Herald Investment Trust plc

2019

Annual report & financial statements
31 December 2019

Herald's objective is to achieve capital appreciation through investments in smaller quoted companies in the areas of technology, media and telecoms.

Investments will be made throughout 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.

HIGHLIGHTS

NET ASSET VALUE (NAV)[A] PER SHARE 31 DECEMBER 2019	CHANGE IN NAV[A] PER SHARE IN 2019	TOTAL NAV RETURN SINCE INCEPTION
£16.68	+27.5%	+1,721.3%

NAV AT 31 DECEMBER 2018		TOTAL RETURN IN 2019	SHARE BUYBACKS IN 2019		NAV AT 31 DECEMBER 2019
£901m	+	+£242m	-£20m	=	£1,123m

A Alternative Performance Measures - see page 78.

TOTAL RETURN SINCE INCEPTION
(FIGURES HAVE BEEN REBASED TO 100 AT 16 FEBRUARY 1994)

COMPANY SUMMARY

Company data at 31 December 2019

SHAREHOLDERS' FUNDS	MARKET CAPITALISATION
£1,123m	£996m

POLICY AND OBJECTIVE	Herald's objective is to achieve capital appreciation through investments in smaller quoted companies in the areas of telecommunications, multimedia 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. The Company's investment policy is contained within the strategic report on page 34.
COMPARATIVE INDICES	The portfolio comparative indices are the Numis Smaller Companies Index plus AIM (ex. investment companies) in the UK and the Russell 2000 (small cap) Technology Index (in sterling terms) in the USA. Though we consider these indices to provide reasonable bases for measuring the Company's performance, the portfolio is not modelled on them and outcomes may diverge widely.
MANAGEMENT DETAILS	Herald Investment Management Limited ('HIML') is the appointed investment manager to the Company. The management contract can be terminated at 12 months' notice. Administration of the Company and its investments is delegated to The Bank of New York Mellon and company secretarial duties to Law Debenture Corporate Services Limited.
CAPITAL STRUCTURE	The Company's share capital consisted at 31 December 2019 of 67,311,777 ordinary shares of 25p each which are issued and fully paid. The Company has been granted authority to buy back a limited number of its own ordinary shares for cancellation. During the year 1,589,791 ordinary shares were bought back and cancelled. The directors are seeking to renew this authority at the forthcoming annual general meeting.
MANAGEMENT FEE	HIML's annual remuneration is 1.0% of the Company's net asset value (excluding current year revenue) based on middle market prices, calculated on a monthly basis payable in arrears.
CONTINUATION VOTE	At the annual general meeting of the Company held in April 2019, shareholders voted in favour of the Company continuing to operate as an investment trust. The next continuation vote will be at the annual general meeting in 2022 and every third year thereafter.
AIC	The Company is a member of the Association of Investment Companies.
LEGAL ENTITY IDENTIFIER ('LEI')	An LEI is a 20-digit code which allows entities involved in financial transactions to be identified. This is a global transparency measure endorsed by the G20. The Company's LEI is: 213800U7G1ROCTJYRR70
ALTERNATIVE PERFORMANCE MEASURES	A glossary of terms and alternative performance measures used in the annual report and financial statements is on pages 78-79.

YEAR'S SUMMARY

	31 December 2019	31 December 2018	% change
Total net assets	**£1,122.8m**	£901.2m	
Shareholders' funds	**£1,122.8m**	£901.2m	
Net asset value per ordinary share[A]	**1,668.1p**	1,307.9p	27.5
Share price[A]	**1,480.0p**	1,075.0p	37.7
Numis Smaller Companies Index plus AIM (ex. investment companies) (capital only)	**5,842.6**	4,917.9	18.8
Russell 2000 (small cap) Technology Index (in sterling terms) (capital only)[B]	**3,359.5**	2,597.2	29.4
Dividend per ordinary share	**–**	–	
Profit per ordinary share (revenue)	**0.05p**	0.08p	
Ongoing charges[A]	**1.09%**	1.07%	
Discount to NAV[A]	**11.3%**	17.8%	

Year to 31 December	**2019**	**2019**	2018	2018
Year's high and low	**High**	**Low**	High	Low
Share price	**1,514.0p**	**1,060.0p**	1,370.0p	1,055.0p
Net asset value[A] per ordinary share	**1,679.6p**	**1,301.4p**	1,579.9p	1,276.8p
Discount[A]	**18.5%**	**6.8%**	19.4%	9.5%

At 31 December	**2019**	2018
Profit/(loss) per ordinary share		
Revenue	**0.05p**	0.08p
Capital	**355.30p**	(69.67p)
Total	**355.35p**	(69.59p)

A Alternative Performance Measure - see page 78.
B Investments and indices valued at USD/GBP exchange rate of 1.325 at 31 December 2019 (1.275 31 December 2018).

1 YEAR CHART OF NAV, SHARE PRICE AND COMPARATIVE INDICES (FIGURES HAVE BEEN REBASED TO 100 AT 31 DECEMBER 2018)

Investment report

"Overall strong growth but microcaps challenged by illiquidity."

KATIE POTTS

COMPANY OVERVIEW

Achieving capital growth

Herald invests, generally on a long term basis, using fundamental analysis. The technology, media and telecommunications sector globally comprises over 5,000 quoted companies, and many more unquoted.

The manager, Herald Investment Management Limited (HIML), focuses on investment within the technology, media and telecoms sector.

Focus on the sector enables a significant degree of cross-referencing across competitors, customers and suppliers globally. Using this mosaic of information and industry knowledge combined with strong financial analysis, we endeavour to add value. The evolving nature of technology means there is a wide divergence of performance between winners and losers, but the winners can be spectacular.

WHAT WE DO

WHAT WE DO

Analysis entails a prolific number of meetings with companies, either at Herald's offices, site visits or at conferences globally, as well as broker hosted meetings. In addition, Herald relies on independent industry research and published company filings, statements, presentations, websites and broker research.

The Company has consistently invested in early stage companies, often providing primary development capital, then holding investments for long periods, regularly providing further capital when needed.

Many of these holdings have a high stock specific risk and the Company aims to offer investors a low risk way to gain exposure to these exciting opportunities through broad diversification in the number of holdings and the maturity of the businesses.

HISTORY OF THE COMPANY

HISTORY OF THE COMPANY

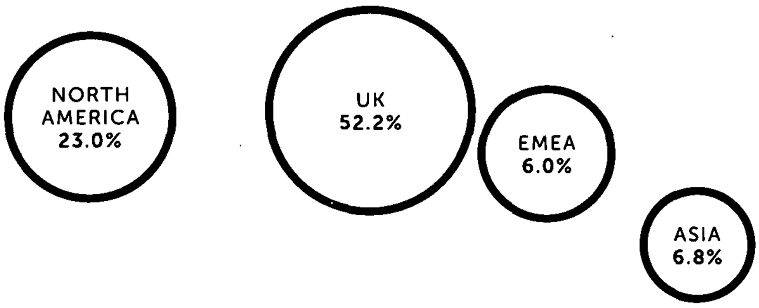
The Company was established in 1994 raising £65m to invest in UK and European smaller TMT companies. In 1996 a further £30m was raised to globalise the Company with the recognition that TMT is a global sector and cross-referencing across geographies is a prerequisite for investing intelligently within the sector. Since 1996 no further capital has been raised, but share repurchases totalling £138m have been made.

Over the history of the Company the NAV per share, on a total return basis, has compounded at an annualised rate of 11.9%.

GEOGRAPHICAL ANALYSIS

GEOGRAPHICAL RETURNS

GEOGRAPHICAL SPREAD OF EQUITY INVESTMENTS FOR THE YEAR ENDING 31 DECEMBER 2019†



† As a percentage of total assets.

CHAIRMAN'S STATEMENT

A year of excellent performance

PORTFOLIO PERFORMANCE
At the mid-year, we reported that the net asset value per share ("NAV") had grown 17.2%. By the year end, the Company's NAV per share growth had reached 27.5%. The growth in NAV for the year, which compares favourably with wider indices, reflected strong equity markets globally and good stock selection.

Of note was an unusually sharp divergence in performance between larger and smaller companies within our overall smaller companies remit: larger companies performed materially better than smaller ones. To illustrate this, the Company's investments with a market capitalisation in excess of $1bn at the year end had delivered a total return of 56.5%, with the investments with a market capitalisation below $1bn returning the lower but still good figure of 19.1%.

There is a degree to which this divergence reflects success, because the good performers have grown; but the more significant factor this year is a much greater re-rating in the valuation basis. A crude measure of some relevance is the Bloomberg forecast of Enterprise Value to Sales: it is 5.0x on average for the holdings above $1bn, whereas the average for companies below $1bn is 2.8x.

The most significant effect on performance is provided by the UK, which accounts for 52.2% of the Company's total assets and has a much lower average market capitalisation. The total return from our UK portfolio was 30.2% which compares favourably with the Numis Smaller Companies Index plus AIM (ex investment companies) which returned 22.2%. Nevertheless, this market has not felt like a bull market at all because liquidity has been so poor. Indeed, volumes in AIM technology stocks across the market have fallen 70% over the last year. In a normal market cycle, we would expect the performance to filter down to much smaller companies in 2020 and 2019 should have been a good year for new issues, however it was not. The UK market had a double headwind; firstly political uncertainty which was significantly alleviated by the election because the UK portfolio appreciated 7.8% in December; secondly a withdrawal from illiquid assets, or at least avoidance of smaller companies, partly due to the regulatory shock of MiFID II and other issues. The latter may have an ongoing effect, which we have to monitor closely. However, the performance figures should reassure investors that shrinking markets can still be rewarding.

The North American region has delivered the strongest overall return reflecting a greater skew to the larger end of the remit. The total return from the North American portfolio was 39.5% versus the Russell 2000 (Small Cap) Technology Index (in sterling terms) returning 29.7%. It is interesting to observe that the large capitalisation Russell 1000 Technology Index returned 41.5%, so again smaller companies have materially underperformed their bigger brethren, but it is pleasing to have performed nearly as well as that latter index which is dominated by Apple and Microsoft, when they have performed so well. It is also pleasing that the UK performance, in spite of the microcap challenges has exceeded that of the US Russell 2000 Technology Index. Remarkably there were £62m in takeovers in the Company's North America portfolio, some of which have not completed, which is extraordinary versus a market value of £218m at the start of the year.

The Company's total return in Europe was 38.9% with three-quarters of the region's return by value coming from the three biggest holdings, BE Semiconductor, Data Respons and Nordic Semiconductor. The Asian total return was 29.3% with a particularly strong performance from Taiwan of 51.5%.

Cash has been a drag on the overall return. Cash levels were higher than planned at the start of 2019 reflecting a spate of takeovers, and a further £106m of takeovers have been announced during 2019. In both the UK and North America portfolios, sales exceeded purchases, and modest net cash was invested in EMEA and Asia. There were no completed takeovers in those regions, though by the year end one significant holding, Data Respons, agreed a takeover, which has not yet completed. Reinvestment has been measured and the Manager has taken profits in a number of holdings reflecting full valuations.

During the year share buyback transactions amounted to £20.3m or 2.3% of the equity outstanding at an average price (including costs) of £12.79 per share.

BOARD COMPOSITION AND GOVERNANCE
As anticipated at this time last year, Julian Cazalet retired from the board of the Company at the conclusion of the annual general meeting in April 2019 having chaired the board for ten years. We are very grateful for his leadership and his very substantial contribution to the Company's success.

Henrietta Marsh joined the board in September, bringing investment management background, with a particular focus on smaller companies, to further strengthen the board's expertise.

The Company undertook an audit tender process in 2019 and is pleased to report that PricewaterhouseCoopers LLP were appointed as auditor to the Company and have undertaken the 2019 audit.

OUTLOOK
Valuations are not as attractive as they have been, but the sector is still dynamic, and we believe continues to offer better opportunities than the wider market. The microcap end of the market offers conspicuously more interesting valuations. The closed-end nature of an investment trust makes it an ideal vehicle to access the Company's target market.

IAN RUSSELL
CHAIRMAN
18 February 2020

INTERNAL RATE OF RETURN (IRR) STERLING PERCENTAGE RETURNS BY REGION*

	1 year	5 year	10 year
Herald-UK	30.2	105.5	339.0
Numis Smaller Companies Index plus AIM (ex. investment company)	22.2	52.4	166.1
Herald-North America	39.5	171.4	559.7
Russell 2000 (smallcap) Technology Index total return	29.7	135.4	409.9
Herald-Asia	29.3	78.3	153.3
Herald-Europe Middle East and Africa	38.9	181.0	584.5
Herald-Total Return NAV per Share[A]	27.5	105.1	298.3

* IRR (costs including those of borrowing and interest rate swaps are accounted for at Company level).
A *Alternative Performance Measure - see page 78.*

INVESTMENT MANAGER'S REPORT

The technology sector remains vibrant, but increased stock market illiquidity is a headwind for emerging companies

After a year of consolidation in 2018, I was confident that 2019 would be better, but candidly I am surprised by quite how strong the market has been. I was particularly apprehensive in the middle of the year when I was aware how dire liquidity was, particularly in the UK and Europe.

As Woodford's troubles emerged there was a spate of selling as investors tried to reduce holdings in illiquid stocks and the market was scarcely functioning. I feared distressed sellers would deliver a downward dislocation. Fortunately, the Woodford situation occurred against a very strong market background; otherwise, more damage could have been done.

IRR PERCENTAGE RETURNS BY REGION AND MARKET CAP

	Total return for companies in 2019 by region		Investment Market Value at 31st December 2019	
	Market capitalisation <$1bn	Market capitalisation >$1bn	Market capitalisation <$1bn	Market capitalisation >$1bn
Asia	12.7%	43.7%	£36.7m	£40.1m
Europe Middle East and Africa	23.1%	89.8%	£50.4m	£17.0m
North America	35.9%	40.9%	£52.1m	£205.7m
UK	16.6%	77.3%	£400.7m	£185.4m
Total	**19.1%**	**56.5%**	**£539.9m**	**£448.2m**

Why, I wonder, has the market been so strong? I believe the main reason is that, while there is a shortage of capital in smaller quoted companies, there is a surplus in the hands of private equity. They are using cheap debt to leverage returns and exploit the anomaly that interest is tax deductible when dividends are not. They continue to pay significant premiums when acquiring quoted companies and gradually the quoted market is moving to their valuation levels. They have gathered assets by performing with leverage, which has worked in an era of declining and very low real interest rates.

From first principles, the ideal environment is for companies to have permanent capital and for investors to have perfect liquidity. That worked in the stock market and for the wider economy as well over extended periods. On the other hand, private equity is temporary capital, with short-term horizons, which while possibly driving markets higher in the short-term, will over time tend to undermine economies as more ownership goes into its hands.

The move to private equity ownership has been helped by the huge increase in costs and distraction from spiralling regulation in public markets, which is particularly onerous for developing businesses. For example, I estimate that of the 131 UK listed investments in the portfolio each has spent an additional £50,000 on investor relations by appointing a joint broker, commissioning independent research or, in extremis, employing an individual to do investor relations. On average Herald owns 4.2% of the outstanding capital of its UK holdings, so the share of those costs borne by our investors is c£275,000. This is a hidden cost not disclosed to investors. At the same time, we now have 17 holdings with no broker coverage, a further 64 with access to only one broker (including our largest US holding Pegasystems) and a further 62 holdings with access to research from only two brokers. This anecdote perhaps explains why MiFID II research payments are so confusing and challenging for us and why some investors and brokers are disappearing from the smaller companies' scene.

Similarly, audit fees are leaping, and it seems too much time is spent counting the blades of grass without intelligently viewing the lawn. We are jealous of the minimal scrutiny of the private equity world, but maybe in time investors will realise that minimal regulation is not ideal either. Wealth managers are facing ever increasing costs, which now have to be paid out of after-tax income when previously more of the cost was ascribed to capital. None but the richest investors can now afford tailor-made advice. When costs were pro-rata to dealing more of the cost was born by big investors and less by small investors.

In recent years the stock markets in the UK and the US have not provided the stable quality ownership that they did in the past and have not supported the UK technology sector. The quality long-term owners of defined benefit pension schemes and insurance companies have disappeared and the ebbs and flows of open-ended funds make them unstable shareholders for small companies. As allocations to quoted UK equities have fallen, investors have too easily accepted takeovers and failed to provide capital for companies to grow. In this challenging environment for smaller public companies, Herald has been a steadfast supporter of technology businesses. We have been made insiders for secondary fund raisings over 100 times in 2019 and we have participated in 62 placings with an aggregate value of £40m. There were other occasions when we would have participated or invested more had there been more co-investors as we are disciplined in ensuring that we generally do not exceed 10% ownership of the outstanding share capital. I am sure flows into passive investments are driving up some valuations; for liquidity reasons they should not and generally do not invest in smaller companies, but it is another slug of capital no longer available for small quoted companies. Clearly, they do not participate in new issues, nor in pricing shares efficiently.

REGIONAL ALLOCATION CHANGES
(STERLING THOUSANDS)

	Valuation at 31 December 2018	Net acquisitions/ (disposals)	Amortisation	Appreciation/ (depreciation)	**Valuation at 31 December 2019**
Equities*					
UK	468,388	(17,386)	–	135,108	**586,110**
EMEA	45,364	4,650	–	17,364	**67,378**
North America	217,738	(36,793)	–	76,824	**257,769**
Asia Pacific	53,405	7,816	–	15,640	**76,861**
Total Equities	784,895	(41,713)	–	244,936	**988,118**
Government bonds	46,785	(2,438)	407	354	**45,108**
Total Investments	831,680	(44,151)	407	245,290	**1,033,226**
Net liquid assets	69,474	23,268	–	(3,119)	**89,623**
Total assets+	901,154	(20,883)	407	242,171	**1,122,849**

* Equities includes convertibles and warrants.
\+ The total assets figure comprises assets less current liabilities.

INVESTMENT MANAGER'S REPORT CONTINUED

On a more positive note there is relative value in the smallest companies. Capital is still hard to find where it is needed most, which is for emerging companies who have not yet reached profitability where venture capital has significantly lower cash to deploy compared to leveraged private equity. Furthermore, US investors, appreciating the value in the UK, are beginning to appear on the share registers of the smaller UK quoted companies, which may be the lifeline needed. I am reassured that the SEC has extended the exemption which allows US brokers to sell research to European firms by three years. There are therefore the building blocks in place, of attractive valuations and increasing capital availability, for a positive investment environment.

I remember when I started in the City during Thatcher's reign the atmosphere was "we need small companies to create wealth, added value jobs, taxes and future big companies" and there was an enthusiasm to allocate capital accordingly. It is within the Government's powers to direct UK savings to alleviate the disastrous decisions made over the last twenty years: after all, they provide a subsidy to pensions, ISAs and private equity. Now that we have left the EU, there is an opportunity for government to create a really positive environment for innovation and growth.

UK

The UK portfolio has returned 30.2%, outperforming the Numis Smaller Companies Index plus AIM (ex investment companies) (the "Numis Index") by 8%. The return from stocks with a market capitalisation exceeding $1bn was 77.3% which has driven the outperformance and was over 60% better than the smaller UK companies in the Company's portfolio. I note that fully listed UK stocks returned 54.5% and AIM stocks delivered 21.6%, so the bigger stocks in AIM contributed very strongly and I conclude that neither AIM nor politics is the issue, but rather the flight of capital from illiquid smaller companies. Of the top 73 holdings in the Company with a market capitalisation of over $1bn only 17 are in the UK with a market value of £185.4m but a book cost of only £41.7m. Therefore, on average, they have risen 4.5x, many having started as microcaps in the portfolio.

