Herald
LEADING-EDGE INVESTING

Herald Investment Trust plc
2020

Annual report & financial statements
31 December 2020

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.

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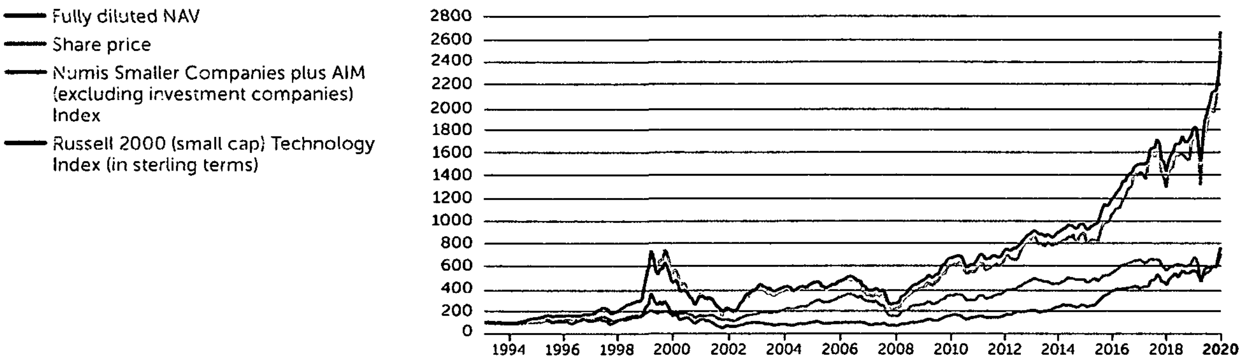
HIGHLIGHTS

NET ASSET VALUE (NAV)[A] PER SHARE 31 DECEMBER 2020	CHANGE IN NAV[A] PER SHARE IN 2020	TOTAL NAV RETURN SINCE INCEPTION
£22.85	+37.0%	+2,394.9%

NAV AT 31 DECEMBER 2019		TOTAL RETURN IN 2020	SHARE BUYBACKS IN 2020		NAV AT 31 DECEMBER 2020
£1,123m	⊕	+£405m	-£25m	⊜	£1,503m

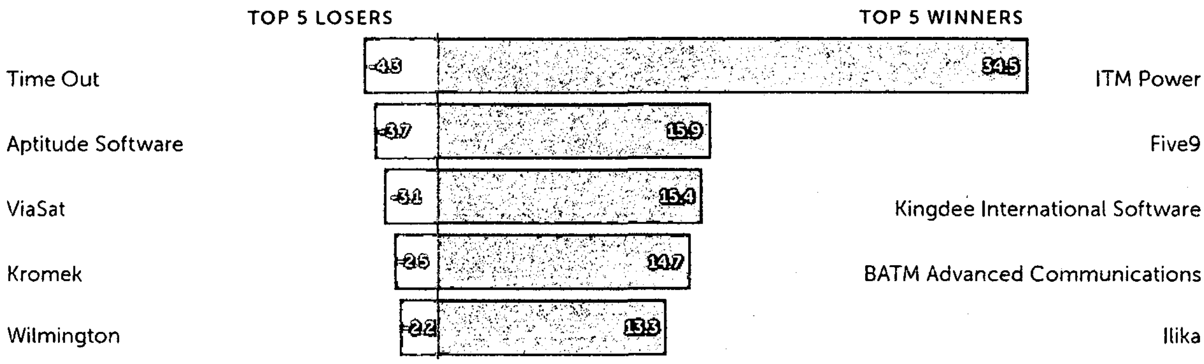
A Alternative Performance Measures - see page 78.

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



Source: Refinitiv

TOP FIVE WINNERS AND LOSERS 2020
TOTAL GAIN/LOSS IN 2020 IN STERLING TERMS (MILLIONS)



COMPANY SUMMARY

Company data at 31 December 2020

SHAREHOLDERS' FUNDS	MARKET CAPITALISATION
£1,503m	**£1,477m**

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 plus AIM (ex. investment companies) Index 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 PraxisIFM Fund Services (UK) Limited having taken on the role on 1 December 2020 from Law Debenture Corporate Services Limited.
CAPITAL STRUCTURE	The Company's share capital consisted at 31 December 2020 of 65,783,418 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 1,528,359 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. From 1 January 2021 HIML's annual remuneration percentage has been reduced so that 1.0% of the Company's net asset value (excluding current year revenue) is charged on the first £1.25bn and 0.8% thereafter. These fees are 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	The alternative performance measures used in the annual report and financial statements are described on pages 78-79.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Investment trusts are UK public listed companies and as such are required to comply with the listing rules of the UK Listing Authority, which is a division of the Financial Conduct Authority.

YEAR'S SUMMARY

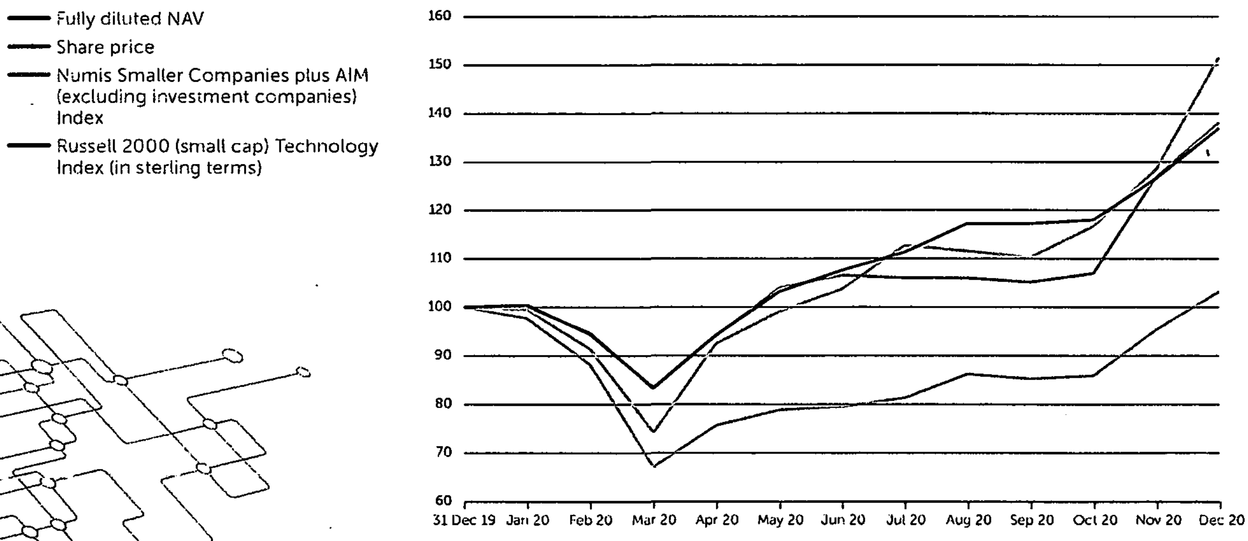
	31 December 2020	31 December 2019	% change
Total net assets	**£1,503.4m**	£1,122.8m	
Shareholders' funds	**£1,503.4m**	£1,122.8m	
Net asset value per ordinary share[A]	**2,285.3p**	1,668.1p	+37.0
Share price[A]	**2,245.0p**	1,480.0p	+51.7
Numis Smaller Companies plus AIM (ex. investment companies) Index (capital only)	**6,040.0**	5,842.6	+3.4
Russell 2000 (small cap) Technology Index (in sterling terms) (capital only)[B]	**4,637.0**	3,359.5	+38.0
Dividend per ordinary share	**–**	–	
(Loss)/profit per ordinary share (revenue)	**(6.00p)**	0.05p	
Ongoing charges[A]	**1.08%**	1.09%	
Discount to NAV[A]	**1.8%**	11.3%	

Year to 31 December	2020	2020	2019	2019
Year's high and low	**High**	**Low**	High	Low
Share price	**2,265.0p**	**897.0p**	1,514.0p	1,060.0p
Net asset value[A] per ordinary share	**2,288.6p**	**1,238.3p**	1,679.6p	1,301.4p
Discount[A]	**28.8%**	**1.0%**	18.5%	6.8%

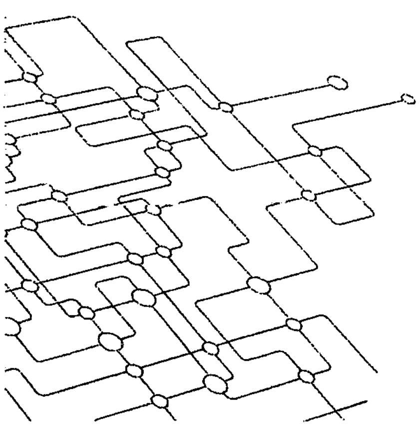
At 31 December	2020	2019
(Loss)/profit per ordinary share		
Revenue	**(6.00p)**	0.05p
Capital	**614.30p**	355.30p
Total	**608.30p**	355.35p

A Alternative Performance Measure - see page 78.
B Investments and indices valued at USD/GBP exchange rate of 1.368 at 31 December 2020 (1.325 31 December 2019).

1 YEAR CHART OF NAV, SHARE PRICE AND COMPARATIVE INDICES – CAPITAL RETURN
(FIGURES HAVE BEEN REBASED TO 100 AT 31 DECEMBER 2019)



Source: Refinitiv



Investment Report

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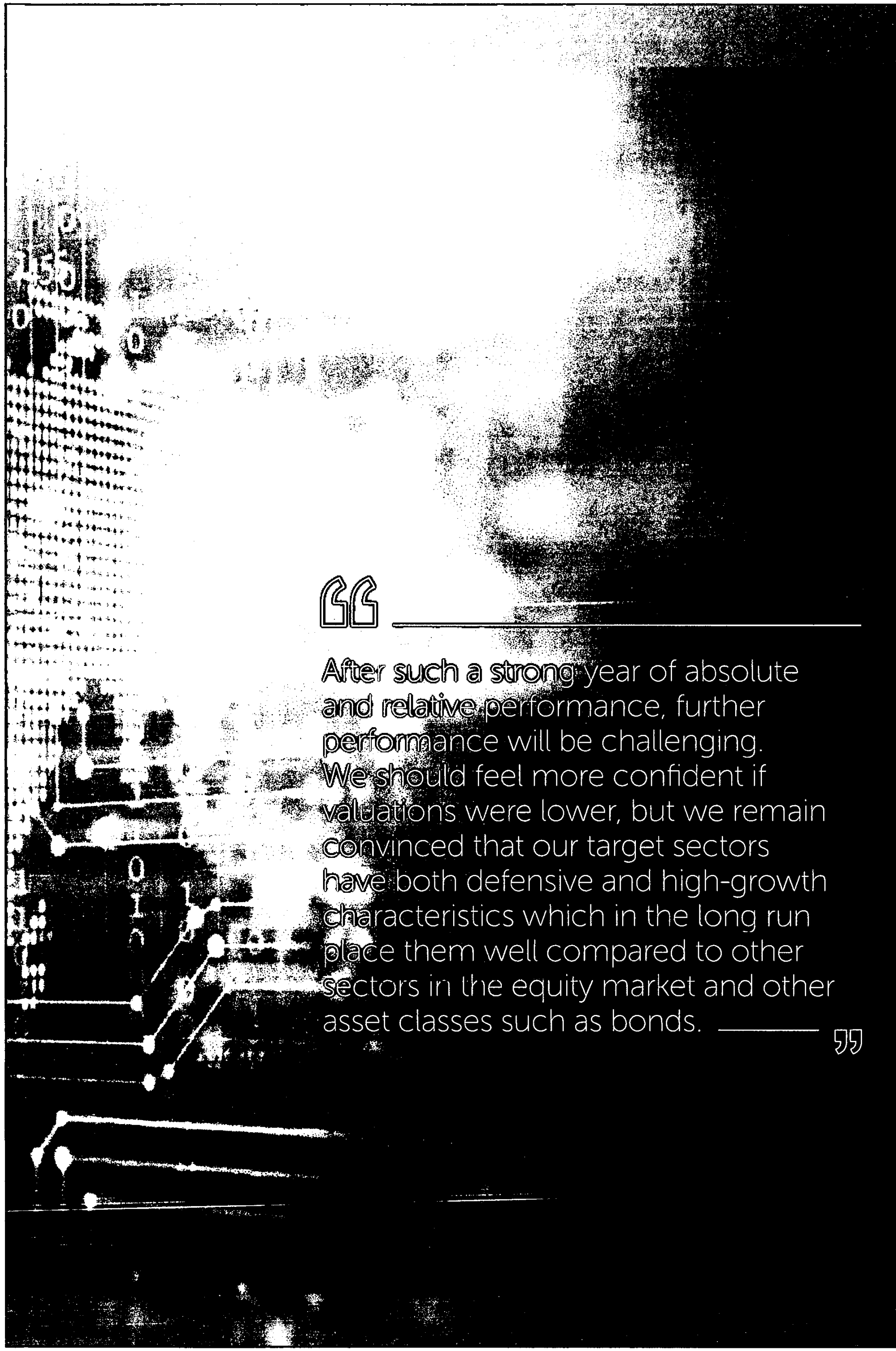


“After such a strong year of absolute and relative performance, further performance will be challenging. We should feel more confident if valuations were lower, but we remain convinced that our target sectors have both defensive and high-growth characteristics which in the long run place them well compared to other sectors in the equity market and other asset classes such as bonds.”

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

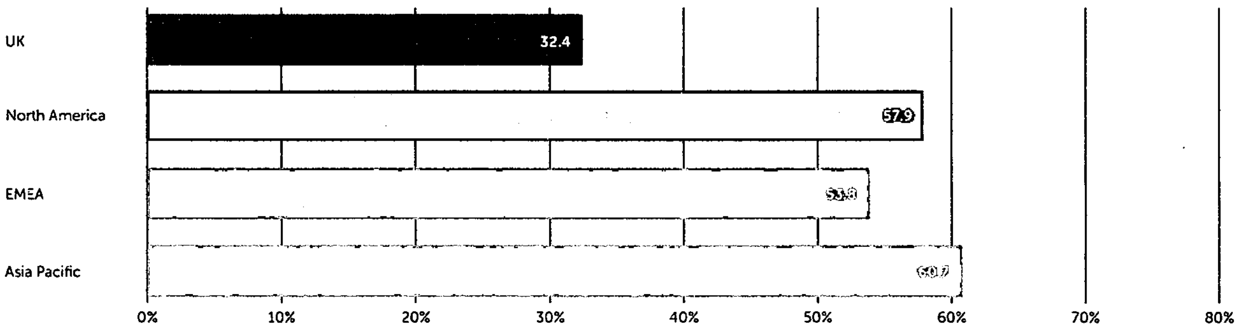
The Company was established in 1994 raising £65m to invest in UK and European smaller TMT companies. In 1996 a further £30m was raised to globalise the fund with the recognition that TMT is a global sector and cross-referencing across geographies is a prerequisite for investing within the sector. Since 1996 no further capital has been raised, but share repurchases totalling £163m 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 12.7%.

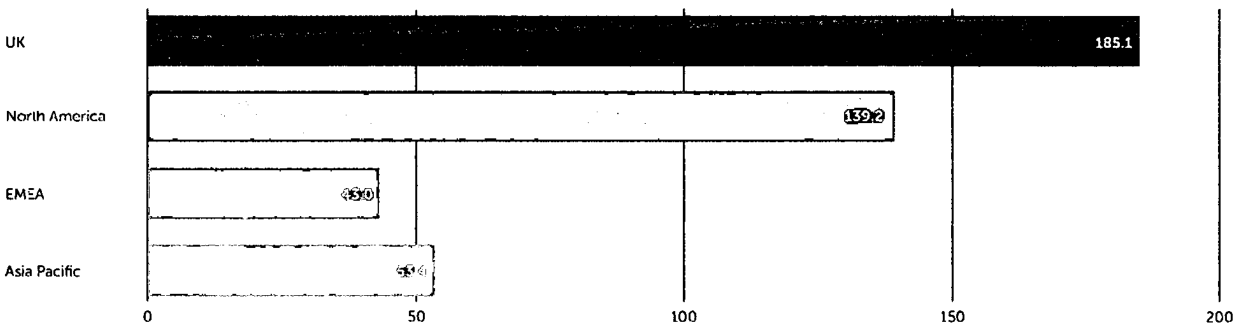
GEOGRAPHICAL ANALYSIS

GEOGRAPHICAL RETURNS

TIME WEIGHTED RETURN BY GEOGRAPHY YEAR ENDED 31 DECEMBER 2020*
(STERLING, PERCENT)

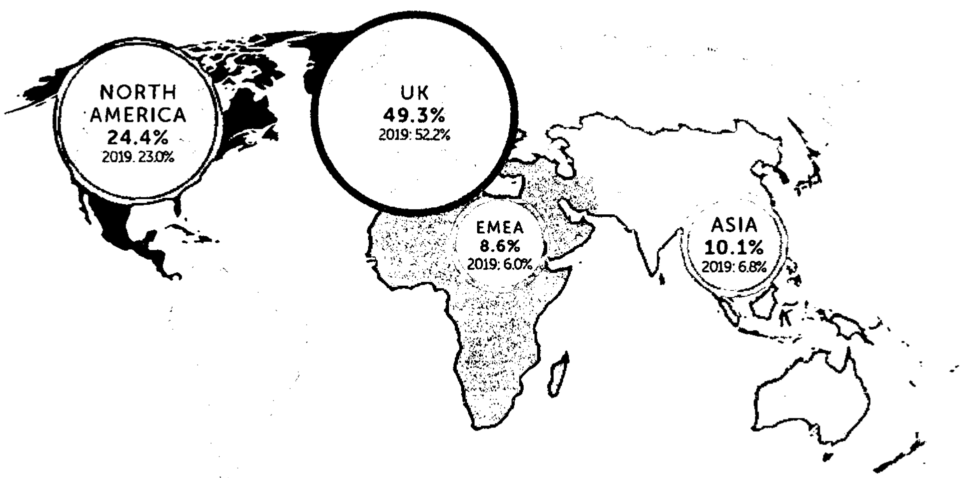


CONTRIBUTION TO EQUITY INVESTMENT APPRECIATION YEAR ENDED 31 DECEMBER 2020*
(STERLING, MILLIONS)



* Costs including those of borrowing are accounted for at Company level.

