

# LF Gresham House UK Micro Cap Fund

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019



## AUTHORISED CORPORATE DIRECTOR ('ACD') AND ALTERNATIVE INVESTMENT FUND MANAGER ('AIFM')

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## DIRECTORS OF THE ACD

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C. Addenbrooke  
N. Boyling  
B. Hammond  
P. Hugh-Smith (resigned 30 June 2019)  
K.J. Midl  
A.J. Stenning (appointed 17 October 2019)  
A.J. Stuart

## PORTFOLIO MANAGER

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### GRESHAM HOUSE ASSET MANAGEMENT LIMITED

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(Authorised and regulated by the Financial Conduct Authority)

## DEPOSITARY

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## REGISTRAR

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### LINK FUND ADMINISTRATORS LIMITED

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(Authorised and regulated by the Financial Conduct Authority)

## INDEPENDENT AUDITOR

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### KPMG LLP

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(Chartered Accountants)

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## ACD'S REPORT

for the year ended 31 December 2019

### Authorised Status

LF Gresham House UK Micro Cap Fund ('the Fund') is an investment company with variable capital incorporated in England and Wales, under registered number IC714 and authorised by the Financial Conduct Authority ('FCA') with effect from 19 February 2009. The Fund has an unlimited duration.

The Fund is a Non-UCITS retail scheme and the base currency of the Fund is pounds sterling or such other currency as may be the lawful currency of the United Kingdom from time to time.

Shareholders are not liable for the debts of the Fund. Shareholders are not liable to make any further payments to the Fund after they have paid the purchase price of shares.

The AIFM is the legal person appointed on behalf of the Fund and which (through this appointment) is responsible for managing the Fund in accordance with the AIFM Directive and The Alternative Investment Fund Managers Regulations 2013. This role is performed by the ACD and references to the ACD in this Annual Report and Financial Statements include the AIFM as applicable.

### ACD's Statement

#### COVID-19

The outbreak of COVID-19, declared by the World Health Organisation as a pandemic on 11 March 2020, caused significant disruption to business and economic activity which was reflected in the fluctuations seen in the global stock markets. In the short time since its emergence the ramifications of COVID-19 and its long term impacts are now being fully recognised, as various national governments continue to provide financial support and stimulus to their economies. In the immediate aftermath of the global recognition of the seriousness of the pandemic there were sharp declines in asset prices and whilst there has been an element of recovery since then, there is now the unknown factor of the most dramatic global recession seen in living memory and how this will translate into future asset pricing. This combined with the fear, in many countries, of a second wave of COVID-19 would indicate that an extended period of instability will exist for some time as governments, society and business seek to understand how COVID-19 can be managed until such time there is a means of immunising the population.

#### Investment Objective and Policy

The objective of the Fund is to achieve long term capital growth through investment primarily in equities of UK companies. Investment in the main will be in an actively managed portfolio of equities of smaller UK companies traded on AIM and other UK markets which are considered to have potential for capital growth. The Fund may also invest directly in gilts, money market instruments, deposits, warrants, international equities, bonds, collective investment schemes and other assets permitted by the FCA Handbook.

Derivatives and forward transactions may be used for Efficient Portfolio Management. However, in addition, derivatives and forward transactions may be used for investment purposes on the giving of 60 days' notice to shareholders.

## **ACD'S REPORT** *continued*

### **Benchmark**

The Fund's comparator benchmark is the IA UK Smaller Companies sector.

The Fund's performance may be compared against the IA UK Smaller Companies sector. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers). The comparator benchmark has been selected as we consider it assists investors in evaluating the Fund's performance against the performance of other funds invested in similar assets.

### **Remuneration Policy**

Link Fund Solutions Limited ('LFSL') is committed to ensuring that its remuneration policies and practices are consistent with, and promote, sound and effective risk management. LFSL's remuneration policy is designed to ensure that excessive risk taking is not encouraged by or within LFSL including in respect of the risk profile of the Alternative Investment Funds ('AIFs') it operates, to manage the potential for conflicts of interest in relation to remuneration (having regard, inter alia, to its formal conflicts of interest policy) and to enable LFSL to achieve and maintain a sound capital base.

LFSL acts as the operator of both UCITS funds and AIFs.

LFSL delegates portfolio management for the AIFs to various investment management firms. The portfolio managers' fees and expense for providing investment management services are paid by the ACD out of its own remuneration under the ACD agreement. The investment management firms make information on remuneration publicly available in accordance with the disclosure requirements of Pillar 3 of the Capital Requirements Directive. This disclosure is in respect of LFSL activities (including activities performed by its sister company Link Fund Administrators Limited (LFAL) or by employees of that entity), and excludes activities undertaken by third party investment management firms. LFSL staff do not perform duties in respect of particular AIFs, nor are they remunerated by reference to the performance of any individual AIF. Accordingly, the information below is for LFSL as a whole. No attempt has been made to attribute remuneration to the Fund itself.

Information on LFSL's remuneration arrangements is collated annually, as part of its statutory accounts preparation processes. Accordingly, the information disclosed relates to the year ended 30 June 2019, being the most recent accounting period which accounts have been prepared for LFSL prior to the production of these accounts. As at 30 June 2019, LFSL operated 98 UCITS and 81 AIFs, whose respective assets under management ('AuM') were £38,284 million and £34,426 million. The Fund was valued at £172 million as at that date and represented 0.24% of LFSL's total AuM and 0.50% of its AIF AuM.

## ACD'S REPORT *continued*

### Remuneration Policy *continued*

The disclosure below represents that required under FUND 3.3.5 R (5) and (6) for funds subject to AIFMD obligations.

2019	Number of beneficiaries	Fixed £'000	Variable £'000	Total £'000
Total amount of remuneration paid by LFSL for the financial year to 30 June 2019	163	7,503	682	8,185
Total amount of remuneration paid to members of staff whose activities have a material impact on the risk profile of the funds for the financial year to 30 June 2019				
Senior management (including all Board members)	6	740	310	1,050
Staff engaged in control functions	4	411	35	446
Risk takers and other identified staff	16	1,378	122	1,500
Any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers	–	–	–	–

LFSL's remuneration arrangement include fixed salaries, contributory pension arrangements and certain other benefits, and the potential for discretionary bonuses. The amount available for payment of discretionary bonuses is dependent on satisfactory performance by LFSL as a whole, rather than the performance of any individual fund. Subject to satisfactory LFSL performance, bonuses may then be paid to staff to reflect their contribution to LFSL's success. The precise metrics used will vary by function, but consideration is given to both qualitative and quantitative measures.

