1. General information and accounting policies

AVI Global Trust plc is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010 and its investment approach is detailed in the Strategic Report.

The financial statements of the Company have been prepared in accordance with IFRS as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have also been prepared in accordance with the AIC SORP for the financial statements of investment trust companies and venture capital trusts.

Basis of preparation

The functional currency of the Company is Pounds Sterling because this is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in Pounds Sterling rounded to the nearest thousand, except where otherwise indicated.

Going concern

The financial statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date when these financial statements were approved.

In making the assessment, the Directors have considered the likely impacts of the current COVID-19 pandemic on the Company, operations and the investment portfolio.

The Directors noted that the Company, with the current cash balance and holding a portfolio of liquid listed investments, is able to meet the obligations of the Company as they fall due. The current cash balance plus available additional borrowing, through the revolving credit facility, enables the Company to meet any funding requirements and finance future additional investments. The Company is a closed-end fund, where assets are not required to be liquidated to meet day to day redemptions. The Company is in a net current liability position as at 30 September 2020, however this is not determined to be a going concern risk due to the significant portfolio of level 1 investments which could be sold to settle liabilities.

The Directors have completed stress tests assessing the impact of changes in market value and income with associated cash flows. In making this assessment, they have considered plausible downside scenarios. These tests were driven by the possible effects of continuation of the COVID-19 pandemic but, as an arithmetic exercise, apply equally to any other set of circumstances in which asset value and income are significantly impaired. The conclusion was that in a plausible downside scenario the Company could continue to meet its liabilities. Whilst the economic future is uncertain, and the Directors believe that it is possible the Company could experience further reductions in income and/or market value, the opinion of the Directors is that this should not be to a level which would threaten the Company's ability to continue as a going concern.

The Directors, the Manager and other service providers have put in place contingency plans to minimise disruption. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis.

Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company primarily invests in companies listed in the UK and on other recognised international exchanges.

Accounting developments

In the year under review, the Company has applied amendments to IFRS issued by the IASB. These include annual improvements to IFRS, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. The adoption of the changes to accounting standards has had no material impact on these or prior years' financial statements.

There are amendments to IAS/IFRS that will apply from 1 October 2020 as follows:

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The Directors do not anticipate that the adoption of the above standard will have a material impact on the financial statements as presented.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Balance Sheet, the Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. There is considered to be one critical judgement, being that the Directors consider the Company's functional currency to be Pounds Sterling. There are no further significant judgements or estimates in these financial statements.

1. General information and accounting policies continued

Investments

The Company's business is investing in financial assets with a view to capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the documented investment strategy and information is provided internally on that basis to the Company's Board of Directors.

The investments held by the Company are designated 'at fair value through profit or loss'. All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments. When a purchase or sale is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All investments are designated upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or closing price for Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

Fair values for unquoted investments, or for investments for which the market is inactive, are established by using various valuation techniques in accordance with the International Private Equity and Venture Capital (the 'IPEV') guidelines. These may include recent arm's length market transactions, the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and reference to similar quoted companies. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost. These are constantly monitored for value. The values, if any, are approved by the Board.

All investments for which a fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy levels in note 14. A transfer between levels may result from the date of an event or a change in circumstances.

The Company held no leases during the current or prior years.

Foreign currency

Transactions denominated in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the date of the transaction. Items which are denominated in foreign currencies are translated at the rates prevailing on the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is capital or revenue in nature.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments and money market funds, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Other receivables and payables

Trade receivables, trade payables and short-term borrowings are measured at amortised cost and balances revalued for exchange rate movements.

Revolving credit facility

The revolving credit facility is recognised at amortised cost and revalued for exchange rate movements.

Income

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis. Dividends from overseas companies are shown gross of any withholding taxes which are disclosed separately in the Statement of Comprehensive Income.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case-by-case basis.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

Underwriting income is recognised upon completion of underwriting of a share issue. Where shares are received rather than cash, the value of the cash foregone is recognised as income. Any excess in the value of the underwriting is recognised in the capital column.

All other income is accounted on a time-apportioned accruals basis and is recognised in the Statement of Comprehensive Income.

Expenses and finance costs

All expenses are accounted on an accruals basis. On the basis of the Board's expected long-term split of total returns in the form of capital and revenue returns of 70% and 30% respectively, the Company charges 70% of its management fee and finance costs to capital.

Expenses incurred directly in relation to arranging debt finance are amortised over the term of the finance.

Expenses incurred in buybacks of shares to be held in treasury are charged to the capital reserve through the Statement of Changes in Equity.