GEOGRAPHICAL SPREAD OF EQUITY INVESTMENTS AT 31 DECEMBER 2020†



† As a percentage of total assets.

CHAIRMAN'S STATEMENT

Another year of excellent performance

After this challenging year I am delighted to report that the Company's net asset value per share appreciated by 37.0% in 2020. It is evident that technology has played a huge role in the changes that have occurred in a Covid-inflicted world, such as the mass migration to working at home, internet shopping, and home entertainment. It has also enabled the economy to function surprisingly well despite social-distancing. A few of our investee companies have seen increased demand associated with these changes, a few have suffered, and the majority have managed to adapt in a stable way. This stability has led investors to rerate our target sectors, focused on smaller quoted companies in the technology, media and telecommunications sectors globally. The portfolio holdings in aggregate have had limited exposure to the more troubled parts of the economy.

The UK portfolio which accounts for nearly 50.0% of the assets of the Company delivered a total return of 32.4%. This compares favourably with the Numis Smaller Companies plus AIM (ex investment companies) Index, which delivered a total return of 4.9%. This return has taken the cumulative profits from our UK investments to over £1.0bn since inception in 1994: an exciting achievement. To put this in context: £65m was raised in 1994 and £30m two years later, and no further capital has been raised since. This capital has been recycled, when profits have been realised in mature investments and over £560m has been invested as primary capital directly into emerging companies, including £436m in the UK, to support their growth in addition to investments bought in the secondary market. Overseas holdings have delivered further profits of over £500m. The star performer for the year has been the UK company ITM Power, which appreciated by £34.5m in the year.

Although over the long-term returns have been greatest in the UK, all the overseas regions delivered higher percentage returns than the UK in 2020. North America remains the second biggest region with c25% of the assets of the Company. Its sterling total return for the year has been 57.9% compared to the total return of 38.7% in the Russell 2000 (small cap) Technology Index, which is a particularly pleasing degree of outperformance. The strongest contributor has been Five9, an investment originally made at an average price of $4.65 in 2015, which closed the year at a price of $174.0. It provides internet-based telephony for call centres and enables "contact centre" employees to work from home. The exposure to EMEA (Europe, Middle East and Africa) increased from 6.0% to 8.6%. The return was 53.8% with Nordic Semiconductor, a designer of low power Bluetooth semiconductors, and Esker, which provides software for electronic invoicing and procurement, contributing 41.5% of the return, representing two fifths of the EMEA return.

"It is evident that technology has played a huge role in the changes that have occurred in a Covid-inflicted world."

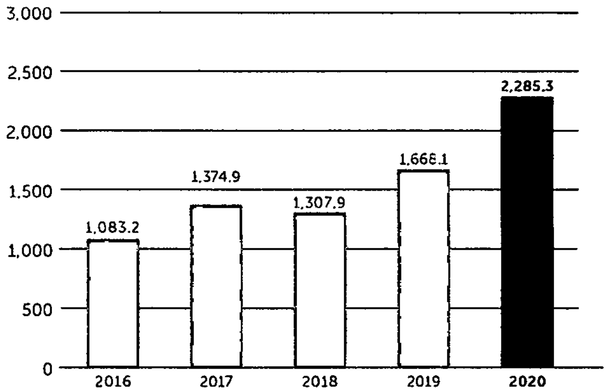
IAN RUSSELL, CHAIRMAN

The Asian exposure was increased from 6.8% to 10.1%, and the return from these holdings was also strong at 60.7%. The best performer was Kingdee International Software, a Hong Kong listed Chinese Enterprise Resource Planning provider. The Japanese and Korean elements of the portfolio also delivered strongly. Although Coronavirus appears to have started in China, and supply chains were hit early in the year, Asian countries have generally contained the virus more effectively than the West. This has crucially enabled the continued supply of technology hardware worldwide.

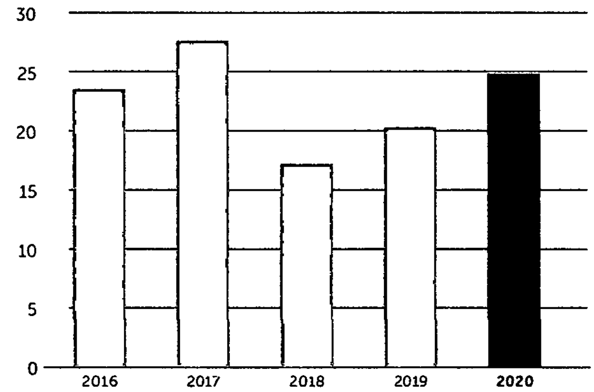
Overall, on Bloomberg forecasts, a measure of the price to earnings (p/e) of the profitable companies in the portfolio has risen from 23.2x at the start of 2020 to 30.8x implying a rerating of a third: this rerating accounted for the majority of the year's appreciation in net asset value of 37.0%. Nevertheless, in aggregate the profits in investee companies have also appreciated this year. This is a testament to the success most companies have made in adapting to working from home and working shifts to enable appropriate social distancing. We further observe that the rerating of UK stocks has on average been 21.2% which is similar to the Asian rerating, but much lower than the rerating in EMEA (+39.6%) and North America (+61.3%). It is apparent that investors were apprehensive about the UK market perhaps reflecting Brexit uncertainties, and also reflecting the illiquidity in the UK smaller companies' market, and the regulatory pressures which have made so many investors withdraw from this asset class.

The income account has been adversely affected by a 17.7% decline in dividend income. UK dividends have fallen 25.3%. A number of companies announced final figures in March when there was peak Covid uncertainty, which led to many dividends being cancelled. Later in the year when trading

NET ASSET VALUE PER SHARE (PENCE)



SHARE BUYBACKS (STERLING, MILLIONS)



had proved stable, payments were resumed; and a further recovery is expected in 2021. The Company buys back shares opportunistically from time to time. This year 2.3% of the outstanding share capital was repurchased and cancelled for £24.8m: at an average price of £16.26 per share. During the year we also conducted a competitive process to ensure the best secretarial arrangements for the Company. Following this, Praxis were appointed. In light of the strong growth in assets the fee structure is changing from a flat rate of 1.0% to 1.0% on net assets up to £1.25bn and 0.8% thereafter.

The Company has been largely unaffected by Brexit. The EU has not recognised Investment Trust vehicles so has classified them as AIFs (Alternative Investment Funds). There has never been a level playing field in services, so there are no EU-based investors on the Company's share register. In contrast over 12.0% of the Company's shares are owned in North America, and a small proportion in Switzerland and the Channel Islands. Post Brexit the Company would benefit if the UK rolled back and excluded Investment Trusts from the AIFMD legislation, which includes the requirement to have a depositary (at a cost of circa. £200,000 per annum). We believe that we could ensure equal security for shareholders at substantially lower cost and with less distraction for the Manager. As to the effect of Brexit on the portfolio, we have seen negligible impact to date.

Environmental, Social and Governance ('ESG') has become a very topical issue. The Company has benefited directly from the appreciation of some long-held shares, and our target sectors typically score well on ESG. Firstly, technology companies generally enable more efficient working, help lower carbon emissions, and have low emissions themselves; secondly, the sectors are skill intensive. From a shareholder perspective, relevant skillsets are valuable and support firm product pricing, but companies have to be competitive in salaries and working conditions to retain talent. This leads to good social scores but increases costs to shareholders in terms of share dilution. The Manager became a signatory of the PRI (Principles for Responsible Investing) in January 2020 and is applying to be on the list of the initial signatories of the revised 2020 UK Stewardship Code.

The Annual General Meeting will be held on 20 April 2021 at the Company's registered office. However, due to the ongoing restrictions on large gatherings, it will not be possible for shareholders to attend in person. I would therefore strongly encourage shareholders to vote instead by proxy. Full details of the Annual General Meeting, the resolutions proposed and how to vote by proxy are described in the Notice of Meeting and supporting explanatory notes on pages 74 to 75. Shareholders who have questions that they would have raised at the Annual General Meeting, should submit them by 16 April 2021 to the Company's email address, info@heralduk.com. Answers will be published on the Company's website in advance of the meeting. If circumstances were to change, the board will notify the market of any alteration to the Annual General Meeting arrangements.

The $64m question is what the second-order effects of the virus crisis will be. Fiscal deficits are huge globally and quantitative easing has driven markets in 2020. We expect political pressures will ensure that there will be no rapid policy tightening. Abnormally low absolute and real interest rates seem set to prevail, which should support equity markets for the time being. As vaccines are rolled out, economies will normalise and there may well be a recovery in those stocks more adversely affected by the various lockdowns.

After such a strong year of absolute and relative performance, further performance will be challenging. We should feel more confident if valuations were lower, but we remain convinced that our target sectors have both defensive and high-growth characteristics which in the long run place them well compared to other sectors in the equity market and other asset classes such as bonds.

IAN RUSSELL
CHAIRMAN
22 February 2021

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

	1 year	5 year	10 year
Herald - UK	32.0	146.4	306.2
Numis Smaller Companies plus AIM (ex. Investment company) Index total return	4.9	47.3	144.1
Herald - North America	55.6	296.6	567.1
Russell 2000 (small cap) Technology Index total return	38.8	206.3	397.6
Herald - Asia	63.4	181.5	228.0
Herald - Europe Middle East and Africa	59.7	302.7	715.7
Herald - Total Return NAV per Share^	37.0	159.2	284.8

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

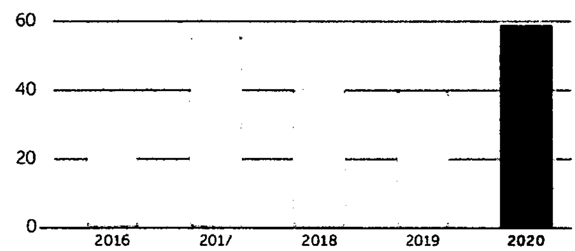
INVESTMENT MANAGER'S REPORT

Companies remarkably effective in continuing operations throughout lockdown

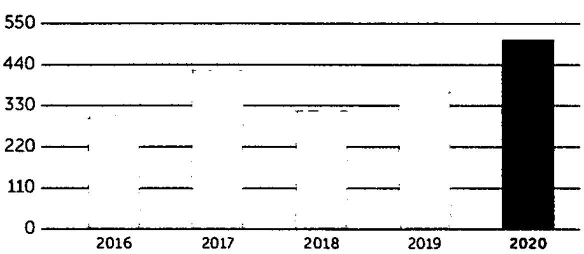
Had I been told that much of the world would be in varying degrees of lockdown for much of the year, I would have anticipated an evaporation of profits in portfolio companies and weaker share prices.

In the early part of the year manufacturing stopped in China and supply chains for certain components led to widespread product shortages. We did not envisage that China would control the virus so quickly and that much of the developed world would have failed to do so nearly a year later. Asia dominates as the location for manufacturing technology products, while North America and the UK are more focussed on software, IP services and media. The latter have generally been remarkably effective in continuing operations with workers at home. It is extraordinary how seamlessly and quickly the adjustment took place. The smaller quoted company investment world in which we operate moved from face-to-face meetings and conferences to video conferencing, which has enabled some continuity.

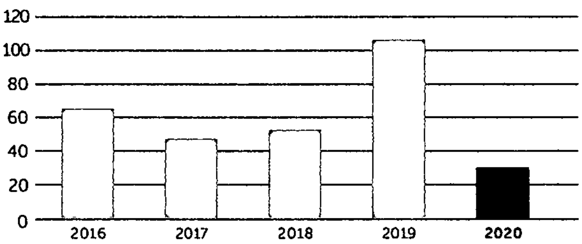
PLACINGS AND IPOs
STERLING MILLIONS



AIM HOLDINGS
STERLING MILLIONS



TAKEOVERS
(STERLING, MILLIONS)



These calls are better than reading reports and analysing balance sheets alone, and better than telephone calls, but an inferior means of communicating than in person. We have found them effective for catching up with companies we know well, but less effective for group meetings, and companies new to us. We are reluctant to make new investment in companies until we have got to know management, but this year for the first time we have had to. We look forward to a return to normal operations as and when vaccinations permit this, and to a time when communication within our team will be easier again.

The endless Zoom calls have made me appreciate that the seamless transition has not occurred without huge efforts, because I have seen many tired looking chief executives on the screen. I am enormously grateful, and shareholders should be too, for the evident grit and effort that has clearly been made for the benefit of shareholders, employees and the wider economy.

I am aware that in the early part of my career there was greater respect for entrepreneurs and a respect for the associated wealth creation, which was so needed after the dire economy of the 1970s. They are needed as much again now. I would go further and say it is a *cri de coeur* that we must respect more those who take responsibility, pay taxes and create wealth. Happily, the UK has many with a creative and entrepreneurial spirit.

My concern is that the stock market has become less supportive, with fewer professional smaller company investors, and a more arduous legal and regulatory environment. I observe also how many fewer companies there are in our remit in the United States than there were. The expense of Sarbanes Oxley made it less economic to float small companies in the US, while private equity has been able to use more favourable tax structures and cheap bank debt to take many businesses private. Forty-five companies in the Company's portfolio have been taken over in the last few years by private equity, mainly in the UK and US. In the UK there has been a greater replenishment cycle with companies coming to AIM for development capital, whereas IPOs in the US tend to be exits at a later stage for smart venture investors. In contrast the number of companies has grown in Europe and Asia.

To quantify this, I show below an analysis of the number of companies within the Bloomberg's technology and communications sectors with a market capitalisation >$100m and <$3bn now and a decade ago:

	2010	2020	% change
UK	82	103	+26
EMEA	239	310	+30
Asia (developed)	836	1,369	+64
United States	574	394	-31

There may be an argument to say that the US has been so successful with venture capital that public companies are not needed. I am sceptical. In an ideal world, companies would have permanent capital and investors would have liquidity at any time. The stock market has offered this for many years to companies and to small investors alike and to a lesser extent to institutional investors. In contrast, venture capital and private equity offer neither permanent capital nor liquidity and impose overleverage. At the same time, the concentration of quoted funds in a few hands means genuine efficient asset allocation becomes difficult and small companies become irrelevant for the large funds. It is a pity. I hope that in time the powers that be in the US and elsewhere will appreciate the benefits of public markets.

REGIONAL ALLOCATION CHANGES
(STERLING THOUSANDS)

	Valuation at 31 December 2019	Net acquisitions/ (disposals)	Amortisation	Appreciation/ (depreciation)	**Valuation at 31 December 2020**
Equities*					
UK	586,110	(24,851)	–	179,378	**740,637**
EMEA	67,378	19,110	–	42,384	**128,872**
North America	257,769	(29,543)	–	138,477	**366,703**
Asia Pacific	76,861	22,994	–	52,090	**151,945**
Total equities	988,118	(12,290)	–	412,329	**1,388,157**
Government bonds	45,108	(3,607)	(35)	960	**42,426**
Total investments	1,033,226	(15,897)	(35)	413,289	**1,430,583**
Net liquid assets	89,623	(13,666)	–	(3,173)	**72,784**
Total assets+	1,122,849	(29,563)	(35)	410,116	**1,503,367**

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

INVESTMENT MANAGER'S REPORT CONTINUED

PORTFOLIO P/E BY REGION

	2013	2014	2015	2016	2017	2018	2019	**2020**
UK	16.9	15.8	16.4	15.9	19.6	15.9	21.7	**26.2**
EMEA	14.9	13.4	16.3	17.5	21.4	17.7	25.0	**34.9**
Asia	9.6	12.3	13.2	13.1	14.8	16.3	20.7	**25.0**
North America	20.9	19.2	20.1	20.7	27.8	24.0	27.9	**45.0**
Total fund	16.8	16.1	16.9	16.7	20.7	17.7	23.2	**30.7**

RERATING BY REGION

	1yr rerating	2yr rerating	3yr rerating	7yr rerating
UK	20.7%	64.8%	33.7%	55.0%
EMEA	39.6%	97.2%	63.1%	134.2%
Asia	20.8%	53.4%	68.9%	160.4%
North America	61.3%	87.5%	61.9%	115.3%
Total fund	32.3%	73.4%	48.3%	82.7%

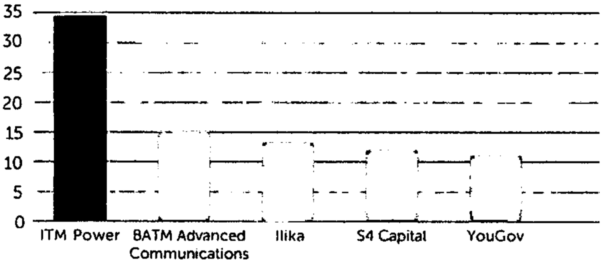
Source: Bloomberg. Analyst earnings estimates, where available, are aggregated using the Bloomberg weighted harmonic average calculation. This excludes loss-making companies from the p/e calculation. A weighted harmonic average will normally be lower than a geometric or arithmetic average. By way of comparison the 2020 Total Fund weighted average arithmetic p/e (120.5x) or median p/e (34.75x). The 2020 index method p/e (including loss making companies) is 73x.

In the UK, as opportunities open up post Brexit to forge our own destiny, we would like to see change in two particular areas. Firstly, we would like quoted companies to have equality of treatment in terms of tax and regulation with similar sized unquoted companies to remove the inbuilt bias towards highly leveraged private structures. Secondly, we would like to see a greater diversity of long-term capital directed towards helping smaller quoted companies scale up their operations and to provide them with the permanent capital they need to support long-term growth plans. The UK Chancellor has expressed a desire to make the UK stock market an attractive place to list. In our experience there is a greater need to attract investors than companies. Companies will not be attracted to list while markets in other jurisdictions and private equity pay higher prices than the UK market. It will be fascinating to see how things evolve over the next few years, and we shall endeavour to adapt as necessary.

We intend to continue investing where we see value. We currently see that there is a trade-off between risks in less regulated markets and expensive valuations with declining liquidity in more regulated markets. A crude measure of valuation is derived from the Bloomberg-derived estimates of forward p/e by region of the Company's portfolio over time. It does highlight the sharp upward rerating over the last two years.

