 12.6   | 7.8    | 12.6   | n/a    |
| Net gearing (%) <sup>5</sup>                                    | <b>2.5</b>              | 6.6    | 0.9    | 7.9    | 9.4    | 6.4    | 14.0   | (0.9)  | (2.2)  | 2.6    | n/a    |
| Gearing ratio (bank loans) (%)                                  | <b>n/a</b>              | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | 5.7    |
| <b>Performance Total Returns</b>                                |                         |        |        |        |        |        |        |        |        |        |        |
| NAV (%) <sup>2</sup>  | <b>-4.9</b>             | +8.7   | +19.1  | +9.9   | +7.3   | +10.7  | +44.8  | +15.0  | -4.1   | +1.3   | +9.0   |
| Share price (%) <sup>2</sup>                                    | <b>-6.9</b>             | +14.0  | +28.1  | +1.1   | +12.4  | +9.2   | +63.1  | +9.2   | -5.0   | -2.1   | +19.4  |
| Benchmark Index (%)   | <b>+0.4</b>             | +4.7   | +14.3  | +11.7  | -2.3   | +10.3  | +18.9  | +10.2  | +7.3   | +10.6  | -8.2   |

- 1 Figures prior to 2015 have been restated to reflect the five for one sub-division of ordinary shares which took place on 29 June 2015.  
2 Alternative Performance Measures (see Note 22 on page 66).  
3 Includes a special dividend of 1.50 pence per ordinary share.  
4 Gross gearing (see Note 19 on page 64). Defined in the Glossary of Terms on page 76.  
5 Net gearing (see Note 19 on page 64). Defined in the Glossary of Terms on page 76.

Sources: Fidelity and Datastream.  
Past performance is not a guide to future returns.

## Dividends per ordinary share for ten years to 31 August 2019 (pence)



1 Special dividend from the substantial income generated for the year ended 31 August 2019.

# Summary of Performance Charts

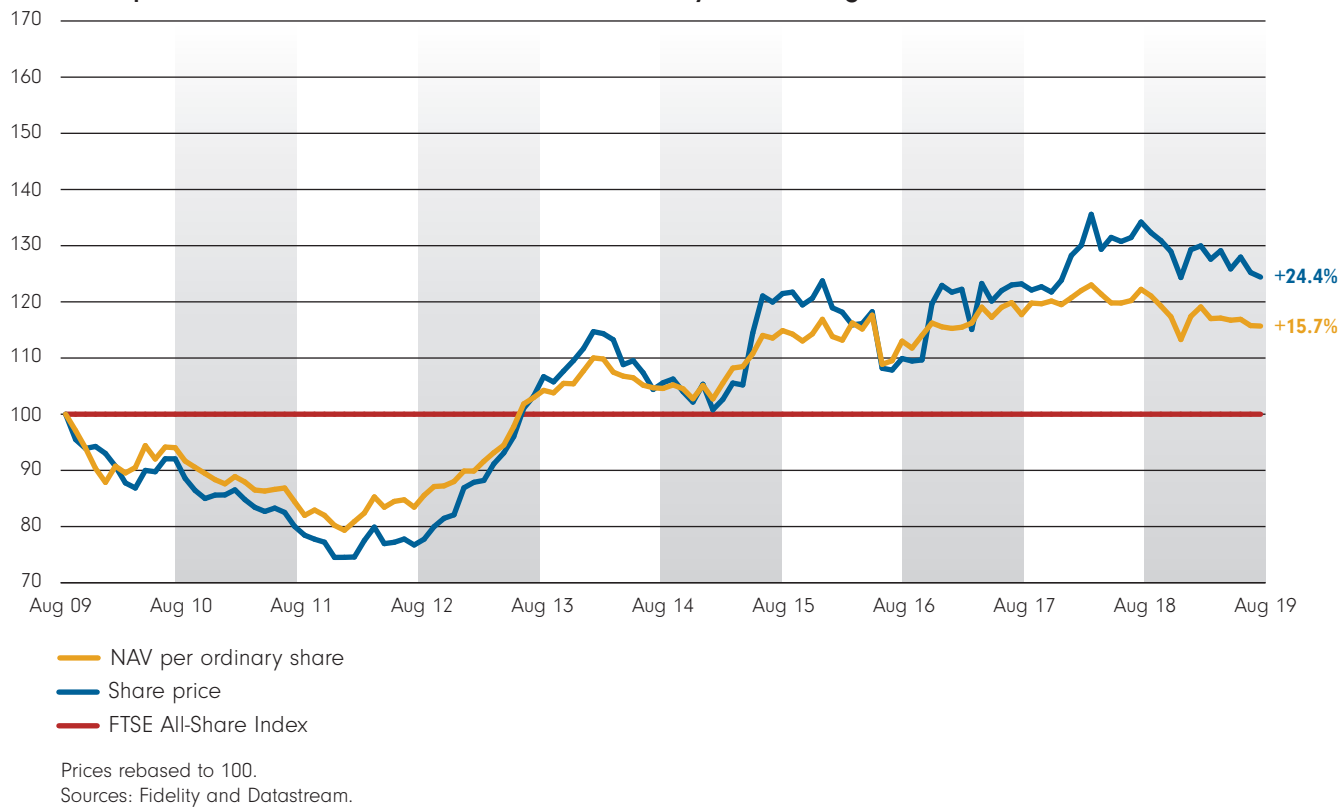
**Total return performance for ten years to 31 August 2019**



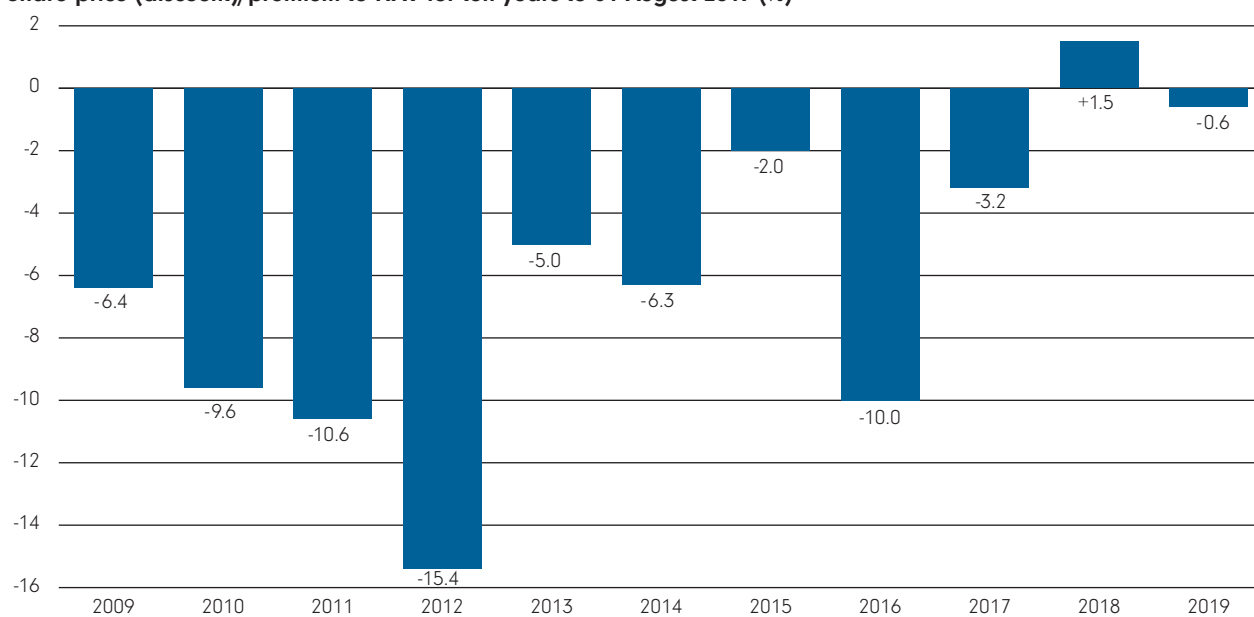
**NAV and share price for ten years to 31 August 2019**



**Total return performance relative to the Benchmark Index for ten years to 31 August 2019**



Share price (discount)/premium to NAV for ten years to 31 August 2019 (%)



Source: Fidelity.

# Attribution Analysis

| Analysis of change in NAV total return for the year ended 31 August 2019 |  | %           |
|--|--|-------------|
| <b>Impact of:</b>  |  |             |
| Index  |  | +0.4        |
| Stock selection  |  | -5.2        |
| Gearing  |  | +0.2        |
| Share Issues   |  | +0.1        |
| Operational Costs  |  | -0.9        |
| Cash   |  | +0.5        |
| <b>NAV total return for the year ended 31 August 2019</b>                |  | <b>-4.9</b> |

## Sector contributors and detractors (in absolute terms)

| 5 highest contributors          | %    |
|---------------------------------|------|
| Mining                          | +1.2 |
| Pharmaceuticals & Biotechnology | +1.1 |
| Aerospace & Defense             | +0.9 |
| Beverages                       | +0.5 |
| Support Services                | +0.4 |

| 5 highest detractors                | %    |
|-------------------------------------|------|
| Banks                               | -2.6 |
| Household Goods & Home Construction | -1.2 |
| Industrial Transportation           | -0.9 |
| Life Insurance                      | -0.9 |
| Oil & Gas Producers                 | -0.5 |

## Stock contributors and detractors (in absolute terms)

| 5 highest contributors    | %    |
|---------------------------|------|
| Serco Group               | +1.0 |
| Roche Holdings            | +0.9 |
| Phoenix Group Holdings    | +0.7 |
| Ultra Electronic Holdings | +0.7 |
| John Laing Group          | +0.6 |

| 5 highest detractors           | %    |
|--------------------------------|------|
| AIB Group                      | -1.1 |
| Bank of Ireland Group          | -0.8 |
| International Personal Finance | -0.8 |
| Aviva                          | -0.7 |
| GVC Holdings                   | -0.7 |

Source: Fidelity.

# Board of Directors



**Andy Irvine**

Chairman (since 5 July 2016)

Appointed 15 April 2010



Andy Irvine is a Non-Executive Director of BlackRock North American Income Trust plc. He is a past Chairman of Montanaro European Smaller Companies PLC and of Jones Lang La Salle Scotland and has over 30 years' experience in commercial property development and investment. He is also a past Non-Executive Director of Securities Trust of Scotland PLC, a past Chairman of Celtic Rugby Limited, a past Chairman of the British and Irish Lions Limited and a past President of the Scottish Rugby Union.



**Dean Buckley**

Appointed 3 November 2015



Dean Buckley is a Non-Executive Director of JPMorgan Asian Investment Trust plc, Smith & Williamson Fund Administration Ltd and Baillie Gifford & Co Limited. He was previously a Non-Executive Director of Saunderson House Ltd and Chief Executive Officer at Scottish Widows Investment Partnership. Prior to this, he held several positions at HSBC Bank plc, including Chief Executive Officer for HSBC Asset Management UK and Middle East and Chief Investment Officer for HSBC Asset Management, European equities, and held a number of senior Fund Manager positions at Prudential Portfolio Managers. He is a Fellow of the Institute of Actuaries.



**Sharon Brown**

Senior Independent Director

(since 5 July 2016)

Chairman of the Audit Committee

(since 26 October 2010)

Appointed 15 April 2010



Sharon Brown is a Non-Executive Director of Jupiter European Opportunities PLC and of The Baillie Gifford Japan Trust PLC and a Non-Executive Director and Chairman of the Audit Committee of BMO Capital and Income Investment Trust PLC, McColl's Retail Group plc and Celtic PLC. She is also a Director of a number of limited companies in the retail sector. Between 1998 and 2013 she was Finance Director of Dobbies Garden Centres plc. She is a Fellow of the Chartered Institute of Management Accountants.



**Nigel Foster**

Appointed 1 September 2015



Nigel Foster has over 35 years' experience in the investment management industry. Prior to joining the Board, he was a Managing Director at BlackRock where he headed all market facing activities, including trading and capital markets for the EMEA region. He was also Global Head of Derivatives at BlackRock and predecessor firms for 27 years. He has led a number of prominent financial rescues and is the author of "The Derivatives Game", a book that traces the history of derivatives from ancient times to the present day.



**Claire Boyle**

Appointed 24 June 2019



Claire Boyle is a Non-Executive Director and Chair of the Audit Committee of Aberdeen Japan Investment Trust PLC. She was a Partner at Oxburgh Partners LLP with responsibility for the European Equity Hedge Fund and, prior to that, a European Equity Fund Manager at American Express Asset Management. She started her investment career with Robert Fleming Investment Management. She is a Chartered Accountant, having worked in fraud investigations at Coopers & Lybrand.



**Nicky McCabe**

Appointed 9 December 2004



Nicky McCabe is a Non-Executive Director of Artemis Fund Managers, Aberdeen Asian Income Fund Limited, Bristol University, Vitality Life Limited and Discovery Holdings Europe Limited. She was previously Head of Fidelity's Investment Trusts, a Director and Chief Operating Officer of several Fidelity companies, having joined Fidelity in 1999 as Head of Investment Administration. Prior to this, she worked for HSBC Asset Management and McKinsey & Co.

All Directors are Non-Executive Directors and all are independent, with the exception of Nicky McCabe.

## Committee membership key

Audit Management Engagement Nomination Committee Chair

# Directors' Report

The Directors have pleasure in presenting their report together with the audited Financial Statements of the Company for the year ended 31 August 2019.

The Company was incorporated in England and Wales as a public limited company on 27 September 1994 under the name of Fidelity Special Values PLC with the registered number 2972628 and commenced business as an investment trust on 17 November 1994.

## Management Company

FIL Investment Services (UK) Limited ("FIL") is the Company's appointed Alternative Investment Fund Manager (the "AIFM"/"Manager"). FIL, as the Manager, has delegated the portfolio management of assets and the role of company secretary to FIL Investments International.

The Alternative Investment Fund Management and Secretarial Services Agreement (the "Management Agreement") will continue unless and until terminated by either party giving to the other, not less than six months' notice in writing. However, it may be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the Agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the Agreement by sixty days' notice if the Manager ceases to be a subsidiary of FIL Limited.

FIL Limited has no beneficial interest in the shares of the Company (2018: same).

The Board reviews the Management Agreement at least annually and details are included in the Corporate Governance Statement on page 31.

## Management Fee

Since 1 September 2018, the Company has had a new tiered fee arrangement in place which provides a reduction from the previous fee structure. The previous fee of 0.875% of net assets was replaced by a tiered fee basis which is 0.85% on the first £700 million of net assets, reducing to 0.75% of net assets in excess of £700 million. In addition, the fixed annual fee of £600,000 for services other than portfolio management reduced to £100,000 per annum. The revised fee has contributed to the reduction in the Ongoing Charge (the costs of running the Company) from 1.04% in the prior year to 0.97% of net assets in the reporting year. There is no change to the investment process as a result of the revised fee arrangement. Fees for the reporting year were £5,921,000 (2018: £6,707,000) and are disclosed in Note 5 on page 52.