Taxation

The charge for taxation is based on the net revenue for the year and takes into account taxation deferred or accelerated because of temporary differences between the treatment of certain items for accounting and taxation purposes.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the 'marginal' basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Equity. 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.

Non-current liabilities: Loan Notes

The non-current liabilities are valued at amortised cost. Costs in relation to arranging the debt finance have been capitalised and are amortised over the term of the finance. Hence, amortised cost is the par value less the amortised costs of issue.

The Euro Loan Notes are shown at amortised cost with the exchange difference on the principal amounts to be repaid reflected. Any gain or loss arising from changes in the exchange rate between Euro and Sterling is included in the capital reserves and shown in the capital column of the Statement of Comprehensive Income.

Further details of the non-current liabilities are set out in note 11.

Capital redemption reserve

The capital redemption reserve represents non-distributable reserves that arise from the purchase and cancellation of shares.

Share premium

The share premium account represents the accumulated premium paid for shares issued in previous periods above their nominal value less issue expenses. This is a reserve forming part of the non-distributable reserves. The following items are taken to this reserve:

- costs associated with the issue of equity; and
- premium on the issue of shares.

Capital reserve

The following are taken to the capital reserve through the capital column in the Statement of Comprehensive Income:

Capital reserve – other, forming part of the distributable reserves:

- gains and losses on the disposal of investments;
- amortisation of issue expenses of Loan Notes;
- costs of share buybacks;
- costs of Debenture Stock redemption;
- exchange differences of a capital nature; and
- expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies.

Capital reserve – investment holding gains, not distributable:

- increase and decrease in the valuation of investments held at the year end.

Merger reserve

The merger reserve represents the share premium on shares issued on the acquisition of Selective Assets Trust plc on 13 October 1995 and is not distributable.

Revenue reserve

The revenue reserve represents the surplus of accumulated profits and is distributable by way of dividends.

2. Income

	2020 £'000	2019 £'000
Income from investments		
Listed investments	**14,598**	25,983
Total return swap dividends*	**369**	(92)
	14,967	25,891
Other income		
Deposit interest	**264**	479
Total return swap interest*	**(481)**	(435)
Underwriting commission	**426**	–
Interest on French withholding tax received	**1**	25
Exchange (losses)/gains on receipt of income**	**(20)**	249
	190	318
Total income	**15,157**	26,209

* Net income (paid)/received on underlying holdings in Total Return Swaps.
** Exchange movements arise from ex-dividend date to payment date.

3. Investment management fee and other expenses

	2020 Revenue return £'000	2020 Capital return £'000	2020 Total £'000	2019 Revenue return £'000	2019 Capital return £'000	2019 Total £'000
Management fee	**1,789**	**4,173**	**5,962**	1,887	4,404	6,291
Other expenses:						
Directors' emoluments – fees	**169**	**–**	**169**	157	–	157
Auditor's remuneration – audit	**35**	**–**	**35**	28	–	28
Auditor's remuneration – interim review	**–**	**–**	**–**	7	–	7
Marketing	**459**	**–**	**459**	310	–	310
Printing and postage costs	**65**	**–**	**65**	63	–	63
Registrar fees	**80**	**–**	**80**	86	–	86
Custodian fees	**185**	**–**	**185**	144	–	144
Depositary fees	**120**	**–**	**120**	121	–	121
Advisory and professional fees	**249**	**–**	**249**	208	66†	274
Costs associated with dividend receipts	**60**	**–**	**60**	95	–	95
Irrecoverable VAT	**85**	**–**	**85**	84	–	84
Regulatory fees	**72**	**–**	**72**	68	–	68
Directors' insurances & other expenses	**51**	**–**	**51**	32	–	32
	1,630	**–**	**1,630**	1,403	66	1,469

† Capitalised costs associated with the total return swap.

For the year ended 30 September 2020, the fee calculated in accordance with the IMA amounted to 0.7% (2019: 0.7%) of the net asset value calculated on a quarterly basis.

Details of the IMA and fees paid to the Investment Manager are set out in the Report of the Directors.

