

# Key Performance Indicators

The Company's Board of Directors meets regularly and at each meeting reviews performance against a number of key measures.

In selecting these measures, the Directors considered the key objectives and expectations of typical investors in an investment trust such as the Company.

## NAV total return\*

The Directors regard the Company's NAV total return as being the overall measure of value delivered to shareholders over the long term. Total return reflects both the net asset value growth of the Company and also dividends paid to shareholders. The Investment Manager's investment style is such that performance may deviate materially from that of any broad-based equity index. The Board considers the most useful comparator to be the MSCI All Country World Index. Over the year under review, the benchmark increased by +19.9% on a total return basis and over ten years it has increased by +11.5% on an annualised total return basis.

A full description of performance and the investment portfolio is contained in the Investment Review, commencing on page 24.

## Discount\*

The Board believes that an important driver of an investment trust's discount or premium over the long term is investment performance. However, there can be volatility in the discount or premium. Therefore, the Board seeks shareholder approval each year to buy back and issue shares, with a view to limiting the volatility of the share price discount or premium.

During the year under review, no shares were issued and 20.1m shares were bought back, adding an estimated 0.4% to net asset value per share to the benefit of continuing shareholders. The shares were bought back at a weighted average discount of 9.6%.

## Ongoing Charges Ratio\*

The Board continues to be conscious of expenses and aims to maintain a sensible balance between good service and costs.

In reviewing charges, the Board's Management Engagement Committee reviews in detail each year the costs incurred and ongoing commercial arrangements with each of the Company's key suppliers. The majority of the Ongoing Charges Ratio is the cost of the fees paid to the Investment Manager. This fee is reviewed annually.

For the year ended 30 September 2024, the Ongoing Charges Ratio was 0.87%, up very slightly from 0.86% in the year to 30 September 2023. These running costs in monetary terms amounted to £9.6m in 2024 (2023: £8.7m).

The Board notes that the UK investment management industry uses various metrics to analyse the ratios of expenses to assets. In analysing the Company's performance, the Board considers an Ongoing Charges Ratio which compares the Company's own running costs with its assets. In this analysis the costs of servicing debt and certain non-recurring costs are excluded. These are accounted for in NAV total return and so form part of that KPI. Further, in calculating a KPI the Board does not consider it relevant to consider the management fees of any investment company which the Company invests in, as the Company is not a fund of funds and to include management costs of some investee companies but not of others may create a perverse incentive for the Investment Manager to favour those companies which do not have explicit management fees.

NAV total return\*:

## +13.7%

1 Year	+13.7%
10 Years (Annualised)	+10.2%

Discount, Year-End\*:

## 9.0%

2024	9.0%
2023	10.9%

Ongoing Charges Ratio\* (year ended 30 Sept):

## 0.87%

2024	0.87%
2023	0.86%

\* For all Alternative Performance Measures included in this Strategic Report, please see definitions in the Glossary on pages 101 to 105.

# Principal and Emerging Risks

When considering the total return of the investments, the Board must also take account of the risk which has been taken in order to achieve that return.

There are many ways of measuring investment risk, and the Board takes the view that understanding and managing risk is much more important than setting any numerical target.

In running an investment trust we face different types of risk and some are more acceptable than others. The Board believes that shareholders should understand that, by investing in a portfolio of equity investments invested internationally and with some gearing, they accept that there may be some loss in value, particularly in the short term. That loss in value may come from market movements and/or from movements in the value of the particular investments in our portfolio. We aim to keep the risk of loss under this particular heading within sensible limits, as described below. On the contrary, we have no tolerance for the risk of loss due to, for example, theft or fraud.

The Board looks at risk from many different angles, an overview of which is set out on the following pages. The Directors carry out regular reviews of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Board confirms that a robust assessment of these risks has been carried out during the year under review.

The approach to monitoring and controlling risk is not rigid. The Board aims to think not only about the risks that it is aware of and has documented, but also of emerging and evolving risks.

The Board believes that managing risk is the task of everyone involved in the management of the Company: the Board, the Investment Manager, the Administrators and other service providers all have a role in thinking about risk, challenging perceptions and being alert to emerging risks. The objective of these assessments is not to be prescriptive, but to understand levels of risk and how they have changed over time. The purpose of this focus is to ensure that the returns earned are commensurate with the risks assumed.

During the year, the Audit Committee carried out a detailed review of the risk matrix which is used as a tool to monitor risks and agreed to modify its approach to enable the Board to better focus on key risks. The Board has assessed the risks which the Company faces under a number of headings. Pressure on the discount, a previously identified principal risk, remained high during the year. This was partly due to heightened geopolitical and macroeconomic risk, along with the effects of interpretations of the new UK Consumer Duty regulations, as set out in last year's Annual Report. The Board regularly reviewed developments in the UK cost disclosure regime. In particular, the Board and Investment Manager focused on the availability of the Company's shares on online share dealing platforms and the resulting effects on demand for the shares. While the forbearance notice issued by the Financial Conduct Authority in September 2024 alleviated some issues, the approach to cost disclosure which the investment trust industry will ultimately adopt remains uncertain. A summary of the key risks and mitigating actions is set out in the table on the following pages. Shareholders should be aware that no assessment of this nature can be guaranteed to predict all possible risks; the objective is to assess the risks and determine mitigating actions.

