

# **ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (AUDITED)**

**This is the Annual Financial Report of Herald Investment Trust plc as required to be published under DTR 4 of the UKLA Listing Rules.**

## **Results and dividend**

The net asset value (NAV) of the Company at 31 December 2016 was 1083.2p per ordinary share (2015 – 881.8p). This represented an increase of 22.8% during the year. The discount was 18.5% (2015: 15.5%) and the share price increased by 18.4% to 882.5p.

The Company made a revenue profit of £430,000 (2015: loss of £36,000) giving net earnings of 0.58p (2015: (0.05p)) per share. The directors do not recommend a dividend (2015 – nil) for the year ended 31 December 2016.

The financial information set out in this Annual Financial Report does not constitute the Company's statutory accounts for 2015 or 2016. Statutory accounts for the years ended 31 December 2015 and 31 December 2016 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2015 and 2016 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS102), which forms part of revised Generally Accepted Accounting Practice ('New UK GAAP') issued by the Financial Reporting Council in 2013, 2014 and 2015. The financial statements have also been prepared in accordance with The Companies Act 2006 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (AIC) in November 2014.

## STATISTICS AND PERFORMANCE – YEAR'S SUMMARY

|   | 31 December<br>2016 | 31 December<br>2015 | % change |
|---|---------------------|---------------------|----------|
| Total assets (before deduction of bank loans and derivative financial instruments)* | £816.4m             | £709.1m             |          |
| Bank loans  | £25.0m              | £25.0m              |          |
| Derivative financial instruments *  | –                   | £13.0m              |          |
| Shareholders' funds   | £791.4m             | £671.1m             |          |
| Net asset value per ordinary share  | 1083.2p             | 881.8p              | 22.8     |
| Share price   | 882.5p              | 745.3p              | 18.4     |
| Numis Smaller Companies Index plus AIM<br>(ex. investment companies)                | 5,049.8             | 4,628.6             | 9.1      |
| Russell 2000 (small cap) Technology Index (in<br>sterling terms)                    | 2,307.0             | 1,540.2             | 49.8     |
| Composite comparative index   |                     |                     | 21.7     |
| Dividend per ordinary share   | –                   | –                   |          |
| Revenue earnings per ordinary share   | 0.58p               | (0.05p)             |          |
| Ongoing charges **  | 1.09%               | 1.08%               |          |
| Discount to NAV   | 18.5%               | 15.5%               |          |

\* The derivative financial instrument was closed on 29 July 2016.

\*\* Ongoing charges calculated in accordance with AIC guidelines: annualised charges, excluding interest, incurred by the Company, expressed as a percentage of the average net asset value.

## LONG TERM PERFORMANCE SUMMARY

The following table indicates how an investment in Herald has performed relative to its comparative index (applied retrospectively) and its underlying fully diluted net asset value over the period since inception of the Company.

|  | 31 December<br>2016 | Inception<br>16 February<br>1994 | % change |
|--|---------------------|----------------------------------|----------|
| Net asset value per ordinary share (including current year income) | 1083.2p             | 98.7p                            | 997.5    |
| Net asset value per ordinary share (excluding current year income) | 1082.6p             | 98.7p                            | 996.9    |
| Share price  | 882.5p              | 90.9p                            | 870.8    |
| Numis Smaller Companies Index plus AIM (ex. investment companies)  | 5,049.8             | 1,750.0                          | 188.6    |
| Russell 2000 (small cap) Technology Index (in sterling terms)      | 2,307.0             | 688.7                            | 235.0    |

## CHAIRMAN'S STATEMENT AND REVIEW OF 2016

I am pleased to report another successful year in 2016. The net asset value per share closed at a high of 1083.2p, an uplift of 22.8% over the year. This is a milestone for the Company: the capital return per share has decisively exceeded 10x from inception in 1994. On a total return basis the net asset value per share has risen more than 11.5x.

The year has been dominated by politics. Whilst we were not as surprised by the outcome of the referendum in the UK and the Presidential election in the US as many seem to have been, we did not anticipate the positive effect that these events have had on equity markets, particularly in the US. The main effect of the referendum has been a sharp devaluation of sterling which was predictable, and as a result we benefited from cash balances intentionally held in overseas currencies. The total appreciation on the portfolio was £144.5m in 2016. Of this return currency gains represent some £41m. The indirect benefit by way of UK companies' overseas earnings is more difficult to quantify.

The other significant feature of the year for the Company has been takeovers. There have been fifteen in all - six in the US, eight in the UK and one in France - with an aggregate takeout value of £64.0m. The average holding period from first purchase was 8.2 years. Most of the UK takeovers were towards the end of the year. It felt as though no decisions were made before and immediately after the Brexit vote but, as business carried on normally after the vote, buyers' confidence returned. The level of takeovers was not as high as it was in 2015 (£92.3m), but it remains above the long-term trend.

Takeover activity reflects the natural lifecycle of the Company's investments. One of our aims has always been to provide development capital to early stage quoted companies, and it is inevitable that as they mature, some are acquired. However, there is another phenomenon. The number of takeovers is now exceeding the number of new issues: investors are withdrawing capital from the quoted sector. Instead there are flows of capital into private equity and venture capital. Private equity is able to use more efficient capital structures with more financial leverage, and lower taxes. In addition, the level of regulation in quoted markets is increasingly burdensome for companies and investors alike. Investors in private companies also have the advantage of investing without the limitations of insider rules.

Fortunately, there are some counterbalancing positives. Firstly, large companies driven by quarterly reporting are investing less in new products and are happier to acquire smaller companies when they have reached profitability. This leaves a larger gap for entrepreneurial companies to fill. Secondly, both private equity and large corporations are paying significant premiums to quoted market valuations. Thirdly, many professional investors are abandoning smaller quoted companies, and brokers are less energetic about promoting secondary market activity due to reduced commissions. Together these factors create opportunities for a research-driven company like Herald. Finally, private equity is in general not a good quality owner because its time horizon is determined by the life of their fund. This can cause forced exits, bringing companies back to the market at a later stage of development. There could in due course be a flood of IPOs at exciting valuations.

The UK continues to be the largest proportion of the portfolio but, as a percentage, has fallen to 57% of net assets. The return on the UK portfolio was 16.0%. Although this was a drag on the overall return of the fund, we are pleased that it usefully exceeded the Numis Smaller Companies Index (inc AIM but exc investment companies) which grew by 9.1%. The North American return was 38.4% in sterling. Although this was an impressive number in absolute terms, we lagged the Russell 2000 Technology Index in sterling which returned 49.8%. All the relative underperformance occurred in the fourth quarter, and reflects our exposure to the smaller companies in the Russell 2000 Index and companies too small for this index. The Asian portfolio appreciated by 21.65% which was largely related to currency. Europe was the star region, rising 56.7% in sterling, though it is a small proportion of our portfolio.

We held net cash balances throughout the year (5+%) reflecting caution around political uncertainties. Our cash grew even more in Q4 as cash came in from takeovers. This held back the performance of the Company overall.

We decided to close the remaining £25m of our interest rate swap, having been offered favourable terms to close the position. In 2008, the Company took out a £50m interest rate swap to fix the level and cost of borrowing. Because interest rates subsequently fell, the swap actually cost the Company money, an aggregate 11.4% drag on performance since 2008. £25m of the swap was cancelled in 2014. In 2016, the closure of the remaining swap had no material effect on the valuation. However, the reduced interest cost meant that the Company once again generated a positive income from dividends received.

The share price discount has remained at a frustratingly wide level, but broadly in line with UK smaller companies investment trusts. Helped by the strong cash flows from takeovers in 2015 and 2016, the Board and the Manager have been purposeful in share buybacks (£23.5m), representing 4% of the outstanding capital, but overall volume has been limited. The illiquidity in the Trust's shares mirrors the illiquidity in the underlying portfolio. In part this reflects the fact that commission levels have been driven down to such a low level that it does not pay brokers to broke stocks actively. The burden of marketing is now moving even more to companies including the Trust itself. Marketplaces adapt, but at the moment in the UK the regulatory shock of the impending introduction of MiFID II has led to dire illiquidity, and commensurately wide discounts for smaller company trusts in general. It will be interesting to see how markets evolve over the next two years. In 2017, we intend to be more active in marketing and broker engagement.

Over the life of the Company, total realised and unrealised profits of £695m have been achieved on a maximum capital of £95m, and nearly £367m has been invested in primary capital helping businesses grow in a desirable way for the economy with added value jobs. Herald is unique in the investment trust sector with its focus on UK technology and its systemic importance in the provision of capital to this important sector of the UK economy. We believe that there is a very positive case to be made for the Company.

The latest trading news from portfolio companies is generally sound. Although valuations are not at the bargain levels of the financial crisis, they are cheap compared to bonds and corporate activity is occurring at such substantial premiums that we look forward to 2017 with reasonable optimism.

Julian Cazalet  
Chairman

## **INVESTMENT MANAGER'S REPORT**

The year started with a pronounced dip and the assets had declined nearly 10% by mid February. Asia and Europe fell c.10% and the North American portfolio by c.18% while the UK portfolio fell only 6.7%. This was perceived to reflect worries about growth slowing in China, but the technical effect of hedge fund liquidations was probably the more significant factor. The UK market was then dormant and was still down 5% by the end of June reflecting Brexit worries, while overseas markets recovered so the net asset value was broadly flat. The third quarter was sparkling with a £122m uplift in value. A further £19m appreciation occurred in Q4 taking the year's gain to £144.5m. This led to a rise in net assets per share of 22.8%. We use a comparative index of 2/3rds the Numis Smaller Companies Index (including AIM and excluding investment companies) and 1/3<sup>rd</sup> the Russell 2000 Technology Index. This returned 21.7% on a total return basis in sterling. The Company's return reflects the outperformance in the UK and Europe – tempered somewhat by the overweight cash position. Given the lack of correlation between the remit and the comparative indices described below, the result for the Trust is really quite pleasing.

### **UK**

The UK produced a total return of 16.0%. The comparative benchmark used is the Numis Smaller Companies index (including AIM and excluding investment companies), which made a total return of 12.0%. Furthermore, the weighted

return of the sectors targeted was only 7.3%.

The total returns within the Numis Index for the relevant sectors for 2016 are as follows.

|                                   |       |
|-----------------------------------|-------|
| Electronic & Electrical Equipment | 11.6% |
| Media                             | 20.7% |
| Telecommunications                | -9.3% |
| Technology                        | 2.9%  |
| Weighted return for TMT sectors   | 7.3%  |

Since inception in 1994, the fund has outperformed this index (and its predecessor Hoare Govett indices). The compounding effect is quite dramatic. Since inception, the UK has now delivered a total return of 1,333% versus the index return of 438%. However the “active share” of the portfolio is 91.2%. In other words, there is very little overlap with the index - which is why we do not consider it a benchmark. There are two strong messages from this. We read about active versus passive management in a rather bewildered way from our corner of the world. If you own a small company you are overweight. If you buy a new issue it is not in the index. This year we only invested £14.0m in primary offerings because we were husbanding cash in an uncertain political world, but the total since inception has been over £330m. I am not sure how new issues will work in a passive world.

We are very grateful to the plethora of management teams in the UK that have worked so hard on shareholders' behalves to have delivered such good returns. Although the UK portfolio tends to lag returns overseas when sterling weakness is pronounced, as has been the case in 2016, UK companies do benefit on a delayed basis as overseas profits are enhanced in sterling, and margins on exports can expand. Over the long run, the UK outperformance in part reflects more efficient use of balance sheets with companies raising just enough capital. In contrast US companies tend to have balance sheets bloated by excess cash, but it does contribute to better liquidity in the US.

