

# Fidelity Special Values PLC

**Annual Report**

**For the year ended 31 August 2014**



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# The Investment Objective and Financial Highlights



**Lynn Ruddick,**  
Chairman

The investment objective of Fidelity Special Values PLC is to achieve long term capital growth from a portfolio of shares consisting primarily of UK-listed companies. The Company will have a blend of investments in larger, medium and smaller sized companies and be guided by a contrarian philosophy.

	2014	2013
<b>Assets at 31 August</b>		
Shareholders' funds	£519.2m	£478.5m
Net Asset Value ("NAV") per share	961.43p	883.93p
<b>Dividend for the year to 31 August</b>		
Final dividend per ordinary share	16.50p	16.25p
<b>Share price and discount data at 31 August</b>		
Share price at year end	901.00p	840.00p
Share price year high	964.00p	848.00p
Share price year low	824.50p	523.00p
Discount at year end <sup>1</sup>	4.7%	3.1%
Discount year high <sup>1</sup>	8.2%	15.0%
Discount year low <sup>1</sup>	1.5%	3.1%
<b>Total returns (includes reinvested income) for the year to 31 August</b>		
NAV	+10.7%	+44.8%
Share price	+9.2%	+63.1%
FTSE All-Share Index (Benchmark Index)	+10.3%	+18.9%
<b>Ongoing charges for the year to 31 August<sup>2</sup></b>		
	1.12%	1.21%

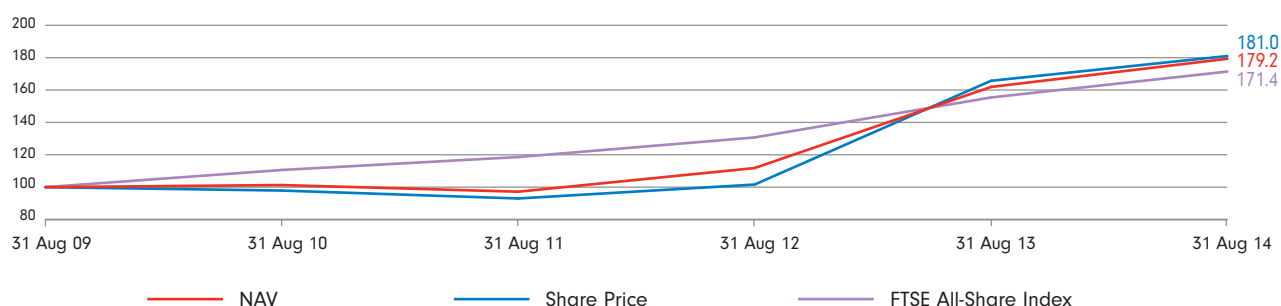
<sup>1</sup> Discount is stated on an ex-income basis

<sup>2</sup> Ongoing charges (excluding finance costs and taxation) based on average net asset values for the reporting year (prepared in accordance with methodology recommended by the Association of Investment Companies). A definition of ongoing charges can be found on page 69

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

Comparison of NAV and Share Price Total Return Performance against the Benchmark Index for the 5 year period to 31 August 2014



Prices rebased to 100

Sources: Fidelity and Datastream

# Chairman's Statement

## RESULTS FOR THE YEAR ENDED 31 AUGUST 2014

NAV PER SHARE:	+10.7%
SHARE PRICE:	+9.2%
BENCHMARK:	+10.3%
DIVIDEND:	16.50p

## PERFORMANCE

The financial year saw positive returns for the Company, which continues to make contrarian investments in companies of all sizes under the stewardship of the Portfolio Manager, Alex Wright. The first half of the year continued very much as the last left off, with the Company posting exceptionally strong returns, ahead of its Benchmark, the FTSE All-Share Index. However, in the spring, the market lost its enthusiasm for smaller companies, and their valuations reduced. This proved a difficult environment for the Company, which gave up some of its gains, and finished the year with an absolute return of 10.7%, marginally ahead of the Benchmark.

The Company has actively utilised derivatives and gearing powers throughout the reporting year. The Company has a small portion of its assets allocated to shorting companies which the Portfolio Manager believes to be overvalued. In the Board's view, this is a good way of diversifying the source of performance for the Company. In addition, the Company has been geared throughout the year, with net market exposure around 110%. This is not necessarily based on a view that the market will go up, but simply reflects the fact that the Portfolio Manager and his supporting analysts are able to find a healthy supply of ideas that meet the Company's contrarian investment style.

## OUTLOOK

The attractive range of investment ideas in the Company today gives the Board comfort that as we move into the new financial year, the long term performance potential of the Company remains good. As ever, it is important that Shareholders take a long term view about their investment with Special Values. Undoubtedly, there are challenges ahead. Having jumped the hurdle of the Scottish referendum, the UK has other challenges in order to maintain a stable political situation which is favourable to equity markets. There may well be further volatility as the market considers the outcome of upcoming events such as the general election, as well as the ever present question of when interest rates might rise, and by how much. Of course, there are also events occurring overseas that could disrupt confidence in UK companies. However, many companies can be bought at attractive valuations, particularly compared to other asset classes.

## OTHER MATTERS

Other relevant matters are detailed below.

### Discount, Share Repurchases and Treasury shares

The Board is very mindful of the importance of the level of discount to our Shareholders and we will carry out share repurchases when necessary to help narrow the discount. In order to assist in managing the discount and keeping it within a narrow range close to the NAV, the Board sought and received Shareholder approval at last year's Annual General Meeting to hold in Treasury any ordinary shares repurchased by the Company, rather than cancelling them. The Treasury shares carry no voting rights or rights to receive a dividend and have no entitlement in a winding up of the Company. No more than 10% of the issued ordinary share capital of the Company can be held in Treasury. Any shares held in Treasury will only be re-issued at NAV per share or at a premium to NAV per share. This will ensure that the net effect of repurchasing and then re-issuing the ordinary shares will enhance NAV per share. The Board is seeking Shareholder approval to renew this authority at the forthcoming Annual General Meeting.

During the reporting year, the Company repurchased 124,000 ordinary shares which are all held in Treasury. Since the year end and at the date of this report, a further 150,000 ordinary shares have been repurchased and are also held in Treasury.

The Board will continue to monitor this closely and will consider taking further action where we feel it to be effective.

### Derivatives

Derivatives are used on a limited basis as a tool to meet the investment objectives of the Company. They are used principally in the following ways:

1. 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 currently at lower financing costs.
2. 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.
3. To enhance the investment returns by taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Board has created strict policies and exposure limits to manage derivatives and their impacts on the different parts of the business and these are monitored on a daily basis.

Year to 31 August						
NAV and Index total return %	2014	2013	2012	2011	2010	5 years
Fidelity Special Values PLC	+10.7	+44.8	+15.0	-4.1	+1.3	+79.2
FTSE All-Share Index	+10.3	+18.9	+10.2	+7.3	+10.6	+71.4
Difference	+0.4	+25.9	+4.8	-11.4	-9.3	+7.8

# Chairman's Statement

## 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. Net market exposure averaged around 110.0% over the 12 month period and net gearing stood at 6.4% at the end of August. This enhanced exposure to both Alex's strong stock selection and a rising market has added around 3.0% to the portfolio's absolute return over the last year. I am confident that combined with Alex's contrarian and value-focused investment philosophy, this should continue to add value for clients over the long term.

Overall, the Board is pleased not only with the financial performance of the Company over the last year, but also that it is making good use of its structural advantages over its open-ended counterparts. Over the long term, this extra flexibility should continue to translate into enhanced returns for our Shareholders.

## Dividend

The Board has decided to recommend a dividend of 16.50 pence per share for the year ended 31 August 2014, an increase of 1.5% over the 16.25 pence paid for the year ended 31 August 2013. This dividend will be payable on 15 December 2014 to Shareholders on the register at close of business on 14 November 2014 (ex-dividend date 13 November 2014).

## Board of Directors

It is my view that the Board has the relevant skills and experience to serve the Company well into the future. In common with our practice since 2004, all Directors are subject to annual re-election and their biographical details are included on page 18 to assist Shareholders when considering their votes.

## Regulatory Matters

As reported in the Half-Yearly Report, the Board has worked with its advisors in order to achieve compliance with the European Alternative Investment Fund Managers Directive ("AIFMD") which came into effect on 22 July 2014. As a result the Board has appointed FIL Investment Services (UK) Limited (a Fidelity group company) to act as the Company's Alternative Investment Fund Manager (the "Manager"). FIL Investment Services (UK) Limited has delegated the portfolio management to FIL Investments International who previously acted as the Company's Manager. FIL Investments International will continue to act as Company Secretary.

An additional requirement of the AIFMD was to appoint a depositary on behalf of the Company to oversee the custody and cash arrangements of the Company. The Company has now appointed J.P.Morgan Europe Limited to act as the Company's Depositary. J.P.Morgan Europe Limited is part of the same group of companies as JP Morgan Chase Bank which continues to act as the Company's banker and custodian.

The full AIFMD disclosure is shown on page 66.

## The Annual General Meeting: Wednesday 10 December 2014 at 11.30 am

The Annual General Meeting will be held at Fidelity's offices at 25 Cannon Street, London EC4M 5TA (St Paul's or Mansion House tube stations) on Wednesday 10 December 2014 at 11.30 am.

It is the most important meeting that we, the Directors of your Company, have 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. We urge as many of you as possible to come and join us for this occasion.



**Lynn Ruddick**  
Chairman  
31 October 2014

# Portfolio Manager's Review



## FIL Investment Services (UK) Limited

The Company is managed by FIL Investment Services (UK) Limited (which is authorised and regulated by the Financial Conduct Authority). It is part of the FIL Limited group which, as at 30 September 2014, had total assets under management exceeding £168.8 billion. FIL Investment Services (UK) Limited has delegated the portfolio management of the Company to FIL Investments International.



**Alex Wright** (Portfolio Manager) joined Fidelity in 2001 as a research analyst and has covered a number of sectors across the market cap spectrum both in the UK as well as developed and emerging Europe. He is Portfolio Manager of Fidelity Special Values PLC and Fidelity Special Situations Fund and the co-Manager of Fidelity UK Smaller Companies Fund. He was appointed Manager of the Company's portfolio on 1 September 2012.

## INTRODUCTION

The Company's financial year, which ended on 31 August 2014, was positive with regard to the relative and absolute NAV performance, as encouraging growth prospects and confidence supported several of our key holdings. However, there has been some variation in market leadership and fund performance throughout the year.

Whilst UK and developed market economic conditions have continued to improve, investors began to price in possible interest rate rises after years of close to zero rates, as well as geopolitical volatility. This led to a period of weaker performance in medium and smaller companies over the second half of the reporting period, holding back returns. This offset the very strong performance in the first half of the reporting year.

In the following pages, I will discuss the Company's NAV performance and some of the events in the portfolio over the last financial year.

## UK MARKET REVIEW

- The UK stock market rose over the period, as positive economic data, low interest rates and an increase in corporate activity continued to support investor confidence.
- The UK economic recovery gathered pace, as growth over the past year has taken output to above its pre-crisis level. The annual GDP growth estimate at the end of the second quarter of 2014 was revised upwards to 3.2%, compared with the same period last year (2013: 1.7%). Unemployment has fallen sharply.
- Inflation is projected to remain close to the Bank of England's ("BoE") 2% target in the period ahead. At the end of July 2014, the annual rate of Consumer Price Index stood at 1.6%, down from 2.7% at the end of August 2013.

On the economic front, the global recovery appears set to continue, with the US leading the way. On continental Europe the picture has been more mixed, with ongoing weakness in Italy and France in particular. The European Central Bank announced a package of measures to support activity and raise inflation. In the UK, the economic recovery has continued to broaden, with encouraging spending by businesses and households, supported by a general improvement in credit conditions. Although wages remain under pressure, unemployment has shrunk and inflation is now well below the BoE's target rate. Market expectations of a rise in the interest rate have increased, but indications are that when the rate does begin to rise, the pace of increase is likely to be gradual, with the bank rate probably remaining below average historical levels for some time. However, the governor's guidance on this matter has so far been changeable.

Overall, the positive market sentiment was reflected at a sector level, with all major industries recording positive returns. The small and medium sized segments of the market led the way for much of the year, though there was a change of leadership in March, as large sized companies came to the fore and small sized companies gave up significant performance. At a sector level, healthcare led the gainers, driven by increasing corporate activity, while investors have latterly preferred defensive sectors such as consumer goods and utilities in view of the relatively higher levels of volatility.

## PORTFOLIO REVIEW

This reporting year has been another one of positive returns and performance slightly ahead of the Benchmark Index, though there has been some variability within the year. Several of our key holdings across sectors have made significant contributions to overall returns.

## Portfolio Manager's Review

Positive growth prospects supported some of my high-conviction positions. These included distribution group DCC, which announced forecast-beating annual results, and a new holding in Williams Medical, a UK medical and pharmaceutical products supplier, which is expected to be a good strategic fit. Holdings in photo booth and vending machine operator Photo-Me International and video game maker Electronic Arts also rose strongly, driven by their positive earnings outlook. The former now looks fully valued, and I have sold the position. The latter has recorded significant profit growth, which gave investors confidence that its turnaround is gaining strength. The company is also moving towards its goal of becoming a top provider of titles sold online rather than through retail stores, while it has extended its subscription service to more countries as it seeks to attract new players. I believe the company can make further improvements and I am continuing to hold a position in the Company's portfolio. NMC Health, a hospital operator in Dubai and Abu Dhabi, added value after the Dubai government made healthcare insurance mandatory for all residents and visitors. This is expected to lead to increased demand from higher utilisation of healthcare services by those who were previously uninsured.

Mergers and acquisitions ("M&A") was a driver of market returns during the period and a number of our holdings benefited from takeover news. I believe this theme could continue, as corporate confidence is supportive of further deals. Some of the notable holdings that benefited from M&A included chipmaker Wolfson Microelectronics, which agreed to be taken over by US based semiconductor supplier Cirrus Logic in a £278 million deal, and Max Property, which was sold to private equity group Blackstone.

On the downside, some key holdings held back performance. In particular, the position in retailer Mothercare was hurt by a profit warning owing to weak trading conditions around key trading periods, primarily in the struggling UK estate. A failed takeover bid also undermined the stock, which gave up some of the gains it made last year. I remain convinced that the company is transforming in a way that has not been fully appreciated by the market and offers significant upside, especially post the recent fund raising, though performance is likely to continue to be volatile. Lack of exposure to pharmaceuticals stocks, such as AstraZeneca and Shire, also weighed on relative performance as their shares benefited from M&A news. My exposure to this segment is in selected stocks such as Sanofi, GlaxoSmithKline, UDG and NMC Health, which I believe will yield better long term results.

The portfolio's new ideas are coming from a range of sources. There are a number of out of favour mega sized companies in the Company that could benefit from an increased focus on Shareholder returns. I have also been keen to diversify the Company's geographical earnings profile, given the strong bias

towards UK and the recent strong performance here. Stocks such as HSBC, Citigroup and Volkswagen, which I have been adding to recently, are global market leading businesses with strong established positions in emerging economies that competitors will find hard to replicate. Arguably, these stocks should trade at premium valuations, instead of the discounted valuations we see them at today.

An area of strong performance for the Company has been the secondary property sector. I bought positions in many stocks when sentiment towards the UK was very poor, and the stocks have re-rated as sentiment improved. Strong contributions have come from stocks such as Conygar and Max Property. During the review period, I initiated a position in LXB Retail Properties, which has underperformed the sector but has potential for significant NAV growth as the company liquidates its portfolio over the coming months.

Following exceptionally strong performance in the last reporting year, I became more cautious on the outlook for the Company by the beginning of 2014. Valuations, particularly in the mid and small sized companies of the market, had moved up significantly. Perhaps unsurprisingly, the following months saw a rotation in the move away from mid and small sized companies towards larger sized companies. Although my contrarian approach has led me to focus on cheap and unloved companies in this segment, an overweight to smaller companies has nevertheless created a stiff headwind to performance since the end of the first quarter this year. I have taken the opportunity to add to selected companies where the deterioration in sentiment has been particularly severe, such as Regus.

### OUTLOOK

Following years of strong performance in equity markets, especially in mid and small sized companies, it is not surprising that returns have moderated year to date in 2014. As a whole, the market trades close to historical averages, though in comparison to other asset classes, the cashflows available look attractively valued. My process is geared towards finding potential for change in unloved companies, and I feel comfortable that the portfolio is populated with ideas that display these characteristics and provide compelling upside in both absolute and relative terms. I therefore remain positive on the long term performance potential of the portfolio, while noting that this is likely to be more moderate than recent years.

### Alex Wright

Portfolio Manager  
31 October 2014



# Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company which replaces and enhances reporting previously included in the 'Business Review' section of the Directors' Report. It provides a review of the Company's business and describes the principal risks and uncertainties it faces. The report includes an analysis of the performance of the Company during the financial year and the position at the year end, its objective, strategy and risks and how these are measured using Key Performance Indicators. The Chairman's Statement and the Portfolio Manager's Review form part of the Strategic Report.

## BUSINESS AND STATUS

The Company carries on business as an investment trust 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 operates as such. It is not a close company and has no employees.

## OBJECTIVE

The investment objective of the Company is to achieve long term capital growth from a portfolio of shares consisting primarily of UK-listed companies. The Company will have a blend of investments in larger, medium and smaller-sized companies and be guided by a contrarian philosophy.

## STRATEGY

In order to fulfil this objective, the Company operates as an investment company which has an actively managed portfolio of special situation investments, consisting primarily of UK-listed companies. As such it 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. The level of gearing is considered by the Board at each quarterly meeting.

As part of the strategy, the Board has delegated the management of the investment portfolio and certain other services. The Portfolio Manager aims to achieve a total return on the Company's total assets over the longer term in excess of that achievable by the FTSE All-Share Index which is 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 objective, strategy and principal activity have remained unchanged throughout the year ended 31 August 2014.

