ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (AUDITED)

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

Results and dividend

The net asset value (NAV) of the Company as at 31 December 2021 was 2,719.3p per ordinary share (2020 – 2,285.3p). This represented an increase of 19.0% during the year, compared to an increase in the comparative total return indices of 17.8% (Numis Smaller Companies plus AIM (ex. investment companies) Index) and an increase of 15.2% (Russell 2000® Technology Index (small cap) (in sterling terms)). The discount at year end was 7.9% (2020 – 1.8%).

The directors do not recommend a dividend for the year ended 31 December 2021 (2020 – nil).

The financial information set out in this Annual Financial Report does not constitute the Company's statutory accounts for 2020 or 2021. Statutory accounts for the years ended 31 December 2020 and 31 December 2021 have been reported on by the Independent Auditor. The Independent Auditors' Reports on the annual report and financial statements for 2020 and 2021 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The Company's statutory accounts for the year ended 31 December 2020 have been filed with the Registrar of Companies. The Company's statutory accounts for the year ended 31 December 2021 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using 'FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS102), which forms part of Generally Accepted Accounting Practice ('UK GAAP') issued by the Financial Reporting Council. The financial statements have also been prepared in accordance with The Companies Act 2006 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies ('AIC') in October 2019.

STATISTICS AND PERFORMANCE – YEAR'S SUMMARY

	31 December 2021	31 December 2020	% change
Total net assets	**£1,760.9m**	£1,503.4m	
Shareholders' funds	**£1,760.9m**	£1,503.4m	
Net asset value per ordinary share[A]	**2,719.3p**	2,285.3p	+19.0
Share price[A]	**2,505.0p**	2,245.0p	+11.6
Numis Smaller Companies plus AIM (ex. investment companies) Index (capital only)	**7,116.5**	6,040.0	+17.8
Russell 2000® Technology Index (small cap) (in sterling terms) (capital only)[B]	**5,340.9**	4,637.0	+15.2
Dividend per ordinary share	**–**	–	
Loss per ordinary share (revenue)	**(8.33p)**	(6.00p)	
Ongoing charges[A]	**1.02%**	1.08%	
Discount to NAV[A]	**7.9%**	1.8%	

Year to 31 December	**2021**	**2021**	2020	2020
Year's high and low	**High**	**Low**	High	Low
Share price	**2,630.0p**	**2,045.0p**	2,265.0p	897.0p
Net asset value[A] per ordinary share	**2,849.1p**	**2,285.0p**	2,288.6p	1,238.3p
Discount[A]	**16.8%**	**1.8%**	28.8%	1.0%

At 31 December	**2021**	2020
(Loss)/profit per ordinary share		
Revenue	**(8.33p)**	(6.00p)
Capital	**439.51p**	614.30p
Total	**431.18p**	608.30p

[A] Alternative Performance Measure.
[B] Investments and indices valued at USD/GBP exchange rate of 1.354 at 31 December 2021 (1.368 at 31 December 2020).
® Russell Investment Group

LONG TERM PERFORMANCE SUMMARY

	31 December 2021	Inception 16 February 1994	% change
Net asset value per ordinary share (including current year revenue)[A]	**2,719.33p**	98.70p	2,655.15
Net asset value per ordinary share (excluding current year revenue)[A]	**2,727.70p**	98.70p	2,663.62
Share price	**2,505.00p**	90.90p	2,655.78

Numis Smaller Companies plus AIM (ex. investment companies) Index	**7,116.46**	1,750.00	306.65
Russell 2000® Technology Index (small cap) (in sterling terms)†	**5,340.93**	688.70*	675.51

A Alternative Performance Measure.
* At 9 April 1996 being the date funds were first available for international investment.
† The Russell 2000® Technology Index (small cap) was rebased during 2009 following some minor adjustments to its constituents. The rebased index is used from 31 December 2008 onwards.

CHAIRMAN'S STATEMENT AND REVIEW OF 2021

I am delighted to report another year of excellent progress with the net asset value per share appreciating 19.0%. There has been rotation in the performance of the portfolio, with some of the star performers in 2020 ceding some of their gains, and other holdings enhancing theirs. The media sector accounted for only 13.3% of net assets at the start of the year and contributed one third of the overall return, delivering 54.8% mainly in the UK; but the largest sector, software, which accounted for 36.3% of the Company's net assets at the start of the year delivered a return of only 7.2%. Many stocks in this sector had become too expensive and a correction is wholesome and reduces the overall risk in the portfolio. The semiconductor sector also had a very strong year with well-publicised capacity shortages providing unprecedented pricing power.

2021	YE Market Value £m	Total return £m	% of total net assets	2021 IRR
Media	255.8	100.0	14.5%	54.8%
Semiconductors	153.5	51.3	8.7%	45.2%
Technology Hardware	219.8	44.8	12.5%	26.7%
Software	600.2	39.3	34.1%	7.2%
Technology Services	153.3	28.4	8.7%	23.7%
Total main sectors	1,382.6	263.8	78.5%	

2021	YE Market Value £m	Total return £m	Movement in NAV
Total Company	1,760.9	280.4	19.0%

The UK equity investments now account for 47.7% of net assets (down from 49.3% at the end of 2020). The UK return of 23.3% was ahead of the Numis Smaller Companies plus AIM (ex. investment companies) Index whose total return was 20.0%. The board considers this result to be satisfactory given that the technology sectors lagged the index as a whole.

The North American equity portfolio now accounts for 22.3% of net assets. It returned 11.0%, which lagged the Russell 2000® Technology Index by 4.2%. This small cap index itself returned dramatically less than the Russell 1000® Technology Index, which returned 38.3% in sterling terms. Furthermore, companies too small to be included in the Russell 2000® Technology Index have performed even more poorly.

There is a perception that it has been a bull market for technology stocks. This is indeed true for the likes of Microsoft, Apple and Alphabet and the semiconductor companies, but there has been a bear market in software companies with the Bloomberg Software Sector for small cap stocks (between $100m and $3bn) delivering a median return of -16.3% for North America. Unfortunately, software was the heaviest weighting in our portfolio, although some judicious profit-taking limited the damage. There had evidently been unrealistic momentum in the software sector and valuations had become too stretched, particularly in light of the significant dilution in this sector from stock-based compensation. Often, revenue growth has been favoured over profitability and the outperformance we have delivered in this sector and this year reflects the value the Manager places on management teams who take a balanced view of profits and growth.

The EMEA (Europe, Middle East and Africa) portfolio has delivered an exceptional performance during 2021 returning 46.3% in sterling terms. The three largest holdings - Nordic Semiconductor, Esker and BE Semiconductor - all performed well. The weighting in this region has risen significantly to 11.4% from 8.6% at the end of 2020, usefully assisting us in maintaining appropriate geographical diversification.

The Asian return was 19.0%. Whereas in the UK the return was dominated by media stocks, in Asia the strong performance resulted from technology hardware and semiconductors, mainly in Taiwan. In fact, Taiwan delivered a remarkable return of 89.8% due in large part to heavily publicised supply-chain issues which clearly benefited some companies in the portfolio. It is difficult to tell how much inventory building has flattered demand and we might well expect to see some unwinding of this outperformance in the coming year. The Asian equity element of the portfolio has grown to 11.8% from 10.1% of the Company's net assets at the end of 2020.

The portfolio is, of course, focused on growth companies, and only a subset of the portfolio pays a dividend. Nonetheless, such income is welcome, and I am pleased to report that the net dividends received by the Company grew by 41.3% from the previous year although, as noted last year, they were heavily depressed in 2020 by lockdown uncertainty. Nonetheless, dividends have still appreciated 14.8% from pre-Covid 2019.

We continue to buy back our own shares opportunistically and 1,029,306 shares were bought back during the year for cancellation at a cost of £22.9m which equates to 1.6% of the outstanding capital as at 31 December 2020.

ESG (environmental, social and governance) has continued to be a focus of attention during the year. Herald Investment Management's 2020 Stewardship Report was approved by the Financial Reporting Council. This was a significant achievement given that many higher profile names were not awarded the same accolade. The renewable energy elements of the portfolio had a very strong year in 2020 and ceded some of those gains in 2021, but we remain interested in a plethora of companies innovating to generate, store and save renewable energy. In discussions with numerous investee companies, we have learnt that their ESG efforts consume considerable resources, and therefore represent a material expense for shareholders, for the benefit of the wider society. We remain concerned that the ever-increasing wave of regulation in all its various forms has become a disincentive for companies to raise new capital via the public markets, whilst others are tempted by funds from private equity where the regulatory burden is lighter.