## The Board

All Directors, with the exception of Claire Boyle who was appointed on 24 June 2019, served on the Board throughout the year ended 31 August 2019. A brief description of all serving Directors as at the date of this Annual Report is shown on page 25 and indicates their qualifications for Board membership.

## Directors' and Officers' Liability Insurance

In addition to benefits under the Manager's global Directors' and Officers' liability insurance arrangements, the Company maintains additional insurance cover for its Directors under its own policy as permitted by the Companies Act 2006.

## Going Concern Statement

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 (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement on page 14.

## Auditor's Appointment

A resolution to reappoint Ernst & Young LLP as Auditor to the Company will be proposed at the AGM on 12 December 2019.

## Disclosure of Information to the Company's Auditor

As required by Section 418 of the Companies Act 2006, each Director in office as at the date of this Annual Report confirms that:

- a) so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- b) each Director has taken all the steps that ought to have been taken as a Director to make himself/herself aware of any audit information, and to establish that the Company's Auditor is aware of that information.

## Articles of Association

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

## Corporate Governance

The Corporate Governance Statement forms part of this report and can be found on pages 29 to 32.

## Registrar, Custodian and Depositary Arrangements

The Company has appointed Link Asset Services as its Registrar to manage the Company's share register, JPMorgan Chase Bank as its Custodian, which is primarily responsible for safeguarding the Company's assets, and J.P. Morgan Europe Limited as its Depositary, which is primarily responsible for oversight of the custody of investment funds and the protection of investors' interests. Fees paid to these service providers are disclosed in Note 6 on page 52.

## Share Capital

The Company's share capital comprises ordinary shares of 5 pence each and are fully listed on the London Stock Exchange. As at 31 August 2019, the share capital of the Company was 276,169,480 shares (2018: 270,644,480). No shares were held in Treasury (2018: 4,095,000). Shares in Treasury do not have voting rights, therefore, the total number of shares with voting rights was 276,169,480 (2018: 266,549,480).

### Premium/Discount Management: Enhancing Shareholder Value

The Board actively manages the Company's level of premium/discount. If the Company is trading at a discount, it seeks to maintain the discount in single digits in normal market conditions. The Board seeks authority from Shareholders each year to issue shares at a premium or to repurchase shares at a discount to the NAV either for cancellation or for holding in Treasury. The Board will exercise these authorities if deemed to be in the best interests of Shareholders at the time.

### Share Issues

The Company issued a total of 9,620,000 ordinary shares from Treasury and its block listing authorities during the year to 31 August 2019 (2018: 2,050,000 issued from Treasury). A further 3,300,000 shares have been issued since the year end and as at the date of this Annual Report.

The authorities to issue shares and to disapply pre-emption rights expire at the AGM on 12 December 2019 and therefore resolutions to renew these authorities will be put to Shareholders at this AGM.

### Share Repurchases

No ordinary shares were repurchased for cancellation or holding in Treasury during the year to 31 August 2019 (2018: nil). No shares have been repurchased since the year end and as at the date of this Annual Report.

The authority to repurchase shares expires at the AGM on 12 December 2019 and a resolution to renew the authority to purchase shares, either for cancellation or to buy into Treasury, will be put to Shareholders at the forthcoming AGM.

### Substantial Share Interests

As at 31 August 2019 and 30 September 2019, notification had been received that the Shareholders listed in the table below held more than 3% of the voting share capital of the Company.

| Shareholders                 | 31 August 2019 | 30 September 2019 |
|------------------------------|----------------|-------------------|
| Fidelity Platform Investors  | 25.36          | 25.26             |
| Rathbones                    | 9.23           | 9.24              |
| Hargreaves Lansdown          | 6.46           | 6.45              |
| Investec Wealth & Investment | 4.58           | 4.58              |
| Alliance Trust Savings       | 4.35           | 4.30              |
| Charles Stanley              | 3.16           | 3.19              |
| Brewin Dolphin               | 3.08           | 3.07              |

An analysis of Shareholders as at 31 August 2019 is detailed in the table below.

| Shareholders as at 31 August 2019 | % of voting share capital |
|-----------------------------------|---------------------------|
| Private Shareholders <sup>1</sup> | 86.77                     |
| Institutions                      | 9.41                      |
| Insurance                         | 1.85                      |
| Pension                           | 1.75                      |
| Other                             | 0.22                      |

<sup>1</sup> Includes Fidelity Platform Investors (25.36%).

### Additional information required in the Directors' Report

Information on proposed dividends, financial instruments and greenhouse emissions is set out in the Strategic Report on pages 11 to 15.

### Responsibility as an Institutional Shareholder

The Board has adopted the Manager's Principles of Ownership in relation to investments. These Principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. Fidelity is a signatory to the UK Stewardship Code which sets out the responsibilities of institutional Shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at [www.fidelity.co.uk](http://www.fidelity.co.uk).

### Relations with Shareholders

Communication with Shareholders is given a high priority by the Board and it liaises with the Manager and the Company's Broker who are in regular contact with the Company's major institutional investors to canvass Shareholder opinion and to communicate its views to Shareholders. All Directors are made aware of any Shareholders' concerns and the Chairman, the Senior Independent Director and, where appropriate, other Directors, are available to meet with Shareholders to discuss strategy and governance. The Board regularly monitors the Shareholder profile of the Company and receives regular reports from the Manager on meetings attended with Shareholders and any comments raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and Shareholders. If any Shareholder wishes to contact a member of the Board directly, they should either email the Company Secretary at [investmenttrusts@fil.com](mailto:investmenttrusts@fil.com) or write to the address provided on page 72. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, Senior Independent Director or the Board as a whole, as appropriate.

The Board encourages all Shareholders to attend the AGM on 12 December 2019 at which they will have the opportunity to meet and address questions to the Chairman and other members of the Board, the Portfolio Manager and representatives of the Manager. Fidelity Platform investors who attend the AGM will be able to vote in person.

# Directors' Report continued

The Notice of Meeting on pages 68 to 70 sets out the business of the AGM and the special business resolutions are explained more fully below. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Notice of the Meeting and related papers are sent to Shareholders at least 20 working days before the Meeting.

## Voting Rights in the Company's Shares

Every person entitled to vote on a show of hands has one vote. On a poll every Shareholder who is present in person or by proxy or representative has one vote for every ordinary share held. At general meetings all proxy votes are counted and, except where a poll is called, proxy voting is reported for each resolution after it has been dealt with on a show of hands. The proxy voting results are disclosed on the Company's page of the Manager's website at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com).

## ANNUAL GENERAL MEETING

### **THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.**

## Fidelity Platform Investors – Voting at AGMs

If you hold your shares in the Company through the Fidelity Platform, then Fidelity passes on to you the right to attend and vote at the Company's AGM on the proposed resolutions. Investors may vote online and register their intention to attend the AGM via the Broadridge Service (a company that specialises in investor voting facilities) as explained in previous correspondence from Fidelity. Investors can sign up to this facility via their Fidelity Investor Account. Those Platform Investors who are unable to vote online are very welcome to attend the AGM and vote in person.

## Paperless Proxy Voting

Link Asset Services also provide an online process for voting on the resolutions to be proposed at the Company's AGM. Details of how this works are included in the Notes to the Notice of Meeting on pages 69 and 70. There is an option to contact the Registrar to receive a paper proxy should this be preferred or required.

*If you have sold, transferred or otherwise disposed of all your shares in the Company, you should pass this document, together with any accompanying documents as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.*

At the AGM on 12 December 2019, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on pages 68 and 69, including the items of special business summarised below.

## Authority to Allot Shares

Resolution 11 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,397,347. If passed, this resolution will enable the Directors to allot a maximum of 27,946,948 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company (including Treasury shares) as at 1 November 2019 and to impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of Shareholders to do so. Any shares issued would be at NAV per share or at a premium to NAV per share.

## Authority to Disapply Pre-emption Rights

Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific Shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash up to an aggregate nominal value of £1,397,347 (including Treasury shares) (approximately 10% of the issued ordinary share capital of the Company as at 1 November 2019 and equivalent to 27,946,948 ordinary shares).

## Authority to Repurchase Shares

Resolution 13 is a special resolution which renews the Company's authority to purchase up to 14.99% (41,892,475) of ordinary shares in issue (excluding Treasury shares) on 1 November 2019 either for immediate cancellation or for retention as Treasury shares at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be at the discretion of the Directors and within guidelines set from time to time by them in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per share.

## Continuation Vote

Resolution 14 is an ordinary resolution regarding the continuation of the Company as an investment trust for a further three years. The Directors expect this continuation vote to be passed.

**Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its Shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.**

By Order of the Board  
**FIL Investments International**  
 Secretary  
 1 November 2019

# Corporate Governance Statement

"Corporate governance" is the process by which the board of directors of a company look after shareholders' interests and by which it endeavours to enhance those interests (often referred to as "shareholder value"). Shareholders hold the Directors responsible for the stewardship of a company's affairs, delegating authority to the Directors to manage the Company on their behalf and holding them accountable for its performance.

This report, which forms part of the Directors' Report, explains how the Directors of Fidelity Special Values PLC deal with that responsibility, authority and accountability.

## Corporate Governance Codes

The Board follows the principles of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC") in 2016 and the AIC's Code of Corporate Governance (the "AIC Code") issued by the Association of Investment Companies (the "AIC") in 2016. The FRC has confirmed that investment companies which report against the AIC Code and which follow the AIC Guide on Corporate Governance will meet their obligations under the UK Code and paragraph 9.8.6 of the Listing Rules. This statement, together with the Statement of Directors' Responsibilities on page 36, set out how the principles have been applied.

The AIC Code and the AIC Guide can be found on the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk) and the UK Code on the FRC's website at [www.frc.org.uk](http://www.frc.org.uk).

## Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code for the year under review and up to the date of this report, except in relation to the UK Code provisions relating to the role of the chief executive, executive directors' remuneration, and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of Fidelity Special Values PLC, as it is an externally managed investment company and has no executive directors, employees or internal operations. In addition, the Board has decided not to undertake an externally facilitated evaluation of the Board for reasons mentioned on page 31.

## The Corporate Governance of an Investment Trust Company

The corporate governance of most investment companies is different from most other commercial companies in one important respect: they do not employ their own people as management but instead the services of a fund management company. This affects the way investment companies are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment companies and their Shareholders, investment company boards must be largely independent of management. However, the Board must have knowledge and experience of both fund management and investment company management. Fidelity Special Values PLC was established and is managed and promoted by its Manager, which is therefore one of the main reasons some Shareholders choose to invest in the Company's shares. It follows that it is an important aspect of the corporate governance of Fidelity

Special Values PLC that its Manager should be party to the responsibility, authority and accountability to those investing in their management.

## The Corporate Governance Policies and Modus Operandi of Fidelity Special Values PLC

The corporate governance of any investment company, while following the guidelines of the AIC Code, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values PLC has considered its own circumstances and determined its own corporate governance policies and modus operandi.

In this section we have outlined the corporate governance policies and modus operandi through the following three aspects of corporate governance: Responsibility, Authority and Accountability. It is first of all important that Shareholders have confidence in the Board of Directors, whom they hold responsible and accountable for the Company's affairs.

In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of Board members (including the Chairman), who are independent of management, and that within the Board there is understanding and experience of investment management, investment company management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations.

The Directors recognise that any individual employed by or materially associated with the Manager cannot be regarded as independent. In the past, there has only ever been one Fidelity member serving as a Director on the Board. Details of the Directors' current business associations are set out on page 25. All of the independent Directors are considered to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. In addition, all Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively. The Board follows a procedure of notification of any interests that may arise as part of considering any potential conflicts.

All of the Directors are Non-Executive. Each Director's individual independence, including that of the Chairman, has been assessed and confirmed, taking into consideration:

- integrity, commitment, intelligent challenge;
- independence of mind and character;
- experience and knowledge of investment trusts, of the investment business generally and of Fidelity;
- financial literacy;
- conflicts of interest; and
- performance as a Director.

# Corporate Governance Statement continued

|                           | Regular Board Meetings | Nomination Committee Meetings | Audit Committee Meetings | Management Engagement Committee Meetings |
|---------------------------|------------------------|-------------------------------|--------------------------|--|
| Andy Irvine               | 5/5                    | 1/1                           | n/a                      | 1/1                                      |
| Sharon Brown              | 5/5                    | 1/1                           | 3/3                      | 1/1                                      |
| Claire Boyle <sup>1</sup> | 1/1                    | n/a                           | 1/1                      | n/a                                      |
| Dean Buckley              | 5/5                    | 1/1                           | 3/3                      | 1/1                                      |
| Nigel Foster              | 5/5                    | 1/1                           | 3/3                      | 1/1                                      |
| Nicky McCabe              | 5/5                    | 1/1                           | n/a                      | n/a                                      |

<sup>1</sup> Appointed on 24 June 2019.

Figures indicate those meetings for which each Director was eligible to attend and attended in the year. Regular Board meetings exclude ad hoc meetings for formal approvals.

The Board considers the tenure of each Director annually. A Director may serve more than nine years, provided that such Director is considered by the Board to continue to be independent and provides experience that remains relevant. In addition, each Director is subject to annual re-election, or election if newly appointed, by Shareholders.

The Board meets regularly to discharge its duties effectively and the table above gives the attendance record for the meetings held during the reporting year.

## Responsibility

Under Section 172(1) of the Companies Act, the Directors have a duty to promote the success of the Company for the benefit of our Shareholders. This includes having regard (amongst other matters) to the likely consequences of any decision in the long term, fostering relationships with the Company's stakeholders and the desirability of the Company in maintaining a reputation for high standards of business conduct.

The responsibilities delegated by Shareholders to the Board of Directors include:

1. The stewardship and monitoring of the affairs of the Company, which includes the management of risk and the monitoring of the controls at work in the Company;
2. The promotion of the Company's prosperity so as to endeavour to maximise Shareholder value in the long term, which includes the responsibility for the appropriateness of the Company's investment objective, investment strategy and investment performance and for the Company's efforts in seeking to minimise the level and the volatility of the discount or premium at which the shares may sell in relation to the net asset value; and
3. Making recommendations to Shareholders (for their consideration at Annual General Meetings) on matters not delegated to the Board, which include the approval of the annual financial statements, the election and re-election of Directors and the appointment of the Independent Auditor.

## Authority

The Board is furnished by Shareholders with the authority to manage the Company on their behalf, in order to discharge the responsibilities outlined above. The Board, being independent of the Manager (by majority), carries out its duties through Board meetings and Board appointed Committee meetings. The most important aspect of Directors' duties concerns the management of the Company's portfolio of assets and of the risk profile of its balance sheet. While the day-to-day investment management is delegated to the Manager, there are certain decisions retained and made by the Directors, including the payment of dividends, the share issue and share repurchase guidelines and the derivatives and gearing policies.