## INVESTMENT POLICY

The Company invests predominantly in UK-listed companies. 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 sized and smaller companies. The proportions in each size category may vary over time, as stocks are selected on a bottom up basis. Investments typically have the following characteristics:

- Limited downside risk: The Portfolio Manager invests in companies where market expectations are very low. They will have some asset or characteristic that should prevent significant falls in the share price.
- Unrecognised potential for positive change: The Portfolio Manager also 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.

The Board believes that investment in such securities will achieve the long term capital growth objective and considers five years to be the most appropriate time span over which to make this assessment.

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

Although the portfolio consists predominantly of holdings in UK companies, up to 20% can be invested in the shares or related instruments of companies listed on overseas exchanges. The Company invests mainly in shares but may also invest in equity-related instruments (such as convertible bonds, warrants or derivative contracts) and in debt instruments. The Company may also invest up to 5% of its assets in unquoted securities, but it is unlikely that the Portfolio Manager will make such investments except where it is expected that the securities will shortly be listed. The Board has a policy whereby the Company will not, at the time of investment, have a holding in a company that represents more than 10% by value of the investing company's investments. Cash and cash equivalents are not included within this guideline.

## Use of derivatives

The Company may utilise derivative instruments, including index-linked notes, contracts for differences, covered options and other equity-related derivative instruments on a limited basis as a tool to meet the investment objectives of the Company. They are used principally in the following ways:



# Strategic Report

- 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.
- To enhance the investment returns by taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Board has created strict policies and exposure limits to manage derivatives and their impacts on the different parts of the business and these are monitored on a daily basis. The Company will not undertake any naked shorts.

## Gearing Policy

The Company may use gearing to enhance long term capital growth. The Portfolio Manager has the discretion to gear up to a maximum of 30% in excess of Total Net Assets, and will use a range of instruments for gearing, such as debt and CFDs, depending on the relative cost and availability of those instruments.

Under AIFMD, new rules have been introduced that change the way in which borrowing and market exposure of Investment Companies is reported. These leverage rules are in addition to the existing gearing limits and, rather than applying to the Company, apply to FIL Investment Services (UK) Limited as the AIFM. Details of the leverage limits and associated controls are contained in the AIFM's Disclosure on page 66.

## Currency

The Company does not carry out currency speculation. However, as a sterling based fund, investments can be made in stocks in overseas currencies and the Portfolio Manager can reduce currency exposure through the use of CFDs.

## Liquidity Policy

The Company will predominantly invest in marketable securities. The Company will also ensure it has sufficient liquidity to meet its ongoing obligations.

## Investment in Other Investment Companies

The Board has set a limit of 15% on the proportion of the Company's total assets that can be invested in the securities of other listed investment companies (including listed investment trusts) which themselves do not have stated investment policies.

## 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 period and so will the net income earned and the dividend 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 income.

## 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 has around 195 analysts and research associates with a hands-on approach to knowledge accumulation. Fidelity's analysts evaluate companies, meet their management and workforce and interpret the effects of international and local events. They meet hundreds of companies every week. This first hand research is fundamental to Fidelity's ability to seek the success stories of the future. Portfolio managers work closely with the Fidelity analyst team and also have access to a wide range of research produced by third parties.

## PERFORMANCE

In the year ended 31 August 2014, the Company's Net Asset Value total return was 10.7%, outperforming the FTSE All-Share Index total return of 10.3%. The summary of the year's activities and indications of future trends and factors that may impact the future performance of the Company are included in the Chairman's Statement on pages 2 and 3 and the Portfolio Manager's Review on pages 4 to 6. The Forty Largest Investments are listed on pages 10 and 11, the Distribution of the Portfolio is on pages 12 and 13, the ten year Summary of Performance is on page 14 and the Attribution Analysis is set out on page 17.

## RESULTS AND DIVIDENDS

The Company's results are set out in the Income Statement on page 37. The total profit after taxation for the year ended 31 August 2014 was £50.7 million, of which the revenue return amounted to £8.4 million.

The Directors recommend that a final dividend of 16.50 pence (2013: 16.25 pence) per share be paid on 15 December 2014 to Shareholders who appear on the register as at the close of business on 14 November 2014 (ex-dividend date 13 November 2014).

## KEY PERFORMANCE INDICATORS ("KPIs")

Given the Company's objective and strategy, the Board has identified the following KPIs against which performance can be compared and which are comparable to those reported by other investment trusts.

# Strategic Report

## SHAREHOLDER TOTAL RETURNS

Share price total return	1 year (%)	5 years (%)
Fidelity Special Values PLC <sup>1</sup>	+9.2	+81.0
Low risk investment <sup>2</sup>	+0.5	+3.3
Benchmark <sup>3</sup>	+10.3	+71.4
Peer group <sup>4</sup>	+9.0	+92.0

## COMPANY TOTAL RETURNS

Net asset value total return	1 year (%)	5 years (%)
Fidelity Special Values PLC <sup>1</sup>	+10.7	+79.2
Benchmark <sup>3</sup>	+10.3	+71.4
Peer group <sup>4</sup>	+9.7	+82.3

## ADDITIONAL KPIS

Discount as at 31 August	2014 (%)	2009 (%)
Fidelity Special Values PLC <sup>5</sup>	4.7	5.0
Peer group <sup>4</sup>	5.7	8.7

Ongoing charges (see glossary for definition)	2014 (%)	2009 (%)
Fidelity Special Values PLC	1.12	1.32

- 1 Total return including net dividend reinvested  
 2 UK Interbank 3 month Bid rate (banks or building societies)  
 3 FTSE All-Share Index  
 4 AIC UK All Companies sector  
 5 On an ex-income basis

Sources: Fidelity and Datastream as at 31 August 2014

As well as the KPIs set out above which include peer group performance, the Board also monitor other relevant statistics, such as the factors contributing to investment results, as set out in the Attribution Analysis on page 17. The principal risks and uncertainties stated below include descriptions of other performance indicators, their monitoring and management which are important to the business of the Company. Long term performance is also monitored and the Summary of Performance table and graphs on pages 14 to 16 show this information.

## PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Board has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the internal controls process, identifies the key risks that the Company faces. The matrix has identified strategic, marketing, investment management, company secretarial and other support function risks. The Board reviews

and agrees policies for managing these risks. The process is regularly reviewed by the Board in accordance with the Financial Reporting Council's "Internal Control: Revised Guidance for Directors". Risks are identified, placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive internal controls reports considered by the Audit Committee. The Board also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. The Board's approach to risks is embedded in the Company's investment objectives and investment policy on pages 6 and 7.

## EXTERNAL RISKS

### MARKET RISK

The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturns, interest rate movements, deflation/inflation, terrorism and protectionism.

Risks to which the Company is exposed and which form part of the market risks category are included in Note 18 to the financial statements on pages 51 to 56 together with summaries of the policies for managing these risks. These are: market price risk (which comprises interest rate risk, foreign currency risk and other price risk); liquidity risk; counterparty risk; credit risk; and derivative instruments risk.

Long CFDs are currently used for gearing purposes. In addition, a day-to-day overdraft facility can be used if required. The impact of limited finance from counterparties has not impacted the Company to date, however, there are alternative suppliers available in the market place should the need arise.

The Company relies on a number of main service providers, principally the Manager, Registrar, Custodian and Depositary. The Manager is a member of a privately owned group of companies on which a regular report is provided to the Board. The Manager, Registrar, Custodian and Depositary are subject to regular audits by Fidelity's internal audit team and the counterparties' own internal controls reports are received by the Board and any concerns investigated.

### SHARE PRICE RISK

Although it has usually been the case that the longer a share is owned the less the risk of losing money, share prices are volatile and for the short term Shareholder, likely to want to sell in the near future, volatility is a risk. The Board does not believe that volatility should be a significant risk for the long term Shareholder.

### DISCOUNT CONTROL RISK

The Board cannot control the discount at which the Company's share price trades to net asset value. However, it can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations programme.

# Strategic Report

The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.

## INTERNAL RISKS

### INVESTMENT MANAGEMENT

The Board relies on the 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 competitors and also considers the outlook for the market with the Manager at each Board meeting. The emphasis is on long term investment performance and the Board accepts that by targeting long term results the Company risks volatility in the shorter term.

### GOVERNANCE, OPERATIONAL, FINANCIAL, COMPLIANCE, ADMINISTRATION ETC

Whilst it is believed that the likelihood of poor governance, compliance and operational administration by other third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company. Your Board is responsible for the Company's systems of risk management and of internal control and for reviewing its effectiveness. Details of this process are provided in the Corporate Governance Statement on page 27.

### BOARD DIVERSITY

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender. As at 31 August 2014, there were three female and three male Directors on the Board.

### EMPLOYEE, SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

The Company has no employees and all of its Directors are non-executive. The Company's day-to-day activities are carried out by third parties. The Company has not adopted a policy on human rights as it has no employees and its operational processes are delegated.

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.

Financial reports and other publicly available documentation are also available on the Company's website [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). Details about Fidelity's own community involvement may be found on its website [www.fidelity.co.uk](http://www.fidelity.co.uk).

### 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, social, environmental and ethical issues form part of the criteria taken into account in the investment decision process.

### 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. Unless there are any particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate engagement and Shareholder voting to the Manager. These activities are reviewed annually.

### FUTURE DEVELOPMENTS

The Company's business activities, together with the factors likely to affect its future development, performance and positions are set out in the Chairman's Statement on pages 2 and 3 and the Portfolio Manager's Review on pages 4 to 6.

By Order of the Board  
**FIL Investments International**  
 Secretary  
 31 October 2014

## Forty Largest Investments as at 31 August 2014

The table below and on page 11 details the Forty Largest Investments of the Company, showing both the fair (or actual) value of the assets and liabilities and also the total exposure that the portfolio has to market price movements as a result of either owning shares or holding derivative instruments.

Portfolio of investments including derivatives	Portfolio Exposure £'000	Portfolio Fair Value £'000	Total Portfolio Exposure %
<b>Royal Dutch Shell</b>			
Oil & Gas Producers	30,775	30,775	5.6
<b>HSBC</b>			
Banks	28,302	28,302	5.1
<b>DCC</b>			
Support Services	22,973	11,001	4.2
<b>Brewin Dolphin</b>			
Financial Services	21,597	21,597	3.9
<b>Citigroup</b>			
Banks	20,269	20,269	3.7
<b>GlaxoSmithKline</b>			
Pharmaceuticals & Biotechnology	18,476	(1,576)	3.3
<b>SSE</b>			
Electricity	17,376	1,580	3.1
<b>Sanofi</b>			
Pharmaceuticals & Biotechnology	16,300	3,034	2.9
<b>Lloyds Banking Group</b>			
Banks	15,727	3,786	2.8
<b>Electronic Arts</b>			
Leisure Goods	14,397	14,397	2.6
<b>Ten Largest Investments including derivatives</b>	<b>206,192</b>	<b>133,165</b>	<b>37.2</b>
<b>CLS Holdings</b>			
Real Estate Investment & Services	12,697	12,697	2.3
<b>Speedy Hire</b>			
Support Services	11,593	11,593	2.1
<b>Games Workshop Group</b>			
Leisure Goods	11,032	11,032	2.0
<b>UDG Healthcare</b>			
Food & Drug Retailers	10,818	1,038	2.0
<b>NMC Health</b>			
Food & Drug Retailers	10,574	10,574	1.9
<b>ICAP</b>			
Financial Services	10,571	10,571	1.9
<b>Carnival</b>			
Travel and Leisure	10,520	10,520	1.9
<b>Volkswagen</b>			
Automobiles & Parts	10,236	(516)	1.9
<b>Ladbrokes</b>			
Travel & Leisure	10,156	10,156	1.8
<b>Regus</b>			
Support Services	10,095	10,095	1.8
<b>Twenty Largest Investments including derivatives</b>	<b>314,484</b>	<b>220,925</b>	<b>56.8</b>
<b>Barclays</b>			
Banks	9,868	(312)	1.8

# Forty Largest Investments

as at 31 August 2014

Portfolio of investments including derivatives	Portfolio Exposure £'000	Portfolio Fair Value £'000	Total Portfolio Exposure %
<b>Pendragon</b>			
General Retailers	9,838	9,838	1.8
<b>Friends Life Group</b>			
Life Insurance	9,798	904	1.8
<b>Phoenix Group Holdings</b>			
Life Insurance	9,717	9,717	1.8
<b>Royal Mail</b>			
Industrial Transportation	9,212	9,212	1.7
<b>Synthomer</b>			
Chemicals	9,099	9,099	1.6
<b>Premier Oil</b>			
Oils & Gas Producers	8,937	8,937	1.6
<b>Bank of Ireland</b>			
Banks	8,635	1,461	1.6
<b>Conygar Investment</b>			
Real Estate Investment & Services	8,612	8,612	1.6
<b>LXB Retail Properties</b>			
Real Estate Investment & Services	8,049	8,049	1.5
<b>Xchanging</b>			
Support Services	7,519	7,519	1.4
<b>Lavendon Group</b>			
Support Services	7,423	7,423	1.3
<b>Mears Group</b>			
Support Services	7,327	7,327	1.3
<b>Mothercare</b>			
General Retailers	7,220	7,220	1.3
<b>Entertainment One</b>			
Media	7,124	7,124	1.3
<b>Chime Communications</b>			
Media	7,079	7,079	1.3
<b>Anglo American</b>			
Mining	6,567	105	1.2
<b>HomeServe</b>			
Support Services	6,401	6,401	1.2
<b>Electra Private Equity</b>			
Equity Investment Instruments	6,397	6,397	1.1
<b>BBA Aviation</b>			
Industrial Transportation	6,268	6,268	1.1
<b>Forty Largest Investments including derivatives (2013: 84.4%)</b>	<b>475,574</b>	<b>349,305</b>	<b>86.1</b>
<b>Other Investments including derivatives (2013: 15.6%)<sup>1</sup></b>	<b>76,938</b>	<b>130,513</b>	<b>13.9</b>
<b>Total Portfolio of Investments including derivatives – 120 holdings (2013: 94)</b>	<b>552,512<sup>2</sup></b>	<b>479,818<sup>3</sup></b>	<b>100.0</b>

1 Included within other investments is a short future on the FTSE 250 Index which is a hedge position reducing Total Portfolio Exposure by £52,536,000. It has a negative fair value of £945,000 (Note 10, page 48)

2 The total exposure of the portfolio to market price movements of £552,512,000 is made up of: exposure to fixed asset investments of £458,879,000 (Note 9, page 46) plus the exposure to derivative instruments of £93,633,000 (Note 10, page 48)

3 The total fair value of the portfolio of investments of £479,818,000 is recognised in the Balance Sheet on page 38 and is made up of: fixed asset investments of £458,879,000 plus derivative assets of £26,742,000 and less derivative liabilities of £5,803,000

## Distribution of the Portfolio as at 31 August 2014

The table below and on page 13 details the Distribution of the Portfolio, based on the exposure that the portfolio has to market price movements as a result of either owning shares or holding derivative instruments.

Portfolio of investments including derivatives	UK %	Overseas %	Total Portfolio Exposure %	2013 %	Index <sup>1</sup> %
<b>Financials</b>	<b>27.5</b>	<b>6.0</b>	<b>33.5</b>	<b>24.7</b>	<b>24.9</b>
Banks	9.5	5.0	14.5	9.2	11.2
Financial Services	6.8	0.1	6.9	7.2	2.2
Real Estate Investments & Services	5.3	0.9	6.2	4.5	0.6
Life Insurance	3.4	-	3.4	3.3	4.6
Real Estate Investment Trusts	1.4	-	1.4	-	1.8
Equity Investment Trusts	1.1	-	1.1	-	3.4
Non-life Insurance	-	-	-	0.5	1.1
<b>Industrials</b>	<b>20.9</b>	<b>(2.0)</b>	<b>18.9</b>	<b>15.1</b>	<b>10.0</b>
Support Services	13.8	-	13.8	12.2	4.6
Industrial Transportation	3.7	(1.1)	2.6	2.8	0.3
Construction & Materials	1.8	-	1.8	0.7	0.8
Industrial Engineering	0.8	-	0.8	(1.4)	1.0
Electronic & Electrical Equipment	0.9	(0.9)	-	-	0.5
General Industrials	(0.1)	-	(0.1)	0.8	0.7
Aerospace & Defence	-	-	-	-	2.1
<b>Consumer Services</b>	<b>14.5</b>	<b>0.6</b>	<b>15.1</b>	<b>19.8</b>	<b>10.2</b>
Media	4.9	-	4.9	6.2	3.1
Travel & Leisure	4.1	0.3	4.4	1.8	3.5
General Retailers	3.2	-	3.2	5.9	2.1
Food & Drug Retailers	2.3	0.3	2.6	5.9	1.5
<b>Oil &amp; Gas</b>	<b>7.7</b>	<b>0.2</b>	<b>7.9</b>	<b>9.0</b>	<b>14.9</b>
Oil & Gas Producers	7.7	1.3	9.0	9.0	14.4
Oil Equipment, Services & Distribution	-	(1.1)	(1.1)	-	0.5
<b>Consumer Goods</b>	<b>1.5</b>	<b>6.1</b>	<b>7.6</b>	<b>11.0</b>	<b>13.8</b>
Leisure Goods	1.9	3.4	5.3	6.4	-
Automobiles & Parts	-	1.5	1.5	0.7	0.3
Household Goods & Home Construction	1.5	-	1.5	1.2	2.5
Beverages	-	0.8	0.8	-	3.9
Personal Goods	-	0.2	0.2	-	0.4
Food Producers	(1.9)	0.2	(1.7)	2.7	2.3
Tobacco	-	-	-	-	4.4
<b>Health Care</b>	<b>5.1</b>	<b>2.5</b>	<b>7.6</b>	<b>8.8</b>	<b>8.5</b>
Pharmaceuticals & Biotechnology	3.3	2.9	6.2	7.5	7.9

## Distribution of the Portfolio as at 31 August 2014

Portfolio of investments including derivatives	UK %	Overseas %	Total Portfolio Exposure %	2013 %	Index <sup>1</sup> %
Health Care Equipment & Services	1.8	(0.4)	1.4	1.3	0.6
<b>Utilities</b>	<b>3.6</b>	<b>-</b>	<b>3.6</b>	<b>4.1</b>	<b>3.8</b>
Electricity	3.6	-	3.6	3.2	0.8
Gas, Water & Multiutilities	-	-	-	0.9	3.0
<b>Basic Materials</b>	<b>3.3</b>	<b>-</b>	<b>3.3</b>	<b>0.8</b>	<b>8.0</b>
Chemicals	1.8	-	1.8	-	0.6
Mining	1.5	-	1.5	0.8	7.2
Forestry and Paper	-	-	-	-	0.2
<b>Technology</b>	<b>1.2</b>	<b>0.8</b>	<b>2.0</b>	<b>1.7</b>	<b>1.4</b>
Software & Computer Services	1.2	0.8	2.0	1.5	0.6
Technology Hardware & Equipment	-	-	-	0.2	0.8
<b>Telecommunications</b>	<b>-</b>	<b>0.5</b>	<b>0.5</b>	<b>5.0</b>	<b>4.5</b>
Fixed Line Telecommunications	-	0.5	0.5	5.0	1.7
Mobile Telecommunications	-	-	-	-	2.8
<b>Total Portfolio Exposure – 2014</b>	<b>85.3</b>	<b>14.7</b>	<b>100.0</b>		<b>100.0</b>
<b>Total Portfolio Exposure – 2013</b>	<b>84.0</b>	<b>16.0</b>		<b>100.0</b>	

The Distribution of the Portfolio is shown as a percentage of the total exposure of the portfolio to market price movements of £552,512,000 which is made up of: exposure to fixed asset investments of £458,879,000 (Note 9, page 46) plus the exposure to derivative instruments of £93,633,000 (Note 10, page 48).