Seven holdings appreciated more than 100% during the year, of which the two significant ones were Avesco and IQE. IQE recovered from aberrantly low levels, while Avesco was the most significant takeover. We were fortunate to acquire most of the Avesco holding at distressed levels in June 2009 at the height of the financial crisis at 22p. The take out value of 650p was most welcome, and the premium on the price the day before the takeover was 125%. We endeavour not to own more than 10% in any one company, in order to have some discipline over liquidity. Avesco was an exception: our holding crept up to 12.5% when the company bought back the shares of one investor with our blessing. Servicepower Technologies was another company where the Trust's stake crept over 10%, because we bought some cumulative convertibles which we held longer than anticipated, and the accrued coupon converted to ordinary shares at a very low price. The takeover led to an appreciation for the year of 209%. However the shares had fallen prior to the takeover because the company was cash constrained to the point that we put in a short term loan. We had confidence in the company longer term and would have liked to have stood our corner in a fund raising, but with an 11.5% stake were reluctant to invest alone. To our frustration, the directors rationally on their part did not want to be diluted at a derisory valuation, so chose to exit the company before it was fully ripe. A Canadian company made a first offer at 5p, which was 100% higher than the price at which the shares had been languishing, and a counter offer came in at 6p. This colourfully illustrates the state of UK capital markets. Cash everywhere except where it is needed. UK investors are particularly poor at investing in break-even or loss making businesses. The take out valuation was little more than one times revenue. Such a low valuation is very unusual in US markets, so we were reluctant sellers on this occasion. We wish there were more like minded long term co-investors. At the other end of the spectrum, Alternative Networks was the lemon of the year losing £2.4m in spite of a 17% premium on a takeover at the year end. It is a pity it limped off the market, because it has historically been a good performer, and yielded nearly £8m in profit and dividends. There have been so many UK takeovers that almost anything left of size is not particularly appealing. The interest lies in the smaller emerging companies so we expect to continue to hold a long list both to avoid the risk associated with high stock specific risk positions and to avoid holding stakes greater than 10% of the outstanding capital in the investee companies.

### North America

The portfolio appreciated by 38.4% in sterling terms. The Russell 2000 Technology index rose even more – up 50.6%. I have for the first time analysed the weightings in the index as I was annoyed at our underperformance, but am reassured that half the index is larger than our size remit, and the largest stock - AMD - appreciated 371% in sterling terms during the year, and is way too big for our small company fund. The active weight versus the index we are comparing the North American portfolio to is 90.6%, so it is surprising that we have correlated to the index to the extent we have. Since we entered the North American market in 1996, the US portfolio has appreciated 352%, and the index 230% in sterling terms. The price/earnings ratio (“p/e”) of the North American portfolio was 37.1x on Bloomberg estimates at the year end, which is much higher than the UK and EMEA portfolios (c.20x). The American p/e has doubled over four years, reflecting the takeovers of more mature lower p/e companies in part, whereas the UK multiple has only risen a quarter. In comparison the Asian p/e has risen from 8.6x to 12.3x. The multiples in the US do not seem to reflect the scale of dilution from stock based compensation, albeit there is strong growth.

There were nine companies in the US portfolio that appreciated by more than 100% in sterling terms. These were Akoustis Technologies, Apigee (bought and sold during the year), Energous, Mentor Graphics, KEYW, Boingo Wireless, Amber Road, Impinj and Fabrinet. (Interestingly Akoustis, Apigee, Boingo, and Energous are not in the index). The most significant by value was the longest held, Mentor Graphics. The largest holding in the portfolio - Silicon Motion Technologies - performed satisfactorily, appreciating 64% in share price terms, but profit taking at higher levels helped give a total return of £7.8m during the year. Poor performers were Hydrogenics and Adesto which are both early stage companies.

## **EMEA**

EMEA has been the star performing region appreciating 56.6% in sterling terms.

In Europe Ordina, BE Semiconductor Industries (BE Semi) and Devoteam all appreciated by more than 100%. By value the star was BE Semi which was initially purchased in 2011. We would also have done well owning more semiconductor equipment manufacturers on the US market, but BE Semi was the preferred play in this sector, which is so cyclical. It is a Dutch based back-end equipment manufacturer. The sector has been strong, but BE Semi has gained share as well. Cumulative profits on this holding including dividends are now £11.5m. Second was Isra Vision, a German listed company that has been held since 2004 and appreciated by 83.5% (£2.2m during the year). The star performers have all been long term holdings which have enjoyed multiple expansion. Although I have high regard for the management teams, I wish they were not all now on p/e multiples greater than 20x.

## **Asia**

The Asian portfolio appreciated 21.8% in sterling terms, with most of the gain coming from foreign exchange gains - aided by a healthy contribution from Asian dividends.

Innox in South Korea appreciated more than 100% and made the biggest individual positive contribution to the Asian performance. PSK and Soulbrain, two other South Korean companies, also performed well. Innox and Soulbrain are likely beneficiaries of the move to the use of flexible AMOLED displays in smartphones and PSK is a leading supplier of capital equipment into the DRAM and 3D NAND memory industries. The worst performance came from 21Vianet, an internet data centre services provider in China, where the combination of a failed takeover and weak trading caused the share price to more than halve.

## **Macro background**

If politics has been an enduring overhang in 2016, regulation continues to be the enduring headache. If AIFMD (Alternative Investment Fund Managers Directive) meant our back office and middle office had to be rebuilt, MAR (Market Abuse Regulation) and MiFID II (Markets in Financial Instruments Directive) are impacting the front office. The most significant impact has been that we have opened a New York office this year, so that we have the opportunity to meet companies who no longer come to London, and have a video conferencing link to join in from London. It is evident that the low level of commissions being paid has squeezed brokers selling overseas investments into London particularly hard, to the point where few companies bother to come to London anymore. It frustrates us that the cost of the New York office and the extra costs associated with corporate access and research required in overseas markets will be adversely impacting the UK balance of payments and HMRC's tax receipts.

## **Sector update**

Smaller companies were in the shade for a period when the big consumer names were in the limelight, and generalist fund managers were investing in Facebook, Amazon, Netflix and Google (Alphabet). This year has seen a bit of a catch up from the myriad of technology companies that are behind the scenes enabling the internet. We are moving to a period where internet growth is sub 10%, but that does not mean that at the smaller end there are not still many opportunities. The automotive sector has become a hot talking point as cars move towards being driverless. Batteries remain the stumbling block for full electric vehicles but plug-in hybrids are quite practical. The trends are evident. Cheap electricity is incredibly exciting. Now that solar panels and wind turbines have become so inexpensive, it opens the prospect of a great proportion of the earth's population enjoying mobile phones, and the technology that drives GDP growth.

In the UK (and Ireland) there has been a surge in venture investing. Figures from Ascendant Corporate Finance suggest £2,591m was invested in 2015 in 534 deals and £2,248m in the first three quarters of 2016 in 459 companies. Meanwhile the university funds continue to gain assets. I am doubtful whether they will achieve good returns but optimistic that some of the companies that have been seeded will require follow on funding in due course and this will provide a pipeline of IPOs. In addition there is a particularly entrepreneurial culture in the UK. In part, this comes from bright graduates emerging from university with debt, who struggle to find secure lucrative employment in the conventional way and are eager to take the risk. Inward investment by the US technology companies has become significant. We are in a knowledge based world where skills are more valuable than capital. This is reflected in huge pay packages in Silicon Valley in particular. Bright developers prefer to work for a start-up with share incentivisation rather than in established businesses. In order to keep staff, established businesses have responded by giving restricted stock units, or shares that vest after time. When I hear companies justifying 5% dilution each year to keep good staff I shiver, and think of adverts in 2007 for 125% mortgages. It is a bubble and many valuations do not reflect

the viciousness of this dilution. The side effect is that large US companies want to expand outside the Californian hotspots, and thanks to sterling weakness, an available skill set and work ethic, London is a target. I was initially dismayed that US companies kept buying the UK's good companies cheaply, and now they are just buying the people, including poaching staff from investee companies. On reflection, it is good news because these big companies will train people, and some will leave and start businesses. It is noticeable that the last generation of tech companies including Microsoft, Cisco and Oracle came to the M4 corridor. The new generation including Google, Apple and Amazon are focused on central London.

As far as Brexit is concerned, portfolio companies do not seem perturbed. Regulation in its widest sense is the frustration and I sense that is why so many of the entrepreneurial CEOs in our UK portfolio seemed to vote for Brexit. I grew up as a child in an era of militant trade unions. They were the managements' challenge. Unions have long since ceased to be the headache, but the law in its widest sense has become the big headache, because it encroaches on business practices more intrusively than right and wrong.

## Summary

The sector continues to provide attractive opportunities. On valuation grounds the UK seems the most attractive, but at the small end where illiquidity is at its most challenging. The overseas listings have had the currency bounce, while UK companies with overseas earnings should benefit over time on translation of profits. Sterling weakness has meant that the Trust has had a strong year relative to UK smaller companies funds, and a poor year relative to the large capitalisation technology funds which are dollar focussed. Some catch up occurred in Q4 and many UK companies should benefit from a profits tailwind next year as well.

Time weighted total return by geography in sterling terms, compared with indices

|   | 01/01/2016-<br>31/12/2016 |
|---|---------------------------|
| Asia  | 20.2%                     |
| Europe Middle East and Africa                                 | 56.7%                     |
| North America   | 37.5%                     |
| UK  | 16.3%                     |
| Foreign Bonds   | 16.6%                     |
| Numis Smaller companies index plus AIM (ex investment trusts) | 12.0%                     |
| Russell 2000 (small cap) Technology Index                     | 50.6%                     |

## Investment Changes (£'000)

|                    | Valuation at<br>31 December<br>2015 | Net<br>acquisitions/<br>(disposals) | Appreciation/<br>(depreciation) | Valuation at<br>31 December<br>2016 |
|--------------------|-------------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
| Equities*          |                                     |                                     |                                 |                                     |
| UK                 | 429,453                             | (34,821)                            | 59,880                          | 454,512                             |
| EMEA               | 26,008                              | (4,139)                             | 12,612                          | 34,481                              |
| North America      | 150,746                             | (28,458)                            | 55,062                          | 177,350                             |
| Asia Pacific       | <u>35,944</u>                       | <u>(3,387)</u>                      | <u>6,028</u>                    | <u>38,585</u>                       |
| Total equities     | 642,151                             | (70,805)                            | 133,582                         | 704,928                             |
| Bonds:             |                                     |                                     |                                 |                                     |
| US bonds           | –                                   | 6,940                               | 1,101                           | 8,041                               |
| <u>Total bonds</u> | =                                   | <u>6,940</u>                        | <u>1,101</u>                    | <u>8,041</u>                        |
| Total investments  | 642,151                             | (63,865)                            | 134,683                         | 712,969                             |

|                        |                |                 |                |                |
|------------------------|----------------|-----------------|----------------|----------------|
| <u>Liquid assets**</u> | <u>66.988</u>  | <u>28.506</u>   | <u>7.951</u>   | <u>103.445</u> |
| <u>Total assets</u>    | <u>709.139</u> | <u>(35.359)</u> | <u>142.634</u> | <u>816.414</u> |

The total assets figure above comprises assets less current liabilities before deduction of the £25m bank loan.

\* Equities includes convertibles and warrants.

\*\* Liquid assets comprise cash, debtors and creditors excluding bank loans and derivative financial instruments.