The number of takeovers in the UK was eight with an aggregate value of £38.1m which is a lower rate than recent years, being only 8.1% of the UK portfolio at the start of 2019. The most significant takeover was Statpro, in which the Company had an 11% stake. We went above our customary 10% threshold when they could not draw on their overdraft facility when Kaupthing went bankrupt. We, along with Statpro's Directors, provided emergency funding. We first invested in May 2000 in an early stage IPO when it was a struggle to find value in the technology bubble. I am sorry to see the company go, but pleased to say the return over the life of the holding is 1,018.5%. Of the cumulative £13.8m total return over the history of the holding, £9.2m was in 2019 with the takeover premium. People detached from investing may ask "why did you not buy them at the beginning of 2019"? Two reasons. Firstly, an 11% stake would not have been available and, secondly, the company would not have floated and survived if we had not provided it with necessary capital. Unfortunately, there are not enough other long-term investors around. I suspect there were few technology investments made in May 2000 that delivered that sort of return, albeit over nearly 20 years. Scisys was another company where Herald was the largest outside shareholder with an 8.2% stake. It is under offer, as is Sophos.

> UK stocks with a market value of > £1bn return 77.3%.
>
> **KATIE POTTS,** FUND MANAGER

The star performers have been GB Group and Future which both returned more than £20m during the year and have been strong long-term performers, dwarfing the disappointments from M&C Saatchi and LoopUp.

There are currently a few unlisted holdings with an aggregate value of £15.1m. Some are unlisted securities which are convertible into quoted ones (35.7% of £15.1m) and others are previously quoted companies that have delisted (11.2% Fusionex and Celoxica). There are two further private companies which are also held within Herald Ventures, Natilik and Antenova, accounting for 19.8%. Both are profitable and paying dividends. The board has approved a limited scope to invest in private companies and we have a natural flow of opportunities. If we believe better returns can be achieved here, we would consider asking directors and shareholders for greater flexibility but have no current plans to do so. The remaining private investment is the holding in the management company.

Since inception the UK has been the core driver of the Company's performance, but over the last five years the UK has lagged the returns from North America and Europe. Even so, the total return in the UK has been 105.5% over that period, while the Numis Index has returned 52.4% and the AIM Technology Index a similar amount.

NORTH AMERICA

> North American portfolio returns still good – 39.5% over the year and 560% over 10 years
>
> **KATIE POTTS,** FUND MANAGER

The North American portfolio's return (in sterling terms) was 39.5%, some 10% ahead of the Russell 2000 Technology Index. Smaller companies in the US materially underperformed the Company's overall return for many years post the technology bubble of 2000, but have outperformed from 2014. The Company's North American portfolio has returned 171.4% (in sterling terms) over the last five years, with the Russell 2000 Technology Index returning 135.4% over the same period: 36.0% ahead. The total return of the large company Russell 1000 Technology Index has returned 181.4%.

I should be thrilled if we can sustain that degree of outperformance, but a legitimate question is why we have not had a higher US weighting. There were two factors: takeovers and valuations.

At the beginning of 2015, the value of the North American portfolio was £144m and, by coincidence, the aggregate value of US takeovers in the last five years has also been £144m. Of that, £62m is the value of takeovers in 2019 alone, including Mellanox and Fitbit which have not yet completed. Some 20.4% of the North American portfolio at the start of 2019 has been acquired in the last year. The significant takeovers were Attunity (£17.3m), Mellanox (£16.8m), Amber Road (£9.4m), Hydrogenics (£6.7m) and Quantenna (£5.4m). We took an initial position in Attunity in 2014, and the Company cornerstoned a secondary offering in December 2017 investing $4.75m, which I had the confidence to do having known the management with a modest holding for three years. The take-out price of $23.5 per share, by private equity house Thoma Bravo seems a good return in just over a year, but one of my colleagues saw them at a Gartner conference recently and exclaimed on his return that we were robbed, because revenues had grown 100%.

We are sad to be losing Mellanox as well. The total return has been 9x the initial book cost and the exit valuation is somewhat disappointing. It takes time and patience to find similar opportunities.

As well as losing some holdings to takeovers in North America, we took profits in some where we believed that the stocks had run too far. In aggregate we sold £67m of North American stocks, offset by £30m of purchases. The cash from sales and takeovers has come in with the market at elevated levels, and we believe that there will be better buying opportunities in the US. Private equity is sweeping up value, but some of the momentum stocks in the SAAS (software as a service) area were on uncomfortably high valuations with EV/sales values as high as 30x. There is a resourcing bubble in California and stock-based compensation, meaning free shares, are being liberally doled out, but normally stripped out of "adjusted EPS" numbers. There were signs in the second half that the market is beginning to worry about this too and valuations have corrected a little. Analysts almost never take account of share-based payments in earnings forecasts, which means there is a material overstatement of earnings and therefore understatement of the P/E ratio. This is a particular problem in the software sector, but not in semiconductors. I am therefore unsurprised that semiconductors have performed relatively well.

There are 22 stocks in the portfolio with an aggregate value of £170m which exceed $3bn market capitalisation, which is the level above which we do not make new or further investments. Of these, 13 are in North America with an aggregate value of £95.5m which is an anomalously large proportion (37%) of the North American portfolio. The aggregate cost base for these holdings is only £19.3m, so the average return is nearly 5x. In addition, £14m profit has been realised already. The star performers have been Pegasystems, Mellanox, Descartes and Five9. LivePerson and Hydrogenics are smaller companies which have contributed strongly this year.

The high levels of takeovers in the Company's North American market investment universe has been reflected in a sharp decline in the number of listed technology companies because takeovers have exceeded IPOs. At the beginning of 2019 the number of stocks in the Bloomberg Communications and Technology sectors in the United States with a market capitalisation >$20m and <$3bn was 616 and this had fallen to 535 by the year end, albeit the number of companies above $3bn market capitalisation had grown from 235 to 267. The trend in recent years has been for venture backed companies to have more fund raising rounds pre-IPO. The much discussed "Unicorns" such as Uber, Airbnb, Slack, WeWork et al were private companies raising money with rounds at >$1bn valuation.

INVESTMENT MANAGER'S REPORT CONTINUED

It is interesting that some of these have crawled to market in a dull way or failed to IPO. Those private valuations were too high. Furthermore, Spotify and Slack pioneered an introduction to the market without a fund raising. Slack's share price, for example, reached $38.6 when it first listed and traded at $22 at the year-end. It still has a market value way above our smaller companies remit at $12.4bn, which is eye-watering compared to forecast sales of $622m for the year to March 2020 and a huge loss-making margin of over 20% of EBIT. Presumably some of the stock has been acquired by passive investors? These late stage venture investors must be careful to leave something on the table to attract public investors or exits will be difficult. Examples like this may make the pre-IPO fashion fade, while leveraged private equity will stumble when interest rates rise.

EMEA

The European portfolio had a tricky year in 2018 led by the semiconductor downturn (including the largest holding BE Semiconductor Industries), but 2019 has seen a good recovery. The total return for 2019 was 38.9% and over 5 years it has been 181% in sterling terms, which makes it the best performing region. Data Respons is a Norwegian holding acquired in 2014 and a French company Akka has agreed to acquire it. It is a pity to lose a holding with a known and respected management team, but it has helped short-term performance.

ASIA

The Asian portfolio has returned 29.3% in sterling terms this year and 78.3% over 5 years. Within the year, the Kosdaq IT Index in Korea rose 6.3%, the larger company TWSE Electronics Index in Taiwan increased 40.8% and the Mothers General Small Companies Index in Japan was up 8.9%. Performance across the Asian indices was disparate between countries and between the first and second half of the year.

In general, China and Hong Kong equity markets had a volatile and challenging year due to the negative impact on GDP of Trump's tariff war with China and the civil disturbance in Hong Kong. The Australian market had a stellar start to the year rising around 50% in sterling terms by mid July 2019 before giving up a decent proportion of these gains by the year end. By contrast the TWSE Electronic Index (the "TWSEE Index") had modest gains in the first half but rose strongly in the second half to return 40.8% for the full year – one of the highest returns from any index worldwide. The Taiwanese portfolio holdings surpassed the TWSEE Index with a 51.5% return in the year. The stock market excitement in Taiwan is focused around two concepts; firstly the adoption of 5G wireless technology increasing the demand for Taiwanese hardware and semiconductors and secondly demand for components from Chinese companies desperate to switch away from American suppliers as a result of the US-China trade war. As with all concepts the reality can disappoint and with a number of the Taiwanese holdings near record valuations there is a temptation to realise some gains. The biggest contribution in the year came from Realtek, a Taiwanese semiconductor company that benefitted from strong demand for its RF semiconductors, particularly for use in wireless audio earbuds.

The approach within the Asian portfolio is to continue to diversify away from the hardware business models common in Korea and Taiwan by unearthing opportunities and allocating capital to interesting small companies in countries such as Australia and Japan, both of which have a good flow of IPOs coming to market.

SECTOR BACKGROUND

We remain enthusiastic about the outlook for investing in the technology sector. Cloud computing and ubiquitous connectivity will continue to drive disruption across different sectors, creating opportunities for technology companies. Although we expect trade tensions and regulatory concerns to continue to cause short-term volatility, ultimately the sector is among the few which is investing heavily in innovation, creating high value employment and bringing benefits to consumers, enterprises and governments around the world and generating attractive returns in the process.

The concept of IT as a utility has been talked about since the mid 1990s. However, it was with the wide acceptance of opensource software post 2000, the availability of mobile data networks in the mid-2000s, the launch of Amazon's AWS in 2006 and the launch of the Apple App store in 2008 that the pieces of the puzzle were in place for the concept to go mainstream. Today we call that utility model "Cloud Computing."

We are 10+ years into the adoption of Cloud Computing. The size of the market is very large but growth rates remain robust. Gartner Group estimate public cloud revenues to grow from $227bn in 2019 to over $350bn in 2022[1]. Moreover, we see the adoption of Cloud Computing disrupting about $1tr of the current annual spending on legacy systems.

The move to Cloud Computing is disproportionately beneficial for smaller companies. It gives them access to a global resilient IT infrastructure at arguably less than 1% of cost of having to build it themselves, and the added benefit that they can flexibly scale their businesses up and down efficiently and with low risk. Additionally, this allows small companies to target niche markets around the world efficiently.

In the same way that the internet democratised information flow and we are still grappling with its second and third order effects, Cloud Computing and Ubiquitous Connectivity continue to democratise software development across different end markets with changing second and third order effects.

Investing in technology gives us a front seat to see the ripples and aftershocks of seemingly unconnected small innovations which often combine to create tectonic shifts across different industries. Regardless of the source of the innovations, smaller companies and the entrepreneurs behind them tend to be the first ones to exploit the nascent opportunities throughout global supply chains.

With time and relentlessly excellent execution, leaders emerge to dominate fragmented, newly created markets. This has been the story of most of the tech titans of today, e.g. Microsoft, Apple, TSMC, Google, Facebook, Amazon, ASML and SAP. We have seen this pattern repeated again and again over the last three decades. We do not see any sign of it changing in the foreseeable future.

ENVIRONMENTAL IMPACT

In a world of limited resources and growing environmental and social concerns, it is worth highlighting that a number of the technology companies have taken it upon themselves to be standard-bearers, raising the environmental and social bars for all. For example, Apple is using 100% renewable energy for all of the electricity used by its facilities around the world and is striving to make products using 100% recycled and renewable materials.

1 Gartner source: https://www.gartner.com/en/newsroom/press-releases/2019-11-13-gartner-forecasts-worldwide-public-cloud-revenue-to-grow-17-percent-in-2020

SECTOR PERFORMANCE* (STERLING MILLIONS)

	Market value equity portfolio 31 Dec 2019	% of equity portfolio 31 Dec 2019	Total return equity portfolio 31 Dec 2019	Total return equity portfolio 31 Dec 2018
Software	**256.7**	**26.0**	**57.6**	29.8
Computer Services	**125.8**	**12.7**	**43.3**	-8.8
Semiconductors	**99.9**	**10.1**	**30.8**	-39.4
Media Agencies	**71.1**	**7.2**	**2.2**	-16.1
Publishing	**67.0**	**6.8**	**30.1**	-0.4
Telecommunications Equipment	**61.6**	**6.2**	**6.5**	4.9
Internet	**46.6**	**4.7**	**7.8**	-13.9
Electrical Components & Equipment	**38.2**	**3.9**	**11.9**	3.3
Computer Hardware	**25.8**	**2.6**	**6.7**	-3.0
Business Support Services	**16.9**	**1.7**	**1.9**	0.1
Fixed Line Telecommunications	**15.0**	**1.5**	**4.4**	5.2
Other	**163.5**	**16.6**	**51.5**	-4.7
Total	**988.1**	**100.0**	**254.7**	-43.0

* Industry Classification Benchmark – Subsector.

INVESTMENT MANAGER'S REPORT CONTINUED

Apple imposes its own exacting standards on all of its suppliers and the suppliers of their suppliers. Apple's lead in this area has spurred others such as Google, Microsoft, Amazon to also up their efforts. So although the US government, driven by corporate lobbies, drags its feet on environmental commitments, this has not stopped the leading US technology companies from rapidly raising standards across their supply chains around the world. This leads small companies which are customers and/or suppliers of the large companies to also become progressively more environmentally efficient.

"We're sourcing 100% renewable energy for all the electricity used at our facilities in 43 countries around the world. Two thirds of this renewable energy comes from Apple-created projects."

"We take responsibility for our entire carbon footprint. That includes the emissions beyond our direct control, like those from sourcing materials, making our products, and our customers using their devices."

"Partners across our supply chain are installing or investing in sizable solar projects and purchasing clean energy directly from renewable projects or from their utility. As of April 2019, 44 manufacturing partners in 16 countries have committed to 100 % renewable energy for Apple production"

Apple Environmental Responsibility Report, 2019

CORONAVIRUS

The technology sector will be significantly affected if Coronavirus continues to disrupt manufacturing in China. Although the direct exposure to Chinese companies is minimal, the indirect effect could be significant. In particular, a handful of holdings in each region manufacture products there, either with Chinese operations, or through subcontractors and suppliers, and many more companies use PCs and servers which are at least in part manufactured there. However, the knock-on effects will be felt in many sectors if the cessation of production is prolonged, and at this stage that is uncertain.

PROSPECTS

We remain confident that there is growth in the sector above that of the wider economy and that much of the sector now has non-cyclical spending. In particular, the recurring revenues associated with IT infrastructure and applications, used by corporations, the consumer and governments alike, have the defensive characteristics of utilities without the regulatory issues, which benefit so many companies within our universe. However, the geopolitical uncertainties, the illiquidity associated with smaller companies and valuation levels which will be vulnerable when interest rates rise, means that we prefer to keep higher than normal cash levels to ensure we can exploit buying opportunities, which will inevitably occur. For reassurance, valuations are in general not in bubble territory and the difficulty which central banks have in raising interest rates means there is a good chance that valuations could rise further.

KATIE POTTS
FUND MANAGER
18 February 2020

CLASSIFICATION OF INVESTMENTS

Classification*	UK %	EMEA %	North America %	Japan & Asia Pacific %	2019 Total %	2018 Total %
OIL & GAS	**0.9**	**–**	**0.3**	**–**	**1.2**	**0.8**
Alternative Energy	0.9	–	0.3	–	1.2	0.8
BASIC MATERIALS	**0.1**	**–**	**–**	**0.2**	**0.3**	**0.5**
Chemicals	0.1	–	–	0.2	0.3	0.5
INDUSTRIALS	**8.4**	**0.1**	**1.4**	**1.0**	**10.9**	**10.2**
Construction & Materials	0.1	–	–	–	0.1	0.3
Aerospace & Defence	0.9	–	–	–	0.9	0.6
Electronic & Electrical Equipment	3.0	0.1	1.0	0.2	4.3	4.3
Industrial Engineering	–	–	–	0.1	0.1	0.1
Support Services	4.4	–	0.4	0.7	5.5	4.9
CONSUMER GOODS	**0.8**	**–**	**0.5**	**–**	**1.3**	**1.1**
Leisure Goods	0.8	–	0.5	–	1.3	1.1
HEALTH CARE	**1.3**	**0.1**	**–**	**0.1**	**1.5**	**1.0**
Health Care Equipment & Services	1.2	0.1	–	0.1	1.4	0.9
Pharmaceuticals & Biotechnology	0.1	–	–	–	0.1	0.1
CONSUMER SERVICES	**12.6**	**–**	**0.4**	**1.2**	**14.2**	**12.9**
General Retailers	–	–	–	0.4	0.4	0.5
Media	12.4	–	0.4	0.5	13.3	12.1
Travel & Leisure	0.2	–	–	0.3	0.5	0.3
TELECOMMUNICATIONS	**1.4**	**0.1**	**–**	**0.1**	**1.6**	**2.4**
Fixed Line Telecommunications	1.2	–	–	0.1	1.3	1.9
Mobile Telecommunications	0.2	0.1	–	–	0.3	0.5
UTILITIES	**0.1**	**–**	**–**	**–**	**0.1**	**0.3**
Electricity	0.1	–	–	–	0.1	0.3
FINANCIALS	**1.6**	**–**	**0.1**	**0.3**	**2.0**	**2.0**
Financial Services	0.4	–	0.1	0.3	0.8	0.8
Equity Investment Instruments	1.2	–	–	–	1.2	1.2
TECHNOLOGY	**25.0**	**5.7**	**20.3**	**3.9**	**54.9**	**55.9**
Software & Computer Services	20.3	3.6	12.3	2.1	38.3	39.7
Technology Hardware & Equipment	4.7	2.1	8.0	1.8	16.6	16.2
TOTAL EQUITIES (including convertibles and warrants)	**52.2**	**6.0**	**23.0**	**6.8**	**88.0**	**–**
Total equities – 2018 (including convertibles and warrants)	52.0	5.0	24.2	5.9	–	**87.1**
BONDS	**–**	**–**	**4.0**	**–**	**4.0**	**5.2**
NET LIQUID ASSETS**	**4.9**	**0.7**	**1.8**	**0.6**	**8.0**	**7.7**
TOTAL ASSETS	**57.1**	**6.7**	**28.8**	**7.4**	**100.0**	**–**
Total assets - *2018*	55.7	6.1	32.1	6.1	–	**100.0**
SHAREHOLDERS' FUNDS	**57.1**	**6.7**	**28.8**	**7.4**	**100.0**	**–**
Shareholders' Funds - 2018	55.7	6.1	32.1	6.1	–	**100.0**
Number of equity investments (including convertibles and warrants)	139	26	68	55	**288**	**285**

* FTSE Russell Industry Classification Benchmark.
** Cash, current assets and liabilities.

TOP 20 EQUITY HOLDINGS AS AT 31 DECEMBER 2019

£43.3m	VALUATION
3.9%	OF TOTAL ASSETS
2.9%	OF ISSUED SHARE CAPITAL HELD
£3.3m	BOOK COST

GB Group (GBG) offers a series of solutions that help organisations quickly validate and verify the identity and location of their customers. GBG's products are built on an unparalleled breadth of data obtained from over 270 global partners which in conjunction with GBG's innovative technology leads the world in location intelligence, fraud detection and enables GBG to verify the identity of 4.4 billion people across 72 countries. GBG is headquartered in the UK, with over 1,000 employees across 18 countries. They work with clients, including some of the best-known businesses around the world, ranging from US e-commerce giants to Asia's biggest banks and European household brands.

£32.4m	VALUATION
2.9%	OF TOTAL ASSETS
1.4%	OF ISSUED SHARE CAPITAL HELD
£1.1m	BOOK COST

Diploma is a group of specialised distribution businesses serving industries with long term growth potential and with the opportunity for sustainable superior margins through delivering quality customer service, deep technical support and value-adding activities. The three sectors the company focuses on are life sciences, seals and controls.

£26.1m	VALUATION
2.3%	OF TOTAL ASSETS
1.8%	OF ISSUED SHARE CAPITAL HELD
£6.0m	BOOK COST

Future is a global multi-platform media company, organised into two divisions, Media and Magazines. The Media division focuses on being at the forefront of digital innovation with three complementary revenue streams: eCommerce, events and digital advertising. It operates in a number of sectors, including the growing technology and games markets, and has a number of leading brands, including TechRadar, PC Gamer, GamesRadar+, Digital Photographer, Generate and Golden Joysticks. The Magazine division creates specialist magazines and bookazines, with 80 magazines and over 568 bookazines published a year, with a total global circulation of over 1.4 million. The Magazine portfolio spans technology, games and entertainment, music, creative and photography, field sports, hobbies & knowledge and home interest verticals. Its titles include T3, Total Film, How It Works, Edge and All About History. Future has 1,200+ employees, working in 7 consumer and 7 B2B verticals, across 7 offices worldwide.