<sup>1</sup> The FTSE All-Share Index which is the Company's Benchmark Index



# Summary of Performance

Historical record as at 31 August	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Capital</b>											
Shareholders' funds (£m)	519.2	478.5	338.6	312.5	333.8	334.5	319.3	376.6	357.9	301.4	216.9
NAV per share (p)	961.43	883.93	622.71	552.85	586.21	587.50	562.13	630.75	547.65	461.23	341.94
Share price (p)	901.00	840.00	527.00	494.00	530.00	550.00	481.50	592.00	521.50	452.25	348.00
(Discount)/premium to NAV (%) <sup>1</sup>	(4.7)	(3.1)	(13.5)	(8.7)	(7.9)	(5.0)	(11.6)	(5.0)	(4.1)	(1.4)	2.2
<b>Revenue</b>											
Revenue return per ordinary share (p)	15.52	17.02	13.25	11.43	10.74	8.76	17.13	6.91	3.65	2.76	1.55
Dividend per ordinary share (p)	16.50	16.25	13.00	11.25	10.50	9.00	17.00 <sup>2</sup>	7.50	3.75	2.75	1.40
Costs of running the Company (ongoing charges) (%)	1.12	1.21	1.24	1.23	1.23	1.32	1.14	1.32	1.49	1.52	1.42
<b>Gearing</b>											
Gross gearing (%) <sup>3</sup>	21.0	24.8	12.6	7.8	12.6	n/a	n/a	n/a	n/a	n/a	n/a
Net gearing (%) <sup>4</sup>	6.4	14.0	(0.9)	(2.2)	2.6	n/a	n/a	n/a	n/a	n/a	n/a
Gearing ratio (bank loans) (%)	n/a	n/a	n/a	n/a	n/a	5.7	3.4	2.8	4.8	12.3	14.8
<b>Performance Total Return</b>											
NAV performance (%)	+10.7	+44.8	+15.0	-4.1	+1.3	+9.0	-9.8	+15.9	+19.4	+35.8	+19.9
Share price performance (%)	+9.2	+63.1	+9.2	-5.0	-2.1	+19.4	-17.6	+14.3	+16.0	+30.4	+16.2
Index performance (%)	+10.3	+18.9	+10.2	+7.3	+10.6	-8.2	-8.7	+11.8	+16.8	+24.1	+10.8

1 (Discount)/premium to NAV is stated on an ex-income basis

2 Includes repayment of £2,306,000 VAT on management fees recovered from HM Revenue & Customs

3 Gross gearing is the total of long exposures, plus the total of short exposures, and less the total of exposures hedging the portfolio, expressed as a percentage of Shareholders' funds

4 Net gearing is the total of long exposures, less the total of short exposures, and less the total of exposures hedging the portfolio, expressed as a percentage of Shareholders' funds

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

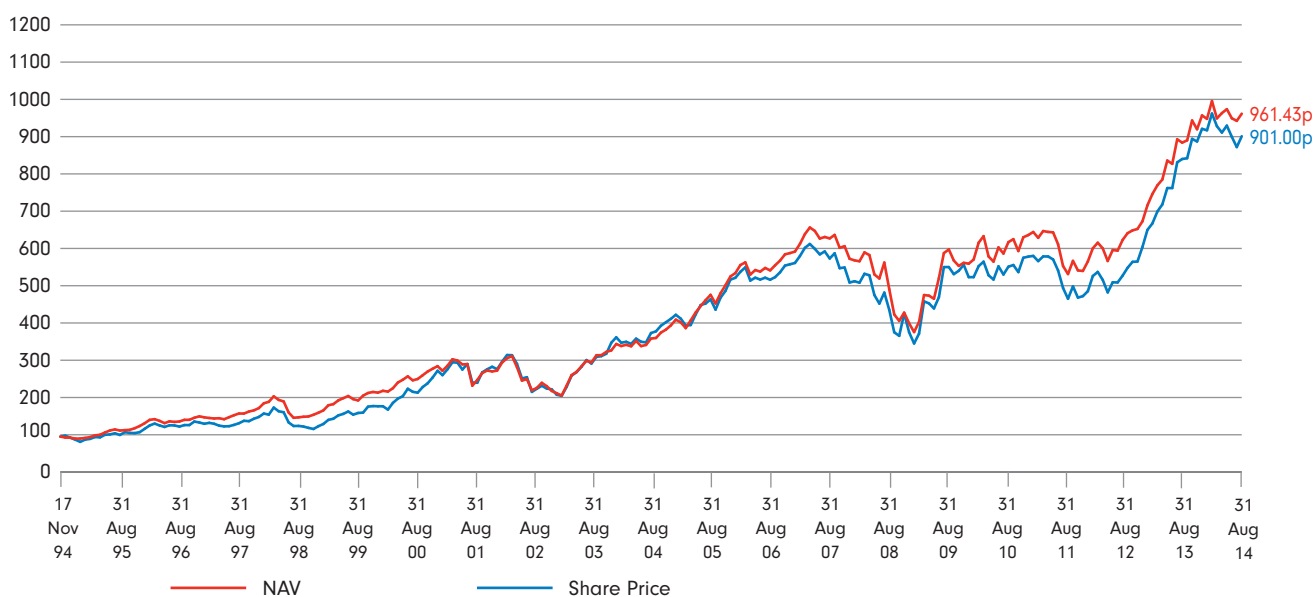
# Summary of Performance

Total return performance from launch to 31 August 2014



Prices rebased to 100  
Sources: Fidelity and Datastream

NAV and share price in pence from launch to 31 August 2014



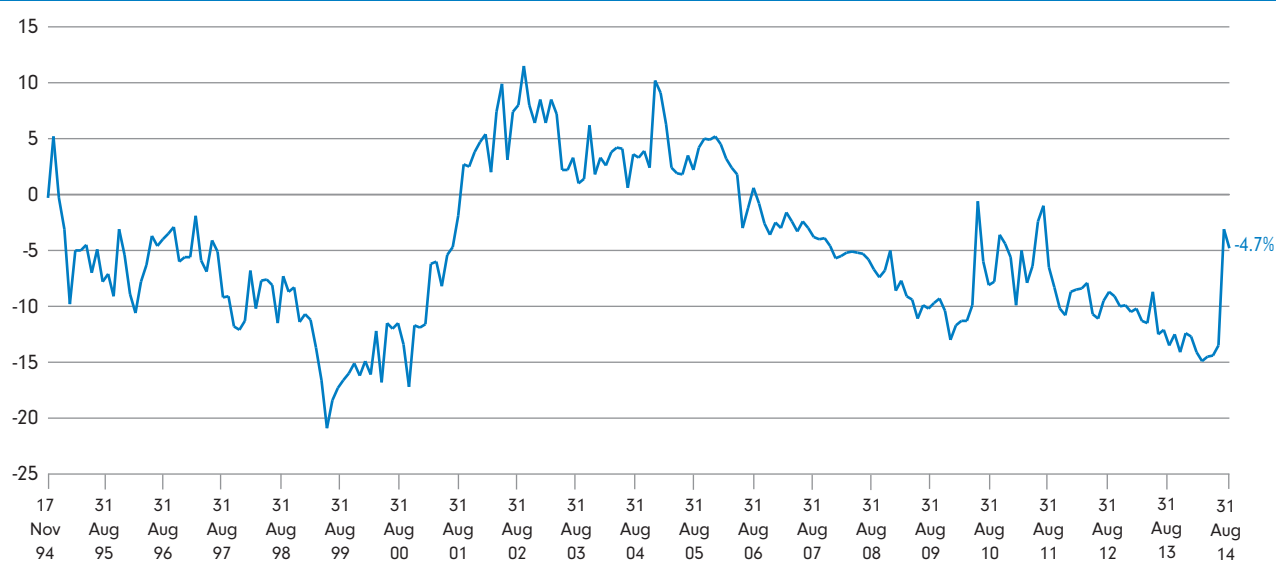
Prices rebased to 100  
Sources: Fidelity and Datastream

## Summary of Performance

Total return performance relative to the Benchmark Index from launch to 31 August 2014



Share price premium/(discount) to NAV from launch to 31 August 2014



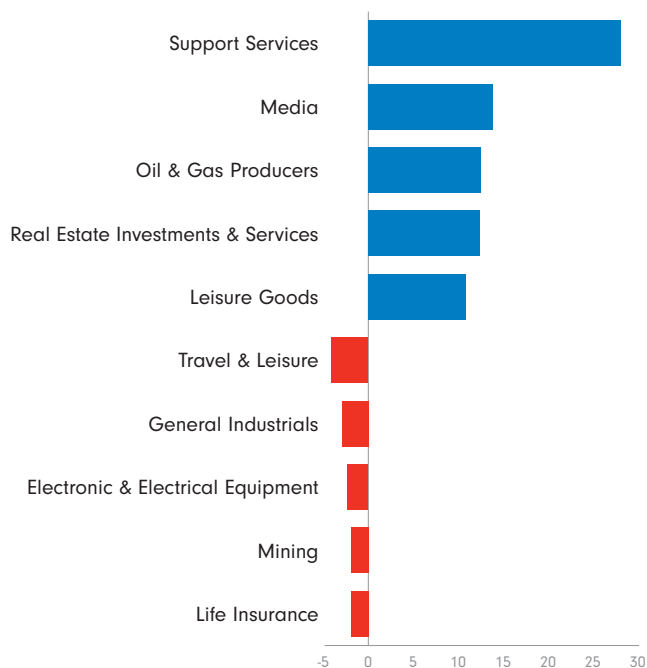
## Attribution Analysis

### Analysis of change in NAV in the year

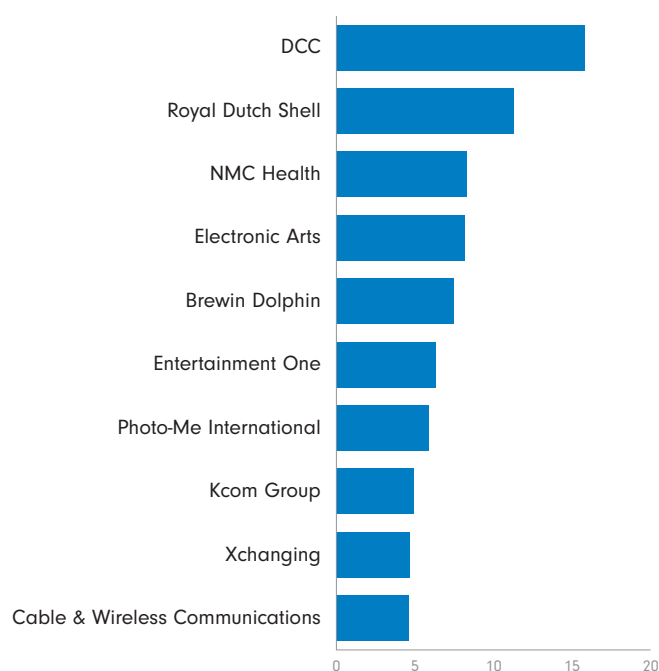
pence

<b>NAV as at 31 August 2013</b>	<b>883.93</b>
Impact of Index	+91.30
Impact of Portfolio Management	+13.74
Operational Costs	-10.59
Share Repurchases	+0.10
Cash/Residual	-0.04
<b>NAV (total return)</b>	<b>978.44</b>
Dividends paid	-16.25
Reinvestment Impact of Dividends paid	-0.76
<b>NAV as at 31 August 2014</b>	<b>961.43</b>

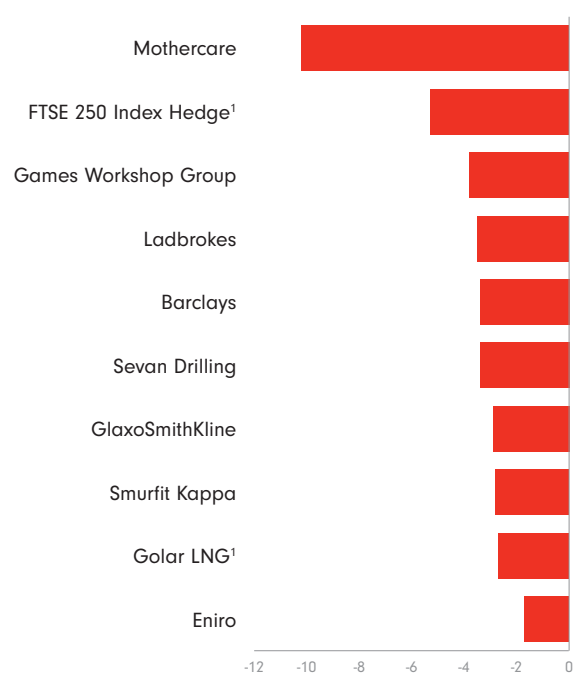
### Top 5 and bottom 5 sector contributors (pence per share)



### 10 Highest stock contributors (pence per share)



### 10 Highest stock detractors (pence per share)



These are absolute returns.  
¹ Short positions

Source: Fidelity

## Board of Directors



### LYNN RUDDICK<sup>2,3</sup>

(Chairman) (date of appointment: 22 July 2005; appointed as Chairman: 9 July 2010) is a Fellow of the Chartered Association of Certified Accountants. She is Chairman of British Assets Trust plc, a Non-Executive Director and Chairman of the Audit

Committees of Standard Life UK Smaller Companies Trust plc and BlackRock Frontiers Investment Trust plc, a member of the Investment Committee of the Pearson Group Pension Plan and Chairman of the Scottish & Newcastle Pension Plan Trustee Board and the Western Provident Association Pension Plan. She worked for many years as an investment manager in both Edinburgh and London and is a former Chairman of the Investment Committee of the National Association of Pension Funds.



### BEN THOMSON<sup>1,2,3</sup>

(Senior Independent Director) (date of appointment: 1 January 2008; appointed as Senior Independent Director: 12 July 2010) has a background of over 25 years in investment banking. He is Chairman of: Urbicus Ltd, Castle Capital Ltd, Reform

Scotland Limited, Inverleith LLP, Barrington Stoke Limited and the National Galleries of Scotland. He is a Director of the Edinburgh International Science Festival and until recently a Director of Martin Currie Global Portfolio Trust PLC. He was also Chairman and Chief Executive of the Edinburgh investment banking firm, Noble Group Limited, from 1997 until 2010. Mr Thomson has previously been a Non-Executive Director on a number of publicly quoted and private boards.



### SHARON BROWN<sup>1,2,3</sup>

(Chairman of the Audit Committee) (date of appointment: 15 April 2010; appointed as Chairman of the Audit Committee: 26 October 2010) was Finance Director of Dobbies Garden Centres Ltd between 1998 and 2013. She is a Non-Executive Director

and Chairman of the Audit Committee of F&C Capital and Income Investment Trust PLC and McColl's Retail Group plc. Mrs Brown previously held a senior financial position at John Menzies plc and is a Fellow of the Chartered Institute of Management Accountants.



### ANDY IRVINE<sup>1,2,3</sup>

(Date of appointment: 15 April 2010) is Non-Executive Chairman of Jones Lang La Salle Scotland and has over 30 years' experience in the field of commercial property development and investment. He is also Chairman of Montanaro European

Smaller Companies PLC, a Non-Executive Director of BlackRock North American Income Trust plc and a Director of Securities Trust of Scotland PLC. Mr Irvine is a former Chairman of Celtic Rugby and is a past Chairman of the British and Irish Lions Limited and a past President of the Scottish Rugby Union.



### DOUGLAS KINLOCH ANDERSON<sup>1,2,3</sup>

(Date of appointment: 18 October 1994) is Chairman of Kinloch Anderson Limited and a Director of F&C Private Equity Trust PLC. He has been President of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of the Institute of

Directors. He was previously a board member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and he was national President of the Royal Warrant Holders Association. His career has included wide experience in manufacturing, retailing and exporting, particularly to Europe, North America and the Far East.