Katie Potts

## TOP TWENTY EQUITY HOLDINGS

AT 31 DECEMBER 2016

A brief description of the twenty largest equity holdings in companies is as follows:

|   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|---|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|-------|-------|------------|------|------|
| <b>Diploma</b>  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Diploma is a group of specialised distribution businesses serving industries with long term growth potential and with the opportunity for sustainable superior margins through the quality of customer service, depth of technical support and value-adding activities. The three sectors the company focuses on are life sciences, seals and controls. |                | <table> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">2.9</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">2.0</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>23.74</td> <td>17.39</td> </tr> <tr> <td>Shares (m)</td> <td>2.29</td> <td>2.29</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 2.9 |  | % of issued share capital held | 2.0 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 23.74 | 17.39 | Shares (m) | 2.29 | 2.29 |
| Country   | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of total assets   | 2.9            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of issued share capital held  | 2.0            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|   | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Valuation (£m)  | 23.74          | 17.39  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Shares (m)  | 2.29           | 2.29   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |

|  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
|--|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|-------|-------|------------|-------|-------|
| <b>IDOX</b>  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
| Idox plc is a supplier of specialist document management collaboration solutions and services to the public sector and increasingly to highly regulated asset intensive industries around the world in the wider corporate sector. The Public Sector Software Division is the leading applications provider to UK local government for core functions relating to land, people and property, including its market leading planning systems and election management software. Over 90% of UK local authorities are now customers. The Division provides public sector organisations with tools to manage information and knowledge, documents, content, business processes and workflow as well as connecting directly with the citizen via the web. The Engineering Information Management Division delivers engineering document control, project collaboration and facility management applications to many leading companies in industries such as oil & gas, architecture and construction, mining, utilities, pharmaceuticals and transportation in North America and around the world. The Group employs over 660 staff located in the UK, the USA, Canada, Europe, India and Australia. |                | <table> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">2.3</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">7.9</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>18.46</td> <td>14.59</td> </tr> <tr> <td>Shares (m)</td> <td>28.52</td> <td>28.62</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 2.3 |  | % of issued share capital held | 7.9 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 18.46 | 14.59 | Shares (m) | 28.52 | 28.62 |
| Country  | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
| % of total assets  | 2.3            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
| % of issued share capital held   | 7.9            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
| Valuation (£m)   | 18.46          | 14.59  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |
| Shares (m)   | 28.52          | 28.62  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |       |       |

|   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|---|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|-------|-------|------------|------|------|
| <b>Imagination Technologies</b>   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Imagination Technologies is a global leader in multimedia, processor and communication technologies. It creates and licenses market-leading processor solutions. This silicon IP (intellectual property) is used to create the SoCs (Systems on Chips) that sit at the heart of a wide range of mobile, consumer and embedded electronics solutions. Imagination's unique graphics and multimedia (PowerVR), general purpose processor (MIPs) and connectivity technologies (Enigma) enable its customers to get to market quickly with complete and highly differentiated semiconductors. Imagination's licensees include many of the world's leading semiconductor manufacturers, network operators and OEMs/ODMs who are creating some of the world's most iconic products. Corporate headquarters are located in the United Kingdom, with sales and R&D offices worldwide. Apple is a significant customer and an investor in Imagination Technologies. |                | <table> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">2.2</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">2.5</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>17.98</td> <td>13.05</td> </tr> <tr> <td>Shares (m)</td> <td>7.14</td> <td>9.89</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 2.2 |  | % of issued share capital held | 2.5 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 17.98 | 13.05 | Shares (m) | 7.14 | 9.89 |
| Country   | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of total assets   | 2.2            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of issued share capital held  | 2.5            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|   | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Valuation (£m)  | 17.98          | 13.05  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Shares (m)  | 7.14           | 9.89   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |

|  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|--|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|-------|-------|------------|------|------|
| <b>GB Group</b>  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| GB Group is a global specialist in Identity Data Intelligence. This is the data that reveals who a person really is, what they like – and what they don't. GBG helps organisations realise the full value of their customer base by recognising and verifying all elements of a consumer's identity at every interaction. GBG combines trillions of data records from all over the world relating to people's identity to help their clients make the right decisions about the customers they serve and the people they employ. The company operates in 3 main areas: supporting fraud, risk and compliance management; managing data quality through location intelligence and customer behaviour insights; and offering HR professionals superior employee screening capability. Through the application of technology, GB Group protects, predicts and provides information that is used to maximise |                | <table> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">2.2</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">4.9</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>17.89</td> <td>18.58</td> </tr> <tr> <td>Shares (m)</td> <td>6.57</td> <td>6.91</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 2.2 |  | % of issued share capital held | 4.9 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 17.89 | 18.58 | Shares (m) | 6.57 | 6.91 |
| Country  | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of total assets  | 2.2            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| % of issued share capital held   | 4.9            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Valuation (£m)   | 17.89          | 18.58  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |
| Shares (m)   | 6.57           | 6.91   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |       |       |            |      |      |

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| customer value for some of the largest companies in the UK. The company provides an integrated and comprehensive range of data services to clients allowing them to interact effectively with their customers, improve long term profitability and reduce fraud. Headquartered in Chester (UK) and with 21 offices in 13 countries across the world, GBG provides solutions to many of the world's biggest organisations, including established brands like Nike, Ford and HSBC. |  |  |
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|---|--|--|
| <b>M&amp;C Saatchi</b>  |  |  |
| M&C Saatchi is a global marketing services business working for clients across a wide variety of industry sectors. The Company was founded in 1995. Starting with a strong base in the UK and Australia, M & C Saatchi have added new agencies and disciplines in Asia, USA and Europe. M&C Saatchi currently has 30 offices worldwide. |  | Country United Kingdom<br>% of total assets 1.8<br>% of issued share capital held 5.3<br><br>31/12/16 31/12/15<br>Valuation (£m) 14.92 13.16<br>Shares (m) 3.94 4.14 |

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|---|--|---|
| <b>Silicon Motion Technology</b>  |  |   |
| Silicon Motion Technology is a global leader and pioneer in developing NAND flash controller ICs for solid-state storage devices and specialty RF ICs for mobile devices. They supply more NAND flash controllers than any other company and have one of the broadest portfolios of controller solutions and technologies. Key products are controllers used in embedded storage products such as SSDs and eMMCs, as well as in expandable storage products such as memory cards and USB flash drives. Products are widely used in consumer devices such as smartphones, tablets and PCs and for industrial, enterprise, commercial and other applications. Customers include most of the NAND flash makers, leading technology OEMs, and the majority of storage device module makers. More NAND flash products - especially next-generation flash - produced by Intel, Micron, Samsung, SanDisk, SK Hynix and Toshiba are supported by Silicon Motion controllers than any other company. Silicon Motion is the world's leading merchant supplier of controllers for eMMC embedded memory used in smartphones and tablets, and the leading merchant supplier of controllers for client SSDs used in PCs and other applications. The acquisition of Shannon Systems expanded the product portfolio to now include enterprise-grade PCIe SSDs for the Chinese hyperscale data center market. Silicon Motion was founded in 1995 in San Jose, California and is now headquartered in Taiwan, with design centers and sales offices in Taiwan, Korea, China, Hong Kong, Japan and the US. |  | Country United States<br>% of total assets 1.8<br>% of issued share capital held 1.2<br><br>31/12/16 31/12/15<br>Valuation (£m) 14.75 11.70<br>Shares (m) 0.43 0.55 |

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| <b>SQS Software Quality Stsyems</b>   |  |  |
| The SQS Group (SQS) is a leading specialist in software quality providing end-to-end business process quality assurance for software-based systems. SQS consultants identify and mitigate business risk in technology-led transformations utilising standardised methodology, industrialised automation solutions, global delivery and deep domain knowledge across multiple industries. With over 30 years experience and over 10,000 completed projects, SQS has a strong global customer base. Founded in Cologne in 1982, SQS employs around 4,600 staff. SQS has offices in Germany, the UK, Australia, Egypt, Finland, France, India, Ireland, Italy, Malaysia, the Netherlands, Norway, Austria, Singapore, Sweden, Switzerland, South Africa, the UAE and the US. In addition, SQS maintains a minority stake in a company in Portugal. |  | Country United Kingdom<br>% of total assets 1.6<br>% of issued share capital held 6.9<br><br>31/12/16 31/12/15<br>Valuation (£m) 13.36 11.12<br>Shares (m) 2.19 1.89 |

|   |  |  |
|---|--|--|
| <b>Next Fifteen Communications</b>  |  |  |
| Next 15 aims to become the world's largest and most respected specialist communications group. To do this, the Group continues to build a portfolio of businesses that cater to the subtly different needs of the various market sectors and geographies in which it operates. Next 15 employs over 1,350 |  | Country United Kingdom<br>% of total assets 1.6<br>% of issued share capital held 5.7<br><br>31/12/16 31/12/15 |

|  |  |                |       |       |
|--|--|----------------|-------|-------|
| <p>people across 32 offices in 14 countries. The Group incorporates 17 subsidiary agencies, spanning digital content, marketing, PR, consumer, technology, marketing software, market research, public affairs and policy communications. Of the Group's businesses, five are independent communications brands, with three specialising in the technology sector (Bite, Text 100 and The OutCast Agency), and two in the consumer space (Lexis and M Booth). The Group also owns three agencies with a focus on digital (Beyond, bDA and Connections Media), a B2B marketing agency (Twogether), a programmatic advertising technology business (Encore), a market research company (Morar), a digital content marketing agency (Story), a policy communications firm (Vrge), a creative agency (ODD London), a B2B technical marketing communications agency (Publitek) and an investor relations consultancy (The Blueshirt Group). Lastly the Group has established its first marketing software business in agent3. All brands operate as autonomous businesses, allowing the Group to service competing clients.</p> |  | Valuation (£m) | 12.76 | 13.76 |
|  |  | Shares (m)     | 4.18  | 5.78  |

|   |                                |                   |                |          |
|---|--------------------------------|-------------------|----------------|----------|
| <b>IQE</b>  |                                |                   |                |          |
| <p>IQE is the leading global supplier of advanced compound semiconductor wafers. These wafers are atomically engineered to provide IQE's customers with the materials from which they produce high performance wireless, photonic and electronic devices or "chips." It is IQE's epitaxial layer processes that enable chips to operate at the high frequencies (radio frequencies or RF) that are used for all forms of wireless communications. IQE's "epi" processes also manufacture materials that enable the conversion of energy to light or light to energy for sensing, lighting and power generation technologies. IQE produces materials with precisely controlled atomic compositions to emit or detect/receive light from the infrared, through the visible and into the ultraviolet range of wavelengths. IQE's products cover a diverse range of applications, supported by an innovative outsourced foundry services portfolio that allows the Group to provide a 'one stop shop' for the contract wafer manufacturing needs of the world's leading semiconductor manufacturers. Possessing the largest independent manufacturing capacity worldwide, IQE are able to achieve enhanced economies of scale that no other merchant epiwafer manufacturer can realize and few in-house capabilities can match.</p> |                                | Country           | United Kingdom |          |
|   |                                | % of total assets | 1.5            |          |
|   | % of issued share capital held | 5.0               |                |          |
|   |                                |                   | 31/12/16       | 31/12/15 |
|   | Valuation (£m)                 | 12.56             | 5.86           |          |
|   | Shares (m)                     | 33.50             | 33.50          |          |

|   |                                |                   |               |          |
|---|--------------------------------|-------------------|---------------|----------|
| <b>Pegasystems</b>  |                                |                   |               |          |
| <p>Pegasystems develops strategic applications for sales, marketing, service and operations. Pega's applications streamline critical business operations, connect enterprises to their customers seamlessly in real-time across channels, and adapt to meet rapidly changing requirements. Pega's Global 2000 customers include many of world's most sophisticated and successful enterprises. Pega's applications, available on-premises or in the cloud, are built on its unified Pega 7 platform, which uses visual tools to easily extend and change applications to meet clients' strategic business needs. Customers include industry leaders in banking, capital markets, credit cards, insurance, healthcare and pharmaceutical, the public sector, communications, media and entertainment, travel and hospitality, consumer packaged goods, utilities, manufacturing, and oil and gas. Founded in 1983 with the Head Office in Massachusetts, Pega is based in 30 locations around the world and has 3,500 staff.</p> |                                | Country           | United States |          |
|   |                                | % of total assets | 1.3           |          |
|   | % of issued share capital held | 0.5               |               |          |
|   |                                |                   | 31/12/16      | 31/12/15 |
|   | Valuation (£m)                 | 10.79             | 6.90          |          |
|   | Shares (m)                     | 0.37              | 0.37          |          |