None of LFSL's staff receives remuneration based on the performance of any individual fund.

Further details can be found at:

[www.linkfundsolutions.co.uk/assets/media/LFS\\_Explanation\\_of\\_Compliance\\_with\\_Remuneration\\_Code.pdf](http://www.linkfundsolutions.co.uk/assets/media/LFS_Explanation_of_Compliance_with_Remuneration_Code.pdf).

### Securities Financing Transactions

The Fund has the ability to utilise Securities Financing Transactions (being transactions such as lending or borrowing of securities, repurchase or reverse repurchase transactions, buy-sell back or sell-buy back transactions, or margin lending transactions). No such transactions have been undertaken in the period covered by this report.

## **ACD'S REPORT** *continued*

### **Value Assessment**

In accordance with current Financial Conduct Authority rules, the ACD is required to carry out an annual assessment on whether the Fund provides value to investors. The outcome of this assessment will be published on the ACD's website no later than 4 months from the record date of 31 December 2019.

### **LINK FUND SOLUTIONS LIMITED**

ACD of LF Gresham House UK Micro Cap Fund  
*24 June 2020*

**ACD'S REPORT** *continued*  
**PORTFOLIO MANAGER'S REPORT**  
for the year ended 31 December 2019

### Investment Strategy

The LF Gresham House UK Micro Cap Fund (the Fund) passed its 10 year anniversary in May of 2019 and has maintained a consistent focus throughout its life on selecting high conviction, niche growth companies to back for the prospect of long term capital growth. The Manager seeks to avoid excessive cyclical exposure and early stage risk and instead focuses on areas of structural growth and segments where its sector expertise and private equity style proprietary fundamental research approach can uncover stocks that may be below the radar of many investors due to their size and limited research coverage.

### Movements in Net Asset Value

As at 31 December 2019 the gross NAV of the Company was £238.2m of which 85.3% was invested in a portfolio of micro cap equities. This compared to a NAV of £163.2m at the beginning of the period. The increase in NAV was a combination of net inflows from new holders amounting to £39.6m and a positive revaluation of the portfolio of £34.6m. The Fund delivered positive returns of 20.4% over the period which was supported by the fourth quarter rally in UK equity markets around the period of the general election.

### Investment Activity

Strong net inflows into the fund during the year fed into significant new investment activity. Cash was deployed into a combination of new positions and follow on investments into existing portfolio companies. During the period the number of portfolio companies increased from 45 to 46. A total of £67.9m was invested into a combination of new and existing companies. Divestment activity was also active with a number of positions fully exited, in part due to an elevated level of takeover activity within the portfolio mirroring the trend across UK smaller companies during the year. In aggregate £50.4m was received from the proceeds of divestments realising an aggregate positive return of 18.3%.

The level of equity issuance in the UK smaller companies segment was subdued with a limited number of small and micro cap IPOs reflecting weaker sentiment and uncertainty driven by macro economic and political factors, not least the UK's delayed exit from the EU. UK equities continued to be out of favour with asset allocators throughout most of the year with substantial outflows from UK equity funds and smaller company funds in particular. This contributed to depressed valuations with the UK trading at a discount to other developed market equities and smaller companies reaching a discount to the FTSE 250 not seen since 2009 in the aftermath of the Global Financial Crisis. There were some signs of allocations returning to the UK towards the end of the year, particularly following the decisive Conservative election victory in December.

The Fund participated in 4 IPO fund raising opportunities during the year investing an aggregate £15.1m during 2019. These were Diaceutics, a pharmaceutical data services and analytics provider; Loungers, a café-bar operator; Argentex, a corporate foreign exchange solutions provider; and Brickability, a specialist distributor of bricks and other construction materials. Each of these diverse businesses exhibit strong growth characteristics and had the confidence in their business model and prospects to execute their IPOs despite the wider market uncertainty.



## **ACD'S REPORT** *continued*

## **PORTFOLIO MANAGER'S REPORT** *continued*

The Fund participated in secondary placings to support the growth plans of 9 existing and new portfolio companies. These included SysGroup, a cloud hosting and IT managed services provider. SysGroup is a company the Manager knows well having backed the business for a number of years through its other funds as the company's largest shareholder. The investment leverages the Manager's deep experience and track record in the IT managed services sector as well as a strong relationship with the management team which underpinned the conviction to back the team to fund a transformational acquisition during the period. Other notable secondary placings included S4 Capital, Sir Martin Sorrell's digital marketing vehicle, as part of an equity raise to fund a material acquisition; Team 17, a games developer, as part of a placing of a legacy private equity holder's stake, at a discount to the market price; and Codemasters, a video game developer and publisher, funding a transformational acquisition.

There were 12 full exits during the period realising £32.9m and an overall return of 6.7%. These included IG Design Group, a supplier of private label greeting products, where we realised an aggregate return of 89%; Watkin Jones, a student accommodation developer that has performed well during our ownership but has now outgrown the Micro Cap strategy having exceeded £0.5bn market cap, realising a return of 70%; and two takeovers for Tarsus and Tax Systems, both of which delivered positive returns of 51%. We also exited some underperforming holdings, notably Brady (-64% return), following a profit warning and uncertain funding outlook; Arena Events (-66%), following a profit downgrade leading to a fundamental change in our investment view; and Nexus Infrastructure (-30%), also following an unexpected profit warning. The level of exit activity was higher than typical for the Fund due to a combination of a more uncertain economic environment increasing the number of profit warnings across the small cap market, including some of our portfolio companies; and an elevated level of takeover activity reflecting the attractive valuations of many smaller listed companies.