### NICKY MCCABE<sup>3</sup>

(Date of appointment: 9 December 2004) is Fidelity's Head of Investment Trusts for Fidelity Worldwide Investments. She is a Non-Executive Director of Romax Technology Limited and Delta Healthcare Shanghai, all Moonray Investors' businesses

and a Director of FIL Investment Services (UK) Limited. Prior to her current role, she was Chief Operating Officer of Moonray Investors, a division of the FIL Ltd Group and Chief Operating Officer for the investment management team, having joined Fidelity in 1999 as head of investment administration. Ms McCabe has wide experience in investments, having been responsible for all aspects of operational, systems and project support for the portfolio managers, analysts and traders. Prior to joining Fidelity, she spent 6 years at HSBC Asset Management where she ran Performance Measurement, Institutional Marketing Support and Operations. Ms McCabe also spent 2 years at McKinsey & Co. as a strategy consultant.

All of the Directors are Non-Executive Directors and (with the exception of Ms McCabe) are independent

1 Member of the Audit Committee

2 Member of the Management Engagement Committee

3 Member of the Nomination Committee

## 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 2014.

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.

Details on the Company's business and status can be found in the Strategic Report on page 6.

### THE BOARD

All appointments to the Board, elections, re-elections and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. All of the Directors served throughout the year ended 31 August 2014 and their biographical details are set out on page 18.

Since 2004, the Board has followed a process whereby all Directors are subject to re-election on an annual basis. Information on the process of appointment, re-election and replacement of Directors is included in the Corporate Governance Statement.

Nicky McCabe, a Non-Executive Director of the Company, is also Head of Investment Trusts at Fidelity. She has waived her entitlement to Director's fees.

No Director has a contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which were significant in relation to the Company's business, except as disclosed in relation to Nicky McCabe's interests in the Management Agreement.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table below gives the attendance record for the meetings held during the year.

### MANAGEMENT COMPANY AND FEES

With effect from 8 July 2014, and as a result of the European Alternative Investment Fund Directive, FIL Investments International ("FIL") retired as investment manager, manager and secretary to the Company and was replaced by FIL Investment Services (UK) Limited ("FISL") to act as the Company's Alternative Investment Fund Manager (the "Manager"). At the same time, FISL, as the new Manager, delegated the portfolio management of assets and the role of company secretary to FIL.

The Alternative Investment Fund Management and Secretarial Services Agreement (the "Management Agreement") dated 8 July 2014 replaced that dated 6 February 2006 and continues to provide for an annual fee of an amount equal to 0.875% of net assets per annum for investment management and £600,000 for non-portfolio management services payable quarterly in arrears and calculated as of the last business day of March, June, September and December in each year. In computing the net asset value, the value of any investment in any fund which is managed by the Manager or an associate of the Manager is excluded.

The new Management Agreement will continue unless and until terminated by either party giving to the other not less than six months' notice in writing. The Management Agreement may, however, 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.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity ISA. The amount paid for these services for the year to 31 August 2014 is £180,000 (2013: £190,000). An amount of £914,000 (2013: £799,000) was due to the Manager under all the above agreements at 31 August 2014 and is included in 'other creditors' in Note 12 on page 48.

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Lynn Ruddick	5/5	1/1	n/a	1/1
Ben Thomson	4/5	1/1	3/3	1/1
Sharon Brown	5/5	1/1	3/3	1/1
Andy Irvine	5/5	1/1	3/3	1/1
Douglas Kinloch Anderson	4/5	1/1	2/3	1/1
Nicky McCabe	5/5	1/1	n/a	n/a

Figures indicate those meetings for which each Director was eligible to attend and attended in the year. Regular Board meetings exclude procedural meetings held to discharge, for example, formal approvals.

# Directors' Report

Fidelity operates a broker segmentation policy, which allows it to concentrate on those brokers who, in its opinion, offer the best service in terms of overall execution. These brokers are Fidelity's 'core' brokers. At the same time, the Manager evaluates the research provided by other brokers and uses some of them for their research. These brokers are called Secondary State Research firms ("SSRs"). As a consequence of the policy, the 'core' brokers earn a larger percentage of the commission paid. These 'core' brokers pay away some of the increased commission earned to the SSRs, to compensate them for the research provided to Fidelity. Under the Financial Conduct Authority ("FCA") regulations this type of payment from one broker to another is currently treated as 'softing'. The Manager's soft commission policy complies with the UK regulations. Fidelity adopts a best execution policy that applies to all transactions in all instruments, regardless of the fund or account or location of the trading desk.

The Manager has an arrangement with certain brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are credited to capital and included in the gains on sales of investments in Note 9 on page 47. In the year to 31 August 2014 £82,000 was received (2013: £57,000).

There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

Nicky McCabe, a Non-Executive Director of the Company, is employed by FIL Limited group. FIL Limited has no beneficial interest in the shares of the Company (2013: same).

## DIRECTORS AND OFFICERS' LIABILITY INSURANCE

In addition to benefits enjoyed under the Manager's global Directors and Officers' liability insurance arrangements, the Company maintains insurance cover for its Directors under its own policy as permitted by the Companies Act 2006. Directors are also covered by the Director Indemnity provisions in accordance with the Articles of Association as approved by the Shareholders.

## REGISTRAR, CUSTODIAN AND DEPOSITARY ARRANGEMENTS

The Company employs Capita Asset Services to manage the Company's share register. Fees for their registration services for the year under review amounted to £66,000 (2013: £44,000).

The Company employs JP Morgan Chase Bank as its custodian who are primarily responsible for safeguarding the Company's assets. Fees for their custodial services for the year under review amounted to £18,000 (2013: £19,000). With effect from 8 July 2014, the Company also employs J.P.Morgan Europe Limited (part of the same group of companies as JP Morgan Chase Bank) as its depositary and they are primarily responsible for oversight of the custody of investment funds and the protection of investor's interests. Fees for their depositary services for the period under review amounted to £6,000 (2013: nil).

## SHARE CAPITAL

The Company's issued share capital comprises ordinary shares of 25 pence each. As at 31 August 2014, the total number of shares in issue was 54,004,896 (2013: 54,128,896). Each share in issue carries one vote. Deadlines for the exercise of voting rights and details of arrangements by which someone other than the Shareholder can exercise voting rights are detailed in the Notes to the Notice of Meeting on pages 60 and 61. The Company's Ordinary Shares have a premium listing on the London Stock Exchange.

## PREMIUM/DISCOUNT MANAGEMENT: ENHANCING SHAREHOLDER VALUE

The Board has no rigid premium management or discount control policy but will exercise its authority to issue or repurchase the Company's shares if deemed to be in the best interests of Shareholders at the time.

The Board has adopted an approach whereby the level of premium/discount is actively managed by attempting to ensure the share price of the Company tracks as closely as possible to the underlying Net Asset Value of the Portfolio.

## SHARE ISSUES

No ordinary shares were issued during the year to 31 August 2014 (2013: nil) and none has been issued since the year end.

The authority to issue shares and disapply pre-emption rights granted by the Shareholders at the Annual General Meeting, held on 12 December 2013, expires at the conclusion of the next Annual General Meeting and therefore, resolutions renewing the authority will be put to Shareholders at the Annual General Meeting to be held on 10 December 2014.

## SHARE REPURCHASES

During the year to 31 August 2014, the Company repurchased 124,000 ordinary shares for holding in Treasury (2013: 250,000 shares repurchased for cancellation). Since the year end and as at the date of this report, a further 150,000 ordinary shares were repurchased by the Company for holding in Treasury. The total number of ordinary shares in issue at the date of this report is 53,854,896.

At the Annual General Meeting held on 12 December 2013, the Company's Shareholders passed a special resolution which granted the Directors authority to purchase up to 8,113,921 ordinary shares in the market for holding in Treasury or cancellation. The authority expires on 10 December 2014. A special resolution to renew the authority, including the ability to buy shares into Treasury, will be put to Shareholders for approval at the forthcoming Annual General Meeting.



# Directors' Report

## SUBSTANTIAL SHARE INTERESTS

As at 30 September 2014, notification had been received that the Shareholders listed in the table below held more than 3% of the issued share capital of the Company.

Shareholders	%
FIL Limited <sup>1</sup>	31.47
Rathbones <sup>2</sup>	5.01
Brewin Dolphin <sup>2</sup>	4.95
Henderson Global Investors <sup>3</sup>	4.43
Hargreaves Lansdown <sup>2</sup>	4.40
Alliance Trust <sup>2</sup>	3.82

1 Held in aggregate by investors in the Fidelity ISA and the Fidelity Investment Trust Share Plan

2 Indirect holdings

3 Direct and indirect holdings for clients and on own account

An analysis of ordinary Shareholders as at 31 August 2014 is detailed in the table below.

Analysis of ordinary Shareholders as at 31 August 2014	% of issued share capital
Private Shareholders <sup>1</sup>	61.81
Institutions	26.38
Pensions	6.89
Insurance	4.08
Other	0.84
	100.00

1 Includes Share Plan and ISA investors

## 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. The Manager, in its Principles of Ownership, expressly declares that it supports the Financial Reporting Council's Stewardship Code setting 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

The Chairman is responsible for ensuring that all Directors are made aware of Shareholders' concerns and this is done through a combination of meetings with Shareholders and feedback from the Company's stockbroker and Fidelity. Analyst and stockbroker meetings with the Portfolio Manager are held throughout the year. The Shareholder profile of the Company is regularly

monitored. It is believed that Shareholders have proper access to the Manager at any time and to the Board, if they so wish. Members of the Board may be contacted through the Company Secretary whose details are given on page 65.

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. Proxy votes are disclosed on the Company's pages of the Manager's website.

The Notice of Meeting on pages 58 to 61 sets out the business of the meeting and the special resolutions are explained more fully on this page. A separate resolution is proposed on each substantially separate issue including the Annual Report and financial statements.

The Chairman of the Board, the Chairman of the Audit Committee and other Directors will be available to answer questions at the forthcoming Annual General Meeting.

The Notice of the Annual General Meeting and related papers are sent to Shareholders at least 20 working days before the Meeting.

## GREENHOUSE GAS EMISSIONS

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. FIL Investments International is registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the Environment Agency.

## 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 your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.**

*If you have sold, transferred or otherwise disposed of all your shares in the Company, please pass this document and the accompanying form of proxy to the stockbroker, bank or other agent through whom you made the sale, transfer or disposal for transmission to the purchaser or transferee, except that such documents should not be sent to any jurisdiction under any circumstances where to do so might constitute a violation of local securities laws and regulations. If you have sold or transferred or otherwise disposed of only part of your holding of shares in the Company, you should retain this document and the accompanying form of proxy and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal.*

At the Annual General Meeting on 10 December 2014, resolutions will be proposed to renew the Directors authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors

# Directors' Report

which expire on the date of the Annual General Meeting and will provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by Shareholders.

## Authority to allot shares

Resolution 13 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 £1,346,372. If passed, this resolution will enable the Directors to allot a maximum of 5,385,489 ordinary shares which represents approximately 10% of the issued ordinary share capital (excluding Treasury shares) of the Company as at 31 October 2014 and so that the Directors may impose any limits or restrictions and make any arrangements which it considers 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 authority will expire at the conclusion of the Annual General Meeting of the Company in 2015 or the date 15 months after the passing of the resolution, whichever is earlier. 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 net asset value per share or at a premium to net asset value per share. As at 31 October 2014, 274,000 ordinary shares were held by the Company in Treasury representing 0.5% of the total ordinary share capital of the Company in issue as at 31 October 2014.

## Authority to disapply pre-emption rights

Resolution 14 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without further specific Shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £1,346,372 (approximately 10% of the issued ordinary share capital of the Company as at 31 October 2014).

## Authority to re-purchase the Company's shares

Resolution 15 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 31 October 2014 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 net asset value per share, thereby resulting in an increased net asset value per share. As at 31 October 2014, there were no warrants or options over the ordinary shares in the capital of the Company.

## Adoption of New Articles of Association

Resolution 16 is being proposed as a special resolution and relates to the adoption of new Articles of Association (the **New Articles**) which update the Company's existing Articles of Association.

There have been a number of recent changes to tax, regulation and company law which affect investment trusts and the Company. The Board is therefore seeking approval to adopt the New Articles, substantially in the form of the existing Articles, but updated to reflect these changes.

In particular:

1. As a result of changes in tax law, the Companies Act 2006 has been amended to remove the requirement that an investment company's articles of association must prohibit a distribution of realised capital profits and so it is now possible for such companies to pay dividends out of capital profits. It is therefore proposed that the Company's Articles should be updated to give the Company greater flexibility in line with tax and company laws. The Board has no current intention to pay any dividends out of capital profits but believe that it is in the Shareholders' best interests for the Board to have this power should circumstances warrant its use in the future.
2. The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD"). The proposed New Articles have therefore also been updated in order to reflect the implementation of the AIFMD. In particular, it is proposed to include a new Article 99, expressly granting the Board the authority to allow a depositary to be discharged from liability for the loss of financial instruments held in custody in accordance with the limited circumstances permitted by Article 21 of AIFMD.
3. The final change to the Articles is in respect of the procedures to be followed when paying dividends. At present the Company will send dividend cheques by post but may pay directly into a bank account on the instructions of the Shareholder. In accordance with the recent recommendations of the Registrar's Group of the Institute of Chartered Secretaries and Administrators, the Company proposes to amend the articles to give it greater flexibility to make payments in other ways, particularly electronically and in the future to specify that the default option for payment of dividends may be by direct payment into a bank account with an option for Shareholders to continue to receive payment through the post. The current provisions of the articles to deal with non-payment are expanded to cover electronic payments so that if cheques or other payment methods for dividends fail and having made reasonable enquiries the Company cannot establish another means of paying the Shareholder, the Company may cease to make payments until it has correct payment information and after twelve years the dividends are forfeited. The Company is not currently intending to change the methods for payment of dividends but believes that it is sensible to include this power for the future within the new Articles being proposed for adoption.

# Directors' Report

A copy of the existing Articles of Association and the proposed New Articles (showing all changes to the existing Articles), are available for inspection at the registered office of the Company and at 25 Cannon Street, London EC4M 5TA and will be made available for inspection at the Company's forthcoming Annual General Meeting at least 15 minutes prior to the start of the meeting and up until the close of the meeting.

The full text of the resolutions are set out in the Notice of Meeting contained on pages 58 to 61.

**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.**

## CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement, which forms part of this Directors' Report, can be found on pages 24 to 28.

## AUDITOR'S RIGHT TO INFORMATION

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

## AUDITOR'S APPOINTMENT

A resolution to reappoint Grant Thornton UK LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting together with a resolution to authorise the Directors to determine the Auditor's remuneration.

## GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 9. The financial position of the Company, its cash flows, liquidity position and gearing facilities are described in the Financial Statements and Notes thereto on pages 37 to 56.

The Company's objectives, policies and processes for managing its capital, financial risk objectives, details of financial instruments and its exposures to credit and liquidity risk are also set out in the Strategic Report on pages 6 and 7 and in Notes 18 and 19 to the Financial Statements on pages 51 to 56.

The Company's assets consist mainly of securities which are readily realisable and where outsourcing arrangements are in place, including registrar, custodian and depositary services, alternative service providers are readily available. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Board receives regular reports from the Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## CONTINUATION VOTE

Continuation votes are held every three years and the next continuation vote will be put to the Shareholders at the 2016 AGM.

## ARTICLES OF ASSOCIATION

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

By Order of the Board  
**FIL Investments International**  
 Secretary  
 31 October 2014

# Corporate Governance Statement

"Corporate governance" is the process by which a board of directors of a company looks after the 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 REQUIREMENTS

Part of the London Stock Exchange's Listing Rules is the requirement for all listed companies to set out a statement in their annual reports on how they comply – or if not explain why not – with the provisions of the UK Corporate Governance Code ("UK Code") issued by the Financial Reporting Council ("FRC") on September 2012. Because investment trust companies differ in many ways from conventional operating companies, the Association of Investment Companies ("AIC") has drawn up its own set of guidelines (the AIC Code of Corporate Governance ("AIC Code")) which meet with the approval of the FRC and which form the basis of Fidelity Special Values' own compliance.

There are 21 principles which form the substance of the AIC Code. The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") (which incorporates the UK Code), provides better information to Shareholders.

## THE CORPORATE GOVERNANCE OF AN INVESTMENT TRUST COMPANY

The corporate governance of most investment trust companies, including Fidelity Special Values PLC, is different from most other commercial companies in one important respect: they do not employ their own people as management but rather the services of a fund management company. This affects the way investment trusts are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment trust companies and their Shareholders, the composition of investment trust boards of directors must be largely independent of management. However, it must have the knowledge and experience of both fund management and investment trust 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 trust company, while following the guidelines of the AIC Code of Corporate Governance, 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 the Board members (including the Chairman), who are independent of management, and that the make up of the Board should bring understanding and experience of investment management, investment trust management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations.

While the key determinant of independent behaviour stems from personal character, the Directors recognise that any individual who is employed by or otherwise materially financially associated with the Manager, FIL Investments International, cannot be regarded as independent. Consequently at any given time there has only ever been one FIL Investments International member serving as a Director. Other relationships or time served as a Director are not regarded prima facie as compromising independent behaviour but may nevertheless be of interest to Shareholders and consequently the details and the Directors' current business associations are set out on page 18 for Shareholders' perusal. 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 and all of the 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 other interests that may arise as part of considering any potential conflicts.

All of the Directors are Non-Executive and five of the six have no relationship with the Manager.

Each Director's individual independence, including that of the Chairman, has been considered, 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

Based on the above considerations all five non-Fidelity Directors, including the Chairman, have been assessed and are considered to be independent.

Tenure, the term served by a director of a company, is a controversial issue. It is the belief of the Board that it can best do its job if it works as a team composed of individuals who work well together, if each contributes to its performance. In order to do so, it believes that its membership benefits from the inclusion of Directors who have served a long time and bring both experience and past knowledge of the Company (and its business) to its governance and also newer members who bring additional/further attributes to the Company's governance.

