

FIDELITY SPECIAL VALUES PLC

Final Results for the year ended 31 August 2020

Financial Highlights:

- The Board of Fidelity Special Values PLC (the “Company”) recommends a final dividend of 3.70 pence which together with the interim dividend payment of 2.10 pence per share (totalling 5.80 pence) represents an increase of 0.05 pence over the dividend of 5.75 pence paid in the prior year.
- The Company recorded a net asset value (“NAV”) total return of -18.5% and a share price total return of -25.4% for the year ended 31 August 2020. The discount to NAV widened over the period from 0.6% to 9.1%.
- Performance over the Portfolio Manager’s tenure is strong with a NAV total return of +89.7% and a share price total return of +105.5%% compared to the FTSE All-Share Index (Benchmark Index) return of +50.3%.
- The Board has agreed a revised fee with effect from 1 January 2021. The current tiered fee structure which is 0.85% on the first £700 million of net assets reducing to 0.75% of net assets in excess of £700 million will be replaced by a single fee of 0.60% of net assets.

Contacts

For further information, please contact:

Smita Amin
Company Secretary
01737 836347
FIL Investments International

CHAIRMAN'S STATEMENT

With the onset of the Coronavirus ("COVID-19") pandemic, the year under review has proved challenging for people and businesses across the world. In a difficult environment, our Portfolio Manager, Alex Wright, has continued to act with discipline and invest prudently in the most attractive opportunities, but performance through this extremely challenging period has suffered.

Fidelity Special Values PLC aims to achieve long term capital growth for Shareholders by investing in special situations. The investment trust is primarily invested in UK equities, but may invest up to 20% of total net assets outside of UK companies. The portfolio consists of around 80-120 positions and the Portfolio Manager's strategy invests across the market capitalisation spectrum, usually with an overweight to medium sized and smaller companies. It is an actively managed contrarian strategy that seeks out undervalued opportunities – this typically means investing in companies that have underperformed and where there is little or no value ascribed to any recovery potential.

By building a portfolio of stocks that are at different stages of their recovery process, the intention is to deliver outperformance across different market environments. Frustratingly, value investing is experiencing the longest and deepest underperformance relative to growth in more than half a century and this environment has not been conducive to strong returns for our Company. For investors, this is something of a double-edged sword as many disproportionately oversold names are now trading at extremely attractive valuations and history suggests that patient investors should be rewarded if, or more likely when, the tide turns. Alex talks more about this in detail in his Portfolio Manager's Review below. The contrarian nature of the Company's investment selection means that Shareholders should not expect consistent outperformance against the Benchmark Index every single year, although the Board believes that the portfolio has the potential to outperform significantly over the longer term. As ever, the Board encourages Shareholders to take a similarly long term view of their investment in the Company's shares.

PERFORMANCE

Performance in the year under review to 31 August 2020 has been disappointing, with a NAV return of -18.5% and a share price return of -25.4% compared to the Benchmark Index return of -12.6%. However, shorter term numbers are more encouraging – over the 3 months to 31 August 2020, for example, the NAV increased by 4.1% and share price by 1.5% compared to the Benchmark Index return of 0.3%. Performance figures over Alex's tenure as Portfolio Manager are also strong, with a NAV return of 89.7% and a share price return of 105.5%, compared to a Benchmark Index return of 50.3%. (All performance data on a total return basis).

OUTLOOK

In this year, perhaps more than most, predictions are difficult to arrive at. At the time of writing, Brexit-related uncertainties continue to loom large and the COVID-19 pandemic shows few signs of abating. What is encouraging is the extraordinary valuation dispersion at present. In 2019 and again in 2020, investing in companies growing revenue fast has been the winning trade. Alex's focus on companies in uncertain and complex situations, unduly punished by the market in valuation terms, should over the long term provide a strong basis for returns. Alex will continue to scrutinise company fundamentals, identifying the most attractive options and building a carefully constructed portfolio. Risk management and strong corporate governance, among other ethical concerns will remain a key priority. The Board thanks Shareholders for their loyalty and patience and retains its high conviction in the investment strategy and its alignment with the long term interests of investors.

OTHER MATTERS

INTRODUCTION OF A CO-PORTFOLIO MANAGER

Earlier this year, the Board announced that on 3 February 2020 Jonathan Winton was appointed as the Co-Portfolio Manager alongside Alex Wright, the Company's Portfolio Manager. The move to a Co-Portfolio Manager structure will strengthen the investment process by introducing greater challenge and will also increase the ability to meet more companies and, effectively, be in two places at once.

Jonathan joined Fidelity as an analyst in 2005. He is the Lead Portfolio Manager of Fidelity UK Smaller Companies Fund and has worked alongside Alex in the Fidelity UK equities team since 2013. The introduction of Jonathan is a logical step given his long term relationship with Alex and their similar contrarian stock picking investment approach. It will not result in any changes in terms of investment philosophy, investment process, portfolio characteristics and holdings.

Alex remains the Lead Portfolio Manager and will continue to be accountable for portfolio construction of the Company.

REVISED MANAGEMENT FEE FROM 1 JANUARY 2021

I am pleased to report that, following a review of the management fees payable to Fidelity, the Board has agreed a revised fee with effect from 1 January 2021. The current tiered fee structure which is 0.85% on the first £700 million of net assets reducing to 0.75% of net assets in excess of £700 million will be replaced by a single fee of 0.60% of net assets. In addition, the fixed annual fee of £100,000 for services other than portfolio management will be removed. Based on net assets as at 31 August 2020, the management fee reduction represents an annualised saving of around £1.55 million.

There will be no change in the investment process as a result of the new fee arrangement.

DISCOUNT/PREMIUM AND SHARE REPURCHASES/ISSUES

Under the Company's discount management policy, the Board seeks to maintain the discount in single digits in normal market conditions and will repurchase shares to help stabilise the share price discount.

The Board will approve the issuance of shares if the Company's shares are trading at a sufficient level of premium to ensure that it adds value for Shareholders and that the issue of shares is not dilutive. Issuing shares increases the size of the Company, making it more liquid and allowing costs to be spread out over a larger pool of assets.

Over the reporting year, the Company's shares traded between a premium of 4.1% and a discount of 11.2%. The level of discount widened from 0.6% at the start of the reporting year to 9.1% as at 31 August 2020. The peer group average discount for the year was 10.3%.

In the reporting year, the Company issued a total of 13,860,000 ordinary shares. Since then and as at the date of this Annual Report, the Company has not issued any further shares.

The Company did not carry out any share repurchases in the reporting year. Since the year end and as at the date of this Annual Report, as the discount widened out, the Company repurchased 1,025,473 shares into Treasury.

The Board continues to monitor the discount/premium closely and will take action when it believes that it will be effective.

GEARING

The Board has agreed with the Portfolio Manager that if he is able to find attractive opportunities in the market, then the Company's gearing should be allowed to rise, provided the opportunities remain attractive. Combined with Alex's contrarian and value-focused investment philosophy, and also making good use of the Company's structural advantages over its open-ended counterparts, this should continue to add value for Shareholders over the long term.

It is the current intention of the Board that, in normal market conditions, the Portfolio Manager will maintain net gearing in the range of 0% to 20%. The Company remained within these levels throughout the reporting year. The maximum level of gross

gearing is 40%.

DIVIDEND

The Board's policy is to pay dividends twice yearly in order to smooth the dividend payments for the reporting year. Investment trusts have an income advantage which is particularly important during these difficult times, when the dividends of many companies in the portfolio are under pressure. Unlike open-ended funds, investment trusts can hold back some of the income they receive in good years, so building up revenue reserves, which they can then use to supplement dividends to Shareholders at a time when companies in the portfolio may be cutting their dividends. The Board has, over the past few years, gradually built up these revenue reserves.

As mentioned in the Half-Yearly Report earlier this year, many UK companies have either cut or cancelled their dividend payments due to the impact of COVID-19. The Company's revenue return for the year to 31 August 2020 was 4.81 pence per share (2019: 8.65p), and an interim dividend of 2.10 pence per share was paid on 24 June 2020 (2019: 2.10p).