In structuring Board meetings, the Directors try to concentrate as much as possible of their regular Board meetings on (i) investment matters (including strategy, investment policy, gearing and derivatives policies, portfolio and stock reviews, portfolio turnover, monitoring performance etc); and (ii) Shareholder value matters (including monitoring the discount, share issues and share repurchases and the marketing of the Fidelity Platform Investors). The Chairman is responsible for the promotion of a culture of openness and debate, for ensuring that the Directors receive accurate, timely and clear information and for ensuring that there is adequate time available for the discussion of agenda items, particularly strategic issues.

The Board meets regularly with the Company's Broker to discuss Shareholder value and investor relation matters. The Manager meets with the larger Shareholders on a regular basis and reports back to the Board on those meetings. The Chairman also attends some of these meetings. Key representatives of the Manager attend each Board meeting, enabling the Board to discuss business matters further.

## BOARD COMMITTEES

The Board has three Committees, as set out on the next page, through which it discharges certain of its corporate governance responsibilities. These are the Audit Committee, the Management Engagement Committee and the Nomination Committee. Terms of reference of each Committee are available on the Company's pages of the Manager's website at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com).

### The Audit Committee

The Audit Committee consists of Sharon Brown as Chairman, Claire Boyle, Dean Buckley and Nigel Foster. Full details of the Audit Committee are disclosed in the Report of the Audit Committee on pages 37 and 38.

### The Management Engagement Committee

#### Composition

The Management Engagement Committee is chaired by Andy Irvine and consists of all the Directors except Nicky McCabe due to her past connection with Fidelity.

#### Role and Responsibilities

It is charged with reviewing and monitoring the performance of the Manager and for ensuring that the terms of the Company's Management Agreement remains competitive and reasonable for Shareholders. It meets at least once a year and reports to the Board, making recommendations where appropriate.

#### Manager's Reappointment

Ahead of the AGM, the Committee has reviewed the performance of the Manager and the current fee basis and also that of its peers. The Committee noted the Company's good long term performance record and the commitment, quality and continuity of the team responsible for the Company and concluded that it was in the interests of Shareholders that the appointment of the Manager should continue. Details of the fee structure for the year ended 31 August 2019 is in the Directors' Report on page 26.

### The Nomination Committee

#### Composition

The Nomination Committee is chaired by Andy Irvine and consists of all the Directors.

#### Role and Responsibilities

The Committee meets at least once a year and reviews the composition, size and structure of the Board. The Committee is responsible for succession planning and it is charged with nominating new Directors for consideration by the Board, and in turn for approval by Shareholders.

In respect of new Directors, the Board believes that it is important in the search for and recommendation of a candidate to the Board that it is controlled by the independent Directors who form the majority of this Committee. The Committee carries out its candidate search from the widest possible pool of talent against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity, including gender, on the Board.

In the reporting year, the Board appointed Trust Associates Limited, who have no connection with the Company, who assisted the Board in recruiting two new independent non-executive directors. For Claire Boyle's appointment, experience to fulfil the role of audit chair was a key focus of the recruitment process. Alison McGregor's appointment, which is effective on 1 January 2020, is part of the Board's future succession plan.

Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction on the investment operation and administration functions of

the Company, together with a summary of their duties and responsibilities. Directors are encouraged to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. They also receive regular briefings from, amongst others, the AIC, the Independent Auditor and the Company Secretary, regarding any proposed developments or changes in law or regulations that could affect the Company and/or the Directors.

The Committee also considers the election and re-election of Directors ahead of each AGM. For the forthcoming AGM, it has considered the performance and contribution of each Director and concluded that each Director seeking election and re-election has been effective and continues to demonstrate commitment to their role. This has been endorsed by the Board which recommends their reappointment by Shareholders at the forthcoming AGM. Claire Boyle being newly appointed, will be subject to election at this AGM. The terms and conditions of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the next AGM.

Ahead of each AGM, an evaluation of the Board and its Committees takes place in the form of a written questionnaire and one to one discussions. The performance of the Chairman is evaluated by the other Directors. The Company Secretary and Manager also participate in the evaluation process to provide all round feedback to the Board. The process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and action is taken on the basis of the results. As a consequence of this process, the Board has decided not to undertake an externally facilitated evaluation.

#### Accountability

Given that the Shareholders entrust the Board of Directors with the management of the Company's affairs, it is necessary that the Board accounts for itself to Shareholders. The process of accountability involves providing all the necessary information for Shareholders to make judgements about the Board's stewardship and performance through a full and informative annual financial report, a half-yearly financial report, the presentation of the Company's results and future prospects at the AGM and accessibility to the Board at any time via the Company Secretary.

The AGM is the occasion when the Board accounts for itself in a public meeting. It regards any bona fide issue that any Shareholder raises as one that should be put to all Shareholders at the AGM so that all those attending can hear any concerns expressed in an open forum and make their own judgement. The AGM provides Shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board. This includes the election and re-election of Directors every year in addition to the normal matters of approving the financial statements, the appointment of the Independent Auditor, the issue of new shares and the repurchase of shares. Your Board has an established policy that enables Shareholders to decide whether they wish to continue the Company's existence by putting a "continuation vote" before the Shareholders at every third AGM. The next vote is at this year's AGM on 12 December 2019.

# Corporate Governance Statement continued

## Directors' Remuneration

The level of Directors' fees is determined by the Board as a whole. Full details are disclosed in the Directors' Remuneration report on pages 33 and 34.

## Senior Independent Director

The Board has appointed Sharon Brown as Senior Independent Director. She fulfils the role as a sounding board for the Chairman, an intermediary for the other Non-Executive Directors as necessary, and to act as a channel of communication for Shareholders in the event that contact through the Chairman is inappropriate. Dean Buckley will replace Sharon Brown as Senior Independent Director when she steps down from the Board on 12 December 2019.

## The Company Secretary

The Board has access to the advice and services of the Company Secretary. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Directors also have the ability to take independent professional advice, if necessary, at the Company's expense.

## Supply of Information

The Board meeting papers are the key source of regular information for the Board, the contents of which are determined by the Board and contain sufficient information on the financial condition of the Company. The Board receives this information in a timely manner and of a quality appropriate to enable it to discharge its duties.

## Risk Management and Internal Controls

The Board is responsible for the Company's systems of risk management and of internal controls and for reviewing their effectiveness. The review takes place at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. It is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company although these tasks have been delegated on a day-to-day basis to the Manager. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the Board and the Manager. The Manager provides regular reports on controls and compliance issues to the Audit Committee and the Board, including service providers own internal control reports which are received by the Board on an annual basis. In carrying out its review, the Audit Committee has regard to the activities of the Manager, the Manager's compliance and risk functions and the Independent Auditor and also includes consideration of internal controls of similar reports issued by the other service providers.

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. It confirms that this is an effective ongoing process in order to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 August 2019 and up to the date of this report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial and Business Reporting" guidance.

The Board has reviewed the need for an internal audit function and has determined that the systems and procedures employed by the Manager, which are subject to inspection by the Manager's internal and external audit processes, provide sufficient assurance that a sound system of internal controls is maintained to safeguard Shareholders' investments and the Company's assets. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit Committee meets the Manager's internal audit representative at least once a year. It receives a summary of the Manager's externally audited internal controls report on an annual basis.

## Whistle-Blowing Procedure

Part of the Managers' role in ensuring the provision of a good service pursuant to the Management Agreement, includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy (or "whistle-blowing procedure"). Fidelity has advised the Board that it is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for Fidelity to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy has been endorsed accordingly by the Board.

## Bribery Act 2010

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has to reputation and business confidence. The Board, the Manager, the Manager's employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing action as appropriate. The Board has adopted a zero tolerance policy in this regard.

## Criminal Finances Act 2017

The Company is subject to the Criminal Finances Act 2017 and follows a zero tolerance policy to tax evasion and its facilitation. The Directors are fully committed to complying with all legislation and appropriate guidelines designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Company, its service providers, counterparties and business partners operate.

On behalf of the Board

**Andy Irvine**

Chairman

1 November 2019

# Directors' Remuneration Report

## Chairman's Statement

The Directors' Remuneration Report for the year ended 31 August 2019 has been prepared in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of Non-Executive Directors and has no chief executive officer and employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore not disclosed in this report.

An ordinary resolution to approve the Directors' Remuneration Report will be put to Shareholders at the AGM on 12 December 2019. The Company's Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on pages 39 to 43.

## Directors' Remuneration

The annual fee structure since 1 September 2018 is as follows: Chairman – £41,000; Chairman of the Audit Committee – £31,750; and Director – £27,000. This was the first fee change since 1 January 2015. Increases in Directors' remuneration are made to ensure that they remain competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

## The Remuneration Policy

The Remuneration Policy is subject to a binding vote, in the form of an ordinary resolution at every third Annual General Meeting ("AGM"). A binding vote means that if it is not successful the Board will be obliged to revise the policy and seek further Shareholder approval at a General Meeting specially convened for that purpose. The current policy, which was approved at the AGM on 12 December 2017, is set out below.

The Company's Articles of Association limit the aggregate fees payable to the Directors to a total of £200,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role that individual Directors fulfil. Other than fees and reasonable out-of-pocket expenses incurred in attending to the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long term incentive schemes, or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office. Directors' fees are paid monthly in arrears. Directors do not serve a notice period if their appointment were to be terminated. The level of Directors' fees is determined by the whole Board. Directors do not vote on their own individual fees.

The Board reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Manager, and research from third parties and it includes information on the fees of other similar investment trusts.

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

The Company's remuneration policy will apply to new Board members, who will be paid the equivalent amount of fees as current Board members.

## Voting on the Remuneration Policy

The Remuneration Policy (the "Policy"), as set out above, was approved at the AGM on 12 December 2017 with 99.05% of votes cast in favour, 0.45% of votes cast against and 0.50% of votes were withheld. The next vote will be put to Shareholders at the AGM in 2020. The Policy has been followed throughout the year ended 31 August 2019 and up to the date of this report.

## Voting on the Directors' Remuneration Report

At the AGM held on 12 December 2018, 99.92% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 August 2018, 0.04% of votes were cast against and 0.04% of votes were withheld.

The Directors' Remuneration Report for the year ended 31 August 2019 will be put to Shareholders at the AGM on 12 December 2019, and the votes cast will be disclosed on the Company's pages of the Manager's website at: [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com).

## Single Total Figure of Remuneration

The single total aggregate Directors' remuneration for the year under review was £173,699 (2018: £150,450). This includes expenses incurred by Directors in attending to the affairs of the Company and are considered by HMRC to be a taxable expense. Information on individual Directors' fees and taxable Directors' expenses are disclosed in the table on the next page.

The fees for the year under review and the projected fees for next year are higher than the prior year due to the crossover between Directors' retirements and appointments from the Board. This is part of the Board's succession planning.

# Directors' Remuneration Report continued

|                                  | 2020<br>Projected<br>Fees<br>(£) | 2019<br>Fees<br>(Audited)<br>(£) | 2019<br>Taxable<br>Expenses<br>(Audited)<br>(£) | 2019<br>Total<br>(Audited)<br>(£) | 2018<br>Fees<br>(Audited)<br>(£) | 2018<br>Taxable<br>Expenses<br>(Audited)<br>(£) | 2018<br>Total<br>(Audited)<br>(£) |
|----------------------------------|----------------------------------|----------------------------------|---|-----------------------------------|----------------------------------|---|-----------------------------------|
| <b>Remuneration of Directors</b> |                                  |                                  |   |                                   |                                  |   |                                   |
| Andy Irvine                      | 41,000                           | <b>41,000</b>                    | <b>5,333</b>                                    | <b>46,533</b>                     | 38,750                           | 5,850   | 44,600                            |
| Sharon Brown <sup>1</sup>        | 9,000                            | <b>31,750</b>                    | <b>6,456</b>                                    | <b>38,206</b>                     | 30,000                           | 5,564   | 35,564                            |
| Claire Boyle <sup>2</sup>        | 29,000                           | <b>5,019</b>                     | –   | <b>5,019</b>                      | n/a                              | n/a   | n/a                               |
| Dean Buckley                     | 27,000                           | <b>27,000</b>                    | <b>987</b>                                      | <b>27,987</b>                     | 25,500                           | 1,026   | 26,526                            |
| Nigel Foster                     | 27,000                           | <b>27,000</b>                    | –   | <b>27,000</b>                     | 25,500                           | –   | 25,500                            |
| Nicky McCabe <sup>3</sup>        | 27,000                           | <b>27,000</b>                    | <b>2,154</b>                                    | <b>29,154</b>                     | 17,000                           | 1,260   | 18,260                            |
| <b>Total</b>                     | 160,000                          | <b>158,750</b>                   | <b>14,930</b>                                   | <b>173,699</b>                    | 136,750                          | 13,700  | 150,450                           |

<sup>1</sup> Retiring on 12 December 2019.

<sup>2</sup> Appointed on 24 June 2019.

<sup>3</sup> Waived her Directors' fees whilst employed by Fidelity International until 31 December 2017.

## Expenditure on Directors' Remuneration and Distributions to Shareholders

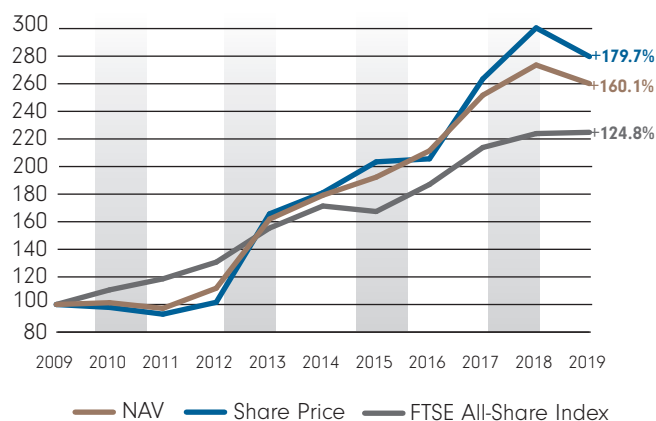
The table below shows the total amount paid out in Directors' remuneration and distributions to Shareholders. The projected Directors' remuneration for the year ending 31 August 2020 is disclosed in the table above.

|   | 31 August<br>2019<br>£ | 31 August<br>2018<br>£ |
|---|------------------------|------------------------|
| Expenditure on Directors' Remuneration: |                        |                        |
| Fees and taxable expenses               | <b>173,699</b>         | 150,450                |
| Distribution to Shareholders:           |                        |                        |
| Dividend payments                       | <b>14,213,000</b>      | 12,308,000             |

## Performance

The Company aims to achieve long term capital growth primarily through investment in equities (and their related financial instruments) of UK companies which the Investment Manager believes to be undervalued or where the potential has not been recognised by the market. The graph opposite shows performance over ten years to 31 August 2019.

## Total return performance for ten years to 31 August 2019



### Directors' Interest in Ordinary Shares

Although there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors are encouraged. The interests of the Directors' in the ordinary shares of the Company are shown below. All of the shareholdings are beneficial.