Recognising that different Shareholders have different views on tenure, the Board decided in 2004 that each Director would be subject to annual re-election by Shareholders. This was prior to the new requirement introduced for FTSE 350 companies for all investment trust directors to be subject to annual re-election.

The Board considers that it meets sufficiently regularly to discharge its duties efficiently. The attendance record for the meetings held in the year can be found in the Directors' Report on page 19.

## RESPONSIBILITY

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. The Company's investment policy is detailed on pages 6 and 7; and
3. Making recommendations to Shareholders (for their consideration at annual general meetings) on matters not delegated to the Board of Directors, which include the approval of the annual financial statements, the election and re-election of Directors and the appointment of the Auditor.

## AUTHORITY

The Board of Directors is furnished by the Shareholders with the authority to manage the Company on their behalf, being required to discharge the responsibilities outlined above. The Board, being wholly Non-Executive and (by majority) independent of management, carries out its duties through the mechanism of Board meetings and Board Committee meetings. The most important aspect of the 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 FIL Investments International, there are certain decisions which are retained and made by the Directors, including the payment of dividends, the share repurchase guidelines and the derivatives and gearing policies.

In structuring the 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 repurchases and Fidelity's Investment Trust Share Plan and ISA marketing). 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 financial advisers and stockbrokers to discuss Shareholder value and investor relation issues while the Manager meets with the larger Shareholders at least once a year and reports back to the Board on those meetings. Key representatives of the Manager attend each Board meeting, enabling the Board to probe further on matters of concern or seek clarification on certain issues.

The Board of Directors discharges certain of its corporate governance responsibilities through three Committees as set out below. Written terms of reference of each Committee are available on the Company's pages of the Manager's website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)).

## THE AUDIT COMMITTEE

The Audit Committee is chaired by Sharon Brown and consists of all of the independent Directors, except for Lynn Ruddick. Full details of the Audit Committee have been disclosed in the Report of the Audit Committee on pages 29 and 30.

## THE MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee is chaired by Lynn Ruddick and consists of all of the independent Directors. It is charged with reviewing and monitoring the performance of the Manager in respect of its contract and the fees it is paid.

This Committee meets at least once a year and reports to the Board of Directors, making recommendations where appropriate.

The level of remuneration of the Manager is determined by the Management Engagement Committee; the fee relates to the investment management function, on which a percentage of funds under management is paid (thereby relating this part of its remuneration to absolute performance) and a set fee for the administrative function.

The Board of Directors is mindful that the amounts paid to the Manager should be sufficient to ensure that both the Portfolio Manager and the administrators within the management house



# Corporate Governance Statement

appointed to the job of looking after its affairs are highly skilled and able to devote sufficient time to the Company's business.

The criteria which are taken into consideration in reviewing the performance of the Manager are set out below:

- Quality of team – the skills and particularly the experience of the team involved in managing all aspects of the Company's business;
- Commitment of the Manager to the investment trust business generally and to the Company in particular;
- Managing the Company – in running and controlling the administration, the accounting and the secretaryship of the Company;
- Investment management – portfolio management skills, experience and track record and other investment related considerations including gearing, currencies, use of derivatives, hedging, share repurchases etc;
- Shareholders – Shareholder consciousness and relations, discount management and commitment to the Company's goals; and
- Management Agreement – consideration of fees, notice periods and duties.

The Management Engagement Committee has reviewed the performance of the Manager taking into consideration those items in the Corporate Governance Statement on pages 24 to 28 of this Annual Report. The Committee concluded that it was in the long term interests of Shareholders that the Management Agreement should continue reflecting the depth and breadth of skills and experience within Fidelity.

## THE NOMINATION COMMITTEE

The Nomination Committee, chaired by Lynn Ruddick, consists of all the Directors and is charged with:

1. Nominating new Directors for consideration by the Board of Directors, in turn for approval by Shareholders; and
2. Consideration of the reappointment of Directors.

In respect of new Directors the Board believes that it is important in the search for, the interview of and recommendation to the Board of a candidate that it be controlled by the independent Directors who in turn form the majority of this Committee. The Board 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 on the Board.

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and his or her duties and responsibilities as a Director. In addition, a new Director will receive an induction, spending some time with representatives of the Manager whereby he or

she will become familiar with the various processes which the Manager considers necessary for the performance of its duties and responsibilities to the Company. The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, among 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.

It is the policy of the Board for all Directors to retire and seek re-election at each Annual General Meeting ("AGM") of the Company. Biographical details for each Director are set out on page 18 to provide sufficient information to enable Shareholders to make an informed decision regarding their re-election. In addition, 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 forthcoming AGM.

A formal annual process for the evaluation of the Board and its Committees is in place. This takes the form of one to one discussions. The performance of the Chairman is evaluated by the other Directors on an annual basis. The Company Secretary and Manager also participate in these processes to provide all round feedback to the Board. The results of these evaluations are considered and discussed by 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.

## DIRECTORS' REMUNERATION

The level of Directors' fees is determined by the whole Board. Full details of the Company's Remuneration Policy and Directors' fees are disclosed in the Directors' Remuneration report on pages 31 and 32.

## 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, interim management statements, accessibility to the Board at any time through the office of the Chairman and finally the presentation of the results (the financial statements) and future prospects at the AGM.

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 open forum and make their own judgement accordingly. The AGM provides Shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board of Directors. This includes the re-election of Directors every

# Corporate Governance Statement

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 for cancellation. Your Board has an established policy that should enable 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 such vote will be at the AGM to be held in 2016, the last being at the AGM held on 12 December 2013.

## SENIOR INDEPENDENT DIRECTOR

The Board appointed Ben Thomson as Senior Independent Director on 12 July 2010. The Senior Independent Director fulfils the role as a sounding board for the Chairman and as intermediary for other Non-Executive Directors as necessary.

## THE COMPANY SECRETARY

The Company Secretary is a corporate secretary. The appointment of the Company Secretary is a matter for the Board as a whole. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that 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 due time in a form and of a quality appropriate to enable it to discharge its duties.

## AIC CODE

The Board of Fidelity Special Values PLC has considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance ("the AIC Code") by reference to the AIC Corporate Governance Guide for investment companies ("the AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses governance issues relevant to investment companies and enables boards to satisfy any requirements they may have under the UK Corporate Governance Code ("UK Code") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The AIC Code and the AIC Guide may be found at [www.theaic.co.uk](http://www.theaic.co.uk). The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to Shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below. The UK Code includes provisions relating to:

- The Management Engagement Committee being chaired by the Chairman of the Board; and

- 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 issues are not relevant to the position of Fidelity Special Values PLC, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Company's systems of risk management and of internal control 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 also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's principal business and operational risks, that it has been in place for the year ended 31 August 2014 and up to the date of approval of this Annual Report and financial statements, and that it is regularly reviewed by the Board. This process is in accordance with the FRC's "Internal Control: Revised Guidance for Directors".

The Board 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 and regular reports on controls and compliance issues are provided to the Audit Committee and the Board. In carrying out its review, the Audit Committee has had regard to the activities of the Manager, the Manager's compliance and risk functions and the independent Auditor. The Audit Committee's and Board's review also includes consideration of internal controls and similar reports issued by the Manager and other service providers.

The Board has reviewed the need for an internal audit function. In keeping with most other investment trust companies the Board has decided that the systems and procedures employed by the Manager, including its internal audit function, provide sufficient assurance that a sound system of internal control, which safeguards Shareholders' investments and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit Committee meets the Manager's Head of Internal Audit at least twice a year. The Chairman of the Audit Committee has direct access to the Manager's Head of Internal Audit and vice versa.

## WHISTLE-BLOWING PROCEDURE

Part of the Managers' role in ensuring the provision of a good service pursuant to the Management Agreements includes the ability for employees of FIL to raise concerns through a



# Corporate Governance Statement

workplace concerns escalation policy (or “whistle-blowing procedure”). FIL 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 FIL 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.

On behalf of the Board



**Lynn Ruddick**  
Chairman  
31 October 2014

# Report of the Audit Committee

I am pleased to present the first formal report of the Audit Committee to Shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting and the appropriateness of the risk management processes and internal controls. This report details how we carry out this role.

## COMPOSITION AND MEETINGS

The members of the Committee during the year were myself as Chairman, Ben Thomson, Douglas Kinloch Anderson and Andy Irvine. All members of the Committee are independent Non-Executive Directors, and their skills and experience are set out on page 18. The Committee considers that collectively the members have sufficient recent and relevant financial experience to fully discharge their responsibilities.

Historically the Committee has met twice a year, but this was increased to three times during this reporting year, in order to include a meeting dedicated to risk management. The attendance of the Committee members is shown in the table on page 19. The Committee invites the external auditors and personnel from the Managers financial and internal audit functions to attend and report to the Committee on relevant matters. During the year I also met privately with the external auditor and a representative from the Manager's internal audit 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.

## 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 is on page 34. 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.

Recognition of Investment Income	Investment income is recognised in accordance with accounting policy Note 1(b) on page 41. The Manager provided detailed revenue forecasts for the Board, and variances to this forecast were reviewed. The Audit Committee reviewed internal audit and compliance monitoring reports received from the Manager, to satisfy itself that adequate systems were in place for properly recording the Company's income. Investment income was also tested and reported on by the External Auditor.
Valuation, existence and ownership of investments (including derivatives)	The Audit Committee received reports from the Manager and the Company's Independent Auditor who had verified the valuation of the Company's investments and derivatives by reference to independent sources. The Committee also considered the valuation of unlisted investments, having received a report from the Manager's Fair Value Committee.

## ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Committee's authority and duties are defined in its terms of reference, which were reviewed during the year and are available on the Company's pages of the Manager's website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)). The principal activities carried out during the year were:

- Financial reporting: we considered the Company's financial reports, including the implications of new accounting standards and regulatory changes, significant accounting issues and the appropriateness of the accounting policies adopted. We considered and are satisfied that, taken as a whole, the 2014 Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance and strategy.
- Internal and External audits: we considered the scope of the internal and external audit plans and the subsequent findings from this work, receiving regular reports from the external and internal auditors. The Committee also monitored progress in the implementation of internal audit recommendations.
- Risk and internal control: we dedicated a full Committee meeting to the consideration of the key risks facing the Company and the adequacy and effectiveness of the internal controls and risk management processes.
- External auditor: we considered the independence, effectiveness and fees of the external auditor, as detailed later in this report.

# Report of the Audit Committee

## RELATIONSHIP WITH THE INDEPENDENT AUDITOR

There are no contractual obligations which restrict the Committee's choice of auditor. Following a tender in 2006, Grant Thornton UK LLP became the Company's Independent Auditor and they have appointed Julian Bartlett as the current audit partner for this Company. Julian became the audit partner in 2012 and, following professional guidelines, can serve for up to 5 years. The continued appointment of Grant Thornton is considered by the Audit Committee each year, taking into account relevant guidance and best practice and considering their independence and the effectiveness of the external audit process.

As part of the review of Auditor independence and effectiveness, Grant Thornton have confirmed that they are independent of the Company and have complied with relevant accounting standards. Grant Thornton did not provide any non-audit services to the Company in this or the previous accounting period. With regard to their performance and the effectiveness of the audit process, the Committee considered the fulfilment by the Auditor of the agreed audit plan and the Audit Findings Report subsequently issued by them. The Committee also took into account the competitiveness of their fees and obtained feedback from the Managers regarding the performance of the audit team.

The Committee is satisfied with the independence and performance of the Auditor and has recommended their reappointment for a further year.

### **Sharon Brown**

Chairman of the Audit Committee  
31 October 2014

# Directors' Remuneration Report

## CHAIRMAN'S STATEMENT

The Directors' Remuneration Report for the year ended 31 August 2014 has been prepared in accordance with Section 421 of the Companies Act 2006, the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 and the Enterprise & Regulatory Reform Act 2013. Ordinary resolutions to approve both the Remuneration Policy and the Directors' Remuneration Report will be put to Shareholders for their consideration at the Annual General Meeting to be held on 10 December 2014. The Company's independent 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 Independent Auditor's opinion is included in its report on pages 35 and 36.

The Board does not consider the need to have a separate Remuneration Committee due to the relatively small size of the Board and as the Company has no employees. Instead the Board carry out the function of a Remuneration Committee under my Chairmanship. As the Board is comprised entirely of Non-Executive Directors and has no employees, many parts of the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013, in particular those relating to Chief Executive Officer pay and employee pay, do not apply and are therefore not disclosed in the report.

## DIRECTORS' REMUNERATION

The fee structure with effect from 1 January 2014 is as follows: Chairman – £38,000; Chairman of the Audit Committee – £29,000; Senior Independent Director – £27,000; and Director – £25,000. Levels of remuneration are competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully. The review of the Board's fees is based on information provided by the Company's Manager, Fidelity, and research which includes reference to the fees of other similar investment trusts.

## 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. 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 is set out below.

The Company's Articles of Association limit the aggregate fees payable to the Board of 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, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long term incentive schemes, non-cash benefits or taxable benefits. No other payments are made to Directors other than reasonable out of pocket expenses which have been incurred as a result of attending to the affairs of the Company.

The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

The level of Directors' fees is determined by the whole Board. Directors do not vote on their own 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, Fidelity, 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 Annual General Meetings and can be obtained from the Company's registered office.

In common with most investment trusts there is no Chief Executive Officer and there are no employees.

The Company's remuneration policy will apply to new Board members, who will be paid at the same level as current Directors.

This policy has been followed throughout the year under review but will be formalised for the first time at the Company's forthcoming Annual General Meeting to be held on 10 December 2014 and it will take effect from that date.

## REPORT ON THE IMPLEMENTATION OF THE REMUNERATION POLICY

This refers to the way in which the Remuneration Policy has been implemented during the year ended 31 August 2014. The Directors' Remuneration Report will be put to Shareholders by way of an ordinary resolution at each Annual General Meeting. This is a non-binding 'advisory' resolution. In the event that Shareholders vote against the resolution, the Board will be required to put its Remuneration Policy for Shareholder approval at the next Annual General Meeting, regardless of whether the Remuneration Policy was approved by Shareholders within the last three years.

## Voting at the Company's last Annual General Meeting

At the Annual General Meeting held on 12 December 2013, 97.95% of votes were cast in favour (or granted discretion to the Chairman of the meeting who cast them in favour) of the Directors' Remuneration Report for the year ended 31 August 2013, 1.02% of votes were cast against and 1.03% of votes were withheld. At the Annual General Meeting to be held on 10 December 2014, for the first time, the Company's Remuneration Policy and the Directors' Remuneration Report will be put to Shareholders and the votes cast at that meeting with regard to the two new resolutions will be released to the market via a regulatory news service provider and disclosed in the Remuneration Report for the year to 31 August 2015 and on the Company's website.

# Directors' Remuneration Report

## Single Total Figure of Remuneration

The single total aggregate Directors' remuneration for the year under review was £142,333 (2013: £136,334). Information on individual Directors' fees is shown below.

Remuneration of Directors	2015 Projected Fees (£)	2014 Audited Fees (£)	2013 Audited Fees (£)
Lynn Ruddick	38,500	37,666	36,667
Ben Thomson	27,333	26,667	25,000
Sharon Brown	29,667	28,666	27,333
Andy Irvine	25,333	24,667	23,667
Douglas Kinloch Anderson	25,333	24,667	23,667
Nicky McCabe <sup>1</sup>	–	–	–
<b>Total</b>	<b>146,166</b>	<b>142,333</b>	<b>136,334</b>

1 Waives her Directors' fees

Directors' fees are paid monthly in arrears. Directors do not serve a notice period if their appointment were to be terminated.

## Expenditure on Remuneration and Distributions to Shareholders

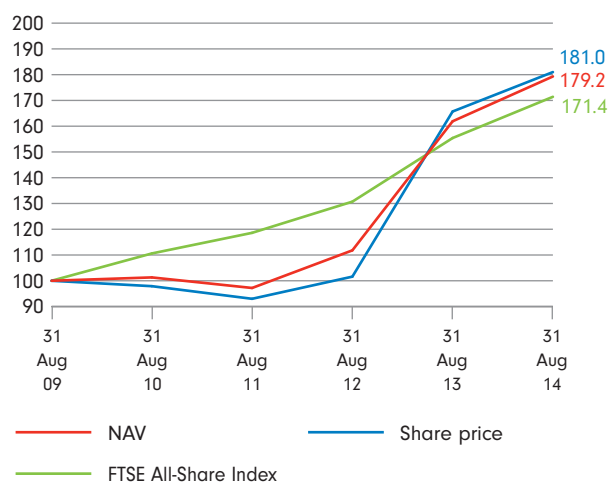
The table below shows the total amount paid out in remuneration and distribution to Shareholders for the financial years 31 August 2013 and 31 August 2014.

	31 August 2014 £	31 August 2013 £
<b>Expenditure on Remuneration:</b>		
Aggregate of Directors' Fees	142,333	136,334
<b>Distribution to Shareholders:</b>		
Dividend payments	8,796,000	7,069,000
Shares repurchased	1,124,000	1,875,000

## Performance

The Company's investment objective for Fidelity Special Values PLC is to achieve long term capital growth from a portfolio of shares consisting primarily of UK-listed companies. The Company will have a blend of investments in larger, medium and smaller sized companies and be guided by a contrarian philosophy. The following graph shows performance over five years to 31 August 2014.

## Performance from 1 September 2009 to 31 August 2014 (on a total return basis)



Basis: Prices rebased to 100

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Directors' Remuneration Report

## Directors' Interest in Ordinary Shares

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

## Directors' Shareholdings (Audited)

	31 August 2014	31 August 2013	Change during year
Lynn Ruddick <sup>1</sup>	8,243	8,097	146
Ben Thomson <sup>1,2</sup>	20,312	9,000	11,312
Sharon Brown	2,000	2,000	-
Andy Irvine	15,000	15,000	-
Douglas Kinloch Anderson <sup>1</sup>	18,415	18,134	281
Nicky McCabe <sup>2</sup>	1,698	1,000	698

1 Dividend reinvestment

2 Purchase of shares

The Portfolio Manager also holds ordinary shares in the Company.