With this in mind, the Board recommends a final dividend of 3.70 pence per share for the year ended 31 August 2020 (2019: 3.65 pence) for approval by Shareholders at the Annual General Meeting ("AGM") on 14 December 2020. The interim and final dividends (total of 5.80 pence) represent an increase of 0.05 pence over the 5.75 pence paid for the year ended 31 August 2019. In the prior year, a special dividend of 1.50 pence per share was also paid to distribute the substantially higher revenue generated from the investments held in the portfolio compared to prior years. The current year's total dividend comprises 4.81 pence earned in the reporting year and 0.99 pence to be paid from revenue reserves.

The final dividend will be payable on 14 January 2021 to Shareholders on the register at close of business on 4 December 2020 (ex-dividend date 3 December 2020). Shareholders may choose to reinvest their dividends for additional shares in the Company. Details of the Dividend Reinvestment Plan are set out in the Annual Report.

BOARD OF DIRECTORS

Nicky McCabe, having served on the Board as a Non-Executive Director since December 2004, will step down from the Board at the conclusion of the AGM on 14 December 2020. I would like to take this opportunity to thank her on behalf of the Board and all of the Company's stakeholders for all that she has accomplished, for her unfailing dedication, wisdom and good humour. Her contribution and knowledge of Fidelity from her time as a Director and Chief Operating Officer of several Fidelity companies has been invaluable for the Board. She will be greatly missed and takes with her our very best wishes for the future.

As part of the Board's succession plan, I am also pleased to welcome Alison McGregor as a Non-Executive Director of the Company. Alison joined the Board on 1 January 2020. She is Chair of The Malcolm Group and is a Non-Executive Director of the Confederation of British Industries ("CBI"), Scottish Power Energy Networks Holdings and Beatson Cancer Charity and is an Advisor to the Board at Glasgow University Adam Smith Business School. She is also Co-Chair of the Scottish Apprenticeship Advisory Board. In 2018, Alison received the Women in Banking and Finance UK award for Achievement and was recognised by Action for Children as Woman of Influence in Business. In 2017, she was awarded the Scotland Corporate Leader of the Year Award at The Scottish Women's Awards. Previously, Alison was the CEO of HSBC Scotland from 2014 to December 2018, the Chair of CBI Scotland and a Non-Executive Director of Scottish Enterprise.

In accordance with the UK Corporate Governance Code for FTSE 350 companies, I together with Claire Boyle, Dean Buckley and Nigel Foster are subject to annual re-election at the AGM on 14 December 2020. Alison McGregor, being newly appointed, is subject to election at the forthcoming AGM. The Directors' details can be found in the Annual Report, and between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

ANNUAL GENERAL MEETING – MONDAY, 14 DECEMBER 2020 AT 11.30 AM

In response to the widespread nature of COVID-19, the current Government guidance stipulates that large gatherings of people are prohibited.

With this in mind, this year's AGM will be virtual in nature. In accordance with the Corporate Governance and Insolvency Act 2020 and with the Company's Articles of Association, the AGM will be conducted as a closed session via video conference. This meeting will be restricted to the formal business of the meeting as set out in the Annual Report and voting on the resolutions therein. An online presentation by the Chairman and Portfolio Manager will be made available on the day of the AGM at www.fidelity.co.uk/specialvalues.

Copies of the Portfolio Manager's presentation can be requested by email at investmenttrusts@fil.com or in writing to the Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP.

Protecting the health of all investors, workforce and officers must be paramount at the current time. We therefore urge all Shareholders to make use of the proxy form provided. If you hold shares through the Fidelity Platform or a nominee (and not directly in your own name), proxy forms are not provided, and you are advised to contact the company with which you hold your shares to determine alternative options (if available) for lodging your voting instructions.

We encourage all investors who have any questions or comments to contact the Secretary so that she can relay your comments to the Board, and we will respond in due course.

We thank you for your cooperation and sincerely hope to resume the meeting's usual format in the future.

ANDY IRVINE

Chairman

4 November 2020

PORTFOLIO MANAGER'S REVIEW

QUESTION

How has the Company performed in the year under review?

ANSWER

The year under review proved particularly turbulent and was marked by a collapse in equity markets in February/ March 2020 with the onset of the COVID-19 crisis and a sharp drop in the price of oil. Though UK stocks managed to claw back some of the losses towards the end of the period, it proved a challenging time, particularly for contrarian value-biased investors like ourselves. The Company recorded a share price total return of -25.4% and a NAV total return of -18.5% for the reporting year which were below the FTSE All-Share Index (Benchmark Index) which returned -12.6%. While the Company was economically defensively positioned, a number of our top holdings were disproportionately affected by the pandemic and the resulting decline in business activity.

QUESTION

What were the key factors behind the Company's underperformance?

ANSWER

The bulk of the underperformance took place during the sharp market sell-off that occurred in late February/March 2020 amid increasing concerns over the rapid spread of COVID-19 cases across the world and the impact on economic and corporate activity, company earnings and dividends.

While we took decisive actions early on by selling out of airlines and a few small holdings with levered balance sheets (which looked the most vulnerable), and subsequently reducing exposure to oil and gas stocks, it is fair to say we did not foresee such drastic containment measures and the resulting impact on individual businesses and industries. The Company went into the crisis defensively positioned, with many key holdings expected to be resilient in a downturn. However, the unprecedented nature of the crisis meant that entire industries/businesses had to shut down, a very different backdrop to normal recessions. A number of our top holdings, which would normally fare relatively well in a downturn, were disproportionately affected by the virus containment measures. For instance, aerospace equipment supplier, Meggitt, was the largest detractor (having reported strong results in late February). One of the attractive characteristics of a business like Meggitt is that, irrespective of airline profitability, if planes fly, Meggitt gets maintenance business. In this particular crisis, planes stopped flying altogether which had significant near term impact on the business. Similarly, alcoholic beverage distributor, C&C Group, was affected by pub and restaurant closures because of the lockdown. The stock should have proved defensive, but the unprecedented circumstances meant that it significantly underperformed. Both positions were reduced given the near term headwinds and expected reduced activity levels beyond the lockdown. While the Company has outperformed as market sentiment has improved and some of our holdings showcased their resilience by surprising the market with stronger-than-expected results, this has so far not been sufficient to make up for the earlier underperformance.

QUESTION

How would you describe the current market environment? Is it atypical from normal recessions?

ANSWER

The pandemic and ensuing global recession have been historic in their impact and created a lot of uncertainty. In this type of environment, it is not unusual for investors to be wary of companies with elements of uncertainty. However, the market's focus during this pandemic has been very narrow and primarily on companies with superior growth potential, seemingly irrespective of near term uncertainty and unquestionably irrespective of valuations. The companies favoured are typically capital-light and expected to generate high returns, but the focal point does not appear to be limited to virus beneficiaries nor those with particularly visible near term earnings. This has translated into a very one-sided consensus and incredible valuation dispersions, with value meaningfully underperforming growth. This is illustrated in the chart in the Annual Report by the respective performances of the Growth and Value components in the MSCI UK Index.

This has proved a challenging backdrop for contrarian portfolios like ours, where even steady companies with visible and relatively safe earnings such as Sanofi (with strong diabetes, cardiovascular and oncology franchises and a credible COVID-19 vaccine under development) or Imperial Brands (with a core cash-generative business and a loyal customer base) are getting very little attention. Investors seem to have lost sight of valuations and focus solely on those stocks they think might become long term winners. Their valuations offer little room for disappointment, while it leaves a vast number of less fashionable parts of the market very cheap. No one can predict with accuracy what will happen over the next year in terms of the evolution of the virus, and the speed of economic recovery, but investing in companies with attractive valuations has proved a rewarding strategy over the long term, and we see no reason why this should change going forward.

QUESTION

What might trigger a reversal in fortunes for value investors?