### Directors' Shareholdings (Audited)

|                           | 31 August 2019 | 31 August 2018 | Change during year |
|---------------------------|----------------|----------------|--------------------|
| Andy Irvine               | 75,000         | 75,000         | -                  |
| Sharon Brown              | 15,600         | 15,600         | -                  |
| Claire Boyle <sup>1</sup> | -              | n/a            | -                  |
| Dean Buckley <sup>2</sup> | 30,000         | 12,500         | 17,500             |
| Nigel Foster <sup>3</sup> | 70,000         | 30,000         | 40,000             |
| Nicky McCabe <sup>4</sup> | 31,970         | 18,962         | 13,008             |

1 Appointed on 24 June 2019.

2 Purchase of shares.

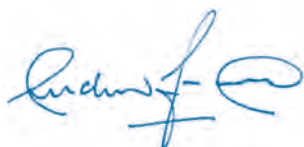
3 Purchase of shares.

4 Purchase of shares and dividend reinvestment.

The Portfolio Manager also holds ordinary shares in the Company.

All Directors' shareholdings remained unchanged at the date of this report.

On behalf of the Board



**Andy Irvine**

Chairman

1 November 2019

# 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.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)** 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 loss 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 1 November 2019 and signed on its behalf by:

**Andy Irvine**  
Chairman

# Report of the Audit Committee

I am pleased to present the formal report of the Audit Committee (the “Committee”) to Shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company’s financial reporting, the appropriateness of the risk management and internal controls processes and the effectiveness of the independent audit process for the year ended 31 August 2019. This report details how we carry out this role.

## Composition and Meetings

The members of the Committee are myself as Chairman, Claire Boyle, Dean Buckley and Nigel Foster. All Committee members are independent Non-Executive Directors, and their skills and experience are set out on page 25. The Committee considers that collectively the members have sufficient recent and relevant sector and financial experience to fully discharge their responsibilities.

The Committee met three times during this reporting year. The Committee invites the Company’s Auditor and personnel from the Manager’s financial, risk and internal audit functions to attend and report to the Committee on relevant matters. During the year, I also met privately with the Auditor and a representative from the Manager’s risk function to give them an opportunity to raise any issues without management present. After each Committee meeting, I report to the Board on the main items discussed at the meeting.

Ahead of each AGM, the Committee’s performance is evaluated as part of the overall Board evaluation as reported on page 31.

## Role and Responsibilities of the Audit Committee

The Committee’s authority and duties are defined in its terms

## Significant issues considered by the Committee during the year

The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors’ Responsibilities can be found on page 36. The Audit Committee advises the Board on the form and content of the Annual Report and Financial Statements, any issues which may arise in relation to these and any specific areas which require judgement.

Summarised below are the most significant issues considered by the Committee in respect of these Financial Statements and how these issues were addressed.

of reference, which were reviewed during the year and are available on the Company’s pages of the Manager’s website ([www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)). The principal activities carried out during the year were:

- **Financial reporting:** we considered the Company’s financial reports, including the significant accounting issues and the appropriateness of the accounting policies adopted. We considered and are satisfied that, taken as a whole, the 2019 Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company’s performance, business model and strategy. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented on page 46. However, following feedback from some Shareholders at last year’s AGM, we have included a Cash Flow Statement on page 47 and will continue to do so.
- **Internal audit:** we considered the scope of the internal audit of the Manager and the subsequent findings from this work, receiving regular reports from the internal audit function of the Manager. The Committee also monitored progress in the implementation of the Manager’s internal audit recommendations;
- **Risk and internal control:** we dedicated a full Committee meeting to the consideration of the key existing and emerging risks facing the Company and the adequacy and effectiveness of the internal controls and risk management processes; and
- **External Auditor:** we considered the independence, effectiveness and fees of the Auditor, as detailed later in this report.

### Recognition of Investment Income

Investment income is recognised in accordance with accounting policy Note 2(e) on page 48. The Manager provided detailed revenue forecasts and the Committee reviewed and sought explanations for any significant variances to these forecasts. The Committee also considered the allocation of special dividends between revenue and capital. The Committee reviewed the internal audit, AAF Internal Controls and compliance monitoring reports received from the Manager to satisfy itself that adequate systems were in place for properly recording the Company’s investment income. Investment income was also tested and reported on by the Auditor.

# Report of the Audit Committee continued

## Valuation, existence and ownership of investments (including derivatives and unlisted investments)

The valuation of investments (including derivatives) is in accordance with accounting policy Notes 2(l) and 2(m) on pages 49 and 50. The Committee took comfort from the Depositary's regular oversight reports that investment related activities were conducted in accordance with the Company's investment policy. The Committee received reports from the Manager and the Depositary that the valuation, existence and ownership of investments had been verified. In addition, the Committee received confirmation from the Auditor that it had tested the valuation of the Company's investments and derivatives by reference to independent sources and had also confirmed the existence and ownership of the investments with the Company's Custodian and that of the derivatives with the Company's counterparties. Unlisted investments are appraised by the Manager's Fair Value Committee ("FVC") in accordance with UK GAAP and International Private Equity and Venture Capital Valuation Guidelines. The Committee receives information from the FVC and it reviews and approves the proposed valuation methodologies for all unlisted investments.

The Company confirms that it has complied with the September 2014 Competition and Markets Authority Order in relation to the performance and appointment of the Auditor, as set out below.

### Independence and Effectiveness of the Audit Process

Ernst & Young LLP acted as the Company's Auditor for the year ended 31 August 2019. Fees paid to the Auditor for the audit of the Company's Financial Statements are disclosed in Note 6 on page 52. The Auditor's fee was fixed for three years from the date of appointment on 30 November 2015. The Committee have negotiated a revised fee of £28,500 which is fixed for the next three years.

With regard to the independence of the Auditor, the Committee reviewed:

- The audit plan for the year, including the audit team and approach to significant risks;
- The Auditor's arrangements for any conflicts of interest;
- The extent of any non-audit services\*; and
- The statement by the Auditor that it remains independent within the meaning of the regulations and their professional standards.

\* *There were no non-audit services provided to the Company during the reporting year and as at the date of this report.*

With regard to the effectiveness of the audit process, the Committee reviewed:

- The fulfilment by the Auditor of the agreed audit plan;
- The audit findings report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ended 31 August 2019; and
- Feedback from the Manager on the audit of the Company.

The Committee concluded that the Auditor continues to remain independent and the audit process remains effective.

### Auditor's Appointment and Audit Tenure

Ernst & Young LLP was appointed as the Company's Auditor on 30 November 2015 following a formal audit tender process in 2015. The Committee reviewed the Auditor's independence and the effectiveness of the audit process prior to recommending its reappointment for a further year. The Auditor is required to rotate audit partners every five years and this is the fourth year that the audit partner, Matthew Price, has been in place. The Committee will continue to review the Auditor's appointment each year to ensure that the Company continues to receive an optimal level of service. There are no contractual obligations that restricts the Company's choice of auditor.

### Sharon Brown

Chairman of the Audit Committee  
1 November 2019

# Independent Auditor's Report to the Members of Fidelity Special Values PLC

## Opinion

We have audited the Financial Statements of Fidelity Special Values PLC for the year ended 31 August 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related Notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- give a true and fair view of the Company's affairs as at 31 August 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 13 and 14 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 13 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 26 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 14 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

|                          |  |
|--------------------------|--|
| <b>Key audit matters</b> | <ul style="list-style-type: none"> <li>• Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement.</li> <li>• Incorrect valuation and defective title to the investment portfolio and derivatives.</li> </ul> |
| <b>Materiality</b>       | <ul style="list-style-type: none"> <li>• Overall materiality of £6.99m (2018: £7.25m) which represents 1% of net asset value of the Company as of 31 August 2019.</li> </ul>   |

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the

allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report to the Members of Fidelity Special Values PLC continued

| Risk  | Our response to the risk  | Key observations communicated to the Audit Committee   |
|---|---|--|
| <p><b>Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement</b></p> <p><i>Refer to the Report of the Audit Committee (page 37); Accounting policies (page 48); and Note 3 of the Financial Statements (page 51).</i></p> <p>The Company has reported investment and derivative income of £30.3m (2018: £23.5m), out of which special dividends comprise £8.9m (2018: £8.0m). £2.6m (2018: £1.0m) of special dividends are classified as revenue while £6.3m (2018: £7.0m) of dividends are classified as capital.</p> <p>The investment income receivable by the Company during the year directly affects the Company's ability to pay a dividend to Shareholders. There is a risk that income is recognised incorrectly through failure to recognise proper income entitlements or apply appropriate accounting treatment.</p> <p>In addition to the above, the Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.</p> | <p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Walked through the revenue recognition process to obtain an understanding of the design and implementation of the controls;</li> <li>• Agreed a sample of dividends to the corresponding announcement made by the investee company and agreed cash received to bank statements;</li> <li>• Agreed, for a sample of investee companies, the dividend announcements made by the investee company from an external third-party source to the income entitlements recorded by the Company;</li> <li>• Agreed all accrued dividends to an independent source and to post year end bank statement to assess the recoverability of these amounts;</li> <li>• For a sample selected, compared the exchange rate used to translate the dividend income received in foreign currency to an independent source;</li> <li>• For special dividends above our testing threshold, we considered the recognition criteria applied to the special dividends received during the year and their classification as revenue or capital; and</li> <li>• Addressed the risk of management override, testing the appropriateness of journal entries and other adjustments made in the preparation of the Financial Statements relating to special dividends.</li> </ul> | <p>We have no matters to report with respect to our procedures performed over incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement.</p> |

| Risk  | Our response to the risk   | Key observations communicated to the Audit Committee   |
|---|--|--|
| <p><b>Incorrect valuation and defective title to the investment portfolio and derivatives</b></p> <p><i>Refer to the Report of the Audit Committee (page 38); Accounting policies (pages 49 and 50); and Notes 11 and 12 of the Financial Statements (pages 54 to 56).</i></p> <p>The Company's investment portfolio consists of equity investments, bonds and derivatives which are held at fair value in line with the Company's accounting policy.</p> <p>Investments held at the year end were valued at £635.5m (2018: £705.0m), while the net derivative position was valued at £(14.85)m (2018: £(0.43)m). As at 31 August 2019, total unquoted investments were £1.42m (2018: £2.49m) representing 0.20% of NAV.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for Shareholders.</p> | <p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Walked through the investment valuation process to obtain an understanding of the design and implementation of the controls;</li> <li>• Independently valued 100% of the listed investments and derivatives prices in the portfolio using independent pricing sources;</li> <li>• Reviewed trading volumes of listed investments to identify any illiquid securities;</li> <li>• Reviewed the valuation methodologies used by the Manager's Fair Value Committee and confirmed they were performed in accordance with FRS102 and International Private Equity and Venture Capital Valuation Guidelines and concluded the fair value was not materially misstated.</li> <li>• For those investments priced in currencies other than sterling we compared the exchange rates to an independent source; and</li> <li>• Agreed 100% of the holdings in the investment portfolio and derivatives to third party confirmations received from the custodian or brokers.</li> </ul> | <p>We have no matters to report with respect to our procedures performed over incorrect valuation and defective title to the investment portfolio and derivatives.</p> |

There were no changes in key audit matters in comparison with the prior year.

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

### Our application of materiality

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

### Materiality

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

We determined materiality for the Company to be £6.99m (2018: £7.25m), which is 1% (2018: 1%) of net asset value of the Company as of 31 August 2019. We believe that net asset value provides the most important financial metric on which Shareholders judge the performance of the Company and it is a generally accepted auditing practice for investment trust audits.

### Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £5.24m (2018: £5.44m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company, we also applied a separate testing threshold of £1.20m (2018: £0.78m) for the revenue column of the Income Statement, being 5% of net revenue return on ordinary activities before taxation.

# Independent Auditor's Report to the Members of Fidelity Special Values PLC continued

## Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.35m (2018: £0.36m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 36** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Report of the Audit Committee set out on page 37** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 29** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 36, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses, and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the Corporate Governance Code, the AIC's Code of Corporate Governance and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and the Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's Financial Statements to material misstatement, including how fraud might occur through key risks impacting the Financial Statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital items in the Income Statement. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the

reporting to the Directors with respect to the application of the documented policies and procedures and review of the Financial Statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

### Other matters we are required to address

- We were appointed by the Company on 30 November 2015 to audit the Financial Statements for the year ending 31 August 2016 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 August 2016 to 31 August 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

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

### Matthew Price

Senior Statutory Auditor  
For and on behalf of Ernst & Young LLP  
Statutory Auditor  
London  
1 November 2019

### Notes:

1. The maintenance and integrity of the Fidelity International website is the responsibility of Fidelity International; the work carried out by the Auditor's does not involve consideration of these matters and, accordingly, the Auditor's accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

# Income Statement

for the year ended 31 August 2019

|   | Notes | year ended 31 August 2019 |                  |                 | year ended 31 August 2018 |                  |                |
|---|-------|---------------------------|------------------|-----------------|---------------------------|------------------|----------------|
|   |       | revenue<br>£'000          | capital<br>£'000 | total<br>£'000  | revenue<br>£'000          | capital<br>£'000 | total<br>£'000 |
| (Losses)/gains on investments   | 11    | –                         | (40,929)         | (40,929)        | –                         | 48,288           | 48,288         |
| Losses on long CFDs   | 12    | –                         | (23,287)         | (23,287)        | –                         | (3,022)          | (3,022)        |
| Gains/(losses) on short CFDs, futures and options                                 | 12    | –                         | 1,719            | 1,719           | –                         | (2,718)          | (2,718)        |
| Investment and derivative income  | 3     | 30,335                    | –                | 30,335          | 23,468                    | –                | 23,468         |
| Other interest  | 3     | 670                       | –                | 670             | 366                       | –                | 366            |
| Derivative expenses*  | 4     | (63)                      | –                | (63)            | (860)                     | –                | (860)          |
| Investment management fees  | 5     | (5,921)                   | –                | (5,921)         | (6,707)                   | –                | (6,707)        |
| Other expenses  | 6     | (684)                     | (88)             | (772)           | (640)                     | –                | (640)          |
| Foreign exchange gains  |       | –                         | 2,945            | 2,945           | –                         | 618              | 618            |
| <b>Net return/(loss) on ordinary activities before finance costs and taxation</b> |       | <b>24,337</b>             | <b>(59,640)</b>  | <b>(35,303)</b> | 15,627                    | 43,166           | 58,793         |
| Finance costs   | 7     | (386)                     | –                | (386)           | (342)                     | –                | (342)          |
| <b>Net return/(loss) on ordinary activities before taxation</b>                   |       | <b>23,951</b>             | <b>(59,640)</b>  | <b>(35,689)</b> | 15,285                    | 43,166           | 58,451         |
| Taxation on return/(loss) on ordinary activities                                  | 8     | (454)                     | –                | (454)           | (177)                     | –                | (177)          |
| <b>Net return/(loss) on ordinary activities after taxation for the year</b>       |       | <b>23,497</b>             | <b>(59,640)</b>  | <b>(36,143)</b> | 15,108                    | 43,166           | 58,274         |
| <b>Return/(loss) per ordinary share</b>   | 9     | <b>8.65p</b>              | <b>(21.95p)</b>  | <b>(13.30p)</b> | 5.70p                     | 16.29p           | 21.99p         |

\* Derivative expenses in the prior period have been re-allocated from investment and derivative income. This has no effect on the net return on ordinary activities after taxation for the year.

