RIVER AND MERCANTILE UK MICRO CAP
INVESTMENT COMPANY LIMITED

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

THE COMPANY AT A GLANCE

Purpose

River and Mercantile UK Micro Cap Investment Company Limited (the "Company") is an investment company. Its purpose is to deliver the investment objective detailed below.

Investment objective

The Company aims to achieve long term capital growth from investment in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase.

Investment strategy and policy

The Company's investment strategy is to take advantage of the illiquidity risk premium inherent in UK micro cap companies and exploit fully the underlying investment opportunities in that area of the market to deliver high and sustainable returns to Shareholders, in the form of capital gains.

It is expected that the majority of the Company's investible universe will comprise companies whose securities are admitted to trading on the Alternative Investment Market of the London Stock Exchange. While it is intended that the Company will be fully invested in normal market conditions, the Company may hold cash or similar instruments.

Carne Global AIFM Solutions (C.I.) Limited (the "Manager") is the manager of the Company. It delegates portfolio management to River and Mercantile Asset Management LLP (the "Portfolio Manager").

About the Portfolio Manager

The Portfolio Manager is an active equity manager, specialising in UK and global equity strategies since its launch in 2006. Since 2014, it has been part of River and Mercantile Group PLC (the "Group"). The Group is an advisory and investment solutions business with a broad range of services, from consulting and advisory to fully delegated fiduciary management, liability driven investing and fund management.

George Ensor, the appointed portfolio manager, has been responsible for the Company's portfolio since February 2018. Please refer to page 6 for George Ensor's biography.

Capital redemptions and dividend policy

The Company is committed to achieving long term capital growth and, where possible, returning such growth to Shareholders throughout the life of the Company. Furthermore, the Board believes that a Net Asset Value in the region of £100 million will position the Company to take advantage of a portfolio of micro cap companies. Accordingly, the Directors operate a Capital Redemption Mechanism under which a portion of the Company's share capital is redeemed compulsorily to return the Net Asset Value back to around £100 million in order to:

- enable the Company to exploit fully the underlying investment opportunity and to deliver high and sustainable returns to shareholders, principally in the form of capital gains;
- enable portfolio holdings to have a meaningful impact on the Company's performance, which might otherwise be marginal within the context of a larger fund; and
- ensure that the Company can continually take advantage of the illiquidity risk premium inherent in micro cap companies.

The Company does not expect to pay significant dividends.

Management of your Company

The Board of the Company comprises a majority of independent non-executive directors with extensive knowledge of investment matters, the regulatory and legal framework within which the Company operates, as well as the various roles played by investment companies in shareholders' portfolios. The Board provides oversight of the Company's activities and ensures that the appropriate financial resources and controls are in place to deliver the investment strategy and manage the risks associated with such activities. The Board actively supervises both the Manager and the Portfolio Manager in the performance of their respective functions. The Portfolio Manager is authorised and regulated by the Financial Conduct Authority and the Manager is authorised and regulated by the Jersey Financial Services Commission.

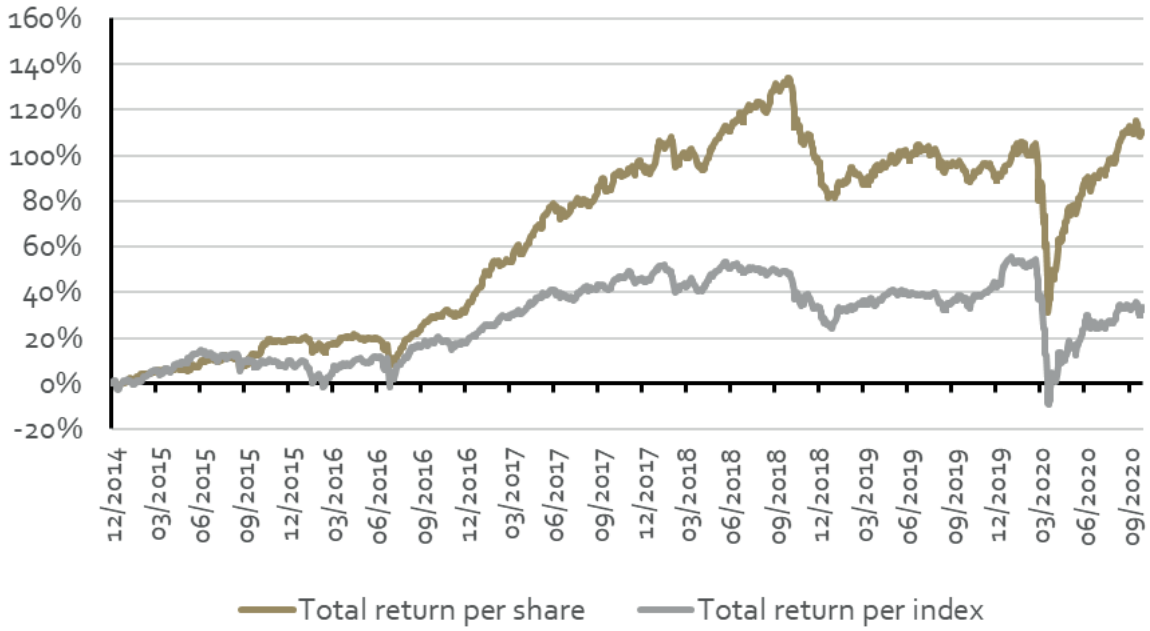
CONTENTS

STRATEGIC REPORT
FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

Key Performance Indicators

Net Asset Value ("NAV") total return[1] vs benchmark from inception

NAV on a total return[2] basis increased by 110.06% from inception (net of issue costs), outperforming the total return posted by the benchmark index of 33.42%. Please refer to the chart below showing the NAV total return versus Numis Smaller Companies plus Alternative Investment Market ("AIM") (excluding Investment Companies Index) total return[3] (the "benchmark index") from inception:



NAV total return vs benchmark for the year ended 30 September 2020

Over the year ended 30 September 2020, the NAV total return of the Company outperformed against the benchmark index by 11.66%, recording a NAV total return of 8.88%, which compares with the total return of -2.78% posted by the benchmark index.

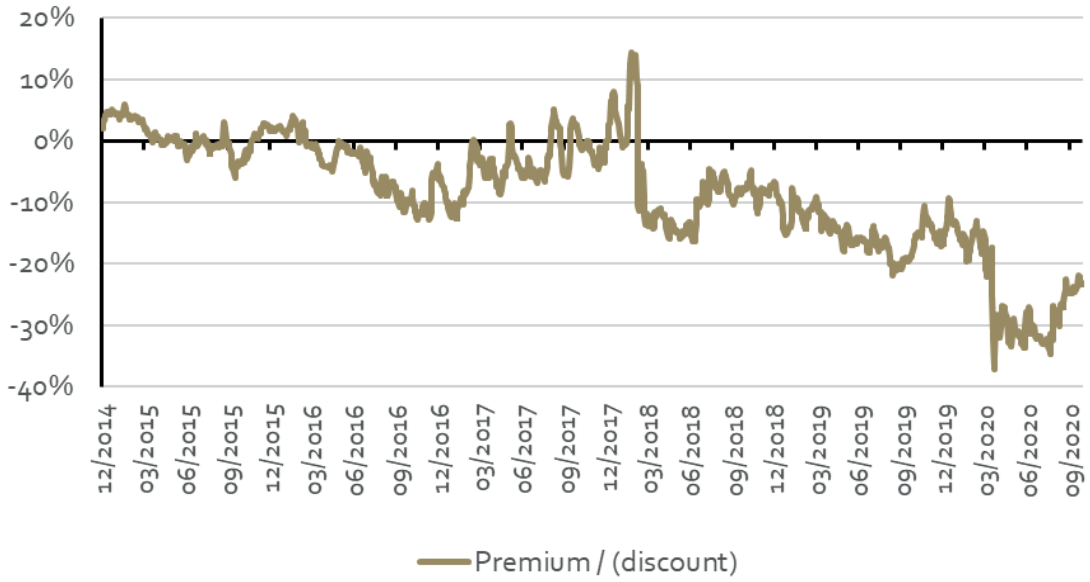
NAV and Share price

	As at 30 September 2020	As at 30 September 2019
Net Asset Value per Ordinary Share	£2.0586	£1.8908
Ordinary Share price (bid price)[3]	£1.5800	£1.5700
Discount	(23.25%)	(16.97%)

Period highs and lows

	Year ended 30 September 2020 High	Year ended 30 September 2020 Low	Year ended 30 September 2019 High	Year ended 30 September 2019 Low
Net Asset Value per Ordinary Share	£2.1120	£1.2860	£2.2901	£1.7746
Ordinary Share price (bid price)[3]	£1.7100	£0.8450	£2.1100	£1.4800

Premium / discount[2,4]



Capital redemptions

Since inception, the Company has exercised its capital redemption mechanism on three separate occasions, as detailed below, redeeming a total of 22,062,526 Ordinary Shares and returning a total of £41,926,929 to Shareholders.

Redemption date	Redemption price per Ordinary Share[5]	Number of Ordinary Shares redeemed	Amount returned to Shareholders
9 June 2017	£1.7217	8,712,240	£14,999,864
1 December 2017	£1.9124	7,843,469	£14,999,850
27 July 2018	£2.1659	5,506,817	£11,927,215

Please refer to note 12 for full details of the Company's redemption mechanism, including the conditions required for the Company to be able to operate the capital redemption mechanism.

Ongoing charges

The ongoing charges reflect those expenses which are likely to recur in the foreseeable future and which relate to the operation of the Company. The ongoing charges are calculated in accordance with the Association of Investment Companies ("AIC") methodology and are based on actual costs incurred in the year which are likely to recur in the foreseeable future. The ongoing charges for the year ended 30 September 2020 were 1.35% (2019: 1.30%).

Dividend history

In accordance with the Company's stated policy, no dividend was declared or paid during the year.

For further detail on Key Performance Indicators, refer to the Executive Summary section on pages 21 to 22 and the Useful Information for Shareholders section on pages 69 to 70.

[1] – The NAV total return measures how the NAV per Ordinary Share has performed over a period of time, taking into account capital returns. The Company quotes NAV total return as a percentage change from the initial issuance of Ordinary Shares to 30 September 2020. The Company has not declared a dividend since inception. The Board monitors the Company NAV total return against the Numis Smaller Companies plus Alternative Investment Market ("AIM") (excluding Investment Companies Index).

[2] – Source: BNP Paribas Securities Services, Bloomberg

[3] – Source: Bloomberg

[4] – The NAV per share is the value of all the Company's assets, less any payables it has, divided by the total number of Ordinary Shares. However, because the Company Ordinary Shares are traded on the London Stock Exchange's Main Market, the share price may be higher or lower than the NAV. The difference is known as a discount or premium. The Company's discount / premium to NAV is calculated by expressing the difference between the Ordinary Share price (bid price) and the NAV per share on the same day compared to the NAV per share on the same day.

[5] – Excludes the cost of each redemption; amounting to a total of £23,700 across all redemptions.

CHAIRMAN'S STATEMENT

The art of finding profitable niches in The Waste Land

T.S. Eliot's poem, "The Waste Land", is widely regarded as one of the most important of the 20th century. It illuminates the after effects of World War I and explores the uncomfortable themes of war, trauma, disillusion and death. The central theme focuses on the decline of all the old assumptions that had previously held society together. Consequently, society has ruptured and there is no return to the certainties of the old way of life.

This may well seem like too sombre a note to begin my Chairman's Statement, but I do think that many aspects of Eliot's masterpiece are applicable to the trauma that has engulfed the world since the advent of COVID-19. However, I do sincerely believe that out of the wreckage will appear new ways of thinking and acting. I do not need to point out the benefits of less business travel on the environment and the added positive effects on family life of our ability to work more flexibly. Whether it's showing our appreciation for our key workers, remaining committed to our local businesses or supporting the community with our personal time and resources, during this period of continuous challenge we have come together to support each other and work our way through to the other side of this global pandemic.

From out of this Waste Land, the pertinent question for the readers of this Annual Financial Report to ask is, how is one meant to continue to find exciting small and micro-cap companies to invest in that will be able to emerge stronger from the pandemic?

Part of the answer, I think, is having a very clear strategy without letting all the devastation that is happening send you off course. Your Portfolio Manager has been doing just that, pursuing the same strategy for almost 6 years that has generated results well in excess of the index benchmark. This is a fundamental research strategy that considers valuation, the company's potential and the timing of any investment. It is this steadfast focus that is so vital when statistics, the media and the apparent economic devastation, can combine to produce such a challenging environment in which to make investment decisions.

It may well seem counter-intuitive but when you are investing in the equivalent of T.S. Eliot's Waste Land, the opportunity to find profitable niches for investment actually increased. Indeed, in times like this, if you stick to your strategy, the fundamentals of some companies in the UK micro-cap world appear even more attractive.

Right now, we are facing the repercussions of the changes in the Government's furlough scheme combined with a second spike in COVID-19 cases and the tightening of lockdown rules which will impact many businesses. Whilst this may provide a weak platform for any certainty, in the world of UK micro-caps, valuations are attractive and the lack of broker guidance for smaller companies leaves an excellent opportunity for uncovering profitable gems. In short, it is a time when the active fund manager who has the confidence to stick to their strategy, should be able to discover those niches that, in less trying times, may have been much more difficult to unearth.

I would like to take this opportunity on behalf of the Board to congratulate the Portfolio Manager on his performance over the last year. In the 12 months to 30 September 2020 the portfolio NAV was up 8.9% versus the Benchmark down 2.8%. Over the five years to 30 September 2020 the portfolio NAV has achieved an annualised performance of +13.3% versus the Benchmark +4.4%.

The Board is very aware of their commitment to operate a redemption mechanism. This is due to the fact that the Portfolio Manager believes that a Net Asset Value of around £100m would best position your Company to take maximum advantage of a portfolio of micro-cap companies. As at 16 December 2020, the Net Asset Value of the Company is at £106.2m and the Board is also aware that all redemptions will normally be subject to a minimum value to be returned to shareholders of approximately £10m. I can assure you that the Board will continue to monitor the position closely.

The Board is cognizant that the shares trade at a 20% plus discount to NAV which is surprising given the current NAV and redemption commitment to return capital at par (as highlighted above). Please be assured that the Board is actively working with its advisors to narrow the current discount.

Andrew Chapman
Chairman
17 December 2020

PORTFOLIO MANAGER'S REPORT

The portfolio manager of the Company is George Ensor. George graduated from Bristol University with an Upper Second Class degree in Chemistry in 2008, before joining Smith & Williamson Investment Management as a graduate trainee where he worked for five years as an analyst and Private Client Investment Manager. George joined River and Mercantile Asset Management LLP in March 2014 as a UK equity analyst. George is a CFA charter holder.

This Portfolio Manager's Report is compiled with reference to the investment portfolio. Therefore, all positions are calculated by reference to their official closing prices (as opposed to the closing bid prices basis within the financial statements). The estimated NAV referenced below is calculated on a daily basis utilising closing bid prices and is inclusive of all estimated charges and accruals.

REVIEW OF PERFORMANCE

The River and Mercantile UK Micro Cap Investment Company delivered strong NAV performance in the twelve month period to the end of September 2020 with the NAV increasing 8.9%, outperforming the benchmark, which fell 2.8%, by 11.7%.

Since inception, the NAV has increased 110.1%, outperforming the benchmark performance of 33.4% by 76.6%.

Period	NAV	Benchmark*	Active return
1 year	8.9%	-2.8%	11.7%
3 years p.a.	3.9%	-2.5%	6.4%
5 years p.a.	13.3%	4.4%	8.9%
Since inception p.a.	13.6%	5.1%	8.5%

Source: River and Mercantile Asset Management LLP, BNP Paribas, Bloomberg Performance to 30 September 2020. Since inception is 02 December 2014. *Benchmark: Numis Smaller Companies plus AIM (Excluding Investment Companies)

MARKET BACKDROP

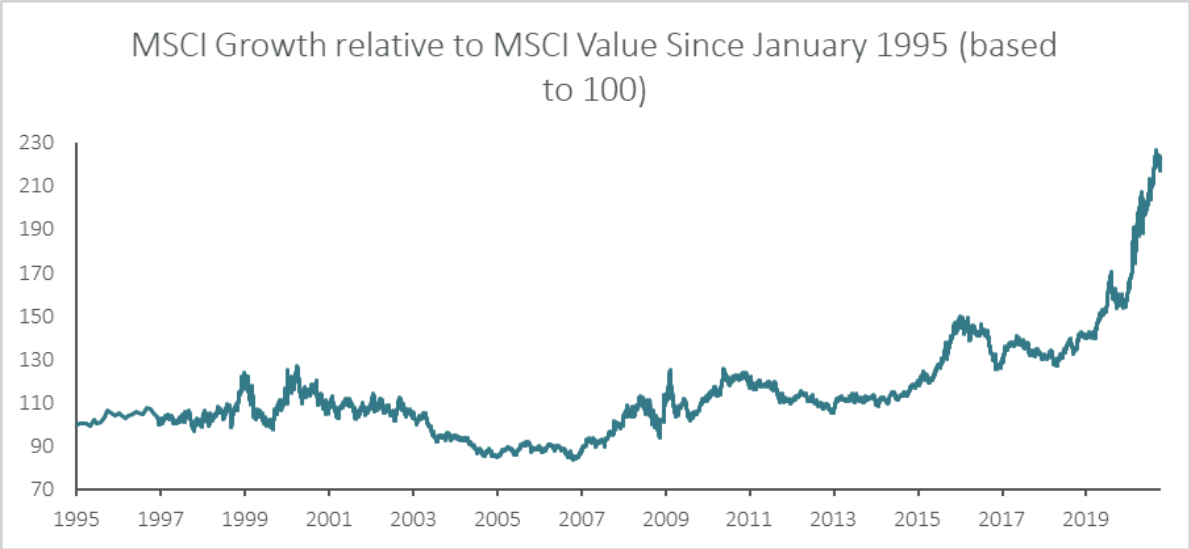
The twelve month decline of 2.8% in the Company's benchmark hides a great deal of volatility. The first quarter was dominated by inflows into UK equities following a historic Conservative election victory, resulting in the index gaining over 13% from the start of the period to the high in early January. This was followed by a drawdown of over 41% as equity indices reacted to the COVID-19 pandemic. The index then recovered by just under 47%, driven initially by the exceptional global fiscal and monetary support and then by the economic recovery as case numbers stabilised.

Markets continue to be dominated by these two factors; caution on one hand with the risk of further shutdowns stalling the recovery versus fiscal stimulus and vaccine success on the other. Add to this the current uncertainty around Brexit, something that is becoming a regular fixture, uncertainty on employment as furlough support tapers and narrow market leadership. There are more reasons than usual to admit that any attempt to forecast what might happen in the future is a fool's errand.