ANSWER

Changes in interest rate expectations and investor sentiment are most likely triggers for a value outperformance. Typically, the style tends to enjoy periods of sustained outperformance in the early stages of an economic recovery as price levels rise. There are reasons for some cautious optimism here, as economic activity has picked up over recent months and there are signs inflation is rising (albeit from low levels). Additionally, fiscal policy remains loose globally. However, a resurgence in virus infection rates, and further societal restrictions from governments, have tempered near term expectations. A second potential catalyst for value outperforming would be a change in investor sentiment towards growth stocks that have dominated market performance. Markets have become very one-sided and the well-documented dominance in the US of FAANGs (the five prominent technology companies: Facebook; Amazon; Apple; Netflix; and Alphabet (formerly known as Google) is one example of the 'winner takes all' trend. Investor expectations are extremely high and lofty valuations leave little room for error. Should a handful of these stocks fail to deliver on growth, the market reaction is likely to be aggressive and we could see some rebasing of valuations for growth names more broadly, which would lead investors to become more valuation sensitive. While it is extremely difficult to predict the exact turning point, we are comforted by the fact we are finding a lot of attractive investment opportunities, with very favourable upside/downside, across sectors. While the Company does perform better when the market is upbeat and people are more positive about opening up and restrictions being eased, it is not aggressively positioned and should prove resilient during the second wave of the virus or if the economic impact is worse than anticipated. Indeed, it is heartening to see that even as sadly a second wave of COVID-19 cases is leading to greater restrictions throughout the UK and Europe, the Company has not underperformed the wider market over recent weeks.

QUESTION

How has COVID-19 impacted holdings, and how sensitive is the portfolio to the virus going forward?

ANSWER

The pandemic has had a profound impact on both the economy, which shrunk by a record 20% in the second quarter of this year, and individual businesses, as we previously highlighted with Meggitt and C&C Group, two normally-resilient companies. Having said that, the crisis also illustrated the benefits of a diversified portfolio, as the likes of pharmaceutical firm Roche Holdings, power generation company ContourGlobal and fuel-to-medical products conglomerate, DCC, demonstrated their resilience, as did the life insurers (a key theme in the portfolio), which reported solid results underlining their lower cyclicity and improved solvency levels since the financial crisis.

Given the unprecedented nature of the crisis and some of the unexpected developments, it has been, and will remain, key to stay close to individual companies. For instance, while retailers were very much in the 'eye of the storm', it soon became

apparent that some would not be as badly impacted as initially feared. Both Frasers Group and Halfords Group surprised the market with better than expected results, the former thanks to strong growth in demand for sportswear and the latter through robust bike-related demand (as people looked to exercise more during the pandemic or avoid public transport). Similarly, Government outsourcer Serco Group upgraded its 2020 profit expectations, as it strengthened its collaboration with authorities and won new contracts to help combat the virus. Looking ahead, we remain very wary of virus-exposed businesses given the resurgence in the number of infections and some of the prevailing valuations which do not seem to reflect the degree of losses expected in the near term. These represent a small percentage of the Company, and most of our holdings in this space have something that gets them through a lockdown, be it a growing laundry machine business (Photo-Me International), off-trade (C&C Group) or its defense business (Meggitt), which provides them with a degree of protection.

QUESTION

There is a greater focus than ever on Environmental, Social and Governance (“ESG”) matters. How does Fidelity think about ESG?

ANSWER

Corporate governance has always been a key consideration for Fidelity. It is particularly important for me as a contrarian investor whose focus is on unloved stocks and limiting downside. When I consider investing in a stock, I pay a lot of attention to any potential risk that could affect the share price, and ESG factors are key considerations. At Fidelity, our research analysts carefully consider ESG as part of their in-depth fundamental analysis and highlight any potential issue. However, rather than simply looking at a company’s track record and avoiding poor ESG performers altogether, we engage with company management and discuss our concerns and their plans going forward. This not only encourages improved practices, but can also be a source of value creation as any improvements can then translate into share price re-ratings. For instance, we invested in UK-listed global utility firm ContourGlobal when it was shunned by ESG-conscious investors, but through engagement with the company we could see a marked shift in the outlook of management. The company recently announced that it had scrapped plans to build a coal-fired power plant in Kosovo and said it would make no further coal plant investments globally. The stock has been one of the portfolio’s strongest performers this year.

QUESTION

How concerned are you about Brexit?

ANSWER

Aside from the evolution of the COVID-19 pandemic, the Brexit negotiations are also front of mind. The outcome of the negotiations between the UK and EU is hard to predict, and the deadline to reach an agreement is fast approaching. It is clearly in both parties’ interest to reach some form of agreement before the end of the transition period this year. A no-deal scenario would clearly be a negative outcome and would result in extra trade frictions and costs for companies. Having said that, the robustness of UK supply chains through the COVID-19 crisis does give us some comfort that this is a lower risk than we and others perceived it to be and companies are better prepared. We continue to monitor the situation closely.

QUESTION

What is your outlook for the next twelve months?

ANSWER

In the near term, there remains a lot of uncertainty about the evolution of the pandemic, and the availability of an effective vaccine will be a key part of the solution to allow households and businesses to further resume normal activity. A successful outcome of the negotiations between the UK and EU would also help lift investors’ optimism towards UK equities, which continue to be under-owned and trade at a meaningful discount to other equity markets. Improved clarity on these matters as well as any recalibration in interest rates expectations may well be the catalyst for investors to broaden their investment horizons beyond the narrow range of secular growth stocks currently in favour.

In the meantime, this leaves large swathes of the market overlooked, and exceptional value can be found across a broad range of sectors. While clearly it is essential to be selective, and our focus is very much on those stocks with a margin of safety and evidence of positive change, even here fundamentals are not reflected in valuations. Take a stock like insurer Aviva, one of our largest holdings, it trades on 5x 2021 earnings, despite reporting strong first half results that underlined its resilience during the COVID-19 crisis. The company has recently appointed an impressive new CEO in Amanda Blanc and is implementing far reaching strategic changes aimed at refocusing on its core businesses in the UK, Ireland and Canada. The disposal of a number of its international businesses is under way, and a deal for its Singapore operations has just been announced valuing it at close to 19x earnings. The company also has significant scope to improve its cost base, another key initiative. This exemplifies the type of opportunities that can be found where valuations are extremely attractive, change is afoot, but the market is unwilling to give these stocks any credit in the current environment.

The recent period has been painful for value investors, but it sets up a very attractive opportunity-set and very good upside potential from here. We are finding a lot of individual investment opportunities, of better quality than would normally be the case, and are taking advantage of these unusual circumstances by increasing the number of holdings and the Company’s gearing. We believe the portfolio offers great value, which is further amplified by the Company’s current discount, making for a good valuation starting point for investments.

ALEX WRIGHT

Portfolio Manager

4 November 2020

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

As required by provisions 28 and 29 of the 2018 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/ the “Manager”), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties that the Company faces. The Audit Committee carried out a separate exercise in October 2019 to identify any new emerging risks and take any action necessary to mitigate their potential impact. The risks identified are placed on the Company’s risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of existing and emerging risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks faced by the Company. The risks are unchanged from those reported in the prior year apart from the addition of the “Pandemic Risk” and some additional updates to the “Market, Economic and Political Risk” and expanding on the “Cybercrime Risk”.

EXTERNAL RISKS

Principal Risks

Description and Risk Mitigation

Market, Economic and Political Risk

The Company’s assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and deflation/inflation. The Company may also be impacted by concerns over global economic growth and Brexit negotiations affecting the UK market and economy.

The risk of the likely effects of COVID-19 on the markets is discussed in the Chairman’s Statement and in the Portfolio Manager’s Review above. These risks are somewhat mitigated by the investment trust structure which means no forced sales will need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon.

Risks to which the Company is exposed to in the market risk category are included in Note 18 to the Financial Statements below together with summaries of the policies for managing these risks.

Share Price Risk

Share prices are volatile and volatility is a risk for the short term shareholder likely to want to sell in the near future. The Board does not believe that volatility would be a significant risk for the long term shareholder.