The AGM will be held on the 19th April 2022 and we expect to return to the normal practice of welcoming shareholders in person. This is, of course, subject to government restrictions. This will be my first AGM as chairman and it will be a great pleasure to hold this meeting under more normal circumstances. I would like to take this opportunity to mention my predecessor as chairman, Ian Russell, and to thank him sincerely for his contribution to the Company. This particular AGM provides shareholders with an opportunity to vote on the continuation of the Company, as the articles of association require every third year. The board has also carried out a review of our articles to ensure that they reflect current best practice and legislative changes and a number of modifications are proposed as a result. Your board strongly recommends that shareholders vote in favour of both the continuation resolution and the changes to the articles.

2021 has been a mixed year with an unusually small proportion of the portfolio delivering the returns. More positively we are pleased that the portfolio has proved resilient through the second year of Covid. The Net Asset Value per share has appreciated 63.0% over the two years affected by the pandemic. Furthermore, Bloomberg estimates of the P/E (price to earnings) of the portfolio has only increased by a tenth over the two years and has actually declined a little over the last year. This NAV increase reflects takeover premiums, earnings growth, and the highly rated software sector being usefully rerated, while more modestly rated stocks have appreciated as a proportion of the whole. This provides a more solid base from which to go forward.

The fact that we have managed to operate relatively normally during the Covid period is due in large part to the dedication of the Herald Investment Management team. There have been many examples of team members going beyond what could have been reasonably expected and I am immensely grateful to them for their support during this difficult period.

As ever there is much to worry about geo-politically with uncertainties in Russia/Ukraine, China/Taiwan/US and the US/Iran of particular concern. Added to these, this year we have the new challenge of soaring energy prices which, when combined with supply-chain inflation, and inevitable fiscal tightening, seems bound to put pressure on consumer spending. However, much of the technology sector has become non-discretionary spend for consumers, businesses and governments alike and we still see strong growth prospects in our chosen sector. This, combined with the quality of the companies in the portfolio, means that your board remains optimistic about our future prospects.

TOM BLACK
Chairman
21 February 2022

INVESTMENT MANAGER'S REPORT

It is a relief to report another record year-end net asset value after another challenging year. The more time goes by, the more challenging the lack of interaction in person with companies becomes. That said, video conferencing has been a wonderful tool, which has proved satisfactory for providing updates with management we know well, and I am sure it will be heavily-used going forwards. During the year we had c.1,200 video calls with investee and potential investee companies. Nevertheless, without face-to-face meetings, it is more challenging to get to know new companies, and to integrate new members of staff. The informal spontaneous dialogues over the desk in the office are much missed as well. It is still unclear how much working habits will change longer term, but it seems inevitable that hybrid working will persist, which entails a permanently expanded IT infrastructure.

The quantitative easing and loose fiscal policies across the globe have helped keep economies buoyant this year while supply chain issues and a tight labour market have been recurring discussion points. In the technology sector wage inflation and high stock compensation have been perennial issues, but hardware inflation is a new challenge. It is difficult to discern which companies will disappoint as a result of supply-chain issues reducing the ability to deliver revenues, and we do not know for sure which are actually benefiting from new-found pricing power. Furthermore, by how much is demand inflated by companies building inventory throughout the supply-chain, implying only temporary extra demand in 2021? Certainly, the semiconductor and technology hardware stocks have delivered powerful returns during the year in terms of share performance.

The renewable energy sector was a star performer in 2020 with total gains of £45.7m led by ITM Power, but there was a negative return of £12.3m in 2021, which would have been worse had substantial gains not been realised. The desire to reduce carbon emissions, which is being progressively enshrined in legislation at varying speeds in different jurisdictions, is clearly of huge economic significance. The sector became too fashionable in 2020, and valuations have corrected, but it continues to be a dynamic space. We regularly see companies wishing to raise capital arguing they have a unique innovation. Renewable energy generation, principally wind and solar, has reached a mature stage, but energy storage remains a problem to be solved.

The most disappointing sector has been software, which was 34.1% of net assets at the year end. Within the portfolio the software companies only returned 7.2%, but the basket of companies in the Bloomberg software sector with a market capitalisation between $100m and $3bn at the year-end delivered a median return of –1.2% in sterling terms. We have felt uncomfortable with valuations in this subsector, particularly those with a SAAS (software-as-a-service) model which often had poor profitability but were being valued on ever-increasing multiples of revenues. If last year the frustration was that we had reduced positions too early, this year's frustration is that we should and could have taken profits more aggressively. Nevertheless, it is reassuring that there has been a useful correction as this gives us more confidence that fundamentals will win out over time.

UK

The UK return was 23.3% but with markedly divergent returns between stocks and sub-sectors. Last year the UK performance was enhanced by a return of 829.2% (£38.3m) from the renewable energy sector, mainly ITM Power; this year the renewable sector returned -29.6% (–£8.9m). This was more than offset by a broadly-based return from the media sector of 66.1% (£94.3m). The star performer was Next Fifteen which appreciated 159.5% or £29.4m by value. It had been the biggest loser in the portfolio in H1 2021 and I remember being relieved, during the uncertainty of Covid, that if Next Fifteen was our biggest problem we have not had too much damage. The best percentage return however came from Audioboom +446.0% which equated to £10.1m. They specialise in podcasts with advertising as the main revenue source. Future and YouGov also contributed strongly.

The worst performing stock in the UK and the whole Company in sterling terms was GB Group. It has been a wonderful long-term performer but had become expensive, though we had already realised gains of £9.7m in 23 trades over the last two years. The challenge of the UK market is poor liquidity, and we can only manoeuvre with difficulty. When GB Group attempted to undertake a large fundraising to fund a major acquisition, the shareholder register was in poor shape to support it. While we are supportive long-term shareholders the scale was too large, given our heavy weighting, to offer more than a gesture of support. In the end £305m was raised at a heavily discounted rate. There is clearly indigestion following this placing and the shares may be dull for a while. Although there are many interesting UK companies there are insufficient institutional investors in the small market capitalisation arena and insufficient liquidity, which means we have continued to gently reduce our UK weighting. A further £57.5m of sales less purchases was withdrawn during the year. It now means that the net cash cost of the UK portfolio, which is valued at £839m is negative £269m: i.e. We have withdrawn more cash from the UK portfolio than has ever been invested, by a considerable margin.

REGIONAL ALLOCATION CHANGES (STERLING THOUSANDS)

	Valuation at 31 December 2020	Net acquisitions/ (disposals)	Amortisation	Appreciation/ (depreciation)	Valuation at 31 December 2021
Equities*					
UK	740,637	(57,654)	–	156,483	**839,466**
EMEA	128,872	10,742	–	61,630	**201,244**
North America	366,703	(13,036)	–	38,524	**392,191**
Asia Pacific	151,945	27,403	–	28,985	**208,333**
Total equities	1,388,157	(32,545)	–	285,622	**1,641,234**
Government bonds	42,426	87	2	(267)	**42,248**
Total investments	1,430,583	(32,458)	2	285,355	**1,683,482**
Net liquid assets	72,784	4,145	–	466	**77,395**
Total assets+	1,503,367	(28,313)	2	285,821	**1,760,877**

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

The table below summarises the 2021 UK equity returns:

	YE Market Value £m	Total return £m	% of total region	2021 IRR
Media	211.1	94.3	25.1%	66.1%
Semiconductors	14.7	–4.5	1.8%	–18.9%
Technology Hardware	96.9	18.1	11.5%	22.8%
Software	247.3	20.2	29.5%	9.2%
Technology Services	91.2	15.9	10.9%	20.7%
Total main sectors	661.2	144.0	78.8%	
Total UK region	839.5	163.7		23.3%

In the technology sectors Seeing Machines, Kainos, Idox, discoverIE and SDI all delivered good returns, and the overall performance was solid.

There are c400,000 top-rate taxpayers in the UK who pay c£60bn in tax. I have always believed that many economic challenges would be alleviated if top-rate taxpayers paid twice as much tax, but not by doubling the rate but by doubling the number of top-rate tax payers. We are confident that we have positively contributed by providing £501m in primary capital to UK companies (including £38.2m in 2021), which has generated well paid jobs and millionaires, and simultaneously created value for shareholders.