The Company does not have any other comprehensive income. Accordingly the net return 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.

# Balance Sheet

as at 31 August 2019

Company number 2972628

|   | Notes | 2019<br>£'000 | 2018<br>£'000 |
|---|-------|---------------|---------------|
| <b>Fixed assets</b>                                   |       |               |               |
| Investments   | 11    | 635,539       | 704,997       |
| <b>Current assets</b>                                 |       |               |               |
| Derivative instruments                                | 12    | 3,028         | 4,939         |
| Debtors   | 13    | 11,685        | 4,043         |
| Amounts held at futures clearing houses and brokers   |       | 18,002        | 2,235         |
| Amounts held in Fidelity Institutional Liquidity Fund |       | 46,881        | 14,588        |
| Cash at bank  |       | 2,207         | 2,303         |
|   |       | 81,803        | 28,108        |
| <b>Creditors</b>                                      |       |               |               |
| Derivative instruments                                | 12    | (17,879)      | (5,371)       |
| Other creditors                                       | 14    | (795)         | (2,764)       |
|   |       | (18,674)      | (8,135)       |
| <b>Net current assets</b>                             |       | 63,129        | 19,973        |
| <b>Net assets</b>                                     |       | 698,668       | 724,970       |
| <b>Capital and reserves</b>                           |       |               |               |
| Share capital   | 15    | 13,808        | 13,532        |
| Share premium account                                 | 16    | 109,897       | 95,940        |
| Capital redemption reserve                            | 16    | 3,256         | 3,256         |
| Other non-distributable reserve                       | 16    | 5,152         | 5,152         |
| Capital reserve                                       | 16    | 542,023       | 591,842       |
| Revenue reserve                                       | 16    | 24,532        | 15,248        |
| <b>Total Shareholders' funds</b>                      |       | 698,668       | 724,970       |
| <b>Net asset value per ordinary share</b>             | 17    | 252.99p       | 271.98p       |

The Financial Statements on pages 44 to 66 were approved by the Board of Directors on 1 November 2019 and were signed on its behalf by:

**Andy Irvine**  
Chairman

The Notes on pages 48 to 66 form an integral part of these Financial Statements.

# Statement of Changes in Equity

for the year ended 31 August 2019

|  | Notes | share<br>capital<br>£'000 | share<br>premium<br>account<br>£'000 | capital<br>redemption<br>reserve<br>£'000 | other<br>non-<br>distributable<br>reserve<br>£'000 | capital<br>reserve<br>£'000 | revenue<br>reserve<br>£'000 | total<br>Share-<br>holders'<br>funds<br>£'000 |
|--|-------|---------------------------|--------------------------------------|---|--|-----------------------------|-----------------------------|---|
| <b>Total Shareholders' funds at 31 August 2018</b>                   |       | <b>13,532</b>             | <b>95,940</b>                        | <b>3,256</b>                              | <b>5,152</b>                                       | <b>591,842</b>              | <b>15,248</b>               | <b>724,970</b>                                |
| Issue of ordinary shares from Treasury                               | 15    | -                         | 65                                   | -   | -  | 9,821                       | -                           | 9,886   |
| New ordinary shares issued   | 15    | 276                       | 13,892                               | -   | -  | -                           | -                           | 14,168  |
| Net (loss)/return on ordinary activities after taxation for the year |       | -                         | -                                    | -   | -  | (59,640)                    | 23,497                      | (36,143)                                      |
| Dividends paid to Shareholders                                       | 10    | -                         | -                                    | -   | -  | -                           | (14,213)                    | (14,213)                                      |
| <b>Total Shareholders' funds at 31 August 2019</b>                   |       | <b>13,808</b>             | <b>109,897</b>                       | <b>3,256</b>                              | <b>5,152</b>                                       | <b>542,023</b>              | <b>24,532</b>               | <b>698,668</b>                                |
| <b>Total Shareholders' funds at 31 August 2017</b>                   |       | 13,532                    | 95,896                               | 3,256                                     | 5,152  | 543,218                     | 12,448                      | 673,502                                       |
| Issue of ordinary shares from Treasury                               | 15    | -                         | 44                                   | -   | -  | 5,458                       | -                           | 5,502   |
| Net return on ordinary activities after taxation for the year        |       | -                         | -                                    | -   | -  | 43,166                      | 15,108                      | 58,274  |
| Dividends paid to Shareholders                                       | 10    | -                         | -                                    | -   | -  | -                           | (12,308)                    | (12,308)                                      |
| <b>Total Shareholders' funds at 31 August 2018</b>                   |       | 13,532                    | 95,940                               | 3,256                                     | 5,152  | 591,842                     | 15,248                      | 724,970                                       |

# Cash Flow Statement

for the year ended 31 August 2019

|  | Notes | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|--|-------|---------------------------------|---------------------------------|
| <b>Operating activities</b>  |       |                                 |                                 |
| Investment income received   |       | 21,266                          | 17,859                          |
| Net derivative income  |       | 4,559                           | 3,292                           |
| Interest received  |       | 651                             | 299                             |
| Investment management fee paid   |       | (6,582)                         | (6,592)                         |
| Directors' fees paid   |       | (168)                           | (133)                           |
| Other cash payments  |       | (528)                           | (526)                           |
| <b>Cash flow from operating activities before finance costs and taxation</b> | 21    | <b>19,198</b>                   | 14,199                          |
| Finance costs paid   |       | (386)                           | (342)                           |
| Overseas taxation suffered   |       | (778)                           | (207)                           |
| <b>Cash flow from operating activities</b>                                   |       | <b>18,034</b>                   | 13,650                          |
| <b>Investing activities</b>  |       |                                 |                                 |
| Purchases of investments   |       | (305,329)                       | (340,288)                       |
| Sales of investments   |       | 330,094                         | 340,434                         |
| Receipts on long CFDs  |       | 4,698                           | 9,063                           |
| Payments on long CFDs  |       | (16,093)                        | (3,308)                         |
| Receipts on short CFDs, futures and options                                  |       | 8,915                           | 12,889                          |
| Payments on short CFDs, futures and options                                  |       | (4,669)                         | (22,277)                        |
| Movement on amounts held at futures clearing houses and brokers              |       | (15,767)                        | (849)                           |
| <b>Cash inflow/(outflow) from investing activities</b>                       |       | <b>1,849</b>                    | (4,336)                         |
| <b>Cash flows before financing activities</b>                                |       | <b>19,883</b>                   | 9,314                           |
| <b>Financing activities</b>  |       |                                 |                                 |
| Dividends paid   | 10    | (14,213)                        | (12,308)                        |
| Net proceeds from issue of shares  |       | 23,670                          | 5,502                           |
| Cost of the issue of new ordinary shares                                     | 6     | (88)                            | -                               |
| <b>Cash inflow/(outflow) from financing activities</b>                       |       | <b>9,369</b>                    | (6,806)                         |
| <b>Net movement in cash and cash equivalents</b>                             |       | <b>29,252</b>                   | 2,508                           |
| <b>Cash and cash equivalents at the beginning of the year</b>                |       | <b>16,891</b>                   | 13,765                          |
| <b>Effect of movement in foreign exchange</b>                                |       | <b>2,945</b>                    | 618                             |
| <b>Cash and cash equivalents at the end of the year</b>                      |       | <b>49,088</b>                   | 16,891                          |
| <b>Represented by:</b>   |       |                                 |                                 |
| Cash at bank   |       | 2,207                           | 2,303                           |
| Amounts held in Fidelity Institutional Liquidity Fund                        |       | 46,881                          | 14,588                          |
|  |       | <b>49,088</b>                   | 16,891                          |

The Notes on pages 48 to 66 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 November 2014 and updated in February 2018 with consequential amendments.

**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.

**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.

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 and money market funds are accounted for on an accruals basis and credited to the revenue column of the Income Statement.

**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.

## 2 Accounting Policies continued

**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 comprise interest paid on long 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, are investments which are not quoted, or are not frequently traded, and are stated at the Directors' best estimate of fair value. The Manager's Fair Value Committee, which is independent of the portfolio management team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment, recent arm's length transactions in the same or similar investments and financial performance of the investment since purchase.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains on investments in the capital column of the Income Statement and has disclosed these costs in Note 11 on page 55.

**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 and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long and short 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.

# Notes to the Financial Statements continued

## 2 Accounting Policies continued

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 creditors.

**n) Debtors** – Debtors include securities sold for future settlement, accrued income, taxation recoverable and other debtors 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) Amounts held in Fidelity Institutional Liquidity Fund plc** – The Company holds an investment in the Fidelity Liquidity Fund plc, a short term money market fund investing in a diversified range of short term instruments. It is a distributing fund and accordingly the interest earned is credited to the revenue column of the Income Statement.

**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.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/10: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, 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 £23,000 (2018: losses £594,000). See Note 18 on page 63 for further details on the level 3 investments.

### 3 Income

|   | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|---|---------------------------------|---------------------------------|
| <b>Investment income</b>                                  |                                 |                                 |
| UK dividends  | 17,885                          | 13,273                          |
| UK scrip dividends  | 459                             | 403                             |
| Overseas dividends  | 6,255                           | 4,282                           |
| Overseas scrip dividends                                  | 748                             | 990                             |
| Debt security interest                                    | 224                             | 299                             |
|   | 25,571                          | 19,247                          |
| <b>Derivative income</b>                                  |                                 |                                 |
| Dividends received on long CFDs                           | 4,764                           | 4,221                           |
| <b>Investment and derivative income</b>                   | 30,335                          | 23,468                          |
| <b>Other interest</b>                                     |                                 |                                 |
| Interest received on CFDs                                 | 19                              | 79                              |
| Interest received on bank deposits and money market funds | 651                             | 287                             |
|   | 670                             | 366                             |
| <b>Total income*</b>                                      | 31,005                          | 23,834                          |

\* Derivative expenses have been reallocated to Note 4 below.

Special dividends of £6,265,000 (2018: £7,023,000) have been recognised in capital.

### 4 Derivative Expenses

|                              | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|------------------------------|---------------------------------|---------------------------------|
| Dividends paid on short CFDs | 6                               | 695                             |
| Interest paid on short CFDs  | 57                              | 165                             |
|                              | 63                              | 860                             |

# Notes to the Financial Statements continued

## 5 Investment Management Fees

|                                    | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|------------------------------------|---------------------------------|---------------------------------|
| Portfolio management services      | 5,821                           | 6,107                           |
| Non-portfolio management services* | 100                             | 600                             |
| <b>Investment management fees</b>  | <b>5,921</b>                    | <b>6,707</b>                    |

\* 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 ("FIL"). Both companies are Fidelity group companies.

From 1 September 2018, the Company adopted a new fee arrangement which reduced the previous fee of 0.875% of net assets to a new tiered fee basis of 0.85% on the first £700 million of net assets and 0.75% of net assets in excess of £700 million.

In addition, the fixed annual fee for services other than portfolio management was reduced from £600,000 to £100,000 per annum.

## 6 Expenses

|  | year ended 31 August 2019 |                  | year ended 31 August 2018 |                  |
|--|---------------------------|------------------|---------------------------|------------------|
|  | revenue<br>£'000          | capital<br>£'000 | revenue<br>£'000          | capital<br>£'000 |
| AIC fees   | 22                        | –                | 21                        | –                |
| Custody fees   | 19                        | –                | 18                        | –                |
| Depositary fees  | 56                        | –                | 57                        | –                |
| Directors' expenses  | 19                        | –                | 20                        | –                |
| Directors' fees <sup>1</sup>   | 159                       | –                | 137                       | –                |
| Legal and professional fees  | 28                        | –                | 73                        | –                |
| Marketing expenses   | 192                       | –                | 139                       | –                |
| Printing and publication expenses  | 96                        | –                | 86                        | –                |
| Registrars' fees   | 41                        | –                | 45                        | –                |
| Fees payable to the Independent Auditor for the audit of the Financial Statements <sup>2</sup> | 29                        | –                | 24                        | –                |
| Sundry other expenses  | 23                        | –                | 20                        | –                |
| Cost of the issue of new ordinary shares   | –                         | 88               | –                         | –                |
| <b>Other expenses</b>  | <b>684</b>                | <b>88</b>        | <b>640</b>                | <b>–</b>         |

<sup>1</sup> Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report on page 34.

<sup>2</sup> The VAT payable on audit fees is included in sundry other expenses.

## 7 Finance Costs

|                            | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|----------------------------|---------------------------------|---------------------------------|
| Interest paid on long CFDs | 386                             | 342                             |

## 8 Taxation on Return/(Loss) on Ordinary Activities

|   | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|---|---------------------------------|---------------------------------|
| <b>a) Analysis of the taxation charge for the year</b>  |                                 |                                 |
| Overseas taxation                                       | 454                             | 177                             |
| <b>Total taxation charge for the year (see Note 8b)</b> | <b>454</b>                      | <b>177</b>                      |

### 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 19.00% (2018: 19.00%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

|   | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|---|---------------------------------|---------------------------------|
| Net (loss)/return on ordinary activities before taxation  | (35,689)                        | 58,451                          |
| Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00% (2018: 19.00%) | (6,781)                         | 11,106                          |
| Effects of:   |                                 |                                 |
| Capital gains not taxable*  | 11,315                          | (8,202)                         |
| Income not taxable  | (4,816)                         | (3,595)                         |
| Expenses not deductible   | 17                              | -                               |
| Excess management expenses  | 265                             | 691                             |
| Overseas taxation   | 454                             | 177                             |
| <b>Total taxation charge for the year (see Note 8a)</b>   | <b>454</b>                      | <b>177</b>                      |

\* 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 £11,741,000 (2018: £11,509,000), in respect of excess expenses of £69,067,000 (2018: £67,703,000) available to be set off against future taxable profits has not been recognised as it is unlikely that there will be sufficient future profits to utilise these expenses.

## 9 Return/(Loss) per Ordinary Share

|   | year ended 31 August 2019 |                 |                 | year ended 31 August 2018 |         |        |
|---|---------------------------|-----------------|-----------------|---------------------------|---------|--------|
|   | revenue                   | capital         | total           | revenue                   | capital | total  |
| <b>Return/(loss) per ordinary share – basic and diluted</b> | <b>8.65p</b>              | <b>(21.95p)</b> | <b>(13.30p)</b> | 5.70p                     | 16.29p  | 21.99p |

The return/(loss) per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £23,497,000 (2018: £15,108,000), the net capital loss on ordinary activities after taxation for the year of £59,640,000 (2018: return of £43,166,000) and the net total loss on ordinary activities after taxation for the year of £36,143,000 (2018: return of £58,274,000), and on 271,723,836 ordinary shares (2018: 265,040,439), being the weighted average number of ordinary shares held outside Treasury during the year.