£20.2m	VALUATION
1.8%	OF TOTAL ASSETS
4.4%	OF ISSUED SHARE CAPITAL HELD
£2.4m	BOOK COST

Next Fifteen Communications (Next 15) is a family of marketing businesses spanning digital content, PR, consumer, technology, marketing software, market research, public affairs and policy communications. Founded in 1981, Next 15 are centred on the technology of marketing: data, insight, analytics, apps, content platforms and content itself.

£19.1m	VALUATION
1.7%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£1.6m	BOOK COST

Pegasystems (Pega) is the leader in software for customer engagement and operational excellence. Pega's adaptive, cloud-architected software – built on its unified Pega Platform – empowers people to rapidly deploy and easily extend and change applications to meet strategic business needs. Over its 35-year history, Pega has delivered award-winning capabilities in customer relations management (CRM) and digital process automation (DPA) powered by advanced artificial intelligence and robotic automation, to help the world's leading brands achieve breakthrough business results.

£18.8m	VALUATION
1.7%	OF TOTAL ASSETS
2.8%	OF ISSUED SHARE CAPITAL HELD
£3.0m	BOOK COST

YouGov is an international research data and analytics group. The core offering of opinion data is derived from a participative panel of 8 million people worldwide. This continuous stream of data is combined with deep research expertise and broad industry experience into a systematic research and marketing platform. The suite of syndicated, proprietary data products includes YouGov BrandIndex, the daily brand perception tracker, and YouGov Profiles, a planning and segmentation tool. YouGov Omnibus provides a fast and cost-effective service for obtaining answers to research questions from both national and selected samples. With operations in the UK, North America, Mainland Europe, the Nordics, the Middle East and Asia Pacific, YouGov has one of the world's largest research networks.

£15.8m	VALUATION
1.4%	OF TOTAL ASSETS
0.3%	OF ISSUED SHARE CAPITAL HELD
£2.0m	BOOK COST

Mellanox Technologies is a leading supplier of end-to-end Ethernet and InfiniBand intelligent interconnect solutions and services for servers, storage, and hyper-converged infrastructure. Mellanox intelligent interconnect solutions increase datacentre efficiency by providing the highest throughput and lowest latency, delivering data faster to applications and unlocking system performance. Mellanox offers a choice of high-performance solutions: network and multicore processors, network adapters, switches, cables, software and silicon, that accelerate application runtime and maximise business results for a wide range of markets including high performance computing, enterprise datacentres, Web 2.0, cloud, storage, network security, telecom and financial services. Founded in 1999, Mellanox Technologies is headquartered in Sunnyvale, California and Yokneam, Israel. On 11th March 2019 NVIDIA and Mellanox announced that they had reached an agreement under which NVIDIA will acquire Mellanox for $125 per share in cash. The acquisition will unite two of the world's leading companies in high performance computing (HPC). Together, NVIDIA's computing platform and Mellanox's interconnects power over 250 of the world's TOP500 supercomputers and have every major cloud service provider and computer maker as customers.

£14.7m	VALUATION
1.3%	OF TOTAL ASSETS
0.5%	OF ISSUED SHARE CAPITAL HELD
£0.9m	BOOK COST

Descartes Systems (Descartes) is a leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. 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.

£14.0m	VALUATION
1.2%	OF TOTAL ASSETS
1.5%	OF ISSUED SHARE CAPITAL HELD
£4.5m	BOOK COST

Radware is a global leader of cyber security and application delivery solutions for physical, cloud, and software defined data centres. Its award-winning solutions portfolio secures the digital experience by providing infrastructure, application, and corporate IT protection and availability services to enterprises globally. Radware's solutions empower more than 12,500 enterprise and carrier customers worldwide to adapt to market challenges quickly, maintain business continuity and achieve maximum productivity while keeping costs down.

£14.0m	VALUATION
1.2%	OF TOTAL ASSETS
0.8%	OF ISSUED SHARE CAPITAL HELD
£3.4m	BOOK COST

LiveEngage, the company's enterprise-class platform, empowers consumers to stop wasting time on hold with 1-800 numbers and, instead, message their favourite brands just as they do with friends and family. More than 18,000 businesses, including HSBC, Orange, GM Financial, and The Home Depot, rely on the unparalleled intelligence, security, and scalability of LiveEngage to reduce costs, increase lifetime value, and create meaningful connections with consumers. LivePerson has been innovating digital connections between brands and consumers for more than 20 years, starting with the invention of live chat on websites by LivePersons's founder and CEO, Robert LoCascio, in 1995. Since then, it's been driving consumer communication technology through the evolution of predictive intelligence and customer transcript insights. LivePerson is driving today's new era of messaging, conversational design, and the integration of bots/AI into the customer care of the world's largest brands. These conversational commerce solutions orchestrate humans and AI, at scale, and create a convenient, personal relationship — a conversational relationship with millions of consumers worldwide.

£13.8m	VALUATION
1.2%	OF TOTAL ASSETS
1.2%	OF ISSUED SHARE CAPITAL HELD
£3.5m	BOOK COST

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 the communications, energy and insurance markets. Customers ('Members') benefit from the convenience of a single monthly bill, consistently good value across all their utilities and superior levels of customer service. The Company does not advertise, relying instead on "word of mouth" recommendation by existing satisfied Members and a network of part-time distributors in order to grow its market share.

TOP 20 EQUITY HOLDINGS AS AT 31 DECEMBER 2019 CONTINUED

£13.7m	VALUATION
1.2%	OF TOTAL ASSETS
1.0%	OF ISSUED SHARE CAPITAL HELD
£1.7m	BOOK COST

Silicon Motion Technology is a global leader in developing NAND flash controllers for SSDs and other solid-state storage devices and has over 20 years of experience developing specialised processor ICs that manage NAND components and deliver high-performance storage solutions. Silicon Motion has one of the broadest portfolios of NAND controller intellectual property, enabling the design of highly optimised configurable IC plus related firmware controller platforms and complete turnkey controller solutions. In the last ten years, Silicon Motion have shipped over five billion controllers, more than any other company. More NAND flash components, including 64-, 72- and 96-layer 3D TLC and QLC flash produced by Intel, Micron, Samsung, SK Hynix, Toshiba and Western Digital, are supported by Silicon Motion controllers than any other company. Customers include most of the NAND flash makers, storage device module makers, hyperscalers and other OEMs. Silicon Motion are the world's leading merchant supplier of SSD controllers used in PCs and a leading merchant supplier of eMMC/UFS controllers used in smartphones. Silicon Motion also supplies customised high-capacity specialty SSD solutions for the Chinese hyperscale data centre market and small single-chip form-factor SSDs for high-performance industrial, commercial and automotive applications. Silicon Motion was founded in 1995 in San Jose, California and now operates from corporate offices in Hong Kong, Taiwan and the US.

£13.3m	VALUATION
1.2%	OF TOTAL ASSETS
3.8%	OF ISSUED SHARE CAPITAL HELD
£2.5m	BOOK COST

Aptitude Software (Aptitude) provides software solutions that enable finance professionals to run their global businesses, forecast decision outcomes and comply with complex regulations. Uniquely combining deep finance expertise and IP rich technology, Aptitude gives finance leaders the tools they need to transform their business and achieve their ambitions. Aptitude has served the office of finance for over 20 years, delivering financial control and insight to create a world of financial confidence for their global clients. Aptitude is headquartered in London.

£11.7m	VALUATION
1.0%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£0.7m	BOOK COST

Five9 is a leading provider of cloud software for contact centres and facilitates more than five billion call minutes annually. Since the Company's inception, it has exclusively focused on delivering its platform in the cloud and disrupting a significantly large market by replacing legacy on-premise contact centre systems. The Company's purpose-built, highly scalable and secure Virtual Contact Center, or VCC, cloud platform delivers a comprehensive suite of easy-to-use applications that allows simultaneous management and optimisation of customer interactions across voice, chat, email, web, social media and mobile channels, either directly or through application programming interface. Delivered on-demand, the solution enables clients to quickly deploy agent seats in any geographic location with only a computer, headset and broadband Internet connection, and rapidly adjust the number of contact centre agent seats in response to changing business requirements. Five9's mission is to empower organisations to transform their contact centres into customer engagement centres of excellence, while improving business agility and significantly lowering the cost and complexity of their contact centre operations.

£11.6m	VALUATION
1.0%	OF TOTAL ASSETS
1.9%	OF ISSUED SHARE CAPITAL HELD
£1.5m	BOOK COST

Craneware is the leader in automated value cycle solutions that improve financial performance for healthcare organisations. Craneware's market-driven, SaaS solutions help hospitals and other healthcare providers more effectively price, charge, code and retain earned revenue for patient care services and supplies. Craneware's Cost & Margin Analytics solutions allows healthcare providers to determine true cost of care and profitability analysis across patient episodes and provider department performance. These solutions allow providers to compliantly optimise reimbursement, gain true cost and margin visibility, increase operational efficiency and minimise compliance risk. Craneware is recognised as the leading provider of revenue integrity solutions that improve financial performance in the U.S. hospital and health system markets. Founded in May 1999 by CEO Keith Neilson and co-founder Gordon Craig, Craneware launched its first product in October 1999. Today Craneware employs 300 staff, serving almost one third of all U.S. registered hospitals.

Euromoney Institutional Investor PLC

£11.0m	VALUATION
1.0%	OF TOTAL ASSETS
0.8%	OF ISSUED SHARE CAPITAL HELD
£1.6m	BOOK COST

Euromoney Institutional Investor (Euromoney) is a global information business providing essential B2B information to global and specialist markets. Euromoney provides price discovery, market intelligence and events across our segments. The strategy is to manage a portfolio of businesses in markets where information, data and convening market participants are valued by clients. The Group is now organised into the following three segments: Data & Market Intelligence; Pricing; and Asset Management (under strategic review). The Data & Market Intelligence business provides market intelligence, thought leadership, news, training and events that are critical for Euromoney's clients' business processes and workflow across a number of industries. The Pricing segment provides price discovery, reporting, intelligence and events for the global commodity markets. The Asset Management segment includes the brands and businesses that serve the global asset management industry. It provides independent research that enables Euromoney's clients to make informed investment decisions.

£10.7m	VALUATION
0.9%	OF TOTAL ASSETS
7.0%	OF ISSUED SHARE CAPITAL HELD
£4.9m	BOOK COST

Idox is a leading supplier of digital software and services to a diverse customer base spanning both the UK and international markets, supporting businesses across a wide range of sectors including Public Services, Engineering, Content and Commercial. Idox core business is providing digital solutions and services to the public sector in the United Kingdom, including Government departments and agencies, local government, the police and emergency services, health and social care, transport and education. The Content business is primarily in Europe and the Engineering Information Management business services customers across the world.

£10.2m	VALUATION
0.9%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£0.9m	BOOK COST

BE Semiconductor Industries (Besi) is a leading supplier of semiconductor assembly equipment for the global semiconductor and electronics industries offering high levels of accuracy, productivity and reliability at a low cost of ownership. The Company develops leading edge assembly processes and equipment for lead frame, substrate and wafer level packaging applications in a wide range of end-user markets including electronics, mobile internet, cloud server, computing, automotive, industrial, LED and solar energy. Customers are primarily leading semiconductor manufacturers, assembly subcontractors and electronics and industrial companies. Besi's assembly equipment product portfolio is primarily designed and developed in Europe and manufactured in Asia. The principal brand names for Besi's assembly equipment systems include Datacon, Esec, Fico and Meco. Besi's headquarters are located in Duiven, the Netherlands.

£10.0m	VALUATION
0.9%	OF TOTAL ASSETS
0.7%	OF ISSUED SHARE CAPITAL HELD
£3.7m	BOOK COST

Spirent Communications (Spirent) is a leader in providing testing, assurance, analytics, and security solutions to assure the capabilities and performance of networks, network equipment, devices, and services. Spirent's customers operate in markets characterised by relentless traffic growth, ever-increasing security challenges and continual pressure to innovate while generating revenue and managing operating costs. Spirent's broad portfolio of innovative products and services is organised into three operating segments. Spirent's Networks and Security, Connected Devices and Lifecycle Service Assurance divisions support customers' needs across the entire technology lifecycle from proof of concept to subscriber experience. Spirent has more than 1,700 customers worldwide which range from physical and virtual service provider networks and enterprise data centres to mobile communications and connected vehicle device manufacturers.

£9.9m	VALUATION
0.9%	OF TOTAL ASSETS
11.2%	OF ISSUED SHARE CAPITAL HELD
£6.8m	BOOK COST

Formed in 1999, Bango was a pioneer of mobile internet payments, partnering with leading operators to launch 'charge to mobile phone bill' services and opening-up mobile payments to early adopters and major content publishers. From this base Bango developed carrier billing for app stores, Bango launched the first Google Play carrier billing deployments in Africa and Latin America in 2015. Bango Boost and Bango Dashboard services were then launched that have helped grow the number of paying carrier billing customers and increase payment success. Today Bango has an addressable base of over 1.7bn mobile phone subscribers and the Bango Platform is designed to ensure that payment can be collected and transactions analysed for any content or service, sold from any internet enabled device, using any alternative payment method. Bango's headquarters are located in Cambridge in the United Kingdom.

DETAILED LIST OF INVESTMENTS
AT 31 DECEMBER 2019

Ordinary or common shares unless otherwise stated.

Classification		Name	Value £'000	%
UNITED KINGDOM				
Alternative Energy	●	Ilika	1,512	
	●	ITM Power	8,543	
			10,055	**0.9**
Chemicals	●	Applied Graphene Materials	665	
	●	Haydale Graphene Industries	154	
			819	**0.1**
Construction & Materials	●	Accsys Technologies	**1,545**	**0.1**
Aerospace & Defence	●	Cohort	9,657	
	●	Velocity Composites	501	
			10,158	**0.9**
Electronic & Electrical Equipment	●	Checkit	1,531	
		DiscoverIE	9,489	
	●	Feedback	206	
	●	Gooch & Housego	2,717	
	●	Microsaic Systems	342	
		Oxford Instruments	3,465	
	●	ProPhotonix	75	
	●	Thruvision	4,170	
	●	Volex	9,330	
		XP Power	2,541	
			33,866	**3.0**
Support Services	●	1Spatial	1,027	
	●	Boku	2,205	
		Diploma	32,407	
	●	Maintel	3,217	
	●	Science Group	4,075	
	●	Spectra Systems	4,736	
	●	Synectics	514	
	●	Water Intelligence	1,235	
			49,416	**4.4**
Leisure Goods	●	Focusrite	2,585	
	●	Frontier Developments	4,816	
	●	Team17	1,125	
			8,526	**0.8**
Health Care Equipment & Services	●	Deltex Medical	266	
	●	Diaceutics	1,632	
	●	Intelligent Ultrasound	425	
	●	Kromek	4,437	
	●	LiDCO	800	
	●	SDI	6,297	
			13,857	**1.2**
Pharmaceuticals & Biotechnology	●	C4X Discovery	**749**	**0.1**
Media	●	Audioboom	2,103	
	●	BE Heard Group	178	
		Bloomsbury Publishing	4,988	
	●	Bonhill	1,403	
		Centaur Media	1,596	
	●	Ebiquity	1,563	
		Euromoney Institutional Investor	11,002	
		Future	26,091	
	●	GlobalData	6,244	
		GOCO	1,266	
	●	Jaywing	70	
	●	M&C Saatchi	6,564	

● denotes AIM stock

● denotes unlisted security

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2019

Classification		Name	Value £'000	%
UNITED KINGDOM continued	●	Next Fifteen Communications	20,206	
	●	OnTheMarket	1,107	
		Quarto	1,323	
	●	Reach4entertainment Enterprises	1,748	
		S4 Capital	7,069	
	●	System1	200	
	●	The Mission Group	4,507	
	●	Time Out	6,053	
	●	Tremor	770	
	●	ULS Technology	2,957	
		Wilmington	6,117	
	●	XLMedia	1,716	
	●	YouGov	18,785	
	●	Zinc Media	1,153	
	●	Zinc Media Convertible Preference Shares	614	
			137,393	**12.2**
Travel & Leisure	●	Ten Lifestyle Group	**2,234**	**0.2**
Fixed Line Telecommunications		Telecom Plus	**13,751**	**1.2**
Mobile Telecommunications	●	Gamma Communications	**2,579**	**0.2**
Electricity	●	SIMEC Atlantis Energy	**1,459**	**0.1**
Financial Services	●	Equals Group	877	
		Integrafin	1,824	
	●	Tungsten	1,584	
			4,285	**0.4**
Equity Investment Instruments		Gore Street Energy Storage Fund	2,504	
	●	Herald Venture II	2,987	
	●	HIML Holdings	4,379	
		Hipgnosis Songs Fund	2,160	
	●	KRM22	1,049	
			13,079	**1.2**
Software & Computer Services	●	Access Intelligence	2,296	
		Aptitude Software	13,328	
	●	ATTRAQT	4,226	
		Avast	8,109	
	●	Bango	9,911	
	●	Bigblu Broadband	3,697	
	●	Blackbird	1,626	
	●	Blue Prism	2,022	
	●	Business Control Solutions	627	
	●	Celoxica	217	
	●	CentralNic	7,841	
	●	Cloudcall	3,338	
		Computacenter	3,014	
	●	Corero Network Security	1,989	
	●	Craneware	11,577	
	●	D4T4 Solutions	5,858	
	●	Dillistone	389	
	●	Dotdigital	7,298	
	●	Eckoh	8,744	
	●	Essensys	1,162	
		FDM	3,702	
	●	First Derivatives	7,043	
	●	Fusionex International	1,464	
	●	GB Group	43,263	
	●	Getbusy	1,286	
	●	GRC International	108	
		Gresham Technologies	3,791	
	●	Ideagen	5,936	
	●	Idox	10,664	

DETAILED LIST OF INVESTMENTS CONTINUED

AT 31 DECEMBER 2019

Classification		Name		Value £'000	%
UNITED KINGDOM continued	●	i-nexus Global		382	
	●	Intercede		1,005	
		Kainos		6,440	
	●	Location Sciences		324	
	●	LoopUp		2,074	
		NCC		6,765	
	●	Netcall		813	
	●	Osirium Technologies		122	
	●	Oxford Metrics		7,968	
	●	Parity		114	
	●	PCI-PAL		321	
	●	Pelatro		796	
		SDL		1,719	
	●	SimiGon		404	
	●	SmartSpace Software		1,322	
	●	Sopheon		671	
		Sophos		4,450	
	●	Sysgroup		1,102	
	●	Tribal		2,880	
	●	Wameja		1,215	
	●	Wandisco		4,502	
	●	ZOO Digital		5,323	
				225,238	**20.1**
Technology Hardware & Equipment	●	Amino Technologies		1,544	
		BATM Advanced Communications		8,999	
		CML Microsystems		3,751	
	●	Concurrent Technologies		577	
	●	CyanConnode		384	
	●	Ethernity Networks		150	
	●	Intechnology		229	
	●	IQE		9,322	
	●	LightwaveRF		497	
	●	MTI Wireless Edge		1,505	
	●	Northamber		1,614	
	●	Quixant		1,315	
	●	Seeing Machines		8,998	
		Spirent Communications		10,000	
	●	Telit Communications		3,678	
				52,563	**4.7**
		TOTAL UNITED KINGDOM EQUITIES		**581,572**	**51.8**
EUROPE, MIDDLE EAST AND AFRICA (EMEA)					
Electronic & Electrical Equipment		Ekinops	France	**1,392**	**0.1**
Health Care Equipment & Services		Lumibird	France	**1,275**	**0.1**
Mobile Telecommunications		NFON	Germany	**1,219**	**0.1**

● denotes AIM Stock

● denotes unlisted security

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2019

Classification	Name		Value £'000	%
EUROPE, MIDDLE EAST AND AFRICA (EMEA) continued				
Software & Computer Services	Adesso	Germany	1,577	
	ATEME	France	1,597	
	B3 Consulting	Sweden	1,247	
	CAST	France	1,606	
	Data Respons	Norway	7,384	
	Datalex	Ireland	749	
	Devoteam	France	3,554	
	Efecte	Finland	1,339	
	Enea	Sweden	729	
	Esker	France	5,944	
	Invision	Germany	878	
	Isra Vision	Germany	2,620	
	MailUp	Italy	1,037	
	Sidetrade	France	2,270	
	Sword Group	France	3,560	
	Upsales Technology	Sweden	1,151	
	WALLIX	France	2,317	
			39,559	**3.6**
Technology Hardware & Equipment	ADVA Optical Networking	Germany	3,438	
	BE Semiconductor Industries	Netherlands	10,214	
	Eurotech	Italy	1,020	
	Kalray	France	502	
	Nordic Semiconductor	Norway	6,818	
	X-FAB Silicon Foundries	Belgium	1,941	
			23,933	**2.1**
	TOTAL EMEA EQUITIES		**67,378**	**6.0**
NORTH AMERICA				
Alternative Energy	Ballard Power Systems		**3,459**	**0.3**
Construction & Materials	Tecogen		**521**	**0.0**
Electronic & Electrical Equipment	Celestica		1,873	
	Fabrinet		8,125	
	RADCOM		1,023	
			11,021	**1.0**
Support Services	Issuer Direct		794	
	Pluralsight		1,948	
	TTEC		1,196	
			3,938	**0.4**
Leisure Goods	Akoustis Technologies		3,797	
	Fitbit		1,860	
			5,657	**0.5**
Media	Digital Turbine		1,776	
	Marchex		391	
	Yelp		2,103	
			4,270	**0.4**
Financial Services	Safeguard Scientifics		**918**	**0.1**
Software & Computer Services	Alteryx		6,499	
	Bandwidth		3,522	
	Boingo Wireless		2,905	
	Bottomline Technologies		6,021	
	Brightcove		3,083	
	Cloudera		4,694	
	CyberArk Software		3,608	
	Descartes Systems		14,699	
	Five9		11,686	
	Gridsum *		92	
	Inuvo		1,095	
	Kinaxis		2,086	
	LivePerson		13,951	

* American Depositary Receipts – certificates representing shares in the stock, issued by a US bank, denominated and paying dividends in US dollars.