The £164m total return in 2021 has increased the total return cumulatively since inception in 1994 to £1.23bn from the UK portfolio, with a further £798m from overseas markets. I further observe that since 1 July 1996, when the Company globalised its investment remit, the total return of the Company's shares has been 1,734.5% whereas the total return of the Russell 2000® Technology Index (small cap) has been only 674%, so outperformance exceeds 1,000%. Whilst the US has been good at scaling the exceptional mega-caps, over the long term our UK returns have been considerably higher than those in the US. Nevertheless, in recent years the overseas markets have outperformed the UK, in part because valuations have been rerated more, which reflects the fact that capital has been sucked out of the UK. We remain of the view that there remains an entrepreneurial culture in the UK, but the smaller companies market is suffering from a shortage of institutional capital and hence liquidity.

We believe that, in part, this shortage stems from over-regulation and that the UK regulatory environment needs to balance the fact that it is in the country's and consumers' interests to have a strong economy which requires letting investors make higher-risk investments, sometimes profitably and sometimes not.

North America

North America remains the second largest region, and again we have purposefully withdrawn net cash - only £13m in 2021 but £79m over three years. This reflected our concerns that valuations were unrealistically high, particularly in the software sector. In fact, we have withdrawn net cash of £38m from the software sector over two years. Nevertheless, we could have done more. In the basket of software companies with a market capitalisation between $100m and $3bn at the year-end as defined by Bloomberg the North American component performed worse than those from rest of the globe with a median return of –16.3%, so at least profit taking protected some returns, while our endeavours to focus on better value has also contributed to a positive return of 2.1%.

North America returned 11.0%. Performance is a little behind the Russell 2000® Technology Index (small cap), the worst performers by value being LivePerson (–£8.1m), Bandwidth (–£4.8m) and Pegasystems (–£4.4m). These had been star performers in 2020 but ceded half of last year's returns. The North American portfolio outperformed the Russell 2000® Technology Index last year by c17%, and in hindsight we should have banked more profit in some of the momentum stocks. On the other hand, three stocks delivered returns of over 100%, Everspin Technologies, Thryv and long held Silicon Motion Technology.

The Bloomberg basket also delivered double figure negative weighted average returns for media stocks and technology services.

The table below summarises the 2021 North American equity returns:

	YE Market Value £m	Total return £m	% of total region	2021 IRR
Media	11.2	3.8	2.9%	37.0%
Semiconductors	51.1	15.9	13.0%	44.2%
Technology Hardware	70.5	12.9	18.0%	23.5%
Software	214.3	4.4	54.6%	2.1%
Technology Services	15.1	–0.1	3.9%	–0.9%
Total main sectors	362.2	36.9	92.4%	
Total North America region	392.2	39.5		11.0%

The semiconductor sector delivered the best returns for the Company and for the Bloomberg basket. They were more sensibly priced, they tend not to suffer such egregious dilution from stock-based compensation as we see in software companies, and widely publicised capacity shortages have given pricing power.

The divergence between the performance of the Russell 1000® Technology Index and the Russell 2000® Technology Index (large companies and small companies respectively) has continued. Over the last 5 years the large market capitalisation index has returned 269.5% and the small cap index only 134.7%. The drivers have obviously been Microsoft, Apple, Alphabet and Meta (formerly Facebook), which have been exceptional. Nevertheless, over 5 years our North American portfolio has delivered an IRR of 210.5% which is well ahead of the Russell 2000® Index (small cap) in North America.

For many years, the number of smaller quoted companies on the US market has fallen with the burdensome costs of Sarbanes-Oxley, and the growth of private capital. We are delighted to see a reversal of this trend in 2021, albeit many companies have listed through SPACs: Special Purpose Acquisition Vehicles. We have avoided these at IPO, because it is difficult to undertake appropriate due diligence, but no doubt some of them will be interesting investments when we have a chance to get to know them.

EMEA

EMEA has returned 46.3%, which is pleasing. The top three long-held holdings returned £39.0m or 61.9% of the EMEA return. However, all the other holdings, many of which are new, collectively returned 26.4%. The European portfolio has capitalised on the strong semiconductor market more than any other region.

The table below summarises the 2021 EMEA equity returns:

	YE Market Value £m	Total return £m	% of total region	2021 IRR
Media	13.1	2.8	6.5%	29.4%
Semiconductors	55.0	26.1	27.3%	78.8%
Technology Hardware	14.6	2.4	7.3%	17.8%
Software	79.9	19.1	39.7%	34.2%
Technology Services	22.8	8.7	11.3%	69.7%
Total main sectors	185.4	59.1	92.1%	
Total EMEA region	201.2	63.0		46.3%

Even the software sector performed well in Europe led by Esker, which seemed much more sensibly valued than Coupa – a US company in a similar market, whose share price has more than halved from the peak levels seen in February last year.

Asia

Asia delivered a solid performance of 19.0%, which follows the exceptional 60.7% Asia return in 2020. Again, there have been disparate performances by country and sector.

In 2020 Kingdee International Software in Hong Kong and the Japanese holdings were the stars, with the latter rising 63.3%. Following such strong performance in Japan in 2020, valuations had become stretched, particularly for high-growth internet and software companies. This year has seen a significant derating in Japan with the Japanese portfolio falling 18.3% in sterling terms. The Yen's weakness was also a negative contributor to these Japanese returns with a 9.4% fall in 2021 putting it close to a five year low against sterling. The leading Japanese small cap index - the Mothers Index - had a terrible year declining over 25% in sterling terms. In contrast to Japan, the Taiwan portfolio has again excelled with a return of 89.8% delivering the majority of the region's profits with the largest individual contributions from Momo (£7.5m) and E Ink (£5.5m). Taiwan is obviously at the centre of the hot semiconductor and technology hardware sectors. Australia returned 19.3% with the dominant contribution due to the takeover of Mainstream (£5.6m) at a substantial premium.

Given the current excess of demand over supply for technology hardware and semiconductors, companies have been able to push through price increases to customers to an almost unprecedented extent. This is a significant shift from the generally deflationary environment of the past, which many Asian hardware companies have faced. Price inflation can be transformative on the reported financial profitability of such low margin, fixed asset and working-capital-intensive businesses.

The prospect of increasing inflation and rising interest rates has also caused investors to reassess the appropriate valuation multiples of high multiple, long duration investments across the globe. In combination these factors have led to significant rotation away from high multiple "growth" companies to those that are benefitting from rising prices of hardware. This shift in perception was particularly evident in Asian markets in the latter part of the year and the pattern seems set to be maintained in the short term. The longer-term outlook for inflation and interest rates is uncertain.

The geopolitical "war" between China and the US continues, with the finance and technology sectors remaining key fronts in the "battle". Governments globally have recognised the strategic importance of their technology sectors and, in particular, the role of semiconductors by supporting the localisation of semiconductor fabrication plants. There are hundreds of billions of dollars of capex planned over the next few years to localise and increase the output of semiconductors. Whether or not this capex will in time reverse the current supply-demand imbalance will have profound implications. The value of our holdings with direct exposure to China/ Hong Kong is relatively low at less than £20m, but the two largest holdings of Kingdee International Software and 51job both detracted from performance in the year. In general, the US-listed ADRs of Chinese companies had a terrible year. The SEC (US regulator) is planning a new law that mandates foreign companies to open their books to US audit scrutiny or risk being delisted from the New York Stock Exchange and Nasdaq within three years. The risks and opacity of the VIE (Variable Interest Entity) structure used by such ADRs has been reflected in lower share prices. 51job is the only US-listed Chinese ADR holding within the portfolio and in theory is being taken private by the founders with the backing of Chinese private equity at a price of $79 per ADR, this being a 61% premium to the price at the year end which reflected the uncertainty of the takeover completing in the current environment.

We retain our caution about investing in Chinese companies, due to the governance risks and political and regulatory uncertainties. Political tensions are also increasing between China and Taiwan with increased "sabre-rattling" evident. It is somewhat surprising how well the Taiwanese market has performed given this political backdrop.

Asia continues to lag the US and Europe in terms of technology adoption. However, the small company stock markets in the region remain dynamic and continue to finance small quoted technology companies which can benefit from increasing technology usage across the region.