### Risk Level Key:







High Medium Low

### Movement Key:

Increased Medium Low

Principal and Emerging Risks	Risk Tolerance and Mitigating Actions	Risk Level / Movement
<p><b>Loss of value – portfolio performance</b> The market or the Company's portfolio could suffer a prolonged downturn in performance.</p> <p>There will be periods when the investment strategy underperforms in comparison to its benchmark and its peer group, and when it results in a decline in value.</p>	<p>The Board accepts that there is a risk of loss of value by investing in listed equities, particularly in the short term. The Board monitors performance at each Board meeting, and reviews the investment process thoroughly at least annually.</p> <p>The Investment Manager has a clear investment strategy, as set out in the Investment Review. Conventional wisdom holds that the most effective way of reducing risk is to hold a diversified portfolio of assets. The Company typically holds 25-35 core positions. It is important to note that, in line with its investment objective, the Company's holdings are mostly in stocks which are themselves owners of multiple underlying businesses. Thus, the portfolio is more diversified on a look-through basis than if it were invested in companies with a single line of business. This diversification is evident at country, sector and currency levels. A key element of the Investment Manager's approach is to consider the way in which the portfolio is balanced and to ensure that it does not become overly dependent on one business area, country or investment theme.</p> <p>The Company, through the Investment Manager's compliance function and the Administrator's independent checks, has a robust system for ensuring compliance with the investment mandate.</p>	<p>High Medium Low</p> <p>Increased Medium Low</p>

# Principal and Emerging Risks continued

Principal and Emerging Risks	Risk Tolerance and Mitigating Actions	Risk Level / Movement
<p><b>Geopolitical and macroeconomic</b></p> <p>The net asset value will be affected by general market conditions which in turn can be affected by extraneous events such as the Russian invasion of Ukraine in 2022, or the escalating conflict in the Middle East.</p> <p>Macroeconomic uncertainty, such as the potential for increased US-China trade disputes following the US election or the continued impact of Brexit, can heighten the previously identified risk of higher levels of inflation, cause supply chain disruption and impact interest rate movements.</p> <p>The Directors' assessment under this heading was already classified as high and it has increased further during the year.</p>	<p>Geopolitical tensions have significantly impacted global trade since the Russian invasion of Ukraine in 2022. The impact of continued conflict is likely to create environments which have not been experienced in developed economies for many years. Given that markets do not operate in a vacuum, this can in turn affect asset valuations.</p> <p>The Investment Manager carries out thorough, regular and detailed analyses of investee companies, and takes full account of the likely effects of the macroeconomic environment, the ongoing conflicts in Ukraine and the Middle East and tension over international trade when reviewing the investment portfolio and potential investments. The Company has no investments in Russia, Ukraine, Palestine or Israel. While the valuation of the portfolio is likely to be affected by general market movements, the underlying assets are well diversified by geography and type of company.</p>	 
<p><b>Gearing</b></p> <p>While potentially enhancing returns over the long term, the use of gearing makes investment returns more volatile and exacerbates the effect of any fall in portfolio value.</p> <p>There are covenants attached to the Loan Notes; in extreme market conditions, these could be breached and require early repayment, which could be expensive.</p>	<p>The Board decided to take on borrowing because it believes that the Investment Manager will produce investment returns which are higher than the cost of debt over the medium to long term and, therefore, that shareholders will benefit from gearing.</p> <p>In taking on debt, we recognise that higher levels of gearing produce higher risk. While gearing should enhance investment performance over the long term, it will exacerbate any decline in asset value in the short term. It is possible (but, on the basis of past returns, it is considered unlikely) that the investment returns will not match the borrowing cost over time, and therefore the gearing will be dilutive. The Board manages this risk by setting the Company's gearing at a prudent level, and the covenants are set at levels with substantial headroom.</p> <p>In common with other investment trusts, we also mark the value of debt to its estimated fair value for the purposes of measuring investment performance as part of the Key Performance Indicators*, which makes the value ascribed to the debt subject to changes in interest rates and so makes our published NAV per share more volatile than would otherwise be the case. However, if we continue with the debt to maturity, it will be repaid at its par value, notwithstanding any changes in fair value over its life. The values of loans denominated in currencies other than Sterling will fluctuate with currency movements and, if the exchange rate of those currencies relative to Sterling increases, then in isolation this will have the effect of reducing NAV per share. However, we have certain assets denominated in the same overseas currencies as these tranches of debt, which would increase in value in Sterling terms if the exchange rates increase, enabling us to offset the debt position by creating a natural hedge.</p>	 
<p><b>Foreign exchange</b></p> <p>The portfolio has investments in a number of countries, and there is a risk that the value of local currencies may decline in value relative to Sterling.</p>	<p>Foreign exchange risk is an integral part of a portfolio which is invested across a range of currencies. This risk is managed by the Investment Manager mainly by way of portfolio diversification, but the Investment Manager may, with Board approval, hedge currency risk.</p> <p>The Company did not engage in any currency hedging during the year under review and has not done so in recent years. However, as described above, borrowing in foreign currencies provides a natural hedge against currency risk in situations where the Company holds investments denominated in the borrowed currency. As at 30 September 2024, the Company had €50m (£41m) of borrowing and investments denominated in Euros whose value exceeded that of this borrowing. Furthermore, the Company had JPY17.5bn (£91m) of borrowing and investments denominated in Japanese Yen whose value exceeded that of this borrowing. In addition the Company had a loan of £30m, the primary currency of the Company, and holds investments denominated in GBP of a greater value.</p>	 