|   |                                |                   |                |          |
|---|--------------------------------|-------------------|----------------|----------|
| <b>Telit Communications</b>   |                                |                   |                |          |
| <p>Telit is a leading global enabler of the Internet of Things (IoT). The company offers the industry's broadest portfolio of integrated products and services for end-to-end IoT deployments – including cellular communication modules in all technologies, GNSS, short-to-long range wireless modules, IoT</p> |                                | Country           | United Kingdom |          |
|   |                                | % of total assets | 1.2            |          |
|   | % of issued share capital held | 3.2               |                |          |
|   |                                |                   | 31/12/16       | 31/12/15 |
|   | Valuation (£m)                 | 10.13             | 7.91           |          |

|  |  |            |      |      |
|--|--|------------|------|------|
| <p>connectivity plans and IoT platform services. Through the IoT Portal, Telit makes IoT onboarding easy, reduces risk, time to market, complexity and costs for asset tracking, remote monitoring and control, telematics, industrial automation and others, across many industries and vertical markets worldwide. The unique combination of products and services feed data directly into applications and business IT systems to deliver real-time intelligence to businesses across industries. With over 14 years exclusively in m2m, Telit constantly advances technology through nine R&amp;D centres around the globe, marketing products and services in over 80 countries. Telit provides customer support and design-in assistance from 35 sales and support offices and a global distributor network.</p> | <table border="1"> <tr> <td>Shares (m)</td> <td>3.70</td> <td>3.70</td> </tr> </table> | Shares (m) | 3.70 | 3.70 |
| Shares (m)   | 3.70   | 3.70       |      |      |

|  |   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|--|---|----------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|------|------|------------|------|------|
| <p><b>Euromoney Institutional Investor</b></p> <p>Euromoney magazine was founded in 1969 by Sir Patrick Sergeant, the then City editor of the Daily Mail. In the decades since, the idea to launch a publication to reflect the growth in global capital flows has flourished alongside the development of banking and capital markets. Today, Euromoney Institutional Investor PLC is an international business-to-business information and events group listed on the London Stock Exchange, with 2,300 employees worldwide and a portfolio of over 50 specialist businesses spanning macroeconomic data, investment research, news and market analysis, industry forums and institutes, financial training and excellence awards. Euromoney's primary sectors include asset management, banking and capital markets, specialist finance, metals, mining, energy and commodities. The portfolio includes brands such as Euromoney, Institutional Investor, BCA Research, Ned Davis Research, Metal Bulletin, American Metal Market, CEIC Data, EMIS, Petroleum Economist, Insurance Insider, Gulf Publishing Company, Mining INDABA and IJ Global among others. The company headquarters are in the City of London, with additional main offices in Manhattan, Montreal, Hong Kong, Singapore and Shanghai. The group has a further 20 regional offices. Around a third of Euromoney's revenues are derived from emerging markets.</p> | <table border="1"> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.2</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">0.7</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>9.68</td> <td>8.41</td> </tr> <tr> <td>Shares (m)</td> <td>0.85</td> <td>0.85</td> </tr> </table> | Country  | United Kingdom |  | % of total assets | 1.2 |  | % of issued share capital held | 0.7 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 9.68 | 8.41 | Shares (m) | 0.85 | 0.85 |
| Country  | United Kingdom  |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of total assets  | 1.2   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of issued share capital held   | 0.7   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|  | 31/12/16  | 31/12/15 |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Valuation (£m)   | 9.68  | 8.41     |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Shares (m)   | 0.85  | 0.85     |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |

|   |   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|---|---|----------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|------|------|------------|------|------|
| <p><b>Telecom Plus</b></p> <p>Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services, spanning both the communications and energy markets. Telecom Plus provides homes and small businesses throughout the UK with Home Phone, Broadband, Mobile, Gas and Electricity all on a unified bill. Telecom Plus was incorporated in 1996 and began operations in 1997 providing a unique range of low-cost telephony services to the residential and SOHO markets. They use the collective buying power of individual users to negotiate bulk buying deals with major suppliers, passing the benefit back to their customers. Telecom Plus does not advertise and has no shops. Instead, they rely on word of mouth recommendations from satisfied customers and distributors to grow its market share.</p> | <table border="1"> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.2</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">1.0</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>9.57</td> <td>8.73</td> </tr> <tr> <td>Shares (m)</td> <td>0.82</td> <td>0.82</td> </tr> </table> | Country  | United Kingdom |  | % of total assets | 1.2 |  | % of issued share capital held | 1.0 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 9.57 | 8.73 | Shares (m) | 0.82 | 0.82 |
| Country   | United Kingdom  |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of total assets   | 1.2   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of issued share capital held  | 1.0   |          |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|   | 31/12/16  | 31/12/15 |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Valuation (£m)  | 9.57  | 8.73     |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Shares (m)  | 0.82  | 0.82     |                |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |

|   |  |          |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|---|--|----------|-------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|------|------|------------|------|------|
| <p><b>BE Semiconductor Industries</b></p> <p>Besi was incorporated in the Netherlands in May 1995 and is engaged in one line of business, the development, manufacturing, marketing, sales and service of semiconductor assembly equipment for the global semiconductor and electronics industries. Besi's customers are primarily leading multinational chip manufacturers, assembly subcontractors and electronics and industrial companies. Besi's equipment performs critical functions in customers' assembly operations and in many cases represents a significant percentage of their installed base of assembly equipment. Besi is a global company with headquarters in Duiven, the Netherlands. It operates seven facilities for production and development activities, as well as eight sales and service offices across Europe, Asia and North America. At the end of</p> | <table border="1"> <tr> <td>Country</td> <td colspan="2">Netherlands</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.1</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">0.8</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.90</td> <td>5.68</td> </tr> <tr> <td>Shares (m)</td> <td>0.33</td> <td>0.42</td> </tr> </table> | Country  | Netherlands |  | % of total assets | 1.1 |  | % of issued share capital held | 0.8 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.90 | 5.68 | Shares (m) | 0.33 | 0.42 |
| Country   | Netherlands  |          |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of total assets   | 1.1  |          |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| % of issued share capital held  | 0.8  |          |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
|   | 31/12/16   | 31/12/15 |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Valuation (£m)  | 8.90   | 5.68     |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |
| Shares (m)  | 0.33   | 0.42     |             |  |                   |     |  |                                |     |  |  |          |          |                |      |      |            |      |      |

|  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
|--|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|-----|--|--|----------|----------|----------------|------|-------|------------|------|------|
| 2015 Besi employed a total staff of 1,539 fixed and temporary personnel of whom approximately 62% were based in Asia and 38% were based in Europe and North America.   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| <b>Wilmington</b>  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Wilmington Group plc is one of the UK's leading providers and partner of choice for information, education and networking in Risk & Compliance, Finance and Legal as well as the Insight leader in a number of chosen industries. The Group provides business intelligence, information, training, education, events and support services for a variety of markets including the accountancy, banking, charities, financial services, healthcare, insurance, legal, and pensions sectors.  |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.1</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">3.8</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.82</td> <td>10.75</td> </tr> <tr> <td>Shares (m)</td> <td>3.29</td> <td>4.09</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 1.1 |  | % of issued share capital held | 3.8 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.82 | 10.75 | Shares (m) | 3.29 | 4.09 |
| Country  | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of total assets  | 1.1            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of issued share capital held   | 3.8            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Valuation (£m)   | 8.82           | 10.75  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Shares (m)   | 3.29           | 4.09   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| <b>Ceva</b>  |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| CEVA is a leading licensor of signal processing IP. Ceva partners with semiconductor companies and OEMs worldwide to create power-efficient, intelligent and connected devices for a range of end markets, including mobile, consumer, automotive, industrial and IoT. Ceva's ultra-low-power IP for vision, audio, communications and connectivity include comprehensive DSP-based platforms for LTE/LTE-A/5G baseband processing in handsets, infrastructure and machine-to-machine devices, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, Ceva offers the industry's most widely adopted IP for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS). With more than 300 licensees to date, CEVA's customer base includes many of the world's leading semiconductor and consumer electronics companies such as; Broadcom, Intel, LG Electronics, Mediatek, NXP, Samsung, Sharp, Sony, STMicroelectronics and Toshiba. These companies incorporate Ceva's IP into application-specific integrated circuits ("ASICs") and application-specific standard products ("ASSPs") that they manufacture, market and sell to consumer electronics companies. Headquartered in Mountain View, California, CEVA has more than 250 employees worldwide, with design centers in Israel, Ireland and France, and sales and support offices located in Europe, the U.S. and throughout Asia. To date, more than 7 billion CEVA-powered chips have been shipped worldwide, for a range of diverse end markets.. |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United States</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.1</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">1.5</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.67</td> <td>5.04</td> </tr> <tr> <td>Shares (m)</td> <td>0.32</td> <td>0.32</td> </tr> </table>   | Country | United States  |  | % of total assets | 1.1 |  | % of issued share capital held | 1.5 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.67 | 5.04  | Shares (m) | 0.32 | 0.32 |
| Country  | United States  |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of total assets  | 1.1            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of issued share capital held   | 1.5            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Valuation (£m)   | 8.67           | 5.04   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Shares (m)   | 0.32           | 0.32   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| <b>Radware</b>   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Radware is a global leader of application delivery and cyber security solutions for virtual, cloud and software defined data centers. Its award-winning solutions portfolio delivers service level assurance for business-critical applications, while maximising IT efficiency. Radware's solutions empower more than 10,000 enterprise and carrier customers worldwide to adapt to market challenges quickly, maintain business continuity and achieve maximum productivity while keeping costs down.  |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United States</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.0</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">1.6</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.49</td> <td>6.45</td> </tr> <tr> <td>Shares (m)</td> <td>0.72</td> <td>0.62</td> </tr> </table>   | Country | United States  |  | % of total assets | 1.0 |  | % of issued share capital held | 1.6 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.49 | 6.45  | Shares (m) | 0.72 | 0.62 |
| Country  | United States  |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of total assets  | 1.0            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of issued share capital held   | 1.6            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Valuation (£m)   | 8.49           | 6.45   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Shares (m)   | 0.72           | 0.62   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| <b>Craneware</b>   |                |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Craneware is the leader in automated value cycle solutions that help US healthcare provider organisations discover, convert and optimise assets to achieve best clinical outcomes and financial performance. Craneware's market-driven, SaaS solutions normalise disparate data sets, bringing in up-to-date regulatory and financial compliance data to deliver value at the points where clinical and operational data transform into financial transactions, creating actionable insights that enable informed tactical and strategic decisions. Founded in 1999, Craneware has its headquarters in Edinburgh, Scotland with offices in Atlanta, Boston and Phoenix employing over 200 staff.   |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.0</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">2.4</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.42</td> <td>5.02</td> </tr> <tr> <td>Shares (m)</td> <td>0.64</td> <td>0.64</td> </tr> </table>  | Country | United Kingdom |  | % of total assets | 1.0 |  | % of issued share capital held | 2.4 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.42 | 5.02  | Shares (m) | 0.64 | 0.64 |
| Country  | United Kingdom |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of total assets  | 1.0            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| % of issued share capital held   | 2.4            |  |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
|  | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Valuation (£m)   | 8.42           | 5.02   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |
| Shares (m)   | 0.64           | 0.64   |         |                |  |                   |     |  |                                |     |  |  |          |          |                |      |       |            |      |      |