The table below summarises the 2021 Asian equity returns:

	YE Market Value £m	Total return £m	% of total region	2021 IRR
Media	20.4	–0.9	9.8%	–4.8%
Semiconductors	32.7	13.8	15.7%	65.8%
Technology Hardware	37.8	11.4	18.1%	54.8%
Software	58.7	–4.4	28.2%	–7.9%
Technology Services	24.2	3.9	11.6%	23.3%
Total main sectors	173.8	23.8	83.4%	
Total Asia region	208.3	30.8		19.0%

Takeovers

The takeover of a further 21 holdings were announced in 2021 with an aggregate value of c.£103m. This is a somewhat lower percentage of the portfolio than usual, but Covid did put the brakes on corporate activity, and it seems private equity has only gradually recovered confidence. The largest takeovers of Avast, Mimecast and Bottomline Technologies have yet to complete. There have been three in Asia - Mainstream, 51job and Rhipe. Private equity has continued to acquire businesses such as Mimecast and Bottomline, where they can use efficient capital structures and low-cost debt and operate to a lower regulatory burden.

Economic Background
The market is watching inflation, and rationally envisaging interest rate rises although it is for debate when rises will occur. There has been media discussion that this is adverse for the technology sector. Certainly, rising interest rates are a headwind for stock markets in general, but we do not believe that the sector will be at the eye of the storm. In public markets there is rarely financial leverage on the balance sheets of TMT stocks, so no direct impact. Much technology expenditure is effectively a rental model, with capital expenditure undertaken by the large datacentre companies like Microsoft Azure and Amazon web services, making it less exposed to interest rate levels. Thirdly, the best sectors in an inflationary environment are those with negative working capital, such as food retailers, where the customer pays at the till, and suppliers are paid 90 days later. Much of the TMT sector has minimal exposure to heavy working capital. The one headwind is that future earnings have to be discounted at a higher rate, and stocks with ratings discounting high future growth have greater scope for P/E compression. We have tended to be averse to companies discounting too many years' growth with or without inflation.

Outlook
The technology sector has started 2022 with a sharp correction although this has been skewed to the most highly-rated stocks. There are evident headwinds to corporate profitability from rising costs - wage inflation, tax rises and ESG - but these issues will affect all sectors, and rising interest rates will be a bigger headwind for the bond market than they will for equities. On balance we remain confident that the correction will prove a good buying opportunity, because generally we expect that end consumer demand for the products and services of the Company's investee companies is likely to remain robust.

Sector Performance*
(Sterling Millions)

	Market value equity portfolio 31 Dec 2021	**% of equity portfolio 31 Dec 2021**	**Total return equity portfolio 31 Dec 2021**	Total return equity portfolio 31 Dec 2020
Software	**600.2**	**36.6**	**39.3**	180.1
Technology Services	**153.3**	**9.3**	**44.8**	17.2
Semiconductors	**153.5**	**9.4**	**51.2**	43.3
Technology Hardware	**219.8**	**13.4**	**28.4**	40.9
Advertising and Marketing	**125.5**	**7.6**	**57.2**	15.6
Internet Media and Marketing Services	**73.7**	**4.5**	**23.5**	12.0
Electrical Equipment	**49.4**	**3.0**	**7.1**	14.4
Telecommunications	**43.9**	**2.7**	**5.0**	2.4
Publishing and Marketing Broadcasting	**40.0**	**2.4**	**20.5**	0.5
Industrial Intermediate Production	**36.8**	**2.2**	**13.0**	1.7
Renewable Energy	**29.7**	**1.8**	**–12.3**	45.8
Other	**115.4**	**7.1**	**19.3**	46.8
Total	**1,641.2**	**100.0**	**297.0**	420.7

* Source: Bloomberg Industry Classification Standard (31 December 2020: Comparative figures have been restated).

Katie Potts
21 February 2022

CLASSIFICATION OF INVESTMENTS

Classification*	UK %	EMEA %	North America %	Japan & Asia Pacific %	**2021 Total %**	2020 Total %
COMMUNICATIONS	**13.6**	**0.8**	**1.1**	**1.5**	**17.0**	**15.7**
Advertising and Marketing	6.8	0.1	0.1	0.1	**7.1**	6.1
Cable and Satellite	–	–	–	–	**–**	0.2
Entertainment Content	1.0	–	–	–	**1.0**	1.4
Internet, Media and Services	2.2	0.6	0.3	1.1	**4.2**	4.7
Publishing and Broadcasting	2.0	–	0.2	–	**2.2**	0.9
Telecommunications	1.6	0.1	0.5	0.3	**2.5**	2.4
CONSUMER DISCRETIONARY	**0.1**	**–**	**–**	**0.4**	**0.5**	**0.4**
E-Commerce Discretionary	–	–	–	0.4	**0.4**	0.3
Wholesale - Discretionary	0.1	–	–	–	**0.1**	0.1
CONSUMER STAPLES	**–**	**–**	**–**	**0.1**	**0.1**	**0.2**
Retail - Consumer Staples	–	–	–	0.1	**0.1**	0.2
ENERGY	**1.4**	**–**	**0.3**	**–**	**1.7**	**3.2**
Renewable Energy	1.4	–	0.3	–	**1.7**	3.2
FINANCIALS	**0.8**	**–**	**–**	**0.6**	**1.4**	**1.8**
Asset Management	0.2	–	–	0.1	**0.3**	0.5
Equity Investment Instruments	0.5	–	–	–	**0.5**	1.0
Specialty Finance	0.1	–	–	0.5	**0.6**	0.3
HEALTH CARE	**1.3**	**0.4**	**–**	**–**	**1.7**	**2.0**
Biotechnology and Pharmaceutical	0.9	–	–	–	**0.9**	1.2
Health Care Facilities and Services	0.2	–	–	–	**0.2**	0.3
Medical Equipment and Devices	0.2	0.4	–	–	**0.6**	0.5
INDUSTRIALS	**4.3**	**0.4**	**0.9**	**0.5**	**6.1**	**5.5**
Aerospace and Defence	–	–	0.1	–	**0.1**	0.2
Commercial Support Services	0.8	–	0.1	0.1	**1.0**	0.8
Electrical Equipment	1.6	0.4	0.7	0.2	**2.9**	2.9
Industrial Intermediate Production	1.9	–	–	0.2	**2.1**	1.6
MATERIALS	**0.3**	**–**	**–**	**0.1**	**0.4**	**0.5**
Chemicals	0.1	–	–	0.1	**0.2**	0.4
Forestry, Paper and Wood Products	0.2	–	–	–	**0.2**	0.1
TECHNOLOGY	**25.5**	**9.8**	**20.0**	**8.6**	**63.9**	**62.9**
Semiconductors	0.8	3.1	2.9	1.9	**8.7**	7.9
Software	14.0	4.6	12.2	3.3	**34.1**	36.3
Technology Hardware	5.5	0.8	4.0	2.1	**12.4**	11.0
Technology Services	5.2	1.3	0.9	1.3	**8.7**	7.7
UTILITIES	**0.4**	**–**	**–**	**–**	**0.4**	**0.2**
Gas and Water Utilities	0.4	–	–	–	**0.4**	0.2
TOTAL EQUITIES (including convertibles and warrants)	**47.7**	**11.4**	**22.3**	**11.8**	**93.2**	**–**
Total equities – 2020 (including convertibles and warrants)	49.3	8.6	24.4	10.1	**–**	92.4
BONDS	**1.1**	**–**	**1.3**	**–**	**2.4**	**2.8**
NET LIQUID ASSETS**	**1.0**	**–**	**2.9**	**0.5**	**4.4**	**4.8**

TOTAL ASSETS	**49.8**	**11.4**	**26.5**	**12.3**	**100.0**	**–**
Total assets – 2020	51.9	9.2	28.7	10.2	**–**	100.0
SHAREHOLDERS' FUNDS	**49.8**	**11.4**	**26.5**	**12.3**	**100.0**	
Shareholders' Funds – 2020	51.9	9.2	28.7	10.2	**–**	100.0
Number of equity investments (including convertibles and warrants)	145	38	83	90	**356**	324

* Source: Bloomberg Industry Classification Standard (31 December 2020: Comparative figures have been restated).