### **Investment Performance**

The Fund's price per share increased 20.4% during the year (based on 'A' Accumulation share class). This compares to the IA UK Smaller Companies Sector which increased by 25.3% over the same period. The Fund modestly underperformed its sector during the period during a year where there was an unusually wide dispersion of returns amongst peer group funds. A key factor in relative performance was exposure to takeovers and the avoidance of profit warnings. These are likely to remain key drivers during 2020.

The Manager's strategy of focusing on less cyclical sectors and on established profitable niche growth businesses on sensible valuations has delivered resilient performance during periods of weaker market sentiment and volatility. The Fund may underperform in a strongly rising market but overall the positioning aims to provide attractive returns through the market cycle and lower than average volatility and greater consistency. The Fund was recently ranked second over the decade to 31 December 2019 by Trustnet out of all UK domiciled open ended funds across all sectors for its combination of performance and volatility. That allowed it to maintain its record of being the only Fund in the sector to deliver a positive return in every calendar year since launch in 2009.

## **ACD'S REPORT** *continued*

## **PORTFOLIO MANAGER'S REPORT** *continued*

Key contributors to absolute performance during the year were Ergomed, following strong results and forecast upgrades; Knights Group, following positive full year results and a positive AGM statement; and Impax Asset Management, following strong growth in assets under management over the year. Detractors were Staffline, after announcing a material profit warning in part driven by Brexit uncertainty; Arena Events, following a profit downgrade (since fully exited); and Filta Group, following profit downgrades relating to an acquisition. Following a detailed investigation into the drivers behind this downgrade the Manager concluded that the long term prospects for the group remain strong and have maintained the Funds holding in the stock.

### **Outlook**

Since its original launch in May 2009 the Fund has demonstrated an ability to deliver robust absolute and relative returns, particularly in more volatile market conditions. The strong market performance in Q4 2019 and an encouraging start to 2020 drew to a sudden halt as the potential ramifications of the international spread of COVID-19 on global economic growth began to impact sentiment.

There are significant uncertainties relating to the spread and impact of the pandemic as well as the social and economic response from governments across the world including the UK. The Manager anticipates further periods of market volatility and weaker sentiment during 2020. It will also become clearer as the year progresses which sectors and companies have been fundamentally changed by the current crisis and which businesses will improve their market position and become stronger. There are likely to be some very attractive long-term smaller company investment opportunities that emerge during the year both from market movements and an increasing number of recapitalisation transactions to strengthen otherwise sound businesses.

The Manager continues to believe that over the long term its fundamentals focused investment style has the potential to outperform. The Fund will maintain its focus on building a high conviction portfolio of less cyclical, high-quality, niche growth businesses which the Manager believes can deliver strong returns through the market cycle regardless of the performance of the wider economy.

The Fund will continue to seek selective opportunities to invest in attractive niche growth companies in the Manager's focus sectors with the potential to deliver attractive capital gains over the long term.

Note: Investments carry risks. Past performance is not a guide to future performance. Investors may not get back the amount invested.

### **GRESHAM HOUSE ASSET MANAGEMENT LIMITED**

Portfolio Manager

7 April 2020

## ACD'S REPORT *continued*

### FUND INFORMATION

#### Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

**Currency Risk:** As the Fund invests in overseas securities movements in exchange rates may, when not hedged, cause the value of your investment to increase or decrease.

**Liquidity Risk:** Smaller companies' securities are often traded less frequently than those of larger companies which means that they may be more difficult to buy and sell. Their prices may also be subject to short term swings.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of asset. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, [www.linkfundsolutions.co.uk](http://www.linkfundsolutions.co.uk).

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables**

**'A' ACCUMULATION SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18</b> pence per share	<b>31.12.17</b> pence per share
Opening net asset value per share	4,063.74	4,020.46	3,141.02
Return before operating charges*	884.94	85.80	915.77
Operating charges	(42.65)	(42.52)	(36.33)
Return after operating charges	842.29	43.28	879.44
Distributions	(35.28)	(34.66)	(15.13)
Retained distributions on accumulation shares	35.28	34.66	15.13
Closing net asset value per share	4,906.03	4,063.74	4,020.46
* after direct transaction costs of:	6.52	6.11	6.21

**PERFORMANCE**

Return after charges	20.73%	1.08%	28.00%
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**OTHER INFORMATION**

Closing net asset value (£'000)	55,019	45,573	45,109
Closing number of shares	1,121,465	1,121,465	1,121,984
Operating charges	0.98%	0.98%	0.99%
Direct transaction costs	0.15%	0.14%	0.17%

**PRICES**

Highest share price	4,970.99	4,670.71	4,069.89
Lowest share price	4,105.35	3,990.87	3,215.51

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'B' RETAIL INCOME SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18</b> pence per share	<b>31.12.17</b> pence per share
Opening net asset value per share	152.76	152.46	119.83
Return before operating charges*	32.98	3.21	35.04
Operating charges	(2.57)	(2.59)	(2.22)
Return after operating charges	30.41	0.62	32.82
Distributions	(0.30)	(0.32)	(0.19)
Closing net asset value per share	182.87	152.76	152.46
* after direct transaction costs of:	0.24	0.23	0.24

**PERFORMANCE**

Return after charges	19.91%	0.41%	27.39%
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**OTHER INFORMATION**

Closing net asset value (£'000)	–	–	–
Closing number of shares	250	250	250
Operating charges	1.58%	1.58%	1.59%
Direct transaction costs	0.15%	0.14%	0.17%

**PRICES**

Highest share price	185.29	175.94	154.34
Lowest share price	154.09	151.24	122.67

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'B' RETAIL ACCUMULATION SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18</b> pence per share	<b>31.12.17</b> pence per share
Opening net asset value per share	153.53	152.84	120.14
Return before operating charges*	33.25	3.29	34.92
Operating charges	(2.59)	(2.60)	(2.22)
Return after operating charges	30.66	0.69	32.70
Distributions	(0.33)	(0.38)	–
Retained distributions on accumulation shares	0.33	0.38	–
Closing net asset value per share	184.19	153.53	152.84
* after direct transaction costs of:	0.25	0.23	0.24

