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**

	1 Year	10 Years (Annualised)
Company	2.1%	8.4%

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, As explained on page 6, the Board has decided to use the net version of this Index, which accounts for withholding taxes. Over the past year, the benchmark has increased 4.5% on a total return basis and over ten years it has increased by 7.2% on an annualised total return basis.

A full description of performance and the investment portfolio is contained in the Investment Review, commencing on page 16.

*Discount**

Year end	30 September 2019	30 September 2018
	10.9%	8.5%
High for the year	11.2%	11.7%
Low for the year	7.2%	6.8%

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 1.7m shares were bought back and placed into treasury, adding an estimated 0.1% to net asset value per share to the benefit of continuing shareholders. The shares were bought back at a weighted average discount of 9.7%. On 11 September 2019, the Company cancelled 13,523,032 of the shares held in treasury.

*Ongoing charges**

Year ended 30 September 2019	Year ended 30 September 2018
0.85%	0.87%

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 and the Board believes that the cost is reasonable, given the Investment Manager's active approach to fund management and the resources required to provide the level of service.

For the year ended 30 September 2019, the ongoing charges ratio was 0.85%, down slightly from the previous year.

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. 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 and challenging perceptions. 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 are 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.

* For definitions, see Glossary on pages 89 to 92.

Risk Area	Risk Tolerance and Mitigating Actions
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, potentially, 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 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 17. 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. 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.
Gearing The use of gearing makes investment returns more volatile and exacerbates the effect of any fall in portfolio value. 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.	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. 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. In common with other investment trusts, we also mark the value of debt to its estimated fair value, 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 value 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 should offset ("naturally hedge") the debt position.
Foreign exchange 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.	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. 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 2019, 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.

Risk Area	Risk Tolerance and Mitigating Actions
Liquidity of investments 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.	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. 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.
Key staff Management of the Company's investment portfolio and other support functions rely on a small number of key staff.	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.
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.	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, supported by the Company, 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.
Failed trades The portfolio has investments in a number of jurisdictions around the world and there is a risk of portfolio trades failing and/or of loss of assets.	The Board has zero tolerance to the loss of assets due to failed trades, theft or fraud. The Investment Manager and Administrator have comprehensive systems in place for executing and settling transactions and for ensuring that the assets are kept safe. The Company uses a leading global custodian bank to safeguard its assets and receives regular, comprehensive reports from the Custodian. In addition, the Depositary provides further independent oversight of the protection of the Company's assets.
Tax reclaims The portfolio has investments in a number of countries where systems for reclaiming tax are prolonged.	The Board has instructed the Company's suppliers to ensure that they take all reasonable steps to ensure that reclaims of tax are expedited. The Investment Manager has a process, overseen by the Audit Committee, to ensure that tax is reclaimed in an efficient and timely manner, working with the Custodian and, where appropriate, other agencies. In recent years, the Investment Manager, working closely with the Custodian, has been successful in substantially reducing the amount of overseas withholding tax which had been claimed but not yet received.
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.	The Board insists that all of its suppliers (and, in particular, the Investment Manager, the Custodian, the Depositary and the Administrator) have effective control systems which are regularly reviewed. The Board assesses thoroughly the risks inherent in any change of supplier, including the internal controls of any new supplier.

The principal financial risks are examined in more detail in note 14 to the financial statements on page 65.

Environmental, Social and Governance ('ESG') Issues

Both the Board and AVI recognise that social, human rights, community, governance and environmental issues have an effect on its investee companies.

The Board supports AVI in its belief that good corporate governance will help to deliver sustainable long-term shareholder value. AVI is an investment management firm that invests on behalf of its clients and its primary duty is to produce returns for its clients. AVI seeks to exercise the rights and responsibilities attached to owning equity securities in line with its investment strategy. A key component of AVI's investment strategy is to understand and engage with the management of public companies. AVI's Stewardship Policy recognises that shareholder value can be enhanced and sustained through the good stewardship of executives and boards. It therefore follows that in pursuing shareholder value AVI will implement its investment strategy through proxy voting and active engagement with management and boards.

The Company is an investment trust and so its own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company has no employees. The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, which are listed on the inside back cover of this report, comply with the provisions of the UK Modern Slavery Act 2015.

The Directors do not have service contracts. There are five Directors, three male and two female. Further information on the Board's policy on recruitment of new Directors is contained on page 42.

Future Strategy

The Board and the Investment Manager have long believed in their focus on investment in high-quality undervalued assets and that, over time, this style of investment has been well rewarded.

The Company's overall future performance will, *inter alia*, be affected by: the Investment Manager's decisions; investee companies' earnings, corporate activity, dividends and asset values; and by stock market movements globally. Stock markets are themselves affected by a number of factors, including: economic conditions; central bank and other policymakers' decisions; political and regulatory issues; and currency movements.

The Company's performance relative to its peer group and benchmark will depend on the Investment Manager's ability to allocate the Company's assets effectively, and manage its liquidity or gearing appropriately. More specifically, the Company's performance will be affected by the movements in the share prices of its investee companies in comparison to their own net asset values.

The overall strategy remains unchanged.

Approval of Strategic Report

The Strategic Report has been approved by the Board and is signed on its behalf by:

Susan Noble
Chairman
11 November 2019

AVI'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

Factor	Relevant Aspect	Boundaries or Tools for Implementation
Governance	Good governance has always been at the core of AVI's investment approach. The two areas of focus are: • How managers and directors guide a business. • The set of rules that describe the company's governing mechanisms.	AVI's strategy includes an active approach to governance and accountability which includes the following: • Voting at AGMs. • Letters to boards requesting change. • A dialogue with management and boards about governance issues.
Social	We try to understand the social system that an investee company operates within. The areas of focus are: • How the stakeholder relationships co-exist. • Employment related matters in terms of incentives.	As a minority shareholder, AVI will advise and guide its portfolio companies. Areas of focus include: • Discussions on unequal relationships with different stakeholders. • How employees and management incentives are organised.
Environmental	As a responsible owner, AVI fully supports policies and actions implemented by its portfolio companies to support a sustainable environment.	Our influence is limited as AVI is not involved in the day-to-day activities of its portfolio companies. However, we look to understand a company's stewardship of the environment to ensure that there are no egregious practices.

AVI's engagement in any one of these aspects will vary depending on the type of portfolio company (i.e. family-backed holding company, closed-end fund or asset-backed company).

AVI's full ESG Policy can be found at
www.aviglobal.co.uk