|   |                |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
|---|----------------|--|---------|----------------|--|-------------------|-----|--|--------------------------------|------|--|--|----------|----------|----------------|------|------|------------|------|------|
| <p><b>Descartes Systems</b></p> <p>Descartes is a global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Descartes has over 220,000 connected parties using its cloud-based services. Customers use Descartes modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Descartes headquarters are in Waterloo, Ontario, Canada and they have offices and partners around the world.</p>  |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United States</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.0</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">0.6</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>8.28</td> <td>7.49</td> </tr> <tr> <td>Shares (m)</td> <td>0.48</td> <td>0.55</td> </tr> </table>   | Country | United States  |  | % of total assets | 1.0 |  | % of issued share capital held | 0.6  |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 8.28 | 7.49 | Shares (m) | 0.48 | 0.55 |
| Country   | United States  |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| % of total assets   | 1.0            |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| % of issued share capital held  | 0.6            |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
|   | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| Valuation (£m)  | 8.28           | 7.49   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| Shares (m)  | 0.48           | 0.55   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| <p><b>Statpro</b></p> <p>StatPro is a global provider of award winning portfolio analytics solutions for the investment community. The Group's cloud-based platform provides vital analysis of portfolio performance, attribution, risk and compliance. This multi-asset class analytics platform helps StatPro's clients increase assets under management, improve client service, meet tough regulations and reduce costs. The Group's integrated and global data coverage includes over 3.2 million securities such as equities, bonds, mutual funds, FX rates, futures, options, OTCs, sector classifications and much else besides. StatPro also covers most families of benchmarks including MSCI, FTSE, Russell, NASDAQ and the open source Freedom Index. The Group has operations in Europe, North America, South Africa, Asia and Australia, with hundreds of clients in 38 countries around the world. Approximately 80% of recurring revenues are generated outside the UK.</p> |                | <table border="0"> <tr> <td>Country</td> <td colspan="2">United Kingdom</td> </tr> <tr> <td>% of total assets</td> <td colspan="2">1.0</td> </tr> <tr> <td>% of issued share capital held</td> <td colspan="2">11.7</td> </tr> <tr> <td></td> <td>31/12/16</td> <td>31/12/15</td> </tr> <tr> <td>Valuation (£m)</td> <td>7.78</td> <td>5.67</td> </tr> <tr> <td>Shares (m)</td> <td>7.56</td> <td>7.56</td> </tr> </table> | Country | United Kingdom |  | % of total assets | 1.0 |  | % of issued share capital held | 11.7 |  |  | 31/12/16 | 31/12/15 | Valuation (£m) | 7.78 | 5.67 | Shares (m) | 7.56 | 7.56 |
| Country   | United Kingdom |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| % of total assets   | 1.0            |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| % of issued share capital held  | 11.7           |  |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
|   | 31/12/16       | 31/12/15   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| Valuation (£m)  | 7.78           | 5.67   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |
| Shares (m)  | 7.56           | 7.56   |         |                |  |                   |     |  |                                |      |  |  |          |          |                |      |      |            |      |      |

## DISTRIBUTION OF INVESTMENTS

| Classification                         | UK %       | EMEA %     | North America % | Japan & Asia Pacific % | 2016 Total % | 2015 Total % |
|--|------------|------------|-----------------|------------------------|--------------|--------------|
| <b>OIL &amp; GAS</b>                   | <b>0.6</b> | <b>–</b>   | <b>0.3</b>      | <b>–</b>               | <b>0.9</b>   | <b>2.0</b>   |
| Oil Equipment, Services & Distribution | –          | –          | –               | –                      | –            | 0.8          |
| Alternative Energy                     | 0.6        | –          | 0.3             | –                      | 0.9          | 1.2          |
| <b>BASIC MATERIALS</b>                 | <b>0.2</b> | <b>–</b>   | <b>–</b>        | <b>0.3</b>             | <b>0.5</b>   | <b>0.5</b>   |
| Chemicals                              | 0.2        | –          | –               | 0.3                    | 0.5          | 0.5          |
| <b>INDUSTRIALS</b>                     | <b>7.8</b> | <b>–</b>   | <b>1.8</b>      | <b>1.2</b>             | <b>10.8</b>  | <b>11.4</b>  |
| Construction & Materials               | –          | –          | 0.1             | –                      | 0.1          | 0.1          |
| Aerospace & Defence                    | 0.7        | –          | –               | –                      | 0.7          | 0.7          |
| Electronic & Electrical Equipment      | 1.5        | –          | 1.2             | 0.6                    | 3.3          | 3.5          |
| Industrial Engineering                 | –          | –          | –               | 0.1                    | 0.1          | 0.1          |
| Support Services                       | 5.6        | –          | 0.5             | 0.5                    | 6.6          | 7.0          |
| <b>CONSUMER GOODS</b>                  | <b>0.6</b> | <b>0.2</b> | <b>0.3</b>      | <b>–</b>               | <b>1.1</b>   | <b>0.6</b>   |
| Household Goods & Home                 | –          | 0.2        | –               | –                      | 0.2          | –            |

|   |              |            |             |            |              |              |
|---|--------------|------------|-------------|------------|--------------|--------------|
| Construction  |              |            |             |            |              |              |
| Leisure Goods   | 0.6          | –          | 0.3         | –          | 0.9          | 0.6          |
| <b>HEALTH CARE</b>  | <b>0.9</b>   | <b>0.1</b> | <b>0.1</b>  | <b>–</b>   | <b>1.1</b>   | <b>1.1</b>   |
| Health Care Equipment & Services  | 0.9          | 0.1        | 0.1         | –          | 1.1          | 1.1          |
| <b>CONSUMER SERVICES</b>  | <b>11.5</b>  | <b>0.1</b> | <b>0.8</b>  | <b>0.6</b> | <b>13.0</b>  | <b>14.8</b>  |
| General Retailers   | –            | –          | –           | 0.4        | 0.4          | 0.3          |
| Media   | 11.5         | 0.1        | 0.8         | 0.2        | 12.6         | 14.5         |
| <b>TELECOMMUNICATIONS</b>   | <b>2.3</b>   | <b>–</b>   | <b>0.4</b>  | <b>–</b>   | <b>2.7</b>   | <b>4.7</b>   |
| Fixed Line Telecommunications   | 2.2          | –          | 0.4         | –          | 2.6          | 4.6          |
| Mobile Telecommunications   | 0.1          | –          | –           | –          | 0.1          | 0.1          |
| <b>FINANCIALS</b>   | <b>0.8</b>   | <b>–</b>   | <b>0.1</b>  | <b>–</b>   | <b>0.9</b>   | <b>1.3</b>   |
| Financial Services  | 0.1          | –          | 0.1         | –          | 0.2          | 0.4          |
| Equity Investment Instruments   | 0.6          | –          | –           | –          | 0.6          | 0.7          |
| Nonequity Investment Instruments  | 0.1          | –          | –           | –          | 0.1          | 0.2          |
| <b>TECHNOLOGY</b>   | <b>31.0</b>  | <b>3.8</b> | <b>17.9</b> | <b>2.6</b> | <b>55.3</b>  | <b>54.2</b>  |
| Software & Computer Services  | 23.1         | 2.3        | 10.2        | 0.8        | 36.4         | 36.9         |
| Technology Hardware & Equipment   | 7.9          | 1.5        | 7.7         | 1.8        | 18.9         | 17.3         |
| <b>TOTAL EQUITIES (including convertibles and warrants)</b>                               | <b>55.7</b>  | <b>4.2</b> | <b>21.7</b> | <b>4.7</b> | <b>86.3</b>  | <b>–</b>     |
| Total equities – 2015 (including convertibles and warrants)                               | 60.6         | 3.6        | 21.3        | 5.1        | –            | <b>90.6</b>  |
| <b>BONDS</b>  | <b>–</b>     | <b>–</b>   | <b>1.0</b>  | <b>–</b>   | <b>1.0</b>   | <b>–</b>     |
| <b>LIQUID ASSETS *</b>  | <b>12.7</b>  | <b>–</b>   | <b>–</b>    | <b>–</b>   | <b>12.7</b>  | <b>9.4</b>   |
| <b>TOTAL ASSETS (before deduction of bank loans and derivative financial instruments)</b> | <b>68.4</b>  | <b>4.2</b> | <b>22.7</b> | <b>4.7</b> | <b>100.0</b> | <b>–</b>     |
| Total assets – 2015   | 70.0         | 3.6        | 21.3        | 5.1        | –            | 100.0        |
| <b>BANK LOANS</b>   | <b>(3.1)</b> | <b>–</b>   | <b>–</b>    | <b>–</b>   | <b>(3.1)</b> | <b>(3.5)</b> |
| <b>DERIVATIVE FINANCIAL INSTRUMENTS</b>   | <b>–</b>     | <b>–</b>   | <b>–</b>    | <b>–</b>   | <b>–</b>     | <b>(1.8)</b> |
| <b>SHAREHOLDERS' FUNDS</b>  | <b>65.3</b>  | <b>4.2</b> | <b>22.7</b> | <b>4.7</b> | <b>96.9</b>  | <b>–</b>     |
| Shareholders' Funds – 2015  | 64.7         | 3.6        | 21.3        | 5.1        | –            | <b>94.7</b>  |
| Number of equity investments  | 138          | 15         | 62          | 37         | 252          | 276          |

|   |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
| (including convertibles and warrants)   |  |  |  |  |  |  |
| * Cash, debtors and creditors excluding bank loans and derivative financial instruments |  |  |  |  |  |  |

**INCOME STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER

|   | Revenue<br>£'000 | 2016<br>Capital<br>£'000 | Total<br>£'000 |  | Revenue<br>£'000 | 2015<br>Capital<br>£'000 | Total<br>£'000 |
|---|------------------|--------------------------|----------------|--|------------------|--------------------------|----------------|
| Gains on investments  | –                | 134,969                  | 134,969        |  | –                | 50,105                   | 50,105         |
| Currency gains  | –                | 7,951                    | 7,951          |  | –                | 592                      | 592            |
| Gains on derivative instruments                             | –                | 464                      | 464            |  | –                | 532                      | 532            |
| Income  | 9,541            | –                        | 9,541          |  | 9,136            | –                        | 9,136          |
| Investment management fee                                   | (7,133)          | –                        | (7,133)        |  | (6,692)          | –                        | (6,692)        |
| Other administrative expenses                               | (545)            | (6)                      | (551)          |  | (454)            | (5)                      | (459)          |
| <b>Profit before finance costs and taxation</b>             | 1,863            | 143,378                  | 145,241        |  | 1,990            | 51,224                   | 53,214         |
| Finance costs of borrowings                                 | (1,187)          | –                        | (1,187)        |  | (1,793)          | –                        | (1,793)        |
| <b>Profit before taxation</b>                               | 676              | 143,378                  | 144,054        |  | 197              | 51,224                   | 51,421         |
| Tax   | (246)            | –                        | (246)          |  | (233)            | –                        | (233)          |
| <b>Profit/(loss) after taxation</b>                         | <u>430</u>       | <u>143,378</u>           | <u>143,808</u> |  | <u>(36)</u>      | <u>51,224</u>            | <u>51,188</u>  |
| <b>Profit/(loss) per ordinary share (basic and diluted)</b> | <u>0.58p</u>     | <u>191.75p</u>           | <u>192.33p</u> |  | <u>(0.05)p</u>   | <u>66.44p</u>            | <u>66.39p</u>  |

There is no final dividend proposed (2015 – nil).

The total column of this statement is the profit and loss account of the Company, prepared in accordance with UK Accounting Standards.

The profit after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company. No operations were acquired or discontinued in the year.