Discount Control Risk

The price of the Company’s shares and its discount to NAV are factors which are not within the Company’s total control. However, the Board can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations program.

The Company’s share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.

Regulatory Risk

The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active engagement with regulators and trade bodies by the Manager.

Cybercrime Risk

The operational risk from cybercrime is significant. Cybercrime threats evolve rapidly and consequently the risk is regularly re-assessed and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager’s technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk is frequently re-assessed by Fidelity’s information security and technology teams and has resulted in the implementation of new tools and processes as well as improvements to existing ones. Fidelity has also established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance.

Risks are increased due to the COVID-19 crisis, primarily related to phishing, remote access threats, extortion and denial-of-services attacks. The Manager has a dedicated detect and respond resource specifically to monitor the Cyber threats associated with COVID-19.

INTERNAL RISKS

Investment Management Risk

The Board relies on the Portfolio Manager’s skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the asset value of the portfolio against the Company’s Benchmark Index and its competitors and also considers the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long term investment performance as there is a risk for the Company of volatility of performance in the shorter term.

Pandemic Risk

As the COVID-19 outbreak continues to spread, there has been increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis and will take all reasonable steps to continue meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. For example, to enhance its resilience, the Manager has mandated work from home arrangements and implemented split team working for those whose work is deemed necessary to be carried out in an office. The Manager has also imposed self-isolation arrangements on staff in line with Government recommendations and guidance.

Investment team key activities, including portfolio managers, analysts and trading/support functions, are performing well despite the operational challenges posed by working from home or split team arrangements.

The Company’s other third party service providers have also confirmed the implementation of similar measures to ensure no business disruption.

Operational Risks – Service Providers

The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depository. It is dependent on the effective operation of the Manager’s control systems and those of its service providers with regard to the security of the Company’s assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. The Registrar, Custodian and Depository are all subject to a risk-based program of internal audits by the Manager. In addition, service providers’ own internal control reports are received by the Board on an annual basis and any concerns investigated. Risks associated with these services are generally rated as low, although the financial consequences could be serious, including reputational damage to the Company.

CONTINUATION VOTE

A continuation vote takes place every three years. There is a risk that Shareholders do not vote in favour of continuation during periods when performance of the Company's NAV and share price is poor. At the AGM held on 12 December 2019, 99.90% of Shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at the AGM in 2022.

VIABILITY STATEMENT

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term capital growth. The Board considers long term to be at least five years, and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's NAV and share price performance;
- The principal and emerging risks and uncertainties facing the Company, as set out above, and their potential impact;
- The future demand for the Company's shares;
- The Company's share price premium/discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance over the five year reporting period to 31 August 2020 was a NAV total return of 10.3%, and a share price total return of 2.6% compared to a Benchmark Index total return of 17.3%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Investment Manager's compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The portfolio comprises sufficient readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy;
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets; and
- The Board's assessment of the risks arising from COVID-19 as set out in the Principal Risks above.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement which is below.

GOING CONCERN STATEMENT

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. This conclusion also takes into account the Board's assessment of the risks arising from COVID-19 as set out in the Pandemic Risk in the Strategic Report above. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long term; the need to foster relationships with the Company's suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As an externally managed Investment Trust the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services to the Manager, but other professional service providers support the Company by providing administration, custodial, banking and audit services. The Board considers the Company's key stakeholders to be the existing and potential Shareholders, the external appointed Manager (Fidelity), and other third party professional service providers. The Board considers that the interest of these stakeholders are aligned with the Company's objective of delivering long term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings. In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out in the Annual Report.

The Board places great importance on communication with Shareholders. The Annual General Meeting provides the key forum for the Board and Manager to present to the Shareholders on the Company's performance and future plans and, in normal circumstances, the Board encourages all Shareholders to attend, and raise questions and concerns. The Chairman and other Board members are available to meet Shareholders as appropriate, and Shareholders may also communicate with Board

members at any time by writing to them at the Company's registered office or via the Company Secretary. The Portfolio Manager meets with major Shareholders, potential investors, stock market analysts, journalists and other commentators during the year. These communication opportunities help inform the Board in considering how best to promote the success of the company over the long term.

The Board seeks to engage with the Manager and other service providers and advisers in a constructive and collaborative way, promoting a culture of strong governance, while encouraging open and constructive debate, in order to ensure appropriate and regular challenge and evaluation. This aims to enhance service levels and strengthen relationships with service providers, with a view to ensuring Shareholders' interests are best served, by maintaining the highest standards of commercial conduct while keeping cost levels competitive.

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance ("ESG") issues aligns with the objective to deliver long term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail in the Annual Report.

In addition to ensuring that the Company's investment objective was being pursued, key decisions and actions taken by the Directors during the financial year, and up to the date of this report, have included:

- as part of ongoing Board succession and refreshment, the appointment and induction of Alison McGregor to the Board with effect from 1 January 2020;
- the raising of over £34 million from new share issuance, at a premium to net asset value, in order to satisfy investor demand over the year, also serving the interests of current Shareholders by reducing costs per share and helping to further improve liquidity;
- the decision to pay an interim dividend of 2.10 pence per share and a final dividend of 3.70 pence per share, to maintain the 11 year track record of increasing dividends, while retaining funds for reinvestment, consistent with the objective of long term capital growth;
- the appointment of a new corporate broker, following a change of personnel at our existing adviser. The Board met with the incumbent, and three further firms, and selected Winterflood Securities as best able to assist and advise in trading in the Company's shares, and in promoting the success of the Company to existing and new Shareholders;
- authorising the repurchase of 1,025,473 ordinary shares when the Company's discount widened into double digits post year end, in line with the Board's long term intention that the share price should trade at a level close to the underlying net asset value of the shares, so that Shareholders are seeing the full benefit of the Company's investments; and
- agreeing a reduction in the management fee with effect from 1 January 2021, providing cost savings to the Company and reducing the Ongoing Charges to help the Company remain competitive. Details of the new fee arrangement can be found in the Chairman's Statement above.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and 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 they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 presume that the Company will continue in business.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements 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.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated the responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at www.fidelity.co.uk/specialvalues to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 4 November 2020 and signed on its behalf by:

ANDY IRVINE
Chairman

INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2020

	Notes	year ended 31 August 2020			year ended 31 August 2019		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Losses on investments	11	–	(131,085)	(131,085)	–	(40,929)	(40,929)
Losses on long CFDs	12	–	(11,820)	(11,820)	–	(23,287)	(23,287)
(Losses)/gains on short CFDs, futures and options	12	–	(1,905)	(1,905)	–	1,719	1,719
Investment and derivative income	3	20,282	–	20,282	30,335	–	30,335
Other interest	3	789	–	789	670	–	670
Derivative expenses	4	(75)	–	(75)	(63)	–	(63)
Investment management fees	5	(5,627)	–	(5,627)	(5,921)	–	(5,921)
Other expenses	6	(718)	–	(718)	(684)	(88)	(772)
Foreign exchange (losses)/gains		–	(2,641)	(2,641)	–	2,945	2,945
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities before finance costs and taxation		14,651	(147,451)	(132,800)	24,337	(59,640)	(35,303)
Finance costs	7	(530)	–	(530)	(386)	–	(386)
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities before taxation		14,121	(147,451)	(133,330)	23,951	(59,640)	(35,689)
Taxation on return/(loss) on ordinary activities	8	(360)	–	(360)	(454)	–	(454)
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities after taxation for the year		13,761	(147,451)	(133,690)	23,497	(59,640)	(36,143)
		=====	=====	=====	=====	=====	=====
Return/(loss) per ordinary share	9	4.81p	(51.59p)	(46.78p)	8.65p	(21.95p)	(13.30p)
		=====	=====	=====	=====	=====	=====

The Company does not have any other comprehensive income. Accordingly the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes below form an integral part of these Financial Statements.