4. Finance costs

	2020 Revenue return £'000	**2020 Capital return £'000**	**2020 Total £'000**	2019 Revenue return £'000	2019 Capital return £'000	2019 Total £'000
Loan, debenture and revolving credit facility interest						
$8^1/_8$% Debenture Stock 2023*	**–**	**–**	**–**	246	573	819
4.184% Series A Sterling Unsecured Loan Notes 2036	**376**	**879**	**1,255**	376	879	1,255
3.249% Series B Euro Unsecured Loan Notes 2036	**259**	**604**	**863**	263	613	876
2.93% Euro Senior Unsecured Loan Notes 2037	**154**	**359**	**513**	152	354	506
Revolving credit facility	**93**	**217**	**310**	37	87	124
	882	**2,059**	**2,941**	1,074	2,506	3,580
Amortisation						
$8^1/_8$% Debenture Stock 2023*	**–**	**–**	**–**	–	36	36
4.184% Series A Sterling Unsecured Loan Notes 2036	**–**	**7**	**7**	–	7	7
3.249% Series B Euro Unsecured Loan Notes 2036	**–**	**5**	**5**	–	5	5
2.93% Euro Senior Unsecured Loan Notes 2037	**–**	**7**	**7**	–	7	7
Revolving credit facility	**31**	**72**	**103**	13	31	44
	31	**91**	**122**	13	86	99
Early redemption						
$8^1/_8$% Debenture Stock 2023*	**–**	**–**	**–**	–	4,436	4,436
Total	**913**	**2,150**	**3,063**	1,087	7,028	8,115
Exchange (losses)/gains on Loan Notes**	**–**	**(1,114)**	**(1,114)**	–	288	288

* The $8^1/_8$% Debenture Stock was redeemed on 3 June 2019.
** Revaluation of Euro loan notes.

5. Taxation

	Year ended 30 September 2020			Year ended 30 September 2019		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
Analysis of charge for the year						
Overseas tax not recoverable*	**691**	**–**	**691**	1,096	–	1,096
Overseas tax recovered – previously expensed**	**–**	**–**	**–**	(433)	–	(433)
Tax cost for the year	**691**	**–**	**691**	663	–	663

* Tax deducted on payment of overseas dividends by local tax authorities.
** Receipts from the recovery of French withholding tax from prior years.

5. Taxation continued

The tax charge for the year is higher (2019: lower) than the standard rate of corporation tax in the United Kingdom of 19%. The differences are explained below:

	Year ended 30 September 2020			Year ended 30 September 2019		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
Profit/(loss) before taxation	**10,825**	**(12,104)**	**(1,279)**	21,832	3,134	24,966
UK corporation tax rate of 19%	**2,057**	**(2,300)**	**(243)**	4,148	596	4,744
Effects of the non-taxable items:						
– Tax-exempt overseas investment income	**(2,770)**	**–**	**(2,770)**	(4,967)	–	(4,967)
– Gains/(losses) on investments, exchange gains on capital items and movement on fair value of derivative financial instruments	**–**	**1,098**	**1,098**	–	(1,925)	(1,925)
– Excess management expenses carried forward	**540**	**1,202**	**1,742**	513	1,329	1,842
– Corporate interest restriction	**173**	**–**	**173**	306	–	306
– Overseas tax not recoverable	**691**	**–**	**691**	1,096	–	1,096
– Overseas tax recovered previously written off	**–**	**–**	**–**	(433)	–	(433)
	691	**–**	**691**	663	–	663

At 30 September 2020 the Company had unrelieved management expenses and disallowed interest of £87,852,000 (30 September 2019: £78,686,000) that are available to offset future taxable revenue. A deferred tax asset of £16,692,000 has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus losses.

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Trust meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an investment trust company.

6. Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 September 2019 of 14.50p (2018: 11.00p) per Ordinary Share	**15,855**	12,221
Interim dividend for the year ended 30 September 2020 of 6.00p (2019: 2.00p) per Ordinary Share	**6,439**	2,218
	22,294	14,439

Set out below are the interim and final dividends paid or proposed on Ordinary Shares in respect of the financial year, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered.

	2020 £'000	2019 £'000
Interim dividend for the year ended 30 September 2020 of 6.00p (2019: 2.00p) per Ordinary Share	**6,439**	2,218
Proposed final dividend for the year ended 30 September 2020 of 10.50p (2019: 14.50p) per Ordinary Share	**11,041***	15,855
	17,480	18,073

* Based on shares in circulation on 10 November 2020.

7. Earnings per Ordinary Share

The earnings per Ordinary Share is based on Company net loss after tax of £1,970,000 (2019: net profit of £24,303,000) and on 108,222,102 (2019: 110,956,131) Ordinary Shares, being the weighted average number of Ordinary Shares in issue (excluding shares in treasury) during the year.