# Notes to the Financial Statements continued

## 10 Dividends Paid to Shareholders

|  | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|--|---------------------------------|---------------------------------|
| <b>Dividends paid</b>  |                                 |                                 |
| Interim dividend of 2.10 pence per ordinary share for the year ended 31 August 2019          | 5,780                           | -                               |
| Final dividend of 3.15 pence per ordinary share for the year ended 31 August 2018            | 8,433                           | -                               |
| Interim dividend of 1.85 pence per ordinary share paid for the year ended 31 August 2018     | -                               | 4,902                           |
| Final dividend of 2.80 pence per ordinary share paid for the year ended 31 August 2017       | -                               | 7,406                           |
|  | <b>14,213</b>                   | 12,308                          |
| <b>Dividend proposed</b>   |                                 |                                 |
| Final dividend proposed of 3.65 pence per ordinary share for the year ended 31 August 2019   | 10,201                          | -                               |
| Special dividend proposed of 1.50 pence per ordinary share for the year ended 31 August 2019 | 4,192                           | -                               |
| Final dividend of 3.15 pence per ordinary share for the year ended 31 August 2018            | -                               | 8,419                           |
|  | <b>14,393</b>                   | 8,419                           |

The Directors have proposed the payments of a final dividend of 3.65 pence per ordinary share and a special dividend of 1.50 pence per ordinary share for the year ended 31 August 2019 which are subject to approval by Shareholders at the Annual General Meeting on 12 December 2019 and have not been included as a liability in these Financial Statements. The dividend will be paid on 15 January 2020 to Shareholders on the register at the close of business on 6 December 2019 (ex-dividend date 5 December 2019).

## 11 Investments

|  | 2019<br>£'000  | 2018<br>£'000 |
|--|----------------|---------------|
| Listed investments                     | 635,252        | 704,713       |
| Unlisted investments                   | 287            | 284           |
| <b>Total investments at fair value</b> | <b>635,539</b> | 704,997       |
| Opening book cost                      | 611,877        | 555,668       |
| Opening investment holding gains       | 93,120         | 98,304        |
| <b>Opening fair value</b>              | <b>704,997</b> | 653,972       |
| <b>Movements in the year</b>           |                |               |
| Purchases at cost                      | 305,425        | 342,253       |
| Sales – proceeds                       | (333,954)      | (339,516)     |
| Sales – gains                          | 16,784         | 53,472        |
| Movement in investment holding losses  | (57,713)       | (5,184)       |
| <b>Closing fair value</b>              | <b>635,539</b> | 704,997       |
| Closing book cost                      | 600,132        | 611,877       |
| Closing investment holding gains       | 35,407         | 93,120        |
| <b>Closing fair value</b>              | <b>635,539</b> | 704,997       |

## 11 Investments continued

|                                      | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|--------------------------------------|---------------------------------|---------------------------------|
| <b>(Losses)/gains on investments</b> |                                 |                                 |
| Gains on sales of investments        | 16,784                          | 53,472                          |
| Investment holding losses            | (57,713)                        | (5,184)                         |
|                                      | <b>(40,929)</b>                 | 48,288                          |

### Investment transaction costs

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

|                             | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|-----------------------------|---------------------------------|---------------------------------|
| Purchases transaction costs | 1,363                           | 1,565                           |
| Sales transaction costs     | 243                             | 184                             |
|                             | <b>1,606</b>                    | 1,749                           |

The portfolio turnover rate for the year was 48.1% (2018: 50.6%).

## 12 Derivative Instruments

|  | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|--|---------------------------------|---------------------------------|
| <b>Losses on long CFDs</b>                               |                                 |                                 |
| (Losses)/gains on long CFD positions closed              | (11,395)                        | 5,755                           |
| Movement in investment holding losses                    | (11,892)                        | (8,777)                         |
|  | <b>(23,287)</b>                 | (3,022)                         |
| <b>Gains/(losses) on short CFDs, futures and options</b> |                                 |                                 |
| Losses on short CFD positions closed                     | (1,078)                         | (4,027)                         |
| Movement in investment holding gains on short CFDs       | 62                              | 4,835                           |
| Gains/(losses) on futures contracts closed               | 3,718                           | (3,755)                         |
| Movement in investment holding (losses)/gains on futures | (1,553)                         | 799                             |
| Movement in investment holding gains/(losses) on options | 570                             | (570)                           |
|  | <b>1,719</b>                    | (2,718)                         |

# Notes to the Financial Statements continued

## 12 Derivative Instruments continued

|   | 2019<br>fair value<br>£'000 | 2018<br>fair value<br>£'000 |
|---|-----------------------------|-----------------------------|
| <b>Derivative instruments recognised on the Balance Sheet</b> |                             |                             |
| Derivative instrument assets                                  | 3,028                       | 4,939                       |
| Derivative instrument liabilities                             | (17,879)                    | (5,371)                     |
|   | (14,851)                    | (432)                       |

|  | 2019<br>fair value<br>£'000 | 2019<br>gross asset<br>exposure<br>£'000 | 2018<br>fair value<br>£'000 | 2018<br>gross asset<br>exposure<br>£'000 |
|--|-----------------------------|--|-----------------------------|--|
| <b>At the year end the Company held the following derivative instruments</b> |                             |  |                             |  |
| Long CFDs  | (14,356)                    | 115,375                                  | (2,464)                     | 123,269                                  |
| Short CFDs   | -                           | -  | (62)                        | 14,065                                   |
| Index futures – hedging exposures  | (495)                       | (34,568)                                 | 1,058                       | (42,869)                                 |
| Options  | -                           | -  | 1,036                       | 1,036                                    |
|  | (14,851)                    | 80,807                                   | (432)                       | 95,501                                   |

## 13 Debtors

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Securities sold for future settlement  | 4,523         | 667           |
| Accrued income                         | 6,284         | 3,176         |
| Taxation recoverable                   | 479           | 155           |
| Amounts receivable for issue of shares | 384           | -             |
| Other debtors and prepayments          | 15            | 45            |
|  | 11,685        | 4,043         |

## 14 Other Creditors

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Securities purchased for future settlement | 146           | 1,257         |
| Creditors and accruals                     | 649           | 1,507         |
|  | 795           | 2,764         |

## 15 Share Capital

|  | number of<br>shares | 2019<br>£'000 | number of<br>shares | 2018<br>£'000 |
|--|---------------------|---------------|---------------------|---------------|
| <b>Issued, allotted and fully paid ordinary shares of 5 pence each</b> |                     |               |                     |               |
| <b>Held outside Treasury</b>   |                     |               |                     |               |
| <b>Beginning of the year</b>   | <b>266,549,480</b>  | <b>13,328</b> | 264,499,480         | 13,225        |
| Ordinary Shares issued out of Treasury                                 | <b>4,095,000</b>    | <b>204</b>    | 2,050,000           | 103           |
| New Ordinary Shares issued   | <b>5,525,000</b>    | <b>276</b>    | -                   | -             |
| <b>End of the year</b>   | <b>276,169,480</b>  | <b>13,808</b> | 266,549,480         | 13,328        |
| <b>Held in Treasury*</b>   |                     |               |                     |               |
| <b>Beginning of the year</b>   | <b>4,095,000</b>    | <b>204</b>    | 6,145,000           | 307           |
| Ordinary Shares issued out of Treasury                                 | <b>(4,095,000)</b>  | <b>(204)</b>  | (2,050,000)         | (103)         |
| <b>End of the year</b>   | <b>-</b>            | <b>-</b>      | 4,095,000           | 204           |
| <b>Total share capital</b>   | <b>276,169,480</b>  | <b>13,808</b> | 270,644,480         | 13,532        |

\* 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, 9,620,000 ordinary shares (2018: 2,050,000 shares) were issued. From the issue of ordinary shares out of Treasury, £9,821,000 (2018: £5,458,000) was credited to the capital reserve. The premium received in the year on the issue of new ordinary shares of £13,892,000 (2018: £nil) and on the issue of ordinary shares out of Treasury of £65,000 (2018: £44,000) was credited to the share premium account. No ordinary shares were repurchased into Treasury during the year (2018: nil).

## 16 Reserves

The share premium account represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital redemption reserve maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The other non-distributable reserve represents amounts transferred from the warrant reserve. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital reserve represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund repurchases and issuance of shares from Treasury and it is distributable by way of dividend. See Note 2(r) above for further details. The Board has stated that it has no current intention to pay dividends out of capital.

The revenue reserve represents retained revenue surpluses recognised through the revenue column of the Income Statement. It is distributable by way of dividend.

## 17 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £698,668,000 (2018: £724,970,000) and on 276,169,480 (2018: 266,549,480) ordinary shares, being the number of ordinary shares of 5 pence each held outside of Treasury at the year end. 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.

# Notes to the Financial Statements continued

## 18 Financial Instruments and Risk Management

### 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, share price, discount control, regulatory, cybercrime, investment management 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 in the Strategic Report on pages 13 and 14.

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:

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| <b>Exposure to financial instruments that bear interest</b>     |               |               |
| Long CFDs – exposure less fair value                            | 129,731       | 125,733       |
| <b>Exposure to financial instruments that earn interest</b>     |               |               |
| Short CFDs – exposure plus fair value                           | –             | 14,003        |
| Amounts held at futures clearing houses and brokers             | 18,002        | 2,235         |
| Amounts held in Fidelity Institutional Liquidity Fund           | 46,881        | 14,588        |
| Cash at bank  | 2,207         | 2,303         |
|   | 67,090        | 33,129        |
| <b>Net exposure to financial instruments that bear interest</b> | <b>62,641</b> | <b>92,604</b> |

## 18 Financial Instruments and Risk Management continued

### 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 from 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 exchange rates affecting the value of investments and derivative instruments;
- Movements in exchange rates affecting short term timing differences; and
- Movements in 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:

| Currency           | investments<br>held at fair<br>value<br>£'000 | long<br>exposure to<br>derivative<br>instruments <sup>1</sup><br>£'000 | debtors <sup>2</sup><br>£'000 | cash at<br>bank<br>£'000 | 2019<br>total<br>£'000 |
|--------------------|---|--|-------------------------------|--------------------------|------------------------|
|                    |   |  |                               |                          |                        |
| Euro               | 74,903  | 52,971   | 112                           | –                        | 127,986                |
| US dollar          | 32,367  | –  | 44,430                        | 201                      | 76,998                 |
| Swiss franc        | 34,960  | –  | 225                           | –                        | 35,185                 |
| Canadian dollar    | 8,001   | –  | –                             | –                        | 8,001                  |
| Australian dollar  | 3,459   | –  | –                             | –                        | 3,459                  |
| South African rand | 2,699   | 81   | –                             | –                        | 2,780                  |
| Danish krone       | –   | –  | 74                            | –                        | 74                     |
| UK sterling        | 479,150                                       | 27,755   | 31,727                        | 2,006                    | 540,638                |
|                    | 635,539                                       | 80,807   | 76,568                        | 2,207                    | 795,121                |

| Currency                 | investments<br>held at fair<br>value<br>£'000 | long<br>exposure to<br>derivative<br>instruments <sup>1</sup><br>£'000 | debtors <sup>2</sup><br>£'000 | cash at<br>bank<br>£'000 | 2018<br>total<br>£'000 |
|--------------------------|---|--|-------------------------------|--------------------------|------------------------|
|                          |   |  |                               |                          |                        |
| Euro                     | 69,730  | 64,465   | 177                           | –                        | 134,372                |
| US dollar                | 73,316  | –  | 4,684                         | 39                       | 78,039                 |
| Canadian dollar          | 8,390   | –  | –                             | –                        | 8,390                  |
| Swiss franc              | 7,563   | –  | –                             | –                        | 7,563                  |
| Other foreign currencies | –   | 7,286  | 118                           | –                        | 7,404                  |
| UK sterling              | 545,998                                       | 9,685  | 15,887                        | 2,264                    | 573,834                |
|                          | 704,997                                       | 81,436   | 20,866                        | 2,303                    | 809,602                |

1 The exposure to the market of long CFDs and options after the netting of hedging exposures.

2 Debtors comprise debtors, amounts held at futures clearing houses and brokers and amounts held in Fidelity Institutional Liquidity Fund.

# Notes to the Financial Statements continued

## 18 Financial Instruments and Risk Management continued

### Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise short positions on derivative instruments and other creditors. The currency profile of these financial liabilities is shown below:

| Currency    | short<br>exposure to<br>derivative<br>instruments*<br>£'000 | other<br>creditors<br>£'000 | 2019           |
|-------------|---|-----------------------------|----------------|
|             |   |                             | total<br>£'000 |
| UK sterling | –   | 795                         | 795            |

| Currency    | short<br>exposure to<br>derivative<br>instruments*<br>£'000 | other<br>creditors<br>£'000 | 2018           |
|-------------|---|-----------------------------|----------------|
|             |   |                             | total<br>£'000 |
| Euro        | 5,597   | –                           | 5,597          |
| UK sterling | 8,468   | 2,764                       | 11,232         |
|             | 14,065  | 2,764                       | 16,829         |

\* The exposure to the market of short CFDs.

### 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 2019, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £17,879,000 (2018: £5,371,000) and creditors of £795,000 (2018: £2,764,000).

### 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.

## 18 Financial Instruments and Risk Management continued

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 August 2019, £1,100,000 (2018: £8,451,000) was held by HSBC Bank plc in cash denominated in UK sterling in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company. At 31 August 2018, collateral comprised of: Deutsche Bank AG £1,270,000 held in cash denominated in Euros, HSBC Bank plc £185,000 held in cash denominated in UK sterling and UBS AG £6,996,000 held in cash denominated in US dollars. £18,002,000 (2018: £2,235,000), 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: Goldman Sachs International Ltd £2,560,000 (2018: £1,600,000) in cash, Morgan Stanley & Co International plc £7,805,000 (2018: £nil) in cash and UBS AG £7,637,000 (2018: £635,000) 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, 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;
- 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 2019, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the Company's net loss on ordinary activities after taxation for the year and decreased the net assets of the Company by £157,000 (2018: decreased the net return and net assets by £232,000). 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 2019, a 10% strengthening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have increased the Company's net loss on ordinary activities after taxation for the year and decreased the net assets of the Company by £23,135,000 (2018: decreased the net return and net assets by £20,516,000). A 10% weakening of the UK sterling exchange rate against foreign currencies would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £28,276,000 (2018: increased the net return and net assets by £25,076,000).

### Other price risk – exposure to investments sensitivity analysis

Based on the investments held and prices at 31 August 2019, an increase of 10% in prices, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £63,554,000 (2018: increased the net return and net assets by £70,500,000). A decrease of 10% in prices would have had an equal and opposite effect.

# Notes to the Financial Statements continued

## 18 Financial Instruments and Risk Management continued

### Other price risk – net exposure to derivative instruments sensitivity analysis

Based on the derivative instruments held and share prices at 31 August 2019, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £8,081,000 (2018: increased the net return and net assets by £6,737,000). A decrease of 10% in share prices would have had an equal and opposite effect. Details of the Company's net exposure to derivative instruments are shown in Note 19 below.