**PERFORMANCE**

Return after charges	19.97%	0.45%	27.22%
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**OTHER INFORMATION**

Closing net asset value (£'000)	4	3	3
Closing number of shares	2,180	1,968	1,968
Operating charges	1.58%	1.58%	1.59%
Direct transaction costs	0.15%	0.14%	0.17%

**PRICES**

Highest share price	186.63	176.78	154.73
Lowest share price	154.91	151.62	122.98

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'C' INSTITUTIONAL INCOME SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18</b> pence per share	<b>31.12.17</b> pence per share
Opening net asset value per share	152.47	152.10	119.33
Return before operating charges*	33.10	3.33	34.78
Operating charges	(1.60)	(1.60)	(1.38)
Return after operating charges	31.50	1.73	33.40
Distributions	(1.31)	(1.36)	(0.63)
Closing net asset value per share	182.66	152.47	152.10
* after direct transaction costs of:	0.24	0.23	0.24

**PERFORMANCE**

Return after charges	20.66%	1.14%	27.99%
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**OTHER INFORMATION**

Closing net asset value (£'000)	63,137	28,144	19,485
Closing number of shares	34,564,395	18,459,271	12,810,838
Operating charges	0.98%	0.98%	0.99%
Direct transaction costs	0.15%	0.14%	0.17%

**PRICES**

Highest share price	185.56	175.78	154.17
Lowest share price	154.04	150.98	122.17

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'C' INSTITUTIONAL ACCUMULATION SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18</b> pence per share	<b>31.12.17</b> pence per share
Opening net asset value per share	157.15	155.48	121.47
Return before operating charges*	34.23	3.31	35.41
Operating charges	(1.65)	(1.64)	(1.40)
Return after operating charges	32.58	1.67	34.01
Distributions	(1.36)	(1.36)	(0.59)
Retained distributions on accumulation shares	1.36	1.36	0.59
Closing net asset value per share	189.73	157.15	155.48
* after direct transaction costs of:	0.25	0.24	0.24

**PERFORMANCE**

Return after charges	20.73%	1.07%	28.00%
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**OTHER INFORMATION**

Closing net asset value (£'000)	116,293	66,530	39,995
Closing number of shares	61,294,758	42,333,792	25,723,597
Operating charges	0.98%	0.98%	0.99%
Direct transaction costs	0.15%	0.14%	0.17%

**PRICES**

Highest share price	192.24	180.63	157.39
Lowest share price	158.76	154.34	124.35



**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'D' INCOME SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18<sup>1</sup></b> pence per share
Opening net asset value per share	93.88	100.00
Return before operating charges*	20.38	(5.88)
Operating charges	(0.83)	(0.13)
Return after operating charges	19.55	(6.01)
Distributions	(1.00)	(0.11)
Closing net asset value per share	112.43	93.88
* after direct transaction costs of:	0.15	0.14

**PERFORMANCE**

Return after charges	20.82%	(6.01)%
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**OTHER INFORMATION**

Closing net asset value (£'000)	335	20,317
Closing number of shares	297,867	21,641,953
Operating charges	0.83%	0.83% <sup>2</sup>
Direct transaction costs	0.15%	0.14%

**PRICES**

Highest share price	114.29	101.27
Lowest share price	94.87	95.13

<sup>1</sup> From 2 November 2018.

<sup>2</sup> Annualised figure due to share class launched less than 1 year.

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Comparative Tables** *continued*

**'D' ACCUMULATION SHARES**

<b>CHANGE IN NET ASSETS PER SHARE</b>	<b>31.12.19</b> pence per share	<b>31.12.18<sup>1</sup></b> pence per share
Opening net asset value per share	94.01	100.00
Return before operating charges*	20.52	(5.86)
Operating charges	(0.84)	(0.13)
Return after operating charges	19.68	(5.99)
Distributions	(1.01)	(0.12)
Retained distributions on accumulation shares	1.01	0.12
Closing net asset value per share	113.69	94.01
* after direct transaction costs of:	0.15	0.14

**PERFORMANCE**

Return after charges	20.93%	(5.99)%
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**OTHER INFORMATION**

Closing net asset value (£'000)	79	–
Closing number of shares	69,204	250
Operating charges	0.83%	0.83% <sup>2</sup>
Direct transaction costs	0.15%	0.14%

**PRICES**

Highest share price	115.20	101.27
Lowest share price	95.02	95.14

<sup>1</sup> From 2 November 2018.

<sup>2</sup> Annualised figure due to share class launched less than 1 year.

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 December 2019 (%)**

	1 year	3 years	5 years
LF Gresham House UK Micro Cap Fund	20.38	55.52	93.32

The performance of the Fund is based on the published price per 'C' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 44 to 46.

**RISK WARNING**

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

**ACD'S REPORT** *continued*  
**PORTFOLIO STATEMENT**  
as at 31 December 2019

Holding	Portfolio of Investments	Value £'000	31.12.19 %
	UNITED KINGDOM – 85.18% (31.12.18 – 92.50%)		
	INDUSTRIALS – 22.46% (31.12.18 – 29.84%)		
	CONSTRUCTION & MATERIALS – 2.67% (31.12.18 – 2.94%)		
2,311,505	Brickability	1,618	0.69
1,693,795	Norcros	4,658	1.98
		<u>6,276</u>	<u>2.67</u>
	INDUSTRIAL TRANSPORTATION – 0.51% (31.12.18 – 3.53%)		
1,913,702	Gama Aviation	<u>1,187</u>	<u>0.51</u>
	SUPPORT SERVICES – 19.28% (31.12.18 – 23.37% <sup>3</sup> )		
1,966,872	Alpha Financial Markets Consulting	4,917	2.09
1,722,658	Charles Taylor Consulting <sup>1</sup>	5,926	2.52
2,750,000	Driver	1,980	0.84
3,614,000	Filta	5,855	2.49
53,058,235	Inspired Energy	9,550	4.07
2,322,970	Knights	7,759	3.31
1,260,500	Restore	6,832	2.91
2,893,361	Staffline	2,459	1.05
		<u>45,278</u>	<u>19.28</u>
	TOTAL INDUSTRIALS	<u>52,741</u>	<u>22.46</u>
	CONSUMER GOODS – 1.72% (31.12.18 – 7.35%)		
	FOOD PRODUCERS – 1.72% (31.12.18 – 1.76%)		
4,129,369	Finsbury Food	<u>4,047</u>	<u>1.72</u>