There is however one recent development which has been particularly supportive of the Company's outperformance; the outperformance of UK smaller company equities when compared to the wider UK market. If we compare the total return of the Company's benchmark (Numis Smaller Companies plus AIM excluding Investment Companies benchmark) of 33.4%, to the wider UK equities return (based on the the MSCI UK IMI) of 10.8%, since the Company's inception in December 2014 to the end of September 2020, then we can see that smaller companies have materially outperformed. In the prior annual report, I commented on the prolonged period of underperformance for smaller companies. In fact, on the same basis as above, smaller companies underperformed in every calendar quarter from, and including, the second quarter of 2018 to the third quarter of 2019. That's six consecutive quarters of underperformance. Since then, with the exception of the second quarter in 2020, smaller companies have outperformed.

Growth versus value has been a topic of great debate. It is clear to me that both need to be considered; no rational investor would choose the more expensive of two identical assets and the growth rate that a company can sustainably deliver is key to calculating value. To borrow a phrase from Warren Buffett, “the two approaches are joined at the hip”.

Accepting common definitions, growth stocks have clearly outperformed value stocks, and materially so recently. This is evident in the long-term relative performance of the MSCI UK Growth Index versus the MSCI UK Value Index, as shown below. The indices are created by splitting the wider UK index (MSCI UK Index) into stocks that have value attributes and growth attributes (re-balanced semi-annually).



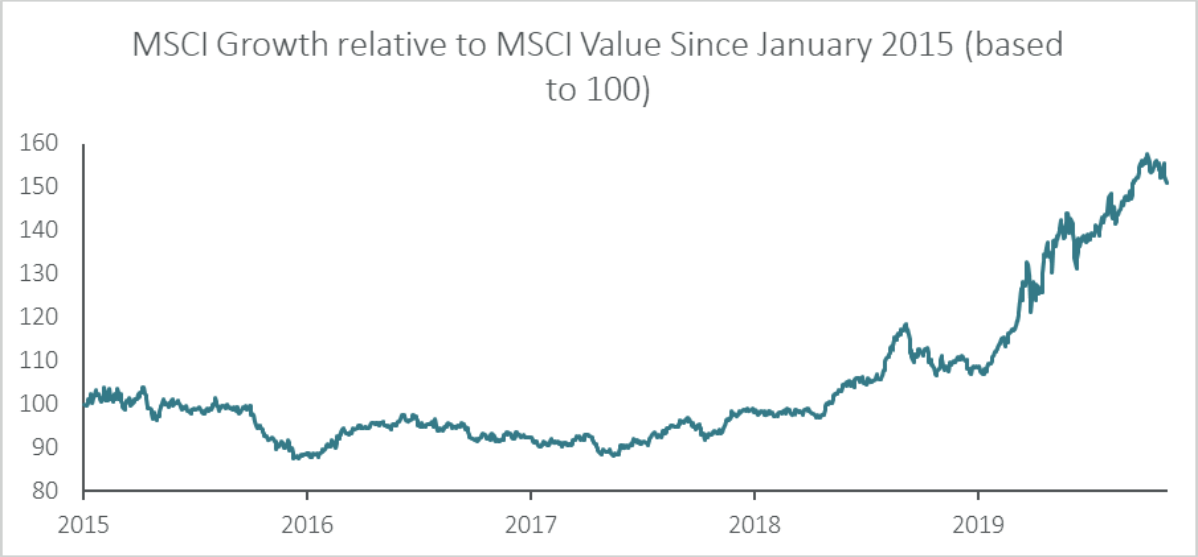
Bloomberg, MSCI*. Data as at 2 November 2020.

It is worth explaining how the indices are built. MSCI uses eight factors including historic sales and earnings growth, book to price, forward PE ratio and dividend yield. Stocks fall in to one of four categories depending on how they score on the eight factors: value and non-growth, growth and non-value, growth and value and non-growth and non-value. Whilst the former two clearly sit in their respective indices, the latter two are split between the indices such that half the wider universe sits in each index.

Why am I explaining this? The point is that the indices are not opposites and as such the commentary can be misleading. Whilst the growth index is biased to stocks that show strong growth attributes, it also has a bias to non-value (or expensive) stocks that the methodology excludes from the value index. Cheap growth stocks are included in both indices.

The outperformance of growth under this widely used analysis is therefore not simply the outperformance of growth but also the outperformance of expensive stocks. Expensive stocks have longer duration – that is, it takes them longer to pay down their market cap in free cash generation than cheaper, shorter duration stocks.

When treasury yields fall – as has happened since mid-2018 and with new lows reached in 2020 – long duration assets outperform. This is evident in the chart overleaf which shows the shorter-term relative performance of the MSCI UK Growth index compared to the Value index.



Bloomberg, MSCI*. Data as at 2 November 2020.

The logic therefore stands that we would expect short duration assets, including value stocks, to outperform if/when Treasury yields move up. For me, the "if/when" element of the prior sentence is the key uncertainty for style performance over the next few years. We will, as always, maintain a multi-factor approach.

The recent outperformance of growth is particularly extreme, and you will notice in the comments on portfolio activity that many of the new investments over the last year have been into *Recovery* and *Asset-backed* investment cases which tend to have greater value credentials.

PORTFOLIO POSITIONING

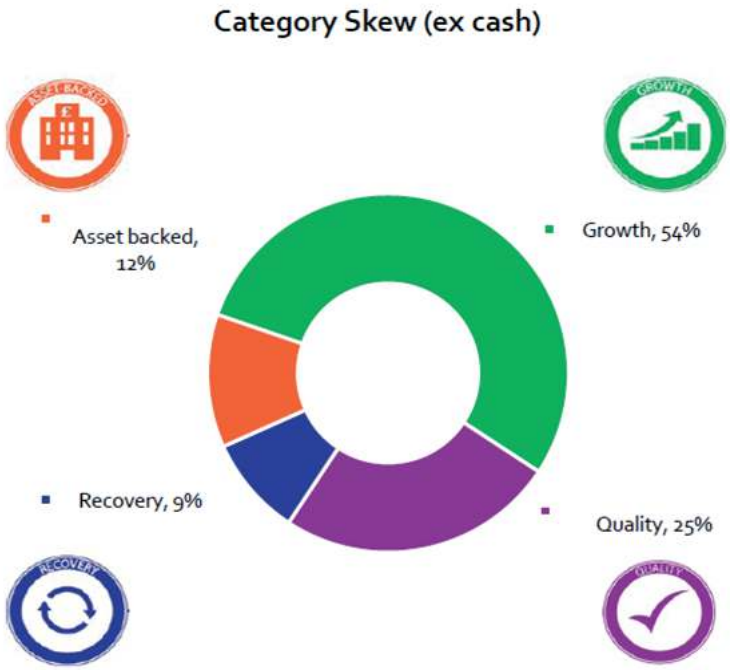
As previously described, our investment philosophy is a multi-factor approach combining company fundamentals, valuation and momentum. We are looking to invest in companies that have **P**otential to create shareholder value at attractive **V**aluations with supportive **T**iming.

Investors will be aware that within our **PVT** Philosophy there are four forms of Potential: *Growth*, *Quality*, *Recovery* and *Asset-backed*. The portfolio continues to have a bias to *Growth*; that is investing in companies that have the potential to grow revenues and profits at a higher rate than average. *Quality*, companies that have high and improving return on capital, remains the second largest category.

Recovery and *Asset-backed* opportunities, and cash, make up the balance of the portfolio. When we invest in *Recovery* stocks, we are looking to buy into companies where returns are depressed when compared to the last ten years but have begun to improve. And with *Asset-backed*, confidence in the value of the assets is key and we look for asset value upgrades to drive the share price performance.

The exposure to different categories as at the 30 September 2020 is shown overleaf.

** Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.*



Source: River and Mercantile Asset Management LLP

When compared on the same ex-cash basis to category exposure at the 30 September 2019, *Growth* is 5% higher having been 49%, *Quality* is 7% lower, *Recovery* 4% higher and *Asset -backed* 2% lower.

The following table illustrates some of the key factor characteristics of the portfolio and the equivalent data for the benchmark.

		River & Mercantile UK Micro Cap Investment Company	Numis Smaller Companies (plus AIM) Ex-IT Benchmark
P	Historic 3Y Sales per Share	23.0%	11.7%
	1Y Forecast Sales Growth	15.5%	6.9%
	Historic 3Y Earnings Growth	34.4%	10.6%
	1Y Forecast Earnings Growth	24.7%	8.2%
	Net Profit Margin	8.4%	12.6%
V	One Year Fwd PE Ratio	18.3	24.3
	Two Year Fwd PE Ratio	11.8	15.9
	Free Cash Flow Yield	5.4%	5.4%
	Enterprise Value / EBITDA	8.3	14.3
T	3 Month Earnings Revisions	3.9%	3.0%

Source: StyleAnalytics

Focusing on *Growth* **P**otential, the Company's portfolio has a bias to companies that have historically grown revenue and sales at a faster rate than the market (as demonstrated by the benchmark data). For instance, the realised 3Y historic growth rate in revenue for the portfolio is 23% which is almost double the 11.7% realised by the benchmark.

On **V**aluation, the average valuation of the portfolio is cheaper than the benchmark. For example, on a two year forward basis, the average PE ratio for the portfolio is 11.8x which is a discount of more than 25% to the benchmark's 15.9x.

Finally, on **T**iming, this is most easily demonstrated by comparing three month EPS revisions for the portfolio compared to the benchmark. The portfolio's average upgrade of 3.9% is ahead of the 3% average seen for the benchmark.

PORTFOLIO ATTRIBUTION

MaxCyte had the greatest impact on portfolio returns in the period. The company is a market leader, backed by intellectual property, in the high growth cell therapy industry. Their market position as a key partner to pharmaceutical and cell therapy companies has delivered compound annual revenue growth of 25%, all organic, over six years. Whilst the company has consistently delivered, supporting our conviction, the share price has not reflected this. The shares underperformed through 2018 and 2019 and were a drag to performance. We supported fund raises in February 2019 at 170p and in April 2020 at 131p. The shares were valued at 368p at the end of September 2020.

MaxCyte is our largest position and, at 7.3% of NAV at the end of the period, our only position in excess of 5%. It is worth noting that we own two separate lines of stock and the holding has been illustrated as such in the portfolio holdings disclosure, the two lines will combine into one on the anniversary of the most recent (April 2020) fund raise.

The recent developments in MaxCyte are also noteworthy and have, in my opinion, contributed to the recent share price performance. The first is that the company is planning to dual list on the NASDAQ exchange in the US by the end of 2021, and by doing so raise the profile of the company with US investors. The second development is the announcement that CARMA, a wholly owned therapeutics company which is progressing a phase 1 trial, will be independently financed from next year. This is a challenging part of the business to value and the company's valuation was being negatively impacted given the R&D funding requirements that it required. As such, the business should be profitable and self-funding from 2021.

Venture Life was the second most significant contributor to returns, the shares gained 159% over the period. The company manufactures self-care products on both an own-brands and a third-party basis. The company delivered 65% organic growth largely due to the success of their Chinese distribution agreement for oral care products and their re-launched hand sanitising brand, DisinPlus. Given the spare capacity in their manufacturing site, the company required limited additional cost investment to deliver the higher revenue. Profits therefore increased at a much higher rate than sales with EBITDA (earnings before interest, tax, depreciation and amortisation) 368% higher than the prior period.

Our precious metals exposure also made a meaningful positive contribution. Gold producers **Shanta Gold, Hummingbird Resources** and **Serabi** gained 109%, 49% and 26% respectively on the elevated gold price which set a new record high in August. Each company demonstrated strong operational delivery and progressed with both their exploration and acquisition strategies. Our position in **Capital Ltd** (previously Capital Drilling) also performed well with the investment thesis of returns improving as fleet utilisation improves playing out. Finally, **Sylvania Platinum** gained 68% in the quarter on both strong delivery and high platinum group metal prices, particularly Rhodium.

I covered the poor performance of **XLMedia, Adept Technology, SDX Energy and Ince Group** in the interim report. I flagged that we had sold down the position in XLMedia to just 0.5% and we completed the exit of this position in the second half. I also made the case that the market's view of the other three underperformers, Adept Technology, SDX Energy and Ince Group, seemed harsh. This remains the case, particularly so for SDX Energy. The investment case has been strengthened by a number of positive updates, including a high value commercial gas discovery, the value of which have not been recognised in the share price performance. As a reminder, the business is almost entirely exposed to fixed price gas contracts.

Adept Technology has played a key role in migrating hundreds of schools to the cloud, enabling them to work remotely, and helped hundreds of doctors' practices become virtual practices. Ince Group remains in the early stages of the recovery investment case but has grown revenue, improved gross margin from the international offices and paid down some debt since reporting numbers in August.

There are two additions to the first half underperformers that require commentary. **Science in Sport**, the sports nutrition brand, lost 29% in the period. With only a third of 2019 sales generated online, lockdown had a significant impact on the company's bricks and mortar distribution channel. For revenue to be down just 5% year on year in the six months to June and for gross profit and underlying operating profit to be marginally better is, in my opinion, a fantastic result, but one that has not been recognised by the market.

Finally, the company with the most substantial negative contribution to the portfolio of the twelve month period was **Tekmar Energy**. The investment case is premised on the group's core capability, the protection of undersea cables. This may sound trivial but a broken cable to an offshore wind farm is an expensive problem to fix and Tekmar have a fail-safe, low cost solution. Add to this the strong growth opportunity in offshore wind and the result should be a high returns business exposed to a strong structural growth story. It was this investment case, supported by an attractive valuation and positive earnings momentum that made Tekmar a high conviction position. The shares lost 50% in the year; supply chain disruptions in China meant that the company had to source more expensive parts, impacting gross margin. Project delays have also impacted revenue for the six months to the end of September. These disappointments have resulted in the departure of the CEO. We had reduced our position ahead of the large share price decline in February and continued to reduce the position thereafter.

PORTFOLIO ACTIVITY – NEW POSITIONS AND EXITS

In total, there were 13 new entries to the portfolio over the period and 14 positions exited. Turnover has been relatively high but understandable given the volatility and corporate issuance. I will comment on the new positions in order of their position size at 30 September 2020:

Instem (2.4%) – a great example of a company that is a market leader in a small niche. The company provides software solutions to life sciences companies which enable them to collect, analyse and submit data to clinical agencies such as the FDA (Food and Drug Administration). As is typical for software businesses with leading market shares, the company has historically delivered high return on capital, supporting the Quality investment case, whilst also successfully delivering organic and acquisitive growth. The latter is set to continue given the fund raise that was completed in June for that purpose, which we supported.

Flowtech Fluidpower (2.1%) – we invested in this specialist distributor of fluid power products which has consistently delivered attractive gross margins to support the self-help Recovery thesis. We believe returns can at least recover back to levels where they have previously been and that is currently far from priced in given their depressed valuation. The business continued to generate cash and pay down debt in the first six months of 2020.

Joules (2.0%) – as a clothes retailer with over 100 stores, it is understandable that Joules' margins collapsed in their financial year to May 2020. However, with a strong eCommerce offering, which has delivered substantial growth, and the ongoing rent negotiations which are expected to decrease fixed costs, the future margin opportunity is exciting. This supports the Recovery investment case with the level of conviction aided by the strong balance sheet.

Cake Box (1.9%) – the franchise business model that Cake Box employs requires limited capital, delivering high return on capital and underpinning the Quality investment case. There is also an attractive case for growth, through the addition of franchisee stores every year, and the company has seen demand from future franchisees strengthen over the recent period. Strong recent like for like trading has also supported Timing, adding to our conviction in the holding.

Kooth (1.8%) – mental health is a public health service where, unfortunately, demand outstrips supply. Kooth provides free mental health services to children and young people in the UK through the provision of digital services including content and counselling. The company contracts with the NHS and is encouraged to drive usage in the target demographic to expand contracts. Kooth is the clear market leader and believes that the opportunity within children and young people in the UK is worth up to £85m per annum, supporting the Growth thesis.

Mind Gym (1.7%) – the company provides behavioural science training to corporates and is an example of a company that we considered at IPO (we failed to build conviction given the expensive valuation). The shares have since underperformed, providing us with an attractive entry point into a compelling Growth thesis. Whilst the business has typically delivered face to face training, there is clearly an ongoing need for the product and the mode of delivery has, like so many other things, pivoted to digital.

GetBusy (1.6%) – a document and task management software business that is re-investing cash generated from one mature solution, Virtual Cabinet, to drive growth in another, SmartVault, and launch a third, GetBusy. The key to the business is strong vertical knowledge delivering solutions which meet the requirements of their customers. These are typically accountancy firms for the two existing document management solutions. Recent trading has been more than resilient with recurring revenue growing by 18% in the first half of the year, highlighting the strong *Growth* credentials.

Ten Lifestyle (1.6%) – a technology-led concierge business with a B2B2C business model. Ten offers clients including Visa, Mastercard and HSBC a concierge service for their customers to reduce churn and maximise customer lifetime value. The company has had success with new contract wins and the investment in technology is enabling high drop through margins on incremental revenues. Despite an historic bias to booking flights and hotels, the company has guided that revenues for the year to the end of August 2020 will only be marginally lower than the prior year. Given the circumstances, this is another impressive trading result.

The City Pub Group (1.5%) – Freehold ownership of 30 of the company's 52 pubs underpins the *Asset-backed* investment case. We invested in the fundraise at 50p in March and have since added to the position. Whilst pub trading is currently challenged, the company is better placed than most given its scale, quality of assets and strong balance sheet. The directors valued the assets of the company at 132p per share at 30th June 2020.

Manolete (1.4%) – is the dominant funder in the UK insolvency market. Manolete typically buys insolvency cases with minimal upfront capital and an agreement to pay away a percentage of any post cost award. A track record of high returns supports the *Quality* investment case with **T**iming likely to be supported over the next few years by an elevated number of insolvency events.

The Ince Group (1.1%) – an international legal services company which has grown through acquisition. We supported a fund raise to re-build the balance sheet in January. The company has delivered year-on-year revenue growth in the first five months of their current financial year and improved gross margin from their international operations. The company's current enterprise value of £22m compares to prior year revenue of £98.5m and I would expect the company to re-rate to a more normal EV/Sales multiple as it the company proves its cash generation capabilities and pays downs debt.

SigmaRoc (0.8%) – the company is pursuing a buy-and-build strategy in construction materials. As a small player with a decentralised model, it is able to acquire good assets that are non-core to other businesses on attractive terms with obvious opportunities for improvement, underpinning the *Quality* investment case. Breedon Plc has very successfully executed on a similar strategy. SigmaRoc has acquired five businesses since 2017 and, in each cash, has realised attractive margin improvements.