UK

TOP 5 WINNERS BY REGION – UK
(IN STERLING £M)



The return on the UK portfolio was -2% at the interim stage, but there has been a strong second half leading to a return for the year of 32.4%. This is pleasing relative to the total return of the Numis Smaller Companies plus AIM (ex. investment companies) Index of 4.9%. It also compares favourably with various UK technology indices, albeit the outperformance is not as great versus AIM technology companies, as it is versus larger companies. The five best UK holdings delivered a total return of £85.6m, which is material in relation to the total UK return of £185.2m. These five were ITM Power (ITM), BATM Advanced Communications (BATM), Ilika, S4 Capital and YouGov. In turn they were five of the top ten in all regions. Candidly had I been asked to say which companies would be best performers in 2020 none of these would have been on my shortlist, which is one reason we have a broad spread of investments. Equally I respect management in each of these, and all but S4 Capital which we first bought in 2018, have been long-held positions, but you never quite know when others will also be attracted.

ITM has been one of three hydrogen players in the portfolio, the other two being Ballard Power Systems and Hydrogenics in Canada. Sadly, the latter was acquired in 2019 by Cummins before the fashionable run in the subsector seen this year. ITM converts electricity into hydrogen, to provide storage of renewable energy. I do gulp at the valuation of ITM with a market capitalisation of £2.8bn, and minimal revenues, we have realised gains of £11m during the year. We did participate in funding rounds in 2012, 2014, 2016, 2017 and 2019 as well as one in 2020. In the 5 rounds prior to this year I invested in aggregate £4.0m at an average price of 30.1p, and a further £1.5m at 235p in September. The funding rounds in 2016 and 2017 were at 15p and 17p respectively when the company was friendless, and which were at a lower price than the 50p level in 2012. This is the nature of long-term early stage investing, but had we not invested the company would not have existed for the more recent gains. This provides an emphatic example of the long-term support and funding that we provide for early-stage companies. The concept which excites us is that the cost of wind and solar power is low, but insufficiently reliable in its generating output. If surplus renewable energy can be cost effectively stored it would be a huge breakthrough. Initially ITM's aim was to generate hydrogen to fuel cars and buses, but a bigger market is to replace heating gas.

The investment by Linde in the last round and joint venture for project management adds credibility to the management team with its ambitious target.

UK return over £1bn since inception

KATIE POTTS, FUND MANAGER

BATM showed great agility by adapting to produce Covid tests. Ilika develops solid state batteries. We invested in three funding rounds in 2014, 2015 and 2018 an aggregate sum of £2.1m, at prices of 60p, 73p and 20p in that order, and a further £1.1m at 40p in March 2020. I am astonished it has closed the year at 200p, but equally impressed that some of the world's leading semiconductor companies have sufficient demand for the product that Ilika are building manufacturing capacity. S4 Capital is Martin Sorrell's new vehicle focused on the digital world, and YouGov one of the few household names in the portfolio has made traction with its subscription products.

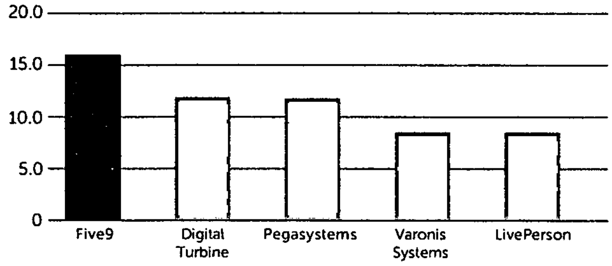
The UK also had the worst performers including Time Out, Aptitude Software, Kromek, Wilmington and M&C Saatchi which collectively lost £14.9m. In the first half the return of the media stocks was -20%, but this recovered to +19.5% by year end. There remained some notable laggards.

Although the UK return has underperformed all the overseas regions over the last 5 years it is entirely due to the UK's rerating being more modest. The Manager has had numerous conversations with all the UK companies we hold, and none appear apprehensive about the Brexit outcome. The UK portfolio p/e of 26.4x is higher than it has been, but materially more reasonable than valuation in EMEA and North America from which we take comfort. Overall, we see pluses and minuses with regard to the UK portfolio, seeing better value but worse liquidity than in other markets.

The most exciting statistic is that the cumulative return of the UK portfolio since inception is now £1.06bn, and the Time Weighted Return is 13.5% per annum. This compares with an annualised return of 5.2% for the FTSE-100 and 6.1% for the FTSE All-Share Index over the same time frame, and NASDAQ's annualised return has been 12.2% in sterling, even including the mega successes of Apple, Microsoft etc. It is fulfilling that primary capital has been invested through public offerings and placings to the tune of over £436m, which has helped create businesses and added-value jobs, as well as providing good returns to shareholders.

NORTH AMERICA

TOP 5 WINNERS BY REGION – NORTH AMERICA (IN STERLING £M)



The North American portfolio has returned 57.9% which compares well with the sterling total return of 38.8% from the Russell 2000 (small cap) Technology Index. North America continues to account for c.25% of net assets. We do however observe that the p/e of the portfolio has appreciated 61.3% over the last year. It has to be said that this is a crude measure and a number of factors contribute: (i) some lower p/e stocks have been taken over by private equity; (ii) the US fashion is to reward companies in share price terms for revenue growth and not profits, so earnings are not such a driver; and (iii) forward estimates do not normally include share-based compensation which materially flatters US valuations. In short, I find valuations of North American stocks uncomfortably high, but made that mistake a year ago. With the US Government in particular continuing such a loose fiscal and monetary policy mix, maybe the ratings can stretch further.

North American portfolio returns still good – 57.9% over the year and 567.0% over 10 years

KATIE POTTS, FUND MANAGER

Whereas in the UK the pace of takeovers was lower than it has been for years, the pace continued in the US: Mellanox, Adesto Technologies, Inphi and Meet Group were all acquired during the year, realising an aggregate cash value of £29.3m with Fitbit and Pluralsight outstanding. This takes the cumulative value of North American takeovers to £156.6m over the last six years, which is remarkably similar to the value of the entire portfolio in that region at the start of the period.

Within the North American portfolio, the top three gainers in value were Five9, Pegasystems and Digital Turbine, which collectively returned £39.5m. However, 12 stocks appreciated more than 100%. In order, they were: Veritone, Digital Turbine, Ballard Power Systems, Materialise, Five9, Bandwidth, SailPoint Technologies, AXT, Brightcove, Ribbon Communications, Varonis Systems and Inphi.

INVESTMENT MANAGER'S REPORT CONTINUED

We do not make investments when the market capitalisation exceeds $3bn, but a record proportion of the portfolio companies now exceed this $3bn level as a result of capital appreciation, particularly in North America. In this region, the aggregate value of these stocks is £212.6m with an aggregate book cost of £53.0m, so the average appreciation is 301.9%. These larger holdings have been used effectively as an ATM to invest in smaller companies over the years, but again this year, the scale of takeovers, and the scale of share price appreciation have been faster than the rate of reinvestment. We have considered raising the size threshold, but these larger holdings are more expensive, and we wish to retain our focus on earlier stage investments for new positions. There have been some smaller IPOs, and there is a growing fashion for SPACs (special purpose acquisition companies), which is a lower cost route to an IPO.

Thus far we have avoided them because information disclosure is poorer, which attracts racier management, but we will follow progress in the coming quarters.

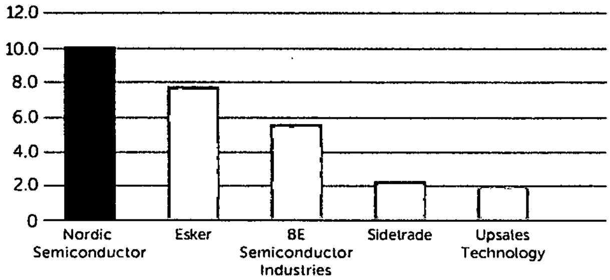
The most evident bubble has been in compensation at all levels in California, particularly in San Francisco and the Bay Area. It has been a challenge for small companies to compete for talent with the mega-successes like Alphabet, Apple and Facebook, which is why stock-based compensation has grown, and is now arguably out of control. Certainly, in some cases valuations do not seem to adequately reflect the dilutive effect which can often lead to share count increases of over 5% per annum. These companies, large and small, are currently all working from home. It will be fascinating to see what the second-order effects of Covid are.

Talented, ambitious and mercenary people have flocked to Northern California, so that housing costs and office costs are high as well as salaries, but there is also the creative stimulus of such an active hub, and the associated transfer of skills. Companies can now evidently hire cheaper remote workers but will this enable the same level of innovation? Certainly, one positive of the epidemic is that companies have become more cost-conscious, which may lead to a greater focus on profitability, which we regard as more sustainable than the infatuation with revenue growth. Nevertheless, this part of the world has driven the trend to hosted applications, and efficient datacentres. How effective they have proved in the stay at home environment.

Two areas are notable in terms of performance: firstly, unified communications, which has been central to enabling remote working and decentralised call centres. Five9, LivePerson, Bandwidth and TTEC have collectively appreciated £31.3m; secondly the security space, which lagged for much of the year but had a late spurt when there was a spate of hacking, thought to be the Russian Government through a SolarWinds update. In this field Varonis Systems, SailPoint Technologies, FireEye, Qualys, Rapid7, Mimecast and ManTech have returned over £20.1m.

EMEA

TOP 5 WINNERS BY REGION – EMEA (IN STERLING £M)



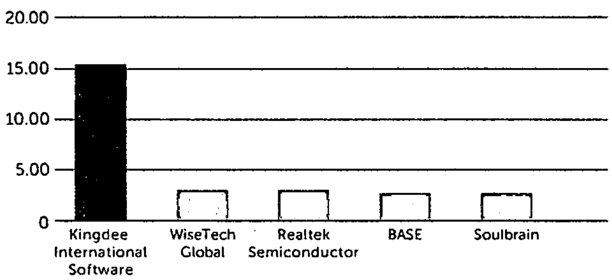
Over the long-term the European annualised returns have been the highest but the weighting has been low. We have purposefully increased resources in this region and the weighting has increased from 6.0% at the end of 2019 to 8.6% at the end of 2020. The total return for the year in sterling was 53.8%. Long-held investments in Nordic Semiconductor (+£10.2m +146.4%), Esker (+£7.7m +102.5%) and BE Semiconductor (+£5.6m +56.4%) contributed the most by value but newer holdings contributed well in percentage terms: Exasol (+193.1%), Upsales Technology (+121.6%), Efecte (+111.3%) and Napatech (+105.7%).

Alongside our long-held positions, some of which we added to earlier this year at useful prices, we have initiated several new positions in the portfolio and look forward to seeing how they develop and mature over the next few years. Private equity buyers are increasingly targeting Continental European companies – of the four takeovers in the portfolio since 2018, two have been to trade buyers and two to private equity. Had the option been available, or if we had had the support of larger French shareholders, we would have considered participating in the taking-private of Devoteam together with founder management and KKR last year.

Liquidity in the Company's investments is an increasing challenge, and poorest in the UK and Europe. It has always been challenging in Europe, and the UK has deteriorated so it has been worse than Europe recently. The growth of the fund is an additional challenge. The average percentage of companies we own in the UK is c3.8%, but only 1.8% in Europe, so there is more scope to increase the European weighting.

ASIA

TOP 5 WINNERS BY REGION – ASIA (IN STERLING £M)



By a short head the Asian portfolio has delivered the best regional returns this year increasing 60.7%. Amongst the smaller company and technology indices within Asia, the Kosdaq IT Index in Korea rose 39.2%, the larger company TWSE Electronics Index in Taiwan increased 40.5% and the Mothers General Small Companies Index in Japan was up 35.6%.

The weighting in Asia has increased from 6.8% to 10.1% during the year with increased investments made in Japan and Australia in particular. This is in part a reflection of the dynamic nature of the smaller companies markets in Australia and Japan which have been active in raising capital from IPOs and secondary offerings. There are very significant capital flows into small listed Asian technology companies, both from local retail investors and from international institutional funds. IPOs have been priced highly with the offerings often covered many times by the demand. This has meant the Company's allocations in the most attractive IPOs have been significantly scaled back and that significantly less capital was deployed than intended.

The star performer has been Kingdee International Software which contributed 28.8% of the Asian gains. Elsewhere the returns were more broadly based. Historically the Asian portfolio has been focused on Taiwan and South Korea, but now Australia and Japan are significant too. The return in Japan was 63.3%, South Korea 58.2%, Taiwan 49.5% and Australia 45.4%. Following such strong performance valuations are stretched, particularly for high growth internet and software companies. The Company has benefitted from holdings in such business models and though in many cases strong revenue growth has been delivered, relatively few companies have successfully broken out of their domestic markets and scaled successfully on an international stage.

Fraser Elms is the lead manager for this element of the Company. I am particularly grateful to Fraser and his team for endless night shifts as Asian conferences have gone virtual and the time difference is more challenging than elsewhere.

ESG

It has been a frustration to have spent so much time on demonstrating compliance with a wave of new ESG (Environmental, Societal, Governance) regulations, for me personally and for the wider team. We have invested for years directly in energy-efficient solutions such as hydrogen electrolysers and fuel cells, components for wind turbines, LED, batteries and so on. I recognise the aims of the Extinction Rebellion demonstrators sleeping in the street in which I live but I arrogantly believe that we at Herald have done and will do far more to help alleviate global warming through appropriate investment of primary capital in emerging technologies.

We have always engaged with management of investee companies; always encouraged management to worry about their share price on a five to ten-year view and not a one-year view; always been intolerant of creative accounting and dishonesty; and always been vigilant in discussing share-based compensation. In short, the ESG effort for us is to articulate the case-by-case way in which we have always operated rather than change our practice to one of box ticking.

> “Appropriate investment in emerging technologies can help alleviate global warming”
>
> **KATIE POTTS,** FUND MANAGER

There is one issue where I am firmly at odds with the regulatory pressures and that is the requirements for board diversity. In short there are simply not enough experienced women in the sector and of suitable calibre to fill a third of board posts in the TMT smaller companies space in which we invest and we have seen instances of unsuitable candidates being appointed and doing real damage. We intend to be pragmatic when voting on mandatory quotas for boards and overly burdensome regulations for the smaller companies in our portfolio. Many social problems could be resolved with greater economic growth and value-added jobs. The beauty of small company investing is that it is about baking cakes not cutting them up. When our investors have gained so have entrepreneurs, employees and the wider economy. I hope that a combination of Covid and Brexit will make people realise that we have to think from first principles and make cakes rather than just worrying about how to cut a shrinking one.

INVESTMENT MANAGER'S REPORT CONTINUED

OUTLOOK

The Covid shock has put us all into particularly uncharted waters. At least governments the world over are expanding the money supply so the possibility of disruptive relative currency devaluations is reduced. Social unrest would be the worst outcome, and governments want re-election, so interest rates are likely to remain low for a while globally, and equity prices are likely to remain expensive. The UK is less expensively rated, but liquidity is challenging so it is likely to fall as a percentage of assets longer term. We have always focused on providing development capital to emerging companies but 25% of the Company's net assets now exceed $3bn market capitalisation through so much capital appreciation.

In addition, the scale of the Company makes it more challenging for new investments to make a meaningful impact on performance. On the other hand, we require our scale to engage with brokers and investment banks on a global basis, and the absolute scale of investment required to finance the development of new advanced technology is increasing. We shall endeavour to continue to adapt and remain evangelists for our chosen sector.