The earnings per Ordinary Share detailed above can be further analysed between revenue and capital as follows:

			2020			2019
Basic and diluted	**Revenue**	**Capital**	**Total**	Revenue	Capital	Total
Profit for the year (£'000)	**10,134**	**(12,104)**	**(1,970)**	21,169	3,134	24,303
Weighted average number of Ordinary Shares			**108,222,102**			110,956,131
Earnings per Ordinary Share	**9.36p**	**(11.18)p**	**(1.82)p**	19.08p	2.82p	21.90p

There are no dilutive instruments issued by the Company (2019: none).

8. Investments held at fair value through profit or loss

	30 September 2020 £'000	30 September 2019 £'000
Financial assets held at fair value		
Opening book cost	**852,421**	826,405
Opening investment holding gains	**121,208**	163,860
Opening fair value	**973,629**	990,265
Movement in the year:		
Purchases at cost:		
Equities	**424,886**	255,779
Sales/ Close – proceeds:		
Equities and total return swaps	**(435,733)**	(288,331)
– realised gains on equity sales and close of total return swaps	**23,473**	58,568
Decrease in investment holding gains	**(26,546)**	(42,652)
Closing fair value	**959,709**	973,629
Closing book cost	**865,047**	852,421
Closing investment holding gains	**94,662**	121,208
Closing fair value	**959,709**	973,629
Financial assets held at fair value		
Equities	**959,709**	972,824
Total return swaps	**–**	805
	959,709	973,629

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Transaction costs		
Cost on acquisition	**251**	241
Cost on disposals	**243**	276
	494	517
Analysis of capital gains		
Gains on sales/ close out of financial assets based on historical cost	**23,473**	58,568
Movement in investment holding gains for the year	**(26,546)**	(42,652)
Net gains on investments	**(3,073)**	15,916

The Company received £435,733,000 (2019: £288,331,000) from investments sold in the year. The book cost of these investments when they were purchased was £412,260,000 (2019: £229,763,000). These investments have been revalued over time and until they were sold any unrealised gains or losses were included in the fair value of the investments.

9. Other receivables

	2020 £'000	2019 £'000
Sales for future settlement	**6,515**	2,711
Overseas tax recoverable	**650**	655
Prepayments and accrued income	**1,585**	3,036
VAT recoverable	**25**	16
	8,775	6,418

Overseas tax recoverable relates to withholding tax in a number of countries, some of which is past due, but is in the process of being reclaimed by the Custodian through local tax authorities and which the Company expects to receive in due course.

No other receivables are past due or impaired.

10. Current liabilities

	2020 £'000	2019 £'000
Total return swap	**–**	3,979
Revolving credit facility	**39,314**	30,037
Other payables		
Purchases for future settlement	**–**	48
Amounts owed for share buybacks	**443**	4
Management fees	**488**	542
Interest payable	**797**	787
Other payables	**369**	484
Total other payables	**2,097**	1,865
Total current liabilities	**41,411**	35,881

Revolving credit facility
On 29 April 2019, the Company entered into an agreement with Scotiabank Europe Plc for a JPY4.0bn (£27,700,000) unsecured revolving credit facility (the 'facility') for a period of three years.

The facility was increased to JPY9.0bn and converted to a multi currency facility with drawings available in Japanese Yen, Pounds Sterling, US Dollars and Euros on 5 March 2020 and a further £10,000,000 was drawn down as at 30 September 2020. As at the year end a total of JPY4.0bn and £10,000,000 remained drawndown.

The facility bears interest at the rate of 0.75% over LIBOR on any drawn balance. Undrawn balances below JPY2.0bn are charged at 0.35% and any undrawn portion above this is charged at 0.30%. Under the terms of the facility, the covenant requires that the net assets shall not be less than £300m and the adjusted net asset coverage to borrowings shall not be less than 4:1.

The facility is shown at amortised cost and revalued for exchange rate movements. Any gain or loss arising from changes in exchange rates is included in the capital reserves and shown in the capital column of the Statement of Comprehensive Income. Interest costs are charged to capital and revenue in accordance with the Company's accounting policies.

11. Non-current liabilities

	2020 £'000	2019 £'000
4.184% Series A Sterling Unsecured Loan Notes 2036	**29,899**	29,892
3.249% Series B Euro Unsecured Loan Notes 2036	**27,140**	26,466
2.93% Euro Senior Unsecured Loan Notes 2037	**18,025**	17,571
Total	**75,064**	73,929

The amortised costs of issue expenses are set out in note 4.

The fair values of the Loan Notes are set out in note 14.