** Cash, current assets and liabilities.

TOP 20 EQUITY HOLDINGS
AS AT 31 DECEMBER 2021

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

Next 15

Next 15 is a group of businesses designed to help companies grow. Next 15 perceive themselves as more than marketing consultants and growth consultants, they help their clients in four different ways. Firstly, they use data to generate the insights that help businesses understand the opportunities and challenges they face and arm them with the knowledge they need to make the best decisions. Secondly, they help their customers optimise their brand reputation and build the mission-critical digital assets that businesses need to engage with their audiences. Thirdly, they use creativity, data, and analytics to create the connections with customers to drive sales and other forms of customer interaction. Finally, Next 15 help customers redesign their business model or create new ventures to maximise the value of their organisation.	£41.5M 2.4% 3.4% £1.9M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

GBG

GB Group (GBG) is a global leader in digital identity. GBG solutions help organisations quickly validate and verify the identities and locations of their customers. GBG's products combine an unparalleled breadth of 350 data sets from partners across the world, that in aggregate, enable GBG to verify billions of people in over 70 countries. GBG's market-leading technology is used by over 20,000 customers including some of the best known organisations around the world – including US e-commerce giants, Asia's biggest banks and European household brands. With a rich heritage of more than 30 years, offices across 15 countries and more than 1,000 employees globally, GBG helps companies and governments to fight fraud and cybercrime, lower the cost of compliance and deliver seamless experiences, so their customers can transact online with greater confidence.	£34.0M 1.9% 1.8% £4.5M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

Diploma

Diploma is an international group supplying specialised products and services to a wide range of end segments in three sectors of life sciences, seals and controls. Diploma's businesses are focused on supplying essential products and services which are critical to customers' needs, providing recurring income and stable revenue growth. By supplying essential solutions, Diploma builds strong long-term relationships with customers and suppliers, which support attractive and sustainable margins. An entrepreneurial culture and decentralised management structure ensures that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment. The Group employs c.2,500 employees and its principal operating businesses are located in the UK, Northern Europe, North America and Australia.	£33.6M 1.9% 0.8% £0.7M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

YouGov

YouGov is an international research data and analytics group. Their data-led offering supports and improves a wide spectrum of marketing activities for a customer base that includes media owners, brands and media agencies. YouGov works with some of the world's most recognised brands. Key syndicated data solutions include the daily brand perception tracker, YouGov BrandIndex, and the media planning and segmentation tool, YouGov Profiles. The YouGov Realtime service provides a fast and cost-effective solution for reaching nationally representative and specialist samples. YouGov's Custom Research division offers a wide range of quantitative and qualitative research, tailored by sector specialist teams to meet clients' specific requirements. YouGov's proprietary global panel of over 17 million registered members across more than 40 markets provides thousands of data points on consumer attitudes, opinions and behaviour on a daily basis.	£31.5M 1.8% 1.8% £2.0M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

Nordic Semiconductor

Nordic Semiconductor is a fabless semiconductor company specialising in wireless technology for the IoT. Nordic's reputation is built on leading-edge technology and development tools that shield designers from RF complexity. The company pioneered ultra-low power wireless and helped develop Bluetooth LE. Its Bluetooth LE solutions made it the market leader, and are complemented by ANT+, Thread and Zigbee products. Nordic's low power, compact LTE-M/NB-IoT cellular IoT solutions leverage cellular infrastructure to extend the IoT network. Complementing its short-range and cellular IoT wireless technologies, Nordic's technology portfolio includes the Wi-Fi development team and IP assets acquired from Imagination Technologies in 2020.	£31.5M 1.8% 0.7% £3.0M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

Esker

Esker helps organisations around the world streamline their business document processes. Esker was founded as a software company in 1985 with a direct and simple vision in mind — to help businesses deliver their paper documents electronically. Today, Esker is a global cloud platform built to unlock strategic value for finance and customer service professionals, and strengthen collaboration between companies by automating the cash conversion cycle. Esker's solutions incorporate technologies like Artificial Intelligence (AI) to drive increased productivity, enhanced visibility, reduced fraud risk, and improved collaboration with customers, suppliers and internally. Over 600,000 users and 1,400 Software-as-a-service (SaaS) customers operating in 50+ countries use Esker's automation solutions, these customers are supported by more than 800 Esker employees in 14 countries worldwide with global headquarters in Lyon, France, and U.S. headquarters in Madison, Wisconsin.	£29.2M 1.7% 1.6% £3.9M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

Silicon Motion Technology

Silicon Motion Technology (SMT) is a global leader in developing NAND flash controllers for SSDs and other solid state storage devices and has over 20 years of experience developing specialised processor ICs that manage NAND components and deliver high-performance storage solutions widely used in data centres, PCs, smartphones and commercial and industrial applications. SMT has one of the broadest portfolios of NAND controller intellectual property enabling the design of unique, highly optimised configurable IC plus related firmware controller platforms and complete turnkey controller solutions. NAND flash components, including current and up-coming generations of 3D flash produced by Intel, Kioxia, Micron, Samsung, SK Hynix, Western Digital and YMTC, are supported by SMT controllers than any other company. Customers include NAND flash makers, module makers, hyperscalers and OEMs. SMT are the world's leading supplier of SSD controllers used in PCs and other client devices and is a leading merchant supplier of eMMC/UFS controllers used in smartphones and IoT devices. SMT also supplies custom-designed high-performance Open-Channel data center SSDs to China's leading hyperscalers and customised small single-chip form factor SSDs for industrial, commercial and automotive applications. SMT was founded in 1995 in San Jose, California and now operate from corporate offices in Hong Kong, Taiwan and the US.

£25.0M	VALUATION
1.4%	OF TOTAL ASSETS
1.0%	OF ISSUED SHARE CAPITAL HELD
£1.7M	BOOK COST

Pegasystems

Pegasystems (Pega) delivers innovative software that reduces business complexity. Pega's adaptive, cloud-architected solution empowers people to rapidly deploy and easily extend and change applications to meet strategic business needs. From maximizing customer lifetime value and streamlining service to boosting efficiency, Pega helps the world's leading brands solve problems fast and transform for tomorrow. Pega clients make better decisions and get work done with real-time AI and intelligent automation. Since its founding in 1983, Pega has evolved its scalable architecture and low-code platform to stay ahead of rapid change.

£24.9M	VALUATION
1.4%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£1.5M	BOOK COST

Future

Future is a global platform business for specialist media with diversified revenue streams. Its content reaches 1 in 2 adults online in the UK and 1 in 3 in the US. Future is organised into two divisions, Media and Magazines. The Media division has demonstrated high-growth with complementary revenue streams including eCommerce for products and services, events, and digital advertising (including advertising within newsletters and video). It operates in a number of sectors including technology, games and entertainment, music, home and gardens, sports, TV and film, real life, knowledge, wealth and savings, women's lifestyle and B2B. The Magazine division focuses on publishing specialist content, with a combined global circulation of over 3 million delivered through more than 131 magazines and 735 bookazines published a year.

£23.3M	VALUATION
1.3%	OF TOTAL ASSETS
0.5%	OF ISSUED SHARE CAPITAL HELD
£2.3M	BOOK COST

S4 Capital

S4 Capital is a digital advertising and marketing services company established by Sir Martin Sorrell in May 2018. The company's strategy is to build a purely digital advertising and marketing services business, initially by integrating leading businesses in three practice areas: content, data and digital media and technology services. In August 2021, S4Capital launched its unitary brand by merging MediaMonks and MightyHive into MediaMonks. The Company now has well over 7,500 people in 33 countries across the Americas, Europe, Africa, the Middle East and Asia-Pacific.

£23.1M	VALUATION
1.3%	OF TOTAL ASSETS
0.7%	OF ISSUED SHARE CAPITAL HELD
£4.5M	BOOK COST

Radware

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

£22.1M	VALUATION
1.3%	OF TOTAL ASSETS
1.6%	OF ISSUED SHARE CAPITAL HELD
£4.5M	BOOK COST

Idox

Idox develops specialist software for government and industry, with an established track record serving tightly regulated markets including local authorities, health, engineering, transport and property. Built around the needs of the user and designed in collaboration with experts, the company's software delivers exceptional functionality and reliability to critical operations and embeds workflows that drive efficiency and best practice

£21.8M	VALUATION
1.2%	OF TOTAL ASSETS
7.1%	OF ISSUED SHARE CAPITAL HELD
£5.2M	BOOK COST

BE Semiconductor Industries

BE Semiconductor Industries (Besi) is a leading supplier of semiconductor assembly equipment for the global semiconductor and electronics industries, offering high levels of accuracy, productivity and reliability at a low cost of ownership. Besi develops leading edge assembly processes and equipment for leadframe, substrate and wafer level packaging applications in a wide range of end-user markets including electronics, mobile internet, computer, automotive, industrial, LED and solar energy. Customers are primarily leading semiconductor manufacturers, assembly subcontractors and electronics and industrial companies.