**ACD'S REPORT** *continued*

**PORTFOLIO STATEMENT** *continued*

as at 31 December 2019

Holding	Portfolio of Investments	Value £'000	31.12.19 %
	HOUSEHOLD GOODS & HOME CONSTRUCTION – 0.00% (31.12.18 – 5.59%)		
237,782	Mar City <sup>2</sup>	–	–
	TOTAL CONSUMER GOODS	4,047	1.72
	CONSUMER SERVICES – 16.77% (31.12.18 – 20.02%)		
	GENERAL RETAILERS – 3.02% (31.12.18 – 4.51%)		
5,318,000	Angling Direct	3,776	1.61
2,694,699	Franchise Brands	3,314	1.41
		7,090	3.02
	MEDIA – 2.64% (31.12.18 – 7.35% <sup>3</sup> )		
1,190,476	Bonhill	429	0.18
3,041,378	S4 Capital <sup>1</sup>	5,779	2.46
		6,208	2.64
	TRAVEL & LEISURE – 11.11% (31.12.18 – 8.16% <sup>3</sup> )		
1,660,000	City Pub	3,569	1.52
3,403,021	Loungers	7,146	3.05
12,403,485	Tasty	335	0.14
2,890,728	TEN Entertainment	8,643	3.68
2,210,482	The Gym <sup>1</sup>	6,388	2.72
		26,081	11.11
	TOTAL CONSUMER SERVICES	39,379	16.77
	TELECOMMUNICATIONS – 1.09% (31.12.18 – 1.68%)		
	MOBILE TELECOMMUNICATIONS – 1.09% (31.12.18 – 1.68%)		
2,703,644	Bigblu Broadband	2,568	1.09
	TOTAL TELECOMMUNICATIONS	2,568	1.09

**ACD'S REPORT** *continued*  
**PORTFOLIO STATEMENT** *continued*  
as at 31 December 2019

Holding	Portfolio of Investments	Value £'000	31.12.19 %
	FINANCIALS – 20.93% (31.12.18 – 16.44%)		
	FINANCIAL SERVICES – 20.00% (31.12.18 – 15.28%)		
3,501,301	Argentex	5,847	2.49
2,742,000	Impax Asset Management	10,529	4.48
914,378	JTC <sup>1</sup>	3,676	1.56
1,012,970	Mattioli Woods	8,104	3.45
932,482	Mortgage Advice Bureau	6,994	2.98
1,618,333	Tatton Asset Management	4,369	1.86
5,873,052	XPS Pensions <sup>1</sup>	7,459	3.18
		<u>46,978</u>	<u>20.00</u>
	EQUITY INVESTMENT INSTRUMENTS – 0.81% (31.12.18 – 0.95%)		
2,539,651	Orchard Funding	1,905	0.81
	NON EQUITY INVESTMENT INSTRUMENTS – 0.12% (31.12.18 – 0.21%)		
3,000,000	Hertsford Capital <sup>1</sup>	285	0.12
	TOTAL FINANCIALS	<u>49,168</u>	<u>20.93</u>
	HEALTH CARE – 5.43% (31.12.18 – 4.47%)		
	HEALTH CARE EQUIPMENT & SERVICES – 0.90% (31.12.18 – 1.76%)		
6,570,000	Venture Life	2,102	0.90
	PHARMACEUTICALS & BIOTECHNOLOGY – 4.53% (31.12.18 – 2.71%)		
2,047,500	Diaceutics	2,048	0.87
2,236,826	Ergomed	8,589	3.66
		<u>10,637</u>	<u>4.53</u>
	TOTAL HEALTH CARE	<u>12,739</u>	<u>5.43</u>

**ACD'S REPORT** *continued*  
**PORTFOLIO STATEMENT** *continued*  
as at 31 December 2019

Holding	Portfolio of Investments	Value £'000	31.12.19 %
	TECHNOLOGY – 16.78% (31.12.18 – 12.70%)		
	SOFTWARE & COMPUTER SERVICES – 16.78% (31.12.18 – 12.70%)		
7,944,552	CentralNic	6,991	2.98
16,788,254	CloudCoCo	235	0.10
2,212,447	Codemasters	6,151	2.62
810,000	GRC International	97	0.04
2,385,451	Ideagen	4,652	1.98
1,174,086	IMImobile	3,992	1.70
2,878,500	Kape Technologies	5,037	2.14
31,639,629	Nasstar	3,955	1.68
3,283,148	Netcall	1,234	0.52
4,353,707	Oxford Metrics	4,571	1.95
7,820,386	SysGroup	2,503	1.07
		<u>39,418</u>	<u>16.78</u>
	TOTAL TECHNOLOGY	<u>39,418</u>	<u>16.78</u>
	TOTAL UNITED KINGDOM	<u>200,060</u>	<u>85.18</u>
	Portfolio of investments	200,060	85.18
	Net other assets	34,807	14.82
	Net assets	<u>234,867</u>	<u>100.00</u>

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are ordinary shares quoted on the Alternative Investment Market (AIM) unless stated otherwise.

<sup>1</sup> Listed on a regulated market.

<sup>2</sup> Delisted security.

<sup>3</sup> The comparative figures have been restated to be consistent with current year presentation. Inspired Energy has been reclassified from Industrial Goods & Services to Support Services. TEN Entertainment has been reclassified from Media to Travel & Leisure.

**ACD'S REPORT** *continued*

**SUMMARY OF MATERIAL PORTFOLIO CHANGES**

for the year ended 31 December 2019

Total purchases for the year £'000 (note 15)	67,896	Total sales for the year £'000 (note 15)	50,418
	Cost		Proceeds
<b>Major purchases</b>	<b>£'000</b>	<b>Major sales</b>	<b>£'000</b>
Loungers	6,779	Tarsus	6,401
The Gym	5,838	IG Design	5,400
Codemasters	5,395	Watkin Jones	4,140
Argentex	4,580	Avation	3,679
Tatton Asset Management	3,915	Knights	3,616
Kape Technologies	3,784	Wilmington	3,567
TEN Entertainment	3,382	Tax Systems	2,771
SysGroup	2,819	IMImobile	2,685
XPS Pensions	2,500	Ergomed	2,602
Staffline	2,367	S4 Capital	2,316

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.