SECTOR PERFORMANCE* (STERLING MILLIONS)

	Market value equity portfolio 31 Dec 2020	% of equity portfolio 31 Dec 2020	Total return equity portfolio 31 Dec 2020	Total return equity portfolio 31 Dec 2019
Software	390.6	28.1	145.9	57.6
Computer Services	151.2	10.9	24.5	43.3
Semiconductors	114.6	8.3	45.0	30.8
Telecommunications Equipment	88.6	6.4	22.6	6.5
Media Agencies	79.3	5.7	7.1	2.2
Internet	72.9	5.3	22.0	7.8
Electrical Components & Equipment	68.0	4.9	19.7	11.9
Publishing	64.2	4.6	-2.4	30.1
Computer Hardware	36.7	2.6	6.6	6.7
Business Support Services	26.8	1.9	6.5	1.9
Fixed Line Telecommunications	15.6	1.1	0.2	4.4
Other	279.7	20.2	123.0	51.5
Total	**1,388.2**	**100.0**	**420.7**	**254.7**

* FTSE Russell Industry Classification Benchmark – Subsector

KATIE POTTS
FUND MANAGER
22 February 2021

CLASSIFICATION OF INVESTMENTS

Classification*	UK %	EMEA %	North America %	Japan & Asia Pacific %	2020 Total %	2019 Total %
OIL & GAS	**3.3**	**–**	**0.7**	**–**	**4.0**	**1.2**
Alternative Energy	3.3	–	0.7	–	4.0	1.2
BASIC MATERIALS	**0.1**	**–**	**–**	**0.3**	**0.4**	**0.3**
Chemicals	0.1	–	–	0.3	0.4	0.3
INDUSTRIALS	**7.2**	**0.6**	**2.4**	**1.5**	**11.7**	**10.9**
Construction & Materials	0.1	–	–	–	0.1	0.1
Aerospace & Defence	0.6	–	0.4	–	1.0	0.9
Electronic & Electrical Equipment	3.6	0.6	1.4	0.4	6.0	4.3
Industrial Engineering	–	–	–	0.3	0.3	0.1
Support Services	2.9	–	0.6	0.8	4.3	5.5
CONSUMER GOODS	**1.1**	**–**	**0.5**	**–**	**1.6**	**1.3**
Leisure Goods	1.1	–	0.5	–	1.6	1.3
HEALTH CARE	**1.2**	**0.4**	**–**	**–**	**1.6**	**1.5**
Health Care Equipment & Services	1.1	0.4	–	–	1.5	1.4
Pharmaceuticals & Biotechnology	0.1	–	–	–	0.1	0.1
CONSUMER SERVICES	**10.4**	**0.4**	**1.0**	**0.7**	**12.5**	**14.2**
General Retailers	–	–	–	0.5	0.5	0.4
Media	10.3	0.4	1.0	0.2	11.9	13.3
Travel & Leisure	0.1	–	–	–	0.1	0.5
TELECOMMUNICATIONS	**1.2**	**0.3**	**–**	**0.1**	**1.6**	**1.6**
Fixed Line Telecommunications	0.9	0.1	–	0.1	1.1	1.3
Mobile Telecommunications	0.3	0.2	–	–	0.5	0.3
UTILITIES	**0.2**	**–**	**–**	**–**	**0.2**	**0.1**
Electricity	0.2	–	–	–	0.2	0.1
FINANCIALS	**1.5**	**–**	**–**	**0.5**	**2.0**	**2.0**
Financial Services	0.3	–	–	0.5	0.8	0.8
Equity Investment Instruments	1.2	–	–	–	1.2	1.2
TECHNOLOGY	**23.1**	**6.9**	**19.8**	**7.0**	**56.8**	**54.9**
Software & Computer Services	18.1	3.9	14.0	4.8	40.8	38.3
Technology Hardware & Equipment	5.0	3.0	5.8	2.2	16.0	16.6
TOTAL EQUITIES (including convertibles and warrants)	**49.3**	**8.6**	**24.4**	**10.1**	**92.4**	**–**
Total equities – 2019 (including convertibles and warrants)	52.2	6.0	23.0	6.8	–	**88.0**
BONDS	**1.3**	**–**	**1.5**	**–**	**2.8**	**4.0**
NET LIQUID ASSETS**	**1.3**	**0.6**	**2.8**	**0.1**	**4.8**	**8.0**
TOTAL ASSETS	**51.9**	**9.2**	**28.7**	**10.2**	**100.0**	**–**
Total assets – 2019	57.1	6.7	28.8	7.4	–	**100.0**
SHAREHOLDERS' FUNDS	**51.9**	**9.2**	**28.7**	**10.2**	**100.0**	**–**
Shareholders' Funds – 2019	57.1	6.7	28.8	7.4	–	**100.0**
Number of equity investments (including convertibles and warrants)	145	34	75	70	**324**	**288**

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

TOP 20 EQUITY HOLDINGS AS AT 31 DECEMBER 2020

GBG

£47.5m	VALUATION
3.2%	OF TOTAL ASSETS
2.6%	OF ISSUED SHARE CAPITAL HELD
£3.0m	BOOK COST

GB Group (GBG) is a global leader in Identity Data Intelligence. GBG solutions help organisations quickly validate and verify the identities and locations of their customers. GBG's products combine an unparalleled breadth of data from over 150 global partners, that in aggregate, enable GBG to verify billions of people in over 70 countries, accounting for approximately 60% of the world population. GBG's market-leading technology, is used by over 20,000 customers including some of the best-known organisations around the world – including US e-commerce giants, Asia's biggest banks and European household brands. With a rich heritage of more than 30 years, offices in 19 locations and more than 1,000 employees globally, GBG helps companies and governments to fight fraud and cybercrime, lower cost of compliance and improve the customer digital onboarding experience in today's digital economy.

ITM POWER

£31.4m	VALUATION
2.1%	OF TOTAL ASSETS
1.1%	OF ISSUED SHARE CAPITAL HELD
£3.1m	BOOK COST

ITM Power designs and manufactures products which generate hydrogen gas, based on Proton Exchange Membrane (PEM) technology. This technology uses electricity and water to generate hydrogen gas on-site and has a product offering capable of being scaled to 100MW+ in size. ITM Power Plc is a globally recognised expert in hydrogen technologies which take excess energy from the power network, convert it into hydrogen and use it in one of three broad market areas – Mobility, Power-to-X and Industry. The shift away from carbon towards hydrogen is led by the drive for improved air quality worldwide, the growth of renewable power generators in the energy mix and a need to decarbonise industrial processes.

PEGA

£29.3m	VALUATION
1.9%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£1.5m	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 Relationship 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.

YouGov

£27.3m	VALUATION
1.8%	OF TOTAL ASSETS
2.4%	OF ISSUED SHARE CAPITAL HELD
£2.7m	BOOK COST

YouGov is an international research data and analytics group. Their data-led offering supports and improves a wide spectrum of marketing activities for a customer base that includes media owners, brands and media agencies. YouGov works with some of the world's most recognised brands. Key syndicated data solutions include the daily brand perception tracker, YouGov BrandIndex, and the media planning and segmentation tool, YouGov Profiles. The YouGov Realtime service provides a fast and cost-effective solution for reaching nationally representative and specialist samples. YouGov's Custom Research division offers a wide range of quantitative and qualitative research, tailored by sector-specialist teams to meet clients' specific requirements. YouGov's proprietary global panel of over 11 million registered members across more than 40 markets provides thousands of data points on consumer attitudes, opinions and behaviour on a daily basis.

FUTURE

£24.2m	VALUATION
1.6%	OF TOTAL ASSETS
1.4%	OF ISSUED SHARE CAPITAL HELD
£4.6m	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, revenue streams include eCommerce, digital advertising, events, lead generation, newsletters and CRM, and digital licensing. Media revenues are now generated from 111 websites and typically over 50 events a year are held in the UK, US and Australia. The Magazine division is the home of an extensive range of specialist magazines and bookazines both in print and digital format. Future's magazines are exported to many countries in addition to being sold in the UK on the newsstand and through subscription. Future has a portfolio of 115 magazines, which was increased following the acquisition of TI Media in April 2020. Future's total global circulation of magazines and bookazines is 3.8m. Future's strength in the tech specialist and gaming and entertainment verticals remains and is supplemented by other audiences in diverse interest groups that span three core areas: Passions, Living and B2B. In total the group now has an audience reach of close to 400m.

DIPLOMA PLC

£22.5m	VALUATION
1.5%	OF TOTAL ASSETS
0.8%	OF ISSUED SHARE CAPITAL HELD
£0.7m	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.

NEXT15

£20.2m	VALUATION
1.3%	OF TOTAL ASSETS
4.2%	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 centered on the technology of marketing: data, insight, analytics, apps, content platforms and content itself.

S4 CAPITAL

£20.0m	VALUATION
1.3%	OF TOTAL ASSETS
0.7%	OF ISSUED SHARE CAPITAL HELD
£4.9m	BOOK COST

S4Capital is a digital advertising and marketing services company established by Sir Martin Sorrell in May 2018. The company's strategy is to build a purely digital advertising and marketing services business, initially by integrating leading businesses in three practice areas: first-party data, digital content, digital media planning and buying. The Group employs approximately 3,750 people in 31 countries, across The Americas, Europe, the Middle East & Africa and Asia Pacific.

LIVEPERSON

£19.4m	VALUATION
1.3%	OF TOTAL ASSETS
0.6%	OF ISSUED SHARE CAPITAL HELD
£2.9m	BOOK COST

LivePerson enables improved customer interactions through the use of Conversational AI. LivePerson technology empowers brands to give customers better experiences through AI-powered messaging instead of forcing them to waste time on hold or crawling through websites. For consumers, AI-powered conversations make it natural and easy to buy products and resolve questions in the messaging channels they use every day, including Apple Business Chat, WhatsApp, Facebook Messenger and SMS. For brands, this means happier customers, higher efficiency, and lower costs. Over 18,000 customers — including leading brands like HSBC, Orange, GM Financial, and The Home Depot — have deployed LivePerson's conversational platform to orchestrate how AI and human agents serve customers at scale. This solution helps millions of people shop and get customer service through the world's most popular messaging channels, brand websites and apps, and even voice assistants.

Five9

£18.5m	VALUATION
1.2%	OF TOTAL ASSETS
0.2%	OF ISSUED SHARE CAPITAL HELD
£0.4m	BOOK COST

Five9 is a leading provider of cloud software for contact centres and facilitates more than 5 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 Centre, 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. 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.

TOP 20 EQUITY HOLDINGS AS AT 31 DECEMBER 2020 CONTINUED

Volex

£17.7m	VALUATION
1.2%	OF TOTAL ASSETS
3.8%	OF ISSUED SHARE CAPITAL HELD
£6.2m	BOOK COST

Volex is a leading integrated manufacturing specialist. Providing power and connectivity for both everyday items and complex machinery, from radiation oncology treatments, industrial lasers, right through to electric vehicles for the 21st century, Volex is integral to a vast universe of modern manufacturers. The Group designs and manufactures products that ensure a critical connection never fails and are used in everything from defibrillators and ventilators through to data networking equipment and vehicle telematics. Headquartered in the United Kingdom, Volex serves the needs of its blue-chip customer base from its manufacturing sites located across nine countries and three continents, employing over 6,000 people. Volex's products are sold through its own global sales force and through distributors to Original Equipment Manufacturers ('OEMs') and Electronic Manufacturing Services companies.

BATM

£17.5m	VALUATION
1.1%	OF TOTAL ASSETS
4.3%	OF ISSUED SHARE CAPITAL HELD
£4.7m	BOOK COST

BATM Advanced Communications is a leading provider of real-time technologies for networking and cybersecurity solutions and for bio-medical and bio-waste treatment solutions via its two operating divisions. Its disruptive technology is backed by strong intellectual property and patents, which is the foundation for the development of BATM's market-leading, innovative and cost-effective solutions. The Bio-Medical division is focused on the development and provision of diagnostic laboratory equipment and services as well as innovative products to treat biological pathogenic waste in the medical, agricultural and pharmaceutical industries. The Networking and Cyber division offers innovative telecom network solutions, with a focus on advanced software and cyber security, mainly targeting Tier 1 businesses and governments worldwide. Established in 1992, BATM is headquartered in Israel with offices in North America, Europe and the Far East.

£16.6m	VALUATION
1.1%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£4.2m	BOOK COST

Varonis Systems is a pioneer in data security and analytics, fighting a different battle than conventional cybersecurity companies. Varonis focuses on protecting enterprise data: sensitive files and emails, confidential customer, patient and employee data; financial records, strategic and product plans; and other intellectual property. The Varonis Data Security Platform detects insider threats and cyberattacks by analysing data, account activity and user behaviour; prevents and limits disaster by locking down sensitive and stale data; and efficiently sustains a secure state with automation. With a focus on data security, Varonis serves a variety of use cases, including governance, compliance, classification and threat analytics. Varonis started operations in 2005 and has customers spanning firms in the financial services, public, healthcare, industrial, insurance, energy and utilities, consumer and retail, technology, media and entertainment and education sectors.

NORDIC SEMICONDUCTOR

£16.4m	VALUATION
1.1%	OF TOTAL ASSETS
0.7%	OF ISSUED SHARE CAPITAL HELD
£3.4m	BOOK COST

Nordic Semiconductor is a fabless semiconductor company specializing in wireless technology for the IoT. Nordic's reputation is built on leading-edge technology and development tools that shield designers from RF complexity. The company pioneered ultra-low power wireless and helped develop Bluetooth LE. Its Bluetooth LE solutions made it the market leader, and are complemented by ANT+, Thread and Zigbee products. Nordic's low power, compact LTE-M/NB-IoT cellular IoT solutions leverage cellular infrastructure to extend the IoT network. Complementing its short-range and cellular IoT wireless technologies. Nordic's technology portfolio includes the Wi-Fi development team and IP assets acquired from Imagination Technologies in 2020.

IQE

£16.0m	VALUATION
1.1%	OF TOTAL ASSETS
2.8%	OF ISSUED SHARE CAPITAL HELD
£8.9m	BOOK COST

IQE is the leading global supplier of compound semiconductor wafers that enable a diverse range of applications across: mobile handsets, global telecoms infrastructure, connected devices and infra-red and sensing applications. IQE has been particularly successful in the production of VCSELs, which enable 3D sensing. With a 30-year, proven track record in epitaxy, IQE has invested in significant capacity in recent years to fuel anticipated growth in demand for compound semiconductors, driven by the macro trends of 5G and connected devices. The superior performance qualities of compound semiconductors make them essential to these macro trends, facilitating higher power ranges, higher frequency ranges and the ability to emit and detect light. As a global epitaxy wafer manufacturer, IQE is uniquely positioned in this growth market with an intellectual property portfolio – know-how and patents that produce superior quality, yields and unit economics. IQE is headquartered in Cardiff UK, with c. 650 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore.

idox

£16.0m	VALUATION
1.1%	OF TOTAL ASSETS
7.2%	OF ISSUED SHARE CAPITAL HELD
£5.3m	BOOK COST

Idox develops specialist software and information management solutions for government, health, engineering, transport and property sectors across the UK and internationally. Idox focuses on public and asset intensive industries, both areas are characterised by the dual challenge of improving productivity and service standards whilst addressing continued pressure on expenditure. The requirement to generate greater efficiency through digital transformation is therefore driving continuing investment in software in these complex regulated markets.

ilika

£15.9m	VALUATION
1.0%	OF TOTAL ASSETS
5.8%	OF ISSUED SHARE CAPITAL HELD
£3.2m	BOOK COST

Ilika is a UK pioneer in solid-state battery technology with their innovative Stereax micro batteries designed for Industrial IoT and MedTech markets, and their Goliath large format batteries for the electric vehicle and consumer electronics markets. Ilika has been working with solid-state battery technology since 2008 and has developed a type of lithium-ion battery, which, instead of using liquid or polymer electrolyte, uses a ceramic ion conductor. Stereax battery technology offers compelling advantages over conventional lithium-ion batteries, including smaller footprint, high energy density, non-toxic materials, faster charging, increased cycle life, low leakage and reduced flammability. Stereax solid-state batteries are also customisable in shape and form, stackable and operational at high temperatures.

Besi

£15.5m	VALUATION
1.0%	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. Besi develops leading-edge assembly processes and equipment for leadframe, substrate and wafer level packaging applications in a wide range of end-user markets including electronics, mobile internet, computer, automotive, industrial, LED and solar energy. Customers are primarily leading semiconductor manufacturers, assembly subcontractors and electronics and industrial companies.

ESKER

Document Process Automation

£15.3m	VALUATION
1.0%	OF TOTAL ASSETS
1.7%	OF ISSUED SHARE CAPITAL HELD
£4.0m	BOOK COST

Esker helps organizations around the world streamline their business document processes. Esker was founded as a software company in 1985 with a direct and simple vision in mind — to help businesses deliver their paper documents electronically. Today, Esker is widely recognized as a leader in AI-driven process automation software. Companies use Esker's cloud-based solutions to drive greater efficiency, accuracy, visibility and cost savings throughout their procurement to payment and order to cash processes. Over 600,000 users and 6,000 SaaS customers operating in 50+ countries use Esker's automation solutions, these customers are supported by more than 750 Esker employees in 14 subsidiaries worldwide.

Kingdee

£14.7m	VALUATION
1.0%	OF TOTAL ASSETS
0.1%	OF ISSUED SHARE CAPITAL HELD
£0.9m	BOOK COST

Kingdee International Software was established in 1993 and is headquartered in Shenzhen, China. The company's original focus was to develop enterprise application software for fast-growing businesses. With the increasing adoption of cloud-based services in China, Kingdee has more recently developed a strong cloud product offering. This includes; Kingdee Cloud Cosmic (a cloud service platform for large enterprises), Kingdee Cloud Galaxy (a digital innovative cloud service platform for medium and large enterprises and fast-growing enterprises), Kingdee Jingdou Cloud (one-stop cloud services platform for micro and small-sized enterprises), Cloud-Hub (intelligent cloud office), Guanyi Cloud (cloud services for e-commerce operators). Kingdee provides services and products to more than 6.8 million enterprises, government agencies and other organisations.

DETAILED LIST OF INVESTMENTS

AT 31 DECEMBER 2020

Ordinary or common shares unless otherwise stated.