£21.4M	VALUATION
1.2%	OF TOTAL ASSETS
0.4%	OF ISSUED SHARE CAPITAL HELD
£0.9M	BOOK COST

Seeing Machines		
Seeing Machines, a global company founded in 2000 and headquartered in Australia, is an industry leader in vision-based monitoring technology that enable machines to see, understand and assist people. Seeing Machines' technology portfolio of AI algorithms, embedded processing and optics power products that need to deliver reliable real-time understanding of vehicle operators. The technology spans the critical measurement of where a driver is looking, through to classification of their cognitive state as it applies to accident risk. Reliable "driver state" measurement is the end-goal of driver monitoring systems (DMS) technology. Seeing Machines develops DMS technology to drive safety for automotive, commercial fleet, off-road and aviation. The company has offices in Australia, the US, Europe and Asia and supplies technology solutions and services to industry leaders in each market vertical.		£19.6M VALUATION 1.1% OF TOTAL ASSETS 4.6% OF ISSUED SHARE CAPITAL HELD £8.0 BOOK COST

ITM Power		
ITM Power designs electrolyser products which generate hydrogen gas, based on Proton Exchange Membrane (PEM) technology. This technology uses electricity and water to generate hydrogen gas on-site with oxygen as the only by-product. ITM Power manufactures integrated hydrogen energy solutions for grid balancing, energy storage and the production of renewable hydrogen for transport, renewable heat and chemicals. The shift away from carbon towards hydrogen is led by the drive for improved air quality worldwide, the growth of renewable power generators in the energy mix and a need to de-carbonise industrial processes. To meet potential demand and help accelerate global progress towards net-zero emissions, ITM Power have scaled up their manufacturing capability. ITM Power operates from the world's largest electrolyser factory in Sheffield, with the announced intention to build a second UK Gigafactory in Sheffield expected to be fully operational by the end of 2023. The Group's first international facility, is intended to be operational by the end of 2024. Customers and partners include Sumitomo, Ørsted, Phillips 66, Scottish Power, Siemens Gamesa, Cadent, Northern Gas Networks, Gasunie, RWE, Engie, GNVert, National Express, Toyota, Hyundai and Anglo American among others.		£19.6M VALUATION 1.1% OF TOTAL ASSETS 0.8% OF ISSUED SHARE CAPITAL HELD £4.3M BOOK COST

Descartes		
Descartes Systems (Descartes) is a leader in providing on-demand, SaaS solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use Descartes' modular SaaS solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Descartes' headquarters are in Waterloo, Ontario, Canada and they have offices and partners around the world.		£18.6M VALUATION 1.1% OF TOTAL ASSETS 0.4% OF ISSUED SHARE CAPITAL HELD £0.6M BOOK COST

discoverIE		
discoverIE Group is an international group of businesses that designs and manufactures innovative components for electronic applications. The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally, by designing components that meet customers' unique requirements. These are then manufactured and supplied throughout the life of their production and a high level of repeating revenue is generated with long term customer relationships. With a focus on key markets driven by structural growth and increasing electronic content, namely renewable energy, medical, transportation and industrial and connectivity, the Group aims to achieve organic growth that is well ahead of GDP and to supplement that with targeted complementary acquisitions. The Group's continuing operations employ c.4,500 people and its principal operating units are located in Continental Europe, the UK, China, Sri Lanka, India and North America.		£18.0M VALUATION 1.0% OF TOTAL ASSETS 1.8% OF ISSUED SHARE CAPITAL HELD £3.9M BOOK COST

Volex		
Volex is a leader in integrated manufacturing for performance-critical applications and a supplier of power products. The company serves a diverse range of markets and customers, with particular expertise in cable assemblies, higher-level assemblies, data centre power and connectivity, electric vehicles, and consumer electricals. Volex are headquartered in the UK and operate from 18 manufacturing locations with a global workforce of over 6,400 employees across 21 countries. Products are sold through internal locally based sales teams and via authorised distributor partners to Original Equipment Manufacturers ('OEMs') and Electronic Manufacturing Services ('EMS') companies worldwide. Volex products and services provide power and connectivity to a range of products, from the most common household items to the most complex medical equipment.		£17.3M VALUATION 1.0% OF TOTAL ASSETS 3.2% OF ISSUED SHARE CAPITAL HELD £5.4M BOOK COST

Kainos		
Kainos is a UK-headquartered IT services provider, operating through two specialist business divisions, Digital Services and Workday Practice. The Digital Services division helps customers to solve their business problems by using technology. Working collaboratively with public, commercial and healthcare customers around the world, Kainos offers innovative and transformative solutions which are secure, accessible, cost-effective, and take a user-first approach. They leverage the benefits of the public cloud and enable customers to utilise their data to drive decision making. Kainos Workday Practice is closely linked to Workday Inc's software suite, which includes cloud-based software for Human Capital Management ("HCM"), Financial Management and Planning, enabling enterprises to organise their staff efficiently and support their financial reporting requirements. Kainos provides consulting, project management, integration and post-deployment services for Workday's software suite globally.		£16.6M VALUATION 1.0% OF TOTAL ASSETS 0.7% OF ISSUED SHARE CAPITAL HELD £1.5M BOOK COST

Mimecast			
Mimecast was founded in 2003 with a focus on delivering relentless IT protection and are a leading provider of next generation cloud security and risk management services for corporate information and email. They aim to prevent cyber disruption for tens of thousands of corporate customers around the globe. Mimecast has built an intentional and scalable design ideology that solves the number one cyber attack vector – email. They integrate brand protection, security awareness training, web security, compliance and other essential capabilities. Mimecast aims to protect large and small organisations from malicious activity, human error and technology failure; and to lead the movement toward building a more resilient world. In late 2021 Mimecast received a takeover offer from Permira.		£15.9M 0.9% 0.4% £5.7M	VALUATION OF TOTAL ASSETS OF ISSUED SHARE CAPITAL HELD BOOK COST

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	2021 Revenue £'000	**2021 Capital £'000**	**2021 Total £'000**	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Gains on investments	**–**	**285,355**	**285,355**	–	412,632	412,632
Gains/(losses) on foreign exchange	**–**	**466**	**466**	–	(3,173)	(3,173)
Income	**12,253**	**–**	**12,253**	9,361	–	9,361
Investment management fee	**(16,102)**	**–**	**(16,102)**	(12,223)	–	(12,223)
Other administrative expenses	**(1,065)**	**(9)**	**(1,074)**	(837)	(100)	(937)
(Loss)/profit before taxation	**(4,914)**	**285,812**	**280,898**	(3,699)	409,359	405,660
Taxation	**(503)**	**–**	**(503)**	(298)	–	(298)
(Loss)/profit after taxation	**(5,417)**	**285,812**	**280,395**	(3,997)	409,359	405,362
(Loss)/profit per ordinary shares (basic and diluted)	**(8.33p)**	**439.51p**	**431.18p**	(6.00p)	614.30p	608.30p

There is no final dividend proposed (2020 – nil).