## DIRECTOR'S STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook and the Investment Funds Sourcebook, as applicable, as issued and amended by the Financial Conduct Authority together with the relevant provisions of the Alternative Investment Fund Manager's Directive and modified by a direction given by the Financial Conduct Authority where the ACD has opted to provide a NURS KII Document, a Key Investor Information Document for Non-UCITS Retail Schemes.

**N. BOYLING**

**LINK FUND SOLUTIONS LIMITED**

ACD of LF Gresham House UK Micro Cap Fund

*24 June 2020*

## STATEMENT OF ACD'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook published by the Financial Conduct Authority ('the COLL Sourcebook') and the Investment Funds Sourcebook (the 'FUND Sourcebook'), as applicable, requires the ACD to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Fund and of the net revenue/expense and net capital gains/losses on the property of the Fund for the year.

In preparing the financial statements the ACD is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- following UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
- complying with the disclosure requirements of the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Association in May 2014;
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so;
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- taking reasonable steps for the prevention and detection of fraud and irregularities.

The ACD is responsible for the management of the Fund in accordance with its Instrument of Incorporation, the Prospectus, the COLL and FUND Sourcebook.

## STATEMENT OF DEPOSITARY'S RESPONSIBILITIES

The Depositary must ensure that the Fund is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook and, from 22 July 2014, the Investment Funds Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Fund's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as summarised below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Fund and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Fund in accordance with the Regulations.

The Depositary must ensure that:

- the Fund's cash flows are properly monitored and that cash of the Fund is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried in accordance with the Regulations;
- the value of shares of the Fund are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Fund's assets is remitted to the Fund within the usual time limits;
- the Fund's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ('the AIFM') are carried out (unless they conflict with the Regulations).

The Depositary has a duty to take reasonable care to ensure that the Fund is managed in accordance with the Scheme documents and the Regulations in relation to the investment and borrowing powers applicable to the Fund.

## REPORT OF THE DEPOSITARY

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Fund, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Fund, acting through the AIFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Fund's shares and the application of the Fund's income in accordance with the Regulations and the Scheme documents of the Fund; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the Scheme documents of the Fund.

**THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED**

Depositary of LF Gresham House UK Micro Cap Fund

24 June 2020

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LF GRESHAM HOUSE UK MICRO CAP FUND

### Opinion

We have audited the financial statements of LF Gresham House UK Micro Cap Fund ("the Fund") for the year ended 31 December 2019 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Shareholders, the Balance Sheet, the Related Notes and Distribution Table for the Fund and the accounting policies set out on pages 29 to 46.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the financial position of the Fund as at 31 December 2019 and of the net revenue and the net capital gains on the property of the Fund for the year then ended; and
- have been properly prepared in accordance with the Instrument of Incorporation, the Statement of Recommended Practice relating to Authorised Funds, and the COLL Rules.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Fund in accordance with, UK ethical requirements including the FRC Ethical Standard.

We have received all the information and explanations which we consider necessary for the purposes of our audit and we believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going Concern

The ACD has prepared the financial statements on the going concern basis as they do not intend to liquidate the Fund or to cease their operations, and as they have concluded that the Fund's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the ACD's conclusions, we considered the inherent risks to the Fund's business model and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Fund will continue in operation.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LF GRESHAM HOUSE UK MICRO CAP FUND** *continued*

### **Other Information**

The Authorised Corporate Director is responsible for the other information, presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information; and
- in our opinion the information given in the ACD's Report for the financial year is consistent with the financial statements.

### **Matters on Which We Are Required to Report by Exception**

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Fund have not been kept; or
- the financial statements are not in agreement with the accounting records.

### **Authorised Corporate Director's Responsibilities**

As explained more fully in their statement set out on page 24 the Authorised Corporate Director is responsible for: the preparation of financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Fund'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 they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibility**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LF GRESHAM HOUSE UK MICRO CAP FUND** *continued*

### **The Purpose of Our Audit Work and to Whom We Owe Our Responsibilities**

This report is made solely to the Fund's shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Conduct Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Fund's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**ALAIN DE BRAEKELEER  
FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR**

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

*24 June 2020*

## FINANCIAL STATEMENTS

### STATEMENT OF TOTAL RETURN

for the year ended 31 December 2019

	Notes	£'000	31.12.19 £'000	£'000	31.12.18 £'000
Income:					
Net capital gains/(losses)	3		34,067		(4,524)
Revenue	4	3,078		2,547	
Expenses	5	(1,702)		(1,384)	
Net revenue before taxation		1,376		1,163	
Taxation	6	–		–	
Net revenue after taxation			1,376		1,163
<b>Total return before distributions</b>			35,443		(3,361)
Distributions	7		(1,376)		(1,125)
<b>Change in net assets attributable to shareholders from investment activities</b>			34,067		(4,486)

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 December 2019

	£'000	31.12.19 £'000	£'000	31.12.18 £'000
<b>Opening net assets attributable to shareholders</b>		160,567		104,592
Amounts receivable on issue of shares	76,991		67,754	
Amounts payable on redemption of shares	(38,271)		(8,206)	
		38,720		59,548
Dilution levy		384		–
Change in net assets attributable to shareholders from investment activities		34,067		(4,486)
Retained distributions on Accumulation shares		1,129		913
<b>Closing net assets attributable to shareholders</b>		234,867		160,567

**FINANCIAL STATEMENTS** *continued*

**BALANCE SHEET**

as at 31 December 2019

	Notes	31.12.19 £'000	31.12.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		200,060	148,525
<b>Current assets</b>			
Debtors	8	3,660	447
Cash and bank balances	9	31,701	12,091
<b>Total assets</b>		<u>235,421</u>	<u>161,063</u>
<b>LIABILITIES</b>			
<b>Creditors</b>			
Distribution payable	10	(164)	(111)
Other creditors	10	(390)	(385)
<b>Total liabilities</b>		<u>(554)</u>	<u>(496)</u>
<b>Net assets attributable to shareholders</b>		<u>234,867</u>	<u>160,567</u>



## **FINANCIAL STATEMENTS** *continued*

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **1. Accounting Policies**

The principal accounting policies, which have been applied in both the current and prior year, are set out below.