The Company issued two Loan Notes on 15 January 2016:

£30,000,000	4.184% Series A Sterling Unsecured Loan Notes due 15 January 2036
€30,000,000	3.249% Series B Euro Unsecured Loan Notes due 15 January 2036

The Company issued further Loan Notes on 1 November 2017:

€20,000,000	2.93% Euro Senior Unsecured Loan Notes due 1 November 2037

Under the terms of the Loan Notes, the covenant requires that the net assets of the Company shall not be less than £300,000,000 and total indebtedness shall not exceed 40% of net assets.

Further information on the Loan Notes is set out on page 47.

12. Called-up share capital

	Ordinary Shares of 10p each	
	Number of shares	Nominal value £'000
Allotted, called up and fully paid	**116,003,133**	11,600
Treasury shares:		
Balance at beginning of year	**5,877,465**	
Buyback of Ordinary Shares into treasury	**4,573,938**	
Balance at end of year	**10,451,403**	
Total Ordinary Share capital excluding treasury shares	**105,551,730**	

During the year, 4,573,938 (2019: 1,718,823) Ordinary Shares with a nominal value of £457,000 (2019: £172,000) and representing 3.94% of the issued share capital, were bought back and placed in treasury for an aggregate consideration of £31,072,000 (2019: £12,603,000). No Ordinary Shares were bought back for cancellation (2019: nil). No Ordinary Shares were cancelled from treasury during the year (2019: 13,523,032).

The allotted, called up and fully paid shares at 30 September 2020 consisted of 116,003,133 Ordinary Shares.

13. Net asset value

The net asset value per share and the net asset value attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per share attributable	
	2020	2019
Ordinary Shares	**837.13p**	852.61p

	Net asset value attributable	
	2020 £'000	2019 £'000
Ordinary Shares	**883,605**	938,941

Net asset value per Ordinary Share is based on net assets and on 105,551,730 Ordinary Shares (2019: 110,125,668), being the number of Ordinary Shares in issue excluding Treasury Shares at the year end.

14. Financial instruments and capital disclosures

Investment objective and policy

The investment objective of the Company is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

The Company's investment objective and policy are detailed on page 46.

The Company's financial instruments comprise equity and fixed-interest investments, cash balances, receivables, payables and borrowings. The Company makes use of borrowings to achieve improved performance in rising markets. The risk of borrowings may be reduced by raising the level of cash balances or fixed-interest investments held.

Risks

The risks identified arising from the financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency risk), liquidity risk and credit and counterparty risk. The Company may also enter into derivative transactions to manage risk.

The Board and Investment Manager consider and review the risks inherent in managing the Company's assets which are detailed below.

Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss which the Company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with the objective of maximising overall returns to shareholders. If the fair value of the Company's investments at the year end increased or decreased by 20%, then it would have had an impact on the Company's capital return and equity of £191,941,000 (2019: £194,564,000).

Foreign currency

The value of the Company's assets and the total return earned by the Company's shareholders can be significantly affected by foreign exchange rate movements as most of the Company's assets are denominated in currencies other than Pounds Sterling, the currency in which the Company's financial statements are prepared. Income denominated in foreign currencies is converted to Pounds Sterling upon receipt.

A 5% rise or decline of Sterling against foreign currency denominated (i.e. non Pounds Sterling) assets and liabilities held at the year end would have increased/decreased the net asset value by £40,307,000 (2019: £41,813,000).

14. Financial instruments and capital disclosures continued

Foreign currency continued

The currency exposure is as follows:

Currency risk	**GBP £'000**	**EUR £'000**	**USD £'000**	**SEK £'000**	**JPY £'000**	**NOK £'000**	**CHF £'000**	**HKD £'000**	**Other £'000**	**Total £'000**
At 30 September 2020										
Other receivables	**102**	**168**	**147**	**–**	**7,439**	**197**	**285**	**437**	**–**	**8,775**
Cash and cash equivalents	**31,596**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,596**
Other payables	**(1,534)**	**(406)**	**–**	**–**	**(157)**	**–**	**–**	**–**	**–**	**(2,097)**
4.184% Series A Sterling Unsecured Loan Notes 2036	**(29,899)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,899)**
3.249% Series B Euro Unsecured Loan Notes 2036	**–**	**(27,140)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,140)**
2.93% Euro Senior Unsecured Loan Notes 2037	**–**	**(18,025)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,025)**
Revolving credit facility	**(10,000)**	**–**	**–**	**–**	**(29,314)**	**–**	**–**	**–**	**–**	**(39,314)**
Currency exposure on net monetary items	**(9,735)**	**(45,403)**	**147**	**–**	**(22,032)**	**197**	**285**	**437**	**–**	**(76,104)**
Investments held at fair value through profit or loss – equities	**87,196**	**108,687**	**301,093**	**95,681**	**285,793**	**20,287**	**–**	**20,035**	**40,937**	**959,709**
Total net currency exposure	**77,461**	**63,284**	**301,240**	**95,681**	**263,761**	**20,484**	**285**	**20,472**	**40,937**	**883,605**

This exposure is representative at the Balance Sheet date and may not be representative of the year as a whole. The balances are of the holding investment and may not represent the actual exposure of the subsequent underlying investment.