BALANCE SHEET AS AT 31 AUGUST 2020
Company number 2972628

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments	11	563,763	635,539
		-----	-----
Current assets			
Derivative instruments	12	7,619	3,028
Debtors	13	3,921	11,685
Amounts held at futures clearing houses and brokers		860	18,002
Cash and cash equivalents		9,802	49,088
		-----	-----
		22,202	81,803
		=====	=====
Creditors			
Derivative instruments	12	(1,946)	(17,879)
Other creditors	14	(4,514)	(795)
		-----	-----
		(6,460)	(18,674)
		=====	=====
Net current assets		15,742	63,129
		-----	-----
Net assets		579,505	698,668
		=====	=====
Capital and reserves			
Share capital	15	14,501	13,808
Share premium account	16	144,306	109,897
Capital redemption reserve	16	3,256	3,256
Other non-distributable reserve	16	5,152	5,152
Capital reserve	16	394,572	542,023
Revenue reserve	16	17,718	24,532
		-----	-----
Total Shareholders' funds		579,505	698,668
		=====	=====
Net asset value per ordinary share	17	199.81p	252.99p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 4 November 2020 and were signed on its behalf by:

Andy Irvine
Chairman

The Notes on below an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2020

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non- distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total Share- holders' funds £'000
Total Shareholders' funds at 31 August 2019		13,808	109,897	3,256	5,152	542,023	24,532	698,668
New ordinary shares issued	15	693	34,409	–	–	–	–	35,102
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	–	(147,451)	13,761	(133,690)
Dividends paid to Shareholders	10	–	–	–	–	–	(20,575)	(20,575)
Total Shareholders' funds at 31 August 2020		14,501	144,306	3,256	5,152	394,572	17,718	579,505
Total Shareholders' funds at 31 August 2018		13,532	95,940	3,256	5,152	591,842	15,248	724,970
Issue of ordinary shares from Treasury	15	–	65	–	–	9,821	–	9,886
New ordinary shares issued	15	276	13,892	–	–	–	–	14,168
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	–	(59,640)	23,497	(36,143)
Dividends paid to Shareholders	10	–	–	–	–	–	(14,213)	(14,213)
Total Shareholders' funds at 31 August 2019		13,808	109,897	3,256	5,152	542,023	24,532	698,668

The Notes below form an integral part of these Financial Statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2020

	Notes	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Operating activities			
Investment income received		18,960	21,266
Net derivative income		4,236	4,559
Interest received		695	651
Investment management fee paid		(5,714)	(6,582)
Directors' fees paid		(179)	(168)
Other cash payments		(512)	(528)
Cash flow from operating activities before finance costs and taxation	21	17,486	19,198
Finance costs paid		(530)	(386)
Overseas taxation suffered		(625)	(778)
Cash flow from operating activities		16,331	18,034
Investing activities			
Purchases of investments		(335,753)	(305,329)
Sales of investments		284,973	330,094
Receipts on long CFDs		9,781	4,698
Payments on long CFDs		(41,630)	(16,093)
Receipts on short CFDs, futures and options		–	8,915
Payments on short CFDs, futures and options		(2,400)	(4,669)
Movement on amounts held at futures clearing houses and brokers		17,142	(15,767)
Cash (outflow)/inflow from investing activities		(67,887)	1,849
Cash flow before financing activities		(51,556)	19,883
Financing activities			
Dividends paid	10	(20,575)	(14,213)
Net proceeds from issue of shares		35,486	23,670
Cost of the issue of new ordinary shares	6	–	(88)
Cash inflow from financing activities		14,911	9,369
Net movement in cash and cash equivalents		(36,645)	29,252
Cash and cash equivalents at the beginning of the year		49,088	16,891
Effect of movement in foreign exchange		(2,641)	2,945
Cash and cash equivalents at the end of the year		9,802	49,088

The Notes below form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACTIVITY

Fidelity Special Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2972628, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 ACCOUNTING POLICIES

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", issued by the Financial Reporting Council ("FRC"). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in October 2019.

a) Basis of accounting – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments. The Company's Going Concern Statement in the Directors' Report takes account of all events and conditions up to the date of approval of these Financial Statements and includes the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and the Board has concluded that the Company has adequate resources to adopt the going concern basis for at least twelve months from the date of this Annual Report.

b) Significant accounting estimates and judgements – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of level 3 financial instruments have a risk of causing an adjustment to the carrying amounts of assets. These judgements include making assessments of the possible valuations in the event of a listing or other marketability related risks.

c) Segmental reporting – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case. Debt security interest is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

Derivative instrument income received from dividends on long contracts for difference ("CFDs") are accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. The amount net of tax is credited to the revenue column of the Income Statement.

Interest received on CFDs, bank deposits, collateral and money market funds are accounted for on an accruals basis and credited to the revenue column of the Income Statement.

f) Derivative expenses – Derivative expenses comprises interest paid on short CFDs, which is accounted for on an accruals basis, and dividends paid on short CFDs, which are accounted for on the date on which the obligation to incur the cost is established, normally the ex-dividend date. Derivative expenses are charged in full to the revenue column of the Income Statement.

g) Investment management fees and other expenses – Investment management fees and other expenses are accounted for on an accruals basis and are charged as follows:

- Investment management fees are allocated in full to revenue; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

h) Functional currency and foreign exchange – The functional reporting and currency of the Company is UK sterling, which is the currency of the primary economic environment in which the Company operates. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

i) Finance costs – Finance costs comprise interest paid on CFDs and interest on bank overdrafts, which are accounted for on an accruals basis. Finance costs are charged in full to the revenue column of the Income Statement.

j) Taxation – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Where expenses are allocated between revenue and capital any tax relief in respect of the expenses is allocated between revenue and capital returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. Deferred tax assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

k) Dividend paid – Dividends payable to equity Shareholders are recognised when the Company's obligation to make payment is established.

l) Investments – The Company’s business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company’s Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed; and
- Unlisted investments are investments which are not quoted, or are not frequently traded, and are stated at the Directors’ best estimate of fair value. The Manager’s Fair Value Committee, which is independent of the portfolio management team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment, recent arm’s length transactions in the same or similar investments and financial performance of the investment since purchase.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within losses on investments in the capital column of the Income Statement and has disclosed these costs in Note 11 below.

m) Derivative instruments – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include long and short CFDs, futures, options and warrants. Derivatives are classified as other financial instruments and are initially accounted for and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long and short CFDs – the difference between the strike price and the value of the underlying shares in the contract;
- Futures – the difference between the contract price and the quoted trade price; and
- Options – valued based on similar instruments or the quoted trade price for the contract.

Where transactions are used to protect or enhance income, if the circumstances support this, the income and expenses derived are included in net income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the income and expenses derived are included: for long CFDs, as gains or losses on long CFDs, and for short CFDs, futures and options as gains or losses on short CFDs, futures and options in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or creditors.

n) Debtors – Debtors include securities sold for future settlement, accrued income, taxation recoverable and other debtors and prepayments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

o) Amounts held at futures clearing houses and brokers – These are amounts held in segregated accounts as collateral on behalf of brokers and are carried at amortised cost.

p) Cash and cash equivalents – Cash and cash equivalents may comprise cash and money market funds which are short term, highly liquid and are readily convertible to a known amount of cash. These are subject to an insignificant risk of changes in value.

q) Other creditors – Other creditors include securities purchased for future settlement, investment management fees and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

r) Capital reserve – The following are accounted for in the capital reserve:

Gains and losses on the disposal of investments and derivative instruments;

- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing or issuing ordinary shares.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves, realised and unrealised, are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet.

3 INCOME

	year ended 31.08.20 £’000	year ended 31.08.19 £’000
Investment income		
UK dividends	11,678	17,885
UK scrip dividends	–	459
Overseas dividends	3,615	6,255

Overseas scrip dividends	274	748
Debt security interest	138	224
	-----	-----
	15,705	25,571
	-----	-----
Derivative income		
Dividends received on long CFDs	4,577	4,764
	-----	-----
Investment and derivative income	20,282	30,335
	-----	-----
Other interest		
Interest received on CFDs	94	19
Interest received on bank deposits, collateral and money market funds	695	651
	-----	-----
	789	670
	-----	-----
Total income	21,071	31,005
	=====	=====

Special dividends of £276,000 (2019: £6,265,000) have been recognised in capital.