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2019

Classification	Name		Value £'000	%
NORTH AMERICA continued	Manhattan Associates		2,740	
	Materialise *		1,205	
	Medallia		47	
	Meet Group		1,699	
	Mimecast		6,550	
	Model N		2,938	
	OneSpan		2,582	
	Pegasystems		19,080	
	Qualys		5,489	
	Rapid7		2,199	
	SailPoint Technologies		2,762	
	SharpSpring		3,362	
	SPS Commerce		4,182	
	Varonis Systems		8,143	
	Veritone		356	
	Zscaler		632	
			137,907	**12.3**
Technology Hardware & Equipment	Adesto Technologies		2,759	
	Alpha & Omega Semiconductor		193	
	AXT		492	
	Blackline Safety		709	
	CEVA		4,980	
	Chipmos Technologies *		1,425	
	DASAN Zhone Solutions		1,412	
	Everspin Technologies		1,310	
	Harmonic		2,941	
	Inphi		5,029	
	Intellicheck		1,774	
	Lantronix		1,893	
	Mellanox Technologies		15,781	
	Neophotonics		931	
	nLIGHT		382	
	One Stop Systems		1,184	
	Power Integrations		2,837	
	Qumu		1,398	
	Radware		14,013	
	Ribbon Communications		1,423	
	Silicom		1,249	
	Silicon Motion Technology *		13,672	
	Super Micro Computer		5,186	
	Tower Semiconductor		1,580	
	ViaSat		5,525	
			90,078	**8.0**
	TOTAL NORTH AMERICA EQUITIES		**257,769**	**23.0**
ASIA PACIFIC				
Chemicals	SK Materials	South Korea	810	
	Soulbrain	South Korea	1,951	
			2,761	**0.2**
Electronic & Electrical Equipment	Tripod Technology	Taiwan	**2,634**	**0.2**
Industrial Engineering	Rhipe	Australia	**1,077**	**0.1**
Support Services	51job *	China	6,017	
	Catapult	Australia	89	
	Mainstream	Australia	836	
	Praemium	Australia	662	
			7,604	**0.7**
Health Care Equipment & Services	Compumedics	Australia	**873**	**0.1**
General Retailers	Momo	Taiwan	2,248	
	PChome Online	Taiwan	1,193	
	Redbubble	Australia	631	
			4,072	**0.4**

* American Depositary Receipts – certificates representing shares in the stock, issued by a US bank, denominated and paying dividends in US dollars.

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2019

Classification	Name		Value £'000	%
ASIA PACIFIC continued				
Media	Domain Holdings	Australia	1,759	
	Hong Kong Economic Times	Hong Kong	389	
	OPT	Japan	1,042	
	Proto	Japan	1,853	
	RMA Global	Australia	254	
			5,297	**0.5**
Travel & Leisure	Evolable Asia	Japan	1,299	
	Webjet	Australia	2,351	
			3,650	**0.3**
Fixed Line Telecommunications	MNF	Australia	**1,249**	**0.1**
Financial Services	Afterpay Touch	Australia	1,587	
	Money Forward	Japan	1,391	
			2,978	**0.3**
Software & Computer Services	Audinate	Australia	255	
	Bigtincan	Australia	2,711	
	Bravura Solutions	Australia	2,994	
	Cafe24	South Korea	367	
	Chanjet Information **	China	715	
	Family Zone Cyber Safety	Australia	887	
	Freee KK	Japan	223	
	Freelancer	Australia	921	
	Gabia	South Korea	1,231	
	Kingdee International Software	China	6,631	
	Kinx	South Korea	1,380	
	LiveTiles	Australia	1,209	
	MSL Solutions	Australia	387	
	Oro	Japan	1,274	
	Whispir	Australia	1,830	
	Xref	Australia	912	
			23,927	2.1
Technology Hardware & Equipment	Advantech	Taiwan	1,590	
	Ardentec	Taiwan	1,083	
	Chicony Electronics	Taiwan	899	
	Eugene Technology	South Korea	637	
	Hanmi Semiconductor	South Korea	529	
	Innox Advanced Materials	South Korea	1,029	
	King Yuan Electronics	Taiwan	983	
	Koh Young Technology	South Korea	1,169	
	Kulicke & Soffa	Singapore	1,432	
	Parade Technologies	Taiwan	1,886	
	PSK	South Korea	1,396	
	PSK Holdings	South Korea	191	
	Realtek Semiconductor	Taiwan	4,400	
	RFHIC	South Korea	625	
	RichWave Technology	Taiwan	534	
	Sercomm	Taiwan	1,661	
	Wonik IPS	South Korea	695	
			20,739	**1.8**
	TOTAL ASIA PACIFIC EQUITIES		***76,861***	***6.8***

** H Shares – issued by companies incorporated in the Peoples Republic of China and listed on the Hong Kong Stock Exchange.

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2019

Classification		Name	Value £'000	%
CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY				
	●	BE Heard Group 8% Convertible 29 Nov 2023	160	
	●	Intercede 8% Convertible 31 Dec 2021	375	
	●	Osirium Technologies 7.5% Convertible 28 Oct 2024	320	
	●	Zinc Media Convertible Variable Rate Bank Loan 31 Dec 2020	1,000	
	●	Zinc Media Convertible Variable Rate Loan 31 Dec 2020	292	
	●	Zinc Media 8% Loan 31 Dec 2020	600	
	●	ZOO Digital 7.5% Unsecured Convertible Loan Stock 31 Oct 2020	1,791	
		TOTAL CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY	**4,538**	**0.4**
Total Equity Investments			**988,118**	**88.0**
Fixed Interest		US Treasury Stock 1.125% 30 Apr 2020	22,610	
		US Treasury Stock 1.375% 15 Oct 2022	22,498	
		TOTAL FIXED INTEREST	**45,108**	**4.0**
Total Investments			**1,033,226**	**92.0**
Net Liquid Assets+			89,623	8.0
Total Assets At Market Value			**1,122,849**	**100.0**

+ Cash, current assets and liabilities

● denotes unlisted security

LONG TERM PERFORMANCE

Continued steady growth

The Company, founded in 1994 by Katie Potts, raised an initial £65m to invest in the UK and continental European TMT sector. Warrants were issued to initial investors on a 1 for 5 basis. In 1996 a further £30m was raised to globalise the fund, thus bringing the total outside capital to £95m. Since 1996 no new capital has been raised, and the warrants have been repurchased or converted into ordinary shares.

The Company has operated an opportunistic buyback policy, which has offered large holders liquidity and helped to create value for existing shareholders. Since inception, the Company has completed buybacks to the value of £138m, bringing the net negative outside capital to £43m. Over the history of the fund, net asset value per share on a total return basis has grown by 1,721.3% or 11.9% on an annualised basis.

TOTAL RETURN SINCE INCEPTION

+1,721.3%

ANNUALISED TOTAL RETURN SINCE INCEPTION

+11.9%

CAPITAL SINCE INCEPTION

At 31 December	Total assets £'000	Bank loans £'000	Shareholders' funds £'000	Number of shares in issue '000	Diluted net asset value per share*A p	Share price p	(Discount)/ premiumA %
≠ Inception	64,107	–	64,107	65,000	98.70	90.90◊	(7.9)
1994	60,823	–	60,823	65,000	93.57	94.60	1.1
±1995	89,689	–	89,689	65,000	132.36§	127.00	(4.0)
1996	130,055	–	130,055	82,894	150.88§	136.00	(9.9)
1997	147,424	–	147,424	82,896	171.80	136.15	(20.8)
1998	170,982	–	170,982	82,901	201.70	161.50	(19.9)
1999	432,620	(3,343)	429,277	82,961	494.22	511.10	3.4
2000	378,607	(3,233)	375,374	83,874	431.43	491.00	13.8
2001	275,624	(2,892)	272,732	84,454	314.53	306.00	(2.7)
2002	199,900	(22,310)	177,590	84,475	206.68	177.00	(14.4)
2003	350,209	(29,325)	320,884	87,807	365.44	325.25	(11.0)
#2004	356,874	(24,663)	332,211	87,556	379.43	322.75	(14.9)
2005	358,293	–	358,293	87,556	409.22	379.75	(7.2)
2006	401,228	(20,000)	381,228	86,556	435.41	383.50	(11.9)
2007	343,497	–	343,497	86,971	394.96	312.00	(21.0)
2008	275,789	(65,079)†	210,710	83,408	252.63	184.00	(27.2)
2009	397,194	(56,298)†	340,896	81,053	420.58	337.75	(19.7)
2010	533,499	(58,937)†	474,562	79,913	593.85	483.00	(18.7)
2011	519,656	(70,357)†	449,299	79,698	563.75	455.00	(19.3)
2012	572,243	(70,297)†	501,946	79,323	632.78	513.00	(18.9)
2013	662,538	(38,935)†	623,603	77,680	802.79	685.00	(14.7)
2014	667,450	(38,534)†	628,917	77,340	813.19	659.00	(19.0)
2015	709,139	(38,002)†	671,137	76,112	881.78	745.25	(15.5)
2016	816,414	(25,000)	791,414	73,062	1,083.21	882.50	(18.5)
2017	966,650	–	966,650	70,308	1,374.88	1,171.00	(14.8)
2018	901,154	–	901,154	68,902	1,307.89	1,075.00	(17.8)
2019	**1,122,849**	**–**	**1,122,849**	**67,312**	**1,668.13**	**1,480.00**	**(11.3)**

* The diluted net asset value per ordinary share figures have been calculated in accordance with FRS102 (2015-2018), FRS22 (2008-2014), FRS14 (1995-2007).

A Alternative Performance Measure - see page 78.

≠ Inception date 16 February 1994. 100p was shareholders' subscription price before launch costs of 1.3p.

◊ 90.9p is the capital gains tax (CGT) base subscription price for shareholders adjusting for warrants which were issued on a 1 for 5 basis. The CGT base for the warrant is 45.5p.

± Restated for change in accounting policy to account for income on an ex-dividend basis.

§ The diluted net asset values at 31 December 1995 and 1996 have been restated with the adoption of FRS 14. The previously reported fully diluted net asset values were 131.65p and 149.45p respectively.

The figures prior to 2004 have not been restated for the changes in accounting policies implemented in 2005.

† Includes derivative financial instruments.

LONG TERM PERFORMANCE CONTINUED

NET LIQUID ASSETS AND FIXED INTEREST AS PERCENT OF NAV 31 DECEMBER 2019

12.0%

5 YEAR COMPOUND ANNUAL GROWTH IN NAV PER SHARE

+15.5%

10 YEAR COMPOUND ANNUAL GROWTH IN NAV PER SHARE

+14.8%

REVENUE

Year to 31 December	Income £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net¶ p	Dividend per ordinary share net p	Ongoing charges§ %	Net gearing/ cash^A	Gross gearing^A
2009	6,077	324	0.39	0.30	1.12	105	117
2010	7,277	42	0.05	–	1.05	101	112
2011	9,171	947	1.19	1.00	1.10	105	116
2012	9,164	750	0.94	1.00	1.08	104	114
2013	8,987	(307)	(0.39)	–	1.04	100	106
2014	8,245	(1,464)	(1.89)	–	1.07	101	106
2015	9,136	(36)	(0.05)	–	1.08	95	106
2016	9,541	430	0.58	–	1.09	92	103
2017	10,799	486	0.68	–	1.08	93	100
2018	11,250	58	0.08	–	1.07	87	100
2019	**11,735**	**31**	**0.05**	**–**	**1.09**	**88**	**100**

¶ The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 8, page 65).
§ From 2012, calculated by dividing total operating costs by average new asset value (with debt at fair value) in accordance with AIC guidelines. Prior years have not been recalculated as the change in methodology is not considered to result in a materially different figure.
A Alternative Performance Measure - see page 78.

CUMULATIVE PERFORMANCE (TAKING 2009 AS 100)

At 31 December	Diluted net asset value per share	Share price p	Numis Smaller Cos plus AIM Index	Russell 2000 Technology Index§§	Earnings per ordinary share	Dividend per ordinary share net	Retail price index
2009	100	100	100	100	100	100	100
2010	141	143	129	141	13	–	105
2011	134	135	109	130	305	333	110
2012	150	152	131	135	241	333	113
2013	191	203	167	187	(100)	–	116
2014	193	195	155	214	(485)	–	118
2015	210	221	163	227	(13)	–	120
2016	258	261	178	340	149	–	123
2017	327	347	211	365	174	–	128
2018	311	318	173	383	21	–	131
2019	**397**	**438**	**206**	**495**	**13**	**–**	**134**

COMPOUND ANNUAL RETURNS

5 year	15.5%	17.6%	5.9%	18.3%	–	–	2.6%
10 year	14.8%	15.9%	7.5%	17.3%	–	–	3.0%

Past performance is not a guide to future performance.
§§ The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents.

DISCOUNT TO NAV
31 DECEMBER 2019

11.3%

PREMIUM/(DISCOUNT) TO FULLY DILUTED NET ASSET VALUE (PLOTTED ON A MONTHLY BASIS)

CAPITAL RETURN SINCE INCEPTION

	31 December 2019	Inception 16 February 1994	% change
Net asset value per ordinary share (including current year income)[A]	1,668.13p	98.70p	1,590.10
Net asset value per ordinary share (excluding current year income)[A]	1,668.08p	98.70p	1,590.05
Share price	1,480.00p	90.90p	1,528.16
Numis Smaller Companies Index plus AIM (ex. investment companies)	5,842.58	1,750.00	233.86
Russell 2000 (small cap) Technology Index (in sterling terms)†	3,359.53	688.70*	387.81

A Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 78-79 of the financial report for details of the explanation and reconciliations of APMs.
* At 9 April 1996 being the date funds were first available for international investment.
† The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents.
The rebased index is used from 31 December 2008 onwards.

CAPITAL RETURNS SINCE INCEPTION (FIGURES HAVE BEEN REBASED TO 100 AT 16 FEBRUARY 1994)

Source: Refinitiv

Governance

STRATEGIC REPORT

STATUS
The Company is an investment company within the meaning of s833 of the Companies Act 2006 and operates as an investment trust in accordance with s1158 of the Corporation Tax Act 2010 as amended (s1158). The Company is subject to the Listing Rules of the Financial Conduct Authority and governed by its articles of association, amendments to which must be approved by shareholders by way of special resolution. The Company obtained approval from HM Revenue and Customs of its status as an investment trust under s1158 and the directors are of the opinion that the Company has and continues to conduct its affairs in compliance with s1158 since this approval was granted.

BUSINESS MODEL
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 both for investment management and as an Alternative Investment Fund Manager (see regulatory compliance in the directors' report, page 45).

Administration of the Company and its investments has been delegated by HIML to The Bank of New York Mellon and company secretarial duties have been delegated to Law Debenture Corporate Services Limited (Law Debenture).

OBJECTIVE
The Company's objective is described on the inside front cover.

INVESTMENT POLICY – STRATEGY
While the policy is global investment in smaller quoted companies in TMT, 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 $3bn, 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).

A detailed analysis of the Company's investment portfolio is set out on pages 22 to 28 and in the investment manager's report.

KEY PERFORMANCE INDICATORS ('KPIs')
At each board meeting, the directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The KPIs used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share compared to the comparative indices;
- the movement in the share price;
- the discount; and
- the ongoing charges.

A historical record of these measures is shown on pages 29 to 31.

The Company makes reference in this annual report and financial statements to a number of alternative performance measures, as described on pages 78 to 79.

SHARE CAPITAL
At 31 December 2019 the Company's capital structure consisted of 67,311,777 ordinary shares of 25p each (2018 – 68,901,568 ordinary shares). During the year 1,589,791 (2018 – 1,406,217) 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.

DERIVATIVE INSTRUMENTS
The Company does not currently have any exposure to derivative instruments.

BORROWINGS
The Company had a multi-currency revolving loan facility with RBS up to £25m, which expired on 31 December 2019. See note 5 on page 64. The facility was not renewed because of the level of cash held by the Company.

REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS
A review of the year and the investment outlook is contained in the chairman's statement and the investment manager's report on pages 8 to 16.

BREXIT
The board believes that the UK's exit from the EU will not present a threat to the Company's business model, its viability or its ability to continue producing accounts on a going concern basis. The UK is a world leader in the development and delivery of, in particular, innovative technological solutions and the board sees no reason why this should change.

PRINCIPAL RISKS AND UNCERTAINTIES
The Company's assets consist mainly of listed securities and the principal risks to the success of the business model are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks – which have been subject to robust assessment by the directors – and how they are managed is contained in note 17 to the accounts on pages 69 to 73, and a description of the internal controls operated by the Company is on page 41.

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 by the UKLA or a qualified audit report. Breach of s1158 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.

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 – disruption to or 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 Company is exposed to the operational and cyber risks of its third party service providers. 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. The depositary reports six monthly on custody matters, including the continued safe custody of the Company's assets.

Emerging risk – failure to have in place procedures that assist in identifying new or familiar risks that become apparent in new or unfamiliar conditions. The audit committee reviews the risk map twice each year and the board regularly discusses industry trends and forthcoming legislation/regulatory change with its advisors, including the manager, the broker and company secretary. It also reviews regular updates from the AIC and the auditor on such matters.

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.

GENDER DISCLOSURE
The Company has no employees. The gender split of the board is 33% female and 67% male.

SECTION 172 COMPANIES ACT 2006 (S172) STATEMENT
The directors have a duty to promote the success of the Company for the benefit of shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in s172. In undertaking this duty, the directors consider the likely consequences of their decisions in the long term and on the Company's stakeholders whilst fostering relationships with stakeholders, acting fairly between shareholders and maintaining high standards of business conduct.