	GBP £'000	EUR £'000	USD £'000	SEK £'000	JPY £'000	NOK £'000	CHF £'000	HKD £'000	Other £'000	Total £'000
At 30 September 2019										
Other receivables	698	167	2,813	–	1,378	213	275	874	–	6,418
Cash and cash equivalents	50,725	–	14,000	–	–	–	–	–	–	64,725
Other payables	(1,294)	(399)	–	–	(172)	–	–	–	–	(1,865)
Total return swaps	–	–	805	–	–	–	–	–	–	805
4.184% Series A Sterling Unsecured Loan Notes 2036	(29,892)	–	–	–	–	–	–	–	–	(29,892)
3.249% Series B Euro Unsecured Loan Notes 2036	–	(26,466)	–	–	–	–	–	–	–	(26,466)
2.93% Euro Senior Unsecured Loan Notes 2037	–	(17,571)	–	–	–	–	–	–	–	(17,571)
Revolving credit facility	–	–	–	–	(30,037)	–	–	–	–	(30,037)
Currency exposure on net monetary items	20,237	(44,269)	17,618	–	(28,831)	213	275	874	–	(33,883)
Investments held at fair value through profit or loss – equities	82,446	116,529	354,554	56,352	254,008	15,924	27,539	36,909	28,563	972,824
Total net currency exposure	102,683	72,260	372,172	56,352	225,177	16,137	27,814	37,783	28,563	938,941

Interest rate risk

Interest rate movements may affect:

- the fair value of investments in fixed-interest rate securities;
- the level of income receivable on cash deposits;
- the interest payable on variable rate borrowings; and
- the fair value of the Company’s long-term debt.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Loan Notes issued by the Company pay a fixed rate of interest and are carried in the Company’s Balance Sheet at amortised cost rather than at fair value. Hence, movements in interest rates will not affect net asset values, as reported under the Company’s accounting policies, but may have an impact on the Company’s share price and discount/premium. The fair value of the debt and its effect on the Company’s assets is set out below.

The exposure at 30 September of financial assets and financial liabilities to interest rate risk is shown by reference to floating interest rates.

	At 30 September 2020 £’000	At 30 September 2019 £’000
Exposure to floating interest rates:		
Cash and cash equivalents	**31,596**	64,725
JPY revolving credit facility	**(39,314)**	(30,037)

If the above level of cash was maintained for a year, a 1% increase in interest rates would decrease the revenue return and net assets by £77,000 (2019: increase by £347,000). Management proactively manages cash balances. If there was a fall of 1% in interest rates, it would potentially impact the Company by turning positive interest to negative interest. The total effect would be a revenue reduction/cost increase of £77,000 (2019: revenue increase/cost decrease of £347,000).

	30 September 2020		30 September 2019	
	Book cost £’000	**Fair value £’000**	Book cost £’000	Fair value £’000
4.184% Series A Sterling Unsecured Loan Notes 2036	**29,899**	**38,677**	29,892	35,596
3.249% Series B Euro Unsecured Loan Notes 2036	**27,140**	**34,826**	26,466	32,756
2.93% Euro Senior Unsecured Loan Notes 2037	**18,025**	**22,779**	17,571	21,348
Total	**75,064**	**96,282**	73,929	89,700

The impact of holding the Loan Notes at fair value would be to reduce the Company's net assets by £21,218,000.

The fair value of the Company’s Loan Notes at the year end was £96,282,000 (2019: £89,700,000). The interest rates of the non-current liabilities (Loan Notes) are fixed. A 1% increase in market interest rates would be expected to decrease the fair value of the non-current liabilities by approximately £11.2m (2019: £10.9m), all other factors being equal. A 1% decrease would increase the fair values by £13.0m (2019: £4.1m).

14. Financial instruments and capital disclosures continued

Liquidity risk

The Company's assets mainly comprise readily realisable securities which can be easily sold to meet funding commitments, if necessary. Unlisted investments, if any, in the portfolio are subject to liquidity risk. The risk is taken into account by the Directors when arriving at their valuation of these items.