Classification	Name	Value £'000	%
UNITED KINGDOM			
Alternative Energy	● AFC Energy	2,437	
	● Ilika	15,940	
	● ITM Power	31,425	
		49,802	**3.3**
Chemicals	● Applied Graphene Materials	1,860	
	● Haydale Graphene Industries	350	
		2,210	**0.1**
Construction & Materials	● Accsys Technologies	**2,093**	**0.1**
Aerospace & Defence	● Cohort	8,467	
	● Velocity Composites	272	
		8,739	**0.6**
Electronic & Electrical Equipment	● Checkit	2,274	
	DiscoverIE	11,421	
	● Feedback	457	
	● FireAngel Safety Technology	256	
	● Gooch & Housego	2,277	
	● Immotion	516	
	● Invinity Energy Systems	385	
	● Microsaic Systems	51	
	Oxford Instruments	4,482	
	● ProPhotonix	300	
	● Thruvision	3,894	
	● Trackwise Designs	4,000	
	● Volex	17,747	
	XP Power	3,881	
		51,941	**3.6**
Support Services	● 1Spatial	1,067	
	● Boku	4,599	
	Diploma	22,537	
	● Maintel	2,477	
	● Science Group	4,509	
	● Spectra Systems	5,420	
	● Synectics	354	
	● Water Intelligence	2,490	
		43,453	**2.9**
Leisure Goods	● Focusrite	1,895	
	● Frontier Developments	10,903	
	● Sumo	1,721	
	● Team17	2,370	
		16,889	**1.1**
Health Care Equipment & Services	● Deltex Medical	256	
	● Diaceutics	3,975	
	● Intelligent Ultrasound	1,328	
	● Kromek	1,952	
	● SDI	9,650	
		17,161	**1.1**
Pharmaceuticals & Biotechnology	● C4X Discovery	**1,840**	**0.1**
Media	● Audioboom	2,397	
	● Bidstack	1,763	
	Bloomsbury Publishing	5,529	
	● Bonhill	890	
	Centaur Media	1,277	
	● Ebiquity	807	

● denotes AIM stock

o denotes unlisted security

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2020

Classification		Name	Value £'000	%
UNITED KINGDOM continued		Euromoney Institutional Investor	9,008	
		Future	24,171	
	●	GlobalData	6,638	
		GOCO	1,562	
	●	M&C Saatchi	4,333	
	●	Next Fifteen Communications	20,206	
	●	OnTheMarket	2,013	
		Quarto	1,019	
		Reach	2,755	
		S4 Capital	19,959	
	●	System1	434	
	●	The Mission Group	3,351	
	●	Time Out	2,730	
	●	Tremor	1,913	
	●	ULS Technology	3,502	
		Wilmington	3,879	
	●	XLMedia	1,613	
	●	YouGov	27,298	
	●	Zinc Media	3,203	
			152,250	**10.1**
Travel & Leisure	●	Ten Lifestyle Group	**1,420**	**0.1**
Fixed Line Telecommunications		Telecom Plus	**13,128**	**0.9**
Mobile Telecommunications	●	Fonix Mobile	1,533	
	●	Gamma Communications	3,160	
			4,693	**0.3**
Electricity	●	SIMEC Atlantis Energy	**3,322**	**0.2**
Financial Services	●	Equals Group	286	
		Integrafin	2,275	
	●	Tungsten	1,152	
			3,713	**0.3**
Equity Investment Instruments		Gore Street Energy Storage Fund	2,712	
	●	Herald Venture II	6,623	
	●	HIML Holdings	4,791	
		Hipgnosis Songs Fund	2,347	
	●	KRM22	851	
			17,324	**1.2**
Software & Computer Services	●	Access Intelligence	5,376	
		Aptitude Software	9,535	
	●	ATTRAQT	5,067	
		Avast	9,616	
	●	Bango	12,924	
	●	Bigblu Broadband	2,602	
	●	Blackbird	1,898	
	●	Blue Prism	4,618	
	●	Business Control Solutions	627	
		Bytes Technology	1,441	
	●	Celoxica	218	
	●	CentralNic	8,619	
	●	Cloudcall	3,644	
		Computacenter	4,148	
	●	Corero Network Security	3,286	
	●	Craneware	11,078	
	●	D4T4 Solutions	8,627	
	●	Dillistone	247	
	●	Dotdigital	12,151	
	●	Eckoh	10,252	
	●	EMIS	2,705	
	●	Essensys	1,604	
		FDM	4,024	
	●	First Derivatives	8,174	

DETAILED LIST OF INVESTMENTS CONTINUED

AT 31 DECEMBER 2020

Classification		Name		Value £'000	%
UNITED KINGDOM continued	●	GB Group		47,486	
	●	GetBusy		2,260	
	●	GRC International		216	
		Gresham Technologies		4,612	
	●	Ideagen		9,135	
	●	Idox		16,019	
	●	i-nexus Global		127	
	●	Intercede		1,784	
	●	IQGeo		1,417	
		Kainos		10,555	
	●	Location Sciences		154	
	●	LoopUp		2,296	
		NCC		7,812	
	●	Netcall		1,059	
	●	Osirium Technologies		101	
	●	Oxford Metrics		6,982	
	●	PCI-PAL		1,183	
	●	Pelatro		541	
	●	SimiGon		278	
	●	SmartSpace Software		3,070	
	●	Sopheon		809	
	●	Sysgroup		1,309	
	●	Tribal		4,104	
	●	Wameja		1,519	
	●	Wandisco		6,374	
	●	ZOO Digital		5,154	
				268,837	**17.9**
Technology Hardware & Equipment	●	Amino Technologies		1,267	
		BATM Advanced Communications		17,514	
	●	Calnex Solutions		2,344	
		CML Microsystems		3,665	
	●	Concurrent Technologies		865	
	●	CyanConnode		806	
	●	Ethernity Networks		125	
		Global Invacom		360	
	○	Intechnology		235	
	●	IQE		16,045	
	●	MTI Wireless Edge		2,772	
	●	Northamber		1,308	
	●	Quixant		837	
	●	Seeing Machines		12,436	
		Spirent Communications		10,560	
	●	Telit Communications		4,603	
				75,742	**5.0**
		TOTAL UNITED KINGDOM EQUITIES		**734,557**	**48.9**
EUROPE, MIDDLE EAST AND AFRICA (EMEA)					
Electronic & Electrical Equipment		Airthings	Norway	2,052	
		Detection Technology	Finland	4,252	
		Ekinops	France	2,854	
				9,158	**0.6**
Health Care Equipment & Services		LUMIBIRD	France	4,147	
		RaySearch Laboratories	Sweden	2,210	
				6,357	**0.4**
Mobile Telecommunications		NFON	Germany	**2,412**	**0.2**
Media		EQS	Germany	4,318	
		North Media	Denmark	1,715	
				6,033	**0.4**

● denotes AIM stock

○ denotes unlisted security

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2020

Classification	Name		Value £'000	%
EUROPE, MIDDLE EAST AND AFRICA (EMEA) continued				
Fixed Line Telecommunications	Intred	Italy	**1,276**	**0.1**
Software & Computer Services	Adesso	Germany	3,252	
	ATEME	France	3,423	
	B3 Consulting	Sweden	1,247	
	CAST	France	2,112	
	Datalex	Ireland	859	
	Efecte	Finland	2,810	
	Enea	Sweden	3,535	
	Esker	France	15,298	
	Exasol	Germany	1,973	
	Generix	France	1,855	
	Invision	Germany	908	
	MailUp	Italy	1,733	
	New Work SE	Germany	1,246	
	Nexus	Germany	1,351	
	Sidetrade	France	5,181	
	Sword Group	France	4,465	
	Upsales Technology	Sweden	3,520	
	WALLIX	France	4,681	
			59,449	**3.9**
Technology Hardware & Equipment	ADVA Optical Networking	Germany	3,768	
	BE Semiconductor Industries	Netherlands	15,502	
	Eurotech	Italy	2,303	
	Kalray	France	2,282	
	Napatech	Norway	1,494	
	Nordic Semiconductor	Norway	16,441	
	X-FAB Silicon Foundries	Belgium	2,397	
			44,187	**3.0**
	TOTAL EMEA EQUITIES		**128,872**	**8.6**
NORTH AMERICA				
Alternative Energy	Ballard Power Systems		**10,951**	**0.7**
Construction & Materials	Tecogen		**286**	**0.0**
Electronic & Electrical Equipment	Celestica		1,770	
	Fabrinet		9,419	
	RADCOM		1,227	
	Vicor		8,234	
			20,650	**1.4**
Support Services	Issuer Direct		1,152	
	Pluralsight		2,297	
	TTEC		5,864	
			9,313	**0.6**
Leisure Goods	Akoustis Technologies		5,622	
	Fitbit		1,865	
			7,487	**0.5**
Media	Digital Turbine		13,171	
	Yelp		1,911	
			15,082	**1.0**
Aerospace & Defence	ManTech		2,375	
	RADA Electronic Industries		2,495	
			4,870	**0.4**
Software & Computer Services	Absolute Software		2,174	
	Bandwidth		8,182	
	Boingo Wireless		3,272	
	Bottomline Technologies		5,740	
	Brightcove		6,337	
	Cloudera		5,434	
	CyberArk Software		4,843	

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2020

Classification	Name	Value £'000	%
NORTH AMERICA continued	Cyren	21	
	Descartes Systems	14,480	
	FireEye	5,750	
	Five9	18,527	
	Inuvo	1,942	
	Kinaxis	3,724	
	LivePerson	19,370	
	Manhattan Associates	3,500	
	Mimecast	10,142	
	Model N	2,896	
	OneSpan	3,023	
	PagerDuty	2,348	
	Pegasystems	29,279	
	Ping Identity	1,780	
	Pivotree	301	
	Qualys	7,779	
	Rapid7	3,432	
	Rimini Street	2,106	
	SailPoint Technologies	6,037	
	SharpSpring	5,337	
	SPS Commerce	7,941	
	Talend *	1,357	
	Telos	2,620	
	Tufin	1,912	
	Varonis Systems	16,639	
	Veritone	1,245	
		209,470	**13.9**
Technology Hardware & Equipment	Agilysys	2,160	
	AXT	1,046	
	Blackline Safety	871	
	Blackline Safety Restricted	217	
	CalAmp	1,812	
	CEVA	8,148	
	Chipmos Technologies *	1,483	
	DSP	1,662	
	DZS	2,393	
	Everspin Technologies	854	
	Harmonic	2,251	
	Intellicheck	3,102	
	Lantronix	2,294	
	Neophotonics	1,329	
	nLIGHT	597	
	Ondas	2,712	
	One Stop Systems	2,172	
	Ooma	2,373	
	Pixelworks	619	
	Power Integrations	2,275	
	Radware	14,590	
	Resonant	1,938	
	Ribbon Communications	5,219	
	Silicom	1,517	
	Silicon Motion Technology *	12,554	
	Super Micro Computer	7,374	
	Tower Semiconductor	1,643	
	ViaSat	2,384	
		87,589	**5.8**
	TOTAL NORTH AMERICA EQUITIES	**365,698**	**24.3**

* American Depositary Receipts – certificates representing shares in the stock, issued by a US bank, denominated and paying dividends in US dollars.
** 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 2020

Classification	Name		Value £'000	%
ASIA PACIFIC				
Chemicals	SK Materials	South Korea	1,614	
	Soulbrain	South Korea	2,908	
			4,522	**0.3**
Electronic & Electrical Equipment	Elite Material	Taiwan	993	
	Tripod Technology	Taiwan	5,346	
			6,339	**0.4**
Industrial Engineering	Rhipe	Australia	**4,027**	**0.3**
Support Services	51job *	China	4,402	
	Catapult	Australia	1,920	
	Infomart	Japan	1,530	
	Mainstream	Australia	3,208	
	Praemium	Australia	905	
			11,965	**0.8**
Health Care Equipment & Services	Compumedics	Australia	**592**	**0.0**
General Retailers	Momo	Taiwan	3,481	
	PChome Online	Taiwan	1,171	
	Redbubble	Australia	3,297	
			7,949	**0.5**
Media	DIGITAL Holdings	Japan	1,104	
	Hong Kong Economic Times	Hong Kong	276	
	Proto	Japan	1,629	
	RMA Global	Australia	212	
			3,221	**0.2**
Fixed Line Telecommunications	MNF	Australia	**1,188**	**0.1**
Financial Services	Money Forward	Japan	4,169	
	WealthNavi	Japan	2,677	
			6,846	**0.5**
Real Estate Investment & Services	PropTech	Australia	**624**	**0.0**
Software & Computer Services	AI Inside	Japan	389	
	Ansarada	Australia	3,643	
	Audinate	Australia	275	
	BASE	Japan	2,097	
	Bigtincan	Australia	4,152	
	Bill Identity	Australia	1,598	
	Bravura Solutions	Australia	1,973	
	Chanjet Information Technology **	China	1,252	
	Chinasoft	Hong Kong	2,282	
	CRESCO	Japan	685	
	ELMO Software	Australia	2,319	
	Eltes	Japan	613	
	Family Zone Cyber Safety	Australia	631	
	Freelancer	Australia	826	
	Gabia	South Korea	2,011	
	giftee	Japan	2,843	
	GMO Internet	Japan	2,512	
	Hatena	Japan	897	
	Internetworking & Broadband Consulting	Japan	1,290	
	Kingdee International Software **	China	14,713	
	Kinx	South Korea	2,803	
	Life360	Australia	1,669	
	LiveTiles	Australia	2,205	
	Oro	Japan	1,485	
	PCA	Japan	1,424	
	Plaid	Japan	1,301	
	RAKUS	Japan	1,016	
	TeamSpirit	Japan	484	
	Uzabase	Japan	1,264	
	Whispir	Australia	4,553	
	WiseTech Global	Australia	5,079	

DETAILED LIST OF INVESTMENTS CONTINUED
AT 31 DECEMBER 2020

Classification	Name		Value £'000	%
ASIA PACIFIC continued	Xref	Australia	1,199	
	Yappli	Japan	820	
			72,303	**4.8**
Technology Hardware & Equipment	Advantech	Taiwan	2,091	
	Andes Technology	Taiwan	2,656	
	Ardentec	Taiwan	1,402	
	Chicony Electronics	Taiwan	2,512	
	eMemory Technology	Taiwan	1,161	
	Eugene Technology	South Korea	1,333	
	Innox Advanced Materials	South Korea	933	
	Kulicke & Soffa	Singapore	3,251	
	M31 Technology	Taiwan	571	
	Parade Technologies	Taiwan	3,508	
	PSK	South Korea	2,478	
	PSK Holdings	South Korea	191	
	Realtek Semiconductor	Taiwan	6,770	
	Sercomm	Taiwan	1,725	
	Wonik IPS	South Korea	1,787	
			32,369	**2.2**
	TOTAL ASIA PACIFIC EQUITIES		**151,945**	**10.1**
CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY				
	● BE Heard Group 8% Convertible 29 Nov 2023		91	
	● Cyren 5.75% USD Convertible 18 Mar 2024		1,005	
	● i-nexus Global 8% Convertible Loan Note 4 Nov 2023		600	
	● Intercede 8% Convertible 31 Dec 2021		948	
	● Osirium Technologies 7.5% Convertible 28 Oct 2024		320	
	● Zinc Media Convertible Variable Rate Bank Loan 31 Dec 2022		1,052	
	● Zinc Media Convertible Variable Rate Loan 31 Dec 2022		377	
	● Zinc Media 8% Loan 31 Dec 2022		958	
	● ZOO Digital 7.5% Unsecured Convertible Loan Stock 31 Oct 2021		1,734	
	TOTAL CONVERTIBLE LOAN STOCKS HAVING AN ELEMENT OF EQUITY		**7,085**	**0.5**
Total Equity Investments			**1,388,157**	**92.4**
Fixed Interest	UK Government Bond 1.5% 22 Jan 2021		20,004	
	US Treasury Stock 1.375% 15 Oct 2022		22,422	
	TOTAL FIXED INTEREST		**42,426**	**2.8**
Total Investments			**1,430,583**	**95.2**
Net Liquid Assets+			72,784	4.8
Total Assets At Market Value			**1,503,367**	**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 helped to create value for existing shareholders. Since inception, the Company has completed buybacks to the value of £163m, bringing the net negative outside capital to £68m Over the history of the fund, net asset value per share on a total return basis has grown by 2,394.9% or 12.7% on an annualised basis.

TOTAL RETURN SINCE INCEPTION

+2,394.9%

ANNUALISED TOTAL RETURN SINCE INCEPTION

+12.7%

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)/ premium[A] %
≠ 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)
2020	**1,503,367**	**–**	**1,503,367**	**65,783**	**2,285.33**	**2,245.00**	**(1.8)**

* The diluted net asset value per ordinary share figures have been calculated in accordance with FRS102 (2015-2020), 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 2020

7.6%

5 YEAR COMPOUND ANNUAL GROWTH IN NAV PER SHARE

+21.1%

10 YEAR COMPOUND ANNUAL GROWTH IN NAV PER SHARE

+14.4%

REVENUE

At 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^	Gross gearing^
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
2020	**9,361**	**(3,997)**	**(6.00)**	**–**	**1.08**	**92**	**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 net 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 2010 AS 100)

At 31 December	Diluted net asset value per share	Share price p	Numis Smaller Cos plus AIM Index	Russell 2000 Technology Index	Retail price index	Earnings per ordinary share
2010	100	100	100	100	100	100
2011	95	94	85	92	105	2,380
2012	107	106	101	96	108	1,880
2013	135	142	130	133	111	(780)
2014	137	136	120	151	113	(3,780)
2015	148	154	127	161	114	(100)
2016	182	183	138	241	117	1,160
2017	232	242	164	259	122	1,360
2018	220	223	135	272	125	160
2019	281	306	160	351	128	100
2020	**385**	**465**	**165**	**485**	**129**	**(12,000)**

COMPOUND ANNUAL RETURNS

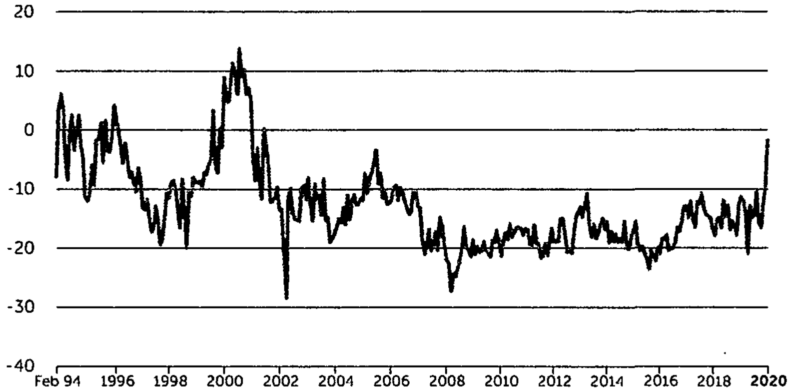
At 31 December	Diluted net asset value per share	Share price p	Numis Smaller Cos plus AIM Index	Russell 2000 Technology Index	Retail price index
5 year	21.1%	24.7%	5.4%	24.7%	2.5%
10 year	14.4%	16.6%	5.1%	17.1%	2.6%

Past performance is not a guide to future performance.