4 DERIVATIVE EXPENSES

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Dividends paid on short CFDs	71	6
Interest paid on short CFDs	4	57
	-----	-----
	75	63
	=====	=====

5 INVESTMENT MANAGEMENT FEES

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Portfolio management services	5,527	5,821
Non-portfolio management services*	100	100
	-----	-----
Investment management fees	5,627	5,921
	=====	=====

* Includes company secretarial, fund accounting, taxation, promotional and corporate advisory services.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"). Both companies are Fidelity group companies.

FIL charges portfolio management fees on a tiered fee basis of 0.85% on the first £700 million of net assets and 0.75% of net assets in excess of £700 million. In addition, there is a fixed non-portfolio management services fee of £100,000 per annum.

6 OTHER EXPENSES

	year ended 31 August 2020		year ended 31 August 2019	
	revenue £'000	capital £'000	revenue £'000	capital £'000
AIC fees	22	–	22	–
Custody fees	20	–	19	–
Depositary fees	54	–	56	–
Directors' expenses	21	–	19	–
Directors' fees ¹	179	–	159	–
Legal and professional fees	48	–	28	–

Marketing expenses	175	–	192	–
Printing and publication expenses	88	–	96	–
Registrars' fees	52	–	41	–
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements ²	34	–	29	–
Sundry other expenses	25	–	23	–
Cost of the issue of new ordinary shares	–	–	–	88
	-----	-----	-----	-----
Other expenses	718	–	684	88
	=====	=====	=====	=====

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report in the Annual Report.

2 The VAT payable on audit fees is included in sundry other expenses.

7 FINANCE COSTS

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Interest paid on long CFDs	525	386
Interest on bank overdrafts	5	–
	-----	-----
	530	386
	=====	=====

8 TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
a) Analysis of the taxation charge for the year		
Overseas taxation	360	454
	-----	-----
Taxation charge for the year (see Note 8b)	360	454
	=====	=====

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19% (2019: 19%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Net loss on ordinary activities before taxation	(133,330)	(35,689)
	-----	-----
Net loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	(25,333)	(6,781)
Effects of:		
Capital losses not taxable*	28,016	11,315
Income not taxable	(2,958)	(4,816)
Expenses not deductible	–	17
Excess management expenses	239	265
Adjustment to brought forward excess management expenses	36	–
Overseas taxation	360	454
	-----	-----
Total taxation charge for the year (see Note 8a)	360	454
	=====	=====

* The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred tax asset of £13,362,000 (2019: £11,741,000), in respect of excess expenses of £70,327,000 (2019: £69,067,000) available to be set off against future taxable profits has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

9 RETURN/(LOSS) PER ORDINARY SHARE

	year ended 31.08.20	year ended 31.08.19
Revenue return per ordinary share	4.81p	8.65p
Capital loss per ordinary share	(51.59p)	(21.95p)
	-----	-----
Total loss per ordinary share	(46.78p)	(13.30p)
	=====	=====

The return/(loss) per ordinary share is based on the net return/(loss) on ordinary activities after taxation for the year divided by the weighted average number of ordinary shares held outside Treasury during the year, as shown below:

	£'000	£'000
Net revenue return on ordinary activities after taxation	13,761	23,497
Net capital loss on ordinary activities after taxation	(147,451)	(59,640)
	-----	-----
Net total loss on ordinary activities after taxation	(133,690)	(36,143)
	=====	=====

	number	number
Weighted average number of ordinary shares held outside Treasury	285,790,149	271,723,836
	=====	=====

10 DIVIDENDS PAID TO SHAREHOLDERS

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Dividends paid		
Interim dividend of 2.10 pence per ordinary share paid for the year ended 31 August 2020	6,091	–
Final dividend of 3.65 pence per ordinary share paid for the year ended 31 August 2019	10,265	–
Special dividend of 1.50 pence per ordinary share paid for the year ended 31 August 2019	4,219	–
Interim dividend of 2.10 pence per ordinary share paid for the year ended 31 August 2019	–	5,780
Final dividend of 3.15 pence per ordinary share paid for the year ended 31 August 2018	–	8,433
	-----	-----
	20,575	14,213
	=====	=====
Dividends proposed		
Final dividend proposed of 3.70 pence per ordinary share paid for the year ended 31 August 2020	10,693	–
Final dividend proposed of 3.65 pence per ordinary share for the year ended 31 August 2019	–	10,201
Special dividend proposed of 1.50 pence per ordinary share for the year ended 31 August 2019	–	4,192
	-----	-----
	10,693	14,393
	=====	=====

The Directors have proposed the payment of a final dividend of 3.70 pence per ordinary share for the year ended 31 August 2020 which is subject to approval by Shareholders at the Annual General Meeting on 14 December 2020 and has not been included as a liability in these Financial Statements. The dividend will be paid on 14 January 2021 to Shareholders on the register at the close of business on 4 December 2020 (ex-dividend date 3 December 2020).

11 INVESTMENTS

	2020 £'000	2019 £'000
Listed investments	563,479	635,252
Unlisted investments	284	287
	-----	-----
Total investments at fair value	563,763	635,539
	=====	=====
Opening book cost	600,132	611,877

Opening investment holding gains	35,407	93,120
	-----	-----
Opening fair value	635,539	704,997
	=====	=====
Movements in the year		
Purchases at cost	339,800	305,425
Sales – proceeds	(280,491)	(333,954)
Losses on investments	(131,085)	(40,929)
	-----	-----
Closing fair value	563,763	635,539
	=====	=====
Closing book cost	635,740	600,132
Closing investment holding (losses)/gains	(71,977)	35,407
	-----	-----
Closing fair value	563,763	635,539
	=====	=====

The Company received £280,491,000 (2019: £333,954,000) from investments sold in the year. The book cost of these investments when they were purchased was £304,192,000 (2019: £317,170,000). 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.

Investment transaction costs

Transaction costs incurred in the acquisition and disposal of investments, which are included in the losses on investments above, were as follows:

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Purchases transaction costs	1,481	1,363
Sales transaction costs	153	243
	-----	-----
	1,634	1,606
	=====	=====

The portfolio turnover rate for the year was 52.1% (2019: 48.1%).

12 DERIVATIVE INSTRUMENTS

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Losses on long CFDs		
Losses on long CFD positions closed	(31,849)	(11,395)
Movement in investment holding gains/(losses)	20,029	(11,892)
	-----	-----
	(11,820)	(23,287)
	-----	-----
(Losses)/gains on short CFDs, futures and options		
Losses on short CFDs positions closed	(305)	(1,078)
Movement in investment holding gains on short CFDs	–	62
(Losses)/gains on futures contracts closed	(2,095)	3,718
Movement in investment holding gains/(losses) on futures	495	(1,553)
Movement in investment holding gains on options	–	570
	-----	-----
	(1,905)	1,719
	=====	=====

	2020 fair value £'000	2019 fair value £'000
Derivative instruments recognised on the Balance Sheet		
Derivative instrument assets	7,619	3,028
Derivative instrument liabilities	(1,946)	(17,879)
	----- 5,673 =====	----- (14,851) =====

	fair value £'000	2020 gross asset exposure £'000	fair value £'000	2019 gross asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	5,673	96,890	(14,356)	115,375
Index futures – hedging exposures	–	–	(495)	(34,568)
	----- 5,673 =====	----- 96,890 =====	----- (14,851) =====	----- 80,807 =====

13 DEBTORS

	2020 £'000	2019 £'000
Securities sold for future settlement	41	4,523
Accrued income	3,078	6,284
Overseas taxation recoverable	744	479
UK income tax recoverable	37	–
Amounts receivable for issue of shares	–	384
Other debtors and prepayments	21	15
	----- 3,921 =====	----- 11,685 =====