Liquidity risk is mitigated by the fact that the Company has £31,596,000 (2019: £64,725,000) cash at bank, the assets are readily realisable and further short-term flexibility is available through the use of bank borrowings. The Company is a closed-end fund, assets do not need to be liquidated to meet redemptions, and sufficient liquidity is maintained to meet obligations as they fall due.

The remaining contractual payments on the Company's financial liabilities at 30 September, based on the earliest date on which payment can be required and current exchange rates at the Balance Sheet date, were as follows:

	In 1 year or less £'000	**In more than 1 year but not more than 2 years £'000**	**In more than 2 years but not more than 3 years £'000**	**In more than 3 years but not more than 10 years £'000**	**In more than 10 years £'000**	**Total £'000**
At 30 September 2020						
4.184% Series A Sterling Unsecured Loan Notes 2036	**(1,255)**	**(1,255)**	**(1,255)**	**(8,786)**	**(17,348)**	**(29,899)**
3.249% Series B Euro Unsecured Loan Notes 2036	**(884)**	**(884)**	**(884)**	**(6,190)**	**(18,298)**	**(27,140)**
2.93% Euro Senior Unsecured Loan Notes 2037	**(532)**	**(532)**	**(532)**	**(3,721)**	**(12,708)**	**(18,025)**
Revolving credit facility	**(39,314)**	**–**	**–**	**–**	**–**	**(39,314)**
Other payables	**(2,097)**	**–**	**–**	**–**	**–**	**(2,097)**
	(44,082)	**(2,671)**	**(2,671)**	**(18,697)**	**(48,354)**	**(116,475)**

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 10 years £'000	In more than 10 years £'000	Total £'000
At 30 September 2019						
4.184% Series A Sterling Unsecured Loan Notes 2036	(1,255)	(1,255)	(1,255)	(8,786)	(17,341)	(29,892)
3.249% Series B Euro Unsecured Loan Notes 2036	(863)	(863)	(863)	(6,038)	(17,839)	(26,466)
2.93% Euro Senior Unsecured Loan Notes 2037	(519)	(519)	(519)	(3,630)	(12,384)	(17,571)
Revolving credit facility	(30,037)	–	–	–	–	(30,037)
Total return swap liabilities	(3,979)	–	–	–	–	(3,979)
Other payables	(1,865)	–	–	–	–	(1,865)
	(38,518)	(2,637)	(2,637)	(18,454)	(47,564)	(109,810)

Credit risk

Credit risk is mitigated by diversifying the counterparties through which the Investment Manager conducts investment transactions. The credit standing of all counterparties is reviewed periodically, with limits set on amounts due from any one counterparty. As at the year end cash is held with JP Morgan (A2*) and Morgan Stanley in the Liquidity Fund (AAA*).

The total credit exposure represents the carrying value of fixed-income investments, cash and receivable balances and totals £40,371,000 (2019: £75,927,000).

Fair values of financial assets and financial liabilities

Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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 assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability 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 for the asset or liability.

* Moody's credit ratings.

The tables below set out fair value measurements of financial instruments as at the year end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 30 September 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	**951,491**	**5,602**	**2,616**	**959,709**
	951,491	**5,602**	**2,616**	**959,709**

Financial assets at fair value through profit or loss at 30 September 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	957,334	15,490	–	972,824
Total return swap assets	–	4,784	–	4,784
	957,334	20,274	–	977,608

The valuation of Level 2 equity investment is determined using the average of independent broker traded prices available in the market. The valuation techniques used by the Company are explained in the accounting policies note on pages 61 to 63.

The fair value of the total return swaps was derived by using the market price of the underlying instruments and exchange rates and therefore would be categorised as Level 2.

Fair value of Level 3 investments

	30 September 2020 £'000	30 September 2019 £'000
Opening fair value of investments	**–**	–
Transfer to Level 3 from Level 1 in the year	**2,616**	–
Movement in unrealised investment holding gains	**–**	–
Closing fair value of investments	**2,616**	–

The fair value of the Level 3 investment is derived from the net asset value less the average discount prior to delisting.

Financial liabilities

Valuation of Loan Notes

The Company's Loan Notes are measured at amortised cost, with the fair values set out below. Other financial assets and liabilities of the Company are carried in the Balance Sheet at an approximation to their fair value.