DISCOUNT TO NAV
31 DECEMBER 2020

1.8%

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



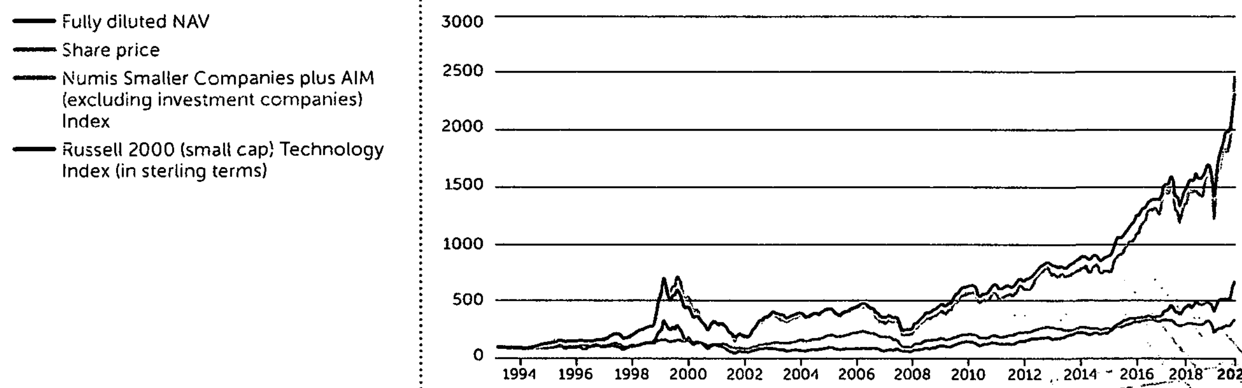
Source: Refinitiv

CAPITAL RETURN SINCE INCEPTION

	31 December 2020	Inception 16 February 1994	% change
Net asset value per ordinary share (including current year income)A	2,285.33p	98.70p	2,215.43
Net asset value per ordinary share (excluding current year income)A	2,291.41p	98.70p	2,221.59
Share price	2,245.00p	90.90p	2,369.75
Numis Smaller Companies plus AIM (ex. investment companies) Index	6,039.99	1,750.00	245.14
Russell 2000 (small cap) Technology Index (in sterling terms)†	4,637.03	688.70*	573.30

A Alternative Performance Measure – see page 78.
* 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

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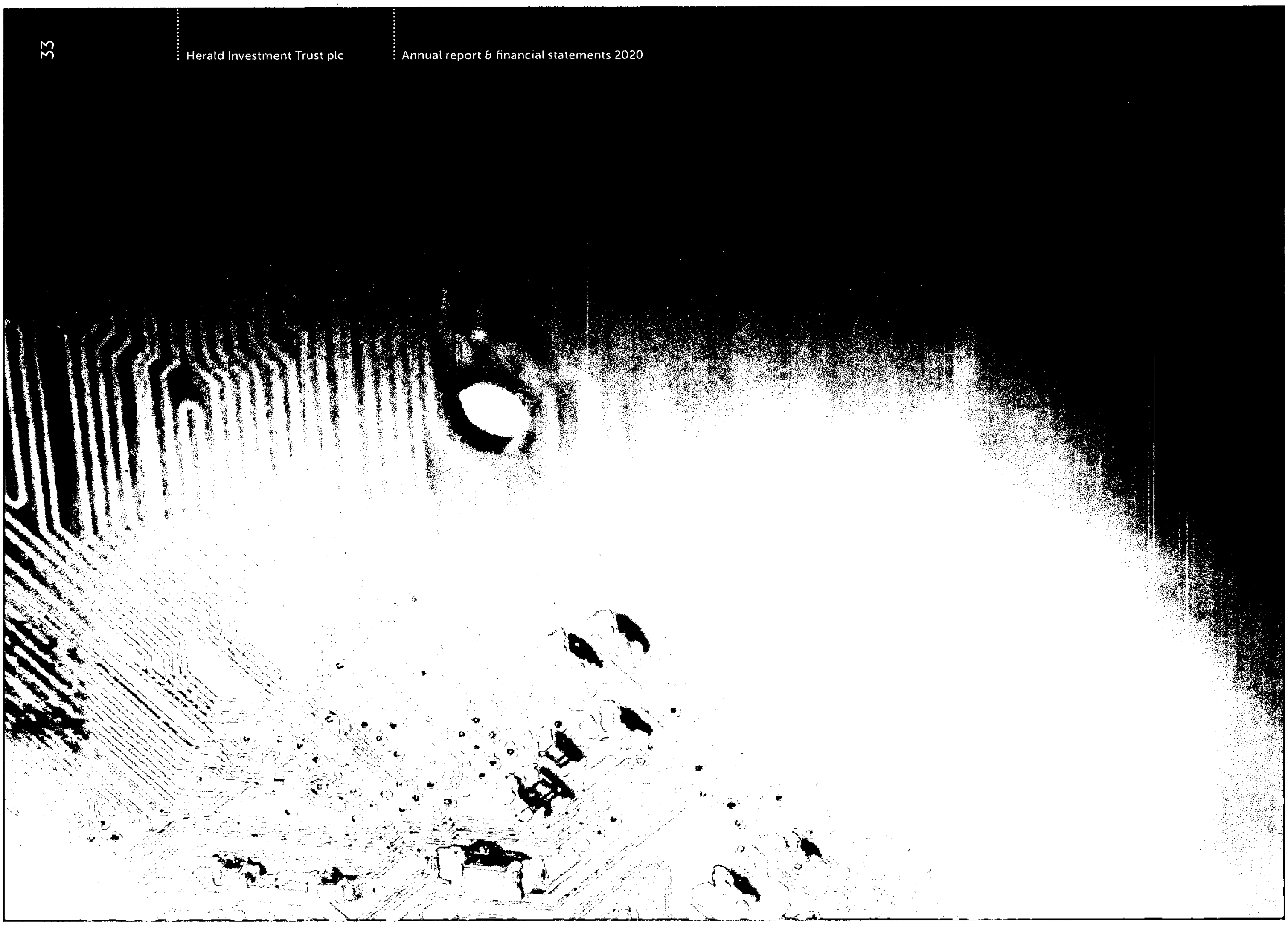


STRATEGIC REPORT

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', 'the manager'). 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 from 1 December 2020 to PraxisIFM Fund Services (UK) Limited ('PraxisIFM'). Prior to this date, company secretarial services were provided by Law Debenture Corporate Services Limited.

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 2020 the Company's capital structure consisted of 65,783,418 ordinary shares of 25p each (2019 – 67,311,777 ordinary shares). During the year 1,528,359 (2019 – 1,589,791) 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. Since year end and up to the date of this report, 232,281 shares have been bought-back for cancellation at an average price of 2,240.73 pence per share (excluding costs).

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

BORROWINGS
The Company is not currently geared and does not have any form of credit facility but holds significant amounts of cash. The requirement for a credit facility is kept under regular review, taking into account the levels of cash held by the Company, general market conditions and any associated costs.

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.

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 68 to 73, and a description of the internal controls operated by the Company is on page 41. None of the risks detailed below have moved since the prior year. However, Covid-19 was identified as an emerging risk.

The pandemic was identified as a risk early in the year. Its impact has been significant with restrictions to movement of people and disruption to business operations impacting global portfolio company valuations and returns and potentially impacting the operational resilience of the Company's service providers. The long-term effects of the Covid-19 pandemic remain unknown, however, the board has sought assurances from the manager and the Company's other main service providers to ensure that they had, and continue to have, suitable business continuity procedures in place and appropriate contingency arrangements to ensure that they remain able to fulfil their service provision to the Company. The directors and the manager continue to monitor the situation closely.

The board also considered the uncertainty arising from the UK leaving the EU at the end of the transition period on 31 December 2020. The board's opinion that the UK's exit 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 remains unchanged. 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.

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 administrator 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.

Cyber risk was also considered and is continually monitored as cyber threats are evolving and becoming increasingly sophisticated. The integrity of the Company's information technology is closely monitored by the board, each of the key service providers provides a report on its internal audit which covers information technology security and provides comfort to the board that appropriate safeguards are in place.

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. Climate change is considered as an emerging risk and the changes in climate change focused regulation, governing both the Company and investee companies, will create some uncertainty. A number of investments address the challenges arising from climate change and may benefit. However, if climate change has a significant adverse impact on the wider economy, the Company could be negatively affected. In comparison to the broader economy, the portfolio has a relatively low carbon footprint. The board encourages the manager to consider environmental, social and governance factors when selecting and retaining investments.

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 Company does not have any borrowing at year end. 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.

STRATEGIC REPORT CONTINUED

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 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.

Shareholders: One of the principal considerations of the board is 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 Managers' section. 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 places great importance on communication with all its shareholders. The board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the annual and half-yearly financial reports. This is supplemented by the daily publication of the Company's net asset value and monthly factsheets placed on the Company's website at www.heralduk.com.

All shareholders have the opportunity, and under normal circumstances are encouraged, to attend the Company's Annual General Meeting (AGM) at which the Directors and representatives of the investment manager are available in person to meet with shareholders and answer questions. In addition, during times when shareholders are able to attend the AGM, a presentation is given by the Investment Manager who reviews the Company's performance. The Company's financial report is published in time to give shareholders at least 20 working days' notice of the AGM. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 77. Details of the proxy voting position on each resolution are published on the Company's website shortly after the AGM.

One of the board's objectives has been, along with the manager, to enhance shareholder engagement. The board has approved the engagement of a provider of research notes on the Company.

During the year the Company's brokers and investment manager held regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman extends an offer to the 20 largest shareholders to meet on a one-to-one basis, without either brokers or the investment manager present. Directors also make themselves available as and when required to address shareholder queries.

The Company is aware of the positive effect that gearing can have in increasing returns to shareholders when utilised. However, as the Company has sufficient cash, the board and the manager agreed not to put in place any borrowing facility, but to keep the situation under review.

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 in the course of the provision of their services with relevant information being fed back to the manager.

The Investment Management and Administration section of this Strategic Report details the board's consideration of the manager's services and the review of other key third party providers' services is detailed in the Corporate Governance Statement on page 41. Since the emergence of the Covid-19 pandemic in Q1 2020, the board has maintained engagement with its key third party service providers regarding their responses to the pandemic and provided support where required.

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.

Board decisions during the year: Feedback received from the Company's key stakeholders was included as part of in-depth discussions at the board's strategy meeting. Specifically, shareholder feedback regarding the number of additional directorships held was reviewed and a formal annual assessment of directors' time commitment introduced. The board also resolved: to adopt the investment manager's stewardship policy, subject to regular review and oversight; not to put in place any borrowing facility; to change the company secretary to PraxisIFM Fund Services (UK) Limited effective 1 December 2020 and to reduce the management fee.

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. The board undertook a robust assessment of the risks pertaining to the Company, including risks to the Company's viability, and this is set out in the principal risks and uncertainties section. This included emerging risks such as the pandemic and climate change as set out therein. As part of this the board considered several severe but plausible scenarios, including the impact of significant market movements.

Other items relevant in the directors' assessment of the Company's viability were: income and expenses projections and the fact that the majority of the Company's investments comprise readily realisable securities as proven by liquidity analysis of the portfolio; any borrowing facilities in place – noting there were none at the year end; and the fact that as a closed ended investment company the Company is not affected by the liquidity issues of open-ended companies caused by large or unexpected redemptions. The board also takes account of the triannual shareholder vote on whether the Company should continue as an investment trust. At the AGM in April 2019, 99.88% of votes cast were in favour of continuation. Given the performance of the Company and feedback from stakeholders, including the Company's broker and major shareholders, the board have no reason to believe that the continuation vote will not be approved at the AGM in 2022.

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.

INVESTMENT MANAGEMENT

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. For the year under review, HIML was remunerated at an annual rate of 1.0% of the Company's net asset value (excluding current year net revenue) calculated using middle market prices. Compensation fees would only be payable in respect of this 12 month period if termination were to occur sooner. Careful consideration has been given by the board as to the basis on which the management fee is charged and, at the recommendation of the Investment Manager, the board agreed to a reduction in fees so that 1% is charged on the first £1.25 billion of the Company's net asset value (excluding current year revenue), and 0.8% thereafter with effect from 1 January 2021. 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 2020, Katie Potts held 393,430 (2019: 448,095) of the Company's shares.

At 31 December 2020, the Company was the beneficial owner of 15.4% (2019: 15.4%) of the ordinary share capital of HIML Holdings Limited.

The board considers the investment management 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.

On 1 January 2020 the Financial Reporting Council's 2020 Stewardship Code took effect. HIML, as investment manager carried out a review of its approach to the new 2020 Stewardship Code and published a revised policy on its website. Annually, HIML will produce a stewardship report explaining how they have applied the Stewardship Code in the previous 12 months.

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
22 February 2021

YOUR BOARD OF DIRECTORS

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 Chair of the National Museums of Scotland, Chairman of HICL Infrastructure Company Limited and Chair of the Scottish Futures Trust Limited.

His career has given him experience in leadership roles in public companies, both in an executive and non-executive capacity, 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 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 Impax Environmental Markets plc and a non-executive director of RBS Collective 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, Henrietta spent 14 years at 3i in several roles, including as fund manager of 3i Smaller Quoted Companies Trust plc (1997–2002). Her earlier career was with Morgan Stanley and Shell. She is currently a non-executive director of Gamma Communications plc (AIM-listed), 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 Industrial REIT plc, Monks Investment Trust plc, Lowland Investment Company plc, Alliance Trust plc, JP Morgan Elect plc and Jupiter Fund Management plc. Mr Sternberg has announced his intention to step down from Lowland Investment Company plc as soon as its board has appointed a replacement non-executive director.

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. All directors will retire at the AGM and offer themselves for 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

DIRECTORS' MEETINGS

The board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for board and committee meetings held during the year. Additionally ad hoc meetings are held as required for administrative purposes.

Number of scheduled meetings	Board	Audit	Nomination
Tom Black	4	2	1
Stephanie Eastment	4	2	1
Henrietta Marsh	4	2	1
Ian Russell	4	–	1
Karl Sternberg	4	2	1
James Will	4	2	1

Ian Russell is not a member of the Audit Committee. His attendance is by invitation from the Committee.

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 those for the nomination committee 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 37. 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.

DIRECTORS RE-ELECTIONS

The directors of the Company all served throughout the year under review. Following a board evaluation which determined that the board remained effective, all directors will stand for re-election at the AGM to be held on 20 April 2021 as required in accordance with the AIC Code. The biographies of the directors are set out on page 38 and are incorporated into this report by reference. They include the skills and experience that each of the directors brings to the board in order to contribute to the long-term sustainable success of the Company. The attendance record of each director at meetings of the board and its committees throughout the year is shown above.

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 or use open advertisements;
- 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 demands on each candidate's time and consideration of their other commitments.

During the year the committee met on one occasion. It undertook the following activities:

- reviewed the board and its committees' structures, size and composition and considered the skills required of current and future directors;
- instructed Lintstock to undertake a board evaluation and reviewed the results of the evaluation as detailed below;
- considered the independence of each director;
- considered each directors' time commitment;
- introduced and considered a skills matrix;
- reviewed and approved the Company's diversity policy statement; and
- reviewed and approved the Company's tenure and succession planning policy.

Board and Chairman's tenure

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 Code principles, the chairman's appointment may extend beyond nine years if required to provide flexibility and an orderly succession during the handover period. This principle is further extended to all members of the Board.

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

During the year, Lintstock were engaged to facilitate an external evaluation of the effectiveness of the chairman, each director, the board as a whole, its committees and the manager. The evaluation required the directors to complete detailed questionnaires on the operation of the board and its committees and the individual contribution of directors and the performance of the Chairman. The nomination committee then met to discuss the results of the evaluation and the board also considered a list of actions resulting from the evaluation. 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 page 40, 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 re-election to shareholders.

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, PraxisIFM Fund Services (UK) 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 safekeeping 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. An example of changes in risk is the pandemic which was identified during the year under review as an emerging risk and required the board to carefully consider the operational resilience of each service provider and the impact on the Company's portfolio.

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. 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 votes cast are against any resolution, the Company would announce what action it intended to take to consult shareholders views and would provide a summary of the outcome and actions it intended to take within six months of the date at which the vote was held. The board confirms that none of the resolutions put to shareholders at the AGM in 2020 received 20% or more of the votes cast against.

PURCHASE OF OWN SHARES
At the AGM of the Company to be held on 20 April 2021, 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. Shares will only be bought back at a time when the Company's shares are trading at a discount to its prevailing net asset value.

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 as they will be doing with their own holdings.

On behalf of the board

IAN RUSSELL
CHAIRMAN
22 February 2021

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 joins by invitation. The committee believe that it is in the best interests of Company for the chairman of the board to attend. The committee is chaired by Stephanie Eastment and the committee meets at least twice a year.

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 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;
- at the request of the board, considering whether the annual report, when 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;
- reviewing the adequacy and effectiveness of internal control and risk management systems and considering the key risks and emerging risks facing the Company which included the Covid-19 pandemic;
- making recommendations to the board 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; and
- considering annually whether there is a need for the Company to have its own internal audit function.

The committee fulfilled all the above roles and responsibilities for the year under review, with the exception of audit tendering as this was undertaken in the previous year.

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.

This year's audit was the second performed by PwC, and by Allan McGrath as engagement partner, since PwC was appointed on 21 October 2019 following an audit tender process in 2019. As set out above, the committee reviewed the performance and effectiveness, independence and objectivity of the auditor for the year under review. This also included consideration of the experience of the audit partner and staff, the quality of service, review of the audit plan, execution and reporting, and attendance of the audit committee chair in additional meetings with the auditor as part of the annual and half-yearly reporting process. All results were satisfactory. Accordingly, the committee has recommended that PwC be reappointed at the forthcoming AGM.

NON-AUDIT SERVICES

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 must be approved in advance. During the year under review the Company did not incur any non-audit fees (2019: nil).

SIGNIFICANT FINANCIAL ISSUES RELATING TO THE 2020 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 are the risks that investments might not have been correctly valued or beneficially owned. No issues were discovered.

STEPHANIE EASTMENT
CHAIR, AUDIT COMMITTEE
22 February 2021

DIRECTORS' REPORT

The directors present their directors' report for the year ended 31 December 2020. 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 as at 31 December 2020 was 2,285.3p per ordinary share (2019 – 1,668.1p). This represented an increase of 37.0% during the year, compared to an increase in the comparative total return indices of 4.9% (Numis Smaller Companies plus AIM (ex. investment companies) Index) and an increase of 38.8% (Russell 2000 (small cap) Technology Index (in sterling terms)). The discount at year end was 1.8% (2019 – 11.3%).

The directors do not recommend a dividend for the year ended 31 December 2020 (2019 – 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. This has taken account of the ongoing impact of the Covid-19 pandemic and Brexit. 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. The Company had no borrowings as at 31 December 2020. 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

The Company has no employees, physical assets, property or operations of its own, does not provide goods or services and does not have its own customers. It follows that the Company has little to no direct environmental impact. In consequence, the Company has limited greenhouse gas emissions to report from its operations aside from travel to board meetings, nor does it have responsibility for any other sources of emissions under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Company consumed less than 40,000 kWh of energy during the year.

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.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles must be made by special resolution at a General or Annual General Meeting of the Company.

NOTIFIABLE INTERESTS IN THE COMPANY'S SHARES

At year end the following had declared a notifiable interest in the Company's voting rights:

	% of issued share capital
Rathbone Investment Management	13.51
Wells Capital Management Inc	6.81
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

Since year end and up to the date of this report there had been no notifiable interests declared to the Company.