As an externally managed investment company, the Company's activities are all outsourced and therefore it does not have any employees. The Company also has a very limited direct impact on the environment as it has no greenhouse gas emissions and has given shareholders the option to receive soft copy financial reports and other information rather than printed hard copy. Notwithstanding that the Company has no direct social or community impact, the board encourages the manager to consider environmental, social and governance (ESG) factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under the section on stewardship on page 37. The directors are not responsible for setting a "business culture" in the usual sense, but they do meet regularly with representatives of the manager and company secretary to seek to understand the culture of those businesses and would raise any concerns in this regard if necessary.

Identifying stakeholders: The Company's main stakeholders identified by the directors are its shareholders and a small number of key third party services providers. Shareholders are a mix of institutional and retail and those owning greater than 3% of the Company's shares are shown on page 44. The manager is the principal service provider and supplies investment management and administration services. The other third party providers comprise of the company secretary, fund accountant, brokers, depositary, custodian, banking services and auditor. The continuance, or otherwise, of engagement of key third party service providers are principal decisions taken by the board every year.

STRATEGIC REPORT CONTINUED

Shareholders: Principal considerations of the board are whether the investment objective of the Company is meeting shareholder expectations and how the manager implements the objective. The former is part of discussions at all board meetings and at the board's annual strategy meeting, and the latter is explained below in the Manager section. The board places great importance on communication with all its shareholders and engages with them using a variety of mechanisms as set out in the Corporate Governance Report on page 42. One of the board's objectives has been, along with the manager, to enhance shareholder engagement. During the year it approved the engagement of a provider of research notes on the Company and the appointment of a public relations firm to enhance investor relations. In addition, the investment manager, the brokers and the chairman have met with a variety of shareholders throughout the year and shareholder views from this are considered on an ongoing basis and as part of the board's strategy meeting. The board's strategy is validated on a triannual basis - the latest vote being in April 2019 with 99.88% of shareholders voting for the continuation of the Company. The board considers buying back shares on an opportunistic basis. The board also approves modest levels of gearing when they believe it is appropriate.

Manager: The manager's investment management services are fundamental to the long term success of the Company. The board seeks to maintain a constructive relationship with the manager on a regular basis. In turn the manager seeks to maintain constructive relationships with the Company's suppliers on behalf of the Company, typically through regular communication and the provision of their services and relevant information to the manager. The Investment Management and Administration section of this Strategic Report details the board's consideration of the manager's services and review of other key third party providers' services is detailed in the Corporate Governance Statement on page 41.

Other third party service suppliers: To ensure the maintenance of the Company's reputation and high standard of business conduct, the board is provided with regular reports from its AIFM, company secretary, broker, depositary and auditor. These will alert the board to changes in market practice or regulation which could affect the Company, including its reputation, which in turn influence the board's decision making.

Summary: The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the Company's key stakeholders and reflect the board's belief that the long term sustainable success of the Company is linked directly to its key stakeholders.

VIABILITY STATEMENT

The directors' view of the Company's viability has not changed since last year. The Company, as an investment trust, is a collective investment vehicle designed and managed for the long term. 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, some of which are early stage, 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.
By definition, investment in smaller and early stage companies carries higher risks, both in terms of stock liquidity and longer term business viability and this risk is accepted by the board.

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.

In addition, it should be noted that under the Company's articles of association, shareholders have the opportunity 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 2022. At the AGM in April 2019, 99.88% of votes cast were in favour of continuation.

The directors confirm that, based on the above and on reviews conducted as part of the detailed internal controls and risk management processes set out on page 41, 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 projected income and expenditure and, when applicable, financing arrangements.

INVESTMENT MANAGEMENT AND ADMINISTRATION

The management contract with HIML 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 (excluding current year net revenue) 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. At 31 December 2019, Katie Potts held 448,095 (2018: 447,184) of the Company's shares.

At 31 December 2019, the Company was the beneficial owner of 15.4% (2018: 15.4%) of the ordinary share capital of HIML Holdings Limited.

The board considers the investment management and secretarial arrangements for the Company on a continuing basis and a formal review is conducted annually. The board considers, amongst others, the following topics in its review: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and reporting to the board; the level of service provided in terms of the accuracy and timeliness of reports to the board and the frequency and quality of both verbal and written communications with shareholders. Following the most recent review 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, the track record of performance and the quality of information provided to the board.

STEWARDSHIP – RESPONSIBILITIES AS AN INSTITUTIONAL SHAREHOLDER

The Company has given discretionary voting powers to the investment manager, HIML. The manager votes against resolutions it considers may damage shareholders' rights or economic interests. The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the manager to take these issues into account as long as the investment objectives are not compromised. The manager does not exclude companies from its investment universe purely on the grounds of ESG issues but adopts a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the manager to consider how ESG factors could impact long term investment returns. The manager's statement of compliance with the UK Stewardship Code can be found on the manager's website at www.heralduk.com. The manager's policy has been reviewed and endorsed by the board.

DIVIDENDS

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the directors and final dividends are subject to shareholder approval. The directors do not recommend a dividend for the year under review.

On behalf of the board

IAN RUSSELL
CHAIRMAN
18 February 2020

DIRECTORS' BIOGRAPHIES

IAN RUSSELL
Ian Russell was appointed to the board on 1 August 2018 and became Chairman in April 2019. He qualified as a chartered accountant, moving on to work in a number of finance roles in industry and banking. He joined Scottish Power plc in 1994, initially as Finance Director, becoming CEO in 2001, a role he held until 2006. Since then, he has concentrated on non-executive roles. Currently he is trustee of the National Museums of Scotland, Chair of the Infrastructure Commission for Scotland, Chairman of HICL Infrastructure Company Limited and Chair of the Scottish Futures Trust Limited.

His career has given him experience in leadership in public companies both executive and non-executive, which he brings to the board.

TOM BLACK
Tom Black was appointed to the board on 1 May 2013. He is chairman of Thruvision Group plc (formerly Digital Barriers plc), and is a non-executive director of CloudCoCo Group plc. He also has advisory roles with a number of smaller unlisted businesses. He is chairman and trustee of the Black Family Charitable Trust, which is focused on supporting disadvantaged young people with their educational needs. He was previously chief executive of Detica Group Plc, a leading company in the field of large-scale information collection and analysis for intelligence and counter fraud applications. Tom is the senior independent director.

As a successful entrepreneur he recognises the challenges of starting and growing an early stage technology company and listing it on the London Stock Exchange. He understands the smaller companies remit of the fund.

STEPHANIE EASTMENT
Stephanie Eastment was appointed to the board on 1 December 2018 and is chair of the audit committee. After leaving KPMG in 1990 she held various accounting and compliance roles at Wardley and UBS before joining Invesco Asset Management in 1996. There she held a variety of increasingly senior roles, specialising in investment trusts. She left Invesco in July 2018 to pursue a non-executive career. Stephanie is currently a non-executive director and audit chair of Murray Income Trust plc and a non-executive director of Impax Environmental Markets plc and RBS Common Investment Funds Limited.

She has extensive accounting, corporate governance and investment trust sector experience. As a chartered accountant and company secretary she has honed her technical expertise, knowledge and contacts within the industry and provides constructive oversight and challenge not only as a director, but as the audit committee chair.

HENRIETTA MARSH
Henrietta Marsh was appointed to the board on 1 September 2019. She has a background in fund management, having worked in UK small cap and private equity investment over several decades, recently pursuing a plural career. From 2005 until 2011, she was AIM fund manager at Living Bridge Equity Partners. Prior to that, she spent 14 years at 3i in several roles, including as fund manager of 3i Smaller Quoted Companies Trust plc (1997–2002). Her early career was with Morgan Stanley and Shell. She is currently a non-executive director of Gamma Communications plc (AIM listed), a trustee of 3i Group plc's pension fund and a member of London Stock Exchange's AIM Advisory Group.

She has direct experience and understanding of the investment process required in the Company.

KARL STERNBERG
Karl Sternberg was appointed to the board on 21 April 2015. He was a founding partner of Oxford Investment Partners Limited from 2006 until 2013, when it was acquired by Towers Watson. Much of his earlier career was spent at Morgan Grenfell (which became Deutsche Asset Management), where he rose to become chief investment officer, Europe & Asia Pacific. Karl is a non-executive director of Clipstone Logistics REIT plc, Monks Investment Trust plc, Lowland Investment Company plc, Alliance Trust plc, JP Morgan Elect plc, Island House Investment LLP and Jupiter Fund Management plc.

He has significant investment trust experience and has good insight in the investment industry and the macroeconomic risks and influences.

JAMES WILL
James Will was appointed to the board on 21 April 2015. He was until 2014 chairman and a senior corporate finance partner of law firm Shepherd and Wedderburn LLP. He also headed the law firm's financial sector practice. As a lawyer, he was for over 20 years involved in advising smaller quoted technology companies on a range of corporate transactions, including flotations, secondary fundraisings and mergers and acquisitions. James is chairman of both The Scottish Investment Trust PLC and Asia Dragon Trust plc.

In an environment of increasingly complex legal and regulatory framework his legal counsel has a valued contribution.

CORPORATE GOVERNANCE REPORT

GOVERNANCE PRINCIPLES
The board is committed to achieving and demonstrating high standards of corporate governance. This statement outlines how governance principles were applied throughout the financial year. The UK Corporate Governance Code (UK Code) issued by the Financial Reporting Council (FRC) in July 2018 and the Association of Investment Companies (AIC) Code of Corporate Governance (AIC Code) issued in February 2019 are the applicable governance codes in this regard.

The FRC has confirmed that by following the AIC Code, investment company boards will meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules. The AIC Code is available on the AIC website at www.theaic.co.uk, and the UK Code on the FRC website at www.frc.org.uk.

STATEMENT OF COMPLIANCE
The directors believe that the Company has complied with the AIC Code during the year and up to the date of this report, and thereby the provisions of the UK Code except as set out below.

The UK Code includes provisions relating to the role of the chief executive; executive directors' remuneration; and the need for an internal audit function. As an investment company which outsources its administration to third party providers, the Company has no chief executive or other executives and therefore these provisions are not applicable. It does not maintain an internal audit function. The audit committee considers the need for such a function at least annually and additional detail is provided later on in this statement.

THE BOARD
There is an annual cycle of board meetings. The board has overall responsibility for the Company's affairs and for setting the Company's purpose and strategy. The s172 Statement on page 35 sets out in detail the parties, shareholders and other stakeholders, and factors the directors consider as they perform their duties and the board its role. A formal schedule of matters reserved for the board has been established covering strategy; structure and capital; investment objective, policy and limits; gearing; dividend and corporate governance policy; performance; key contracts; risk; financial reporting and board membership. This is reviewed annually to ensure compliance with latest regulatory requirements and best market practice.

The board is responsible for the approval of the annual and half-yearly reports and board published documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects.

The board's oversight of the Company's risk management and internal controls is set out in detail later in this report on page 41. Full and timely information is provided to the board to enable it to function effectively and to allow directors to discharge their responsibilities.

CHAIRMAN
The chairman of the Company is Ian Russell. He joined the board on 1 August 2018 and became chairman on 16 April 2019. He is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda.

SENIOR INDEPENDENT DIRECTOR (SID)
The SID is Tom Black. The SID provides a sounding board for the chairman; is an intermediary for other directors if required; and is an additional channel for shareholders if contact through the chair or company secretary has failed to resolve an issue or where that channel would not be appropriate.

BOARD COMPOSITION AND INDEPENDENCE OF DIRECTORS
The board comprises six directors all of whom are non-executive and were in office throughout the period under review with the exception of Henrietta Marsh who was appointed on 1 September 2019. All directors will retire at the AGM and offer themselves for election or re-election.

The directors believe that the board has a balance of skills and experience which enable it to provide effective leadership and proper governance of the Company. Information about the directors, including their relevant experience, can be found on page 38.

All the directors are considered by the board to be independent of the manager and free of any business or other relationship which could interfere with the exercise of their independent judgement.

There is an agreed procedure for directors to seek independent professional advice if necessary at the Company's expense.

TERMS OF APPOINTMENT
The terms and conditions of directors' appointments are set out in formal letters of appointment which are available for inspection upon request.

Under the provisions of the Company's articles of association, a director appointed during the year is required to retire and seek election by shareholders at the next AGM. All directors retire annually and if appropriate, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT CONTINUED

MEETINGS

The board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the board and committee meetings held during the year. All the directors, serving at that time, attended the AGM.

Number of meetings	Board 6	Audit 3	Nomination 2
Julian Cazalet*	2	1	–
Tom Black	6	3	2
Stephanie Eastment	6	3	2
Henrietta Marsh**	1	–	1
Ian Russell***	6	1	2
Karl Sternberg	6	3	2
James Will	6	3	2

* Retired 16 April 2019, attended all meetings prior to that date.
** Appointed on 1 September 2019, attended all meetings after that date.
*** Ceased to be a member of the audit committee after becoming chairman of the Company on 16 April 2019.

COMMITTEES OF THE BOARD

The board has two committees: the audit committee and the nomination committee. The role, responsibilities and activities during the year of the audit committee are detailed in its report on page 43 and the nomination committee's are shown below.

The board has not formed a management engagement committee and it remains the role of the board to regularly review the terms of the management agreement between the manager and the Company, as set out on page 36. A separate remuneration committee has not been established as all directors are non-executive and the board as a whole considers directors' remuneration in line with the remuneration policy set out on page 46.

NOMINATION COMMITTEE

The nomination committee consists of all the directors and is chaired by the chairman of the board. The committee meets on an annual basis and at such other times as may be required. The committee has written terms of reference which include, identifying and nominating new candidates for appointment to the board, board and director appraisal, succession planning and training. The committee also considers whether directors should be recommended for re-election by shareholders. The committee is responsible for considering directors' potential conflicts of interest and for making recommendations to the board on whether or not the potential conflicts should be authorised. The terms of reference are reviewed annually and are available on request and at www.heralduk.com.

Appointments to the board are made on merit. It operates in accordance with the following standards:

- when seeking to recruit, the nomination committee will evaluate the skills, experience, independence, knowledge and diversity of the board and prepare a description of the role and capabilities required to fulfil the appointment and will normally appoint an independent agency to assist in the recruitment process;
- it will ensure that a diverse group of candidates is considered;
- candidates will be considered against objective criteria having regards to the benefits of diversity - including gender, social and ethnic background and personal strengths, experience and knowledge; and
- the other demands and commitments of candidates.

During the year the committee met twice. It undertook a comprehensive update of its plans for succession to the board including identifying the skills of current and future directors, taking into account planned changes to the board. The committee recommended to the board, and the board resolved, to increase the number of directors from five to six and engaged Trust Associates, an independent external recruitment firm, to examine potential candidates for appointment as independent non-executive directors. As a result, Henrietta Marsh was appointed 1 September 2019 as detailed in the Chairman's Statement. Her biography is shown on page 38. As well as bringing additional investment management expertise and knowledge to the board, the appointment means that the Company now meets the Hampton-Alexander 33% target for women on the board.

The nomination committee is responsible for considering the policy on tenure of the chairman of the board and planning for the chair's succession. In line with the board's policy on director tenure, which meets the recommendations of the AIC principles, the chairman's appointment may extend beyond nine years if required to provide flexibility during the handover period.

The senior independent director took over the chairmanship of the committee whenever it was dealing with the matter of the chair of the board's successor.

Performance evaluation

The nomination committee met to assess the performance of the chairman, each director, the board as a whole and its committees, after inviting each director and the chairman to consider and respond to a set of questions. The appraisal of the chairman was led by Tom Black. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the board, training and development requirements, the contribution of individual directors and the overall effectiveness of the board and its committees.

The nomination committee reported to the board on each director's performance, the process for which is described on pages 40 and 41 and concluded that their performance continues to be effective, they remain committed to the Company and have sufficient time to fulfil their duties. The board therefore recommends their election or re-election to shareholders.

External effectiveness evaluation
The board has not facilitated an external review of its effectiveness since admission to the FTSE 250 in October 2017. The board is in the process of engaging an external party to conduct an evaluation of its effectiveness during 2020.

Induction and training
Training for new directors is tailored to the particular circumstances of the individual appointee. Regular briefings are provided on changes in regulatory requirements that could affect the Company and the directors. Directors receive other relevant training as necessary.

RISK MANAGEMENT AND INTERNAL CONTROLS
The directors acknowledge their responsibility for the Company's risk management and internal controls systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board confirms that there is a continuing process for identifying, evaluating and managing the significant and emerging risks faced by the Company, in accordance with the guidance on risk management, internal control and related financial and business reporting, published by the FRC. This takes into account ongoing and emerging risks, procedures and controls and, after mitigation, identifies the significant risks as summarised on page 35.

The directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and in the period up to and including the date of this report.

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to HIML, Law Debenture Corporate Services Limited (the Company Secretary) and The Bank of New York Mellon (International) Limited (BNYM).

The audit committee and board monitor performance of the functions performed by HIML, the company secretary and BNYM through regular review. Since July 2014, when HIML became the Company's AIFM under the Alternative Investment Fund Managers Directive ('AIFMD'), the audit committee and board also monitor the controls managed by the AIFM.

The AIFM has a risk policy covering the risks associated with its management of the portfolio and it has in place its own risk management procedures, which are periodically reviewed. Risk limits are set by the AIFM and approved by the audit committee taking into account several factors, including investment strategy and risk appetite. The investment policy limits are described in the strategic report and are monitored at each board meeting, taking account of appropriate sensitivity analysis.

HIML has a compliance function in accordance with the Financial Conduct Authority (FCA) regulations. The compliance function provides the audit committee and board with a report on its monitoring procedures on a regular basis. Compliance monitoring by HIML includes risk based internal monitoring as well as external monitoring of services that have been delegated to third parties – principally fund accounting and company secretarial services.

For fund accounting, monitoring includes reviewing the monthly net asset value produced by BNYM versus HIML's own system, reviewing BNYM's client accounting compliance reports and internal audit confirmations and reviewing KPMG's annual Service Organisation Control (SOC1) and Centrally Managed Information Technology Services (CMITS) reports on BNYM. The audit committee also receives regular compliance reports from BNYM, including performance against service level standards.

Under AIFMD, the Company has appointed a depositary, BNYM, whose responsibilities include cash monitoring and safe keeping of the Company's assets. It also acts as the custodian. The scope of the fund accounting services includes reconciliations to custody records. Provision of custody services by BNYM is covered by a SOC1 report, a copy of which is provided to audit committee members.

Finally, a detailed risk map is prepared by the company secretary for the risks faced by the Company. These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk are identified during the year, these procedures also provide a mechanism to assess whether further action is required to manage the changes identified. The board confirms that these procedures have been in place throughout the year under review and that they continue to be in place up to the date of approval of this report.

CORPORATE GOVERNANCE REPORT CONTINUED

ACCOUNTABILITY AND AUDIT

The respective responsibilities of the directors and the auditor in connection with the financial statements are set out on page 49.

DISCLOSURES REQUIRED BY UKLA LISTING RULE 9.8.4

The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. None of the prescribed information is applicable to the Company for the year under review.

RELATIONS WITH SHAREHOLDERS

The board places great importance on communication with shareholders. The Company's manager meets regularly with larger shareholders and reports to the board. The chairman also meets with shareholders both with the manager and on his own. Shareholders wishing to communicate with the chairman or any other director may do so by writing to him at the registered office of the Company which is shown on page 77.

Information is provided to all shareholders via the annual and half-yearly accounts and also by the publication of daily NAVs and monthly factsheets.

The Company's AGM provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published on the manager's website, www.heralduk.com, subsequent to the meeting. The notice period for the AGM is at least 20 working days. Shareholders and potential investors may obtain up-to-date information on the Company from the manager's website.

In line with governance recommendations, if 20% or more of the votes cast are against any resolution, the company would announce what action it intended to take to consult shareholders views and provide a summary of the outcome. The board confirms that none of the resolutions put to shareholders at the AGM in 2019 received votes against above 20% of the votes cast.