	At 30 September 2020		At 30 September 2019	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
4.184% Series A Sterling Unsecured Loan Notes 2036	**(29,899)**	**(38,677)**	(29,892)	(35,596)
3.249% Series B Euro Unsecured Loan Notes 2036	**(27,140)**	**(34,826)**	(26,466)	(32,756)
2.93% Euro Senior Unsecured Loan Notes 2037	**(18,025)**	**(22,779)**	(17,571)	(21,348)
Total	**(75,064)**	**(96,282)**	(73,929)	(89,700)

There is no publicly available price for the Company's Loan Notes. Their fair market value has been derived by calculating the relative premium (or discount) of the loan versus the publicly available market price of the reference market instrument and exchange rates. As this price is derived by a model, using observable inputs, it would be categorised as Level 2 under the fair value hierarchy. The fair value of the total return swaps is derived using the market price of the underlying instruments and exchange rates and therefore would be categorised as Level 2.

14. Financial instruments and capital disclosures continued

Financial liabilities continued

Valuation of Loan Notes continued

The financial liabilities in the table below are shown at their fair value, being the amount at which the liability may be transferred in an orderly transaction between market participants. The costs of early redemption of the Loan Notes are set out in the Glossary on page 95 to 98.

Financial liabilities at 30 September 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Loan Notes	**–**	**(96,282)**	**–**	**(96,282)**
	–	**(96,282)**	**–**	**(96,282)**

Financial liabilities at 30 September 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Loan Notes	–	(89,700)	–	(89,700)
Total return swap liabilities	–	(3,979)	–	(3,979)
	–	(93,679)	–	(93,679)

Capital management policies and procedures

The structure of the Company's capital is described on page 47 and details of the Company's reserves are shown in the Statement of Changes in Equity on page 58.

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern;
- to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value, through an appropriate balance of equity capital and debt; and
- to maximise the return to shareholders while maintaining a capital base to allow the Company to operate effectively and meet obligations as they fall due.

The Board, with the assistance of the Investment Manager, regularly monitors and reviews the broad structure of the Company's capital on an ongoing basis. These reviews include:

- the level of gearing, which takes account of the Company's position and the Investment Manager's views on the market; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from last year.

The Company is subject to externally imposed capital requirements:

a) as a public company, the Company is required to have a minimum share capital of £50,000; and

b) in accordance with the provisions of Sections 832 and 833 of the Companies Act 2006, the Company, as an investment company:

(i) is only able to make a dividend distribution to the extent that the assets of the Company are equal to at least one and a half times its liabilities after the dividend payment has been made; and

(ii) is required to make a dividend distribution with respect to each accounting year such that it does not retain more than 15% of the income that it derives from shares and securities in that year.

These requirements are unchanged since last year and the Company has complied with them at all times.

15. Derivatives

The Company may use a variety of derivative contracts, including total return swaps, to enable it to gain long and short exposure to individual securities. Derivatives are valued by reference to the underlying market value of the corresponding security.

	At 30 September 2020 £'000	At 30 September 2019 £'000
Total return swaps		
Current assets	–	4,784
Current liabilities	–	(3,979)
Net value of derivatives	–	805

The gross positive exposure on total return swaps as at 30 September 2020 was £nil (30 September 2019: £37,377,000) and the total negative exposure of total return swaps was £nil (30 September 2019: £29,034,000). The liabilities are secured against assets held with Jefferies Hoare Govett (the 'prime broker'). The collateral held as at 30 September 2020 was £nil (30 September 2019: £14,000,000), which is included in cash and cash equivalents in the Balance Sheet.

16. Contingencies, guarantees and financial commitments

At 30 September 2020, the Company had £nil financial commitments (2019: £nil).

At 30 September 2020, the Company had £nil contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2019: £nil).

17. Related party transactions and transactions with the Investment Manager

Fees paid to the Company's Directors are disclosed in the Report on Remuneration Implementation on page 84. At the year end, £nil was outstanding due to Directors (2019: £nil).

The transaction pursuant to the IMA with AVI is set out in the Report of the Directors on page 49. Management fees for the year amounted to £5,962,000 (2019: £6,291,000).

As at the year end, the following amounts were outstanding in respect of management fees: £488,000 (2019: £542,000).

18. Post balance sheet events

Since the year end, the Company has bought back 403,348 Ordinary Shares with a nominal value of £40,335 at a total cost of £3,056,000, which have been placed in treasury.

On 6 October 2020 the Company repaid the £10,000,000 which was drawndown on the revolving credit facility on 23 September 2020. An additional breakage cost of £3,000 was incurred. The amount drawndown as at 10 November 2020 is JPY4.0bn of the JPY9.0bn facility.