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

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

BALANCE SHEET
AT 31 DECEMBER

	2021 £'000	2020 £'000
Fixed assets		
Investments held at fair value through profit or loss	**1,683,482**	1,430,583
Current assets		
Cash and cash equivalents	**74,551**	72,929
Other receivables	**4,374**	1,460
	78,925	74,389
Current liabilities		
Other payables	**(1,530)**	(1,605)
	(1,530)	(1,605)
Net current assets	**77,395**	72,784
TOTAL NET ASSETS	**1,760,877**	1,503,367
Capital and reserves		
Called up share capital	**16,189**	16,446
Share premium	**73,738**	73,738
Capital redemption reserve	**5,763**	5,506
Capital reserve	**1,673,351**	1,410,424
Revenue reserve	**(8,164)**	(2,747)
TOTAL SHAREHOLDERS' FUNDS	**1,760,877**	1,503,367
NET ASSET VALUE PER ORDINARY SHARE (including current year revenue)	**2,719.33p**	2,285.33p
NET ASSET VALUE PER ORDINARY SHARE (excluding current year revenue)	**2,727.70p**	2,291.41p

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up Share Capital £'000	**Share Premium £'000**	**Capital Redemption Reserve £'000**	**Capital Reserve £'000**	Revenue Reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2021	**16,446**	**73,738**	**5,506**	**1,410,424**	(2,747)	1,503,367
Profit/(loss) after taxation	**–**	**–**	**–**	**285,812**	(5,417)	280,395
Shares purchased for cancellation	**(257)**	**–**	**257**	**(22,885)**	–	(22,885)
Shareholders' funds at 31 December 2021	**16,189**	**73,738**	**5,763**	**1,673,351**	(8,164)	1,760,877

FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2020	16,828	73,738	5,124	1,025,909	1,250	1,122,849
Profit/(loss) after taxation	–	–	–	409,359	(3,997)	405,362
Shares purchased for cancellation	(382)	–	382	(24,844)	–	(24,844)
Shareholders' funds at 31 December 2020	16,446	73,738	5,506	1,410,424	(2,747)	1,503,367

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	2021 £'000	**2021 £'000**	2020 £'000	2020 £'000
Cash flow from operating activities				
Profit before finance costs and taxation	**280,898**		405,660	
Adjustments for gains on investments	**(285,355)**		(412,632)	
Purchase of investments	**(206,289)**		(186,269)	
Sale of investments	**235,293**		202,369	
Adjustment for other movements in investment gains	**–**		(657)	
Decrease in receivables	**358**		548	
Increase in payables	**128**		226	
Amortisation of fixed income book cost	**(2)**		35	
Effect of foreign exchange rate changes	**(466)**		3,173	
Overseas tax on overseas income	**(524)**		(311)	
Net cash inflow from operating activities		**24,041**		12,142
Cash flow from financing activities				
Undrawn facility fee paid	**–**		(39)	
Shares purchased for cancellation	**(22,885)**		(24,844)	
Net cash outflow from financing activities		**(22,885)**		(24,883)
Net increase/(decrease) in cash and cash equivalents		**1,156**		(12,741)
Cash and cash equivalents at start of the year		**72,929**		88,843
Effect of foreign exchange rate changes		**466**		(3,173)
Cash and cash equivalents at the end of the year		**74,551**		72,929
Comprised of:				
Cash and cash equivalents		**74,551**		72,929

Cash flow from operating activities includes interest received of £777,000 (2020 – £1,333,000) and dividends received of £11,269,000 (2020 – £7,391,000).

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

INCOME

	2021 £'000	2020 £'000
Dividend income from investments		
UK dividends from listed investments	**3,407**	2,468
UK dividends from unlisted investments (inc AIM)	**3,093**	2,475
Overseas dividends from UK-listed and AIM companies	**439**	328
Overseas dividend income	**4,670**	2,887
	11,609	8,158
Interest income from equity investments		
Income from unlisted (inc AIM) UK convertible bonds	**269**	595
Income from unlisted US convertible bonds	**44**	33
	313	628
Fixed interest		
UK interest from government securities	**(16)**	4
Overseas interest from government securities	**361**	581
	345	585
Other income		
Deposit interest	**(20)**	(10)
Underwriting commission	**6**	–
	(14)	(10)
Total income	**12,253**	9,361

Included within dividend income are special dividends of £706,000 (2020 – £445,000). Included within deposit interest received of £nil (2020: £31,000), and interest paid of £20,000 (2020: 41,000).

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

Business Model
The management of the Company and the implementation of its investment strategy is contracted to HIML, which is authorised and regulated by the Financial Conduct Authority both for investment management and as an Alternative Investment Fund Manager.

Administration of the Company and its investments has been delegated by HIML to the Bank of New York Mellon (International) Limited (BNYMIL) and company secretarial duties have been delegated to Sanne Fund Services (UK) Limited (Sanne).

BNYMIL is the depositary under a tripartite agreement between HIML, the Company and BNYMIL. The depositary is also responsible for custody activities.

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

Investment policy – strategy
While the policy is global investment in smaller quoted companies in TMT, the approach is to construct a diversified portfolio through the identification of individual companies which offer long-term growth potential, typically over a five-year horizon or more. The portfolio is actively managed and does not seek to track any comparative index. With a remit to invest in smaller companies with market capitalisation generally below $3bn, there tends to be a correlation with the performance of smaller companies, as well as those of the technology sector. A degree of volatility relative to the overall market should be expected.

The risk associated with the illiquidity of smaller companies is reduced by generally restricting the stake in any one company to less than 10% of the shares in issue.

A number of investments are in early-stage companies, which have a higher stock specific risk but the potential for above average growth. Stock specific risk is reduced by having a diversified portfolio of over 350 holdings.

In addition, to contain the risk of any one holding, the manager generally takes profits when a holding reaches more than 5% of the portfolio. The manager actively manages the exposure within the constraint that illiquid positions cannot be traded for short-term movements.

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

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

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

The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risk).

A detailed analysis of the Company's investment portfolio is set out on pages 21 to 28 and in the manager's report.

Purchase of own shares
At the AGM of the Company to be held on 19 April 2022, the Company will as usual be seeking authority to make limited purchases of the Company's ordinary shares – see the notice of AGM on page 80. Buy-backs are considered by the board to be a useful tool, where cash is not being utilised for investment, to assist in the maintenance of liquidity in the Company's shares. Shares will only be bought back at a time when the Company's shares are trading at a discount to its prevailing net asset value.

Significant financial issues relating to the 2021 financial statements
The UK Corporate Governance Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed. While there were no significant issues, two matters of risk of particular focus at the balance sheet date are the risks that investments might not have been correctly valued or

beneficially owned. The committee receives bi-annual reports from the depositary confirming the valuation, existence and ownership of the Company's investments as well as the year end auditor's report on these items. No issues were discovered.

Principal risks and uncertainties
In accordance with the corporate objective of maximising capital appreciation the Company invests in securities on a worldwide basis. The Company can use gearing although no gearing was employed during the year. The Company's other financial instruments consist of cash and cash equivalents, short-term debtors and creditors.

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

A. MARKET RISK

(i) Other price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement;

(ii) Interest rate risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and

(iii) Foreign currency risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

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

There were no past due nor impaired assets as of 31 December 2021 (2020 – nil).

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

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

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

A. MARKET RISK
(i) Other Price Risk
The Company's investment portfolio is exposed to market price fluctuations which are monitored by the manager in pursuance of the corporate objective. Listed securities held by the Company are valued at bid prices, whereas material unlisted investments are valued by the directors on the basis of the latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines (Accounting Policy 1(c)). These valuations represent the fair value of the investments.

Other Price Risk Sensitivity
15.6% of the Company's total equity investments at 31 December 2021 (2020 – 15.5%) were listed on the main list of the London Stock Exchange and a further 35.0% (2020 – 36.5%) on AIM. The NASDAQ Stock Exchange accounts for 20.9% (2020 – 23.5%), New York Stock Exchange for 3.2% (2020 – 3.0%) and other stock exchanges or unlisted 25.3% (2020 – 21.5%). A 10% increase in equity investment prices at 31 December 2021 would have increased total net assets and profit and loss after taxation by £164,123,000 (2020 – £138,816,000). A decrease of 10% would have the exact opposite effect. The portfolio does not target any exchange as a comparative index, and the performance of the portfolio has a low correlation to generally used indices.

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

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

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

Financial Assets

	2021	**2021 Weighted**	2020	2020 Weighted

	2021 Fair value £'000	Weighted average interest rate/ interest rate	average period until maturity/ maturity date	2020 Fair value £'000	Weighted average interest rate/ interest rate	average period until maturity/ maturity date
Fixed rate:						
US bonds	**22,344**	**1.4%**	**0.8 Years**	22,422	1.3%	1.8 Years
UK bonds	**19,904**	**0.1%**	**1.1 Years**	20,004	1.5%	0.1 Years
Overseas convertible bonds	**739**	**5.7%**	**2.2 Years**	1,005	4.2%	3.2 Years
UK convertible bonds	**1,000**	**10.0%**	**2.2 Years**	3,693	6.8%	1.5 Years
Floating rate cash:						
Non-sterling	**56,529**	**0.0%**		53,155	0.0%	
Sterling	**18,022**	**0.0%**		19,774	0.0%	
	74,551			72,929		

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

Interest rate risk sensitivity
(a) Cash
An increase of 100 basis points in interest rates as at 31 December 2021 would have a direct effect on net assets. Based on the position at 31 December 2021, over a full year, an increase of 100 basis points would have increased the profit and loss after taxation by £746,000 (2020 – £729,000) and would have increased the net asset value per share by 1.15p (2020 – 1.11p). The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

(b) Fixed rate bonds
An increase of 100 basis points in bond yields as at 31 December 2021 would have decreased total net assets and profit and loss after taxation by £388,000 (2020 – £412,000) and would have decreased the net asset value per share by 0.60p (2020 – 0.63p). A decrease in bond yields would have had an equal and opposite effect. The convertible loan stocks having an element of equity are not included in this analysis as given the nature of the businesses and the risk profile of their balance sheets; they are considered to have more equity like characteristics.