REGULATORY COMPLIANCE

THE ALTERNATIVE INVESTMENT FUND MANAGERS ("AIFM") DIRECTIVE

The AIFM is required to provide portfolio management and risk management. In accordance with the AIFM's agreement it is required to provide 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 (2019 – 0.95: 2.00) and on a 'commitment' basis, 1.00 against a maximum of 2.00 (2019 – 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.

INDEPENDENT AUDITOR

The Auditor, PricewaterhouseCoopers LLP, is willing to continue in office. Resolutions proposing the reappointment of PricewaterhouseCoopers LLP and authorising the Audit Committee to determine its remuneration for the ensuing year will be proposed at the AGM.

ANNUAL GENERAL MEETING (AGM)

The following information to be discussed at the forthcoming AGM is important and requires your immediate attention. If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

The AGM will be held on 20 April 2021 at the Company's registered office. Due to the ongoing restrictions on large gatherings, it will not be possible for shareholders to attend in person. Shareholders are encouraged to submit their forms of proxy in advance of the meeting and to submit any questions in advance of the AGM to the following email address: info@heralduk.com. The board will endeavour to respond to any email submitted and will place the response and question on the Company's website. If circumstances were to change, the board will notify the market of any alteration to the AGM arrangements. The information below is an explanation of the special business to be proposed at the 2021 AGM:

SPECIAL RESOLUTION 11: BUY BACK OF THE COMPANY'S ORDINARY SHARES

Resolution 11 is to renew the authority for the Company to purchase its own shares up to 14.99% of the Company's issued share capital as at the date of the AGM for cancellation, subject to the restrictions referred to in the notice of AGM (equivalent to 9,826,115 ordinary shares as at 19 February 2021). The Authority will expire at the conclusion of the AGM to be held in 2022. The board will only utilise this authority when they believe it to be in the interest of shareholders to do so and as a means of narrowing any discount at which the Company's shares are trading against its then prevailing net asset value, providing market conditions are favourable to such a transaction.

SPECIAL RESOLUTION 12 GENERAL MEETING NOTICE PERIOD

The Companies Act 2006 and the Company's Articles of Association provide that all General Meetings, other than AGMs, can be called on 14 days' notice. One of the requirements of the Shareholder Rights Directive is that all General Meetings are to be held on 21 clear days' notice, unless shareholders agree otherwise. The board are therefore seeking authority at the forthcoming AGM to seek authority to call general meetings, other than an annual general meeting, on clear 14 days' 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.

The directors believe that the resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the directors intend to do in respect of their beneficial shareholdings.

On behalf of the board

IAN RUSSELL
CHAIRMAN
22 February 2021

DIRECTORS' REMUNERATION REPORT

1 CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholder

I present below the Company's remuneration report for the year ended 31 December 2020.

Our remuneration policy (see section 2 below) was approved by shareholders at the 2020 AGM. In accordance with statute, the policy must be put to shareholders for approval every three years and 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.

I confirm that the board has complied with the policy during the year ended 31 December 2020. 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 from 1 July 2020 £	Previous fee from 1 July 2019 £	Percentage increase during the year %
Chairman	**37,000**	35,750	3.5
Audit committee chair	**30,000**	27,500	9.1
Director	**25,000**	24,000	4.2

In reviewing the level of fees in July 2020 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. In particular the board agreed to significantly raise the fees of the Audit Committee Chair, not only to bring it in line with the Company's competitors but to reflect the additional responsibilities and time commitment required for this role.

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) 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 2020 (AUDITED)

The single total figure of remuneration for each director who served during the year ended 31 December 2020 and the prior year is as follows:

	31 December 2020			31 December 2019			
	Fees £	Taxable expenses[5] £	Total £	Fees £	Taxable expenses[5] £	Totals £	Percentage change of basic fees[4] %
Ian Russell[1]	**36,375**	**2,592**	**38,967**	31,462	1,902	33,364	15.6[6]
Tom Black	**24,500**	**–**	**24,500**	23,250	775	24,025	5.4
Stephanie Eastment	**28,750**	**–**	**28,750**	26,500	–	26,500	8.5
Henrietta Marsh[2]	**24,500**	**–**	**24,500**	8,000	–	8,000	206.7[6]
Karl Sternberg	**24,500**	**–**	**24,500**	23,250	–	23,250	5.4
James Will	**24,500**	**353**	**24,853**	23,250	1,102	24,352	5.4
Julian Cazalet[3]	**–**	**–**	**–**	9,995	–	9,995	–
Total	**163,125**	**2,945**	**166,070**	145,707	3,779	149,486	

Notes:
1. Appointed as a non-executive director on 1 August 2018 and as chairman on 16 April 2019
2. Appointed on 1 September 2019
3. Retired on 16 April 2019
4. In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, this column has been included to show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year in accordance with the new regulation. These fees exclude taxable benefits which could vary substantially as they reflect expenses incurred whilst carrying out the board's duties
5. Taxable expenses incurred by the board in carrying out their duties as Directors of the Company
6. The annual change increase reflects the fact that Henrietta Marsh joined the board part way through 2019 and Ian Russell became chairman of the board part way through the same year. Henrietta Marsh's fee increased by the same amount as the other non-executive directors, and Ian Russell's fee increase would have been 4.9% if he had been the chairman for the whole of the previous year

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 normally held at the Company's registered office. Directors are entitled to claim travel expenses and other reasonable expenses in carrying out their duties as Directors of the Company. 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	2020	2019
Ian Russell	**7,500**	7,500
Tom Black	**6,900**	6,900
Stephanie Eastment*	**2,500**	2,000
Henrietta Marsh	**–**	n/a
Karl Sternberg	**7,826**	7,826
James Will	**6,000**	6,000

* 1,500 held non-beneficially; shares held by connected person

There have been no changes to any of the directors' share interests in the period from 1 January 2021 to the date of this report.

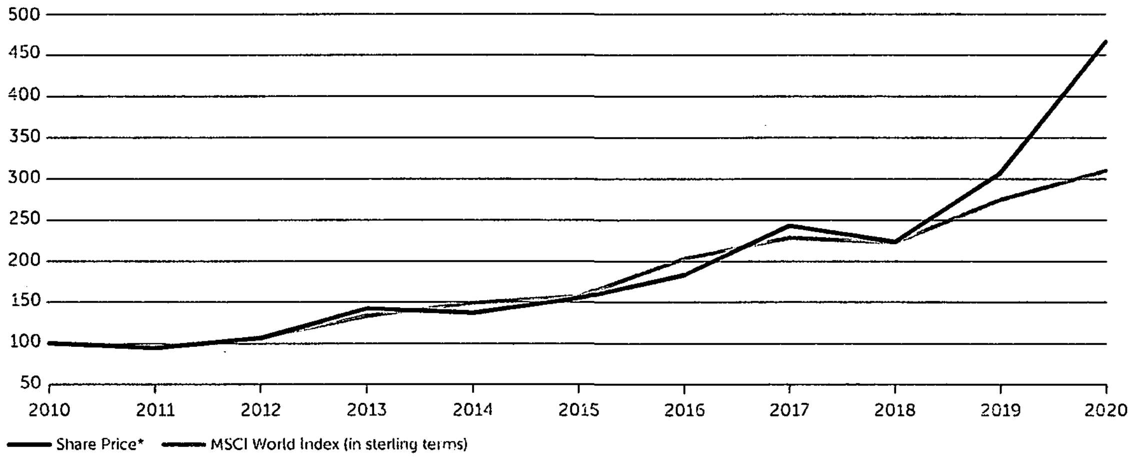
DIRECTORS' REMUNERATION REPORT CONTINUED

3 ANNUAL DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDING 31 DECEMBER 2020 (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.

HERALD'S SHARE PRICE AND MSCI WORLD INDEX (IN STERLING TERMS)*
(FIGURES HAVE BEEN REBASED TO 100 AT 31 DECEMBER 2010)



Source: Refinitiv
* Total return (assuming all dividends are reinvested).

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.

	2020 £'000	2019 £'000
Total spend – directors' fees	**166**	149
Total distributed to shareholders – dividends	**–**	–
– share buybacks	**24,844**	20,337

VOTING ON REMUNERATION MATTERS AT THE 2020 AGM AND IN RESPECT OF REMUNERATION POLICY

At the AGM on 17 April 2020 the resolution to receive and approve the directors' remuneration report for the year ended 31 December 2019 received the following votes: for – 99.95% (35,853,218 votes); against – 0.05% (18,585 votes). 13,813 votes were withheld.

The remuneration policy itself was last approved by shareholders in 2020 with 99.95% of votes in favour (35,853,928 votes); 0.05% votes against (19,055 votes). 12,643 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 22 February 2021 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
22 FEBRUARY 2021

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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 2020 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 2020; 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 under audit.

OUR AUDIT APPROACH
OVERVIEW

Audit scope
- 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, PraxisIFM Fund Services (UK) 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.

Key audit matters
- Valuation and existence of investments.
- Income from investments.
- Consideration of the impacts of Covid-19.

Materiality
- Overall materiality: £15,000,000 (2019: £11,200,000) based on 1% of net assets.
- Performance materiality: £11,250,000.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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, 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;
- testing the valuation of all listed investments by agreeing the prices used in the valuation to independent third-party sources; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of expenses and the valuation of unquoted investments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Consideration of the impacts of Covid-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and existence of investments	
Refer to page 43 (Audit Committee Report), page 62 (Accounting Policies) and pages 65 and 66 (Notes to the Accounts). The investment portfolio at 31 December 2020 comprised of listed investments of £1,411.0 million and £19.6 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 2020. 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 62 (Accounting Policies) and page 63 (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.
Consideration of the impacts of Covid-19. Refer to the page 8 (Chairman's Statement), page 35 (Principal Risks and Uncertainties), page 36 (Viability Statement) and page 44 (Going Concern Statement), which disclose the impact of the Covid-19 pandemic. The Covid-19 outbreak has been declared a pandemic by the World Health Organisation. Since the first quarter of 2020, it has caused significant economic uncertainty globally and disruption to supply chains and travel, slowed global growth and caused volatility in global markets and in exchange rates. The Directors have prepared the financial statements of the Company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the assessment that, notwithstanding the significant market uncertainties, they are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and that the Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels throughout the Covid-19 pandemic.	We evaluated the Directors' assessment of the impact of the Covid-19 pandemic on the Company by: – Evaluating the Company's updated risk assessment and considering whether it addresses the relevant threats presented by Covid-19. – Evaluating management's assessment of operational impacts, considering their consistency with other available information and our understanding of the business and assessing the potential impact on the financial statements. – Testing the impact of Covid-19 on the valuation of sampled investments. We obtained and evaluated the Directors' going concern assessment which reflects conditions up to the point of approval of the Annual Report by obtaining evidence to support the key assumptions and forecasts driving the Directors' assessment. This included reviewing the Directors' assessment of the Company's financial position and forecasts, their assessment of liquidity as well as their review of the operational resilience of the Company and oversight of key third party service providers. We assessed the disclosures presented in the Annual Report in relation to Covid-19 by reading the other information, including the Principal Risks and Viability Statement set out in the Strategic Report, and assessing its consistency with the financial statements and the evidence we obtained in our audit. Our conclusions relating to other information are set out in the 'Reporting on other information' section of our report. Our conclusions relating to going concern are set out in the 'Conclusions related to going concern' section below.

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 Company materiality	£15,000,000 (2019: £11,200,000).
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 use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £11,250,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £750,000 (2019: £560,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the Directors' updated risk assessment and considering whether it addressed the relevant threats presented by Covid-19;
- evaluating the Directors' assessment of potential operational impacts, considering their consistency with other available information and our understanding of the business and assessed the potential impact on the financial statements;
- reviewing the Directors' assessment of the Company's financial position in the context of its ability to meet future expected operating expenses, their assessment of liquidity as well as their review of the operational resilience of the Company and oversight of key third-party service providers; and
- assessing the implication of significant reductions in NAV as a result of market performance on the ongoing ability of the Company to operate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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 and the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND THE DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 the Directors' Report.

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.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual report & financial statements that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' 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 its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

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 in respect of the financial statements, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2019 to 31 December 2020.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 February 2021

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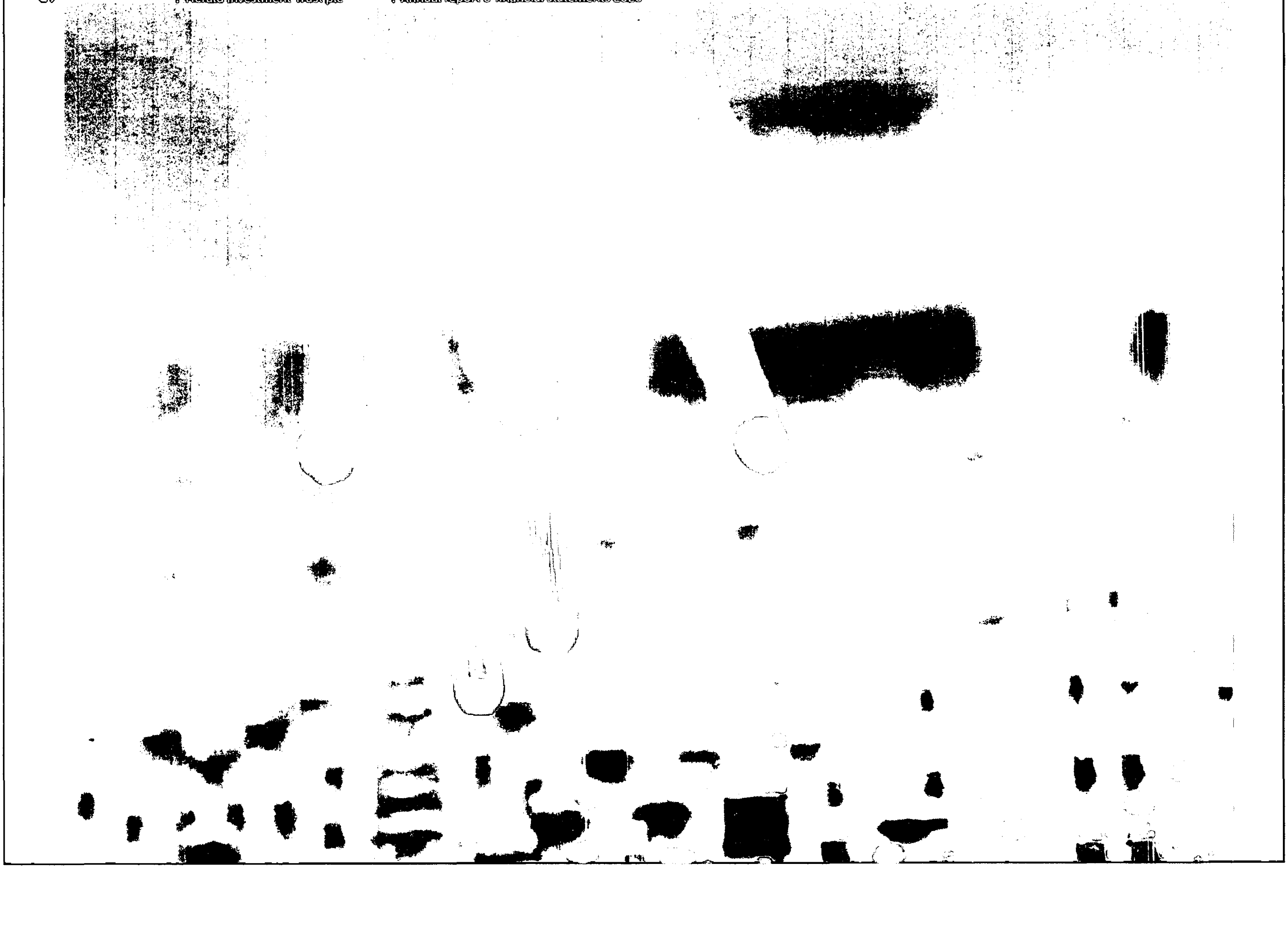

INCOME STATEMENT

For the year ended 31 December

	Notes	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Gains on investments	9	–	412,632	412,632	–	245,174	245,174
Losses on foreign exchange		–	(3,173)	(3,173)	–	(3,119)	(3,119)
Income	2	9,361	–	9,361	11,735	–	11,735
Investment management fee	3	(12,223)	–	(12,223)	(10,537)	–	(10,537)
Other administrative expenses	4	(837)	(100)	(937)	(779)	(54)	(833)
(Loss)/profit before finance costs and taxation		(3,699)	409,359	405,660	419	242,001	242,420
Finance costs of borrowings	5	–	–	–	(156)	–	(156)
(Loss)/profit before taxation		(3,699)	409,359	405,660	263	242,001	242,264
Taxation	6	(298)	–	(298)	(232)	–	(232)
(Loss)/profit after taxation		(3,997)	409,359	405,362	31	242,001	242,032
(Loss)/profit per ordinary shares (basic and diluted)	8	(6.00p)	614.30p	608.30p	0.05p	355.30p	355.35p

There is no final dividend proposed (2019 – 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 (loss)/profit after taxation is the total comprehensive income and therefore no additional statement of comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations 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	2020 £'000	2019 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	**1,430,583**	1,033,226
Current assets			
Cash and cash equivalents		**72,929**	88,843
Other receivables	10	**1,460**	1,995
		74,389	90,838
Current liabilities			
Other payables	11	**(1,605)**	(1,215)
		(1,605)	(1,215)
Net current assets		**72,784**	89,623
TOTAL NET ASSETS		**1,503,367**	1,122,849
Capital and reserves			
Called up share capital	12	**16,446**	16,828
Share premium	13	**73,738**	73,738
Capital redemption reserve	13	**5,506**	5,124
Capital reserve	13	**1,410,424**	1,025,909
Revenue reserve	13	**(2,747)**	1,250
SHAREHOLDERS' FUNDS		**1,503,367**	1,122,849
NET ASSET VALUE PER ORDINARY SHARE (including current year revenue)	14	**2,285.33p**	1,668.13p
NET ASSET VALUE PER ORDINARY SHARE (excluding current year revenue)	14	**2,291.41p**	1,668.08p

The financial statements of Herald Investment Trust plc (company registration number 02879728) were approved by the board of directors and authorised for issue on 22 February 2021 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 2020

	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 2020		**16,828**	**73,738**	**5,124**	**1,025,909**	**1,250**	**1,122,849**
Profit/(loss) after taxation		**–**	**–**	**–**	**409,359**	**(3,997)**	**405,362**
Shares purchased for cancellation	12	**(382)**	**–**	**382**	**(24,844)**	**–**	**(24,844)**
Shareholders' funds at 31 December 2020		**16,446**	**73,738**	**5,506**	**1,410,424**	**(2,747)**	**1,503,367**

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

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	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Cash flow from operating activities					
Profit before finance costs and taxation		**405,660**		242,420	
Adjustments for gains on investments		**(412,632)**		(245,174)	
Purchase of investments		**(186,269)**		(148,856)	
Sale of investments		**202,369**		193,007	
Adjustment for other movements in investment gains		**(657)**		(116)	
Decrease/(increase) in receivables		**548**		(516)	
Increase in payables		**226**		254	
Amortisation of fixed income book cost		**35**		(407)	
Effect of foreign exchange rate changes		**3,173**		3,119	
Overseas tax on overseas income		**(311)**		(136)	
Net cash inflow from operating activities			**12,142**		43,595
Cash flow from financing activities					
Undrawn facility fee paid		**(39)**		(156)	
Shares purchased for cancellation	12	**(24,844)**		(20,337)	
Net cash outflow from financing activities			**(24,883)**		(20,493)
Net (decrease)/increase in cash and cash equivalents			**(12,741)**		23,102
Cash and cash equivalents at start of the year			**88,843**		68,860
Effect of foreign exchange rate changes			**(3,173)**		(3,119)
Cash and cash equivalents at the end of the year			**72,929**		88,843
Comprised of:					
Cash and cash equivalents			**72,929**		88,843

Cash flow from operating activities includes interest received of £1,333,000 (2019 – £1,429,000) and dividends received of £7,391,000 (2019 – £9,636,000).