Revolution Bars (0.6%) – operates 73 leasehold bars. The company had begun to deliver on a self-help *Recovery* investment case in 2019 with a focus on closing marginal sites and re-investing in the existing estate to drive improved like-for-like trading. The company raised £15m in July to support the business through what is going to be an extended period of tough trading. The current enterprise value of approximately £20m compares to the average EBITDA over the last seven years of £13m per annum.

I commented on the exits from **Cello Health, Nasstar, Tremor International, Berkeley Energia, Dekeloil, Altitude, Cyanconnode, Genedrive** and **Lekoil** in the interim statement. As previously noted, we completed the exit of **XLMedia** in the second half. **Clearstar** was sold following a bid from Hanover partners and **Wey Education** was exited on valuation concerns. Both **Driver Group** and **Smartspace Software** were exited on poor earnings momentum.

OUTLOOK

These are not easy times for writing outlook comments. Importantly, we do not have an approach which is premised on forecasting what is about to happen. We do have a tried and tested philosophical approach and process that has supported attractive alpha for both this and other strategies since 2006.

The opportunity set remains as rich as ever; the combination of our approach, the lack of sell side coverage and the inability for larger funds to access this part of the market remains supportive for investing in great undervalued businesses. UK equities are a consensus underweight for global asset allocators and, whilst narrower than a year ago, there remains an additional discount on smaller cap equities within the UK.

George Ensor
Portfolio Manager
17 December 2020

INVESTMENT PORTFOLIO

Investment Portfolio as at 30 September 2020

The Investment Portfolio below details the Company's holdings as at 30 September 2020, exclusive of cash and cash equivalents.

Name	Sector	Weight (%)
Maxcyte Inc	Health Care	4.5
Sigma Capital Group Plc	Real Estate	4.3
Litigation Capital Management Limited	Financials	4.2
Diversified Gas & Oil Plc	Energy	3.9
Keystone Law Group Plc	Industrials	3.8
Venture Life Group Plc	Consumer Staples	3.5
Shanta Gold Ltd	Materials	3.4
Boku Inc	Information Technology	3.3
Aquis Echange Plc	Financials	3.1
Alpha FX Group Plc	Financials	3.1
SIS Science In Sport Plc	Consumer Staples	3.0
Argentex Group Plc	Financials	2.9
Maxcyte Inc	Health Care	2.8
RA International Group Plc	Industrials	2.7
Capital Drilling Ltd	Energy	2.6
DX Group Plc	Industrials	2.5
Allergy Theraputics Plc	Health Care	2.4
Instem plc	Health Care	2.4
Sylvania Platinum Ltd	Materials	2.3
SDX Energy Plc	Energy	2.2
Flowtech Fluidpower Plc	Industrials	2.1
Joules Group Plc	Consumer Discretionary	2.0
AFH Financial Group Plc	Financials	2.0
Cake Box Holdings Plc	Consumer Staples	1.8
Kooth Plc	Health Care	1.8
Hummingbird Resources Plc	Materials	1.8
Mind Gym PLC	Industrials	1.7
Tekmar Group Plc	Energy	1.6
Cambria Automobiles Plc	Consumer Discretionary	1.6
Ten Lifestyle Group Plc	Consumer Discretionary	1.6
GetBusy Plc	Information Technology	1.5
Adept Technology Group Plc	Communication Services	1.5
ULS Technology Plc	Consumer Discretionary	1.5
Serabi Gold Plc	Materials	1.5
The City Pub Group PLC	Consumer Discretionary	1.5
Manolete Partners Plc	Financials	1.4
STM Group Plc	Financials	1.2
Brand Architekts Group Plc	Consumer Staples	1.1

Name	Sector	Weight (%)
The Ince Group PLC	Industrials	1.1
Real Estate Investors Plc	Real Estate	1.1
SigmaRoc PLC	Materials	0.8
Revolution Bars Group Plc	Consumer Discretionary	0.6
Harvest Minerals Ltd	Materials	0.2

Source: River and Mercantile Asset Management LLP

[1] Portfolio weightings are based on mid-prices

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for the Company's system of internal control and risk management but has delegated the responsibility for ensuring the daily monitoring of risk to the Manager. The Board accesses the robustness of the risk controls by reviewing, at each quarterly meeting, the risk reports produced by the Manager, and by assessing the overall risk profile of the Company as well as identifying any emerging risks and uncertainties which are likely to affect the Company.

The principal risks and emerging risks faced by the Company are summarised below:

Principal Risk	Key controls
Investment and liquidity risk	
The Company invests in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase. These securities are likely to have higher volatility and liquidity risk than securities on the Main Market of the London Stock Exchange or the Financial Conduct Authority's Official List. The relatively small market capitalisation of micro cap companies could therefore have an adverse effect on the performance of these investments and can make the market in their shares illiquid. On this basis prices of micro cap companies are often more volatile than prices of larger capitalisation stocks, and even small cap companies. Many businesses are facing additional financial challenges due to demand fluctuations, and/or additional cost of supplies currently, due to the COVID-19 pandemic. The Company may have difficulty in selling its investments which may lead to volatility in the Net Asset Value and, consequently, market price of shares in the Company. The Company may not necessarily be able to realise its investments within a reasonable period, and any such realisations that may be achieved may be at a considerably lower price than prevailing indicative market prices. There can therefore be no guarantee that any realisation of an investment will be on a basis which necessarily reflects the valuation of that investment.	Risks are monitored by the Manager, which holds monthly AIFM Risk Committee meetings with the Portfolio Manager. The Manager provides an update of these AIFM Risk Committee meetings to the Board on a quarterly basis and the risks are discussed accordingly. The Board has introduced investment restrictions and guidelines to limit these risks. The Portfolio Manager also undertakes on-going reviews of the underlying investee companies, particularly those whose businesses are impacted by the pandemic.
Portfolio concentration and macro-economic risks	
The Company predominantly invests in securities in the UK and has no specific limits placed on its exposure to any industry sector. Changes in economic conditions in the UK, (for example, uncertainties as a result of Brexit, the impact of COVID-19, interest rates and rates of inflation, industry conditions, competition, political and diplomatic events and other factors), could substantially and adversely affect the Company's prospects, as could changes in global economic conditions. This exposes the Company to concentration of geographical concentration risk and may from time to time lead to the Company having significant exposure to portfolio companies from certain business sectors. Greater concentration of investments in any one geographical and / or industry sector may result in greater volatility in the value of the Company's investments, and consequently its NAV, and may materially and adversely affect the performance of the Company and returns to Shareholders.	While the Company does not include any specific limits on exposures to any industry sector, the Company does have investment limits and risk diversification policies in place to mitigate market and concentration risk. Please refer to note 9 for further details. Full details of the Company's risk factors are set out on pages 15 to 23 of the Company's prospectus, which is available on the Company's website (https://microcap.riverandmercantile.com).

Principal Risk	Key controls
Reliance on third party service providers	
The Company has no employees and is reliant on the performance of third-party service providers. Failure by the Portfolio Manager or any other third-party service provider to perform in accordance with the terms of its appointment could have a material detrimental impact on the operation of the Company. This could include failure of a counterparty on whom the Company is reliant. During this year, the Board elevated this to a principal risk in light of the increasing prevalence of cyber related events and the impact of COVID-19 testing business continuity plans of third party service providers.	The Board monitors and receives reports on the performance of its key service providers and may in any event terminate all key contracts on normal commercial terms.
Share price discount	
The imbalance of the Company's share price trading at a discount to NAV may diminish the attractiveness of the Company to existing investors. During the year under review, the share price traded consistently at a wide discount to NAV, which widened further during the global COVID-19 pandemic and was at its widest point on 23 March 2020 where shares traded at a discount to NAV of 37.17%. This has caused the Directors to elevate this to a principal risk.	The discount is reported and reviewed at least quarterly. The Company operates the redemption mechanism to return capital to investors as outline in note 12. Other discount control mechanisms such as share buy backs and tender offers are regularly considered with the Company's brokers. The Board has also appointed a public relations adviser to widen interest in the Company's shares

Emerging risks

During the current financial period the main emerging risk has been the impact of COVID-19 on the Company and its underlying investment portfolio. The Company itself has been well placed to withstand the effects of the pandemic since it has no gearing or constraints on liquidity. At all times the Company holds sufficient cash reserves to meet on-going expenditure. The Portfolio Manager continues to monitor specific COVID-19 risks associated with the underlying investment portfolio. During the pandemic all service providers have moved to remote working but without any adverse impact to services.

Investors are placing increased emphasis on environmental, social and governance issues (ESG) and the Board sees any failure by the Portfolio Manager to identify future potential issues within the underlying portfolio in this area is a key emerging risk which may lead to the Company's shares becoming less attractive to investors. The Board welcomes the increasing emphasis being placed by shareholders and investors on ESG matters and is confident, through the adoption by the Portfolio Manager of a comprehensive ESG policy which is fully endorsed by the Board and the Board receiving regular reporting on ESG issues, that appropriate controls are in place to mitigate this emerging risk.

SECTION 172 STATEMENT AND PRINCIPAL DECISIONS

Through adopting the AIC Code, the Board acknowledges its duty to comply with section 172 of the UK Companies Act 2006 to act in a way that promotes the success of the Company for the benefit of its members as a whole, having regard to (amongst other things):

1) consequences of any decision in the long-term;
2) the interests of the Company's employees;
3) need to foster business relationships with suppliers, customers and others;
4) impact on community and environment;
5) maintaining reputation; and
6) act fairly as between members of the Company.

The Board recognises its key role in promoting the Company's core values of diversification, innovation, adaptation and integrity and so the Board conducts its own meetings and its interactions with stakeholders within a culture of openness to alternative views from directors, advisers, and shareholders, challenge of prevailing approaches, and respect for all parties as well as the goals of the Company.

Information on how the Board has engaged with its stakeholders and promoted the success of the Company, through the decisions it has taken during the year, whilst having regard to the above, is outlined below. The Company has no employees.

Stakeholder	How the Board engages
Shareholders	The Company would not exist without the capital of its shareholders and its ongoing success is dependent on their continued support. The Board therefore ensures that multiple lines of communication with shareholders are actively promoted. The Annual General Meeting ensures a forum in which the views of all shareholders are sought by the Board through the resolutions proposed and it is also an opportunity for shareholders to question the members of the Board face to face. In addition, the Board requires the Company's Corporate Broker to maintain communication with major shareholders and report back to the Board at quarterly meetings on the tenor and substance of such communication. Since the Company's inception, the Board has encouraged both the Corporate Broker and the Portfolio Manager to meet directly with shareholders both for the purposes of communicating the Company's strategy and performance as well as to listen to the views of shareholders. These views are reported back to the Board at their regular meetings. Responding in part to the widening discount, the Board engaged Camarco as the Company's Public Relations Adviser to broaden the reach of the Company's shareholder engagement to include more retail investors. The Board has consistently expressed the priority it places on the Corporate Broker, the Portfolio Manager and the Public Relations Adviser co-ordinating their efforts on the Board's behalf to ensure the widest range of investor views is available to inform the Board's deliberations. Furthermore, the Chairman and other Directors are available to meet with major shareholders where such meetings would be welcomed. The Company provides regular information updates to shareholders, including the daily NAV announcement to the markets and portfolio updates, the latter, since July 2020, now being published every month, rather than quarterly.
Service providers	All key service providers report to the Board at every quarterly Board meeting, with representatives of the service providers present to answer questions from Directors. In accord with the Company's culture of openness, challenge and respect, the Chairman actively encourages feedback from the Company's service providers as appropriate to their field of expertise. The Board, through its Management Engagement Committee, also seeks to ensure that the terms of engagement are commercially equitable for each service provider, as the success of the Company is encouraged by forming stable partnerships with successful and motivated advisers.
The wider community and the environment	Refer to environmental and social issues on page 21.

Principal decisions

The table below sets out principal decisions taken by the Board during the year which have the greatest impact on the Company's long term success. The Board considers the factors outlined under section 172 and the wider interests of stakeholders as a whole in all decisions it takes on behalf of the Company.

Principal decision	Stakeholder interests
Engagement of Camarco as Public Relations Adviser	The Board has been actively seeking ways to reduce the ongoing discount, which it recognises is a key concern for investors. In December 2019, the Board engaged Camarco as the Company's Public Relations Adviser, having determined that their motivated and focussed contribution to publicising the Company's story would complement the efforts of the Broker and the Portfolio Manager. In particular, Camarco would facilitate communications with retail investors, with the purpose of generating increased interest in the Company's shares and also of providing a further channel of communication between the Board and the Company's shareholder base. While this strategy clearly cannot directly reduce the discount, it is likely that increased interest combined with broadening the shareholder base to further include those more likely to be free to trade in smaller lots will tend to increase upward pressure on the share price.
Change of corporate broker	The Company's appointment of N+1Singer was another instance of the Board's efforts to address the discount. In making the appointment, the Board was cognisant of the range of services the new Broker could offer and agreed an additional element of remuneration linked to reduction in the discount, this being in the interests of both shareholders and the newly appointed Broker.

EXECUTIVE SUMMARY

This Executive Summary is designed to provide information about the Company's operation and results for the year ended 30 September 2020. It should be read in conjunction with the Chairman's Statement on page 5 and the Portfolio Manager's report on pages 6 to 13 which provides a detailed review of investment activities for the year and an outlook for the future.

Corporate summary
The Company was incorporated in Guernsey on 2 October 2014, with registered number 59106, as a non-cellular company with liability limited by shares. The Company is registered by the Guernsey Financial Services Commission ("GFSC") as a registered closed-ended collective investment scheme pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Scheme Rules ("RCIS Rules") 2018.

The Company's stated capital is denominated in Sterling and each share carries equal voting rights.

The Company's Ordinary Shares are listed on the Official List as maintained by the FCA and admitted to trading with a premium listing on the Main Market of the London Stock Exchange.

Significant events during the year ended 30 September 2020
Appointment of Public Relations Adviser
On 5 December 2019, the Board engaged Camarco as the Company's Public Relations Adviser to allow for an increased emphasis on public relations and marketing to widen appeal and investor interest in the Company.

Facility agreement
On 11 December 2018, the Company signed an Extension Agreement that varied the terms of the Sterling Facility Agreement (the "Facility") with BNP Paribas Securities Services S.C.A. entered into on 9 December 2016, as amended on 13 December 2017. With effect from 7 December 2018, the Facility was extended for 364 days to 6 December 2019 and the Company incurred an extension fee of £8,000. The Board decided not to renew the Facility, which subsequently expired on 6 December 2019.

Appointment of Corporate Broker
On 1 July 2020, the Company announced it had appointed N+1 Singer Advisory LLP as the Company's sole corporate broker following Cantor Fitzgerald's withdrawal from providing corporate broker services in this area of the UK market.

COVID-19
The COVID-19 epidemic is believed to have originated in Wuhan, Hubei, China. While containment efforts were made to slow the spread of the epidemic the outbreak has now spread globally and led to the World Health Organisation declaring the COVID-19 outbreak a pandemic on 11 March 2020.

The Board is aware that global financial markets have been monitoring and reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

The Board has also noted the operational risks that are posed to the Company and its service providers due to global and local movement restrictions that have been enacted by various governments. COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The Board will continue to monitor this situation.

Company investment objective
The Company aims to achieve long term capital growth from investments in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase.

Company investment policy
The Company invests in a diversified portfolio of UK micro cap companies. It is expected that the majority of the Company's investible universe will comprise companies whose securities are admitted to trading on AIM.

While it is intended that the Company will be fully invested in normal market conditions, the Company may hold cash on deposit or invest on a temporary basis in a range of high quality debt securities and cash equivalent instruments.

There is no restriction on the amount of cash or cash equivalent instruments that the Company may hold and there may be times when it is appropriate for the Company to have a significant cash position instead of being fully or near fully invested.

The Company will not be benchmark-driven in its asset allocation.

Diversification
The number of holdings in the portfolio will usually range between 30 and 50.

The portfolio is expected to be broadly diversified across sectors and, while there are no specific limits placed on exposure to any sector, the Company will at all times invest and manage the portfolio in a manner consistent with spreading investment risk.

Investment restrictions
No exposure to any investee company will exceed 10% of NAV at the time of investment.

The Company may from time to time take sizeable positions in portfolio companies. However, in such circumstances, the Company would not normally intend to hold more than 25% of the capital of a single investee company at the time of investment.

Although the Company would not normally expect to hold investments in securities that are unquoted, it may do so from time to time but such investments will be limited in aggregate to 10% of NAV.

The Company may invest in other investment funds, including listed closed-ended investment funds, to gain investment exposure to UK micro cap companies but such exposure will be limited, in aggregate, to 10% of NAV at the time of investment.

Borrowing and gearing policy
The Company does not normally intend to employ gearing but at certain times it may be opportune to do so, for both investment and working capital purposes. Accordingly, the Company may employ gearing up to a maximum of 20% of NAV at the time of borrowing. Currently the Company has no gearing or borrowing facilities, please refer to note 15 for further details of borrowing facilities.

Derivatives
The Company may use derivatives (both long and short) for the purposes of efficient portfolio management only. The Company will not enter into uncovered short positions.

Further information can be found in the Portfolio Manager's Report which is incorporated within this Annual Financial Report on pages 6 to 13 for informational purposes only.

Investment strategy and approach
The Company's investment strategy is to take advantage of the illiquidity risk premium inherent in UK micro cap companies and exploit fully the underlying investment opportunity in the UK micro cap market to deliver high and sustainable returns to Shareholders, principally in the form of capital gains in line with the Company investment objective and policy.

The Company pursues its investment strategy through the appointment of the Manager as AIFM, whereby the Manager has been given responsibility, subject to the supervision of the Board, for the management of the Company in accordance with the Company's investment objective and policy. The Manager has delegated portfolio management to the Portfolio Manager. The Company depends on the diligence, skill, judgement and business contacts of the Portfolio Manager's investment professionals, in particular George Ensor, in identifying investment opportunities which are in line with the investment objective and policy of the Company. The Portfolio Manager attends all Board meetings at which the investment strategy and performance of the Company is discussed.

Key Performance Indicators (KPIs)
The Directors meet regularly to review performance and risk against a number of key measures.

Returns and Net Asset Value total return
The Board reviews and compares, at each meeting, the performance of the portfolio as well as the NAV, income and share price of the Company. The Directors regard the Company's NAV total return as being the overall measure of value delivered to Shareholders over the long term. Total return reflects NAV growth of the Company.

The Board is committed to achieving long term capital growth and, where possible, returning such growth to Shareholders throughout the life of the Company. Furthermore, the Portfolio Manager has advised the Board that it believes that a NAV of £100 million (at current market levels although this may change over time) would best position the Company to take advantage of a portfolio of micro cap companies and the redemption mechanism is in place to prevent the NAV significantly exceeding this figure.