PURCHASE OF OWN SHARES

At the AGM of the Company to be held on 17 April 2020, the Company will as usual be seeking authority to make limited purchases of the Company's ordinary shares – see the notice of AGM on page 74. Buy-backs are considered by the board to be a useful tool, where surplus cash is not being utilised for investment, to assist in the maintenance of liquidity in the Company's shares.

AGM – DIGITAL PROXY VOTING

Shareholders are strongly encouraged to submit proxy votes online by visiting www.signalshares.com. There is a straightforward registration process and a number of our shareholders are using the site already. All you need is your name, address and investor code, which can be found on your share certificate. If you are having trouble locating your share certificate or investor code, please call the shareholder helpline on 0871 664 0300 (or from overseas +44 (0)371 664 0300).

Any shareholder who is unwilling or unable to vote digitally can 'opt-in' to receive a paper proxy card by telephoning the shareholder helpline.

AGM RECOMMENDATION

The directors unanimously recommend all holders to vote in favour of all the resolutions to be proposed at the AGM.

On behalf of the board

IAN RUSSELL
CHAIRMAN
18 February 2020

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE

The audit committee is made up of all the independent non-executive directors, with the exception of the chairman Ian Russell, although he is invited to attend meetings. The committee is chaired by Stephanie Eastment.

The committee considers that at least one of its members has recent and relevant financial experience and that the committee as a whole has competence relevant to the sector in which the Company operates. Its authority and duties are defined within its written terms of reference which are available on request from the Company and on the manager's website: www.heralduk.com.

ROLE AND DUTIES

The committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and any formal announcements relating to the Company's financial performance including: ensuring compliance with statutory and listing requirements; appropriateness of accounting policies; and any financial judgements and key assumptions;
- reviewing the adequacy and effectiveness of internal control and risk management systems;
- making recommendations to the board within the context of the EU Audit Regulation and Directive in relation to the appointment of the external auditor and approving the remuneration and terms of its engagement;
- overseeing and managing the audit tender and selection processes and making recommendations to the board about the appointment, reappointment and removal of the external auditor;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services;
- management of the relationship with the external auditor including: the scope, nature and planning of the audit; discussion of matters of audit focus; evaluation of external auditor's results; and review and monitoring the independence, objectivity and effectiveness of the external auditor taking into consideration relevant UK professional and regulatory requirements;
- reviewing the arrangements in place within HIML whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- reviewing the terms of the investment management agreement; and
- considering annually whether there is a need for the Company to have its own internal audit function.

RISK MANAGEMENT AND INTERNAL CONTROL

The extensive array of internal controls adopted by the Company are set out in the corporate governance report. The board as a whole is responsible for the effectiveness of internal control mechanisms but it is informed by more specific work carried out by the audit committee.

INTERNAL AUDIT

The audit committee carries out an annual review of the need for an internal audit function. The committee continues to believe that the compliance and internal control systems and the internal audit function in place within the manager and the administrator provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

EXTERNAL AUDITOR

The committee monitors the independence and objectivity of the auditor, its performance and effectiveness by meeting at least annually with the audit partner to discuss that year's audit. Part of that process requires the auditor to give the committee an assessment of how the audit team identifies and manages the threats to its independence. The committee receives confirmation from the auditor that it has complied with the relevant UK professional and regulatory requirements on independence. It will also take into account any findings in the most recent FRC audit quality inspection report on PricewaterhouseCoopers LLP ('PwC'). The committee does not believe that there has been any impairment to the auditor's independence.

The committee examines in detail the scope of the audit, ensuring that the auditor's objectives have met the committee's expectations, along with key audit and accounting matters considered that year. The principal findings of the audit are discussed and challenged, particularly in areas where management judgement has been required. The committee will give the auditor an opportunity to comment privately on the quality and standard of the manager's and administrator's performance generally and during the audit. Similarly, the committee will seek the views of the manager and administrator on the effectiveness and performance of the audit team. No issues were raised.

NON-AUDIT SERVICES

There is not often a need for non-audit services to be provided by the auditor. The committee's policy is that non-audit work should be limited to those matters where the external auditor is most appropriately placed to carry out the work, unless there is a conflict of interest. All non-audit services are approved in advance. No non-audit services were provided by the auditor during the period under review.

AUDIT TENDER

The committee is responsible for overseeing and managing the audit tender arrangements and process. Ernst & Young LLP had been the Company's auditor since 16 June 1994. The committee put the audit to tender in 2019, ahead of Ernst & Young LLP becoming subject to mandatory rotation after the 2020 year end under the terms of the EU Audit Regulation and Directive. The process was conducted in accordance with the Competition and Markets Authority Audit Order (2014) on statutory audit services and competitive tender processes. Following the tender process the committee made a recommendation on the preferred audit firm and a reserve firm. The board resolved to appoint the preferred auditor, PwC. The reappointment of PwC will be subject to confirmation by shareholders at the AGM on 17 April 2020.

SIGNIFICANT FINANCIAL ISSUES RELATING TO THE 2019 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. While there were no significant issues, two matters of risk of particular focus at the balance sheet date were the risks that investments might not have been correctly valued or beneficially owned. No issues were discovered.

STEPHANIE EASTMENT
CHAIR, AUDIT COMMITTEE
18 February 2020

DIRECTORS' REPORT

The directors present their directors' report for the year ended 31 December 2019. The strategic report and the corporate governance report on pages 34 to 42 form a part of the directors' report.

RESULTS AND DIVIDEND

The net asset value (NAV) of the Company at 31 December 2019 was 1,668.1p per ordinary share (2018 – 1,307.9p). This represented an increase of 27.5% during the year, compared to an increase in the comparative total return indices of 22.2% (Numis Smaller Companies Index plus AIM (ex. investment companies)) and an increase of 29.7% (Russell 2000 (small cap) Technology Index (in sterling terms)). The discount was 11.3% (2018 – 17.8%).

The directors do not recommend a dividend for the year ended 31 December 2019 (2018 – nil).

DIRECTORS

The directors are listed on page 38.

GOING CONCERN

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 17 to the financial statements. The Company's assets, the majority of which are investments in quoted securities, exceed its liabilities significantly. All borrowings require the prior approval of the board. Gearing levels and compliance with loan covenants are reviewed by the board on a regular basis. In accordance with the Company's articles of association, shareholders have the right to vote on the continuation of the Company as an investment trust every three years and a resolution to that effect was last approved at the AGM in 2019.

The financial statements have been prepared on the going concern basis. There are no material uncertainties that call into question the Company's ability to continue to be a going concern for at least 12 months from the date of approval of these financial statements and the board is confident that the Company will be able to continue in operation and meet its liabilities as they fall due.

CONFLICTS OF INTEREST

Each director submits a list of potential conflicts of interest to the nomination committee on an annual basis, or as they arise. The committee considers these carefully, taking into account the circumstances surrounding them, and makes a recommendation to the board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a director which conflicted with the interests of the Company.

The board have recorded within its conflicts register that Tom Black and Henrietta Marsh are both directors of entities in which the Company is invested and have concluded that as the management of the investment portfolio is delegated to HIML, there is no conflict arising from these appointments. Should a decision need to be taken by the board in relation to these investments, the relevant director would abstain themselves from any such discussion and decision.

BRIBERY ACT 2010 AND CRIMINAL FINANCES ACT 2017

The board has a zero tolerance policy towards bribery and the criminal facilitation of tax evasion. It is committed to carrying out business fairly, honestly and openly. The manager, administrator and company secretary also adopt a zero tolerance approach and have policies and procedures in place to prevent both bribery and the facilitation of tax evasion.

GREENHOUSE GAS EMISSIONS

As the Company's activities are all outsourced to third parties, the Company has no greenhouse gas emissions to report.

DIRECTOR INDEMNIFICATION AND INSURANCE

The Company has entered into deeds of indemnity in favour of each of the directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the director is convicted or civil proceedings brought by the Company in which judgement is given against him. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company maintains Directors' and Officers' liability insurance.

PRINCIPAL RISKS AND UNCERTAINTIES

These are set out as part of the strategic report.

SHARE CAPITAL

Details of the Company's share capital and changes thereto are disclosed in the Strategic Report on page 34 and note 12 of the financial statements.

MAJOR INTERESTS IN THE COMPANY'S SHARES

The following table sets out the names of those shareholders holding 3% or more of the issued share capital at 31 December 2019. No notifications have been received since then under DTR5.

	% of issued share capital
Rathbone Investment Management	15.79
Wells Capital Management Inc	6.28
Lazard Asset Management LLC	5.79
Investec Wealth & Investment Limited	5.41
JM Finn & Co	4.21
Hargreaves Lansdown	3.64
Interactive Investor Trading Limited	3.53
Charles Stanley & Co	3.34
Brewin Dolphin Securities	3.04

REGULATORY COMPLIANCE

THE ALTERNATIVE INVESTMENT FUND MANAGERS ("AIFM") DIRECTIVE

The AIFM is required to provide portfolio management, risk management, administration, accounting and company secretarial services to the Company. The Company has appointed HIML as its AIFM, to undertake these functions on its behalf. As reported elsewhere, HIML has elected to delegate some of these functions. The Bank of New York Mellon (International) Limited is the depositary and is paid 0.015% per annum of the total net assets of the portfolio (adjusted to include any leverage). The depositary is also responsible for custody activities.

AIFMs are obliged to publish certain information for investors and prospective investors, which may be found either in this annual report or on the Company's website. Any information on remuneration not already disclosed in the remuneration report will be provided to investors on request.

The AIFMD requires an annual disclosure of 'leverage'. On a 'gross' basis, this is 0.95 against a maximum of 2.00 (2018 – 0.96: 2.00) and on a 'commitment' basis, 1.00 against a maximum of 2.00 (2018 – 1.00: 2.00).

THE MODERN SLAVERY ACT 2015

The Company falls outside the scope of the Modern Slavery Act and is therefore not required to make a slavery and human trafficking statement.

PAYMENT TO SUPPLIERS

The Company is a signatory to the Prompt Payment Code, which enshrines a 30 day payment term as a norm.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

ANNUAL GENERAL MEETING

The AGM will be held on 17 April 2020 at the Company's registered office.

At that meeting, a resolution will be put to shareholders to seek authority to call general meetings, other than an annual general meeting, on short notice. This authority would only be used if the Board believes it is in the best interests of shareholders as a whole to convene a general meeting quickly in exceptional circumstances.

INDEPENDENT AUDITOR

A resolution to appoint PwC as auditor for the ensuing year will be proposed at the AGM in accordance with Section 489 and 491(1) of the Companies Act 2006.

On behalf of the board

IAN RUSSELL
CHAIRMAN
18 February 2020

DIRECTORS' REMUNERATION REPORT

1 CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholder

I present below the Company's remuneration report for the year ended 31 December 2019.

Our remuneration policy (see section 2 below) was approved by shareholders at the 2017 AGM. In accordance with statute, the policy must be put to shareholders for approval every three years. The board has carefully reviewed the existing policy and has decided that it should be retained without amendment, save for removing reference to the base fee levels. Accordingly, a resolution is being put to shareholders at the 2020 AGM, which the board recommends be approved.

I confirm that the board has complied with the policy during the year ended 31 December 2019. The current fees paid to directors, and the amounts to be used to determine the maximum total increase allowable under the policy on directors' fees, are detailed in the table below:

Role	Current Fee (w/e from 1 July 2019) £	Previous year £	Percentage increase %
Chairman	**35,750**	33,750	5.93
Audit committee chair	**27,500**	25,500	7.84
Non-executive director	**24,000**	22,500	6.60

In reviewing the level of fees in July 2019 the board took into consideration market data on the level of fees paid to investment trust non-executive directors, with particular focus on other trusts within the technology sector, and agreed that it was appropriate to increase fees to bring them more into line with the median level paid in the sector.

The board must only operate in accordance with the approved policy during the three year cycle, unless shareholder approval is sought to amend the policy.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 50 to 55.

SCOPE AND RESPONSIBILITY

As the Company has no employees and no executive directors, the policy relates only to the non-executive directors.

2 POLICY ON DIRECTORS' FEES

The board's policy is that the remuneration of directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain directors of the appropriate quality and experience. It should also reflect the experience of the board as a whole and be fair and comparable to that of other investment trusts that are similar in size. The policy will continue in force (subject to shareholder approval) from the conclusion of the 2020 AGM until the AGM in 2023. The board will take account of any views expressed by shareholders in formulating this policy.

The board may amend the levels of remuneration paid to individual directors within the parameters of this policy.

Component	Commentary
Basic fee arrangement	Fees paid to directors are determined within an aggregate limit set out in the Company's articles of association which stands at £200,000 per annum. There is no separate remuneration committee and the board as a whole considers changes to directors' fees from time to time. The company secretary provides advice and comparative information when the board considers the level of directors' fees. If the board concludes that it is appropriate to increase fees during the three year period that the policy is in force, such increase (or increases) will be limited to a maximum total increase of 20% of the amounts payable when the policy was approved. Any new directors will be paid at the same rates as existing directors. Under the terms of the directors' appointment letters, there is no notice period and no provision for compensation upon early termination of appointment.
Benefits	None
Pension arrangements	None
Bonus arrangements	None

3 ANNUAL DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDING 31 DECEMBER 2019 (AUDITED)

The single total figure of remuneration for each director who served during the year ended 31 December 2019 and the prior year follow:

	Year ended 31 December 2019 total salary and fees £	Year ended 31 December 2018 total salary and fees £	**Year ended 31 December 2019 taxable benefits £**	Year ended 31 December 2018 taxable benefits £	**Year ended 31 December 2019 total £**	Year ended 31 December 2018 total £
Julian Cazalet[1]	**9,995**	33,375	**–**	–	**9,995**	33,375
Ian Russell[2]	**31,462**	9,375	**1,902**	443	**33,364**	9,818
Tom Black	**23,250**	22,250	**775**	104	**24,025**	22,354
Stephanie Eastment[3]	**26,500**	2,125	**–**	–	**26,500**	2,125
Henrietta Marsh[4]	**8,000**	–	**–**	–	**8,000**	–
Karl Sternberg	**23,250**	22,250	**–**	–	**23,250**	22,250
James Will	**23,250**	25,000	**1,102**	897	**24,352**	25,897
Total	**145,707**	114,375	**3,779**	1,444	**149,486**	115,819

Notes:
1. Retired on 16 April 2019
2. Appointed as a non-executive director on 1 August 2018 and as chairman on 16 April 2019
3. Appointed as a non-executive director and chair of the audit committee on 1 December 2018
4. Appointed on 1 September 2019

The table above omits other columns set out in the relevant regulations as the Company does not make payments of other types, such as pension related benefits or performance related pay.

Board meetings are held at the Company's registered office. Directors are entitled to claim travel expenses for board meeting attendance. The Company has entered into a PAYE settlement agreement with HMRC under which the grossed up expenses detailed above are accounted for directly with HMRC.

DIRECTORS' INTERESTS (AUDITED)

Directors' shareholdings and interests (beneficial unless stated) at the year end (and unchanged at the date of this report) were as follows:

Interests as at 31 December	**2019**	2018
Julian Cazalet	**n/a**	150,000
Ian Russell	**7,500**	7,500
Tom Black	**6,900**	6,900
Stephanie Eastment*	**2,000**	1,000
Henrietta Marsh	**–**	n/a
Karl Sternberg	**7,826**	5,826
James Will	**6,000**	6,000

* 1,000 held non-beneficially; shares held by connected person

There have been no changes to any of the directors' share interests in the period 1 January 2020 and the date of this report.

DIRECTORS' REMUNERATION REPORT CONTINUED

3 ANNUAL DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDING 31 DECEMBER 2019 (AUDITED) CONTINUED

COMPANY PERFORMANCE

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the MSCI World Index (in sterling terms). This index was chosen for comparison purposes as it is the most widely used global equity index.

RELATIVE SPEND ON FEES

The following table shows the total amount spent on payments to directors with a comparator to last year, along with total distributions to shareholders by way of dividend or (where applicable) share buy-back or other distributions. There are no other significant distributions, payments or other uses of the Company's profit or cash flow that the board feels are relevant to assist the understanding of the relating spend on fees.

	2019 £'000	2018 £'000
Total spend – directors' fees	**146**	114
Total distributed to shareholders – dividends	**–**	–
– share buybacks	**20,337**	17,159

VOTING ON REMUNERATION MATTERS AT THE 2019 AGM AND IN RESPECT OF REMUNERATION POLICY

At the AGM on 16 April 2019 the resolution to receive and approve the directors' remuneration report for the year ended 31 December 2018 received the following votes: for – 99.98%; against – 0.02%. 3,227,648 votes were withheld.

The remuneration policy itself was last approved by shareholders in 2017 with 99.88% of votes in favour; 0.12% votes against. 12,439 votes were withheld.

MISCELLANEOUS DISCLOSURES

The board took no external advice on remuneration matters during the year. No payments were made to former directors during the year, or to any director for loss of office. No element of directors' remuneration is attributable to share price growth.

The directors' annual remuneration report set out above (section 3) was approved by the board of directors on 18 February 2020 and signed on its behalf by

IAN RUSSELL
CHAIRMAN

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Company will continue in business.

The directors are responsible for the keeping of adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have delegated responsibility to the manager for the maintenance and integrity of the Company's page of the manager's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The work carried out by the auditor does not involve any consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Each of the directors, whose names and functions are listed on page 38 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the annual report and financial statements 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 and the directors' report contains those matters required to be disclosed by applicable law; and
- they consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

On behalf of the board

IAN RUSSELL
18 FEBRUARY 2020

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HERALD INVESTMENT TRUST PLC

OPINION

In our opinion, Herald Investment Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report & financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

OUR AUDIT APPROACH
OVERVIEW

- Overall materiality: £11.2 million, based on 1% of net assets.

- The Company is a standalone Investment Trust Company and engages Herald Investment Management Limited (the 'AIFM') to manage its assets.
- We conducted our audit of the financial statements using information from the AIFM, Law Debenture Corporate Services Limited (the 'Company Secretary') and The Bank of New York Mellon with whom the AIFM has engaged to provide certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Income from investments.

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010 (see page 34 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to overstate the value of investments and increase the net asset value of the Company. Audit procedures performed by the engagement team included:

- Discussions with the directors, the AIFM and Company Secretary including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of the reports made by management;
- Reviewing relevant meeting minutes, including those of the Audit Committee;
- Identifying and testing journal entries, in particular any material or revenue impacting manual journal entries posted as part of the Annual Report preparation process;
- Assessment of the Company's compliance with the requirements of section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of expenses.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and existence of investments	
Refer to page 43 (Audit Committee Report), pages 62 and 63 (Accounting Policies) and pages 62 to 73 (Notes to the Accounts). The investment portfolio at 31 December 2019 comprised of listed investments of £1,018.1 million and £15.1 million of unlisted investments. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed in the Balance Sheet in the financial statements.	We tested the valuation of the listed investments by agreeing the prices used in the valuation to independent third-party sources. For a sample of unlisted investments, we assessed management's methodology for determining the fair value of the investments is consistent with the International Private Equity and Venture Capital Guidelines, agreed the inputs into the valuation to third party sources (such as financial statements of the issuer, investor reports and the instrument terms) and re-performed calculations to confirm their arithmetical accuracy. We tested the existence of all investments by agreeing the holdings of all investments to an independent confirmation from the Depositary, The Bank of New York Mellon (International) Limited as at 31 December 2019. No material misstatements were identified from this testing.

INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE MEMBERS OF HERALD INVESTMENT TRUST PLC

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Income from investments	
Refer to page 43 (Audit Committee Report), pages 62 and 63 (Accounting Policies) and pages 62 to 73 (Notes to the Accounts). ISAs (UK) presume there is a risk of fraud in income recognition. We considered this risk to specifically relate to the risk of overstating investment gains and the misclassification of dividend income as capital rather than revenue due to the pressure management may feel to achieve capital growth in line with the objective of the Company. We focused on the valuation of investments with respect to gains on investments and the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies' Statement of Recommended Practice (the "AIC SORP").	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We understood and assessed the design and implementation of key controls surrounding income recognition. The gains/losses on investments held at fair value comprise realised and unrealised gains/losses. For unrealised gains and losses, we tested the valuation of the portfolio at the year-end (see Valuation and Existence Key Audit Matter), together with testing of the reconciliation of opening and closing investments and agreeing the year end holdings to independent confirmation. For realised gains/losses, we tested a sample of disposal proceeds by agreeing the proceeds to bank statements and we re-performed the calculation of a sample of realised gains/losses. In addition, we tested dividend receipts by agreeing the dividend rates from all investments to independent third party sources. We tested the allocation and presentation of dividend income, including special dividends, between income and capital by agreeing treatments to third party sources. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared for all dividends during the year. No material misstatements were identified from this testing.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£11.2 million.
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £560,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN
In accordance with ISAs (UK) we report as follows:

REPORTING OBLIGATION	OUTCOME
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's business and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

STRATEGIC REPORT AND DIRECTORS' REPORT
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE MEMBERS OF HERALD INVESTMENT TRUST PLC

CORPORATE GOVERNANCE STATEMENT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on page 41 about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on page 39 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE COMPANY AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE COMPANY

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 35 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 36 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

OTHER CODE PROVISIONS

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 49, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 43 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

DIRECTORS' REMUNERATION

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities set out on page 49, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the audit committee, we were appointed by the directors on 1 November 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
18 February 2020

Financial Statements

INCOME STATEMENT

For the year ended 31 December

	Notes	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Gains/(losses) on investments	9	–	**245,174**	**245,174**	–	(50,436)	(50,436)
Currency (losses)/gains		–	**(3,119)**	**(3,119)**	–	2,048	2,048
Income	2	**11,735**	–	**11,735**	11,250	–	11,250
Investment management fee	3	**(10,537)**	–	**(10,537)**	(10,050)	–	(10,050)
Other administrative expenses	4	**(779)**	**(54)**	**(833)**	(719)	(7)	(726)
Profit/(loss) before finance costs and taxation		**419**	**242,001**	**242,420**	481	(48,395)	(47,914)
Finance costs of borrowings	5	**(156)**	–	**(156)**	(156)	–	(156)
Profit/(loss) before taxation		**263**	**242,001**	**242,264**	325	(48,395)	(48,070)
Taxation	6	**(232)**	–	**(232)**	(267)	–	(267)
Profit/(loss) after taxation		**31**	**242,001**	**242,032**	58	(48,395)	(48,337)
Profit/(loss) per ordinary shares (basic and diluted)	8	**0.05p**	**355.30p**	**355.35p**	0.08p	(69.67p)	(69.59p)

There is no final dividend proposed (2018 – nil). More information on dividend distributions can be found in note 7 on page 65.

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

The profit/(loss) 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 of the Company. No operations were acquired or discontinued in the year.

The accompanying notes on pages 62 to 73 are an integral part of this statement.

BALANCE SHEET
At 31 December

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		**1,033,226**		831,680
Current assets					
Cash and cash equivalents		**88,843**		68,860	
Other receivables	10	**1,995**		1,575	
		90,838		70,435	
Current liabilities					
Other payables	11	**(1,215)**		(961)	
		(1,215)		(961)	
Net current assets			**89,623**		69,474
TOTAL NET ASSETS			**1,122,849**		901,154
Capital and reserves					
Called up share capital	12		**16,828**		17,225
Share premium	13		**73,738**		73,738
Capital redemption reserve	13		**5,124**		4,727
Capital reserve	13		**1,025,909**		804,245
Revenue reserve	13		**1,250**		1,219
SHAREHOLDERS' FUNDS			**1,122,849**		901,154
NET ASSET VALUE PER ORDINARY SHARE (including current year revenue)	14		**1,668.13p**		1,307.89p
NET ASSET VALUE PER ORDINARY SHARE (excluding current year revenue)	14		**1,668.08p**		1,307.81p

The financial statements of Herald Investment Trust plc (company registration number 02879728) were approved by the board of directors and authorised for issue on 18 February 2020 and signed on its behalf by

IAN RUSSELL
CHAIRMAN

The accompanying notes on pages 62 to 73 are an integral part of this statement.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2019		17,225	73,738	4,727	804,245	1,219	901,154
Profit after taxation		–	–	–	242,001	31	242,032
Shares purchased for cancellation	12	(397)	–	397	(20,337)	–	(20,337)
Shareholders' funds at 31 December 2019		**16,828**	**73,738**	**5,124**	**1,025,909**	**1,250**	**1,122,849**

For the year ended 31 December 2018

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2018		17,577	73,738	4,375	869,799	1,161	966,650
(Loss)/profit after taxation		–	–	–	(48,395)	58	(48,337)
Shares purchased for cancellation	12	(352)	–	352	(17,159)	–	(17,159)
Shareholders' funds at 31 December 2018		17,225	73,738	4,727	804,245	1,219	901,154

The accompanying notes on pages 62 to 73 are an integral part of this statement.

CASH FLOW STATEMENT
For the year ended 31 December

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Cash flow from operating activities					
Profit/(loss) before finance costs and taxation		242,420		(47,914)	
Adjustments for (gains)/losses on investments		(245,174)		50,436	
Purchase of investments		(148,856)		(153,429)	
Sale of investments		193,007		195,948	
Adjustment for other movements in investment gains		(116)		-	
Increase in other receivables		(516)		(337)	
Increase/(decrease) in other payables		254		(27)	
Amortisation of fixed income book cost		(407)		(127)	
Effect of foreign exchange rate changes		3,119		(2,048)	
Overseas tax on overseas income		(136)		(267)	
Net cash inflow from operating activities			43,595		42,235
Cash flow from financing activities					
Undrawn facility fee paid		(156)		(116)	
Shares purchased for cancellation	12	(20,337)		(17,177)	
Net cash outflow from financing activities			(20,493)		(17,293)
Increase in cash and cash equivalents			23,102		24,942
Cash and cash equivalents at start of year			68,860		41,870
Effect of foreign exchange rate changes			(3,119)		2,048
Cash and cash equivalents at end of year			88,843		68,860
Comprised of:					
Cash and cash equivalents			88,843		68,860

Cash flow from operating activities includes interest received of £1,429,000 (2018 – £849,000) and dividends received of £9,636,000 (2018 – £9,848,000).

As the Company did not have any long term debt at both the current and prior year ends, no reconciliation of the net debt position is presented.

The accompanying notes on pages 62 to 73 are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the year to 31 December 2019 have been prepared on the basis of the accounting policies set out below. The Company has applied 'FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of Generally Accepted Accounting Practice ('UK GAAP') issued by the Financial Reporting Council.

(A) ACCOUNTING CONVENTION

The financial statements are prepared on the assumption that approval as an investment trust will be retained.

The financial statements are presented in sterling, which is the Company's functional and presentational currency and the currency in which the Company's share capital and expenses, as well the majority of its assets and liabilities, are denominated.

The financial statements have been prepared in accordance with The Companies Act 2006, FRS 102 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 October 2019.

The revised SORP issued in October 2019 is applicable for accounting periods beginning on or after 1 January 2019. As a result, the presentation of gains and losses on revaluation of investments have now been combined, as shown in note 9 with no impact to the net asset value or gain (loss) reported for both the current or prior year. No other accounting policies or disclosures have changed as a result of the revised SORP.

In order to better reflect the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the income statement.

(B) FINANCIAL INSTRUMENTS

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

The Company has chosen to apply the provisions of sections 11 and 12 of FRS 102 in full in respect of the financial instruments.

(C) INVESTMENTS

Purchases and sales of investments are accounted for on a trade date basis.

All investments are at fair value through profit or loss upon initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed security investments is bid value. Investments on the Alternative Investment Market are included at their bid value. The fair value of unlisted investments uses valuation techniques determined by the directors on the basis of latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines.

Gains and losses arising from changes in the unrealised fair value and on the sale of investments are taken to capital reserve through the income statement.

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents may comprise cash as well as cash equivalents (including short term deposits and money market funds which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value). Investments are regarded as cash equivalents if they meet all of the following criteria: highly liquid investments held in the Company's base currency that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three-month high quality government bond.

(E) INCOME

Dividend income is accounted for when the entitlement to the income is established (normally on the ex-dividend date). Franked income is stated net of tax credits. Foreign dividends that suffer withholding tax at source are shown gross, with the corresponding tax charge in the income statement. Unfranked investment income includes the taxes deducted at source. Interest from fixed interest securities is recognised on an effective yield basis. Underwriting commission and interest receivable on deposits are recognised on an accruals basis.

(F) EXPENSES

All expenses are accounted for on an accruals basis and are charged through the revenue column of the income statement except where they relate directly to the acquisition or disposal of an investment (transaction costs) and are taken to the income statement as a capital item.

(G) FINANCE COSTS

Finance costs are accounted for on an effective interest basis and are charged through the revenue column of the income statement.

(H) DEFERRED TAXATION
Deferred taxation is provided on all timing differences which have originated but not reversed at the balance sheet date, calculated on an undiscounted basis, and based on enacted tax rates relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(I) FOREIGN CURRENCY
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences of a revenue or capital nature are taken to the revenue or capital reserves respectively through the income statement.

(J) USE OF JUDGEMENTS AND ESTIMATES
The preparation of financial statements requires the Company to make judgements, estimates and assumptions that affect amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, that have had a significant effect on the amounts recognised in the financial statements, other than those involving estimations in the valuations of unquoted investments. The nature of estimation means that the actual outcomes could differ from those estimates, possibly significantly. The estimates relate to the investments where there is no appropriate market price i.e. the unquoted investments. Whilst the board considers the methodologies and assumptions adopted in the valuation are supportable, reasonable and robust, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investment existed.

As at 31 December 2019, the Company does not have any single key assumption concerning the future, or other key sources of estimation uncertainty, that, in the Directors' opinion has a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year.

2. INCOME

	2019 £'000	2018 £'000
Dividend income from investments		
UK dividends from listed investments	**3,179**	3,086
UK dividends from unlisted investments (inc AIM)	**3,437**	3,406
Overseas dividends from UK listed and AIM companies	**631**	708
Overseas dividend income	**2,659**	2,913
	9,906	10,113
Interest income from equity investments		
Income from unlisted (inc AIM) UK convertible bonds	**256**	263
Fixed interest		
Overseas interest from government securities	**1,170**	578
Other income		
Deposit interest	**395**	266
Underwriting commission	**8**	30
	403	296
Total income	**11,735**	11,250

Included within dividend income are special dividends of £37,000 (2018: £311,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the Year Ended 31 December

3. INVESTMENT MANAGEMENT FEE

	2019 £'000	2018 £'000
Investment management fee	**10,537**	10,050

Herald Investment Management Limited is appointed investment manager under a management agreement which is terminable on twelve months' notice. Their fee is calculated on a monthly rate of 0.08333% of the Company's net asset value (excluding current year net income) based on middle market prices. The management fee is levied on all assets.

4. OTHER ADMINISTRATIVE EXPENSES

	2019 £'000	2018 £'000
Custodian's fees	**71**	71
Registrars' fees	**29**	38
Directors' fees	**146**	114
Auditor's fees – statutory audit	**31**	23
Depositary's fees	**180**	181
Miscellaneous expenses	**322**	292
	779	719

Other capital administration expenses of £54k includes legal fees of £47k in relation to the action disclosed in note 15.

5. FINANCE COSTS OF BORROWINGS

	2019 £'000	2018 £'000
Credit facility commitment fee*	**156**	156
	156	156

* The Company had a £25 million multi-currency revolving credit facility (1.55% + LIBOR) which expired on 31 December 2019.

6. TAXATION

	2019 £'000	2018 £'000
Analysis of charge in year		
Overseas taxation	**232**	267
Factors affecting tax charge for year		
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%). The differences are explained below:		
Profit/(loss) before taxation	**242,264**	(48,070)
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%)	**46,030**	(9,133)
Effects of:		
Capital gains/(losses) not taxable	**(46,583)**	9,583
UK dividends not subject to UK tax	**(1,234)**	(1,228)
Overseas dividends not subject to UK tax	**(643)**	(672)
Capital (losses)/gains on foreign exchange movements not subject to tax	**594**	(390)
Disallowable expenses	**2**	1
Overseas withholding tax	**232**	267
Movement in excess management expenses	**1,834**	1,839
Total tax charge for the year	**232**	267

As an investment trust, the Company's capital gains are not taxable.

There is no UK corporation tax charge at 31 December 2019 or 31 December 2018 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 December 2019 and 2018 comprises of overseas withholding taxes incurred.

At 31 December 2019, the Company had a potential deferred tax asset of £18 million (2018 – £16 million) on taxable losses of £104 million (2018 – £94 million) which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 17% (2018 – 17%).

7. DIVIDENDS ON ORDINARY SHARES

	2019	2018	2019 £'000	2018 £'000
Amounts recognised as distributions in the period:				
Previous year's final	**nil**	nil	**nil**	nil

Set out below are the total dividends payable in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year ended 31 December 2019 is £31,000 (2018 – £58,000).

	2019	2018	2019 £'000	2018 £'000
Amounts paid and proposed per ordinary share in respect of the period:				
Proposed final dividend	**nil**	nil	**nil**	nil

8. NET RETURN PER ORDINARY SHARE

2019 Revenue	2019 Capital	2019 Total	2018 Revenue	2018 Capital	2018 Total
0.05p	**355.30p**	**355.35p**	0.08p	(69.67p)	(69.59p)

Revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation (respectively, revenue profit of £31,000 (2018 – revenue profit of £58,000), capital profit of £242,001,000 (2018 – capital loss of £48,395,000) and total profit of £242,032,000 (2018 – total loss of £48,337,000)) and on 68,110,377 ordinary shares (2018 – 69,460,637) being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

9. FIXED ASSET INVESTMENTS

	2019 £'000	2018 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments – London Stock Exchange	**201,661**	135,253
– AIM	**369,394**	317,444
Listed overseas – equity investments	**402,008**	316,263
Unquoted*	**15,055**	15,935
Total equity investments	**988,118**	784,895
Government debt securities	**45,108**	46,785
Total investments in financial assets at fair value through profit or loss	**1,033,226**	831,680

* The unquoted balance comprises BE Heard Group at £160,000, Business Control Solutions at £627,000, Celoxica at £217,000, Fusionex International at £1,464,000, Herald Venture II at £2,987,000, HIML at £4,379,000, Intechnology at £229,000, Intercede at £375,000, Osirium Technologies at £320,000, Zinc Media at £2,506,000 and ZOO Digital at £1,791,000.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the Year Ended 31 December

9. FIXED ASSET INVESTMENTS CONTINUED

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Unquoted £'000	2019 Total £'000	2018 Total £'000
Cost of investments at 1 January	68,844	237,647	239,741	19,368	**565,600**	519,686
Investment holding gains/(losses) 1 January	66,409	125,401	77,703	(3,433)	**266,080**	405,855
Fair value of investments at 1 January	135,253	363,048	317,444	15,935	**831,680**	925,541
Movements in the year:						
Purchases at cost	9,902	103,823	34,731	400	**148,856**	151,969
Sales – proceeds	(10,655)	(130,514)	(49,401)	(257)	**(190,827)**	(194,959)
– gains/(losses) on investments	69,040	110,170	66,928	(848)	**245,290**	(50,436)
Amortisation of fixed income book cost	–	407	–	–	**407**	127
Transferred from unquoted to listed	–	255	–	(255)	–	–
Transferred from AIM to unquoted	–	–	(632)	632	–	–
Transferred from unquoted to AIM	–	–	324	(324)	–	–
Return of capital/capital special dividends	(1,879)	(73)	–	(228)	**(2,180)**	(562)
Fair value of investments at 31 December	**201,661**	**447,116**	**369,394**	**15,055**	**1,033,226**	831,680
Cost of investments at 31 December	72,072	256,192	234,398	19,014	**581,676**	565,600
Investment holding gains/(losses) 31 December	129,589	190,924	134,996	(3,959)	**451,550**	266,080
Fair value of investments at 31 December	**201,661**	**447,116**	**369,394**	**15,055**	**1,033,226**	831,680
Cost of investments sales	**4,795**	**85,867**	**39,766**	**579**	**131,007**	105,620
Gains/(losses) on investments						
Net realised gains on sales	5,860	44,647	9,635	(322)	**59,820**	89,339
Investment holding gains/(losses)	63,180	65,523	57,293	(526)	**185,470**	(139,775)
Other movements in investment gains	–	–	–	–	**(116)**	–
	69,040	**110,170**	**66,928**	**(848)**	**245,174**	(50,436)

The Company received £190,827,000 (2018: £194,959,000) from investments sold in the year. The book cost of these investments when they were purchased was £131,007,000 (2018: £105,620,000). These investments have been revalued over time and until they were sold, any unrealised gains/losses were included in the fair value of the investments.

The investments in the equity and fixed interest stocks of unlisted companies that the Company holds are not traded and as such the prices are more uncertain than those of more widely traded securities. The fair value of unlisted investments uses valuation techniques determined by the directors on the basis of latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines as described in note 1(c). The fair value of unlisted investments at 31 December 2019 was £15,055,000 (2018 – £15,935,000) and the investment is not considered material in the context of these financial statements.

At 31 December 2019 the Company was the beneficial owner of 15.4% (2018 – 15.4%) of the ordinary share capital of HIML Holdings Limited. HIML Holdings Limited is incorporated in the United Kingdom and is the parent company of the Company's manager.

	2019 £'000	2018 £'000
Transaction costs		
Commission costs:		
Purchases	**188**	201
Sales	**183**	300
Total commission costs	**371**	501
Custody transaction costs	**9**	7
Other transaction costs	**42**	53
	422	561

10. OTHER RECEIVABLES

	2019 £'000	2018 £'000
Due within one year:		
Income accrued and prepayments	**1,398**	1,412
Other receivables	**530**	-
Taxation recoverable	**67**	163
	1,995	1,575

The carrying amount of other receivables is a reasonable approximation of fair value.

11. OTHER PAYABLES

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Other payables	**1,215**	961
	1,215	961

Included in other payables and accruals is £942,000 (2018 – £758,000) in respect of the investment management fee.

12. CALLED UP SHARE CAPITAL

	2019 Number	2019 £'000	2018 Number	2018 £'000
Allotted, called up and fully paid:				
Ordinary shares of 25p:	**67,311,777**	**16,828**	68,901,568	17,225
Brought forward	**68,901,568**	**17,225**	70,307,785	17,577
Shares bought back and cancelled	**(1,589,791)**	**(397)**	(1,406,217)	(352)
Carried forward	**67,311,777**	**16,828**	68,901,568	17,225

At the annual general meeting on 16 April 2019, shareholders granted the Company authority to purchase shares in the market up to 10,243,473 ordinary shares (equivalent to 14.99% of its issued share capital at that date). During the year to 31 December 2019, a total of 1,589,791 (2018 – 1,406,217) ordinary shares with a nominal value of £397,448 (2018 – £351,554) were bought back and cancelled at a total cost of £20,336,606 (2018 – £17,159,129). At 31 December 2019 the Company had authority to buy back a further 8,653,682 ordinary shares. Under the provisions of the Company's articles share buy-backs are funded from the capital reserve.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the Year Ended 31 December

13. CAPITAL AND RESERVES

	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 1 January 2019	73,738	4,727	804,245	1,219
Shares purchased for cancellation	–	397	(20,337)	–
Gains on sales	–	–	59,820	–
Changes in investment holding gains	–	–	185,470	–
Other movements in investment gains	–	–	(116)	–
Other exchange differences	–	–	(3,119)	–
Custody transaction and capital legal costs	–	–	(54)	–
Profit after taxation	–	–	–	31
Balance at 31 December 2019	73,738	5,124	1,025,909	1,250

The share premium represents the premium above nominal value received by the Company on issuing shares net of cost. The share premium is non-distributable.

The capital redemption reserve represents the nominal value of shares bought back and cancelled and is non-distributable.

The capital reserve includes investment holding gains of £451,550,000 (2018 – gains of £266,080,000) as disclosed in note 9. The capital reserve is non-distributable.