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 2020 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.

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.

Based on the information available to the Directors at the time of this report, including the results of stress tests, the Company's cash balances, and the liquidity of the Company's investments, the Directors are satisfied that the Company has adequate financial resources to continue in operation for at least the next 12 months and that, accordingly, it is appropriate to adopt the going concern basis in preparing these financial statements.

(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 2020, 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

	2020 £'000	2019 £'000
Dividend income from investments		
UK dividends from listed investments	**2,468**	3,179
UK dividends from unlisted investments (inc AIM)	**2,475**	3,437
Overseas dividends from UK-listed and AIM companies	**328**	631
Overseas dividend income	**2,887**	2,659
	8,158	9,906
Interest income from equity investments		
Income from unlisted (inc AIM) UK convertible bonds	**595**	256
Income from unlisted US convertible bonds	**33**	–
	628	256
Fixed interest		
UK interest from government securities	**4**	–
Overseas interest from government securities	**581**	1,170
	585	1,170
Other income		
Deposit interest	**(10)**	395
Underwriting commission	**–**	8
	(10)	403
Total income	**9,361**	11,735

Included within dividend income are special dividends of £445,000 (2019: £37,000).

3. INVESTMENT MANAGEMENT FEE

	2020 £'000	2019 £'000
Investment management fee	**12,223**	10,537

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 basis at an annual rate of 1.0% 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. From 1 January 2021 the management fee will be reduced to 1.0% of the Company's net asset value up to £1.25 billion and 0.8% on amounts beyond this level.

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

4. OTHER ADMINISTRATIVE EXPENSES

	2020 £'000	2019 £'000
Custodian's fees	**81**	71
Registrar's fees	**36**	29
Directors' fees	**163**	146
Auditor's fees – statutory audit*	**35**	31
Depositary's fees	**205**	180
Miscellaneous expenses	**317**	322
	837	779

* Auditor's fees excludes VAT. The VAT is included in miscellaneous expenses.

Other capital administration expenses of £100,000 (2019: £54,000) includes legal fees of £93,000 (2019: £47,000) in relation to the action disclosed in note 15.

5. FINANCE COSTS OF BORROWINGS

	2020 £'000	2019 £'000
Credit facility commitment fee	**–**	156
	–	156

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

6. TAXATION

	2020 £'000	2019 £'000
Analysis of charge in year		
Overseas taxation	**298**	232
Factors affecting tax charge for year		
The tax charge for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19.00% (2019 – 19.00%). The differences are explained below:		
Profit before taxation	**405,660**	242,264
Profit multiplied by the standard rate of corporation tax in the UK of 19.00% (2019 – 19.00%)	**77,075**	46,030
Effects of:		
Capital gains not taxable	**(78,400)**	(46,583)
UK dividends not subject to UK tax	**(920)**	(1,234)
Overseas dividends not subject to UK tax	**(629)**	(643)
Capital losses on foreign exchange movements not subject to tax	**602**	594
Disallowable expenses	**2**	2
Overseas withholding tax	**298**	232
Movement in excess management expenses	**2,270**	1,834
Total tax charge for the year	**298**	232

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

There is no UK corporation tax charge at 31 December 2020 or 31 December 2019 as the Company has unrelieved management expenses which are available to be carried forward. The tax charge for 31 December 2020 and 2019 comprises overseas withholding taxes incurred.

At 31 December 2020, the Company had a potential deferred tax asset of £22 million (2019 – £18 million) on taxable losses of £116 million (2019 – £104 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 19.00% (2019 – 17.00%).

The Chancellor confirmed that the rate of corporation tax will remain at 19.00% from 1 April 2020. This measure (cancelling the enacted cut to 17.00%) was made under a Budget resolution which has statutory effect under the provisions of the *Provisional Collection of Taxes Act 1968*. As such, it is substantively enacted for UK GAAP on the passing of the resolution.

7. DIVIDENDS ON ORDINARY SHARES

	2020	2019	2020 £'000	2019 £'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 2020 is £nil (2019 – £31,000).

	2020	2019	2020 £'000	2019 £'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

2020 Revenue	2020 Capital	2020 Total	2019 Revenue	2019 Capital	2019 Total
(6.00p)	**614.30p**	**608.30p**	0.05p	355.30p	355.35p

Revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation (respectively, revenue loss of £3,997,000 (2019 – revenue profit of £31,000), capital profit of £409,359,000 (2019 – capital profit of £242,001,000) and total profit of £405,362,000 (2019 – total profit of £242,032,000)) and on 66,638,083 ordinary shares (2019 – 68,110,377) 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

	2020 £'000	2019 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments – London Stock Exchange	**215,784**	201,661
– AIM	**506,279**	369,394
Listed overseas – equity investments	**646,515**	402,008
Unquoted	**19,579**	15,055
Total equity investments	**1,388,157**	988,118
Government debt securities	**42,426**	45,108
Total investments in financial assets at fair value through profit or loss	**1,430,583**	1,033,226

See Detailed List of Investments on pages 22 to 28.

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	2020 Total £'000	2019 Total £'000
Cost of investments at 1 January	72,072	256,192	234,398	19,014	**581,676**	565,600
Unrealised investment holding gains/(losses) 1 January	129,589	190,924	134,996	(3,959)	**451,550**	266,080
Fair value of investments at 1 January	201,661	447,116	369,394	15,055	**1,033,226**	831,680
Movements in the year:						
Purchases at cost	25,649	126,642	31,958	2,223	**186,472**	148,856
Sales proceeds	(31,727)	(138,763)	(28,381)	(3,498)	**(202,369)**	(190,827)
Gains on investments	40,400	235,425	133,668	3,796	**413,289**	245,290
Amortisation of fixed income book cost	(195)	160	–	–	**(35)**	407
Transferred from listed overseas to unquoted	–	(1,643)	–	1,643	–	–
Transferred from AIM to unquoted	–	–	(1,417)	1,417	–	–
Transferred from unquoted to AIM	–	–	1,057	(1,057)	–	–
Return of capital/capital special dividends	–	–	–	–	–	(2,180)
Fair value of investments at 31 December	**235,788**	**668,937**	**506,279**	**19,579**	**1,430,583**	1,033,226
Cost of investments at 31 December	91,601	320,080	254,121	19,667	**685,469**	581,676
Unrealised investment holding gains/(losses) 31 December	144,187	348,857	252,158	(88)	**745,114**	451,550
Fair value of investments at 31 December	**235,788**	**668,937**	**506,279**	**19,579**	**1,430,583**	1,033,226
Cost of investments sales	**5,925**	**61,271**	**11,875**	**3,573**	**82,644**	131,007
Gains/(losses) on investments						
Net realised gains/(losses) on sales	25,802	77,492	16,506	(75)	**119,725**	59,820
Unrealised investment holding gains	14,598	157,933	117,162	3,871	**293,564**	185,470
Other movements in investment gains	–	–	–	–	**(657)**	(116)
	40,400	**235,425**	**133,668**	**3,796**	**412,632**	245,174

The Company received £202,369,000 (2019: £190,827,000) from investments sold in the year. The book cost of these investments when they were purchased was £82,644,000 (2019: £131,007,000). 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 2020 was £19,579,000 (2019 – £15,055,000).

At 31 December 2020 the Company was the beneficial owner of 15.4% (2019 – 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.

	2020 £'000	2019 £'000
Transaction costs		
Commission costs:		
Purchases	**319**	188
Sales	**398**	183
Total commission costs	**717**	371
Custody transaction costs	**7**	9
Other transaction costs	**45**	42
	769	422

10. OTHER RECEIVABLES

	2020 £'000	2019 £'000
Due within one year:		
Income accrued and prepayments	**1,380**	1,398
Other receivables	**–**	530
Taxation recoverable	**80**	67
	1,460	1,995

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

11. OTHER PAYABLES

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Purchases for subsequent settlement	**203**	–
Other payables	**1,402**	1,215
	1,605	1,215

Included in other payables and accruals is £1,264,000 (2019 – £942,000) in respect of the investment management fee.

12. CALLED UP SHARE CAPITAL

	2020 Number	2020 £'000	2019 Number	2019 £'000
Allotted, called up and fully paid ordinary shares of 25p:				
Brought forward	**67,311,777**	**16,828**	68,901,568	17,225
Shares bought back and cancelled	**(1,528,359)**	**(382)**	(1,589,791)	(397)
Carried forward	**65,783,418**	**16,446**	67,311,777	16,828

At the AGM held on 17 April 2020 the Company's authority to buy back up to 14.99% of its issued share capital at that date was renewed. During the year to 31 December 2020 a total of 1,528,359 (2019 – 1,589,791) ordinary shares of 25p each with a nominal value of £382,090 (2019 – £397,448) were bought back and cancelled at a total cost of £24,843,652 (2019 – £20,336,606). At 31 December 2020 the Company had authority to buy-back a further 8,769,951 ordinary shares. Under the provisions of the Company's articles share buy-backs are funded from the capital reserve.

13. CAPITAL AND RESERVES

	Share Premium £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000
At 1 January 2020	**73,738**	**5,124**	**1,025,909**	**1,250**
Shares purchased for cancellation	**–**	**382**	**(24,844)**	**–**
Gains on sales	**–**	**–**	**119,725**	**–**
Changes in investment holding gains	**–**	**–**	**293,564**	**–**
Other movements in investment gains	**–**	**–**	**(657)**	**–**
Other exchange differences	**–**	**–**	**(3,173)**	**–**
Custody transaction and capital legal costs	**–**	**–**	**(100)**	**–**
Losses after taxation	**–**	**–**	**–**	**(3,997)**
Balance at 31 December 2020	**73,738**	**5,506**	**1,410,424**	**(2,747)**

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 £745,114,000 (2019 – gains of £451,550,000) as disclosed in note 9. The capital reserve is non-distributable except for the buy-back of shares.

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

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

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:

	2020 per share (pence)	2019 per share (pence)	2020 £'000	2019 £'000
Total net assets (including current year revenue)	**2,285.33**	1,668.13	**1,503,367**	1,122,849
Less net revenue (profit)/loss after taxation	**6.08**	(0.05)	**3,997**	(31)
Total net assets (excluding current year revenue)	**2,291.41**	1,668.08	**1,507,364**	1,122,818

Net asset value per ordinary share is based on net assets as shown above and on 65,783,418 (2019 – 67,311,777) ordinary shares, being the number of ordinary shares in issue at each balance sheet date.

15. CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS
In the 2019 Annual Report, the Company disclosed that it was 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 was in respect of proceeds of US$3,071,267 that were received on the takeover of its holding in Constellation Healthcare Technologies Inc, which had subsequently filed for bankruptcy and claims were being made by the liquidator against many former shareholders of that investment. The Company had made a non-material partial provision of £116,000 for this action in the year ended 31 December 2019. The claim was settled by the Company making a payment of US$1,024,000 (£773,000) under a settlement agreement in terms of which no party accepted liability.

There were no other contingent liabilities, guarantees or financial commitments at 31 December 2020.

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 can use gearing although no gearing was employed during the year. 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 2020 (2019 – 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 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, 16 and 18 to 21.

Other Price Risk Sensitivity

15.5% of the Company's total equity investments at 31 December 2020 (2019 – 20.4%) were listed on the main list of the London Stock Exchange and a further 36.5% (2019 – 37.4%) on AIM. The NASDAQ Stock Exchange accounts for 23.5% (2019 – 21.8%), New York Stock Exchange for 3.0% (2019 – 4.2%) and other stock exchanges or unlisted 21.5% (2019 – 16.2%). A 10% increase in equity investment prices at 31 December 2020 would have increased total net assets and profit & loss after taxation by £138,816,000 (2019 – £98,812,000). 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.

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

FINANCIAL ASSETS

	2020 Fair value £'000	**2020 Weighted average interest rate/ interest rate**	**2020 Weighted average period until maturity/ maturity date**	2019 Fair value £'000	2019 Weighted average interest rate/ interest rate	2019 Weighted average period until maturity/ maturity date
Fixed rate:						
US bonds	**22,422**	**1.3%**	**1.8 Years**	45,108	1.3%	1.6 Years
UK bonds	**20,004**	**1.5%**	**0.1 Years**	–	–	–
Overseas convertible bonds	**1,005**	**4.2%**	**3.2 Years**	–	–	–
UK convertible bonds	**3,693**	**6.8%**	**1.5 Years**	2,646	7.9%	1.7 Years
Floating rate cash:						
Non-sterling	**53,155**	**0.0%**		33,908	0.8%	
Sterling	**19,774**	**0.0%**		54,935	0.0%	
	72,929			88,843		

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 2020 would have a direct effect on net assets. Based on the position at 31 December 2020, over a full year, an increase of 100 basis points would have increased the profit & loss after taxation by £729,000 (2019 – £888,000) and would have increased the net asset value per share by 1.11p (2019 – 1.32p). 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the Year Ended 31 December

17. FINANCIAL INSTRUMENTS CONTINUED

(b) Fixed rate bonds

An increase of 100 basis points in bond yields as at 31 December 2020 would have decreased total net assets and profit & loss after taxation by £412,000 (2019 – £679,000) and would have decreased the net asset value per share by 0.63p (2019 – 1.01p). 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 2020

	Investments £'000	Cash and deposits £'000	Other receivables and payables £'000	Net exposure £'000
US dollar	391,663	43,078	92	434,833
Euro	96,657	8,742	74	105,473
Australian dollar	46,095	–	17	46,112
Taiwan dollar	33,387	1,335	–	34,722
Japanese yen	30,229	–	27	30,256
Norwegian krone	19,987	–	–	19,987
Korean won	16,058	–	62	16,120
Other overseas currencies	36,226	–	5	36,231
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	670,302	53,155	277	723,734
Sterling	760,281	19,774	(422)	779,633
	1,430,583	72,929	(145)	1,503,367

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
Euro	50,049	3,803	67	53,919
Taiwan dollar	19,111	5,416	–	24,527
Australian dollar	23,474	–	530	24,004
Norwegian krone	14,202	4,300	–	18,502
Korean won	12,010	–	97	12,107
Japanese yen	7,082	–	7	7,089
Other overseas currencies	13,657	–	–	13,657
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

Foreign currency risk sensitivity

At 31 December 2020, had sterling strengthened by 10% (2019 – 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% (2019 – 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.

	2020 £'000	2019 £'000
US dollar	**43,483**	32,792
Euro	**10,547**	5,392
Australian dollar	**4,611**	2,400
Taiwan dollar	**3,472**	2,453
Japanese yen	**3,026**	709
Norwegian krone	**1,999**	1,850
Korean won	**1,612**	1,211
Other overseas currencies	**3,623**	1,366
	72,373	48,173

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:

	2020 £'000	2019 £'000
Fixed interest investments	**42,426**	45,108
Cash and cash equivalents	**72,929**	88,843
Other receivables	**1,460**	1,995
	116,815	135,946

During the year the maximum exposure in fixed interest investments was £48,953,000 (2019 – £65,604,000) and the minimum £42,426,000 (2019 – £24,292,000). The maximum exposure in cash was £112,654,000 (2019 – £107,727,000) and the minimum £72,929,000 (2019 – £35,395,000).

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 2020 (2019 – 1.3%).

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. 12.0% (£165 million) (2019 – 17.1% (£166 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 2.2% (2019 – 3.0%).

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:

	2020 One year or less £'000	2019 One year or less £'000
Other payables	**1,605**	1,215
	1,605	1,215

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 2020

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Equity investments	**1,368,578**	**–**	**12,494**	**1,381,072**
Government debt securities	**42,426**	**–**	**–**	**42,426**
Convertible loan stocks	**–**	**–**	**7,085**	**7,085**
Total investments	**1,411,004**	**–**	**19,579**	**1,430,583**

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

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

At 31 December 2020

	£'000
Opening balance at 1 January 2020	15,055
Purchases	2,223
Sales	(3,498)
Total (losses) or gains	
– on assets sold during the year	(75)
– on assets held at 31 December 2020	3,871
Assets transferred during the year	2,003
Closing balance at 31 December 2020	19,579

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 37. Details of transactions during the year are disclosed in note 3 and 11.

19. POST BALANCE SHEET EVENTS
There are no significant events after the end of the reporting period requiring disclosure.