NAV, on a total return basis, increased by 110.06% from inception which outperformed the total return posted by the benchmark index of 33.42%. Please refer to the Financial Highlights and Performance Summary on page 3 for NAV total return analysis and note 12 for further details regarding the redemption mechanism.

Concentration
The Board reviews the industry and asset diversification of the investment portfolio to ensure that holdings are in line with the investment restrictions and also to monitor the concentration risk of the investment portfolio.

Please refer to note 9 for further details regarding investment limits and risk diversification policies.

As at 30 September 2020, the Company held 43 (2019: 44) investment holdings of which no exposure in any investee company exceeded 10% of NAV at the time of investment. A portfolio listing is shown on page 14 which demonstrates the spread of investment risk in accordance with the investment policy.

Premium / discount
The Board discusses the extent of the discount in detail at every Board meeting, engaging with the Portfolio Manager, Broker and now the Public Relations Adviser to generate strategies for narrowing the discount. The appointment of Camarco as Public Relations Adviser to the Company in December 2019 was part of a strategy to increase the reach of the Company to retail investors with the twin goals of increasing demand for the Company's shares and broadening the range of shareholders to include those more likely to trade in smaller numbers of shares. The view of the Board and its advisers is that this is likely to overcome the relative illiquidity of the Company's shares which is perpetuating a situation in which an exaggerated discount might appear at odds with the performance provided by the Portfolio Manager. In addition, on the appointment of the new Corporate Broker, the Board agreed a fee with a performance related element tied to the reduction of the discount. While the Board believes that the redemption mechanism should act as a corrective to the discount, it is actively considering, in consultation with the Company's key stakeholders, additional mechanisms that may assist in reducing the discount.

Refer to page 3 for further analysis and pages 69 and 70 for further information on the methodology used in calculating these KPIs.

Environmental and social issues
The Company is a closed-ended investment company and so its own direct environmental impact is minimal. The Board notes that the companies in which the Company invests will have a social and environmental impact over which the Company has no control. The Board notes that the Portfolio Manager's approach to investing incorporates governance, social and environmental considerations. Details of measures adopted by the Portfolio Manager are detailed within the People, Sustainability and Corporate Social Responsibility section of their 2020 Annual Report and Accounts which is available from the Portfolio Manager's website (https://riverandmercantile.com).

The Directors, the majority of whom are based in the Channel Islands, have held the majority of their meetings in Guernsey, with most attending virtually due to COVID-19 travel restrictions and therefore the Company's greenhouse gas emissions and environmental footprint are negligible.

Modern Slavery
As a closed-ended investment company, the Company has a non-complex structure, no employees and its supply chain is considered to be low risk given that suppliers are typically professional advisers based in either in the Channel Islands or the UK. Furthermore, the Board notes that the Portfolio Manager has published its statement and policy on slavery and human trafficking which is available on their website[1]. Based on these factors and that the Company would not fall into the scope of the UK Modern Slavery Act 2015 (as the Company does not have any turnover derived from goods and services) if it was incorporated in the UK, the Board have considered that it is not necessary for the Company to make a slavery and human trafficking statement.

Voting and Engagement
The directors believe that they have a fiduciary responsibility to improve the management of companies for all stakeholders whilst not compromising our objective of achieving strong financial returns. The best way to create wealth for our shareholders is to be invested in companies that over time optimise their returns to shareholders. For companies to achieve this objective, the company should endeavour to ensure the long-term viability of its business, and to manage effectively its relationships with all stakeholders. The Board delegates responsibility to the Portfolio Manager and has approved the Portfolio Manager's approach to Voting and Engagement, details of which can be found at https://riverandmercantile.com/esg/voting-and-engagement.

Life of the Company
The Company has no fixed life. The Directors shall propose one or more ordinary resolutions at every fifth AGM that the Company continues as a closed-ended investment company (the "Continuation Resolution"). The last Continuation Resolution was proposed at the AGM on 27 February 2019 and was passed by the Company's Shareholders. The next Continuation Resolution will be proposed at the AGM in 2024. In the event that a Continuation Resolution is not passed, the Directors shall formulate proposals to be put to the Shareholders as soon as is practicable but, in any event, by no later than six months after the Continuation Resolution is not passed, to reorganise or reconstruct the Company or for the Company to be wound up with the aim of enabling the Shareholders to realise their holdings in the Company.

Future strategy
The Board continues to believe that the investment strategy and policy adopted is appropriate for and is capable of meeting the Company's objectives.

The overall strategy remains unchanged and it is the Board's assessment that the Manager and Portfolio Manager's resources are appropriate to properly manage the Company's investment portfolio in the current and anticipated investment environment.

Please refer to the Portfolio Manager's Report on pages 6 to 13 for details regarding performance to date of the investment portfolio and the main trends and factors likely to affect those investments.

Going concern
Under the AIC Code, the Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern and to identify any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the date of approving the financial statements.

The Board is satisfied that, at the time of approving the financial statements, no material uncertainties exist that may cast significant doubt concerning the Company's ability to continue for the foreseeable future, being 12 months after approval of the financial statements. In addition, the Company's holdings of cash and cash equivalents, the liquidity of investments and the income deriving from those investments, means the Company has adequate financial resources to meet its liabilities as they fall due. Therefore, the Board consider it appropriate to adopt the going concern basis in preparing the financial statements.

In making this assessment, the Board has considered the impact of Covid-19 on the Company, a statement on which can be found on page 20, and are confident that it remains appropriate to adopt the going concern basis.

[1] – (https://riverandmercantile.com/modern_slavery_statement)

Viability statement
Under the AIC Code the Board is required to make a "viability statement" which considers the Company's current position and principal risks and uncertainties combined with an assessment of the prospects of the Company in order to be able to state that they have a reasonable expectation that the Company will be able to continue in operation over the period of their assessment.

The Company is intended to be a long-term investment vehicle with no fixed life however, having considered the inherent limitations of estimating the impact of future political and macro-economic conditions on the Company, the Directors have decided to assess the viability of the Company over a period of five years.

The Company's prospects are driven by its business model and strategy. As explained on page 1, the Company's aim is to achieve long term capital growth from investment in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase. The Board, advised by the Portfolio Manager, believes that the impact on micro cap companies of a return to economic growth is particularly high because of the knock-on effect of improved market confidence. Over the medium term, the Portfolio Manager expects that confidence and risk appetite amongst investors will grow with improving economic activity. Typically, it would expect that this will result in valuation metrics rising which will enhance returns for investors during this period.

The Directors have and continue to monitor the uncertainties in the political and economic environments in particular the impact as a result of the UK leaving the EU. In this context, the Board's central case is that the prospects for economic activity in the UK will remain such that the investment objective, policy and strategy of the Company will be viable for the foreseeable future through a period of at least five years from the balance sheet date.

In making this judgement, the Board has assessed that the main risks to the long term viability of the Company are key global and market uncertainties driven by factors external to the Company, which in turn can impact on the liquidity and NAV of the investment portfolio. A simulation has been designed to estimate the impact of these uncertainties on the NAV of the Company at times of stress based on historical performance data of the Company's benchmark, using techniques similar to the sensitivity analysis performed in note 9 – financial risk management.

Taking account of the Company's current position and principal risks, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. The Directors expect the next Continuation Resolution at the AGM in 2024 to be passed.

The Strategic Report was approved by the Board of Directors on 17 December 2020 and signed on its behalf by:

Andrew Chapman
Chairman

Ian Burns
Audit Committee Chairman

BOARD MEMBERS

All Directors are non-executive.

CHAIRMAN

Andrew Chapman, (Independent). Appointed 2 October 2014.
Andrew holds both a BA and an MPhil in Economic & Social History. He began his career in 1978 as a UK equity fund manager.

In 1984, Andrew was appointed to the in-house investment management team for the British Aerospace Pension Fund, where he had responsibility for directly investing in a number of listed markets. In 1991, Andrew took the position of Investment Manager at United Assurance plc, where he was responsible for asset allocation and leading a team of in-house fund managers managing approximately £12 billion in assets. Andrew was subsequently a director of Teather & Greenwood Investment Management Limited, before joining Hewitt Associates as a Senior Consultant. Between 1994 and 2003, Andrew served as a non-executive director of the Hambros Smaller Asian Companies Investment Trust plc (which subsequently became The Asian Technology Trust plc).

In 2003, Andrew was appointed as the first in-house Pension Investment Manager for the John Lewis Partnership Pension Fund, with responsibility for the overall investment strategy as well as the appointment and performance of 27 external fund managers across all asset classes. He retired from that role in 2012 and then served as the CIO for The Health Foundation until September 2015.

Since 2012 Andrew has developed a portfolio of roles, including being a member of the investment committees of: Homerton College (Cambridge University); Coller Capital Partners; and the Property Charities Fund. He is also a non-executive director of Steadfast International Limited, Steadfast Long Capital Limited, GT ERISA Fund, GT Offshore Fund, and Kidney Care UK.

Key Relevant Skills
- 42 years investment experience, with an emphasis on equity markets
- Extensive experience in selecting and managing external fund managers
- A current member of several fund boards
- Strong background in governance and risk management

DIRECTORS

Ian Burns, (Independent) - Chairman of the Audit Committee and Senior Independent Director. Appointed 2 October 2014.
Ian qualified as a Chartered Accountant with Ernst & Young. He spent 20 years working in private client fiduciary businesses, ending up as Managing Director of Investec Trust globally. He then spent two years with one of Guernsey's leading privately owned fund administration companies.

Subsequently, Ian founded Via Executive Limited, a specialist management consulting company and was appointed the managing director of Regent Mercantile Holdings Limited, a privately owned investment company. He is licensed by the Guernsey Financial Services Commission as a personal fiduciary.

Ian also holds a number of appointments as a non executive director of companies engaged in a diverse range of investment activities and is a non-executive director of the following public companies: Twenty Four Income Fund Limited (Audit Committee Chairman), Fast Forward Innovations Limited (Chairman).

Key Relevant Skills
- Extensive operational and risk management knowledge
- Qualified chartered accountant with extensive financial experience including chairing audit committees of listed funds
- Working in financial services since 1988
- Providing strategic consulting advice to financial services companies
- Advising on modern corporate governance standards and developing risk management measurement and mitigation frameworks
- Family office, inheritance and private client trustee experience
- Supervising technical accounting issues including specialist disclosure of risk

Trudi Clark, (Independent) - Chairman of the Remuneration and Nomination Committee and Management Engagement Committee. Appointed 2 October 2014.
Trudi graduated with a first class honours degree in business studies and is a qualified Chartered Accountant.

Trudi spent 10 years working in chartered accountancy practices in the UK and Guernsey. In 1991, she joined the Bank of Bermuda to head their European internal audit function before moving into private banking in 1993.

Between 1995 and 2005, Trudi worked for Schroders (C.I.) Limited, an offshore private bank and investment manager. She was appointed to the position of banking director in 2000 and managing director in 2003. In 2005, Trudi left Schroders to establish and run a private family office.

In July 2009, Trudi established the Guernsey practice of David Rubin & Partners LLP, an internationally known insolvency and liquidation specialist. Since June 2018 she has been a full time non-executive director.

Trudi holds several non-executive directorships which include BMO Commercial Property Trust Limited, NB Private Equity Partners Limited and The Schiehallion Fund Limited, which are listed on the London Stock Exchange. She also holds a personal fiduciary licence issued by the GFSC.

Key Relevant Skills
- Qualified chartered accountant with extensive financial experience
- Working in financial services since 1987
- Strong background in risk and corporate governance
- Experience of several Investment Company Boards

Mark Hodgson. Appointed 2 October 2014.
Mark Hodgson is a Channel Islands fund director based in Jersey, with considerable experience in the administration of Channel Islands funds. He has a broad fund expertise covering a wide range of differing asset classes, including real estate, infrastructure, credit and private equity.

Mark joined Carne in April 2014. He has over 25 years of financial services experience, with an extensive banking background. Mark spent over 20 years with HSBC Global Bank where he gained in depth knowledge of credit, financial markets and complex Real Estate structures. Prior to moving to Jersey Mark was Regional Director for HSBC Invoice Finance (UK) running their receivables finance business.

Mark moved to Jersey in 2006 to Head up HSBC's Commercial Centre having full operational responsibility for credit and lending within the jurisdiction. In 2008 he moved to Capita Fiduciary Group as Managing Director Offshore Registration (a regulated role) with responsibility for Jersey, Guernsey and the Isle of Man. Mark also took on the responsibility as Managing Director of Capita Financial Administrators (Jersey) Limited (regulated role) together with directorship appointments of regulated and unregulated funds boards.

Mark sits on a number of very high-profile real estate boards including: Kennedy Wilson Investment Management Limited, Aviva Jersey Investors Jersey Unit Trust Management Ltd and LaSalle Investment Management (Jersey) Ltd. He has a broad range of funds experience covering a range of debt and credit funds.

Key Relevant skills
- 25 years financial services experience, 15 years of being the member of various boards
- Extensive fund risk management experience across multiple asset classes
- A strong background in board governance

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 30 September 2020. The results for the year are set out in these accounts.

Dividend Policy
Details of the Company's capital redemptions and dividend policy are shown on page 1. The Company does not expect to pay significant dividends and no dividends have been declared or paid during the year (2019: none).

Share Capital
As at 30 September 2020, the Company had 46,445,043 Ordinary Shares (30 September 2019: 46,445,043) in issue.

Borrowing limits
The Directors may, if they feel it is in the best interests of the Company, borrow funds up to a maximum of 20% of NAV at the time of borrowing. On the 9 December 2016, the Company entered into a Sterling Facility Agreement, which was subsequently amended and extended on 13 December 2017, further extended on 11 December 2018 and subsequently expired on 6 December 2019 as the Board decided not to renew the Facility. Please refer to note 15 for further details.

Acquisition of own shares
To assist the Company in addressing any imbalance between the supply of and demand for Ordinary Shares and thereby assist in controlling the discount to NAV at which the Ordinary Shares may be trading, on 4 March 2020 the Company renewed general authority to purchase in the market up to 14.99% of the Ordinary Shares in issue as at 4 March 2020, (previously granted on 27 February 2019). This authority expires on the date of the 2021 AGM. During the year the Company did not purchase any shares in the market.

The Directors will seek a renewal of this authority from Shareholders at the Company's AGM on 2 March 2021.

Directors' shareholdings
The Directors who held office at the year end and their interests in the ordinary shares of the Company were as follows:

Director	Ordinary Shares held
Andrew Chapman	20,562
Ian Burns	5,500
Trudi Clark	11,445
Mark Hodgson	22,040

Transactions in Ordinary Shares by Directors are outlined in note 6. Ordinary Shares held by Directors have decreased in line with each compulsory redemption.

Shareholders' interests
As at 30 September 2020, the Company had been notified in accordance with the Disclosure Guidance and Transparency Rules ("DTR") of the Financial Conduct Authority (which covers the acquisition and disposal of major shareholdings and voting rights), of the following Shareholders that had an interest of greater than 5% in the Company's issued stated capital.

	Percentage of total voting rights (%)
Investec Wealth & Investment Ltd	11.26
City of Bradford Metropolitan District Council	9.81
River and Mercantile Asset Management LLP	8.85
Premier Miton Group plc	7.68
Smith & Williamson	6.41
Derbyshire County Council	6.25

Between 30 September 2020 and 17 December 2020 the Company received the following additional notifications:

	Percentage of total voting rights (%)
Investec Wealth & Investment Ltd	12.10

Independent Auditor
PricewaterhouseCoopers CI LLP, have indicated their willingness to continue in office as auditor and a resolution proposing their re-appointment and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

Matters Reserved for the Board
The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- approval of the investment policy;
- strategic matters and financial reporting;
- Board composition and accountability to Shareholders;
- risk assessment and management, including reporting, compliance, monitoring, governance and control;
- responsible for financial statements; and
- other matters having material effects on the Company.

These reserved powers of the Board have been adopted by the Directors to demonstrate clearly the importance with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

The Portfolio Manager has the delegated power to make investment decisions on behalf of the Company within the framework of the investment objective and investment policy. The Board exerts oversight of the decisions of the Portfolio Manager both through its appointed Manager and by direct reporting at quarterly board meetings. The Portfolio Manager provides written reports to the Board and a representative of the Portfolio Manager is present at every quarterly Board meeting to present the report and answer questions from the board. In addition the Manager provides regular risk reporting on the Company's investment portfolio and the Portfolio Manager at each quarterly Board meeting.

Voting policy on portfolio investments
The Portfolio Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all Company meetings where practicable in accordance with corporate governance policies, which seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use the Company's influence as an investor with a principled approach to corporate governance.

Disclosures required under LR 9.8.4R
The Financial Conduct Authority's Listing Rule 9.8.4R requires that the Company includes certain information relating to arrangements made between a controlling shareholder and the Company, waivers of Directors' fees, and long-term incentive schemes in force. The Directors confirm that there are no disclosures to be made in this regard.

Events after the Reporting Date
The Directors are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial periods not already disclosed in this report or note 17 of the attached financial statements.

Disclosure of Information to the Auditor
Each of the Directors who were members of the Board at the time of approving this Report confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Auditor was unaware; and
- they have taken all steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Auditor was aware of that information.

Fair, balanced and understandable
In assessing the overall fairness, balance and understandability of the Annual Financial Report the Board has performed a comprehensive review to ensure consistency and overall balance.

CORPORATE GOVERNANCE STATEMENT

Introduction
The Company has a premium listing on the London Stock Exchange and is therefore required to report on how the principles of the UK Corporate Governance Code (the "UK Code") have been applied. Being an investment company, a number of the provisions of the UK Code are not applicable as the Company has no executive directors or internal operations.

The Board has considered the principles and provisions of the AIC Code. The AIC Code addresses all the principles and provisions set out in the UK Code, as well as setting out additional provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission, provides more information to stakeholders. The AIC Code is available on the AIC website www.theaic.co.uk. It includes an explanation of how the AIC Code adapts the principles and provisions set out in the UK Code to make them relevant to investment companies.

The Company has complied with all the principles and provisions of the AIC Code during the year ended 30 September 2020.

Set out below is where stakeholders can find further information within the Annual Financial Report about how the Company has complied with the various Principles and Provisions of the AIC Code.

1. Board Leadership and Purpose

Purpose	1
Strategy	21
Values and culture	31
Shareholder Engagement	18
Stakeholder Engagement	18

2. Division of Responsibilities

Director Independence	31
Board meetings	33
Relationship with the Portfolio Manager	32-35
Management Engagement Committee	32

3. Composition, Succession and Evaluation

Remuneration and Nomination Committee	32
Director re-election	31
Use of an external search agency	n/a[1]
Board evaluation	32

[1] The Company did not appoint any new Directors during the year.