**BALANCE SHEET**  
AT 31 DECEMBER

|  | 2016<br>£'000   | 2016<br>£'000  | 2015<br>£'000   | 2015<br>£'000  |
|--|-----------------|----------------|-----------------|----------------|
| <b>Fixed assets</b>  |                 |                |                 |                |
| Investments held at fair value through profit or loss                      |                 | 712,969        |                 | 642,151        |
| <b>Current assets</b>  |                 |                |                 |                |
| Cash and cash equivalents  | 82,448          |                | 69,360          |                |
| Other receivables  | <u>23,529</u>   |                | <u>1,411</u>    |                |
|  | 105,977         |                | 70,771          |                |
| <b>Current liabilities</b>   |                 |                |                 |                |
| Derivative financial instruments   | –               |                | (13,002)        |                |
| Other payables   | <u>(27,532)</u> |                | <u>(28,783)</u> |                |
|  | (27,532)        |                | (41,785)        |                |
| Net current assets   |                 | <u>78,445</u>  |                 | <u>28,986</u>  |
| <b>TOTAL NET ASSETS</b>  |                 | <u>791,414</u> |                 | <u>671,137</u> |
| <b>Capital and reserves</b>  |                 |                |                 |                |
| Called up share capital  |                 | 18,266         |                 | 19,028         |
| Share premium  |                 | 73,738         |                 | 73,738         |
| Capital redemption reserve   |                 | 3,686          |                 | 2,924          |
| Capital reserve  |                 | 695,049        |                 | 575,202        |
| Revenue reserve  |                 | <u>675</u>     |                 | <u>245</u>     |
| <b>SHAREHOLDERS' FUNDS</b>   |                 | <u>791,414</u> |                 | <u>671,137</u> |
| <b>NET ASSET VALUE PER ORDINARY SHARE (including current year revenue)</b> |                 | 1083.21p       |                 | 881.78p        |
| <b>NET ASSET VALUE PER ORDINARY SHARE (excluding current year revenue)</b> |                 | 1082.63p       |                 | 881.83p        |

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

|  | <b>Called up share capital<br/>£'000</b> | <b>Share premium<br/>£'000</b> | <b>Capital redemption reserve<br/>£'000</b> | <b>Capital reserve<br/>£'000</b> | <b>Revenue reserve<br/>£'000</b> | <b>Shareholders' funds<br/>£'000</b> |
|--|--|--------------------------------|---|----------------------------------|----------------------------------|--------------------------------------|
| Shareholders' funds at 1 January 2016          | 19,028                                   | 73,738                         | 2,924                                       | 575,202                          | 245                              | 671,137                              |
| Profit after taxation                          | –  | –                              | –   | 143,378                          | 430                              | 143,808                              |
| Shares bought back                             | <u>(762)</u>                             | –                              | <u>762</u>                                  | <u>(23,531)</u>                  | –                                | <u>(23,531)</u>                      |
| <b>Shareholders' funds at 31 December 2016</b> | <u>18,266</u>                            | <u>73,738</u>                  | <u>3,686</u>                                | <u>695,049</u>                   | <u>675</u>                       | <u>791,414</u>                       |

**FOR THE YEAR ENDED 31 DECEMBER 2015**

|  | <b>Called up share capital<br/>£'000</b> | <b>Share premium<br/>£'000</b> | <b>Capital redemption reserve<br/>£'000</b> | <b>Capital reserve<br/>£'000</b> | <b>Revenue reserve<br/>£'000</b> | <b>Shareholders' funds<br/>£'000</b> |
|--|--|--------------------------------|---|----------------------------------|----------------------------------|--------------------------------------|
| Shareholders' funds at 1 January 2015          | 19,335                                   | 73,738                         | 2,617                                       | 532,946                          | 281                              | 628,917                              |
| Profit/(loss) after taxation                   | –  | –                              | –   | 51,224                           | (36)                             | 51,188                               |
| Shares bought back                             | <u>(307)</u>                             | –                              | <u>307</u>                                  | <u>(8,968)</u>                   | –                                | <u>(8,968)</u>                       |
| <b>Shareholders' funds at 31 December 2015</b> | <u>19,028</u>                            | <u>73,738</u>                  | <u>2,924</u>                                | <u>575,202</u>                   | <u>245</u>                       | <u>671,137</u>                       |

**CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER

|   | <b>2016</b>     | <b>2016</b>            | <b>2015</b>    | <b>2015</b>            |
|---|-----------------|------------------------|----------------|------------------------|
|   | <b>£'000</b>    | <b>£'000</b>           | <b>£'000</b>   | <b>£'000</b>           |
| Profit before finance costs and taxation                | 145,241         |                        | 53,214         |                        |
| Gains on investments                                    | (134,969)       |                        | (50,105)       |                        |
| Realised losses on interest rate swap                   | (464)           |                        | (532)          |                        |
| Decrease/(increase) in accrued income                   | 242             |                        | (120)          |                        |
| Purchase of investments                                 | (66,449)        |                        | (88,164)       |                        |
| Sale of investments                                     | 107,087         |                        | 135,118        |                        |
| Increase in other receivables                           | (39)            |                        | (32)           |                        |
| Increase in other payables                              | 120             |                        | 4              |                        |
| Amortisation of fixed income book cost                  | 1               |                        | 33             |                        |
| Income tax suffered                                     | –               |                        | (5)            |                        |
| Overseas tax suffered                                   |                 |                        |                |                        |
|   | <u>(246)</u>    |                        | <u>(233)</u>   |                        |
| <b>Net cash inflow from operating activities</b>        |                 |                        |                |                        |
|   |                 | <b>50,524</b>          |                | <b>49,178</b>          |
| <b>Finance activities</b>                               |                 |                        |                |                        |
| Interest paid on loan and derivatives                   | (1,394)         |                        | (1,700)        |                        |
| Swap repayment  | (12,538)        |                        | –              |                        |
| Shares repurchased                                      |                 |                        |                |                        |
|   | <u>(23,504)</u> |                        | <u>(8,968)</u> |                        |
| <b>Net cash outflow from financing activities</b>       |                 |                        |                |                        |
|   |                 | <b><u>(37,436)</u></b> |                | <b><u>(10,668)</u></b> |
| <b>Increase in cash and cash equivalents</b>            |                 | <b>13,088</b>          |                | <b>38,510</b>          |
| Cash and cash equivalents at the start of the year      |                 | <u>69,360</u>          |                | <u>30,850</u>          |
| <b>Cash and cash equivalents at the end of the year</b> |                 |                        |                |                        |
|   |                 | <b><u>82,448</u></b>   |                | <b><u>69,360</u></b>   |
| Comprised of:   |                 |                        |                |                        |
| Cash and cash equivalents                               |                 | <u>82,448</u>          |                | <u>69,360</u>          |

## Income

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| <b>Income from investments and interest receivable</b>                           |               |               |
| <b>Total income</b>  | <u>9,541</u>  | <u>9,136</u>  |
| Total income comprises:  |               |               |
| Dividends from equity securities designated at fair value through profit or loss | 9,155         | 8,899         |
| Interest from financial assets designated at fair value through profit or loss   | 360           | 232           |
| Other income   | <u>26</u>     | <u>5</u>      |
|  | <u>9,541</u>  | <u>9,136</u>  |

## Business model and status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company carries on business as an investment trust. It was approved by HM Revenue & Customs as an investment trust under Section 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2015, subject to matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. In the opinion of the directors the Company has subsequently conducted its affairs so as to enable it to continue to seek such approval. In accordance with recent changes to Section 1158, the Company has obtained approval as an investment trust from HM Revenue & Customs for accounting periods commencing on or after 1 January 2016.

## Objective

The Company's objective is to achieve capital appreciation through investments in smaller quoted companies, in the areas of telecommunications, multi-media and technology (TMT). Investments may be made across the world. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies.

## Investment policy – strategy

While the policy is global investment in the above target areas, the approach is to construct a diversified portfolio through the identification of individual companies which offer long term growth potential, typically over a five year horizon or more. The portfolio is actively managed and does not seek to track any comparative index. With a remit to invest in smaller companies with market capitalisation generally below \$2bn, there tends to be a correlation with the performance of smaller companies, as well as those of the technology sector. A degree of volatility relative to the overall market should be expected.

The risk associated with the illiquidity of smaller companies is reduced by generally restricting the stake in any one company to less than 10% of the shares in issue. A number of investments are in early stage companies, which have a higher stock specific risk but the potential for above average growth. Stock specific risk is reduced by having a diversified portfolio of over 250 holdings. In addition, to contain the risk of any one holding, the manager generally takes profits when a holding reaches more than 5% of the portfolio. The manager actively manages the exposure within the constraint that illiquid positions cannot be traded for short term movements.

The Company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

From time to time, fixed interest holdings, non equity or unlisted investments may be held on an opportunistic basis.

The Company recognises the long term advantages of gearing and has a maximum gearing limit of 50% of net assets. Borrowings are invested primarily in equity markets but the Manager is entitled to invest in other securities in the companies in the target areas when it is considered that the investment grounds merit the Company taking a geared position. The board's intention is to gear the portfolio when appropriate. Gearing levels are monitored closely by the manager and reviewed by directors at each board meeting.

The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio

management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risk).

### **Share capital**

At 31 December 2016 the Company's capital structure consisted of 73,061,801 ordinary shares of 25p each (2015 – 76,111,546 ordinary shares). During the year 3,049,745 (2015 – 1,228,000) shares were bought back and cancelled. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares. On a winding up, after meeting the liabilities of the Company, the surplus assets would be paid to ordinary shareholders in proportion to their shareholdings.

### **Investment management agreement**

The management of the Company and the implementation of its investment strategy is contracted to Herald Investment Management Limited ('HIML'). HIML is authorised and regulated by the Financial Conduct Authority.

The management contract is subject to 12 months' notice by either party. The senior director of HIML with prime responsibility for the management of the Company's portfolio is Katie Potts, who is also a substantial shareholder of HIML Holdings Limited, the parent company of HIML. HIML is remunerated at an annual rate of 1.0% of the Company's net asset value calculated using middle market prices. Compensation fees would only be payable in respect of this 12 month period if termination were to occur sooner. Careful consideration has been given by the board as to the basis on which the management fee is charged. The board considers that maintaining an appropriate level of ongoing charges for a specialist trust is in the best interest of all shareholders. The board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance.

The board is of the opinion that the continued appointment of HIML as investment manager, on the terms agreed, is in the interests of shareholders due to the experience of the manager and the quality of information provided to the board.

### **Acquisition of own shares**

At the Company's AGM held on 19 April 2016 the Company was authorised to purchase up to 14.99% of the Company's ordinary shares. During the year to 31 December 2016 the Company bought back 3,049,745 ordinary shares (which comprised 4.01% of the issued share capital at 1 January 2016) on the London Stock Exchange for cancellation. The board continues to believe that the ability of the Company to purchase its own ordinary shares in the market will potentially benefit all shareholders of the Company. The repurchase of ordinary shares at a discount to the underlying net asset value ('NAV') should enhance the NAV per ordinary share of the remaining shares and may also enable the Company to address more effectively any imbalance between supply and demand for the Company's ordinary shares.

### **Significant financial issues relating to the 2016 financial statements**

The UK Corporate Governance Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed. There were no significant issues.

### **Borrowings**

The Company has a sterling loan facility of £25 million and a £25 million multi-currency revolving advance loan maturing 31 December 2017. As at 31 December 2016 the sterling loan was drawn down.

The interest on the facilities had been fixed for the long term through a 30 year interest rate swap. This was closed out on 29 July 2016 at a cost of £12.5 million. As at 31 December 2015 the fair value of the interest rate swap contract was an estimated liability of £13.0 million which was based on the swap provider's valuation.