The Directors' shareholdings remain unchanged at the date of this report with the exception of Nicky McCabe who acquired a further 233 ordinary shares via an ISA monthly saving plan.

On behalf of the Board



**Lynn Ruddick**  
Chairman  
31 October 2014

## 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 period. Under that law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice.

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- confirm, to the extent possible, that the Financial Statements are fair, balanced and understandable.

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 responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). 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.

We confirm that to the best of our knowledge the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and the Strategic Report and Directors' Report include 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. We confirm that we consider the annual report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business and strategy.

Approved by the Board on 31 October 2014 and signed on its behalf.



**Lynn Ruddick**  
Chairman



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

We have audited the financial statements of Fidelity Special Values PLC (the 'Company') for the year ended 31 August 2014 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## AUDITOR COMMENTARY

### An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focused on obtaining an understanding of, and evaluating, internal controls at the Company and relevant third-party service providers, and inspecting records and documents held by the Company and third-party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

### Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a

misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £5,192,000, which is 1% of the Company's net assets. For the revenue column of the income statement we determined that misstatements of a lesser amount than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by a misstatement or omission. Accordingly, we established materiality for the revenue column of the income statement to be £1,298,000.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £260,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

### Valuation and existence of investments

The Company's business is investing principally in financial assets with a view to profiting from their total return in the form of income and capital growth. Accordingly, the investment portfolio, which includes both listed equity investments and Contracts for Differences ("CFDs"), is a significant material item in the financial statements. We therefore identified the valuation and existence of the investment portfolio as a risk that requires particular audit attention.

Our audit work included, but was not restricted to, obtaining an understanding of management's processes for recognising and measuring the fair value of the investment portfolio in order to confirm compliance with relevant accounting standards, and verification of the existence of those investments.

We agreed the valuation of all listed equity investments to an independent source of market prices and we agreed the valuation of CFDs by agreeing the contract price to the report from the independent custodian and the settlement price to an independent source of market prices. We obtained confirmation of the existence of listed equity investments and CFDs held at the year-end directly from the independent custodian, tested the reconciliation of the custodian records to the records maintained by the Company's administrator, and tested a sample of listed equity investment and CFD additions and disposals shown in the Company's records to supporting documentation.

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

The Company's accounting policy on the valuation of investments is included in Note 1, and its disclosures about investments held at the year-end are included in Notes 9 and 10.

## Recognition of income from investments

Investment income is the Company's major source of revenue and a significant, material item in the Income Statement. Accordingly, we identified the recognition of revenue from investments as a risk that requires particular audit attention.

Our audit work included, but was not restricted to: assessing whether the Company's accounting policy for revenue recognition is in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'; obtaining an understanding of management's process for recognising revenue in accordance with the stated accounting policy; testing whether a sample of revenue transactions had been recognised in accordance with the policy; and for a sample of investments held in the period confirming that revenue that should have been received has been received and recorded, and assessing whether any of the dividends should have been treated as capital receipts.

The Company's accounting policy on the recognition of revenue from investments and the components of that revenue are included in Notes 1 and 2.

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2014 and of its net return 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.

## OTHER REPORTING RESPONSIBILITIES

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

In our opinion:

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

### Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

### Under the Companies Act 2006 we are required 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 from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 23, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

## Julian Bartlett

(Senior Statutory Auditor)  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
31 October 2014

# Income Statement for the year ended 31 August 2014

Notes	2014			2013 (as restated)		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
9 Gains on investments	-	32,699	32,699	-	120,875	120,875
10 Gains on long CFDs	-	14,597	14,597	-	25,387	25,387
10 Losses on short CFDs, futures and warrants	-	(4,624)	(4,624)	-	(6,740)	(6,740)
2 Net income	15,305	-	15,305	14,909	-	14,909
2 Other interest	93	-	93	67	-	67
3 Investment management fee	(5,087)	-	(5,087)	(4,269)	-	(4,269)
4 Other expenses	(633)	-	(633)	(635)	-	(635)
Exchange (losses)/gains on other net assets	(3)	(389)	(392)	-	19	19
<b>Net return before finance costs and taxation</b>	<b>9,675</b>	<b>42,283</b>	<b>51,958</b>	<b>10,072</b>	<b>139,541</b>	<b>149,613</b>
5 Finance costs	(1,281)	-	(1,281)	(789)	-	(789)
<b>Net return on ordinary activities before taxation</b>	<b>8,394</b>	<b>42,283</b>	<b>50,677</b>	<b>9,283</b>	<b>139,541</b>	<b>148,824</b>
6 Taxation on return on ordinary activities	2	-	2	(44)	-	(44)
<b>Net return on ordinary activities after taxation for the year</b>	<b>8,396</b>	<b>42,283</b>	<b>50,679</b>	<b>9,239</b>	<b>139,541</b>	<b>148,780</b>
7 <b>Return per ordinary share</b> – basic and diluted	<b>15.52p</b>	<b>78.15p</b>	<b>93.67p</b>	<b>17.02p</b>	<b>257.01p</b>	<b>274.03p</b>

A Statement of Total Recognised Gains and Losses has not been prepared as there are no gains and losses other than those reported in this Income Statement. The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The Notes on pages 41 to 56 form an integral part of these financial statements.

# Balance Sheet

as at 31 August 2014

Company number 2972628

Notes	2014 £'000	2013 £'000
<b>Fixed assets</b>		
9 Investments	458,879	424,387
<b>Current assets</b>		
10 Derivative assets	26,742	31,333
11 Debtors	7,582	2,515
Amounts held at futures clearing houses and brokers	3,421	-
17 Fidelity Institutional Liquidity Fund	27,584	-
17 Cash at bank	2,743	25,715
	68,072	59,563
<b>Creditors</b>		
10 Derivative liabilities	(5,803)	(1,864)
12 Creditors	(1,929)	(3,626)
	(7,732)	(5,490)
<b>Net current assets</b>	60,340	54,073
<b>Total net assets</b>	519,219	478,460
<b>Capital and reserves</b>		
13 Share capital	13,532	13,532
14 Share premium account	95,767	95,767
14 Capital redemption reserve	3,256	3,256
14 Other non-distributable reserve	5,152	5,152
14 Capital reserve	390,883	349,724
14 Revenue reserve	10,629	11,029
<b>Total equity Shareholders' funds</b>	519,219	478,460
15 <b>Net asset value per ordinary share</b>	961.43p	883.93p

The financial statements on pages 37 to 56 were approved and authorised for issue by the Board of Directors on 31 October 2014 and were signed on its behalf by:

**Lynn Ruddick**  
Chairman

The Notes on pages 41 to 56 form an integral part of these financial statements.

# Reconciliation of Movements in Shareholders' Funds

for the year ended 31 August 2014

Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non- distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Opening Shareholders' funds: 1 September 2013</b>	13,532	95,767	3,256	5,152	349,724	11,029	478,460
13 Repurchase of ordinary shares	-	-	-	-	(1,124)	-	(1,124)
Net return on ordinary activities after taxation for the year	-	-	-	-	42,283	8,396	50,679
8 Dividend paid to Shareholders	-	-	-	-	-	(8,796)	(8,796)
<b>Closing Shareholders' funds: 31 August 2014</b>	<u>13,532</u>	<u>95,767</u>	<u>3,256</u>	<u>5,152</u>	<u>390,883</u>	<u>10,629</u>	<u>519,219</u>
<b>Opening Shareholders' funds: 1 September 2012</b>	13,594	95,767	3,194	5,152	212,058	8,859	338,624
13 Repurchase of ordinary shares	(62)	-	62	-	(1,875)	-	(1,875)
Net return on ordinary activities after taxation for the year	-	-	-	-	139,541	9,239	148,780
8 Dividend paid to Shareholders	-	-	-	-	-	(7,069)	(7,069)
<b>Closing Shareholders' funds: 31 August 2013</b>	<u>13,532</u>	<u>95,767</u>	<u>3,256</u>	<u>5,152</u>	<u>349,724</u>	<u>11,029</u>	<u>478,460</u>

# Cash Flow Statement

for the year ended 31 August 2014

Notes		year ended 2014 £'000	year ended 2013 £'000
	<b>Operating activities</b>		
	Investment income received	8,907	10,335
	Net derivative income	2,421	1,596
	Deposit interest received	20	22
	Investment management fee paid	(5,040)	(4,064)
	Directors' fees paid	(139)	(137)
	Other cash payments	(901)	(617)
16	<b>Net cash inflow from operating activities</b>	<u>5,268</u>	<u>7,135</u>
	<b>Taxation</b>		
	Overseas taxation recovered	14	27
	<b>Taxation recovered</b>	<u>14</u>	<u>27</u>
	<b>Financial investments</b>		
	Purchase of investments	(291,210)	(369,725)
	Disposal of investments	285,767	400,121
	<b>Net cash (outflow)/inflow from financial investments</b>	<u>(5,443)</u>	<u>30,396</u>
	<b>Derivative activities</b>		
	Receipts/(payments) on long CFDs	22,564	(3,153)
	Payments on short CFDs, futures and warrants	(4,061)	(9,040)
	Movement on amounts held at futures clearing houses and brokers	(3,421)	1,236
	<b>Net cash inflow/(outflow) from derivative activities</b>	<u>15,082</u>	<u>(10,957)</u>
	<b>Dividend paid to Shareholders</b>	<u>(8,796)</u>	<u>(7,069)</u>
	<b>Net cash inflow before use of liquid resources and financing</b>	<u>6,125</u>	<u>19,532</u>
	<b>Cash flow from management of liquid resources</b>		
	Fidelity Institutional Liquidity Fund	(27,584)	-
	<b>Net cash outflow from management of liquid resources</b>	<u>(27,584)</u>	<u>-</u>
	<b>Net cash (outflow)/inflow before financing</b>	<u>(21,459)</u>	<u>19,532</u>
	<b>Financing</b>		
	Repurchase of ordinary shares	(1,124)	(2,287)
	<b>Net cash outflow from financing</b>	<u>(1,124)</u>	<u>(2,287)</u>
17	<b>(Decrease)/increase in cash</b>	<u>(22,583)</u>	<u>17,245</u>

The Notes on pages 41 to 56 form an integral part of these financial statements.

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

The Company has prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and 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 January 2009.

**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 fixed asset investments and derivative assets and liabilities, and on the assumption that approval as an investment trust continues to be granted by HM Revenue & Customs.

**b) Income** – Income from equity investments is credited to the Income Statement on the date on which the right to receive the payment is established. UK dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. 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 as income. 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.

Derivative instrument income received from dividends on long contracts for difference ("CFDs") is included in "Net income" in the revenue column of the Income Statement.

Interest received on short term deposits, money market funds and short CFDs is included in "Other interest" in the revenue column of the Income Statement.

**c) Special dividends** – Special dividends are treated as a capital receipt or a revenue receipt depending on the facts and circumstances of each particular case.

**d) Expenses and Finance costs** – All expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement.

**e) Taxation** – Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the Balance Sheet date, where transactions or events have occurred that result in an obligation to pay more, or a right to pay less, tax in the future. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.

**f) Foreign currency** – The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be UK sterling. Transactions denominated in foreign currencies are calculated 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. All capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in the capital column of the Income Statement.

**g) Valuation of investments** – The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets 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. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost and subsequently, the investments are valued at "fair value", which is measured as follows:

- Listed investments and AIM quoted investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise at fair value based on published price quotations; and
- Unlisted investments, where there is not an active market, are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the Balance Sheet date.

In accordance with the AIC SORP, the Company charges transaction costs incidental to the purchase or sale of investments, to 'Gains on investments' in the capital column of the Income Statement and has disclosed these costs in Note 9 on page 47.



# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES continued

**h) Derivative instruments** – When appropriate, permitted transactions involving derivative instruments are used. The Company may enter into futures, equity forwards, CFDs, options and warrants. Derivative instruments are held at fair value through profit or loss and are valued at “fair value”, which is measured as follows:

- Futures and options – the quoted trade price for the contract; and
- CFDs and equity forwards – the difference between the strike price and the bid or last price of the underlying shares in the contract.

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

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

- Gains and losses on the disposal of investments, including derivative assets and liabilities, if in accordance with Notes 1(g) and 1(h);
- Changes in the fair value of investments held at the year end, including derivative assets and liabilities, if in accordance with Notes 1(g) and 1(h);
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing ordinary shares.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/10 “Distributable Profits”, changes in 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 Balance Sheet and the Reconciliation of Movements in Shareholders’ Funds. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of unquoted investments with a fair value of £303,000 (2013: £865,000).

**j) Dividends** – In accordance with Financial Reporting Standard 21: “Events after the Balance Sheet Date”, dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

# Notes to the Financial Statements

	2014 £'000	2013 (as restated) £'000
<b>2 NET INCOME AND OTHER INTEREST</b>		
<b>Income from investments</b>		
UK dividends	7,565	9,454
UK scrip dividends	848	737
Overseas dividends	787	1,049
Overseas scrip dividends	1,320	1,194
	<u>10,520</u>	<u>12,434</u>
<b>Income/(expenses) from derivative instruments</b>		
Dividends received on long CFDs	5,945	3,209
Dividends paid on short CFDs	(1,160)	(734)
	<u>4,785</u>	<u>2,475</u>
<b>Net income</b>	<u>15,305</u>	<u>14,909</u>
<b>Other interest</b>		
Interest received on short CFDs	75	43
Interest received on deposits and money market funds	18	24
	<u>93</u>	<u>67</u>
<b>Total net income and other interest</b>	<u>15,398</u>	<u>14,976</u>
	2014 £'000	2013 £'000
<b>3 INVESTMENT MANAGEMENT FEE</b>		
Investment management fee	<u>5,087</u>	<u>4,269</u>

A summary of the terms of the Management Agreement is given in the Directors' Report on page 19.

# Notes to the Financial Statements

	2014 £'000	2013 £'000
<b>4 OTHER EXPENSES</b>		
AIC fees	24	27
Custody fees	18	19
Depository fees	6	-
Directors' expenses	16	17
Directors' fees <sup>1</sup>	142	136
Legal and professional fees	73	89
Marketing expenses	180	190
Printing and publication expenses	68	74
Registrars' fees	66	44
Fees payable to the Company's Auditor for the audit of the annual financial statements <sup>2</sup>	24	22
Other expenses	16	17
	<b>633</b>	<b>635</b>

1 Details of the breakdown of Directors' fees are provided on page 32 within the Directors' Remuneration Report

2 The VAT on fees payable to the Company's Auditor is included in other expenses

	2014 £'000	2013 (as restated) £'000
<b>5 FINANCE COSTS</b>		
Interest paid on long CFDs	1,281	789

Interest paid on long CFDs is categorised as 'Finance costs' in the Income Statement which is a change of accounting policy from the prior year when it was categorised as part of 'Net income'. The cost is incurred on long CFDs used for gearing purposes and the substance of this cost is that of an interest expense. Consequently the accounting policy has been changed to reflect it as finance cost. The effect of this change is to increase "Net income" by £1,281,000 (2013: £789,000) and to recognise finance costs of the same amount. There is no effect on the net return on ordinary activities after taxation or the total net assets of the Company in either year.

	2014 £'000	2013 £'000
<b>6 TAXATION ON RETURN ON ORDINARY ACTIVITIES</b>		
<b>a) Analysis of the taxation (credit)/charge</b>		
Overseas taxation recovered	(14)	(41)
Overseas taxation suffered	12	85
Total current taxation (credit)/charge for the year (see Note 6b)	<b>(2)</b>	<b>44</b>

# Notes to the Financial Statements

## 6 TAXATION ON RETURN ON ORDINARY ACTIVITIES continued

### b) Factors affecting the taxation (credit)/charge

The taxation (credit)/charge for the year is lower than the standard rate of UK corporation tax of 22.16% (2013: 23.58%). A reconciliation of the taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below:

	2014 £'000	2013 £'000
Net return on ordinary activities before taxation	50,677	148,824
Net return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 22.16% (2013: 23.58%)	11,230	35,093
Effects of:		
Gains on investments not taxable	(9,370)	(32,904)
Income not taxable	(2,331)	(2,932)
Excess management expenses not utilised in the year	471	743
Overseas taxation recovered	(14)	(41)
Overseas taxation suffered	12	85
Current taxation (credit)/charge (Note 6a)	(2)	44

Investment trust companies are exempt from taxation on capital gains if they meet the HM Revenue & Customs criteria set out in s1159 of the Corporation Taxes Act 2010.

### c) Deferred taxation

The Company has unrelieved excess expenses of £50,346,000 (2013: £48,221,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

## 7 RETURN PER ORDINARY SHARE – BASIC AND DILUTED

The return per ordinary share is based on the net return on ordinary activities after taxation for the year divided by the weighted average number of ordinary shares in issue during the year.

	2014 £'000	2013 £'000
Net revenue return on ordinary activities after taxation	8,396	9,239
Net capital return on ordinary activities after taxation	42,283	139,541
Net total return on ordinary activities after taxation	50,679	148,780
	number	number
Weighted average number of ordinary shares in issue during the period	54,107,586	54,294,786
	2014 pence	2013 pence
Revenue return per ordinary share	15.52	17.02
Capital return per ordinary share	78.15	257.01
Total return per ordinary share	93.67	274.03

# Notes to the Financial Statements

	2014 £'000	2013 £'000
<b>8 DIVIDENDS</b>		
<b>Dividend paid</b>		
Dividend of 16.25 pence per share paid for the year ended 31 August 2013 (2012: 13.00 pence)	<u>8,796</u>	<u>7,069</u>
<b>Dividend proposed</b>		
Dividend proposed of 16.50 pence per share for the year ended 31 August 2014 (2013: 16.25 pence)	<u>8,886</u>	<u>8,796</u>

The Directors have proposed a dividend of 16.50 pence per share which is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The dividend will be paid on 15 December 2014 to Shareholders on the register at 14 November 2014 (ex dividend date 13 November 2014).