##### **(A) BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The financial statements have been prepared in accordance with the Statement of Recommended Practice ('SORP') for Financial Statements of UK Authorised Funds issued by the Investment Association ('IA') in May 2014, as amended.

These financial statements are prepared on a going concern basis. The ACD has made an assessment of the Fund's ability to continue as a going concern, and is satisfied it has the resources to continue in business for the foreseeable future and is not aware of any material uncertainties that may cast significant doubt on this assessment. This assessment is made as at the date of issue of these financial statements and considers liquidity, declines in global capital markets, known redemption levels, expense projections, key service provider's operational resilience, and the impact of COVID-19.

##### **(B) RECOGNITION OF REVENUE**

Dividends on quoted equities are recognised when the securities are quoted ex-dividend.

Revenue from unquoted equity investments is recognised when the dividend is declared.

Interest on bank and other cash deposits is recognised on an accruals basis.

Revenue is recognised gross of any withholding taxes but excludes attributable tax credits.

##### **(C) TREATMENT OF EXPENSES**

All expenses, except for those relating to the purchase and sale of investments, are charged against revenue.

##### **(D) ALLOCATION OF REVENUE AND EXPENSES TO MULTIPLE SHARE CLASSES**

Any revenue or expense not directly attributable to a particular share class will normally be allocated pro-rata to the net assets of the relevant share classes unless a different allocation method is more appropriate.

All share classes are ranked *pari passu* and have no particular rights or terms attached, including rights on winding up.

##### **(E) TAXATION**

Corporation tax is provided at 20% on taxable revenue, after deduction of allowable expenses.

## **FINANCIAL STATEMENTS** *continued*

### **NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

Where overseas tax has been deducted from overseas revenue that tax can, in some instances, be set off against the corporation tax payable by way of double tax relief and where this is the case the offset is reflected in the tax charge.

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

#### **(F) BASIS OF VALUATION OF INVESTMENTS**

All investments are valued at their fair value as at close of business on the last business day of the financial year.

Quoted investments are valued at fair value which generally is the bid price.

For investments for which there is no quoted price or for which the quoted price is unreliable, fair value is determined by the ACD, taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance, maturity of the company and other relevant factors.

#### **(G) EXCHANGE RATES**

The base and functional currency of the Fund is pounds sterling. Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the exchange rate prevailing at close of business on the last business day of the financial year.

#### **(H) DILUTION LEVY**

The ACD may require a dilution levy on the purchase and redemption of shares if, in its opinion, the existing shareholders (for purchases) or remaining shareholders (for redemptions) might otherwise be adversely affected. For example, the dilution levy may be charged in the following circumstances: where the scheme property is in continual decline; on the Fund experiencing large levels of net purchases relative to its size; on 'large deals' (typically being a purchase or redemption of shares to a size exceeding 5% of the Net Asset Value of the Fund); in any case where the ACD is of the opinion that the interests of existing or remaining shareholders require the imposition of a dilution levy.

#### **(I) PORTFOLIO TRANSACTION COSTS**

Direct transaction costs may consist of fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The average portfolio dealing spread disclosed is the difference between the bid and offer prices of investments at the balance sheet date, including the effect of foreign exchange, expressed as a percentage of the value determined by reference to the offer price.

## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 December 2019

#### 2. Distribution Policies

Surplus revenue after expenses and taxation, as disclosed in the financial statements, after adjustment for items of a capital nature, is distributable to shareholders. Any deficit of revenue is deducted from capital.

Interim distributions may be made at the ACD's discretion. Final distributions are made in accordance with the COLL Sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the Fund.

The ordinary element of stock received in lieu of cash dividends is credited to capital in the first instance followed by a transfer to revenue of the cash equivalent being offered and this forms part of the distributable revenue of the Fund. In the case of an enhanced stock dividend, the value of the enhancement is treated as capital and does not form part of any distribution.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. Amounts recognised as capital are deducted from the cost of the investment. The tax accounting treatment follows the treatment of the principal amount.

#### 3. Net Capital Gains/(Losses)

The net capital gains/(losses) during the year comprise:

	31.12.19 £'000	31.12.18 £'000
Non-derivative securities	34,068	(4,522)
Transaction charges	(1)	(2)
Net capital gains/(losses)	<u>34,067</u>	<u>(4,524)</u>

The net capital gains figure includes realised gains of £7,802,000 and unrealised gains of £39,833,000 (31.12.18: includes realised gains of £3,966,000 and unrealised gains of £13,567,000). The realised gains on investments in the year include amounts previously recognised as unrealised gains in the prior year.

**FINANCIAL STATEMENTS** *continued*

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

**4. Revenue**

	31.12.19 £'000	31.12.18 £'000
Non-taxable dividends	3,017	2,517
Bank interest	61	30
Total revenue	<u>3,078</u>	<u>2,547</u>

**5. Expenses**

	31.12.19 £'000	31.12.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	1,560	1,273
Legal and professional fees	16	13
Typesetting costs	1	1
Registration fees	59	39
	1,636	1,326
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	50	44
Safe custody and other bank charges	8	6
	58	50
Audit fees	8	8
Total expenses	<u>1,702</u>	<u>1,384</u>

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

**FINANCIAL STATEMENTS** *continued*

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

**6. Taxation**

	31.12.19 £'000	31.12.18 £'000
a) Analysis of charge for the year		
Corporation tax at 20%	—	—
Current tax charge	—	—
Deferred tax – origination and reversal of timing differences (note 6c)	—	—
Total taxation (note 6b)	—	—

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.12.18: 20%). The difference is explained below:

	31.12.19 £'000	31.12.18 £'000
Net revenue before taxation	1,376	1,163
Corporation tax at 20%	275	233
Effects of:		
Non-taxable dividends	(603)	(503)
Unutilised excess management expenses	328	270
Corporation tax charge	—	—
Total tax charge (note 6a)	—	—

c) Deferred tax

At the year end there is a potential deferred tax asset of £1,322,000 (31.12.18: £994,000) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise this amount and, therefore, no deferred tax asset has been recognised in the current or prior year.