14 OTHER CREDITORS

	2020 £'000	2019 £'000
Securities purchased for future settlement	3,919	146
Creditors and accruals	595	649
	----- 4,514 =====	----- 795 =====

15 SHARE CAPITAL

	number of shares	2020 £'000	number of shares	2019 £'000
Issued, allotted and fully paid ordinary shares of 5 pence each				
Held outside Treasury				
Beginning of the year	276,169,480	13,808	266,549,480	13,328
Ordinary shares issued out of Treasury	–	–	4,095,000	204
New ordinary shares issued	13,860,000	693	5,525,000	276
	----- 290,029,480 -----	----- 14,501 -----	----- 276,169,480 -----	----- 13,808 -----
End of the year				
Held in Treasury*				
Beginning of the year	–	–	4,095,000	204

Ordinary shares issued out of Treasury	–	–	(4,095,000)	(204)
End of the year	–	–	–	–
Total share capital	290,029,480	14,501	276,169,480	13,808

* Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

During the year, 13,860,000 ordinary shares (2019: 9,620,000 shares) were issued. The premium received in the year on the issue of new ordinary shares of £34,409,000 (2019: £13,892,000) and on the issue of ordinary shares out of Treasury of £nil (2019: £65,000) was credited to the share premium account. From the issue of ordinary shares out of Treasury, £nil (2019: £9,821,000) was credited to the capital reserve. No ordinary shares were repurchased into Treasury during the year (2019: nil).

16 CAPITAL AND RESERVES

	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non- distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total share- holders' funds £'000
At 1 September 2019	13,808	109,897	3,256	5,152	542,023	24,532	698,668
Losses on investments	–	–	–	–	(131,085)	–	(131,085)
Losses on long CFDs	–	–	–	–	(11,820)	–	(11,820)
Losses on short CFDs, futures and options	–	–	–	–	(1,905)	–	(1,905)
Foreign exchange losses	–	–	–	–	(2,641)	–	(2,641)
Revenue return on ordinary activities after taxation for the year	–	–	–	–	–	13,761	13,761
Dividends paid to Shareholders	–	–	–	–	–	(20,575)	(20,575)
New ordinary shares issued	693	34,409	–	–	–	–	35,102
At 31 August 2020	14,501	144,306	3,256	5,152	394,572	17,718	579,505

The capital reserve balance at 31 August 2020 includes investment holding losses on investments of £131,085,000 (2019: losses of £40,929,000) as detailed in Note 11 above. The revenue and capital reserves are distributable by way of dividend. See Note 2 (r) above for further details. The Board has stated that it has no current intention to pay dividends out of capital.

17 NET ASSET VALUE PER ORDINARY SHARE

The calculation of the net asset value per ordinary share is based on the following:

	2020	2019
Total Shareholders' funds	£579,505,000	£698,668,000
Ordinary shares held outside of Treasury at year end	290,029,480	276,169,480
Net asset value per ordinary share	199.81p	252.99p

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

18 FINANCIAL INSTRUMENTS

Management of risk

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, economic and political, share price, discount control, regulatory, cybercrime, investment management, pandemic and operational risks. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown in the Strategic Report above.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares and bonds held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs, futures and options on listed stocks and equity indices; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

Market price risk

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has gearing through the use of derivative instruments. The Board imposes limits to ensure gearing levels are appropriate. The Company is exposed to a financial risk arising as a result of any increases in interest rates associated with the funding of the derivative instruments.

Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2020 £'000	2019 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	91,217	129,731
Exposure to financial instruments that earn interest		
Amounts held at futures clearing houses and brokers	860	18,002
Cash and cash equivalents	9,802	49,088
	-----	-----
	10,662	67,090
	=====	=====
Net exposure to financial instruments that bear interest	80,555	62,641
	=====	=====

Foreign currency risk

The Company does not carry out currency speculation. The Company's net return/(loss) on ordinary activities after taxation for the year and its net assets can be affected by foreign exchange movements because the Company has income and assets which are denominated in currencies other than the Company's functional currency which is UK sterling. The Company can also be subject to short term exposure to exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs.

Three principal areas have been identified where foreign currency risk could impact the Company:

- Movements in currency exchange rates affecting the value of investments and derivative instruments;
- Movements in currency exchange rates affecting short term timing differences; and
- Movements in currency exchange rates affecting income received.

The portfolio management team monitor foreign currency risk but it is not the Company's policy to hedge against currency risk.

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

	investments held at fair value £'000	long exposure to derivative instruments ¹ £'000	debtors ² £'000	Cash and cash equivalents ³ £'000	2020 total £'000
Currency					
Euro	32,969	38,212	54	2	71,237
US dollar	26,043	–	11	9,794	35,848
Swiss franc	22,905	–	392	1	23,298
Australian dollar	14,417			–	14,417
Swedish krona	9,415			–	9,415
Canadian dollar	4,482	–	–	–	4,482
Norwegian krone	2,122	–	–	–	2,122
South African rand	1,984	49	–	–	2,033
Danish krone	–	–	74	–	74
UK sterling	449,426	58,629	4,250	5	512,310
	-----	-----	-----	-----	-----
	563,763	96,890	4,781	9,802	675,236
	=====	=====	=====	=====	=====

- 1 The exposure to the market of long CFDs.
2 Debtors include amounts held at futures clearing houses and brokers.
3 Cash and cash equivalents are made up of £1,860,000 cash at bank and £7,942,000 held in Fidelity Institutional Liquidity Fund.

Currency	investments held at fair value £'000	long exposure to derivative instruments ¹ £'000	debtors ² £'000	cash and cash equivalents ³ £'000	2019 total £'000
Euro	74,903	52,971	110	2	127,986
US dollar	32,367	–	–	44,631	76,998
Swiss franc	34,960	–	225	–	35,185
Canadian dollar	8,001	–	–	–	8,001
Australian dollar	3,459	–	–	–	3,459
South African rand	2,699	81	–	–	2,780
Danish krone	–	–	74	–	74
UK sterling	479,150	27,755	29,278	4,455	540,638
	-----	-----	-----	-----	-----
	635,539	80,807	29,687	49,088	795,121
	=====	=====	=====	=====	=====

- 1 The exposure to the market of long CFDs and long futures after the netting of hedging exposures.
2 Debtors include amounts held at futures clearing houses and brokers.
3 Cash and cash equivalents are made up of £2,207,000 cash at bank and £46,881,000 held in Fidelity Institutional Liquidity Fund.

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise short positions on derivative instruments and other creditors. The currency profile of these financial liabilities is shown below:

Currency	short exposure to derivative instruments* £'000	other creditors £'000	2020 total £'000
Norwegian krone	–	2,126	2,126
UK sterling	–	2,388	2,388
	-----	-----	-----
	–	4,514	4,514
	=====	=====	=====

Currency	short exposure to derivative instruments* £'000	other creditors £'000	2019 total £'000
UK sterling	–	795	795
	=====	=====	=====

* The exposure to the market of short CFDs.

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile. Other price risks arising from derivative positions, mainly due to the underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company's internal Derivative Risk Measurement and Management Document.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of a bank overdraft, if required.

Liquidity risk exposure

At 31 August 2020, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £1,946,000 (2019: £17,879,000) and creditors of £4,514,000 (2019: £795,000).

Counterparty risk

Certain derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's ("ISDA") market standard derivative legal documentation. These are known as Over the Counter ("OTC") trades. As a result, the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Manager employs, this risk is minimised by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and by evaluating derivative instrument credit risk exposure.

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 August 2020, £8,590,000 (2019: £1,100,000) was held by brokers in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised: HSBC Bank plc £7,775,000 (2019: £1,100,000) in cash denominated in UK sterling, Morgan Stanley & Co International plc £645,000 (2019: £nil) in cash denominated in UK sterling and J.P. Morgan Securities plc £170,000 (2019: £nil) in cash denominated in UK sterling. £860,000 (2019: £18,002,000), shown as amounts held at futures clearing houses and brokers on the Balance Sheet was held by the Company, in a segregated collateral account, on behalf of the brokers, to reduce the credit risk exposure of the brokers. This collateral comprised of: Goldman Sachs International Ltd £20,000 (2019: £2,560,000) in cash, Morgan Stanley & Co International plc £nil (2019: £7,805,000) in cash and UBS AG £840,000 (2019: £7,637,000) in cash.