The Directors' Report was approved by the Board of Directors on 17 December 2020 and signed on its behalf by:

Andrew Chapman
Chairman

BOARD AND COMMITTEES

Values and Culture
Since its inception the Board of Directors of the Company has upheld the values on which it was founded. The Directors recognise the purpose of the Company to deliver high and sustainable returns to Shareholders. Delivery of the investment objective has been achieved throughout its history through both investment capability and long held values that centre around diversification, innovation, adaptation and integrity.

These values are underpinned by the culture the Board demonstrates in the way in which the Directors interact with each other and with the Company's service providers. In particular, openness, challenge and respect are encouraged as key to developing and implementing the strategies that will deliver the Company's objective.

The Board
The Board currently consists of four non-executive directors all of whom were appointed on 2 October 2014 (date of incorporation). The Directors are:

- Andrew Chapman (Independent non-executive Chairman)
- Ian Burns (Senior Independent non-executive Director and Chairman of the Audit Committee)
- Trudi Clark (Independent non-executive Director, Chairman of the Remuneration and Nomination Committee and Management Engagement Committee)
- Mark Hodgson (Non-executive Director)

The Board is chaired by Andrew Chapman, who is independent of the Manager and Portfolio Manager at the time of his appointment and remains so. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role.

Ian Burns has been appointed as the Senior Independent Director and provides assistance to the Chairman and serves as an intermediary for the other Directors where necessary.

The Chairman and all Directors, with the exception of Mark Hodgson, are considered independent of the Manager and the Portfolio Manager. Mark Hodgson, who is independent of the Portfolio Manager, is the Managing Director of the Manager and is therefore not regarded as independent.

The opinion of the other Directors is that Mark Hodgson provides considerable and complementary expertise to the Board, particularly in the area of risk management, in which the Manager has a significant presence.

The Board reviews the independence of all Directors annually.

Directors have agreed letters of appointment with the Company. No Director has a service contract with the Company and Directors' appointments may be terminated at any time by one month's written notice with no compensation payable at termination upon leaving office for whatever reason.

Directors' re-election
As required by the AIC Code, all Directors stand for re-election by Shareholders annually, the next occasion being at the AGM to be held on 2 March 2021.

Please refer to pages 25 and 26 for biographies of each Director which demonstrates their professional knowledge and breadth of investment, accounting, banking and professional experience. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

Board diversity
The Board is made up of three male Directors and one female Director. The Board has due regard for the benefits of experience and diversity in its membership, including gender, and strives to meet the right balance of individuals who have the knowledge and skillset to maximise Shareholder return while mitigating the risk exposure of the Company.

The Board supports the recommendations of the Davies Report and believes in and values the importance of diversity, including gender, to the effective functioning of the Board. The Board, however, does not consider it appropriate or in the interest of the Company and its Shareholders to set prescriptive targets for gender or other diversity on the Board.

Tenure policy
The Board has adopted a policy on the tenure of its independent Directors that aligns with the AIC Code of Corporate Governance and none of the three independent Directors, including the Chairman of the Board will serve for more than nine years. The Board has thus adopted a staged succession plan that maintains a balance between the strength added through continuity and experience as well as the benefits of new members bringing fresh perspectives. The Board will continue to assess annually each Board members independence.

The Board considers that boards of investment companies are more likely to benefit from a long association with a company in that they will experience a number of investment cycles.

Committees
The Board has established three committees, the Audit Committee, the Management Engagement Committee and the Remuneration and Nomination Committee. All the independent directors, namely Andrew Chapman, Ian Burns and Trudi Clark have been appointed to all Committees.

Each committee operates within clearly defined terms of reference and duties. The terms of reference for each Committee have been approved by the Board and are available in full on the Company's website, https://microcap.riverandmercantile.com.

Audit Committee
The Audit Committee membership comprises all of the Directors with the exception of Mark Hodgson and is chaired by Ian Burns. The Chairman is a member of the Committee but he does not chair it. His membership of the Audit Committee is considered appropriate given his extensive knowledge of the financial services industry.

The report on the role and activities of this Committee and its relationship with the external auditors is set out in the Report of the Audit Committee on page 38.

Management Engagement Committee
Trudi Clark is the Chair of the Management Engagement Committee. The Management Engagement Committee membership comprises all of the Directors with the exception of Mark Hodgson.

The Management Engagement Committee carries out its review of the Company's advisers through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisers' appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's Shareholders. In September 2020, the Management Engagement Committee formally reviewed the performance of the Portfolio Manager and other key service providers to the Company. During this review, no material weaknesses were identified. Overall the Management Engagement Committee confirmed its satisfaction with the services and advice received.

Remuneration and Nomination Committee
Trudi Clark is the Chair of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee membership comprises all of the Directors with the exception of Mark Hodgson.

Board and Committee evaluation
The Remuneration and Nomination Committee performs an annual internal evaluation of the Board, its Committees and each Director, this was last undertaken in September 2020.

The Chair of the Committee reviewed and discussed various areas, including investment matters, strategy, Shareholder value, governance, and the process and style of meetings. In addition, the Committee reviewed the performance of the Chairman in his role and evaluated all the Directors' personal contributions. It was concluded that all Directors had a good understanding of the investments and markets and felt well prepared and able to participate fully at Board meetings. It was agreed that Board meetings were effective and all relevant topics were fully discussed, with the Board having a good range of skills and competency. The Directors confirmed that they have devoted sufficient time, as considered necessary, to the matters of the Company.

Succession plan
The Board's succession plan seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements and meet future requirements.

All directors have served on the Board since the launch of the Company and Mr Burns is retiring as part of the staged succession plan that will ensure no independent non-executive director serves on the Board for longer than nine years.

The Remuneration and Nomination Committee is committed to ensuring that any vacancies arising are filled by the most qualified candidates who have complementary skills or who possess the skills and experience which fill any gaps in the Board's knowledge or experience.

In accordance with the succession plan, during the year the Remuneration and Nomination Committee engaged OSA Recruitment to identify a suitably qualified and experienced director to join the board who can assume the role of audit committee chairman on the retirement of Mr Burns. A further announcement will be made early in 2021. OSA Recruitment have no connections to the Company or its Directors.

Board meetings
The Board meets regularly throughout the year and a representative of the Manager and the Portfolio Manager is in attendance at all times when the Board meets to review the performance of the Company's investments.

The Portfolio Manager and Manager together with the Company Secretary ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information relating to the Company and its portfolio of investments.The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.

The Board applies its primary focus on the following:

- investment performance, ensuring that investment objectives and strategy of the Company are met;
- ensuring investment holdings are in line with the Company's investment restrictions;
- review and monitoring financial risk management, operating cash flows and budgets of the Company; and
- review and monitoring of the key risks to which the Company is exposed as set out in the Strategic Report.

At each relevant meeting the Board undertakes reviews of key investment and financial data, transactions and performance comparisons, share price and NAV performance, marketing and Shareholder communication strategies, peer group information and industry issues.

The Board considers the Company's investment objectives, their continuing relevance and whether the investment policy continues to meet those Company's investment objectives. The Board believes that the overall strategy of the Company remains appropriate.

Attendance at scheduled meetings of the Board and its committees

	Board	Audit Committee	Management Engagement Committee	Remuneration and Nomination Committee
Number of meetings during the year ended 30 September 2020	**7**	**5**	**2**	**2**
Andrew Chapman	6[1]	5	2	2
Ian Burns	7	5	2	2
Trudi Clark	7	5	2	2
Mark Hodgson	7	n/a	n/a	n/a

[1] Andrew Chapman was unable to attend the 20 January 2020 ad hoc board meeting to approve the 2019 annual report due to illness.

Service providers
The Company has appointed Carne Global AIFM Solutions (C.I.) Limited (the "Manager") to act as the Company's Alternative Investment Fund Manager ("AIFM"). The Manager has delegated portfolio management of the Company's investment portfolio to the Portfolio Manager. The Board will actively and continuously supervise both the Manager and the Portfolio Manager in the performance of their respective functions.

The Company has appointed BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Administrator") to provide administration, custodian and company secretarial services.
Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from both the Portfolio Manager and the Manager, with ad hoc reports and information supplied to the Board as required. The Portfolio Manager complies with the Company investment limits and risk diversification policies and has systems in place to monitor cash flow and the liquidity risk of the Company. The Manager, Portfolio Manager and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager, Portfolio Manager and Administrator attend each Board meeting as required, enabling the Directors to probe further on matters of concern.

The Directors have access to the advice and service of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Manager, Portfolio Manager and the Administrator operate in a supportive, co-operative and open environment and the Board will actively and continuously supervise both the Manager, Portfolio Manager and Administrator in the performance of their respective functions.

Performance of the Portfolio Manager
The Board reviews on an ongoing basis the performance of the Portfolio Manager and considers whether the investment strategy adopted is likely to achieve the Company's investment objective.

Having formally appraised the performance, investment strategy and resources of the Portfolio Manager, the Board has unanimously agreed that the interests of the Shareholders as a whole are best served by the continuing appointment of the Portfolio Manager on the terms agreed.

The Board believes that the portfolio management fees are competitive with other investment companies with similar investment mandates. The key terms of the Investment Management agreement and the portfolio management fee charged by the Portfolio Manager are set out in note 4.

Shareholder communications
The main method of communication with Shareholders is through the Half-Yearly and Annual Financial Report which aims to give Shareholders a clear and transparent understanding of the Company's objectives, strategy and results. This information is supplemented by the publication of the daily NAVs of the Company's Ordinary Shares on the London Stock Exchange via a Regulatory Information Service.

The Company's website, https://microcap.riverandmercantile.com, is regularly updated with monthly factsheets and provides further information about the Company, including the Company's financial reports and announcements. The maintenance and integrity of the Company website is the responsibility of the Directors, which has been delegated to the Portfolio Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements and users of the Company's website are responsible for informing themselves of how the requirements in their own countries may differ from those of Guernsey.

The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. The AGM will be attended by at least the Chairman of the Audit Committee. There is an opportunity for individual Shareholders to question the Directors at the AGM. The Directors welcome the views of all Shareholders and place considerable importance upon them.

In addition to the Annual General Meeting and the monthly publication of factsheets, the Board requires its Corporate Broker to maintain regular contact with shareholders, to co-ordinate and facilitate meetings between shareholders and the Portfolio Manager and to report back to the Board the views of investors expressed at those meetings. The Chairman is always willing to meet with shareholders to discuss any questions or issues they might have about the Company.

Other communications
All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the Manager, Portfolio Manager, the Auditor, legal advisers, Corporate Brokers and the Company Secretary.

AIFMD REPORT

Alternative Investment Fund Manager Directive ("AIFMD")
The Company (which is a non-EU AIF for the purposes of the AIFM Directive and related regimes in EEA member states) has appointed the Manager to act as its Alternative Investment Fund Manager ("AIFM"). The Manager is authorised by the Jersey Financial Services Commission to act as an AIFM on behalf of alternative investment funds ("AIFs") in accordance with the Financial Services (Jersey) Law 1998.

The Company is registered with the Guernsey Financial Services Commission, being the Company's competent regulatory authority, as a non-EU Alternative Investment Fund (AIF), and the AIFM has registered with the UK Financial Conduct Authority, under their relevant national private placement regime.

The AIFM has delegated portfolio management of the Company's investment portfolio to the Portfolio Manager and the Board actively and continuously supervises both the AIFM and the Portfolio Manager in the performance of their respective functions.

As the Company and the AIFM are Non-EU domiciled no depositary has been appointed in line with AIFMD. However, BNP Paribas Securities Services S.C.A., Guernsey Branch has been appointed to act as custodian.

The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks
Information relating to the current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks, as required under paragraph 4(c) of Article 23 of the AIFM Directive, is set out in note 9– Financial Risk Management. Please refer to pages 16 and 17 for the Board's assessment of the principal risks and uncertainties facing the Company.

Leverage
There has been no change to the maximum level of leverage which the AIFM may employ on behalf of the Company. The Company may employ gearing up to a maximum of 20% of Net Asset Value at the time of borrowing. The actual level of gearing at 30 September 2020 was 0%.

Material changes to information
Article 23 of AIFMD requires certain information to be made available to investors before they invest and requires material changes to this information to be disclosed in the annual report. There have been no material changes to the information requiring disclosure.

AIFM remuneration
The total fee paid to the AIFM by the Company for the year ended 30 September 2020 is disclosed in note 5.

The AIFM is not subject to the provisions of Article 13 of the AIFMD, which require the AIFM to adopt remuneration policies and practices in line with the principles detailed in Annex II of the Directive. However, in accordance with Article 22 of the AIFM Directive and Article 107 of the AIFM Regulations, the AIFM must make certain disclosures in respect of the remuneration paid to its staff.

The AIFM has identified ten staff as falling within the scope of the disclosure requirements (the "Identified Staff"). These Identified Staff are senior management, named as Designated Persons of the AIFM's managerial functions and members of the Board of Directors of the AIFM. All Identified Staff of the AIFM are employees of the Carne Group and as such receive no separate remuneration for their role within the AIFM. Instead they are remunerated as employees of other Carne group companies, with a combination of fixed and variable discretionary remuneration, where the latter is assessed on the basis of their overall individual contribution in their role, with reference to both financial and non-financial criteria and not directly linked to the performance of the staff of specific business units or targets reached. The annualised remuneration amount paid to all of the Identified Staff of the AIFM in respect of their work for the AIF for the 12 month period to 31 March 2020 was GBP 39,655 (31 March 2019: GBP 31,095) There was no variable component to this remuneration and none of the AIFM's Identified Staff is able to materially impact the risk profile of the Company. The AIFM manages other AIFs and has no staff other than the Identified Staff.

REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee
The Board has appointed an Audit Committee which operates within clearly defined Terms of Reference, which are available on the Company's website.

The Audit Committee includes all of the Directors with the exception of Mark Hodgson who attends following invitation from the Audit Committee but does not actively participate in the meetings. Ian Burns is the Chairman of the Audit Committee and is independent of the Manager and Portfolio Manager as are all the other Directors that comprise the committee. All of the Audit Committee's members have recent and relevant financial and industry experience and the Chairman of the Audit Committee is a fellow of the Institute of Chartered Accountants in England & Wales. The Audit Committee as a whole has competence relevant to the sector in which the Company operates. Biographical information pertaining to the members of the Audit Committee can be found in the section of this Annual Financial Report entitled, "Board Members" on pages 25 and 26.

Role of the Committee
The Audit Committee assists the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal financial and operating controls. It also manages the Company's relationship with the external Auditor.

The Audit Committee's main functions are:

- to review and monitor the integrity, fairness and balance of the financial statements of the Company including its Half-Yearly Report and Annual Financial Report to Shareholders and any formal announcements regarding its financial performance, together with any significant financial reporting issues and areas of judgement contained within them;
- to advise the Board on whether the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, position, business model and strategy;
- to review the adequacy and effectiveness of the Company's financial reporting and internal control policies and procedures with respect to the Company's record keeping, asset management and operations for the identification, assessment and reporting of risks;
- to consider and make recommendations to the Board, to be put to Shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal and the provisions of non-audit services of the external Auditor and to negotiate their remuneration and terms of engagement on audit and non-audit work;
- to meet regularly with the external Auditor in order to review their proposed audit programme and remit of work and the subsequent Audit Report and to assess the effectiveness of the audit process; any issues arising from the audit with respect to accounting or internal controls systems and the level of fees paid in respect of audit and non-audit work; and
- to annually assess the external Auditor's independence, objectivity, effectiveness, resources and expertise.

Internal controls and risk management systems
The Board is responsible for ensuring that suitable systems of risk management and internal control are implemented, including systems that include financial controls to address financial risks, by the third-party service providers and keeping these systems under review to ensure their continuing adequacy.

The Directors have reviewed the BNP Paribas Securities Services ISAE 3402 report (on the description of controls placed in operation, their design and operating effectiveness for the period from 1 April 2019 to 31 March 2020) on Fund Administration, and are pleased to note that no significant issues were identified.

In accordance with the FRC's Internal Control: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, and the FRC's Guidance on Audit Committees, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant internal control risks faced by the Company. In particular, the committee discussed, reviewed and considered the implications of COVID-19 for the Company's service providers both in terms of effectiveness and the maintenance of appropriate internal controls.

As the Company does not have any employees it does not have a "whistle blowing" policy in place, however the Board has reviewed the whistleblowing procedures of the Portfolio Manager with no issues noted. The Company delegates its main administrative functions to third-party providers who report on their policies and procedures to the Board.

The Board believes that as the Company delegates its day-to-day administrative operations to third-parties (which are monitored by the Board), it does not require an internal audit function.

The Audit Committee met on five occasions and the members' attendance record can be found on page 33 of this Annual Report.

Significant risks in relation to the financial statements
The Audit Committee views the valuation of the Company's investments as a significant risk.

There is a risk that the AIM listed investments are not valued appropriately in accordance with the requirements set out in IFRS 13 due to the nature of the AIM market and the listed stocks not being highly liquid, or heavily traded.

The Audit Committee reviews the regular reports from the Portfolio Manager and Administrator regarding the valuation of the investments and the Board reviews the NAV of the Company, together with the value and trading volumes of investments on a regular basis. The Committee also considered the implications of the COVID-19 pandemic on both the valuation and liquidity of the investment portfolio and concluded that it remained appropriate to estimate the fair value of the Company's financial assets based on quoted prices (refer to note 2.3(c) for further details).

In addition to the above, Mark Hodgson chairs monthly AIFM Risk Committee meetings where the Company's risk measurement framework is discussed, including market risk, credit risk, counterparty risk, operational risk and liquidity risk, in reference to the investment portfolio and the Company performance thereof. On a regular basis, Mark Hodgson reports findings to the Board and is also asked to attend Audit Committee meetings by the Audit Committee Chairman to assist the Committee to gain assurance as to the appropriateness and robustness of the valuation methodology applied to the investment portfolio.

External audit process
The Company's external auditor, PricewaterhouseCoopers CI LLP (the "Auditor"), were reappointed on 4 March 2020. The Audit Committee has direct access to the Company's external auditor and provides a forum through which the external auditor reports to the Board. Representatives of the external auditor attend meetings of the Audit Committee at least twice each year.

The Audit Committee met with the Auditor prior to the commencement of the audit and agreed an audit plan that would adopt a risk based approach. The Audit Committee and the Auditor agreed that audit procedures would be performed over the title to and the existence of the Company's investments and the procedures in place at the Administrator and the Portfolio Manager in respect of the valuation of the Company's investment portfolio would be understood and evaluated.

Upon completion of the audit, the Audit Committee discussed with the Auditor the effectiveness of the audit and considered the Auditor's independence from the Company since their appointment and throughout the audit process. The significant risks regarding both fraud risk - management override of controls and valuation of the investment portfolio, were tracked through the period and the Audit Committee challenged the work performed by the Auditor to test management override of controls and in addition the audit work undertaken in respect of valuations of investments held.