The revenue reserve represents net revenue retained after payment of any dividends and is the only reserve from which dividends can be funded.

14. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the articles of association were as follows:

	2019 per share (pence)	2018 per share (pence)	**2019 £'000**	2018 £'000
Total net assets (including current year revenue)	**1,668.13**	1,307.89	**1,122,849**	901,154
Net revenue profit after taxation	**0.05**	0.08	**31**	58
Total net assets (excluding current year revenue)	**1,668.08**	1,307.81	**1,122,818**	901,096

Net asset value per ordinary share is based on net assets as shown above and on 67,311,777 (2018 – 68,901,568) ordinary shares, being the number of ordinary shares in issue at each balance sheet date.

15. CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS

The Company is one of numerous defendants in an action in the United States Bankruptcy Court – Eastern District of New York. The claim being made against the Company is in respect of proceeds of US$ 3,071,267 that were received on the takeover of its holding in Constellation Healthcare Technologies Inc, that has subsequently filed for bankruptcy and claims are being made by the liquidator against many former shareholders of that investment. The Company is defending the action and believes it has substantial defences. The board acknowledges the uncertainties inherent in all such cases and decided to make a non-material partial provision of £116,000 for this action in the year ended 31 December 2019.

There were no other contingent liabilities, guarantees or financial commitments at 31 December 2019.

16. CAPITAL MANAGEMENT

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital and reserves as detailed in notes 12 and 13. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 2, and shares may be repurchased as explained on page 42.

17. FINANCIAL INSTRUMENTS

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. The Company's other financial instruments consist of cash and cash equivalents, 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 held within the portfolio.

There were no past due nor impaired assets as of 31 December 2019 (31 December 2018–nil).

The counterparties engaged with the Company are regulated entities and of high credit quality.

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. Further detail is contained in the strategic report on page 35.

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. Listed 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 (Accounting Policy 1(c)). These valuations also represent the fair value of the investments, *see note 9 on pages 65 and 66.*

A full list of the Company's investments is given on pages 22 to 28. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a review of the 20 largest equity investments by their aggregate market value, are shown on pages 7, 15 and 18 to 21.

Other Price Risk Sensitivity

20.4% of the Company's total equity investments at 31 December 2019 (2018 – 17.6%) were listed on the main list of the London Stock Exchange and a further 37.4% (2018 – 41.3%) on AIM. The NASDAQ Stock Exchange accounts for 21.8% (2018 – 24.5%), New York Stock Exchange for 4.2% (2018 – 4.1%) and other stock exchanges or unlisted 16.2% (2018 – 12.5%). A 10% increase in equity investment prices at 31 December 2019 would have increased total net assets and profit & loss after taxation by £98,812,000 (2018 – £78,490,000). A decrease of 10% would have the exact 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 Herald Investment Trust plc have an underlying NAV per share. The NAV per share of Herald Investment Trust plc fluctuates on a daily basis. In addition, there is volatility in the discount/premium the share price has to NAV.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the Year Ended 31 December

17. FINANCIAL INSTRUMENTS CONTINUED

(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 bonds and Government bonds, the interest rate and maturity dates of which are detailed below. Interest is accrued on cash balances at a rate linked to the UK base rate.

The Company had an undrawn £25 million multi-currency credit facility (2018: multi currency loan: £nil) which expired on 31 December 2019. The aim of the use of gearing was to enhance long term returns to shareholders by investing borrowed funds in equities and other assets. Gearing was actively managed. How and where borrowings were invested was 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 were then made by the manager.

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

FINANCIAL ASSETS

	2019 Fair value £'000	2019 Weighted average interest rate/ interest rate	2019 Weighted average period until maturity/ maturity date	2018 Fair value £'000	2018 Weighted average interest rate/ interest rate	2018 Weighted average period until maturity/ maturity date
Fixed rate:						
US bonds	**45,108**	**1.3%**	**1.6 Years**	46,785	1.6%	0.7 Years
UK convertible bonds	**2,646**	**7.9%**	**1.7 Years**	4,341	6.1%	2.1 Years
Cash:						
Other overseas currencies	**33,908**	**0.8%**		35,218	0.7%	
Sterling	**54,935**	**0.0%**		33,642	0.0%	
	88,843			68,860		

The benchmark rate which determines the interest payments received on cash balances is the Bank of England base rate.

Interest rate risk sensitivity

(a) Cash

An increase of 100 basis points in interest rates as at 31 December 2019 would have a direct effect on net assets. Based on the position at 31 December 2019, over a full year, an increase of 100 basis points would have increased the profit & loss after taxation by £888,000 (2018 – £689,000) and would have increased the net asset value per share by 1.32p (2018 – 1.00p). 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 2019 would have decreased total net assets and profit & loss after taxation by £679,000 (2018 – £308,000) and would have decreased the net asset value per share by 1.01p (2018 – 0.45p). 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 their balance sheets; they are considered to have more equity like characteristics.

(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 22 to 28 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 2019

	Investments £'000	Cash and deposits £'000	Other receivables and payables £'000	Net exposure £'000
US dollar	**307,531**	**20,389**	**4**	**327,924**
Norwegian krone	**14,202**	**4,300**	**–**	**18,502**
Korean won	**12,010**	**–**	**97**	**12,107**
Taiwan dollar	**19,111**	**5,416**	**–**	**24,527**
Euro	**50,049**	**3,803**	**67**	**53,919**
Australian dollar	**23,474**	**–**	**530**	**24,004**
Other overseas currencies	**20,739**	**–**	**7**	**20,746**
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	**447,116**	**33,908**	**705**	**481,729**
Sterling	**586,110**	**54,935**	**75**	**641,120**
	1,033,226	**88,843**	**780**	**1,122,849**

AT 31 DECEMBER 2018

	Investments £'000	Cash and deposits £'000	Other receivables and payables £'000	Net exposure £'000
US dollar	269,358	24,077	200	293,635
Norwegian krone	6,265	4,537	–	10,802
Korean won	8,623	–	114	8,737
Taiwan dollar	15,598	1,569	–	17,167
Euro	37,293	5,033	153	42,479
Australian dollar	13,515	–	–	13,515
Other overseas currencies	12,640	2	2	12,644
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	363,292	35,218	469	398,979
Sterling	468,388	33,642	145	502,175
	831,680	68,860	614	901,154

Foreign currency risk sensitivity

At 31 December 2019, had sterling strengthened by 10% (2018 – 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 on the balances denominated in foreign currency. A 10% (2018 – 10%) weakening of sterling against all currencies, with all other variables held constant, would have had the exact 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.

	2019 £'000	2018 £'000
US dollar	**32,792**	29,363
Norwegian krone	**1,850**	1,080
Korean won	**1,211**	874
Taiwan dollar	**2,453**	1,717
Euro	**5,392**	4,248
Australian dollar	**2,400**	1,352
Other overseas currencies	**2,075**	1,264
	48,173	39,898

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the Year Ended 31 December

17. FINANCIAL INSTRUMENTS CONTINUED
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 and for risk management purposes excluded from the credit risk analysis.

Credit Risk Exposure
The exposure to credit risk at 31 December was:

	2019 £'000	2018 £'000
Fixed interest investments	**45,108**	46,785
Cash and cash equivalents	**88,843**	68,860
Other receivables	**1,995**	1,575
	135,946	117,220

During the year the maximum exposure in fixed interest investments was £65,604,000 (2018 – £46,785,000) and the minimum £24,292,000 (2018 – £28,000,000). The maximum exposure in cash was £107,727,000 (2018 – £103,191,000) and the minimum £35,395,000 (2018 – £41,543,000).

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.

Equity Securities
The Company's unlisted investments are not readily realisable, but these only amount to 1.3% of the Company's total assets at 31 December 2019 (2018 – 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. 17.1% (£166 million) (2018 – 22.0% (£183 million)) of the listed equities in the portfolio are invested in 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 3.0% (2018 – 4.1%).

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:

	2019 One year or less £'000	2018 One year or less £'000
Other payables	**1,215**	961
	1,215	961

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 disclosed in the Level 1 category as defined in FRS 102.

Categorisation is based on the lowest level input that is significant to the fair value measure in its entirety.

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 2019

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Equity investments	**973,063**	**–**	**10,517**	**983,580**
Government debt securities	**45,108**	**–**	**–**	**45,108**
Convertible loan stocks	**–**	**–**	**4,538**	**4,538**
Total investments	**1,018,171**	**–**	**15,055**	**1,033,226**

AT 31 DECEMBER 2018

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Equity investments	768,960	–	10,302	779,262
Government debt securities	46,785	–	–	46,785
Convertible loan stocks	–	–	5,633	5,633
Total investments	815,745	–	15,935	831,680

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

AT 31 DECEMBER 2019

	£'000
Opening balance at 1 January 2019	**15,935**
Purchases	**400**
Sales	**(257)**
Total losses	
- on assets sold during the year	**(322)**
- on assets held at 31 December 2019	**(526)**
Assets transferred during the year	**53**
Return of capital	**(228)**
Closing balance at 31 December 2019	**15,055**

18. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE MANAGER

Under UK GAAP, the Company has identified the directors as related parties. The directors' emoluments and interests have been disclosed within the Directors' Remuneration Report on page 47 with additional disclosure in note 4. No other related parties have been identified.

The Company has agreements with HIML for the provision of management, accounting and administration services and promotional activities as disclosed in the strategic report on page 36. Details of transactions during the year are disclosed in notes 3 and 11.

19. POST BALANCE SHEET EVENTS

There are no significant events after the end of the reporting period requiring disclosure.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Herald Investment Trust plc will be held at 10–11 Charterhouse Square, London EC1M 6EE on 17 April 2020 at 11.30 am for the following purposes:

To consider and, if thought fit, approve resolutions 1 to 11 as ordinary resolutions and resolutions 12 and 13 as special resolutions.

ORDINARY RESOLUTIONS

1. To receive and adopt the directors' report, the strategic report and the financial statements and the auditor's report in respect of the year ended 31 December 2019.

2. To approve the Company's remuneration policy.

3. To approve the directors' remuneration report for the year ended 31 December 2019.

4. To re-elect Ian Russell as a director of the Company.

5. To re-elect Stephanie Eastment as a director of the Company.

6. To re-elect Tom Black as a director of the Company.

7. To re-elect Karl Sternberg as a director of the Company.

8. To re-elect James Will as a director of the Company.

9. To elect Henrietta Marsh as a director of the Company.

10. To appoint PricewaterhouseCoopers LLP as independent auditor to the Company to hold office until the conclusion of the next annual general meeting at which financial statements are laid before the Company.

11. To authorise the audit committee to determine the remuneration of the independent auditor.

SPECIAL RESOLUTIONS

12. That, the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued shares of 25p each in the capital of the Company in substitution for any existing authority under section 701 of the Act but without prejudice to any exercise of any such authority prior to the date hereof.

PROVIDED ALWAYS THAT

(i) the maximum number of shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;

(ii) the minimum price which may be paid for a share shall be 25p;

(iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than the higher of (a) 5% above the average mid closing price (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange;

(iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the directors);

(v) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the annual general meeting of the Company to be held in 2021; and

(vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

13. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice, such authority to expire at the conclusion of the annual general meeting in 2021.

On behalf of the board
Law Debenture Corporate Services Limited
Secretary

Registered Office:
10–11 Charterhouse Square London EC1M 6EE
18 February 2020

NOTES

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes. You may not use any electronic address provided either in this notice or any related documents to communicate with the Company for any purpose other than those expressly stated.

2. Shareholders are asked to use the online proxy voting service offered by Link Asset Services at www.signalshares.com to vote or appoint a proxy online. Votes must be received no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting. To vote online, the unique personal identification Investor code printed on your share certificate will be required. Shareholders who are unwilling or unable to vote digitally can 'opt-in' to receive a paper proxy card by telephoning the shareholder helpline on 0871 664 0300.

3. To be valid any hard copy proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Link Asset Services, 34 Beckenham Road, Beckenham, BR3 4TU no later than 48 hours (excluding nonworking days) before the time of the meeting or any adjourned meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID RA10) no later than 48 hours (excluding nonworking days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. The submission of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.

9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 3 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.

12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at 10–11 Charterhouse Square, London, EC1M 6EE.

13. Information regarding the AGM, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the manager's website at www.heralduk.com.

14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.

15. As at 18 February 2020 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 67,214,777 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 18 February 2020 were 67,214,777 votes.

16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

17. No director has a contract of service with the Company.

FURTHER SHAREHOLDER INFORMATION

HOW TO INVEST
The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker or an online share dealing platform or by asking a professional adviser to do so.

SOURCES OF FURTHER INFORMATION ON THE COMPANY
The price of shares is quoted daily in the Financial Times, The Daily Telegraph and The Times. The NAV per share is calculated and released daily to the London Stock Exchange and monthly to the Association of Investment Companies.

KEY DATES
If a dividend is declared in respect of a financial year, it is normally paid late April/early May. The AGM is normally held in April.

TAXATION
The price of the ordinary shares (adjusted for the price of attributable warrants) on 21 February 1994, which was the first day of trading, was 90.9p. The amount attributable to the warrants for the purpose of capital gains tax is 9.1p per share issued (1994 Annual Report). Any shareholder uncertain of his or her position is recommended to seek expert advice.

ISAS
The ordinary shares of the Company are qualifying investments for individual saving accounts.

ELECTRONIC PROXY VOTING
If you hold stock in your own name you should vote by returning proxies electronically at www.signalshares.com. If you have any questions about this service please contact Link Asset Services on 0871 664 0300 (overseas +44 (0)371 664 0300) (calls cost 12p per minute plus your phone company's access charge; or applicable international rate; lines are open 9.00 am to 5.30 pm Monday-Friday). Shareholders who wish to do so can obtain a hard copy proxy form by calling the above number or writing to the registrar at: Link Asset Services, 34 Beckenham Road, Beckenham, BR3 4TU.

MAINSTREAM INVESTMENT
The Company conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Company intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

KEY INFORMATION DOCUMENT ("KID")
Since 1 January 2018 there is a requirement to make a KID available to retail investors in the Company. The KID provides key information about the Company's shares as an investment product. The information is required by law to help potential shareholders understand the nature, risks, costs, potential gains and losses of the Company's shares and to help them compare it with other products. The KID can be viewed at https://www.heralduk.com/the-packaged-retail-and-insurance-based-investment-products-regulation-priips/

The Company is an investment trust. Investment trusts offer investors the following:

- Participation in a diversified portfolio of shares.
- Constant supervision by experienced professional managers.
- The Company is free from capital gains tax on capital profits realised within the portfolio.
- The opportunity to achieve improved performance for shareholders' funds in rising markets by the borrowing of additional money.

COMPANY SECRETARY
Law Debenture
Corporate Services Limited

REGISTERED OFFICE
10–11 Charterhouse Square
London
EC1M 6EE

ADMINISTRATOR
The Bank of New York Mellon

COMPANY NUMBER
02879728
(England and Wales)

ALTERNATIVE INVESTMENT FUND MANAGER AND PORTFOLIO MANAGER
Herald Investment Management Limited
10–11 Charterhouse Square
London
EC1M 6EE
Tel: 020 7553 6300
Fax: 020 7490 8026
Website: www.heralduk.com
E-mail: info@heralduk.com

INDEPENDENT AUDITOR
PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

ADVISERS

SOLICITORS
Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

STOCKBROKERS
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

BANKERS
The Bank of New York Mellon
One Piccadilly Gardens
Manchester
M1 1RN

REGISTRARS
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
(overseas +44 (0)371 664 0300)

(calls cost 12p per minute plus your phone company's access charge; or applicable international rate; lines are open 9.00 am to 5.30 pm Monday–Friday)

Website: www.signalshares.com
E-mail: enquiries@linkgroup.com

DEPOSITARY AND CUSTODIAN
The Bank of New York Mellon (International) Limited
1 Canada Square
London
E14 5AL

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

AIC
Association of Investment Companies.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD)
The Alternative Investment Fund Managers Directive (the "Directive") is a European Union Directive that entered into force on 22 July 2013. The Directive regulates EU fund managers that manage alternative investment funds (this includes investment trusts).

ALTERNATIVE PERFORMANCE MEASURE (APM)
An APM is a numerical measure of the Company's current, historical or future performance, financial position or cash flows other than a financial measure defined or specified in the applicable financial framework. In selecting these APMs, the Directors have chosen those typically used within the investment trust sector, to provide additional useful information to shareholders to help assess the Company's performance and position against its peers and the market generally.

DISCOUNT OR PREMIUM
The amount by which the share price of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

DISCOUNT OR PREMIUM	PAGE		31 December 2019	31 December 2018
Share Price (p)	3	A	**1,480.0**	1,075.0
Net Asset Value per share (p)	3	B	**1,668.1**	1,307.9
Discount	3	(A-B)/B	**11.3%**	17.8%

GEARING
The gearing ratio reflects the degree to which the Company is exposed to movements on its investment portfolio. The gearing ratio indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. A gearing ratio higher than 100 indicates the extent to which shareholders' funds are geared; a gearing ratio of 100 shows the Company is ungeared and fully invested; and a gearing ratio lower than 100 indicates that the Company is not fully invested. There are several ways to calculate gearing, and the following methods are used in this report.

Gross gearing
This reflects the amount of borrowings in use by the Company and takes no account of any cash balances or amounts invested in government debt securities which the directors deem to be equivalent to cash for the purpose of the net gearing / net cash calculation.

Net gearing or net cash
This reflects the amount of borrowings actively invested, i.e. investments (excluding amounts invested in government debt securities) divided by shareholders' funds. A net cash position arises when cash and cash equivalents and government debt securities held are greater than borrowings.

	PAGE		31 December 2019 £'000	31 December 2018 £'000
Cash and cash equivalents	59	A	**88,843**	68,860
Add: Government debt securities	65	B	**45,108**	46,785
Total cash and cash equivalents and government debt securities		C = A+B	**133,951**	115,645
Net assets	59	D	**1,122,849**	901,154
Add: borrowings		E	**-**	-
Net assets plus borrowings		F = D+E	**1,122,849**	901,154
Less: Total cash and cash equivalents and government debt securities		C	**(133,951)**	(115,645)
Total assets (excluding total cash and cash equivalents and government debt securities)		G = F-C	**988,898**	785,509
Gross gearing		F/D	**100**	100
Net gearing		G/D	**n/a**	n/a
Net cash		G/D	**88**	87

NET ASSET VALUE (NAV) PER ORDINARY SHARE
The value of the Company's assets less any liabilities for which the Company is responsible, divided by the number of shares in issue. See note 14 on page 68. The NAV per ordinary share is published daily.

The NAV per ordinary share is shown both including and excluding current year revenue.

The change in NAV per share (see total return below) during 2019, as shown on page 1, is calculated by taking 2019 total return and dividing by the opening NAV for the year (that is, the NAV disclosed for 31 December 2018).

ONGOING CHARGES

The ongoing charges figure has been calculated in accordance with AIC guidelines: annualised charges (total expenses), excluding non-recurring expenses and interest, incurred by the Company, divided by the average daily net asset values throughout the year.

The ongoing charges are derived in accordance with the following table:

	PAGE		2019 £'000	2018 £'000
Investment management fee	58	A	**10,537**	10,050
Other administrative expenses	58	B	**833**	726
Less: costs in relation to custody dealing and non-recurring expenses		C	**(67)**	(44)
Ongoing charges		D=A+B+C	**11,303**	10,732
Average net assets		E	**1,035,192**	998,889
Ongoing charge figure		D/E	**1.09%**	1.07%

TOTAL RETURN

Share price and NAV total returns show how the NAV and share price have performed over a period of time in percentage terms, taking into account both the movement in share price/NAV and any dividends paid to shareholders.

	PAGE		Share Price	NAV
Opening at 1 January 2019	3	A	1,075.0p	1,307.9p
Closing at 31 December 2019	3	B	1,480.0p	1,668.1p
Price movements		C=(B-A)/A	37.7%	27.5%
Dividend reinvestment*		D	0.0%	0.0%
Total return		C+D	37.7%	27.5%

* No dividend has been declared for the year (2018-nil).