### 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 Note 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  |
|----------------|--|
| <b>Level 1</b> | Valued using quoted prices in active markets for identical assets  |
| <b>Level 2</b> | Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1 |
| <b>Level 3</b> | 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 Note 2 (l) and (m) above. The table below sets out the Company's fair value hierarchy:

|   | level 1<br>£'000 | level 2<br>£'000 | level 3<br>£'000 | 2019<br>total<br>£'000 |
|---|------------------|------------------|------------------|------------------------|
| <b>Financial assets at fair value through profit or loss</b>      |                  |                  |                  |                        |
| Investments   | 630,634          | 3,482            | 1,423            | 635,539                |
| Derivative instrument assets                                      | –                | 3,028            | –                | 3,028                  |
|   | 630,634          | 6,510            | 1,423            | 638,567                |
| <b>Financial liabilities at fair value through profit or loss</b> |                  |                  |                  |                        |
| Derivative instrument liabilities                                 | (495)            | (17,384)         | –                | (17,879)               |

|   | level 1<br>£'000 | level 2<br>£'000 | level 3<br>£'000 | 2018<br>total<br>£'000 |
|---|------------------|------------------|------------------|------------------------|
| <b>Financial assets at fair value through profit or loss</b>      |                  |                  |                  |                        |
| Investments   | 699,052          | 4,489            | 1,456            | 704,997                |
| Derivative instrument assets                                      | 1,058            | 2,845            | 1,036            | 4,939                  |
|   | 700,110          | 7,334            | 2,492            | 709,936                |
| <b>Financial liabilities at fair value through profit or loss</b> |                  |                  |                  |                        |
| Derivative instrument liabilities                                 | –                | (5,371)          | –                | (5,371)                |

## 18 Financial Instruments and Risk Management continued

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

|   | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|---|---------------------------------|---------------------------------|
| <b>Beginning of the year</b>                  | <b>2,492</b>                    | 8,347                           |
| Purchases at cost                             | -                               | 144                             |
| Sales – proceeds                              | (163)                           | (10,548)                        |
| Sales – (losses)/gains                        | (97)                            | 4,398                           |
| Investments written off – GVC Holdings option | (1,426)                         | -                               |
| Transfers into level 3*                       | -                               | 1,640                           |
| Movement in investment holding gains/(losses) | 617                             | (1,489)                         |
| <b>End of the year</b>                        | <b>1,423</b>                    | 2,492                           |

\* Financial instruments are transferred into level 3 on the date they are suspended, delisted or when they have not traded for thirty days.

### Marwyn Value Investors

Marwyn Value Investors is a closed-ended fund incorporated in the United Kingdom. The fund is highly illiquid and the valuation at 31st August 2019 is based on the indicative bid price in the absence of a last trade price. As at 31 August 2019, its fair value was £1,136,000 (2018: £1,172,000).

### TVC Holdings

TVC Holdings is an unlisted investment holding company incorporated in Ireland. The valuation on 31 August 2019 is based on the last trade price. As at 31 August 2019, its fair value was £287,000 (2018: £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 on page 45, 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 on page 11. The principal risks and their management are disclosed in the Strategic Report on pages 13 and 14 and in Note 18 above.

# Notes to the Financial Statements continued

## 19 Capital Resources and Gearing continued

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

|  | 2019                 |                      |                    |                    |
|--|----------------------|----------------------|--------------------|--------------------|
|  | gross asset exposure |                      | net asset exposure |                    |
|  | £'000                | % <sup>1</sup>       | £'000              | % <sup>1</sup>     |
| Investments  | 635,539              | 91.0                 | 635,539            | 91.0               |
| Long CFDs  | 115,375              | 16.5                 | 115,375            | 16.5               |
| <b>Total long exposures before hedges</b>            | <b>750,914</b>       | <b>107.5</b>         | <b>750,914</b>     | <b>107.5</b>       |
| Less: Index futures – hedging exposures <sup>2</sup> | (34,568)             | (5.0)                | (34,568)           | (5.0)              |
| <b>Exposure after the netting of hedges</b>          | <b>716,346</b>       | <b>102.5</b>         | <b>716,346</b>     | <b>102.5</b>       |
| <b>Shareholders' funds</b>                           | <b>698,668</b>       |                      | <b>698,668</b>     |                    |
|  |                      |                      |                    |                    |
|  |                      | <b>gross gearing</b> |                    | <b>net gearing</b> |
| <b>Gearing<sup>3</sup></b>                           |                      | <b>2.5%</b>          |                    | <b>2.5%</b>        |

|   | 2018                 |                      |                    |                    |
|---|----------------------|----------------------|--------------------|--------------------|
|   | gross asset exposure |                      | net asset exposure |                    |
|   | £'000                | % <sup>1</sup>       | £'000              | % <sup>1</sup>     |
| Investments   | 704,997              | 97.3                 | 704,997            | 97.3               |
| Options   | 1,036                | 0.1                  | 1,036              | 0.1                |
| Long CFDs   | 123,269              | 17.0                 | 123,269            | 17.0               |
| <b>Total long exposures before hedges</b>               | <b>829,302</b>       | <b>114.4</b>         | <b>829,302</b>     | <b>114.4</b>       |
| Less: Index futures – hedging exposures <sup>2</sup>    | (42,869)             | (5.9)                | (42,869)           | (5.9)              |
| <b>Total long exposures after the netting of hedges</b> | <b>786,433</b>       | <b>108.5</b>         | <b>786,433</b>     | <b>108.5</b>       |
| Short exposures – short CFDs                            | 14,065               | 1.9                  | (14,065)           | (1.9)              |
| <b>Exposure after the netting of hedges</b>             | <b>800,498</b>       | <b>110.4</b>         | <b>772,368</b>     | <b>106.6</b>       |
| <b>Shareholders' funds</b>                              | <b>724,970</b>       |                      | <b>724,970</b>     |                    |
|   |                      |                      |                    |                    |
|   |                      | <b>gross gearing</b> |                    | <b>net gearing</b> |
| <b>Gearing<sup>3</sup></b>                              |                      | <b>10.4%</b>         |                    | <b>6.6%</b>        |

<sup>1</sup> Exposure to the market expressed as a percentage of Shareholders' funds.

<sup>2</sup> Hedging exposures reduce exposure to market and gearing.

<sup>3</sup> Gearing is the amount by which Asset Exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.

## 20 Transactions with the Managers 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 ("FIL"). Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report, on page 26 and in Note 5 above. During the year, fees for portfolio management services of £5,821,000 (2018: £6,107,000) and fees for non-portfolio management services of £100,000 (2018: £600,000) were payable to FIL. 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 £505,000 (2018: £1,083,000) and fees for non-portfolio management services of £17,000 (2018: £100,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £192,000 (2018: £139,000). At the Balance Sheet date, marketing services of £nil (2018: £7,000) were accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable expenses relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report on pages 34 and 35. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £18,000 (2018: £15,000) of Employers' National Insurance contributions was also paid by the Company. As at 31 August 2019, Directors' fees of £15,000 were accrued and payable.

## 21 Reconciliation of Net (Loss)/Return on Ordinary Activities before Finance Costs and Taxation to Cash Flow from Operating Activities before Finance Costs and Taxation

|  | year ended<br>31.08.19<br>£'000 | year ended<br>31.08.18<br>£'000 |
|--|---------------------------------|---------------------------------|
| Net total (loss)/return before finance costs and taxation                    | (35,303)                        | 58,793                          |
| Less: net capital loss/(return) before finance costs and taxation            | 59,640                          | (43,166)                        |
| Net revenue return before finance costs and taxation                         | 24,337                          | 15,627                          |
| Scrip dividends  | (1,207)                         | (1,393)                         |
| Increase in debtors  | (3,078)                         | (181)                           |
| (Decrease)/increase in other creditors                                       | (854)                           | 146                             |
| <b>Cash flow from operating activities before finance costs and taxation</b> | <b>19,198</b>                   | <b>14,199</b>                   |

# Notes to the Financial Statements continued

## 22 Alternative Performance Measures

Total return is considered to be an Alternative Performance Measure (as defined in the Glossary of Terms on page 76). NAV 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 2019 and 31 August 2018.

|                                  | Net asset value per ordinary share | Share price    |
|----------------------------------|------------------------------------|----------------|
| <b>2019</b>                      |                                    |                |
| 31 August 2018                   | <b>271.98p</b>                     | <b>276.00p</b> |
| 31 August 2019                   | <b>252.99p</b>                     | <b>251.50p</b> |
| Change in year                   | <b>-7.0%</b>                       | <b>-8.9%</b>   |
| Impact of dividend reinvestment  | <b>+2.1%</b>                       | <b>+2.0%</b>   |
| <b>Total return for the year</b> | <b>-4.9%</b>                       | <b>-6.9%</b>   |

|                                 | Net asset value per ordinary share | Share price |
|---------------------------------|------------------------------------|-------------|
| <b>2018</b>                     |                                    |             |
| 31 August 2017                  | 254.63p                            | 246.50p     |
| 31 August 2018                  | 271.98p                            | 276.00p     |
| Change in year                  | +6.8%                              | +12.0%      |
| Impact of dividend reinvestment | +1.9%                              | +2.0%       |
| Total return for the year       | +8.7%                              | +14.0%      |

# Financial Calendar

## The key dates in the Company's calendar are:

31 August 2019 – Financial Year End

1 November 2019 – Announcement of the annual results for the year ended 31 August 2019

5 December 2019 – Ex-dividend Date

6 December 2019 – Dividend Record Date

12 December 2019 – Annual General Meeting

15 January 2020 – Payment of Final Dividend

29 February 2020 – Half-Year End

April 2020 – Announcement of the Half-Yearly Results for the six months to 29 February 2020

May 2020 – Ex-Dividend and Dividend Record Date

June 2020 – Payment of Interim Dividend

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at **4 Cannon Street, London EC4M 5AB** on Thursday, 12 December 2019 at 11.30 am for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 August 2019.
2. To declare that a final dividend for the year ended 31 August 2019 of 3.65 pence per ordinary share and a special dividend of 1.50 pence per ordinary share be paid to Shareholders on the register as at close of business on 6 December 2019.
3. To re-elect Mr Andy Irvine as a Director.
4. To elect Mrs Claire Boyle as a Director.
5. To re-elect Mr Dean Buckley as a Director.
6. To re-elect Mr Nigel Foster as a Director.
7. To re-elect Ms Nicky McCabe as a Director.
8. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 33) for the year ended 31 August 2019.
9. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
10. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, pass the following special business resolutions of which Resolutions 11 and 14 will be proposed as ordinary resolutions and Resolutions 12 and 13 as special resolutions.

## Authority to allot shares and disapply pre-emption rights

Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of new ordinary shares (or to sell any ordinary shares which the Company elects to hold in Treasury) for cash without first offering such shares to existing ordinary Shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company (including Treasury shares) in issue on 1 November 2019. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority in order to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's Shareholders to do so. Any ordinary shares held in Treasury would be re-issued at no less than net asset value ("NAV") per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per share.

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the

powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company ("relevant securities") up to an aggregate nominal amount of £1,397,347 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 1 November 2019) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authority to expire at the conclusion of the next Annual General Meeting ("AGM") of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

12. THAT, subject to the passing of Resolution 11, set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 12 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

- a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £1,397,347 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 1 November 2019); and
- b) by the condition that allotments of equity securities or sales of Treasury shares may only be made pursuant to this authority at a price of not less than the NAV per share,

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this Resolution had not expired.

## Authority to repurchase shares

Resolution 13 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue (excluding Treasury shares) on 1 November 2019 either for immediate cancellation or for retention as Treasury shares, at the determination of the Board. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by

subsequently selling the shares for cash or cancelling the shares. Purchases of ordinary shares will be at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per share, thereby resulting in an increased NAV per share.

13. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 5 pence each ("the shares") in the capital of the Company provided that:
- the maximum number of shares hereby authorised to be purchased shall be 41,892,475;
  - the minimum price which may be paid for a share is 5 pence;
  - the maximum price which may be paid for each share is the higher of:
    - an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased; and
    - the amount stipulated by Regulatory Technical Standards adopted by the European Commission pursuant to Article 5(6) of the Market Abuse Regulation (EU) No. 596/2014;
  - the authority hereby conferred shall expire at the conclusion of the next AGM of the Company unless such authority is renewed prior to such time; and
  - the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

#### Continuation of the Company

Resolution 14 is an ordinary resolution that relates to the continuation of the Company.

14. THAT the Company continues to carry on business as an investment trust.

By Order of the Board

**FIL Investments International**

Secretary

1 November 2019

#### Notes to the Notice of Meeting:

- Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A Shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. A proxy need not be a Shareholder of the Company, but must attend the AGM to represent you. To appoint a proxy go to **www.signalshares.com**. If you need help with appointing a proxy online or require a paper proxy form, please contact our Registrar, Link Asset Services, on +44 (0) 371 664 0391, calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
- To appoint a proxy via the share portal at **www.signalshares.com**, you will need to log in to your share portal account or register if you have not previously done so. To register you will need your Investor Code which can be found on your share certificate or dividend confirmation or by contacting our Registrar, Link Asset Services (details above). In the case of CREST members, you can vote by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in Note 5 below.
- To be valid, an online proxy appointment or other instrument appointing a proxy must be received by our Registrar, Link Asset Services, no later than 11:30 on Tuesday, 10 December 2019 or no later than 48 hours before any adjourned meeting, excluding non-business days. The appointment of a proxy will not prevent a Shareholder attending the General Meeting and voting in person if he/she wishes to do so.
- In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11:30 on 10 December 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent

# Notice of Meeting continued

by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrar no later than 11:30 on 10 December 2019.

6. All members are entitled to attend and vote at the AGM and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at close of business on 10 December 2019.
7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in Note 1 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.
8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), members must be entered on the Register of Members by close of business on 10 December 2019. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.
10. As at 1 November 2019 (the latest practicable date prior to the publication of this document), the Company's issued share capital consisted of 279,469,480 ordinary shares carrying one vote each. No shares were held in Treasury. Therefore, the total number of shares with voting rights in the Company as at 1 November 2019 was 279,469,480.
11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
12. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that is to be laid before the AGM or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with such requests. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.
14. No Director has a service contract with the Company.
15. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at **[www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)**.

Registered office: Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

# Shareholder Information

## Investing in Fidelity Special Values PLC

Fidelity Special Values PLC is a company listed on the London Stock Exchange and you can buy its shares through a platform, stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in the way that is best for you. Details of how to invest and the latest Key Information Document can be found on Fidelity's website at: [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)

## CONTACT INFORMATION

Shareholders and Fidelity's Platform Investors should contact the appropriate administrator using the contact details given on this page. Links to the websites of major platforms can be found online at: [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)

## Shareholders on the main share register

Contact Link Asset Services, Registrar to Fidelity Special Values PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: **0371 664 0300** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

Details of individual shareholdings and other information can also be obtained online from the Registrar's Share Portal at: [www.signalshares.com](http://www.signalshares.com). Shareholders are able to manage their shareholding online by registering for the Share Portal, a free and secure online access service. Facilities include:

**Account Enquiry** – Shareholders can access their personal shareholding, including share transaction history, dividend payment history and obtain an up-to-date shareholding valuation.