At 31 December 2016, there were no drawings on the multi-currency loan (2015 – nil). Interest on the sterling loan is payable in quarterly instalments in January, April, July and October. The estimated repayment value of the loan at 31 December 2016 was £25 million. The indicative costs of repaying the loan as at 31 December 2016 were not materially different in the context of the above figures.

The sterling loan has been disclosed as due within one year as the Company has an unconditional and irrevocable right to prepay the advance under the terms and conditions of the loan agreement. In connection with the revolving facility, the duration of the advance is 3 or 6 months and the decision to rollover the loan is made at quarterly board meetings based on circumstances prevailing at the time.

### **Principal risks and uncertainties**

In accordance with the corporate objective of maximising capital appreciation the Company invests in securities on a worldwide basis. The Company makes use of gearing to achieve improved performance in rising markets and has an interest rate swap, the purpose of which is to hedge the variability in cash flows arising from interest rate fluctuations on bank loans. The Company's other financial instruments consist of cash, short term debtors and creditors.

The main risks arising from the Company's financial instruments are:

**A. Market Risk**

- (i) Other price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement;
- (ii) Interest rate risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and
- (iii) Foreign currency risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**B. Credit Risk**

Being the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to counterparty credit risk from the parties with which it trades and will bear the risk of settlement default. Counterparty credit risk to the Company arises from transactions to purchase or sell investments and through interest rate swap transactions held within the portfolio.

There were no past or impaired assets as of 31 December 2016 (31 December 2015: nil).

The counterparties engaged with the Company are well recognised and regulated entities.

**C. Liquidity Risk**

Being the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

These risks and the policies for managing them have been applied throughout the year and are summarised below.

**A. Market Risk**

**(i) Other Price Risk**

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the corporate objective. Securities held by the Company are valued at bid prices, whereas material unlisted investments are valued by the directors on the basis of the latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines. These valuations also represent the fair value of the investments.

**Other Price Risk Sensitivity**

20.6% of the Company's equity investments at 31 December 2016 (2015 – 20.0%) were listed on the main list of the London Stock Exchange and a further 42.2% (2015 – 44.1%) on AIM. The NASDAQ Stock Exchange accounts for 19.3% (2015 – 19.0%), New York Stock Exchange for 5.0% (2015 –3.9%) and other stock exchanges 12.9% (2015 – 13.0%). A 10% increase in stock prices at 31 December 2016 would have increased total net assets and profit & loss after taxation by £70,493,000 (2015 – £64,215,000). A decrease of 10% would have had an equal but opposite effect. The portfolio does not target any exchange as a comparative index, and the performance of the portfolio has a low correlation to generally used indices.

The shares of the Company have an underlying NAV per share. The NAV per share of the Company fluctuates on a daily basis. In addition, there is volatility in the discount/premium the share price has to NAV.

**(ii) Interest Rate Risk**

The majority of the Company's assets are equity shares and other investments which neither pay interest nor have a maturity date. However, the Company does hold convertible and Government bonds, the interest rate and maturity dates of which are detailed below. Interest is accrued on sterling cash balances at a rate linked to the UK base rate.

The Company has borrowings. The aim of the use of gearing is to enhance long term returns to shareholders by investing borrowed funds in equities and other assets. Gearing is actively managed. How and where borrowings are invested is reviewed by the board in consultation with the Manager at every board meeting. In light of the decisions made, appropriate adjustments to the gearing position are then made by the Manager.

At the year end the Company had borrowings of £25 million (2015 – £25 million). Prior to it being closed out on 29th July 2016, under the terms of an interest rate swap, the interest payable on the bank loans had been fixed.

The interest rate risk profile of the financial assets and financial liabilities at 31 December was:

#### Financial Assets

|                                  | 2016<br>Fair<br>value<br>£'000 | 2016<br>Weighted<br>average<br>interest<br>rate/<br>interest<br>rate | 2016<br>Weighted<br>average<br>period<br>until<br>maturity/<br>maturity<br>date | 2015<br>Fair<br>value<br>£'000 | 2015<br>Weighted<br>average<br>interest<br>rate/<br>interest<br>rate | 2015<br>Weighted<br>average<br>period<br>until<br>maturity/<br>maturity<br>date |
|----------------------------------|--------------------------------|--|---|--------------------------------|--|---|
| <b>Fixed rate:</b>               |                                |  |   |                                |  |   |
| <b>US bonds</b>                  | 8,041                          | 2.6%   | 6.6 Years   | -                              | -  | -   |
| <b>UK convertible bonds</b>      | 2,782                          | 11.2%  | 1.6 Years   | 2,182                          | 9.7%   | 2.3 years   |
| <b>Cash:</b>                     |                                |  |   |                                |  |   |
| <b>Other overseas currencies</b> | 52,675                         |  |   | 32,439                         |  |   |
| <b>Sterling</b>                  | <u>29,773</u>                  | 0.3%   |   | <u>36,921</u>                  | 1.0%   |   |
|                                  | <u>82,448</u>                  |  |   | <u>69,360</u>                  |  |   |

The cash deposits generally comprise call or short term money market deposits with original maturities of less than 3 months which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

#### Financial Liabilities

|                           | 2016<br>£'000 | 2016<br>Net<br>interest<br>rate paid | 2016<br>Loan<br>facility<br>expired/ex<br>pires | 2015<br>£'000 | 2015<br>Net<br>interest<br>rate paid | 2015<br>Loan<br>facility<br>expired/ex<br>pires |
|---------------------------|---------------|--------------------------------------|---|---------------|--------------------------------------|---|
| <b>Bank Loan</b>          | 25,000        | <u>1.6%</u>                          | Dec 2017  | 25,000        | <u>1.7%</u>                          | Dec 2017  |
|                           |               | 1.6%                                 |   |               | 1.7%                                 |   |
| <b>Interest rate swap</b> | -             | <u>0.0%</u>                          |   | 25,000        | <u>4.3%</u>                          |   |
| <b>Total</b>              |               | <u>1.6%</u>                          |   |               | <u>6.0%</u>                          |   |

At 31 December 2016, the Company had a committed revolving credit facility of £25 million (2015: £25m), with a cost associated cost rate of 0.63% for unutilised amounts.

The effective fixed rate of interest on the loans of 1.5% (2015 – 6.00%) reflects a weighted average variable interest rate paid of 1.5% (2015 – 1.68% with a further weighted average of 4.32% paid on the swap). The Company's facilities are rolling on a quarterly basis with the facilities expiring in December 2017.

The swap was closed out on 29 July 2016 at a cost of £12.5 million

|  | 2016<br>Notional<br>contract<br>amount<br>£'000 | 2016<br>Fair<br>value<br>assets<br>£'000 | 2016<br>Fair<br>value<br>liabilities<br>£'000 | 2016<br>Fair<br>value<br>balance<br>£'000 |  | 2015<br>Notional<br>contract<br>amount<br>£'000 | 2015<br>Fair<br>value<br>assets<br>£'000 | 2015<br>Fair<br>value<br>liabilities<br>£'000 | 2015<br>Fair<br>value<br>balance<br>£'000 |
|--|---|--|---|---|--|---|--|---|---|
| Total derivative<br>assets/(liabilities) | -   | -  | -   | -   |  | 25,000  | 9,928                                    | (22,930)                                      | (13,002)                                  |

### Interest rate risk sensitivity

#### a) Cash

An increase of 100 basis points in interest rates as at 31 December 2016 would have a direct effect on net assets. Based on the position at 31 December 2016, over a full year, an increase of 100 basis points would have increased the profit & loss after taxation by £824,000 (2015 – £694,000) and would have increased the net asset value per share by 1.13p (2015 – 0.91p). The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

#### b) Fixed rate bonds

An increase of 100 basis points in bond yields as at 31 December 2016 would have decreased total net assets and profit & loss after taxation by £80,000 (2015 – £nil) and would have decreased the net asset value per share by 0.11p (2015 – nil). A decrease in bond yields would have had an equal and opposite effect. The convertible loan stocks having an element of equity are not included in this analysis as given the nature of the businesses and the risk profile of the balance sheets they are considered to have more equity like characteristics.

#### c) Bank Loans

An increase of 100 basis points in 3 month LIBOR interest rates as at 31 December 2016 on the interest cost of the bank loans would have decreased total net assets and profit & loss after taxation by £250,000 and would have decreased the net asset value per share by 0.34p (2015 - The effect of an increase or decrease of 100 basis points in 3 month LIBOR interest rates as at 31 December 2015 on the interest cost of the bank loans and the net income return had been eliminated through a 30 year floating interest rate to fixed interest rate swap. The swap generated payments or charges that offset changes in the 3 month LIBOR interest rate, so that the interest payable on the bank loans were effectively converted to a fixed rate loan at 4.8975% plus margin cost. The initial term of the swap on commencement at 30 years did not match the term of the loans, therefore, hedge accounting was not used and changes in the fair value of the swap were captured in the profit & loss after taxation as set out in (d) below).

#### d) Floating interest rate to fixed interest rate swap

The interest rate swap was closed out on 29 July 2016. Based on the position as at 31 December 2015, over a full year, a decrease of 100 basis points on 30 year interest rates would have decreased the gains on investments and profit & loss after taxation by £5,993,000 and would have decreased the net asset value per share by 7.87p. An increase of 100 basis points would have had an equal but opposite effect.

### iii. Foreign Currency Risk

The Company's reporting currency is sterling, but investments are made in overseas markets as well as the United Kingdom and the asset value can be affected by movements in foreign currency exchange rates.

Furthermore many companies trade internationally both through foreign subsidiaries, and through exports. The greatest foreign currency risk occurs when companies have a divergence in currencies for costs and revenues. A much less risky exposure to currency is straight translation of sales and profits. The list of investments on pages 16 to 20 breaks down the portfolio by geographic listing. However the location of the stock market quote only has a limited correlation to the costs, revenues and even activities of those companies, and so this note should not be regarded as a reliable guide to the sensitivity of the portfolio to currency movements. For example, the holdings in the portfolio that have suffered most from US\$ weakness are UK companies with dollar revenues and sterling costs.

The Company does not hedge the sterling value of investments that are priced in other currencies. Overseas income is subject to currency fluctuations. The Company does not hedge these currency fluctuations because it is impossible to quantify the effect for the reasons stated above. However, from time to time the Manager takes a view by holding financial assets or liabilities in overseas currencies.

Exposure to currency risk through asset allocation by currency of listing is indicated below:

**At 31 December 2016**

|  | Investments<br>£'000 | Cash and<br>deposits<br>£'000 | Loans<br>£'000  | Other<br>receivables<br>and<br>payables*<br>£'000 | Net<br>exposure<br>£'000 |
|--|----------------------|-------------------------------|-----------------|---|--------------------------|
| US dollar  | 190,106              | 42,034                        | –               | 44  | 232,184                  |
| Norwegian krone  | 5,692                | 4,698                         | –               | –   | 10,390                   |
| Korean won   | 11,669               | –                             | –               | 119   | 11,788                   |
| Taiwan dollar  | 11,586               | 5,920                         | –               | –   | 17,506                   |
| Euro   | 25,369               | 21                            | –               | 117   | 25,507                   |
| Other overseas currencies  | <u>14,035</u>        | <u>2</u>                      | <u>–</u>        | <u>13</u>   | <u>14,050</u>            |
| Exposure to currency risk on translation of valuations of securities listed in overseas currencies | 258,457              | 52,675                        | –               | 293   | 311,425                  |
| Sterling   | <u>454,512</u>       | <u>29,773</u>                 | <u>(25,000)</u> | <u>20,704</u>                                     | <u>479,989</u>           |
|  | <u>712,969</u>       | <u>82,448</u>                 | <u>(25,000)</u> | <u>20,997</u>                                     | <u>791,414</u>           |

\*Includes net non-monetary assets of £nil.