For the year ended 30 September 2020, the Audit Committee was satisfied that there had been appropriate focus and challenge on the significant and other key areas of audit risk and assessed the quality of the audit process to be good.

During the year ended 30 September 2020, in addition to the audit services in respect to the audit of the Company's Annual Financial Report, the Auditor provided non-audit services in respect of the review of the Company's Half-Yearly Report for the period ended 31 March 2020. No other non-audit services were provided during the year ended 30 September 2020.

To safeguard the objectivity and independence of the external Auditor from becoming compromised, the Committee has a formal policy governing the engagement of the external Auditor to provide non-audit services. The external Auditor and the Directors have agreed that all non-audit services require the pre-approval of the Audit Committee prior to commencing any work. Fees for non-audit services will be tabled annually so that the Audit Committee can consider the impact on the Auditor's objectivity.

The fees for the audit services were: £49,300 (year-end audit) and the fees for non-audit services were £19,135 for review of the Company's Half-Yearly Report for the period ended 31 March 2020.

The Audit Committee has discussed the report provided by the Auditor and the Audit Committee is satisfied as to the independence of the Auditor.

The Committee has reviewed the Auditor's independence policies and procedures and considers that they are fit for purpose.

Appointment and independence

The Audit Committee considers the reappointment of the external Auditor, including the rotation of the audit engagement leader, and assesses their independence on an annual basis. The external Auditor is required to rotate the engagement leader responsible for the Company's audit every five years. Accordingly Tony Corbin took over as engagement leader this year from John Luff who had overseen the audit of the Company for the five financial years since inception to 30 September 2019.

The Committee reviews the objectivity and effectiveness of the audit process on an annual basis and considers whether the Company should put the audit engagement out to tender. Having considered the need to tender the position for the current year, the Committee has provided the Board with its recommendation to the Shareholders on the reappointment of PricewaterhouseCoopers CI LLP as external auditor for the year ending 30 September 2021.

Accordingly, a resolution proposing the reappointment of PricewaterhouseCoopers CI LLP as our auditor will be put to the Shareholders at the AGM. There are no contractual obligations restricting the Audit Committee's choice of external auditor and we do not indemnify our external auditor.

The Committee will seek to adopt best practice guidance in conducting audit tenders, as issued by the FRC and other governing bodies as applicable.

This Report of the Audit Committee on pages 37 to 39 was approved by the Board of Directors on 17 December 2020 and signed on its behalf by:

Ian Burns
Audit Committee Chairman

DIRECTORS' STATEMENT OF RESPONSIBILITIES

The Directors are responsible for preparing financial statements in accordance with The Companies (Guernsey) Law, 2008, as amended ("Companies Law") and International Financial Reporting Standards ("IFRS").

Companies Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for the year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records, 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 Companies Law. The Directors 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.

In accordance with DTR 4.1.12, the Directors confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
-
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Annual Financial 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, position, business model and strategy.

Andrew Chapman
Chairman
17 December 2020

Ian Burns
Audit Committee Chairman
17 December 2020

DIRECTORS' REMUNERATION REPORT

This report describes how the Board has applied the principles of the AIC Code relating to Directors' remuneration. An ordinary resolution to approve the Directors' remuneration report will be proposed at the AGM on 2 March 2021.

Table of Directors Remuneration

Component	Director	Annual Rate (£)	Purpose of reward
Annual fee	All Directors Andrew Chapman (Chairman) Ian Burns Trudi Clark Mark Hodgson	 £25,000 £25,000 £25,000 £25,000	For commitments as non-executive Directors
Additional annual fee	Andrew Chapman (Chairman of the Board) Ian Burns (Chairman of the Audit Committee)	£15,000 £5,000	For additional responsibilities and time commitment
Expenses		Ad hoc	Reimbursement of expenses paid

No other remuneration or compensation was paid or is payable by the Company during the year to any of the Directors and there has been no change to the Company's remuneration policy as detailed below during the course of the year.

No Director is entitled to receive any remuneration which is performance-related.

Remuneration policy
The determination of the Directors' fees is a matter for the Remuneration and Nomination Committee. The Remuneration and Nomination Committee considers the remuneration policy annually to ensure that it remains appropriately positioned. Members of this Committee will review the fees paid to the boards of directors of similar companies. Each director recuses themself from participating in decisions relating to his or her own remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. No Director has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable high calibre candidates to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Remuneration and Nomination Committee may recommend the amendments to the level of remuneration paid within the limits of the Company's Articles of Incorporation.

The Company's Articles of Incorporation limits the aggregate fees payable to the Board of Directors to a total of £150,000 per annum.

Advisers to the Remuneration and Nomination Committee
The Board has not sought the advice or services by any outside person, at this time, in respect of its consideration of the Directors' remuneration, although the Board is currently reviewing Directors' compensation in line with market trends. Ensuring Directors fees remain in line with the market is important during this period of Board refreshment to ensure that the Company continues to attract the most talented individuals.

Trudi Clark
Remuneration and Nomination Committee Chair
17 December 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVER AND MERCANTILE UK MICRO CAP INVESTMENT COMPANY LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of River and Mercantile UK Micro Cap Investment Company Limited (the "company") as at 30 September 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

What we have audited

The company's financial statements comprise:

- the statement of financial position as at 30 September 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements of the company, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall company materiality was £1.0 million which represents 1% of net assets.

Audit scope

- The company is a closed-ended investment company, incorporated in Guernsey, whose ordinary shares are admitted to trading with a premium listing on the Main Market of the London Stock Exchange.
- We conducted our audit of the financial statements in Guernsey, using information provided by BNP Paribas Securities S.C.A. Guernsey Branch (the "Administrator"), River and Mercantile Asset Management LLP (the "Portfolio Manager") and Carne Global AIFM Solutions (C.I.) Limited (the "Alternative Investment Fund Manager") all to whom the board of directors has delegated the provision of certain functions.
- We tailored the scope of our audit taking into account the types of investments within the company, the involvement of third parties referred to above, the accounting processes and controls and the industry in which the company operates.

Key audit matters

- Valuation of Financial Assets designated at fair value through profit or loss ("Investments")
- Directors' consideration of the potential impact of COVID-19

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	£1.0 million (2019: £0.9 million)
How we determined it	1% of net assets
Rationale for the materiality benchmark	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to members of the company. It is also a generally accepted measure used for companies in this industry.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £47,800, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of Financial Assets designated at fair value through profit or loss ("Investments")	We assessed the accounting policy for the Investments, as set out in note 2.3, for compliance with IFRS.
Investments of £92.9 million (note 8) held at fair value through profit or loss consist mainly of equities in companies whose securities are admitted to trading on the AIM. The accounting policies for the Investments are set out in note 2.3.	We understood and evaluated the internal control environment in place at the Administrator over the valuation of the investment portfolio and the production of the net asset value for the company. We also discussed the asset selection and monitoring process with the Portfolio Manager.
Investments are the main driver for the company's performance and are considered to be a key area of focus for members of the company. There is a risk that the AIM listed investments are not valued appropriately in accordance with the requirement set out in IFRS 13 for the price to be quoted in an active market in order to be an appropriate measure of fair value, and we therefore consider this to be a key audit matter.	We tested the valuation of the Investments by independently agreeing 100% of the prices used in the valuation to a third-party pricing provider and recalculated the total valuation as at 30 September 2020. We obtained the AIFM's monthly liquidity analysis for the Investments and also considered the results presented

Key audit matter	How our audit addressed the Key audit matter
IFRS 13 defines an active market as a market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	to the AIFM Risk Committee as at 30 September 2020. We independently obtained and analysed each security's trading volumes for the year ended 30 September 2020. For securities identified as having low trading volumes, relative to the company's holdings, inquiries were made with the Portfolio Manager to challenge their assessment of whether there is an active market for these securities. We corroborated the results of these inquiries to supporting documentation such as trades at or around the year-end. We concluded that the quoted prices used as at 30 September 2020 were representative of their fair value. We independently obtained the custody confirmation for the Investments and reconciled to the company's accounting records, without exception. We have nothing to report to those charged with governance in respect of the above procedures.
Directors' consideration of the potential impact of COVID-19 The directors have considered the potential impact of events that have been caused by the pandemic, COVID-19, on the current and future operations of the company. The directors have prepared the financial statements of the company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the assessment that, notwithstanding the significant market uncertainties, they are satisfied that the company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements and that the company and its key third party service providers have in place appropriate business continuity plans thus will be able to maintain service levels through the COVID-19 pandemic. As a result of the impact of COVID-19 on the wider financial markets and the company's share price, we have determined the directors' consideration of the potential impact of COVID-19 (including their associated estimates and judgements) to be a key audit matter. Refer to the Chairman's Statement, Portfolio Manager's Report and Executive Summary for disclosures on COVID-19.	We obtained from the directors their assessment that supports their conclusion with respect to the going concern statement. We discussed with the directors the critical estimates and judgements applied in their assessment so we could understand and challenge the rationale and underlying factors incorporated and the sensitivities applied as a result of COVID-19. We inspected the assessment provided to evaluate consistency with our understanding of the operations of the company, the investment portfolio and with any market commentary already made by the Portfolio Manager. We reviewed the assessment to confirm that the directors have considered alternative scenarios in their evaluation of the potential impact of COVID-19 on the company. We considered the appropriateness of the disclosures made by the directors in respect of the impact of COVID-19 on the company. We confirmed that the directors have analysed and are satisfied with the business continuity plans of all key service providers as part of their COVID-19 operational resilience review. In discussing, challenging and evaluating the estimates and judgments made by management and the directors in their assessments, we noted the following factors that were considered to be fundamental in their consideration of the potential impact of COVID-19 on the current and future operations of the company and which support the going concern statement: • The company has no leverage as at 30 September 2020 and as at the date of approval of these financial statements;

Key audit matter	How our audit addressed the Key audit matter
	• Whilst the valuations of certain investments have been impacted by COVID-19, the company outperformed the benchmark index for the year ended 30 September 2020; • The cash and cash equivalents as at 30 September 2020 of £3.9m are sufficient to cover the average annual expenses run rate of c.£1.2m (excluding performance fees which only crystallise upon a redemption); and • The company does not have a set dividend target to meet, hence cash outflows for dividend payments are not required. We have nothing to report to those charged with governance in respect of the above procedures.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Financial Report (the "Annual Report") but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Company Law exception reporting

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.
- We have no exceptions to report arising from this responsibility.

Listing Rules of the Financial Conduct Authority (FCA)

The company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the company's obligations, as an investment company, under the Listing Rules of the FCA.

We have nothing material to add or draw attention to in respect of the following matters which we have reviewed based on the requirements of the Listing Rules of the FCA:

- The directors' confirmation that they have carried out a robust assessment of the principal and emerging risks facing the company, including a description of the principal risks, what procedures are in place to identify emerging risks, and an explanation of how those risks are being managed or mitigated.

- The directors' explanation as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Additionally, we have nothing to report in respect of our responsibility to report when:

- The directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The statement given by the directors that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Tony Corbin
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
17 December 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 October 2019 to 30 September 2020

	Notes	Year ended 30 September 2020 £	Year ended 30 September 2019 £
Income			
Investment income	3	1,100,172	1,177,507
Net gain/(loss) on financial assets designated at fair value through profit or loss	8	8,904,203	(19,739,019)
Foreign exchange gains		-	10,026
Total income/(loss)		**10,004,375**	**(18,551,486)**
Expenses			
Portfolio performance fees (expense)/recovery	4	(1,046,428)	1,210,297
Portfolio management fees	4	(651,766)	(668,888)
Operating expenses	5	(499,421)	(566,330)
Finance costs	15	(4,521)	(24,726)
Foreign exchange losses		(7,520)	-
Total expenses		**(2,209,656)**	**(49,647)**
Profit/(loss) before taxation		**7,794,719**	**(18,601,133)**
Taxation		-	-
Profit/(loss) after taxation and total comprehensive income/(loss)		**7,794,719**	**(18,601,133)**
Basic and diluted earnings/(loss) per Ordinary Share	**13**	**0.1678**	**(0.4005)**

The Company has no items of other comprehensive income, and therefore the profit/(loss) after taxation for the year is also the total comprehensive income/(loss).

All items in the above statement are derived from continuing operations. No operations were acquired or discontinued during the year.

The notes on pages 52 to 68 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Notes	30 September 2020 £	30 September 2019 £
Non-current assets			
Financial assets designated at fair value through profit or loss	8	92,934,986	81,386,681
Current assets			
Cash and cash equivalents		3,929,910	6,543,864
Trade receivables - securities sold awaiting settlement		73,663	36,862
Other receivables and prepayments	7	73,083	202,078
Total current assets		**4,076,656**	**6,782,804**
Total assets		**97,011,642**	**88,169,485**
Current liabilities			
Trade payables – securities purchased awaiting settlement		(104,945)	(108,088)
Other payables and accruals	10	(1,293,784)	(243,203)
Total current liabilities		**(1,398,729)**	**(351,291)**
Total liabilities		**(1,398,729)**	**(351,291)**
Net assets		**95,612,913**	**87,818,194**
Capital and reserves			
Stated capital	12	-	-
Share premium	12	28,391,852	28,391,852
Retained earnings		67,221,061	59,426,342
Equity Shareholders' funds		**95,612,913**	**87,818,194**

The financial statements on pages 48 to 68 were approved and authorised for issue by the Board of Directors on 17 December 2020 and signed on its behalf by:

Andrew Chapman
Chairman

Ian Burns
Audit Committee Chairman

The notes on pages 52 to 68 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 30 September 2020

	Stated capital	Share premium	Retained earnings	Total
	£	£	£	£
Opening equity Shareholders' funds at 1 October 2019	**-**	**28,391,852**	**59,426,342**	**87,818,194**
Total comprehensive income for the year	-	-	7,794,719	7,794,719
Closing equity Shareholders' funds at 30 September 2020	**-**	**28,391,852**	**67,221,061**	**95,612,913**

For the year ended 30 September 2019

	Stated capital	Share premium	Retained earnings	Total
	£	£	£	£
Opening equity Shareholders' funds at 1 October 2018	**-**	**28,391,852**	**78,027,475**	**106,419,327**
Total comprehensive loss for the year	-	-	(18,601,133)	(18,601,133)
Closing equity Shareholders' funds at 30 September 2019	**-**	**28,391,852**	**59,426,342**	**87,818,194**

The notes on pages 52 to 68 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 September 2020

	Notes	Year ended 30 September 2020 £	Year ended 30 September 2019 £
Cash flow from operating activities			
Profit/(loss) after taxation and total comprehensive (loss)/income for the year		7,794,719	(18,601,133)
Adjustments to reconcile profit/(loss) after taxation to net cash flows:			
- Realised gain on financial assets designated at fair value through profit or loss	8	(2,344,487)	(3,689,629)
- Unrealised (gain)/loss on financial assets designated at fair value through profit or loss	8	(6,559,716)	23,428,648
Purchase of financial assets designated at fair value through profit or loss[1]	8	(32,221,333)	(26,431,000)
Proceeds from sale of financial assets designated at fair value through profit or loss[2]	8	29,537,287	28,423,201
Changes in working capital			
Decrease/(increase) in other receivables and prepayments	7	128,995	(80,441)
Increase/(decrease) in other payables	10	1,050,581	(1,180,097)
Net cash (used in)/from operating activities		**(2,613,954)**	**1,869,549**
Net (decrease)/increase in cash and cash equivalents in the year		**(2,613,954)**	**1,869,549**
Cash and cash equivalents at the beginning of the year		6,543,864	4,674,315
Cash and cash equivalents at the end of the year		**3,929,910**	**6,543,864**

[1] - Payables outstanding at 30 September 2020 relating to purchases of financial assets designated at fair value through profit amounted to £104,945 (30 September 2019: £108,088).

[2] - Receivables outstanding at 30 September 2020 relating to sales of financial assets designated at fair value through profit amounted to £73,663 (30 September 2019: £36,862).

The notes on pages 52 to 68 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The Company was incorporated as a non-cellular company with liability limited by shares in Guernsey under The Companies (Guernsey) Law, 2008 (the "Companies Law") on 2 October 2014. It listed its Ordinary Shares on the Premium Segment of the Official List as maintained by the FCA and was admitted to trading on the Main Market of the London Stock Exchange on 2 December 2014.

The Company has been registered by the GFSC as a registered closed-ended collective investment scheme pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the RCIS Rules 2018. The Company registered number is 59106.

The Company's registered address is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

a) Statement of Compliance

The financial statements have been prepared in accordance with the Companies Law and with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee ("IFRIC") as approved by the International Accounting Standards Committee ("IASC") which remain in effect. The financial statements give a true and fair view of the Company's affairs and comply with the requirements of the Companies Law.

The financial statements have been prepared under a going concern basis. The Directors are satisfied that, at the time of approving the financial statements, no material uncertainties exist that may cast significant doubt concerning the Company's ability to continue for the foreseeable future. The Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis adjusted to take account of the revaluation of financial assets designated at fair value through profit or loss.

c) Functional and presentation currency

The Company's functional currency is Pounds Sterling, which is the currency of the primary economic environment in which it operates. The Company's performance is evaluated and its liquidity is managed in Pounds Sterling. Pounds Sterling is therefore considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Pounds Sterling.

d) Critical accounting assumptions, estimates and judgements

The preparation of the financial statements in conformity with IFRS, requires the Company to make judgements, estimates and assumptions that affect items reported in the Statement of Financial Position and Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Directors have used their judgement to determine that the functional currency is Pounds Sterling (refer to note 2.1 (c) above) and that all financial assets designated at fair value through profit or loss are traded within an active market (note 2.3(c) below).

2. Accounting policies (continued)
2.1 Basis of preparation (continued)
e) New standards, amendments and interpretations
The Company applies for the first time IFRS 16 – Leases and IFRIC 23 – Uncertainty over Income Tax Treatments, which became effective on 1 January 2019. The Company does not participate in leasing arrangements and the Directors have determined that, as at 30 September 2020, the Company has no uncertain tax positions that would be disclosed under IFRIC 23 – Uncertainty over Income Tax Treatments. Accordingly, the application of IFRS 16 – Leases and IFRIC 23 – Uncertainty over Income Tax Treatments, respectively, do not have an impact on the Company's financial statements.

During the year, a number of other new standards, amendments and interpretations became applicable for the current reporting period which are not relevant to the Company's operations.

There are a number of new standards, amendments and interpretations to existing standards that will become effective in future accounting periods that have not been adopted by the Company.

2.2 Foreign currency translations
Foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation of monetary assets and liabilities at year end exchange rates to Pounds Sterling are recognised in the Statement of Comprehensive Income as foreign exchange gains/(losses).

Non-monetary items such as financial assets designated at fair value through profit or loss measured at fair value in a foreign currency, are translated using exchange rates at the Statement of Financial Position date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value on a foreign currency are recorded as part of the fair value gain or loss.