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions, and derivative instrument contracts and cash at bank.

Derivative instrument risk

The risks and risk management processes which result from the use of derivative instruments, are set out in a documented Derivative Risk Measurement and Management Document. Derivative instruments are used by the Manager for the following purposes:

- To gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial flow of capital;
- To hedge equity market risk using derivatives with the intention of at least partially mitigating losses in the exposures of the Company's portfolio as a result of falls in the equity market; and
- To position short exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares which the Portfolio Manager believes to be over-valued. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

RISK SENSITIVITY ANALYSIS**Interest rate risk sensitivity analysis**

Based on the financial instruments held and interest rates at 31 August 2020, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the net loss on ordinary activities after taxation for the year and decreased the net assets of the Company by £201,000 (2019: increased the net loss and decreased the net assets by £157,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 August 2020, a 10% strengthening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have increased the Company's net loss on ordinary activities after taxation for the year and decreased the net assets of the Company by £14,618,000 (2019: increased the net loss and decreased the net assets by £23,135,000). A 10% weakening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £17,867,000 (2019: decreased the net loss and increased the net assets by £28,276,000).

Other price risk- exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 August 2020, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £56,376,000 (2019: decreased the net loss and increased the net assets by £63,554,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Other price risk- net exposure to derivative instruments sensitivity analysis

Based on the derivative instruments held and share prices at 31 August 2020, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £9,689,000 (2019: decreased the net loss and increased the net assets by £8,081,000). A decrease of 10% in share prices would have had an equal and opposite effect. Details of the Company's net exposure to derivative instruments are shown in Note 19 below.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Notes 2 (l) and (m) above, investments and derivative instruments are shown at fair value.

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Notes 2 (l) and (m) above. The table below sets out the Company's fair value hierarchy:

	level 1 £'000	level 2 £'000	level 3 £'000	2020 total £'000
Financial assets at fair value through profit or loss				
Investments	562,866	–	897	563,763
Derivative instrument assets	–	7,619	–	7,619
	-----	-----	-----	-----
	562,866	7,619	897	571,382
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	–	(1,946)	–	(1,946)
	=====	=====	=====	=====
	level 1 £'000	level 2 £'000	level 3 £'000	2019 total £'000
Financial assets at fair value through profit or loss				
Investments	630,634	3,482	1,423	635,539
Derivative instrument assets	–	3,028	–	3,028
	-----	-----	-----	-----
	630,634	6,510	1,423	638,567
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(495)	(17,384)	–	(17,879)
	=====	=====	=====	=====

The table below sets out the movements in level 3 financial instruments during the year:

	year ended 31.08.20 £'000	year ended 31.08.19 £'000
Beginning of the year	1,423	2,492
Sales – proceeds	(462)	(163)
Sales – losses	(81)	(97)
Investments written off – GVC Holdings option	–	(1,426)
Movement in investment holding gains	17	617
	-----	-----
End of the year	897	1,423
	=====	=====

Marwyn Value Investors

Marwyn Value Investors is a closed-ended fund incorporated in the United Kingdom. The fund is highly illiquid and the valuation at 31st August 2020 is based on the indicative bid price in the absence of a last trade price. As at 31 August 2020, its fair value was £613,000 (2019: £1,136,000).

TVC Holdings

TVC Holdings is an unlisted investment holding company incorporated in Ireland. The valuation at 31 August 2020 is based on the last trade price. As at 31 August 2020, its fair value was £284,000 (2019: £287,000).

19 CAPITAL RESOURCES AND GEARING

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet above and any gearing, which is managed by the use of derivative instruments. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report. The principal risks and their management are disclosed in the Strategic Report above and in Note 18 above.

The Company's gross gearing and net gearing at the year end is set out below:

	2020			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	563,763	97.3	563,763	97.3
Long CFDs	96,890	16.7	96,890	16.7
Total long exposures	660,653	114.0	660,653	114.0
Shareholders' funds	579,505		579,505	
Gearing²		gross gearing 14.0%		net gearing 14.0%
	2019			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	635,539	91.0	635,539	91.0
Long CFDs	115,375	16.5	115,375	16.5
Total long exposures before hedges	750,914	107.5	750,914	107.5
less: index futures – hedging exposure ³	(34,568)	(5.0)	(34,568)	(5.0)
Total long exposures after the netting of hedges	716,346	102.5	716,346	102.5
Shareholders' funds	698,668		698,668	
Gearing²		gross gearing 2.5%		net gearing 2.5%

1 Exposure to the market expressed as a percentage of Shareholders' funds.

2 Gearing is the amount by which Asset Exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.

3 Hedging exposures reduce exposure to the market and gearing.

20 TRANSACTIONS WITH THE MANAGER AND RELATED PARTIES

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FIL"). Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report and in Note 5 above. During the year, fees for portfolio management services of £5,527,000 (2019: £5,821,000), and fees for non-portfolio management services of £100,000 (2019: £100,000) were payable to FIL. Non-portfolio management fees include company secretarial, fund accounting, taxation, promotional and corporate advisory services. At the Balance Sheet date, fees for portfolio management services of £418,000 (2019: £505,000) and fees for non-portfolio management services of £17,000 (2019: £17,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £175,000 (2019: £192,000). At the Balance Sheet date, marketing services of £20,000 (2019: £nil) were accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Director's fees and taxable expenses relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £19,000 (2019: £18,000) of Employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £15,000 (2019: £15,000) were accrued and payable.

21 RECONCILIATION OF NET LOSS ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES BEFORE FINANCE COSTS AND TAXATION

	year ended	year ended
	31.08.20	31.08.19
	£'000	£'000
Net total loss before on ordinary activities before finance costs and taxation	(132,800)	(35,303)
Add: net capital loss on ordinary activities before finance costs and taxation	147,451	59,640

Net revenue return on ordinary activities before finance costs and taxation	14,651	24,337
Scrip dividends	(274)	(1,207)
Decrease/(increase) in debtors	3,163	(3,078)
Decrease in other creditors	(54)	(854)
	-----	-----
Cash flow from operating activities before finance costs and taxation	17,486	19,198
	=====	=====

ALTERNATIVE PERFORMANCE MEASURES

Total Return

Total return is considered to be an Alternative Performance Measure. NAV total return includes reinvestment of the dividend in the NAV of the Company on the ex-dividend date. Share price total return includes the reinvestment of the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 August 2020 and 31 August 2019.

	Net asset value per ordinary share	Share price
2020		
31 August 2019	252.99p	251.50p
31 August 2020	199.81p	181.60p
Change in year	-21.0%	-27.8%
Impact of dividend reinvestment	+2.5%	+2.4%
	-----	-----
Total return for the year	-18.5%	-25.4%
	=====	=====

	Net asset value per ordinary share	Share price
2019		
31 August 2018	271.98p	276.00p
31 August 2019	252.99p	251.50p
Change in year	-7.0%	-8.9%
Impact of dividend reinvestment	+2.1%	+2.0%
	-----	-----
Total return for the year	-4.9%	-6.9%
	=====	=====

Ongoing charges

Ongoing charges are considered to be an Alternative Performance Measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and other expenses expressed as a percentage of the average net asset values throughout the year.

	2020	2019
Investment management fees (£'000)	5,627	5,921
Other expenses (£'000)	718	772
	-----	-----
Ongoing charges (£'000)	6,345	6,693
	=====	=====
Average net assets (£'000)	649,924	686,279
	-----	-----
Ongoing charges ratio	0.98%	0.97%
	=====	=====

Gearing

Gearing is considered to be an Alternative Performance Measure. See Note 19 above for details of the Company's gearing.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 August 2020 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2019 and 2020 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the Registrar of Companies. The 2020 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at: www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: www.fidelity.co.uk/specialvalues where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

ENDS