

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*

Company	1 Year	10 Years (Annualised)
	0.0%	6.9%

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 is likely to deviate materially from that of any broadly based equity index. The Board considers the most useful comparator to be the MSCI All Country World ex-US Index. Over the year under review, the benchmark decreased by 1.8% on a total return basis and over ten years it has increased by 6.1% on an annualised total return basis.

A full description of performance and the investment portfolio is contained in the Investment Review, commencing on page 20.

Discount*

Year end	30 September 2020	30 September 2019
	9.3%	10.9%
High for the year	13.3%	11.2%
Low for the year	5.6%	7.2%

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 new shares were issued and 4.6m shares were bought back and placed into treasury, adding an estimated 0.5% to net asset value per share to the benefit of continuing shareholders. The shares were bought back at a weighted average discount of 10.5%.

Ongoing expenses ratio*

Year ended 30 September 2020	Year ended 30 September 2019
0.89%	0.85%

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 expenses ratio is the cost of the fees paid to the Investment Manager. This fee is reviewed annually. Further information is contained in the Chairman's Statement on pages 6 and 7.

For the year ended 30 September 2020, the ongoing expenses ratio was 0.89%, up slightly from the previous year.

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 Expenses 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, as 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. The Board has therefore chosen not to quote an Ongoing Charges Ratio per the AIC's guidance as part of its KPIs but has disclosed an Ongoing Charges Ratio in the Glossary on pages 95 to 98.

Principal 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 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 robust and regular assessments of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and did so 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.

* For definitions, see Glossary on pages 95 to 98.

The Board does not believe that managing risk is solely the job of someone assigned to the task but that 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 to be 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.

The Board has assessed the risks which the Company faces under a number of headings. 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. This statement is particularly apposite for the year under review; when the last Annual Report was written few people had heard of the COVID-19 virus.

PRINCIPAL AND EMERGING RISKS RISK TOLERANCE AND MITIGATING ACTIONS

Pandemic

The novel COVID-19 virus was first identified in China in late 2019 and, despite efforts to contain the spread of COVID-19, outbreaks occurred around the world in the first quarter of 2020.

A pandemic such as this affects both (i) the management and operations of the Company and (ii) the Company's investments.

In seeking reassurance on the continuing operation of the Company, the Board worked closely with the Investment Manager and the various external suppliers to ensure that the portfolio could continue to be managed effectively and the Company could continue to operate despite restrictive measures on movement imposed to contain the outbreak.

The Investment Manager focused its attention on the likely effects of the outbreak on investee companies in the first quarter of 2020. The Board notes that the Investment Manager was able to execute purchases and sales as usual at the height of the pandemic and was reassured by the Investment Manager's ability to continue to operate "business as usual".

The existing risk management mechanism was used to good effect and in particular the detailed risk matrix which the Audit Committee maintains was effective in identifying areas of the Company's operations which may be affected by measures implemented to contain the pandemic.

While the Company and its suppliers have dealt well so far with the effects of the pandemic, the Board remains alert to the continuing risks and to the possibility of further issues caused by prolonged restrictions on movement. The Board will continue to monitor the situation closely and will take action if and when necessary.

Loss of value in the portfolio

The market or the Company's portfolio could suffer a prolonged downturn in performance.

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.

The net asset value will be affected by general market conditions which in turn can be affected by extraneous events such as the COVID-19 pandemic, the US-China trade war, the protests in Hong Kong and Brexit.

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.

The Investment Manager has a clear investment strategy, as set out on page 21. 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 much 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. During the year under review the Investment Manager paid careful attention to the possible effects of the developing COVID-19 pandemic and a description of their actions is contained in the Investment Manager's review, which commences on page 20.

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.

PRINCIPAL AND EMERGING RISKS	RISK TOLERANCE AND MITIGATING ACTIONS
<p>Gearing</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 and bank debt; 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 its gearing at a prudent level. 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 the Euro tranche of the Loan Notes and the Japanese Yen loan 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 also have assets denominated in Euros and Japanese Yen which will increase in value in Sterling terms if the exchange rates increase and so this will offset ('naturally hedge') the debt position.</p>
<p>Foreign exchange</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 2020, the Company had EUR50m of borrowing and investments denominated in Euros whose value exceeded that of this borrowing. Furthermore, the Company had JPY4,000m of borrowing and investments denominated in Japanese Yen whose value exceeded that of this borrowing.</p>
<p>Liquidity of investments</p> <p>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 of holdings is 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>Key staff</p> <p>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>

* 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

Discount rating

The shares of investment trusts frequently trade at a discount to their published net asset value. The value of the Company's shares will additionally 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.

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.

Outsourcing

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.

Brexit

In the second half of 2020 it became increasingly likely that the UK may come to the end of the post-Brexit transition phase without a comprehensive trade agreement with the EU.

Climate change

As evidence of the effects of climate change grows, there is increasing focus on investment companies' role in influencing investee companies' approach to climate change.

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.

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.

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.

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. During the year under review, close attention was paid to the ability of all suppliers to maintain a good level of service while dealing with the changes to operations necessitated by the COVID-19 pandemic.

The Board assesses thoroughly the risks inherent in any change of supplier, including the internal controls of any new supplier.

As the vast majority of the underlying assets of investee companies are either based outside the UK or derive most or all of their profits outside the UK, the economic damage which Brexit may cause to the UK is not expected directly to affect the value of the Company's assets to any great extent. However, a "no-deal" scenario is likely to affect the exchange rate between sterling and foreign currencies, which would lead to volatility in the Company's net asset value. Foreign exchange risk is discussed on the previous page.

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.

The principal financial risks are examined in more detail in note 14 to the financial statements on pages 71 to 76.