COMPANY PURPOSE

The Company is an investment trust. Its investment objective is to achieve capital growth through a focused portfolio of mainly listed investments, particularly in companies whose shares stand at a discount to estimated underlying net asset value.

STRATEGY

Our strategy is to seek out-of-favour companies whose assets are misunderstood by the market or under-researched, and which trade significantly below their intrinsic value and where pressure can be brought to bear to enact change to release value for shareholders.

INVESTMENT APPROACH

As an investment trust, the Company's most important relationship is with the Investment Manager.

The Company's assets are managed by Asset Value Investors Limited. AVI aims to deliver superior returns and specialises in investment in securities that for a number of reasons may be selling on anomalous valuations.

The Investment Manager has the flexibility to invest around the world and is not constrained by any fixed geographic or sector weightings, but does seek to maintain a concentrated yet diversified portfolio. No more than 10% of the Company's investments may be in unlisted securities. AVI's investment philosophy is described in more detail on page 18 of the Annual Report and the Company's Investment Policy is set out on page 38.

KEY PERFORMANCE INDICATORS ('KPIs')

The Company uses KPIs as an effective measurement of the development, performance or position of the Company's business, in order to set and measure performance reliably. These are Net Asset Value Total Return, Discount to Net Asset Value and Value for Money.

TOTAL RETURNS TO 30 SEPTEMBER 2018

Company	1 Year 10.0%	**Benchmark** **MSCI All Country World ex-US Index***	1 Year 5.2%
	10 Years (Annualised) 10.0%		10 Years (Annualised) 9.0%

* Benchmark adopted on 1 October 2013.

KEY FIGURES

DISCOUNT

30 September 2018	30 September 2017
8.5%	9.9%

NUMBER OF INVESTMENTS

39

(of which 16 are held in Japanese Special Situations – see page 16)

ESTIMATED PERCENTAGE ADDED TO NET ASSET VALUE PER SHARE FROM BUYBACKS

2018	2017
0.4%	0.8%

TOP TEN INVESTMENTS REPRESENT

50.6%

of total assets less current liabilities

ONGOING CHARGES RATIO

2018	2017
0.87%	0.87%

SYMPHONY INTERNATIONAL HOLDINGS

Minor International, Symphony International's largest investment, is one of the portfolio's largest underlying holdings.

Nature of business
Investment Company

4.1%

% of total assets less current liabilities

Minor Hotels – Anantara Kalutara Resort in Sri Lanka

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.

Net asset value total return

The Directors regard the Company's net asset value 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 important comparator to be the MSCI All Country World ex-US Index, which was adopted as the Company's benchmark from 1 October 2013.

A full description of performance and the investment portfolio is contained in the Investment Review, commencing on page 18 of the Annual Report.

The discount at which the Company's shares trade compared with net asset value

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, the discount has moved generally in a range from 7% to 12%, with a high of 11.7% and a low of 6.8%, based on closing prices and, as at 30 September 2018, stood at 8.5%.

During the year under review, no new shares were issued and 4.3m shares were bought back and placed into treasury, 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 10.1%.

Value for money

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

For the year ended 30 September 2018, the ongoing charges ratio was 0.87%, which was unchanged 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. The Board looks at risk from many different angles, an overview of which is set out below. It has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The objective of using these techniques 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 investment approach followed by the Investment Manager aims, over the long term, to achieve returns in excess of those produced by markets.

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 below. 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 Area	Mitigating Actions
The market or the Company's portfolio could suffer a prolonged down turn in performance.	Conventional wisdom holds that the most effective way of reducing risk is to hold a diversified portfolio of assets. The Company typically now holds 25-35 core positions. This range could be considered a relatively concentrated (and therefore risky) portfolio. 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. For the same reason, the top ten portfolio positions, representing 50.6% of total assets at the year end, are in practice highly diversified on a look-through basis. This diversification is evident at country, sector and currency levels. The Investment Manager has a clear investment strategy, as set out on page 18. There will be periods when this strategy underperforms in comparison to its benchmark and its peer group. The Board monitors performance at each Board meeting, and reviews the investment process thoroughly at least annually. 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.
The use of gearing makes investment returns more volatile and exacerbates the effect of any fall in portfolio value.	There is a degree of risk associated with gearing. While gearing should enhance investment performance over the long term, it is likely to exacerbate any decline in asset value in the short term. There are covenants attached to both the Loan Notes and the Debenture, which could be breached in extreme market conditions and could require early repayment, which could be expensive. Total return results, when issued on the basis of debt being marked to estimated market value, are likely to be more volatile. The value of the Euro tranche of the Loan Notes will fluctuate with currency movements, although it should be noted that the portfolio contains a significant amount of Euro denominated assets. It is possible 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 fixed gearing at a prudent level. The covenants are set at levels with substantial headroom.
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. However, 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 2018, the Company had €50m of borrowing, and investments denominated in Euros whose value exceeded that of this borrowing.
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.
Management of the Company's investment portfolio and other support functions rely on a small number of key staff.	The Board regularly reviews with key suppliers, and particularly the Investment Manager, their staff retention policies and contingency plans.

Risk Area	Mitigating Actions
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.	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, and it will, if necessary and appropriate, 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.
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 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.
The portfolio has investments in a number of countries where systems for reclaiming tax are prolonged.	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.
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 Company reviews the relevant systems and controls, at the Investment Manager and at other third-party suppliers, including the Custodian, Depositary and Administrator. 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 Issues

Both the Board and AVI recognise that social, human rights, community, governance and environmental issues can have an effect on some of 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
9 November 2018