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

Furthermore many companies trade internationally both through foreign subsidiaries, and through exports. The greatest foreign currency risk occurs when companies have a divergence in currencies for costs and revenues. A much less risky exposure to currency is straight translation of sales and profits. The list of investments on pages 21 to 28 breaks down the portfolio by geographic listing. However the location of the stock market quote only has a limited correlation to the costs, revenues and even activities of those companies, and so this note should not be regarded as a reliable guide to the sensitivity of the portfolio to currency movements. For example, the holdings in the portfolio that have suffered most from US$ weakness are UK companies with dollar revenues and sterling costs.

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

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

At 31 December 2021

	Investments £'000	**Cash and deposits £'000**	**Other receivables and payables £'000**	**Net exposure £'000**
US dollar	**418,793**	**48,271**	**3,348**	**470,412**

Euro	**147,215**	**41**	**91**	**147,347**
Taiwan dollar	**61,495**	**8,217**	**48**	**69,760**
Australian dollar	**51,690**	**–**	**–**	**51,690**
Japanese yen	**51,432**	**–**	**41**	**51,473**
Norwegian krone	**39,021**	**–**	**–**	**39,021**
Korean won	**21,767**	**–**	**103**	**21,870**
Other overseas currencies	**33,030**	**–**	**17**	**33,047**
Exposure to currency risk on translation of valuations of securities listed in overseas currencies	**824,443**	**56,529**	**3,648**	**884,620**
Sterling	**859,039**	**18,022**	**(804)**	**876,257**
	1,683,482	**74,551**	**2,844**	**1,760,877**

At 31 December 2020

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

Foreign currency risk sensitivity
At 31 December 2021, had sterling strengthened by 10% (2020 – 10%) in relation to all currencies, with all other variables held constant, total net assets and profit and loss after taxation would have decreased by the amounts shown below based on the balances denominated in foreign currency. A 10% (2020 – 10%) weakening of sterling against all currencies, with all other variables held constant, would have had the exact opposite effect on the financial statement amounts. However, companies whose cost base diverges in currency terms from its sales will in the longer term have a significantly greater effect on valuation than simple translation. In the short term investee companies generally cover their currency exposure to varying degrees. There is insufficient publicly disclosed information to quantify this, but in the long term this effect is expected to dwarf simple translation of foreign listings in terms of both risk and reward, because many investee companies trade globally. Furthermore, the country of listing is not necessarily an indication of the geography of some or even any operational activities for investee companies. The Manager does not use financial instruments to protect against currency movements. From time to time financial leverage has been made using debt in overseas currencies.

	2021 £'000	2020 £'000
US dollar	**47,041**	43,483
Euro	**14,735**	10,547
Taiwan dollar	**6,976**	3,472
Australian dollar	**5,169**	4,611

Japanese yen	**5,147**	3,026
Norwegian krone	**3,902**	1,999
Korean won	**2,187**	1,612
Other overseas currencies	**3,305**	3,623
	88,462	72,373

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

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

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

	2021 £'000	2020 £'000
Fixed interest investments	**42,248**	42,426
Cash and cash equivalents	**74,551**	72,929
Other receivables	**4,374**	1,460
	121,173	116,815

During the year the maximum exposure in fixed interest investments was £42,722,000 (2020 – £48,953,000) and the minimum £41,518,000 (2020 – £42,426,000). The maximum exposure in cash was £85,096,498 (2020 – £112,654,000) and the minimum £58,031,270 (2020 – £72,929,000).

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

Equity Securities
The Company’s unlisted investments are not readily realisable, but these only amount to 0.6% of the Company’s total assets at 31 December 2021 (2020 – 1.3%).

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

The market valuation of each underlying security gives an indication of value, but the price at which an investment can be made or realised can diverge materially from the bid or offer price depending on market conditions generally and particularly to each investment. 9.0% (£147 million) (2020 – 12.0% (£165 million)) of the listed equities in the portfolio are invested in stocks with a market capitalisation below £100 million, where liquidity is expected to be more limited. If these stocks had on average a realisable value 20% below the bid price the value of the total fund would be adversely affected by 1.7% (2020 – 2.2%).

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

	2021 One year or less £'000	2020 One year or less £'000
Other payables	**1,530**	1,605
	1,530	1,605

Fair Value of Financial Instruments
The Company's investments, as disclosed in the Company's balance sheet, are valued at fair value.

Nearly all of the Company's portfolio of investments are disclosed in the Level 1 category as defined in FRS 102. Categorisation is based on the lowest level input that is significant to the fair value measure in its entirety.

The three levels set out in FRS102 follow:

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

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

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

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

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

At 31 December 2021

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Equity investments	**1,630,749**	**–**	**6,359**	**1,637,108**
Government debt securities	**42,248**	**–**	**–**	**42,248**
Convertible loan stocks	**–**	**–**	**4,126**	**4,126**
Total investments	**1,672,997**	**–**	**10,485**	**1,683,482**

At 31 December 2020

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

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

At 31 December 2021

	£'000
Opening balance at 1 January 2021	**19,579**
Purchases	**500**
Sales	**(7,136)**
Total gains or (losses)	
– on assets sold during the year	**5,713**
– on assets held at 31 December 2021	**(4,293)**
Assets transferred during the year	**(2,115)**
Return of capital	**(1,763)**

Closing balance at 31 December 2021	**10,485**

Viability statement
The directors' view of the Company's viability has not changed since last year. The Company, as an investment trust, is a collective investment vehicle designed and managed for the long term. The directors consider that three years is an appropriate forward-looking time period. This recognises the Company's current position, the investment strategy, which includes investment in smaller companies, some of which are early stage and for which a three-year horizon is a meaningful period over which to judge prospects, the board's assessment of the main risks that threaten the business model and the relatively fast-moving nature of the sectors in which the Company invests. By definition, investment in smaller and early-stage companies carries higher risks, both in terms of stock liquidity and longer-term business viability and this risk is accepted by the board.

There are no current plans to amend the investment strategy, which has delivered good investment performance for shareholders over many years and, the directors believe, should continue to do so. The investment strategy and its associated risks are kept under constant review by the board. The board undertook a robust assessment of the risks pertaining to the Company, including risks to the Company's viability, and this is set out in the principal risks and uncertainties section. This included emerging risks such as the ongoing pandemic, with second order effects such as supply train disruption, and climate change. As part of this, the board considered several severe but plausible scenarios, including the impact of significant market movements.

Other items relevant in the directors' assessment of the Company's viability were: income and expenses projections and the fact that the majority of the Company's investments comprise readily realisable securities as proven by liquidity analysis of the portfolio; any borrowing facilities in place – noting there were none at the year end; and the fact that as a closed ended investment company the Company is not affected by the liquidity issues of open-ended companies caused by large or unexpected redemptions. The board also takes account of the triennial shareholder vote on whether the Company should continue as an investment trust. At the AGM in April 2019, 99.88% of votes cast were in favour of continuation. The next continuation vote will be at the AGM to be held on 19 April 2022. Given the performance of the Company and feedback from stakeholders, including the Company's broker and major shareholders, the board have no reason to believe that the continuation vote will not be approved at the AGM in 2022.

The directors confirm that, based on the above and on reviews conducted as part of the detailed internal controls and risk management processes set out on page 44, they have a reasonable expectation that the Company will continue to maintain its status as an investment trust, to implement its investment strategy and to operate and be able to meet its liabilities as they fall due for at least the next three financial years.

Statement of Directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

Each of the directors, whose names and functions are listed on page 41 confirm that, to the best of their knowledge:

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

On behalf of the board

Tom Black
21 February 2022

Copies of the Company's annual report and financial statements will be available shortly from the Company's registered office or at www.heralduk.com.

On behalf of the board

Sanne Fund Services (UK) Limited

Company Secretary

21 February 2022