**At 31 December 2015**

|  | Investments<br>£'000 | Cash and<br>deposits<br>£'000 | Loans<br>£'000  | Other<br>receivables<br>and<br>payables*<br>£'000 | Net<br>exposure<br>£'000 |
|--|----------------------|-------------------------------|-----------------|---|--------------------------|
| US dollar  | 156,000              | 22,123                        | –               | 23  | 178,146                  |
| Norwegian krone  | 7,362                | 3,833                         | –               | –   | 11,195                   |
| Korean won   | 11,410               | –                             | –               | 138   | 11,548                   |
| Taiwan dollar  | 8,451                | 6,469                         | –               | –   | 14,920                   |
| Euro   | 17,259               | 12                            | –               | 72  | 17,343                   |
| Other overseas currencies  | <u>12,217</u>        | <u>2</u>                      | <u>–</u>        | <u>12</u>   | <u>12,231</u>            |
| Exposure to currency risk on translation of valuations of securities listed in overseas currencies | 212,699              | 32,439                        | –               | 245   | 245,383                  |
| Sterling   | <u>429,452</u>       | <u>36,921</u>                 | <u>(25,000)</u> | <u>(15,619)</u>                                   | <u>425,754</u>           |
|  | <u>642,151</u>       | <u>69,360</u>                 | <u>(25,000)</u> | <u>(15,374)</u>                                   | <u>671,137</u>           |

\*Includes net non-monetary assets of £nil.

## Foreign currency risk sensitivity

At 31 December 2016, had sterling strengthened by 10% (2015 –10%) in relation to all currencies, with all other variables held constant, total net assets and profit & loss after taxation would have decreased by the amounts shown below based solely on translation of securities quoted in currencies overseas. A 10% (2015 – 10%) weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. However, companies whose cost base diverges in currency terms from its sales will in the longer term have a significantly greater effect on valuation than simple translation. In the short term investee companies generally cover their currency exposure to varying degrees. There is insufficient publicly disclosed information to quantify this, but in the long term this effect is expected to dwarf simple translation of foreign listings in terms of both risk and reward, because many investee companies trade globally. Furthermore, the country of listing is not necessarily an indication of the geography of some or even any operational activities for investee companies. The Manager does not use financial instruments to protect against currency movements. From time to time financial leverage has been made using debt in overseas currencies.

|                           | 2016<br>£'000 | 2015<br>£'000 |
|---------------------------|---------------|---------------|
| US dollar                 | 23,218        | 17,815        |
| Norwegian krone           | 1,039         | 1,120         |
| Korean won                | 1,179         | 1,155         |
| Taiwan dollar             | 1,751         | 1,492         |
| Euro                      | 2,551         | 1,734         |
| Other overseas currencies | <u>1,405</u>  | <u>1,223</u>  |
|                           | <u>31,143</u> | <u>24,539</u> |

## B. Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment which it has entered into with the Company. The Manager monitors counterparty risk on an ongoing basis.

The Company has investments in convertible loan stocks that have an element of equity. These securities are viewed as having a risk profile similar to the equity holdings. This is because the convertibles held are in nascent technology companies that may be loss making and may have weak balance sheets. For this reason these stocks are categorised as equity holdings.

## Credit Risk Exposure

The exposure to credit risk at 31 December was:

|                            | 2016<br>£'000  | 2015<br>£'000 |
|----------------------------|----------------|---------------|
| Fixed interest investments | 8,041          | –             |
| Cash and cash equivalents  | 82,448         | 69,360        |
| Other receivables          | <u>23,529</u>  | <u>1,411</u>  |
|                            | <u>114,018</u> | <u>70,771</u> |

During the year the maximum exposure in fixed interest investments was £8,041,000 (2015 – £4,342,000) and the minimum £nil (2015 – £nil). The maximum exposure in cash was £82,448,000 (2015 – £72,998,000) and the minimum £60,243,000 (2015 – £25,942,000).

None of the Company's financial assets are past due or impaired.

## C. Liquidity Risk

The Company's policy with regard to liquidity is to provide a degree of flexibility so that the portfolio can be repositioned when appropriate and that most of the assets can be realised without an excessive discount to the market price.

### (a) Equity securities

The Company's unlisted investments are not readily realisable, but these only amount to 1.4% of the Company's total assets at 31 December 2016 (2015 – 1.8%).

In practice, liquidity in investee companies is imperfect, particularly those with a market value of less than £100 million. To reduce this liquidity risk it is the policy to diversify the holdings and generally to restrict the holding in any one company to less than 10% of the share capital of that company. Furthermore the guideline is for no single investment to account for more than 5% of the assets of the Company.

The market valuation of each underlying security gives an indication of value, but the price at which an investment can be made or realised can diverge materially from the bid or offer price depending on market conditions generally and particularly to each investment. 22.8% (£158 million) (2015 – 25.9% (£163 million)) of the portfolio is invested in listed stocks with a market capitalisation below £100 million, where liquidity is expected to be more limited. If these stocks had on average a realisable value 20% below the bid price the value of the total fund would be adversely affected by 4.0% (2015 – 4.9%).

(b) Floating interest rate to fixed interest rate swap

The value of the swap was estimated by RBS, the provider of the swap, and was compared to an external model and external prices. We believed the RBS valuation to be reasonable. The valuations previously used in the report and accounts were the external model.

The swap valuation gave an indication of fair value, but the price at which the swap could have been unwound or realised may have diverged materially from the valuation depending on market conditions and liquidity.

### Liquidity Risk Exposure

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

|                                  | 2016<br>One year<br>or less<br>£'000 | 2015<br>One year<br>or less<br>£'000 |
|----------------------------------|--------------------------------------|--------------------------------------|
| Bank loans                       | 25,101                               | 25,106                               |
| Derivative financial instruments | -                                    | 13,271                               |
| Other payables                   | <u>2,532</u>                         | <u>3,508</u>                         |
|                                  | <u>27,633</u>                        | <u>41,885</u>                        |

### Fair Value of Financial Instruments

The Company's investments, as disclosed in the Company's balance sheet, are valued at fair value.

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 102 as amended for fair value hierarchy disclosures (March 2016).

The three levels set out in FRS102 follow:

Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The analysis of the valuation basis for the financial instruments based on the hierarchy as at 31 December is as follows:

### At 31 December 2016

|                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|----------------------------|------------------|------------------|------------------|----------------|
| Financial assets           |                  |                  |                  |                |
| Equity investments         | 693,198          | –                | 7,656            | 700,854        |
| Government debt securities | 8,041            | –                | –                | 8,041          |
| Other debt securities      | –                | –                | 4,074            | 4,074          |
| Other receivables          | 105,977          | –                | –                | 105,977        |
| Total assets               | 807,216          | –                | 11,730           | 818,946        |
| Financial liabilities      |                  |                  |                  |                |
| Bank loans                 | 25,000           | –                | –                | 25,000         |
| Other payables             | 2,532            | –                | –                | 2,532          |
| Total liabilities          | 27,532           | –                | –                | 27,532         |
| Total net assets           | 779,684          | –                | 11,730           | 791,414        |

A reconciliation of fair value measurements in Level 3 is set out below:

### At 31 December 2016

|                                      | £'000   |
|--------------------------------------|---------|
| Opening balance at 1 January 2016    | 12,438  |
| Purchases                            | 2,115   |
| Sales                                | (1,028) |
| Total losses:                        |         |
| – on assets sold during the year     | (1,412) |
| – on assets held at 31 December 2016 | (383)   |
| Closing balance at 31 December 2016  | 11,730  |

### At 31 December 2015

|                       | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|-----------------------|------------------|------------------|------------------|----------------|
| Financial assets      |                  |                  |                  |                |
| Equity investments    | 629,713          | –                | 10,256           | 639,969        |
| Other debt securities | –                | –                | 2,182            | 2,182          |
| Other receivables     | 70,771           | –                | –                | 70,771         |
| Total assets          | 700,484          | –                | 12,438           | 712,922        |
| Financial liabilities |                  |                  |                  |                |
| Bank loans            | 25,000           | –                | –                | 25,000         |
| Derivatives           | –                | –                | 13,002           | 13,002         |
| Other payables        | 3,783            | –                | –                | 3,783          |
| Total liabilities     | 28,783           | –                | 13,002           | 41,785         |
| Total net assets      | 671,701          | –                | (564)            | 671,137        |

A reconciliation of fair value measurements in Level 3 is set out below:

### At 31 December 2015

|                                      | £'000   |
|--------------------------------------|---------|
| Opening balance at 1 January 2015    | 9,665   |
| Purchases                            | 2,639   |
| Sales                                | (1,073) |
| Total gains or (losses):             |         |
| – on assets sold during the year     | (790)   |
| – on assets held at 31 December 2015 | 2,886   |
| Assets reclassified during the year  | (889)   |
| Closing balance at 31 December 2015  | 12,438  |

## **Other risks**

Other risks to the Company's model, future performance, solvency or liquidity include the following:

Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of Sections 1158 and 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. The manager, depositary and administrator provide regular reports to the audit committee on their monitoring programmes. The manager monitors investment positions and the manager and company secretary monitor the level of forecast income and expenditure to ensure the provisions of Sections 1158 and 1159 are not breached.

Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation would be made to seek to ensure that special circumstances of investment trusts are recognised.

Operational/financial/custody risk – failure of the administrator's accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The manager, administrator and company secretary each have comprehensive business continuity plans which facilitate continued operation of the business in the event of a service disruption or major disruption. The audit committee receives the administrator's report on internal controls and the reports by other key third party providers are reviewed by the manager and company secretary on behalf of the audit committee.

Discount volatility – the discount at which the Company's shares trade can widen. The board monitors the level of discount and the Company has authority to buy back its own shares.

Gearing risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowings require the prior approval of the board and gearing levels are discussed by the board and manager at every meeting. The majority of the Company's investments are in quoted securities.

## **Viability statement**

The UK Corporate Governance Code and Listing Rules require that the Company should publish a longer-term statement on the viability of the Company.

The directors consider that three years is an appropriate forward looking time period. This recognises the Company's current position, the investment strategy, which includes investment in smaller companies and start-ups where a three year horizon is a meaningful period over which to judge prospects, the board's assessment of the main risks that threaten the business model and the relatively fast moving nature of the sectors in which the Company invests.

The directors confirm that, based on reviews conducted as part of the detailed internal controls and risk management processes, they have a reasonable expectation that the Company will continue to maintain its status as an investment trust, to implement its investment strategy and to operate and be able to meet its liabilities as they fall due for at least the next three financial years. Their consideration also takes into account the Company's gearing and financing arrangements and its projected income and expenditure.

There are no current plans to amend the investment strategy, which has delivered good investment performance for shareholders over many years and, the directors believe, should continue to do so. The investment strategy and its associated risks are kept under constant review by the board. Those reviews take into account the possible impact on the Company's objectives of any new investment decisions made by the investment manager.

By definition, investment in smaller and start-up companies carries higher risks, both in terms of stock liquidity and longer-term business viability and this risk is accepted by the board. In addition, it should be noted that under the Company's articles of association, shareholders are required to vote triennially on whether the Company should continue as an investment trust, so the longer-term viability statement is contingent upon shareholders voting to support any continuation vote falling within the relevant three year period. The next continuation vote will be at the AGM in 2019.

## **Directors' responsibility statement pursuant to DTR4**

The directors confirm that to the best of their knowledge:

- The financial statements have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland' and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- The management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Copies of the Company's annual report and financial statements will be available from the Company's registered office or at [www.heralduk.com](http://www.heralduk.com) once published on 6 March 2017.

By order of the board  
Law Debenture Corporate Services Limited  
Secretary  
17 February 2017