As at 30 September 2020 all financial assets designated at fair value through profit or loss are held in Pounds Sterling.

2.3 Financial instruments
Financial Assets
a) Classification
The Company classifies its investments in equity securities as financial assets designated at fair value through profit or loss as they are held for investment purposes. These financial assets are managed, and their performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy requires the Portfolio Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. Furthermore, these financial assets do not possess contractual cash flows.

Financial assets also include cash and cash equivalents as well as trade receivables and other receivables which are classified at amortised cost using the effective interest rate method.

b) Recognition, measurement and derecognition
Purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment. Financial assets designated at fair value through profit or loss are measured initially at fair value. Transaction costs are expensed as incurred and movements in fair value are recorded in the Statement of Comprehensive Income. Subsequent to initial recognition, all financial assets designated at fair value through profit or loss are measured at fair value.

Cash and cash equivalents, trade receivables, other receivables and prepayments are classified at amortised cost. These financial assets are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

2. Accounting policies (continued)
2.3 Financial instruments (continued)
Financial Assets (continued)
c) Fair value estimation
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As at 30 September 2020, the Company held investments in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase, whose securities are admitted to trading on AIM or the main market of the London Stock Exchange. Investments are valued at fair value, which are quoted bid prices for investments traded in active markets.

The Directors determined that an active market exists based on the frequency and volume of transactions of each asset. As all the Company's financial assets are quoted securities which are traded in active markets as at 30 September 2020, in the opinion of the Directors, the quoted price for the financial assets as at 30 September 2020 is representative of fair value.

d) Valuation process
The Directors are in ongoing communications with the Portfolio Manager and hold meetings on a timely basis to discuss performance of the investment portfolio and the valuation methodology and in addition review monthly investment performance reports.

The Directors analyse the investment portfolio in terms of both investment mix and fair value hierarchy and consider the impact of general credit conditions and/or events that occur in the global corporate environments which may impact the economic conditions in the UK and ultimately on the valuation of the investment portfolio.

Financial liabilities
a) Classification
Securities purchased awaiting settlement represent payables for investments that have been contracted for but not yet settled or delivered on 30 September 2020. Financial liabilities include amounts due to brokers and other payables which are held at amortised cost using the effective interest rate method.

b) Recognition, measurement and derecognition
Financial liabilities are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2.4 Investment income
Dividends receivable on equity shares are recognised as revenue for the period on an ex-dividend basis and net of withholding taxes, as the withholding taxes are deducted at source and are not a tax on profits. Interest income and expenses are recognised in the Statement of Comprehensive Income using the effective interest rate method.

2.5 Expenses
Expenses are recognised on an accruals basis and are recognised in the Statement of Comprehensive Income.

2.6 Cash and cash equivalents
Cash includes cash at bank. Cash equivalents are short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

2.7 Trade receivables and trade payables
Trade receivables and payables represent securities sold and securities purchased, respectively, that have been contracted for but not yet settled or delivered on the Statement of Financial Position date.

2. Accounting policies (continued)

2.7 Trade receivables and trade payables (continued)

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each period end, the Company measures the loss allowance on trade receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, the credit risk has not increased significantly since initial recognition, the Company will measure the loss allowance at an amount equal to 12-month expected credit losses.

Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments are all considered indicators that a loss allowance may be required. A significant increase in credit risk is defined by the Directors as any contractual payment which is more than 30 days past due.

2.8 Segmental reporting

The Directors view the operations of the Company as one operating segment, being investment in UK micro cap companies. All significant operating decisions are based upon analysis of the Company's investments as one segment. The financial results from this segment are equivalent to the financial results of the Company as a whole, which are evaluated regularly by the chief operating decision-maker (the Board with insight from the Portfolio Manager).

2.9 Contingent liabilities and provisions

A contingent liability is a possible obligation depending on whether some uncertain future event occurs; or a present obligation but payment is not probable or the amount cannot be measured reliably. A provision is recognised when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

2.10 Taxation

The Company has applied for and been granted exemption from liability to income tax in Guernsey under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended by the Director of Income Tax in Guernsey for the current period. Exemption must be applied for annually and will be granted, subject to the payment of an annual fee, which is currently fixed at £1,200 per applicant, provided the Company qualifies under the applicable legislation for exemption.

It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation.

2.11 Stated capital

Ordinary Shares are classified as equity in accordance with IAS 32 – "Financial Instruments: Presentation" as these instruments include no contractual obligation to deliver cash and the Company is not obligated to apply the redemption mechanism.

Costs directly attributable to the issue of new Ordinary Shares and redemption of existing Ordinary Shares are shown in equity as a deduction from the proceeds.

Please refer to note 12 for details regarding the redemption mechanism of Ordinary Shares.

2.12 Capital risk management

The Board defines capital as financial resources available to the Company. The Company's capital as at 30 September 2020 comprises its stated capital, share premium and retained earnings at a total of £95,612,913 (2019: £87,818,194).

The Company's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern;
- provide returns for Shareholders; and
- maintain an optimal capital structure to minimise the cost of capital.

2. Accounting policies (continued)
2.12 Capital risk management (continued)
The Board monitors the capital adequacy of the Company on an on-going basis and all three of the Company's objectives regarding capital management have been met. The Company has no imposed capital requirements.

3. Investment income

	Year ended 30 September 2020 £	Year ended 30 September 2019 £
Dividend income[1]	1,095,656	1,156,888
Bank interest	4,516	20,619
Total investment income	**1,100,172**	**1,177,507**

[1] Net of withholding taxes of £174,716 (2019: £139,155).

4. Portfolio management and performance fees
On 3 November 2014, the Company signed an Investment Management agreement with the Manager and the Portfolio Manager, whereby the Manager delegated to the Portfolio Manager overall responsibility for the discretionary management of the Company assets in accordance with the Company's investment objective and policy.

The Manager or the Portfolio Manager may voluntarily terminate the Investment Management agreement by providing six months' notice in writing. The Manager's power to terminate the appointment of the Portfolio Manager under the Investment Management agreement may only be exercised under the direction of the Board and the Manager has agreed to comply with the instructions of the Board as regards to any proposed termination of the Portfolio Manager's appointment.

Under the agreement, the Portfolio Manager is entitled to receive a base fee and performance fee. The Portfolio Manager base fee is payable monthly in arrears at a rate of one-twelfth of 0.75% of NAV. During the year ended 30 September 2020, the Company incurred management fees expense of £651,766 (30 September 2019: £668,888).

A performance fee equal to 15% of the amount by which the Company's NAV outperforms the total return on the benchmark (being Numis Smaller Companies plus AIM (excluding Investment Companies) total return index) over a performance period will be payable to the Portfolio Manager upon a redemption.

The performance period is the period between two redemptions, being the first business day after the calculation date, (referable to the earlier redemption (opening date)), and the end day of the calculation date (referable to the later redemption (closing date)). The first opening date was the date of admission and in circumstances in which a performance fee may be payable upon termination of this Agreement, the final closing date shall be the date in which the agreement is terminated. The calculation date is the date determined by the Board for the calculation of the price to be paid on any particular exercise of the redemption mechanism.

The performance fee is only paid when the Company implements the redemption mechanism as detailed in note 12.

During the year ended 30 September 2020, the Company recognised performance fees expense of £1,046,428 (during the year ended 30 September 2019, the Company recognised the reversal of the performance fees accrued as at 30 September 2018 of £1,210,297 as the Company's NAV total return performance was below the benchmark).

As at 30 September 2020, performance fees accrued were £1,046,428 (30 September 2019: £nil) as the Company's NAV total return is currently outperforming the benchmark. No performance fees were paid during the period (30 September 2019: £nil) as there has not been a redemption. Please refer to the Financial Highlights and Performance Summary for details of the Company's previous redemptions on page 4.

5. Operating expenses

	Year ended 30 September 2020 £	Year ended 30 September 2019 £
Administration fees	128,639	128,417
Directors' fees	119,918	120,000
AIFM fees	54,192	54,000
Audit fees	52,798	45,000
Transaction fees	42,977	32,852
Broker fees	38,707	40,000
Custody fees	20,599	17,953
Non-audit fees	19,135	18,400
Registrar fees	16,569	18,214
Legal and professional fees	6,670	13,359
Sundry expenses	(783)	78,135
Total operating expenses	**499,421**	**566,330**

Non-audit fees
Non-audit fees incurred during the year ended 30 September 2020 relating to interim review services amounted to £19,135 (2019: £18,400). Non-audit fees payable as at 30 September 2020 were £nil (30 September 2019: £nil).

AIFM fee
On 21 October 2014, the Company signed an AIFM agreement with the Manager to act as the Company's AIFM. Under that agreement, the Manager was entitled to an annual fixed fee of £54,000 which was increased to £58,000 per annum effective 1 September 2020 when the Company signed an amended agreement. All other provisions of the AIFM agreement dated 21 October 2014 remained the same.

The annual fixed fee is paid quarterly in arrears. AIFM fees payable as at 30 September 2020 were £13,574 (30 September 2019: £13,611). The AIFM agreement can be terminated by either the Company or the Manager by giving the other not less than ninety days' written notice or on immediate notice on the occurrence of certain "cause" events.

Custody fee
On 21 October 2014, the Company signed a Global Custody Agreement with the Manager and the Administrator, whereby the Company appointed the Administrator to carry out custodian services. In its role as custodian, the Administrator is entitled to a fee payable by the Company on a transaction by transaction and ad-valorem fee basis. Custody fees payable as at 30 September 2020 were £1,096 (30 September 2019: £955).

Registrar fee
With effect from 19 March 2018, the Company's Registrar has been Computershare Investor Services (Guernsey) Limited. The registrar is entitled to an annual maintenance fee plus disbursements.

Administration fee
On 21 October 2014, the Company signed an agreement with the Administrator to provide administrative, compliance oversight and company secretarial services to the Company. Under the administration agreement, the Administrator will be entitled to a minimum annual fixed fee for fund administration services, company secretarial and compliance services. These fees are paid monthly in arrears. Ad hoc other administration services are chargeable on a time cost basis. In addition, the Company will reimburse the Administrator for any out of pocket expenses. Administration fees payable as at 30 September 2020 were £10,926 (30 September 2019: £20,706).

Broker fee
On 1 August 2018, the Company announced it had appointed Cantor Fitzgerald Europe ("Cantor Fitzgerald"), to provide corporate stockbroker and financial adviser services to the Company as the Company's sole broker. Under the agreement, Cantor Fitzgerald was entitled to a fee payable by the Company of £40,000 per annum payable quarterly in arrears.

5. Operating expenses (continued)

Broker fee (continued)

On 1 July 2020, the Company announced it had appointed Nplus1 Singer Advisory LLP ("N+1 Singer"), to provide corporate stockbroker and financial adviser services to the Company, as the Company's sole broker, following Cantor Fitzgerald's withdrawal from providing corporate broker services in this area of the UK market. Under the agreement, N+1 Singer is entitled to a fee payable by the Company of £40,000 per annum payable quarterly in advance.

In addition, N+1 Singer is entitled to a one-off bonus fee contingent upon the average daily discount over the three months to 31 December 2021. The bonus will be payable to N+1 Singer only if the Company's average daily discount will be no greater than 8% during this period; with a maximum bonus payable to N+1 Singer of £11,800 per annum, should the Company's shares be trading at a premium during this period, reduced accordingly if the average daily discount lies between 8% and 0% during this period.

Total broker fees incurred during the year were £38,707 (30 September 2019: £40,000). Broker fees payable as at 30 September 2020 were £13,333 (30 September 2019: £3,333).

6. Directors' fees and interests

The Directors of the Company were remunerated for their services at a fee of £25,000 per annum (£40,000 for the Chairman) and the Chairman of the Audit Committee received an additional £5,000 for his services in this role.

The Company has no employees other than the Directors. Directors' fees payable as at 30 September 2020 were £30,165 (30 September 2019: £30,000).

As at the date of approval of the Annual Financial Report, Andrew Chapman, Trudi Clark, Mark Hodgson and Ian Burns held 20,562, 11,445, 22,040 and 5,500 Ordinary Shares in the Company respectively. No pension contributions were payable in respect of any of the Directors.

7. Other receivables

	30 September 2020 £	30 September 2019 £
Dividend receivable	51,480	194,378
Prepayments	6,580	6,334
Interest and other receivable	15,022	1,365
Ordinary Share receivable	1	1
Total other receivables	**73,083**	**202,078**

The Directors believe that these balances are fully recoverable and therefore have not recognised any loss allowance on 12-month expected credit losses.

8. Financial assets designated at fair value through profit or loss

	30 September 2020 £	30 September 2019 £
Financial assets designated at fair value through profit or loss	**92,934,986**	**81,386,681**

The Company has invested the proceeds raised from the initial Ordinary Share issue and subsequent Ordinary Share tap issues in a portfolio of UK micro cap companies in line with its investment strategy. These investments are comprised of companies whose securities are admitted to trading on the AIM, with a free float market capitalisation of less than £100 million at the time of purchase.

Fair value hierarchy

IFRS 13 'Fair Value Measurement' requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value.

8. Financial assets designated at fair value through profit or loss (continued)
Fair value hierarchy (continued)
The Company categorises its financial assets according to the following fair value hierarchy detailed in IFRS 13 that reflects the significance of the inputs used in determining their fair values:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable variable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial assets	Level 1 £	Level 2 £	Level 3 £	30 September 2020 Total £
Financial assets designated at fair value through profit or loss	92,934,986	-	-	92,934,986

Financial assets	Level 1 £	Level 2 £	Level 3 £	30 September 2019 Total £
Financial assets designated at fair value through profit or loss	81,386,681	-	-	81,386,681

Financial assets designated at fair value through profit or loss reconciliation
The following table shows a reconciliation of all movements in the fair value of financial assets categorised within Level 1 to 3 between the beginning and the end of the reporting period.

30 September 2020	Level 1 £	Level 2 £	Level 3 £	Total £
Opening valuation	**81,386,681**	**-**	**-**	**81,386,681**
Purchases during the year	32,218,190	-	-	32,218,190
Sales - proceeds during the year	(29,574,088)		-	(29,574,088)
Realised gain on financial assets designated at fair value through profit or loss[1]	2,344,487	-	-	2,344,487
Unrealised gain on financial assets designated at fair value through profit or loss[2]	6,559,716	-	-	6,559,716
Closing valuation	**92,934,986**	**-**	**-**	**92,934,986**
Total net gain on financial assets for the year ended 30 September 2020	8,904,203	-	-	8,904,203

[1] Realised gain on financial assets designated at fair value through profit or loss is made up of £10,898,127 gain and £(8,553,640) loss.
[2] Unrealised gain on financial assets designated at fair value through profit or loss is made up of £20,669,693 gain and £(14,109,977) loss.

8. Financial assets designated at fair value through profit or loss (continued)
Financial assets designated at fair value through profit or loss reconciliation (continued)
During the year ended 30 September 2020, there were no reclassifications between levels of the fair value hierarchy.

30 September 2019	Level 1	Level 2	Level 3	Total
	£	£	£	£
Opening valuation	**102,227,116**	**-**	**-**	**102,227,116**
Purchases during the year	26,539,088	-	-	26,539,088
Sales - proceeds during the year	(27,640,504)	-	-	(27,640,504)
Realised gain on financial assets designated at fair value through profit or loss[3]	3,689,629	-	-	3,689,629
Unrealised loss on financial assets designated at fair value through profit or loss[4]	(23,428,648)	-	-	(23,428,648)
Closing valuation	**81,386,681**	**-**	**-**	**81,386,681**
Total net loss on financial assets for the year ended 30 September 2019	(19,739,019)	-	-	(19,739,019)

[3] Realised gain on financial assets designated at fair value through profit or loss is made up of £11,956,166 gain and £(8,266,537) loss.
[4] Unrealised loss on financial assets designated at fair value through profit or loss is made up of £11,314,680 gain and £(34,743,328) loss.

During the year ended 30 September 2019, there were no reclassifications between levels of the fair value hierarchy.

Please refer to note 2.3 for valuation methodology of financial assets designated at fair value through profit or loss.

As at 30 September 2020, none of the investments held are deemed to be illiquid in nature and on this basis are not subject to any special arrangements.

9. Financial risk management
The Company's activities expose it to a variety of financial risks; market risk (including price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk.

9.1 Market risk
a) Price risk
Price risk is the risk that the Company's performance will be adversely affected by changes in the markets in which it invests.

As at 30 September 2020, the Company held investments in a diversified portfolio of UK micro cap companies, comprising companies with a free float market capitalisation of less than £100 million at the time of purchase. The relatively small market capitalisation of micro cap companies can make the market in their shares illiquid. Therefore prices of UK micro cap companies are often more volatile than prices of larger capitalisation stocks, and even small cap companies.

While the Company does not include any specific limits placed on exposures to any industry sector, the Company does have investment limits and risk diversification policies in place to mitigate market and concentration risk. Investments limits in place include:

- the number of holdings in the investment portfolio will usually range from 30 to 50.
- no exposure in any investee company will exceed 10% of NAV at the time of the investment.

However, any significant event which affects a specific industry sector in which the investment portfolio has a significant holding could materially and adversely affect the performance of the Company. To mitigate market risk, the Board and Portfolio Manager actively monitor market prices throughout the financial period and meet regularly in order to consider investment strategy.

9.1 Market risk (continued)
a) Price risk (continued)
Please refer below for sensitivity analysis on the impact on the Statement of Comprehensive Income and NAV of the Company, if the fair value of the investments designated at fair value through profit or loss at the year end increased or decreased by 15% (2019: 15%):

Financial assets	30 September 2020 £	Increase by 15% £	Decrease by 15% £
Financial assets designated at fair value through profit or loss	92,934,986	13,940,248	(13,940,248)

Financial assets	30 September 2019 £	Increase by 15% £	Decrease by 15% £
Financial assets designated at fair value through profit or loss	81,386,681	12,208,002	(12,208,002)

The Directors consider a 15% (2019: 15%) movement to be reasonable given their assessment of the volatility of the AIM market during the year ended 30 September 2020. The above calculations are based on the investment valuation at the Statement of Financial Position date and are not representative of the period as a whole, and may not be reflective of future market conditions.

b) Interest rate risk
Interest rate risk is the risk that the fair value of financial instruments and related income from cash and cash equivalents will fluctuate due to changes in market interest rates.

The majority of the Company's interest rate exposure arises on the level of income receivable on cash deposits. Financial assets designated at fair value through profit or loss are equity investments and therefore the valuation of these investments and income receivable is not directly exposed to interest rate risk. Furthermore, the Company would be exposed to interest rate risk on any amounts drawn down under the facility detailed in note 15.