**Amendment of Standing Data** – Shareholders can change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download forms such as change of address, stock transfer and dividend mandate forms as well as buy and sell shares in the Company.

Should you have any queries in respect of the Link Share Portal, contact the helpline on **0371 664 0391** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

## Link Share Dealing Service

Link Asset Services offer a low cost share dealing service to buy or sell shares. Further information is available at: [www.linksharedeal.com](http://www.linksharedeal.com), or by telephoning **0371 664 0445** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 8:00 – 16:30, Monday to Friday excluding public holidays in England and

Wales). The Link Share Dealing Services allows you to deal in the shares of other companies for which Link Asset Services acts as Registrar, provided you are already a Shareholder in the relevant company, and that company offers the Share Deal facility to its Shareholders.

## Dividend Reinvestment Plan

Link Asset Services offers a Dividend Reinvestment Plan which is a convenient way for Shareholders to build up their shareholding by using their dividend money to purchase additional shares in the Company. The Plan is provided by Link Asset Services, a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack, call **0371 664 0381** between 9:00 – 17:30 Monday to Friday. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Alternatively you can email: [shares@link.co.uk](mailto:shares@link.co.uk) or log on to: [www.signalshares.com](http://www.signalshares.com).

## Fidelity Platform Investors

Contact Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity International, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

Website: [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its).

**Private investors:** call free on **0800 41 41 10**, 9:00 – 18:00, Monday to Saturday.

**Financial advisers:** call free on **0800 41 41 81**, 8:00 – 18:00, Monday to Friday.

## General enquiries

General enquiries should be made to the Secretary at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Telephone: **01732 361144**

Email: [investmenttrusts@fil.com](mailto:investmenttrusts@fil.com)

Website: [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)

If you hold Fidelity Special Values PLC shares in an account provided by Fidelity International, you will receive a report every six months detailing all of your transactions and the value of your shares.

## ShareGift

You may donate your shares to charity free of charge through ShareGift. Further details are available at [www.sharegift.org.uk](http://www.sharegift.org.uk) or by telephoning **020 7930 3737**.

# Shareholder Information continued

## Managers and Advisors

### Alternative Investment Fund Manager (AIFM/the Manager)

FIL Investment Services (UK) Limited  
Oakhill House  
130 Tonbridge Road  
Hildenborough  
Tonbridge  
Kent  
TN11 9DZ

### Portfolio Manager, Secretary and Registered Office

FIL Investments International  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey  
KT20 6RP  
Email: [investmenttrusts@fil.com](mailto:investmenttrusts@fil.com)

### Banker and Custodian

JPMorgan Chase Bank (London Branch)  
125 London Wall  
London  
EC2Y 5AJ

### Depository

J.P. Morgan Europe Limited  
25 Bank Street  
London  
E14 5JP

### Financial Adviser and Stockbroker

Cenkos Securities plc  
6,7,8 Tokenhouse Yard  
London  
EC2R 7AS

### Independent Auditor

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

### Lawyer

Dickson Minto W.S.  
Broadgate Tower  
20 Primrose Street  
London  
EC2A 2EW

### Registrar

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Company Information

The Company was launched on 17 November 1994. The original subscription price was £1 for each ordinary share of 25 pence each. Following the sub-division of ordinary shares on a five for one basis on 29 June 2015, the Company's share capital now comprises ordinary shares of 5 pence each and the restated original subscription price is 20 pence for each ordinary share.

The Company is a member of The Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning **020 7282 5555** (email: [enquiries@theaic.co.uk](mailto:enquiries@theaic.co.uk)).

## Price Information

The share price of Fidelity Special Values PLC is published daily in the Financial Times under the heading "Investment Companies". It is also published in The Times and The Daily Telegraph. Price and performance information is also available at: [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)

Investors can also obtain current price information by telephoning Fidelity for free on **0800 41 41 10** or FT Cityline on **0905 817 1690** (voice activated service – calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters code for Fidelity Special Values PLC is FSV.L, the SEDOL is BWXC7Y9 and the ISIN is GB00BWXC7Y93.

## Net Asset Value ("NAV") Information

The Company's NAV is calculated and released to the London Stock Exchange on a daily basis.

## UK Capital Gains Tax

All UK individuals under present legislation are permitted to have £12,000 of capital gains in the current tax year 2019/2020 (2018/2019: £11,700) before being liable for capital gains tax. Capital gains tax is charged at 10% and 20% dependent on the total amount of taxable income.

## General Data Protection Regulation ("GDPR")

### What personal data is collected and how it is used

The Company is an investment trust which is a public limited company and has certain regulatory obligations such as the requirement to send documents to its Shareholders, for example, the Annual Report and other documents that relate to meetings of the Company. The Company will therefore collect Shareholders' personal data such as names, addresses and identification numbers or investor codes and will use this personal data to fulfil its statutory obligations.

Any personal data collected will be kept securely on computer systems and in some circumstances on paper. Personal information is kept secure in line with Fidelity's Information Security policies and standards. If you are unhappy with how we have used your personal data, you can complain by contacting the UK Data Protection Officer at Fidelity International, Beech Gate, Millfield Lane, Surrey KT20 6RP.

### Sharing personal data

In order to assist the Company in meeting its statutory requirements, the Company delegates certain duties around the processing of this data to its third party service providers, such as the Company's Registrar and Printers. The Company has appointed Fidelity to undertake marketing activities for the Company and their privacy statement can be found on the Company website at <https://investment-trusts.fidelity.co.uk/privacy-policy/>

The Company's agreements with the third party service providers have been updated to be compliant with GDPR requirements. The Company confirms to its Shareholders that their data will not be shared with any third party for any other purpose, such as for marketing purposes. In some circumstances, it may be necessary to transfer Shareholders' personal data across national borders to Fidelity Group entities operating in the European Economic Area ("EEA"). Where this does occur, the European standard of protections will be applied to the personal data that is processed. Where personal data is transferred within the Fidelity group but outside of the EEA, that data will subsequently receive the same degree of protection as it would in the EEA.

### How long will personal data be kept for?

We will keep the personal data for as long as is necessary for these purposes and no longer than we are legally permitted to do so.

### Requesting access, making changes to your personal data and other important information

Shareholders can access the information that the Company holds about them or ask for it to be corrected or deleted by contacting Fidelity's UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Surrey KT20 6RP.

# Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Board has appointed FIL Investment Services (UK) Limited ("FISL") (a Fidelity group company) as the Company's Alternative Investment Fund Manager ("AIFM"). FISL has delegated the portfolio management and company secretarial function to FIL Investments International (another Fidelity group company). Details of the Management Agreement can be found in the Directors' Report on page 26.

The table below discloses information required by the Alternative Investment Fund Managers Regulations 2013.

| Function                            | AIFM Role and Responsibility   | AIFMD Disclosure   |
|-------------------------------------|--|--|
| <b>Investment management</b>        | <p>The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investments International.</p> <p>The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.</p>  | Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 11 and 12.   |
| <b>Risk management</b>              | <p>The AIFM has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management.</p> <p>The Company has a Risk Management Process Document which is agreed with the Board and demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independence safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under the AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing.</p> <p>The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.</p> | The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of internal control and for reviewing its effectiveness. Further details can be found in the Strategic Report on pages 13 and 14 and in Note 18 to the Financial Statements on pages 58 to 63. |
| <b>Valuation of illiquid assets</b> | The AIFMD requires the disclosure of the percentage of the Alternative Investment Fund's assets which are subject to special arrangements arising from their illiquid nature and any new arrangements for managing the liquidity of the Company.   | Not Applicable.  |

| Function                        | AIFM Role and Responsibility   | AIFMD Disclosure   |
|---------------------------------|--|--|
| <b>Leverage</b>                 | <p>The Company uses leverage to increase its exposure primarily to UK companies and currently holds derivative instruments. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times.</p> <p>There are two methods of calculating leverage – the Gross Method which does not reduce exposure for hedging; and the Commitment Method which does reduce exposure for hedging.</p> | <p>The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method.</p> <p>At 31 August 2019, actual leverage was 1.19 for the Gross Method and 1.10 for the Commitment Method.</p> |
| <b>Liquidity management</b>     | The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.   | No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 18 on page 60.  |
| <b>Remuneration of the AIFM</b> | The AIFM operates under the terms of Fidelity International's Global Remuneration Policy. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).  | Details of Fidelity International's Global Remuneration Policy can be found at <a href="http://www.fidelityinternational.com/global/remuneration/default.page">www.fidelityinternational.com/global/remuneration/default.page</a>        |

#### EU Securities Financing Transactions Regulations ("SFTR")

The disclosures in the table below relate to contracts for difference ("CFDs") held by the Company which may be considered Total Return Swaps under the SFTR, which came into force on 12 January 2016.

As at 31 August 2019, all CFDs were contracted bilaterally with open maturities.

| Broker                                 | Fair Value<br>£'000 | Percentage of<br>Net Assets | Collateral<br>held by the<br>broker<br>£'000 | Collateral<br>held by the<br>Company<br>£'000 |
|--|---------------------|-----------------------------|--|---|
| Goldman Sachs International (UK)       | (1,314)             | (0.19%)                     | -  | 2,560   |
| HSBC Bank plc (UK)                     | 1,128               | 0.16%                       | 1,100  | -   |
| Morgan Stanley & Co. International plc | (7,835)             | (1.12%)                     | -  | 7,805   |
| UBS AG                                 | (6,334)             | (0.91%)                     | -  | 6,020   |

Collateral held by the broker is held in a segregated account on behalf of the Company with a maturity of one day. The total return for the year ended 31 August 2019 from CFDs was a loss of £19,969,000.

# Glossary of Terms

## AIF

Alternative Investment Fund ("AIF"). The Company is an AIF.

## AIFM

Alternative Investment Fund Manager ("AIFM"). The Board has appointed FIL Investment Services (UK) Limited to act as the Company's AIFM/the manager.

## AIFMD

The Alternative Investment Fund Managers Directive ("AIFMD") is a European Union Directive implemented on 22 July 2014.

## Alternative Performance Measures

The Company uses the following Alternative Performance Measures which are all defined in this Glossary of Terms:

- Discount/Premium;
- Net Asset Value (NAV) per Share;
- Ongoing Charges;
- Return (Revenue, Capital and Total Returns); and
- Total Return Performance.

## Benchmark Index

FTSE All-Share Index against which the performance of the Company is measured.

## Block Listing

A facility that allows the Company to issue new ordinary shares to meet demand in the market over a period of time.

## Capital Gains Tax (CGT)

The tax which you may have to pay if you sell your shares at a profit.

## Collateral

Asset provided as security for the unrealised gain or loss under a contract for difference.

## Contract for Difference (CFD)

A contract for difference is a derivative. It is a contract between the Company and an investment house at the end of which the parties exchange the difference between the opening price and the closing price of the underlying asset of the specified financial instrument. It does not involve the Company buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A contract for difference allows the Company to gain access to the movement in the share price by depositing a small amount of cash known as margin. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the Company trades long, dividends are received and interest is paid. If the Company trades short, dividends are paid and interest is received.

## Corporation Tax

The tax the Company may have to pay on its profits for a year. Investment trust companies are exempt from corporation tax on their capital gains and do not pay tax on any UK dividends. As they can offset expenses against any taxable income, most investment trusts do not pay corporation tax and are therefore tax efficient for the Company.

## Derivatives

Financial instruments (such as futures, options and contracts for difference) whose value is derived from the value of an underlying asset.

## Discount

If the share price of the Company is lower than the net asset value per share, the Company is said to be trading at a discount. The discount is shown as a percentage of the net asset value.

## Fair Value

The fair value is the best estimate of the value of the investments, including derivatives, at a point in time and this is measured as:

- **Listed and AIM quoted investments** – valued at bid prices or last market prices where available, otherwise at published price quotations;
- **Unlisted investments** – valued using an appropriate valuation technique in the absence of an active market;
- **Futures and options** – valued at the quoted trade price for the contract; and
- **Contracts for difference** – valued as the difference between the settlement price and the value of the underlying shares in the contract (unrealised gains or losses).

## Futures

An agreement to buy or sell a fixed amount of an asset at a fixed future date and a fixed price.

## Gearing

Gearing is the amount of exposure the Company uses to invest in the market. The Company uses two measures of gearing:

- **Gross gearing** which is the amount by which Gross Asset Exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.
- **Net gearing** which is the amount by which Net Asset Exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.

## Gross Asset Exposure

A measure of the Company's total equity exposure. It is calculated as the sum of all long exposures, plus short exposures and less exposures hedging the portfolio.

## Hedging

A strategy aimed at minimising or eliminating the risk or loss through adverse movements, normally involving taking a position in a derivative such as a future or an option.

## Net Asset Exposure

A measure of the Company's net equity exposure. It is calculated as the sum of all long exposures, less short exposures and less exposures hedging the portfolio.

### Net Asset Value (NAV)

**Net asset value** is sometimes also described as “Shareholders’ funds”, and represents the total value of the Company’s assets less the total value of its liabilities. For valuation purposes it is common to express the **net asset value** on a per share basis.

### Ongoing Charges

Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of the average daily **net asset values** for the reporting year.

### Options

An **option** is a contract which gives the right but not the obligation to buy or sell an underlying asset at an agreed price on or before an agreed date. **Options** may be calls (buy) or puts (sell) and are used to gain or reduce exposure to the underlying asset on a conditional basis, for example, the purchase of a call option provides exposure to the upside potential of an underlying stock, with the downside risk being limited to the premium paid.

### Pre-Emption Rights

Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held by existing Shareholders. At each annual general meeting, the Board seeks Shareholder approval to disapply **pre-emption right** provisions, for up to 10% of the issued share capital.

### Premium

If the share price of the Company is higher than the **net asset value** per share, the Company is said to be trading at a **premium**. The **premium** is shown as a percentage of the **net asset value**.

### Return

The **return** generated in a given period from the investments:

- **Revenue Return** reflects the dividends and interest from investments and other income net of expenses, finance costs and taxation;
- **Capital Return** reflects the return on capital, excluding any revenue return; and
- **Total Return** reflects the aggregate of revenue and capital return.

### Shareholders’ Funds

**Shareholders’ funds** are also described as “**net asset value**” and represent the total value of the Company’s assets less the total value of its liabilities.

### Total Return Performance

The return on the share price or **net asset value** per share taking into account the rise and fall of share prices and the dividends paid to Shareholders. Any dividends received by the Shareholder are assumed to have been reinvested for additional shares (for share price total return) or in the Company’s assets (for **net asset value** total return).

### Treasury Shares

Ordinary shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not pay dividends, have no voting rights and are excluded from the **net asset value** per share calculation.



To find out more about Fidelity Special Values PLC, visit our new website [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com) where you can read articles and watch videos on the Company.



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