\* The value of long debt is marked to its fair value for the purpose of measuring investment performance but, as required by the relevant accounting standards, all debt is recognised on the balance sheet at amortised cost.

Principal and Emerging Risks	Risk Tolerance and Mitigating Actions	Risk Level / Movement
<p><b>Liquidity of investments</b> While the investment portfolio is made up predominantly of liquid investments, there is a possibility that individual investments may prove difficult to sell at short notice.</p>	<p>The Investment Manager takes account of liquidity when making investments and monitors the liquidity of holdings as part of its continuing management of the portfolio. The liquidity and concentration of AVI's holdings across all of its managed portfolios are monitored and reported at regular Board meetings.</p> <p>It is important to note that the potential for the return of capital from investee companies by means of special dividends and the partial or full redemption of shares is a key element of the Investment Manager's strategy, and so trading on a stock exchange is not the only source of liquidity in the portfolio.</p>	<p>⊖ ⊖</p>
<p><b>Key staff</b> Management of the Company's investment portfolio and other support functions rely on a small number of key staff.</p>	<p>The Investment Manager and key suppliers have staff retention policies and contingency plans. The Board's Management Engagement Committee reviews all of its key suppliers at least once per year.</p>	<p>⊖ ⊖</p>
<p><b>Discount rating</b> The shares of investment trusts frequently trade at a discount to their published net asset value. The value of the Company's shares will be subject to the interaction of supply and demand, prevailing net asset values and the general perceptions of investors. The share price will accordingly be subject to unpredictable fluctuations, and the Company cannot guarantee that the share price will appreciate in value.</p> <p>The Company may become unattractive to investors, leading to pressure on the share price and discount. This may be due to any of a variety of factors, including investment performance or regulatory change.</p>	<p>Any company's share price is affected by supply and demand for its shares and fluctuations in share price are a risk inherent in investing in the Company. In seeking to mitigate the discount, the Board looks at both supply and demand for the Company's shares.</p> <p>The Board seeks to manage the risk of any widening of the discount by regularly reviewing the level of discount at which the Company's shares trade. If necessary and appropriate, the Board may seek to limit any significant widening through measured buybacks of shares. During the year under review, in common with most of the investment trust sector, the Company's shares traded at a persistent discount and share buybacks were continued to mitigate the pressure on the share price rating.</p> <p>The Investment Manager has a comprehensive marketing, investor relations and public relations programme which seeks to inform both existing and potential investors of the attractions of the Company and the investment approach. We have a marketing budget to meet third-party costs in marketing our shares.</p>	<p>⬆️ ⊖</p>
<p><b>Outsourcing</b> The Company outsources all of its key functions to third parties, in particular the Investment Manager, and any control failures or gaps in the systems and services provided by third parties could result in a financial loss or damage to the Company.</p>	<p>The Board insists that all of its suppliers (and, in particular, the Investment Manager, the Custodian, the Depositary, the Company Secretary, the Administrator and the Registrar) have effective control systems which are regularly reviewed.</p> <p>The Board assesses thoroughly the risks inherent in any change of supplier, including the internal controls of any new supplier.</p>	<p>⬇️ ⊖</p>
<p><b>ESG</b> There is increasing focus on investment companies' role in influencing investee companies' approach to climate change and broader ESG issues.</p>	<p>The Board maintains a strategic overview of the portfolio, including ESG criteria. Management of the portfolio, including the integration of ESG considerations into portfolio construction, is delegated to AVI, the Investment Manager. As a responsible steward of assets, AVI fully supports policies and actions implemented by its portfolio companies to support a sustainable environment. AVI engages actively with its portfolio companies, and looks to understand how each company approaches stewardship of the environment, as well as seeking to identify any unacceptable practices that are detrimental to the environment or climate.</p>	<p>⬇️ ⊖</p>

The principal financial risks are examined in more detail in note 15 to the financial statements on pages 78 to 82.