The Company has not had any borrowings during the year (2019: £nil). The table below details the Company's exposure to interest rate risks:

	30 September 2020 Interest bearing (*) £	30 September 2020 Non-interest bearing £	30 September 2020 Total £
Assets			
Financial assets designated at fair value through profit or loss	-	92,934,986	92,934,986
Cash and cash equivalents	3,929,910	-	3,929,910
Trade receivables - securities sold awaiting settlement	-	73,663	73,663
Other receivables (excluding prepayments)	-	66,503	66,503
Total assets	**3,929,910**	**93,075,152**	**97,005,062**
Liabilities			
Trade payables – securities purchased awaiting settlement	-	(104,945)	(104,945)
Other payables	-	(1,293,784)	(1,293,784)
Total liabilities	-	(1,398,729)	(1,398,729)
Total interest sensitivity gap	**3,929,910**	**91,676,423**	**95,606,333**

* - floating rate and due within 1 month

9. Financial risk management (continued)
9.1 Market risk (continued)
b) Interest rate risk (continued)

	30 September 2019 Interest bearing (*) £	30 September 2019 Non-interest bearing £	30 September 2019 Total £
Assets			
Financial assets designated at fair value through profit or loss	-	81,386,681	81,386,681
Cash and cash equivalents	6,543,864	-	6,543,864
Trade receivables - securities sold awaiting settlement	-	36,862	36,862
Other receivables (excluding prepayments)	-	195,744	195,744
Total assets	**6,543,864**	**81,619,287**	**88,163,151**
Liabilities			
Trade payables – securities purchased awaiting settlement	-	(108,088)	(108,088)
Other payables	-	(243,203)	(243,203)
Total liabilities	-	(351,291)	(351,291)
Total interest sensitivity gap	**6,543,864**	**81,267,996**	**87,811,860**

* - floating rate and due within 1 month

Interest rate sensitivity analysis
If interest rates had changed by 50 basis points, (considered to be a reasonable illustration based on observation of current market conditions), with all other variables remaining constant, the effect on the net profit for the year would be as detailed below:

	30 September 2020 £	30 September 2019 £
Increase of 50 basis points	19,650	32,719
Decrease of 50 basis points	(19,650)	(32,719)

c) Foreign currency risk
Foreign currency risk is the risk that the values of the Company's assets and liabilities are adversely affected by changes in the values of foreign currencies by reference to the Company's functional currency, being Pounds Sterling.

The Company has not been exposed to any material foreign currency risk during the year.

During the year ended 30 September 2020 and 30 September 2019, all transactions were in Pounds Sterling, with the exception of several dividend income and cash transactions which were in USD. Although the Company does not pursue a policy of hedging such currencies back to Pounds Sterling, it may do so from time to time, depending on market conditions. During the year ended 30 September 2020, the Company entered into nil (2019: nil) currency purchase spot contracts to mitigate the foreign currency exposure.

As at 30 September 2020, USD cash of $nil (2019: $131,279) and income receivable of $nil (2019: $nil) were held. Any reasonable change in foreign exchange rates will have an immaterial impact and therefore no sensitivity analysis has been provided.

9. Financial risk management (continued)
9.2 Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Board of Directors has in place monitoring procedures in respect of counterparty risk which is reviewed on an ongoing basis.

The Company's credit risk is attributable to its cash and cash equivalents, trade receivables – securities sold awaiting settlement and other receivables.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	30 September 2020 £	30 September 2019 £
Cash and cash equivalents	3,929,910	6,543,864
Trade receivables - securities sold awaiting settlement	73,663	36,862
Other receivables (excluding prepayments)	66,503	195,744
Total assets	**4,070,076**	**6,776,470**

All cash is placed with BNP Paribas Securities Services S.C.A., Guernsey Branch.

BNP Paribas Securities Services S.C.A, is a wholly owned subsidiary of BNP Paribas Securities Services S.A. which is publicly traded with a credit rating of A+ (2019: A+) from Standard & Poor's.

Credit risk of cash and custodian is mitigated by the Company's policy to only undertake significant transactions with leading commercial counterparties.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The financial assets designated at fair value through profit or loss are held by BNP Paribas Securities Services S.C.A, Guernsey branch, the Company's custodian, in a segregated account. In the event of bankruptcy or insolvency of the Administrator, the Company's rights with respect to the securities held by the custodian may be delayed or limited. The Company did not participate in stock lending during the year.

The Company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 September 2019 and 30 September 2020, management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

9.3 Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments as and when these fall due for payment. Liquidity risk is monitored on an ongoing basis by the Board of Directors and Portfolio Manager to ensure that the Company maintains sufficient working capital in cash or near cash form to be able to meet the Company's ongoing requirements to pay accounts payable and accrued expenses.

In addition, the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to ensure the Company remains a going concern. The Company's investments all comprise of investments in companies whose securities are admitted to trading on AIM. The Company would expect to be able to liquidate a sufficient number of investments within 7 days or less in the event cash was required to cover expenses.

9. Financial risk management (continued)
9.3 Liquidity risk (continued)
The table below shows the residual contractual maturity of the financial liabilities as at 30 September 2020:

Maturity analysis of financial liabilities

	Less than 3 months £	3 to 12 months £	More than 1 year £	Total £
Financial liabilities				
Trade payables – securities purchased awaiting settlement	(104,945)	-	-	(104,945)
Other payables and accruals[1]	(247,355)	(1,046,429)	-	(1,293,784)
Total undiscounted financial liabilities	**(352,300)**	**(1,046,429)**	**-**	**(1,398,729)**

The table below shows the residual contractual maturity of the financial liabilities as at 30 September 2019:

	Less than 3 months £	3 to 12 months £	More than 1 year £	Total £
Financial liabilities				
Trade payables – securities purchased awaiting settlement	(108,088)	-	-	(108,088)
Other payables and accruals	(225,203)	(18,000)	-	(243,203)
Total undiscounted financial liabilities	**(333,291)**	**(18,000)**	**-**	**(351,291)**

[1] – Included in other payables is a performance fee payable of £1,046,428 (2019: £nil). Please refer to note 4 for further details regarding calculation of performance fee and when this sum will be payable.

In accordance with Article 23(4)(a) and (b) of AIFMD Directive, the AIFM has assessed that the financial assets designated at fair value through profit or loss held by the Company are not deemed to be illiquid in nature, and as such, are not subject to any special liquidity arrangements and that the AIF has no new arrangements in place for managing liquidity.

10. Other payables and accruals

	30 September 2020 £	30 September 2019 £
Portfolio performance fees	1,046,428	-
Portfolio management fees	119,563	54,886
Audit fees	54,199	45,000
Directors' fees	30,165	30,000
AIFM fees	13,574	13,611
Broker fees	13,333	3,333
Administration fees	10,926	20,706
Registrar fees	2,000	1,000
Custody fees	1,096	955
Sundry expenses	2,500	73,712
Total other payables and accruals	**1,293,784**	**243,203**

11. Contingent liabilities and commitments
As at 30 September 2020, the Company had no contingent liabilities or commitments (2019: nil).

12. Stated capital and share premium

Authorised

The authorised share capital of the Company is represented by an unlimited number of redeemable Ordinary Shares at no par value.

Allotted, called up and fully-paid

Ordinary Shares	Number of shares	Stated capital £	Share premium £
Total issued share capital as at 1 October 2019	**46,445,043**	**-**	**28,391,852**
Ordinary Shares redeemed during the year	-	-	-
Total issued share capital as at 30 September 2020	**46,445,043**	**-**	**28,391,852**

	Number of shares	Stated capital £	Share premium £
Total issued share capital as at 1 October 2018	**46,445,043**	**-**	**28,391,852**
Ordinary Shares redeemed during the year	-	-	-
Total issued share capital as at 30 September 2019	**46,445,043**	**-**	**28,391,852**

As at 30 September 2020, the Company had 46,445,043 Ordinary Shares (2019: 46,445,043) in issue.

Each holder of Ordinary Shares is entitled to attend and vote at all general meetings that are held by the Company. Each holder is also entitled to receive payment of a dividend should the Company declare such a dividend payment. Any dividends payable by the Company will be distributed to the holders of the Company's Ordinary Shares, and on the winding-up of the Company or other return of capital (other than by way of a repurchase or redemption of shares in accordance with the provisions of the Articles and the Companies Law), the Company's surplus assets, after payment of all creditors, will be distributed among the holders of the Company's Ordinary Shares.

The Board anticipates that returns to Shareholders will be made through the Company's redemption mechanism and therefore does not expect that the Company will pay any dividends.

No dividends have been declared or paid during the year (2019: nil).

Issuance of Ordinary Shares

No Ordinary Shares were issued during the year ended 30 September 2020 (2019: nil Ordinary Shares issued).

Redemption mechanism

As the Company has been established as a closed-ended collective investment scheme, there is no right or entitlement attaching to the Ordinary Shares that allows them to be redeemed or repurchased by the Company at the option of the Shareholder.

The redemption mechanism allows the Board to redeem any number of shares at the prevailing NAV per share at the calculation date, (being the date determined by the Board for the calculation of the price to be paid on any particular exercise of the redemption mechanism), less the cost of redemption. This right will only be exercised in specific circumstances and for the purpose of returning capital growth.

Accordingly, assuming that the NAV exceeds £100 million, the Directors intend to operate the redemption mechanism to return the NAV back to around £100 million in order to:

- enable the Company to exploit fully the underlying investment opportunity and to deliver high and sustainable returns to Shareholders, principally in the form of capital gains;
- enable portfolio holdings to have a meaningful impact on the Company's performance, which might otherwise be marginal within the context of a larger fund; and
- ensure that the Company can continually take advantage of the illiquidity risk premium inherent in micro cap companies.

12. Stated capital and share premium (continued)
Redemption mechanism (continued)
The Directors are not obliged to operate the redemption mechanism and will not do so if:

- calculation and publication of the NAV has been suspended; or
- the Directors are unable to make the solvency statement required by Guernsey law; or
- other circumstances exist that the Board believes make the operation of the redemption mechanism undesirable or impracticable.

Redemptions will, subject to compliance with all applicable law and regulation, be carried out pro rata to a Shareholder's holding of Ordinary Shares, but all redemptions will normally be subject to a de minimis value to be returned of approximately £10 million (before costs). The Company will not redeem fractions of shares.

The price at which any Ordinary Shares are redeemed under the redemption mechanism will be calculated by reference to unaudited NAV calculations. To the extent that any redemption takes place at a time when the Ordinary Shares are trading at a significant premium to the prevailing unaudited NAV, Shareholders may receive an amount in respect of their redeemed Ordinary Shares that is materially below the market value of those shares prior to redemption.

In order to facilitate any redemptions, the Company may be required to dispose of assets within the investment portfolio. There is no certainty of the price that can be achieved on such sales and any sale price could be materially different from the carrying value of those assets. Consequently, the value received in respect of redeemed Ordinary Shares may be adversely affected where the Company is not able to realise assets at their carrying values. In addition, during any period when the Company is undertaking investment portfolio realisations, it may hold the sale proceeds (which could, in aggregate, be a material amount) in cash, which could impact the Company's returns, until the redemption is implemented and the cash is distributed to Shareholders.

Investors should note that the redemption mechanism has a specific and limited purpose, and no expectation or reliance should be placed on the redemption mechanism being operated on any one or more occasions or as to the proportion of Ordinary Shares that may be redeemed or as to the price at which they will be redeemed. The redemption mechanism may also lead to a more concentrated and less liquid portfolio, which may adversely affect the Company's performance and value.

In the absence of the availability of the redemption mechanism, Shareholders wishing to realise their investment in the Company will be required to dispose of their shares on the stock market. Accordingly, Shareholders' ability to realise their investment at any particular price and/or time may be dependent on the existence of a liquid market in the shares.

13. Basic and diluted earnings per Ordinary Share

	Year ended 30 September 2020 £	Year ended 30 September 2019 £
Total comprehensive income/(loss) for the year	7,794,719	(18,601,133)
Weighted average number of Ordinary Shares during the year	46,445,043	46,445,043
Basic and diluted earnings/(loss) per Ordinary Share	0.1678	(0.4005)

14. Net Asset Value per Ordinary share

	30 September 2020 £	30 September 2019 £
Net Asset Value	95,612,912	87,818,194
Number of Ordinary Shares at year end	46,445,043	46,445,043
Net Asset Value per Ordinary Share	2.0586	1.8908

15. Finance costs

On 9 December 2016, the Company entered into a Sterling Facility Agreement (the "Facility") for a £2,000,000 revolving credit facility with BNP Paribas Securities Services S.C.A. (the "Lender") and BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian"); and Security Interest Agreement between the Company, the Lender and Custodian.

Loan interest of 2.05% per annum over LIBOR would have been paid on any outstanding loan amounts and a loan commitment fee of 0.50% per annum was payable on the available commitment, being £2,000,000 less the amount of any outstanding loan, during the availability period. In addition, a loan arrangement fee of £8,000 was paid on the date of the facility agreement.

The Company agreed to adhere to the following covenants under the terms of the Facility at all times during the availability period:

- any amounts drawn down did not exceed 20% of the NAV of the Company;
- that the gross value of the Company's investment assets quoted on the London Stock Exchange's Main and Alternative Investment Markets (and any additional assets subject to prior approval by all parties) exceeded any amounts drawn down by three times; and
- that the NAV of the Company was not less than £30,000,000.

On 13 December 2017, the Company signed an Extension and Amendment Agreement that varied the terms of the Facility entered into on 9 December 2016. With effect from 20 December 2017, the loan commitment was increased to £5,000,000 and the loan interest amended to 1.75% per annum over LIBOR. A loan extension fee of £8,000 was paid, on the date of the Extension and Amendment Agreement. The termination date was amended to be 7 December 2018.

On 11 December 2018, the Company signed an Extension Agreement that varied the terms of the Facility entered into on 9 December 2016, as amended on 13 December 2017. With effect from 7 December 2018, the Facility was extended for 364 days to 6 December 2019 and the Company incurred an extension fee of £8,000. There was no change to the loan commitment, loan commitment fee or interest rate.

The Board decided not to renew the Facility, which subsequently expired on 6 December 2019.

16. Related party disclosure

The Manager

The Manager is a related party and is entitled to an annual fixed fee as disclosed in note 5. Mark Hodgson is the Managing Director of the Manager.

The Portfolio Manager

The Portfolio Manager is a related party and is entitled to management and performance fees as disclosed in note 4.

George Ensor is also a related party as he is the Fund Manager of the Portfolio Manager. On 23 January 2020, he purchased 19,830 Ordinary Shares at a price of £1.6422 per share and on 23 March 2020, he purchased 20,000 Ordinary Shares at a price of £0.9717 per share.

As at 30 September 2020, the Portfolio Manager and George Ensor held the following voting rights in the Company:

	30 September 2020	30 September 2019
Portfolio Manager	4,110,768	4,110,768
George Ensor	60,000	20,170

The Directors

The Directors are entitled to remuneration for their services and also hold Ordinary Shares in the Company as disclosed in note 6.

All transactions between these related parties and the Company were conducted on terms equivalent to those prevailing in an arm's length transaction.

17. Material events after the Statement of Financial Position date

There were no events which occurred subsequent to the year end until the date of approval of the annual financial statements, which would have a material impact on the annual financial statements of the Company as at 30 September 2020.

During the period 30 September 2020 to 16 December 2020, the NAV per share increased by 11.08% from £2.0586 to £2.2867.

18. Controlling party

In the Directors' opinion, the Company has no ultimate controlling party.

USEFUL INFORMATION FOR SHAREHOLDERS

Alternative performance measures disclosure
In accordance with ESMA Guidelines on Alternative Performance Measures ("APMs") the Board has considered what APMs are included in the Annual Financial Report and financial statements which require further clarification. An APM is defined as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. APMs included in the financial statements, which are unaudited and outside the scope of IFRS, are deemed to be as follows:

NAV total return vs benchmark
The NAV total return measures how the NAV per Ordinary Share has performed over a period of time, taking into account of capital returns. The Company quotes NAV total return as a percentage change from the beginning of the financial year or initial issuance of Ordinary Shares to 30 September 2020. The Company has not declared a dividend since inception.

The Board monitors the Company NAV total return against the Numis Smaller Companies plus Alternative Investment Market ("AIM") (excluding Investment Companies) Index.

Please refer to page 3 for NAV total return vs benchmark analysis.

NAV to market price discount / premium
The NAV per share is the value of all the Company's assets, less any payables it has, divided by the total number of Ordinary Shares. However, because the Company's Ordinary Shares are traded on the London Stock Exchange's Main Market, the share price may be higher or lower than the NAV. The difference is known as a discount or premium. The Company's discount / premium to NAV is calculated by expressing the difference between the Ordinary Share price (bid price)[1] and the NAV per share on the same day compared to the NAV per share on the same day.

At 30 September 2020, the Company's Ordinary Shares traded at £1.5800 (2019: £1.5700), reflecting a discount of 23.25% (2019: discount of 16.97%) to the NAV per Ordinary Share of £2.0586 (2019: £1.8908).

Ongoing charges
The ongoing charges ratio for the year ended 30 September 2020 was 1.35% (2019: 1.30%). The AIC's methodology for calculating an ongoing charges figure is based on annualised ongoing charges of £1,164,194 (2019: £1,188,439) divided by average NAV in the period of £86,684,667 (2019: £89,980,648).

Calculating ongoing charges
The ongoing charges are based on actual costs incurred in the year excluding any non-recurring fees in accordance with the AIC methodology. Expense items have been excluded in the calculation of the ongoing charges figure when they are not deemed to meet the following AIC definition:

"Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs."

Ongoing charges (continued)

Please refer below for ongoing charges reconciliation for the years ended 30 September 2020 and 30 September 2019:

	30 September 2020 £	30 September 2019 £
Total expenses for the year:	2,209,656	49,647
Expenses excluded from the calculation of ongoing charges figures, in accordance with AIC's methodology:		
Portfolio Performance fees (expense)/recovery	(1,046,428)	1,210,297
Legal and professional fees	-	(5,928)
Sundry expenses	(8,497)	(30,684)
Transaction fees	(42,977)	(32,852)
Finance costs	(4,521)	(24,726)
Total ongoing charges for the year	**1,107,233**	**1,165,754**

Calculating an average NAV

The AIC's methodology for calculating average NAV for the purposes of the ongoing charges figure is to use the average of NAV at each NAV calculation date. On this basis the average NAV figure has been calculated using the daily NAVs over the years ended 30 September 2020 and 30 September 2019.

[1] - Source: Bloomberg

COMPANY INFORMATION

Board members
Andrew Chapman (Chairman)
Ian Burns (Chairman of the Audit Committee and Senior Independent Director)
Trudi Clark (Chairman of the Remuneration and Nomination Committee and Management Engagement Committee)
Mark Hodgson

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[1] *BNP Paribas Securities Services S.C.A. Guernsey Branch is regulated by the Guernsey Financial Services Commission.*