	2014 £'000	2013 £'000
<b>9 INVESTMENTS</b>		
<b>Investments</b>		
Listed investments	404,796	393,605
AIM quoted investments	51,130	28,000
Specialist Fund Market investments	2,650	1,961
Unlisted investments	<u>303</u>	<u>821</u>
<b>Total investments – fair value and portfolio exposure</b>	<u>458,879</u>	<u>424,387</u>

	listed investments £'000	2014 other investments £'000	total investments £'000
Opening book cost	305,945	34,558	340,503
Opening investment holding gains/(losses)	<u>87,660</u>	<u>(3,776)</u>	<u>83,884</u>
<b>Opening fair value of investments</b>	393,605	30,782	424,387
<b>Movements in the year</b>			
Purchases at cost	257,899	33,725	291,624
Sales – proceeds	(274,604)	(15,227)	(289,831)
Sales – realised gains on sales in the year	56,766	2,084	58,850
Movement in investment holding (losses)/gains in the year	<u>(28,691)</u>	<u>2,540</u>	<u>(26,151)</u>
<b>Closing fair value of investments</b>	<u>404,975</u>	<u>53,904</u>	<u>458,879</u>
Closing book cost	346,006	55,140	401,146
Closing investment holding gains/(losses)	<u>58,969</u>	<u>(1,236)</u>	<u>57,733</u>
<b>Closing fair value of investments</b>	<u>404,975</u>	<u>53,904</u>	<u>458,879</u>

# Notes to the Financial Statements

	2014 £'000	2013 £'000
<b>9 INVESTMENTS continued</b>		
<b>Gains on investments</b>		
Gains on sales of investments in the year	58,850	30,004
Investment holding (losses)/gains in the year	(26,151)	90,871
	<u>32,699</u>	<u>120,875</u>
	2014 £'000	2013 £'000
<b>Gains on investments are shown net of investment transactions costs as summarised below:</b>		
Purchases	1,209	2,009
Sales	212	446
	<u>1,421</u>	<u>2,455</u>
The portfolio turnover rate for the year ended 31 August 2014 was 62.6% (2013: 103.1%)		
	2014 £'000	2013 £'000
<b>10 DERIVATIVE INSTRUMENTS</b>		
<b>Gains on long CFDs</b>		
Realised gains/(losses) on long CFD positions closed	22,564	(3,153)
Movement on investment holding gains on long CFDs	(7,967)	28,540
	<u>14,597</u>	<u>25,387</u>
<b>Losses on short CFDs, futures and warrants</b>		
Realised losses on short CFD positions closed	(2,307)	(4,530)
Movement on investment holding losses on short CFDs	369	2,205
Realised losses on futures	(1,754)	(4,415)
Movement on investment holding losses on futures	(945)	-
Movement on investment holding gains on warrants	13	-
	<u>(4,624)</u>	<u>(6,740)</u>
	2014 fair value £'000	2013 fair value £'000
<b>Derivative assets/(liabilities) as recognised in the Balance Sheet</b>		
Derivative assets	26,742	31,333
Derivative liabilities	(5,803)	(1,864)
	<u>20,939</u>	<u>29,469</u>

# Notes to the Financial Statements

## 10 DERIVATIVE INSTRUMENTS continued

	2014		2013	
	fair value £'000	net portfolio exposure £'000	fair value £'000	net portfolio exposure £'000
<b>At the year end the Company held the following derivative instruments</b>				
Long CFDs	22,309	184,134	30,276	146,692
Short CFDs	(438)	(37,978)	(807)	(25,867)
Futures	(945)	(52,536)	-	-
Warrants	13	13	-	-
	<u>20,939</u>	<u>93,633</u>	<u>29,469</u>	<u>120,825</u>
			2014 £'000	2013 £'000

## 11 DEBTORS

Securities sold for future settlement	4,862	798
Accrued income	2,204	1,618
Taxation recoverable	14	14
Other debtors	502	85
	<u>7,582</u>	<u>2,515</u>
	2014 £'000	2013 £'000

## 12 CREDITORS

Securities purchased for future settlement	862	2,616
Other creditors	1,067	1,010
	<u>1,929</u>	<u>3,626</u>



# Notes to the Financial Statements

	2014		2013	
	number of shares	£'000	number of shares	£'000
<b>13 SHARE CAPITAL</b>				
<b>Issued, allotted and fully paid:</b>				
<b>Ordinary shares of 25 pence each – held outside of Treasury</b>				
<b>Beginning of the year</b>	54,128,896	13,532	54,378,896	13,594
Ordinary shares repurchased into Treasury	(124,000)	(31)	-	-
Ordinary shares repurchased and cancelled	-	-	(250,000)	(62)
<b>End of the year</b>	<u>54,004,896</u>	<u>13,501</u>	<u>54,128,896</u>	<u>13,532</u>
<b>Ordinary shares of 25 pence each – held in Treasury</b>				
<b>Beginning of the year</b>	-	-	-	-
Ordinary shares repurchased into Treasury	124,000	31	-	-
<b>End of the year</b>	<u>124,000</u>	<u>31</u>	<u>-</u>	<u>-</u>
<b>Total share capital</b>		<u>13,532</u>		<u>13,532</u>

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

## 14 RESERVES

The "share premium account" represents the amount by which, in prior years, the proceeds from the issue of ordinary shares exceeded the nominal value 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 an amount transferred in prior years 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 is not distributable by way of dividend. It can be used to fund share repurchases. Whilst not currently distributable by way of dividend, if agreed by Shareholders at the forthcoming Annual General Meeting, the Articles of Association of the Company will be amended to permit the payment of dividends from the capital reserve.

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

## 15 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets of £519,219,000 (2013: £478,460,000) and on 54,004,896 (2013: 54,128,896) ordinary shares, being the number of ordinary shares in issue at the year end that are held outside of Treasury. It is the Company's policy that Treasury shares will only be reissued at a premium to net asset value per share and, therefore, the shares held in Treasury have no dilutive effect.

# Notes to the Financial Statements

	2014 £'000	2013 £'000
<b>16 RECONCILIATION OF NET RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Net total return before taxation	50,677	148,824
Less: net capital before taxation	(42,283)	(139,541)
Net revenue return before taxation	8,394	9,283
Scrip dividends	(2,168)	(1,931)
Increase in debtors	(1,003)	(301)
Increase in other creditors	57	169
Overseas taxation suffered	(12)	(85)
<b>Net cash inflow from operating activities</b>	<b>5,268</b>	<b>7,135</b>
	2014 £'000	2013 £'000

## 17 RECONCILIATION OF NET CASH MOVEMENTS TO MOVEMENT IN NET FUNDS

<b>Net funds at the beginning of the year</b>	25,715	8,451
Net cash (outflow)/inflow	(22,583)	17,245
Fidelity Institutional Liquidity Fund <sup>1</sup>	27,584	-
Foreign exchange movement on other net assets	(389)	19
<b>Change in net funds</b>	<b>4,612</b>	<b>17,264</b>
<b>Net funds at the end of the year</b>	<b>30,327</b>	<b>25,715</b>

	2014 £'000	cash flows £'000	exchange movements £'000	2013 £'000
<b>Analysis of net funds</b>				
Fidelity Institutional Liquidity Fund <sup>1</sup>	27,584	27,584	-	-
Cash at bank	2,743	(22,583)	(389)	25,715
	<b>30,327</b>	<b>5,001</b>	<b>(389)</b>	<b>25,715</b>

<sup>1</sup> A Money Market Fund that invests in a diversified range of instruments to maintain capital value and liquidity whilst producing returns in line with money market rates

# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS

### MANAGEMENT OF RISK

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report on pages 8 and 9. This Note is incorporated in accordance with Financial Reporting Standard 29 "Financial Instruments: Disclosures" ("FRS 29") and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

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

The risks identified by FRS 29 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 derivatives instruments risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

### MARKET PRICE RISK

#### Interest rate risk

The Company finances its operations through share capital raised. 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:

	2014 £'000	2013 £'000
<b>Exposure to financial instruments that bear interest</b>		
Long CFD exposure less fair value	161,825	116,416
<b>Exposure to financial instruments that earn interest</b>		
Short CFD exposure	37,978	25,867
Amounts held at futures clearing houses and brokers	3,421	-
Fidelity Institutional Liquidity Fund	27,584	-
Cash at bank	2,743	25,715
	71,726	51,582
<b>Net exposure to financial instruments that bear interest</b>	90,099	64,834

#### Foreign currency risk

The Company does not carry out currency speculation.

The Company's net return on ordinary activities and 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 base 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 bought or sold and the date when settlement of the transaction occurs.

Three principal areas have been identified where foreign currency risk 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 the income received.

# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS continued

### Currency exposure of financial assets

The Company's financial assets comprise equity investments at fair value, the fair value of the underlying securities within long CFDs, short term debtors and cash. The currency profile of these financial assets is shown below.

currency	2014				
	investments designated at fair value through profit or loss	exposure to long derivative instruments	short term debtors <sup>1</sup>	cash and cash equivalents <sup>2</sup>	total
	£'000	£'000	£'000	£'000	£'000
Euro	9,402	55,085	414	11	64,912
Norwegian krone	1,653	–	–	–	1,653
UK sterling	412,343	119,365	10,418	30,253	572,379
US dollar	34,671	6,338	83	10	41,102
Other currencies	810	3,359	88	53	4,310
	<u>458,879</u>	<u>184,147</u>	<u>11,003</u>	<u>30,327</u>	<u>684,356</u>

1 Short term debtors comprise amounts held at futures clearing houses and brokers and debtors

2 Cash and cash equivalents comprise amounts held in the Fidelity Institutional Liquidity Fund and cash at bank

currency	2013				
	investments designated at fair value through profit or loss	exposure to long derivative instruments	short term debtors	cash and cash equivalents <sup>1</sup>	total
	£'000	£'000	£'000	£'000	£'000
Euro	1,977	54,795	11	–	56,783
UK sterling	393,039	81,437	2,421	25,712	502,609
US dollar	25,968	–	–	3	25,971
Other currencies	3,403	10,460	83	–	13,946
	<u>424,387</u>	<u>146,692</u>	<u>2,515</u>	<u>25,715</u>	<u>599,309</u>

1 Cash and cash equivalents comprise cash at bank

# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS continued

### Currency exposure of financial liabilities

The Company's financial liabilities comprise the fair value of the securities underlying the short derivative instruments and other short term creditors. The currency profile of these financial liabilities is shown below.

	2014		
	exposure to short derivative instruments £'000	short term creditors £'000	total £'000
Euro	14,969	4	14,973
Norwegian krone	10,102	-	10,102
UK sterling	59,175	1,925	61,100
US dollar	4,487	-	4,487
Other currencies	1,781	-	1,781
	<u>90,514</u>	<u>1,929</u>	<u>92,443</u>

	2013		
	exposure to short derivative instruments £'000	short term creditors £'000	total £'000
Euro	10,947	3	10,950
UK sterling	13,757	3,621	17,378
Other currencies	1,163	2	1,165
	<u>25,867</u>	<u>3,626</u>	<u>29,493</u>

### 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 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 Derivative Risk Measurement and Management Document.

### LIQUIDITY RISK

The Company's assets comprise readily realisable securities which, if necessary, can be sold easily to meet funding commitments. Short term flexibility is achieved by the use of bank overdraft facilities as required.

# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS continued

### COUNTERPARTY RISK

Certain of the 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 Dealers Association's ("ISDA") market standard derivative legal documentation. 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 Manager employs, the Manager will seek to minimise such risk by only entering into transactions with counterparties which it believes 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 through the use of internal and external credit agency ratings and evaluates derivative instrument credit risk exposure.

For Over The Counter ("OTC") 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 2014, £23,857,000 was held in government bonds in a segregated collateral account, on behalf of the Company, to reduce the credit risk exposure of the Company and £3,421,000, shown as 'Amounts held at futures clearing houses and brokers' in the Balance Sheet, was held in cash in a segregated collateral account, on behalf of the broker, to reduce the credit risk exposure of the broker. At 31 August 2013, £29,448,000 was held in government bonds in a segregated collateral account, on behalf of the Company, to reduce the credit risk exposure of the Company.

### CREDIT RISK

Investments 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 a large number of brokers and are settled on a delivery versus payment basis and limits are set on the amount that may be due from any one broker. All security transactions are through brokers that have been approved as an acceptable counterparty. This is reviewed on an ongoing basis. At the year end, the exposure to credit risk includes cash at bank, outstanding securities transactions and derivative instruments at fair value.

### DERIVATIVE INSTRUMENTS 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". The 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 enhance portfolio total return by writing short call options ("covered call writing") and the selected use of other option strategies; and
- To position "short" exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares which the Portfolio Manager believes to be over valued. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

The risk and performance contribution of these instruments to the Company's portfolio is overseen by a specialist derivatives team. This team uses sophisticated portfolio risk assessment tools to advise the Portfolio Manager on portfolio construction. Derivative positions are subject to daily monitoring.

### RISK SENSITIVITY ANALYSIS

#### Interest rate risk sensitivity analysis

At 31 August 2014, if interest rates had increased by 0.25% the Company's net return on ordinary activities and net assets would have decreased by £225,000 (2013: increased by £162,000). A decrease in the interest rates by 0.25% would have had an equal but opposite effect.

#### Foreign currency risk sensitivity analysis

At 31 August 2014, if UK sterling had strengthened by 10% against the foreign currency exposures, with all other variables held constant, the Company's net return on ordinary activities and net assets would have decreased by £7,330,000 (2013: £7,690,000). If UK sterling had weakened by 10% against the foreign currency exposures, with all other variables held constant, the Company's net return on ordinary activities and net assets would have increased by £8,959,000 (2013: £9,398,000).

# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS continued

### Other price risk sensitivity analysis

Changes in market prices, other than those arising from interest rate risk or foreign currency risk, may also affect the value of the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found on pages 8 and 9 of the Strategic Report.

At 31 August 2014, if the fair value of the investments had increased by 10%, the Company's net return on ordinary activities and net assets would have increased by £45,888,000 (2013: £42,439,000). A decrease of 10% in the fair value of investments would have had an equal and opposite effect.

### Derivative instrument exposure sensitivity analysis

At 31 August 2014, if the market value of the securities underlying the derivative instruments had increased by 10%, the Company's net return on ordinary activities and net assets would have increased by £9,363,000 (2013: £12,083,000). A decrease of 10% in the market value of the securities underlying the derivative instruments would have had an equal and opposite effect. Details of the Company's exposure to derivative instruments are shown in Note 9 above.

### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As explained in Notes 1(g) and 1(h) above investments are shown at fair value which is bid or last market price, futures and options at quoted trade prices for the contract and CFDs and equity forwards at the difference between the strike price and the bid or last price of the shares in the security that underlies the contract. Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. In the case of cash, book value approximates to fair value due to the short maturity of the instruments.

### FAIR VALUE HIERARCHY

Under FRS 29, financial companies are required to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

The table below sets out the fair value hierarchy of the Company's financial instruments:

	2014 £'000	2013 £'000
Level 1 – Quoted investments	458,576	423,522
Level 2 – Derivative instruments	20,939	29,469
Level 3 – Unquoted investments	303	865
	<u>479,818</u>	<u>453,856</u>



# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS continued

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Notes 1(g) and 1(h) above. The table below sets out movements in the Company's level 3 financial instruments:

	2014 level 3 unquoted investments £'000	2013 level 3 unquoted investments £'000
<b>Fair value of level 3 financial instruments at the beginning of the year</b>	865	821
Purchases of investments at cost	1,459	–
Sales of investments – proceeds	(2,580)	–
Sales of investments – realised gains	1,225	–
Transfers from level 1 to level 3	–	44
Movement in investment holding gains in the year	(666)	–
<b>Fair value of level 3 financial instruments at the end of the year</b>	<b>303</b>	<b>865</b>

## 19 CAPITAL MANAGEMENT

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed by the use of long CFDs, and its issued share capital and reserves as disclosed in the Balance Sheet on page 38. It is managed in accordance with the Company's investment policy in pursuit of its investment objective, both of which are detailed in the Strategic Report on pages 6 and 7. The principal risks and their management are disclosed in the Strategic Report on pages 8 and 9 and in Note 18 above.

## 20 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 31 August 2014 (2013: none).

## 21 RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE MANAGER

The Directors have complied with the provisions of Financial Reporting Standard 8 "Related Party Disclosures", which require disclosure of related party transactions and balances. FIL Investment Services (UK) Limited is the Alternative Investment Fund Manager of the Company and has delegated portfolio management to FIL Investments International, the Company Secretary and the previous Manager of the Company. Details of the services provided and fees paid are given in the Directors' Report on page 19. Fees paid to the Directors are disclosed in the Directors' Remuneration Report on page 32.

## Financial Calendar

The key dates in the Company's calendar are:

**2014**

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Financial Year End	31 August
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Financial Results Announced	November
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Annual General Meeting	10 December
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Dividend Payment	15 December
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**2015**

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Half-Year End	28 February
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Half-Yearly Results Announced	April
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# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA on 10 December 2014 at 11.30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions as ordinary resolutions.

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 August 2014.
2. To declare that a final dividend of 16.50 pence per ordinary share be paid to Shareholders who appear on the register as at close of business on 14 November 2014 for the year ended 31 August 2014.
3. To re-elect Ms Lynn Ruddick as a Director.
4. To re-elect Mr Ben Thomson as a Director.
5. To re-elect Mrs Sharon Brown as a Director.
6. To re-elect Mr Douglas Kinloch Anderson as a Director.
7. To re-elect Mr Andy Irvine as a Director.
8. To re-elect Ms Nicky McCabe as a Director.
9. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 31) for the year ended 31 August 2014.
10. To approve the Company's Remuneration Policy, the full text of which is contained in the Directors' Remuneration Report for the year ended 31 August 2014 under the heading of The Remuneration Policy on page 31.
11. To reappoint Grant Thornton UK 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.
12. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following resolutions of which Resolution 13 will be proposed as an ordinary resolution and Resolutions 14, 15 and 16 as special resolutions.

## (a) Authority to allot shares and dis-application of pre-emption rights

Resolutions 13 and 14 will, if approved, authorise the Directors to allot a limited number of the currently unissued ordinary shares (or 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 in issue on 31 October 2014. 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 only be re-issued at net asset value per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance net asset value per share.

13. 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 relevant securities (as defined in that section) up to an aggregate nominal amount of £1,346,372 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 31 October 2014) and so that the Directors may impose any limits or restrictions and make any arrangements which it considers 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 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.
14. THAT, subject to the passing of Resolution 13 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 13 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 in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);
  - b) to the allotment (otherwise than pursuant to a rights issue) of equity securities or sale of Treasury shares up to an aggregate nominal amount of £1,346,372 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 31 October 2014); and

## Notice of Meeting

- c) in either case, 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 net asset value per share.

and this power shall expire at the conclusion of the next Annual General Meeting 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.

### (b) Authority to repurchase shares

Resolution 15 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 31 October 2014 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 net asset value per share, thereby resulting in an increased net asset value per share.

15. 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 25 pence each in the capital of the Company (the "shares") provided that:

- a) the maximum number of shares hereby authorised to be purchased shall be 8,072,848;
- b) the minimum price which may be paid for a share is 25 pence;
- c) the maximum price (excluding expenses) which may be paid for each share is the higher of:
  - i) 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
  - ii) the higher of the price quoted for the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (no. 2233/2003);
- d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
- e) 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.

### (c) Amend Articles of Association

Resolution 16 is a special resolution which, if approved, will adopt new Articles of Association of the Company which update the Company's existing Articles of Association. The new Articles of Association reflect recent changes to tax, regulation and company law which affect investment trusts and the Company, in particular (1) removing the prohibition on a distribution of realised capital profits; (2) incorporating provisions to ensure compliance with the Alternative Investment Fund Managers Directive, including conferring certain powers on the Board expressly; and (3) to amend the Articles to include wider powers in future to facilitate payment of dividends electronically or by other means and to specify the default payment method. Further details can be found on page 22.

16. THAT with effect from the passing of this resolution, the draft regulations produced to the meeting and, for the purpose of identification, initialled by the chairman, be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

By order of the Board

**FIL Investments International**

Secretary

7 November 2014

Registered office:

Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey  
KT20 6RP

# Notice of Meeting

## Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 11.30 am on 8 December 2014. Completion and return of the form of proxy will not prevent a Shareholder from subsequently attending the meeting and voting in person if they so wish.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
4. 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.
5. 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 am on 8 December 2014. 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 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 Registrars no later than 11.30 am on 8 December 2014.
6. All members are entitled to attend and vote at the Annual General Meeting and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at 11.30 am on 8 December 2014.
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 2 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 three per cent 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 Annual General Meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members by 5.30 pm on 8 December 2014. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at 5.30 pm 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 31 October 2014 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 53,854,896 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 31 October 2014 was 53,854,896.
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 are to be laid before the Annual General Meeting 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 business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.
14. Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed

## Notice of Meeting

resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 30 October 2014, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

15. No Director has a service contract with the Company.
16. 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.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

Registered Office:  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

# Investing in Fidelity Special Values PLC

The information on the following pages is provided by Fidelity and should not be seen as a recommendation by the Board of Fidelity Special Values PLC.

Fidelity offers a range of options, so that you can invest in the way that is best for you. As Fidelity Special Values PLC is a company listed on the London Stock Exchange you can also buy its shares through a stockbroker, share shop or bank.

## INVESTING INSIDE AN ISA

You may invest in the Company's shares through the Fidelity ISA ("Individual Savings Account"). A Fidelity ISA can be an excellent way to get more from your investment, because you will not have to pay income or capital gains tax on your returns.

With effect from 1 July 2014, ISAs were reformed into a simpler product, the 'New ISA' ("NISA"), with equal limits for cash, and stocks and shares. The overall subscription limit is £15,000. The minimum investment per fund in the Fidelity ISA is £1,000 as a lump sum, £250 as a top-up, or £50 a month per company in a regular savings plan.

**Charges** – Initial charges for investments in the Fidelity ISA may vary. For those investing personally (directly with Fidelity), there will be no initial charge. Those investing through an intermediary will pay a basic initial charge of 0.5% plus any initial fee (where applicable) agreed with their intermediary. Fidelity pays stamp duty from the initial charge. There are no other charges for the Fidelity ISA, but the Company pays an annual management charge to Fidelity of 0.85% plus a performance related fee where applicable, as set out in the Annual Report.

**Investing for children** – Junior ISAs are similar to "adult" ISAs but with a few important differences.

Junior ISAs are available to UK residents under the age of 18 who do not have a child trust fund, if opened by a parent or guardian who is older than 18.

Money cannot be withdrawn from the product until the child turns 18, when the policy will automatically become an "adult" ISA and the child will be able to access the funds – subject to proof of identity.

## MOVING MONEY FROM A PREVIOUS ISA

If you have opened ISAs with other investment companies, you can move them into the Fidelity ISA and invest in Fidelity Special Values PLC without losing any tax benefits. This is known as an ISA transfer and it can be a great way to give your portfolio a new focus, or to realign it with your current investment goals. Please note that during the transfer your money will not be invested in the stock market so you may miss out on any growth during this time.

**Charges** – Fidelity does not apply an initial charge for a transfer into Fidelity Special Values PLC. You will also not have to pay any additional transfer costs. However, please bear in mind that your current ISA manager may ask you to pay an exit fee. If your old fund provider charges you a fee for leaving them, you can claim it back from us. Please note this offer does not apply to the share dealing service.

## INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust Share Plan offers

you a low cost and convenient way to put money into Fidelity Special Values PLC. The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month in a regular savings plan. Holding shares within the Share Plan allows you to reinvest your dividends and make further investments without having to pay brokerage fees. You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.

**Investing for children** – the Share Plan is a flexible and inexpensive way to invest on behalf of children. All you have to do is enter the initials or name of the child in the Designation Box on the Share Pal application form.

**Charges** – There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than stamp duty of 0.5%, which is currently payable on all share purchases. However, if you invest through a Financial Adviser, there may be additional fees of up to 3% agreed with your advisor.

## BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

Registered Shareholders of fully listed companies are able to nominate the underlying beneficial owners of their shares to receive information rights. You should contact your registered Shareholder direct to request to receive your information rights. Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrars, Capita Asset Services, or to the Company direct.

## INVESTING ONLINE

Whilst you cannot use a Debit Card online to invest through an ISA, JISA or Share Plan the application forms you need are all available via [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). You can also invest online in Fidelity Special Values PLC shares via the share trading facility available via [www.fidelity.co.uk/sharenetwork](http://www.fidelity.co.uk/sharenetwork). The Share Dealing service, ShareNetwork, is provided by Xest which is the online trading division of Charles Stanley & Co Limited, a leading London stockbroker. ShareNetwork enables you to buy or sell shares in any listed company during normal London Stock Exchange trading hours – between 8.00 am and 4.30 pm any working day. Shares in ShareNetwork can either be held direct or in an ISA, subject to the normal ISA limits and restrictions. You will be shown a live price and be able to buy or sell immediately. If an order is placed when the market is closed, it will be processed as soon as the market reopens. Unlike many online share dealing services, Fidelity ShareNetwork gives you CREST personal membership for shares held direct. This means that shares are registered on the CREST system in your own name and everything relating to your shares – dividends, annual reports and so on – will be sent direct to you and you will be able to attend and vote at Shareholder meetings in your own name.



## Investing in Fidelity Special Values PLC

Personal CREST membership does not apply to ISA holdings which must be held in the name of the ISA manager's nominee under ISA regulations. There is no extra charge for opening a ShareNetwork ISA and share purchases or sales are executed on line for only £9 per trade (Stamp duty is also payable on purchases at the rate of 0.5%). There is an account administration fee of £5.10 per month regardless of how many different shares you own and whatever their value. Of course, you need to remember that the value of tax savings and eligibility to invest in an ISA will depend on your individual circumstances, and all tax rules may change in the future.

### FURTHER INFORMATION

For application forms or more information about any of the investment options described here, please call the Fidelity Investment Trust Line on 0800 41 41 10 and talk to a Fidelity customer representative (9.00 am to 6.00 pm).


Alternatively, you may like to visit the Fidelity London Investor Centre at 25 Cannon Street, next to St Paul's Cathedral.

You can also find out more by visiting [fidelity.co.uk/its](http://fidelity.co.uk/its) or contacting your Financial Adviser.

The Fidelity Individual Savings Account ("ISA") and Junior ISA are offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by FIL Investments International. Both companies are regulated by the Financial Conduct Authority.

The value of savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by FIL Investments International. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than older developed markets. Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity.

Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and the  symbol are trademarks of FIL Limited.

The content of websites referenced in this document does not form part of this document.

# Shareholder Information

## CONTACT INFORMATION

**Private investors:** call free to 0800 41 41 10, 9.00 am to 6.00 pm, Monday to Saturday.

**Financial advisers:** call free to 0800 41 41 81, 8.00 am to 6.00 pm, Monday to Friday. [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

**Existing Shareholders** who have a specific query regarding their holding or need to provide updated information, for example a change of address, should contact the appropriate administrator:

### Holders of ordinary shares

Capita Asset Services, Registrars to Fidelity Special Values PLC, 34 Beckenham Road, Beckenham, Kent BR3 4TU.  
Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8.30 am – 5.30 pm Monday to Friday)  
email: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)

Details of individual shareholdings and other information can also be obtained from the Registrars' website:  
[www.capitaassetservices.com](http://www.capitaassetservices.com)

### Fidelity Share Plan investors

Fidelity Investment Trust Share Plan, PO Box 12062, Mellon House, Ingrave Road, Brentwood, Essex CM14 9LX.  
Telephone: 0845 358 1107 (calls to this number are charged at 3.95p per minute from a BT landline dependent on the tariff. Other telephone service providers' costs may vary).

### Fidelity ISA investors

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

### General enquiries

General enquiries should be made to Fidelity, FIL Investments International, 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. Fax: 01737 836 892  
[www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

## ONLINE SHAREHOLDER SERVICES – SHARE PORTAL

Through the website of our Registrars, Capita Asset Services, Shareholders are able to manage their shareholding online by registering for the Share Portal, a free, secure, online access to your shareholding. Facilities include:

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

**Amendment of Standing Data** – Allows Shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download from this site, forms such as change of address, stock transfer and

dividend mandate forms as well as buy and sell shares in the Company.

To make use of any of these facilities, please log on to the Capita Asset Services website at: [www.capitashareportal.com](http://www.capitashareportal.com)

Should you have any queries in respect of the above facilities, please do not hesitate to contact the Capita Share Portal helpline on 0871 664 0300 (calls cost 10p plus network extras), overseas +44 20 8639 3399, or by email at [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk)

### Capita Share Dealing Services

You can make use of a low cost share dealing service provided by Capita Asset Services to buy or sell shares. Further information is available at [www.capitadeal.com](http://www.capitadeal.com), or by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open 8.30 am – 5.30 pm Monday to Friday). Using Capita Share Dealing Services you will also be able to deal in the shares of other companies for which Capita 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

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you prefer to receive shares for your next dividend instead of cash please complete an application form online at [www.capitashareportal.com](http://www.capitashareportal.com) or call Capita IRG Trustees on 0871 644 0381 (calls cost 10p per minute plus network extras) from the UK or +44 20 8639 3402 from overseas.

### 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.

## KEEPING YOU UPDATED

If you hold Fidelity Special Values PLC shares in a Fidelity ISA, you will receive a yearly report detailing all of your transactions and the value of your shares. Investors with the Fidelity Investment Trust Share Plan will receive statements and valuations twice a year.

The share price of Fidelity Special Values PLC appears daily in The Financial Times. Price and performance information is also available at [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). You can also obtain current price information by telephoning Fidelity on 0800 41 41 10 (freephone) 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).

# Shareholder Information

## MANAGER 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

### Independent Auditor

Grant Thornton UK LLP  
Chartered Accountants and Registered Auditor  
30 Finsbury Square  
London  
EC2P 2YU

### Lawyers

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

### 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

### Registrars

Capita 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 for each share was £1.

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 address: enquiries@theaic.co.uk).

### PRICE INFORMATION

The mid-market price of the ordinary shares is published daily in The Financial Times under the heading "Investment Companies". The ordinary share price is also published in the Times, The Daily Telegraph and The Independent. You can also obtain current price information by telephoning Fidelity on 0800 41 41 10 (freephone) 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 0332510 and the ISIN is GB0003325106.

## NAV INFORMATION

The Net Asset Value of the Company is calculated on a daily basis and released to the London Stock Exchange.

### UK CAPITAL GAINS TAX

Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of Ordinary Shares, acquired at the time of the Company's launch, is 100.00 pence. All UK individuals under present legislation are permitted to have £11,000 of capital gains in the current tax year 2014/2015 (2013/2014: £10,900) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

## Alternative Investment Fund Manager's Disclosure

As explained in the Chairman's Statement, in compliance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Board have appointed FIL Investment Services (UK) Limited ("FISL") (a Fidelity group company) as the Company's Alternative Investment Fund Manager ("AIFM"). Details of the Alternative Investment Fund Management and Secretarial and Management Services Agreement dated 17 July 2014 are included in the Directors' Report on page 19. FISL has delegated the portfolio management and company secretarial function to FIL Investments International (another Fidelity group company).

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 6 and 7.
<b>Risk management</b>	<p>In its capacity as AIFM, FIL Investment Services (UK) Limited 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 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, remain 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 8 and 9 and in Note 18 to the Financial Statements on pages 51 to 56.
<b>Valuation of illiquid assets</b>	The Directive requires the disclosure of the percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature. Further, any new arrangements for managing the liquidity of the Company must be disclosed.	Not Applicable.
<b>Leverage</b>	<p>The Company uses leverage to increase its exposure primarily to UK-listed 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>A definition of leverage is included in the Glossary of Terms on page 69.</p>	<p>The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method. There have been no changes to the maximum level of leverage that the Company may employ during the year.</p> <p>At 31 August 2014, actual leverage was 1.41 for the Gross Method and 1.28 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 53.
<b>Remuneration of the AIFM</b>	The AIFM operates under the terms of Fidelity's Global Remuneration Policy Statement. 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).	The FCA's <i>General Guidance on the AIFM Remuneration Code</i> has established that the first full performance year will not commence until 1 January 2015. Accordingly, there is no data to disclose in respect of remuneration of the AIFM for this year.

The AIFM's Annual Report is available to Shareholders on request. Please contact the Company Secretary whose address can be found on page 65.

# Warning to Shareholders

## SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

## PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at [www.fca.org.uk/register](http://www.fca.org.uk/register) to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA's website list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

## REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

**If you have already paid money to share fraudsters you should contact Action Fraud on**

**0300 123 2040**

# Glossary of Terms

## AIF

Alternative Investment Fund. The Company is an AIF.

## AIFM

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

## AIFMD

The Alternative Investment Fund Managers Directive is a European Union Directive and came into force on 22 July 2013. The implementation date was 22 July 2014.

## BENCHMARK INDEX

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

## 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 paid to the Company and interest is paid by the Company. If the Company trades short, dividends are paid by the Company and interest is paid to the Company.

## 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. The opposite of a discount is a premium.

## EXPOSURE

The value of the portfolio of investments exposed to market price movements. It is made up of the fixed asset investments at fair value, plus the fair value of the underlying securities within the long Contracts For Difference, less the fair value of the underlying securities within the short Contracts For Difference, less the exposure value offset by the short FTSE 250 Index future hedge and plus the exposure value of the warrants.

## 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).

## FUTURE OR FUTURE CONTRACT

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

## GEARING

Gearing describes the level of the Company's exposure and is expressed as a percentage of Shareholders' funds. It reflects the amount of exposure the Company uses to invest in the market. It can be obtained through the use of bank loans, bank overdrafts or derivatives, in order to increase the Company's exposure to investments. The Company uses two key measures of gearing:

- Gross gearing is the total of long exposures, plus the total of short exposures and less the total of exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.
- Net gearing is the total of long exposures, less the total of short exposures and less the total of exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.

Please refer to the definition of leverage on page 69 for further details.

## GEARING RATIO

In a simple example, if a company has £100 million of net assets and £8 million of borrowings (either via bank loans or long Contracts For Difference) then the Shareholders' funds are 8% geared. Normally, the higher the gearing ratio, the more sensitive an investment trust's shares will be to the movements up and down in the value of the investment portfolio.

# Glossary of Terms

## 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](#).

## LEVERAGE

Any method by which an [AIFM](#) increases the exposure of an [AIF](#) it manages whether through borrowing cash or securities, or [leverage](#) embedded in [derivative](#) positions or by any other means. [Leverage](#) is measured in terms of exposure and is expressed as a ratio of [net asset value](#). There are two measures of calculating [leverage](#):

- The Gross Method which does not reduce exposure for [hedging](#);
- The Commitment Method which reduces exposure for [hedging](#).

## 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 expenses (excluding finance costs and taxation) incurred by the Company as a percentage of average net asset values.

## OPTIONS

An [option](#) is a contract which gives the right but not the obligation to buy or sell an underlying asset at a specific price on or before a specific date. [Options](#) (call or put) 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, up to 10% of 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](#). The opposite of a [premium](#) is a [discount](#).

## 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 returns; 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 in additional shares (for share price total return) or 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.



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