**FINANCIAL STATEMENTS** *continued*  
**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
for the year ended 31 December 2019

**7. Distributions**

The distributions take account of revenue received on the issue of shares and revenue deducted on redemption of shares, and comprise:

	31.12.19 £'000	31.12.18 £'000
Interim	884	723
Final	609	427
	<u>1,493</u>	<u>1,150</u>
Add: Revenue deducted on redemption of shares	23	6
Deduct: Revenue received on issue of shares	(140)	(31)
Net distributions for the year	<u>1,376</u>	<u>1,125</u>

Details of the distributions per share are set out in the table on pages 44 to 46.

	31.12.19 £'000	31.12.18 £'000
Distributions represented by:		
Net revenue after taxation	1,376	1,163
Equalisation on conversions <sup>1</sup>	–	(38)
Net distributions for the year	<u>1,376</u>	<u>1,125</u>

<sup>1</sup> Where an investor converts to a class with a higher income yield, the investor will receive an equalisation as if they had held the new class throughout the period from the last distribution to the conversion date. The yield differential at the point of conversion is an equalisation which will be offset by capital erosion for the converted investor.

**8. Debtors**

	31.12.19 £'000	31.12.18 £'000
Amounts receivable for issue of shares	2,056	147
Sales awaiting settlement	1,385	–

**FINANCIAL STATEMENTS** *continued*

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

	31.12.19 £'000	31.12.18 £'000
Accrued revenue:		
Non-taxable dividends	210	290
Taxation recoverable:		
Overseas withholding tax	9	10
Total debtors	<u>3,660</u>	<u>447</u>

**9. Cash and Bank Balances**

	31.12.19 £'000	31.12.18 £'000
Bank balances	<u>31,701</u>	<u>12,091</u>
Total cash and bank balances	<u>31,701</u>	<u>12,091</u>

**10. Creditors**

	31.12.19 £'000	31.12.18 £'000
Distribution payable	<u>164</u>	<u>111</u>
<b>Other Creditors</b>		
Amounts payable for redemption of shares	106	241
Purchases awaiting settlement	99	–
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	163	124
Typesetting costs	1	1
Registration fees	6	5
	<u>170</u>	<u>130</u>

**FINANCIAL STATEMENTS** *continued*

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

	31.12.19 £'000	31.12.18 £'000
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	4	4
Safe custody and other bank charges	2	1
	6	5
Other expenses	9	9
Total other creditors	<u>390</u>	<u>385</u>

**11. Related Party Transactions**

The Annual Management Charge and legal and professional fees payable to Link Fund Solutions Limited ('the ACD'), registration fees payable to Link Fund Administrators Limited and typesetting costs payable to Link Alternative Fund Administrators Limited (both companies are associates of the ACD) are disclosed in note 5 and amounts due at the year end are disclosed in note 10.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 29 and amounts due at the year end are disclosed in notes 8 and 10.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date, no shareholder held in excess of 20% of the shares in issue of the Fund.

**12. Contingent Liabilities and Commitments**

There are no contingent liabilities or unrecorded outstanding commitments (31.12.18: none).



## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 December 2019

#### 13. Shares in Issue

	'A' Accumulation	'B' Retail Income	'B' Retail Accumulation	'C' Institutional Income
Annual Management Charge	0.90%	1.50%	1.50%	0.90%
Opening shares in issue	1,121,465	250	1,968	18,459,271
Issues	–	–	212	19,597,961
Redemptions	–	–	–	(3,312,651)
Conversions	–	–	–	(180,186)
Closing shares in issue	<u>1,121,465</u>	<u>250</u>	<u>2,180</u>	<u>34,564,395</u>

  

	'C' Institutional Accumulation	'D' Income	'D' Accumulation
Annual Management Charge	0.90%	0.75%	0.75%
Opening shares in issue	42,333,792	21,641,953	250
Issues	25,890,335	116,863	–
Redemptions	(6,842,682)	(21,826,631)	(2,966)
Conversions	(86,687)	365,682	71,920
Closing shares in issue	<u>61,294,758</u>	<u>297,867</u>	<u>69,204</u>

#### 14. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) and investment purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

## **FINANCIAL STATEMENTS** *continued*

### **NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

#### **(A) CREDIT RISK**

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

#### **(B) INTEREST RATE RISK**

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates.

As the Fund seeks to obtain its return from investing in equities and has no significant exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

#### **(C) FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value.

The Fund does not have any significant exposure to foreign currency risk, and therefore no foreign currency table or sensitivity analysis has been presented.

#### **(D) LEVERAGE**

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31 December 2019, leverage under the gross method was 0.85:1 and leverage under the commitment method was 1:1 (31.12.18: 0.93:1 and 1:1 respectively).

## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 December 2019

#### (E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 6 and 12 month average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 14.71% of the portfolio can be liquidated within 5 days and 63.54% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

#### (F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £10,003,000 (31.12.18: £7,426,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The Fund held no derivatives in the current or prior year.

**FINANCIAL STATEMENTS** *continued*
**NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 December 2019

**15. Portfolio Transaction Costs**

31.12.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	67,737	93	66	67,896
Purchases total	<u>67,737</u>	<u>93</u>	<u>66</u>	<u>67,896</u>
<i>Transaction cost % of purchases total</i>		<i>0.14%</i>	<i>0.10%</i>	
<i>Transaction cost % of average NAV</i>		<i>0.05%</i>	<i>0.04%</i>	
Ordinary shares	50,519	(101)	–	50,418
Sales total	<u>50,519</u>	<u>(101)</u>	<u>–</u>	<u>50,418</u>
<i>Transaction cost % of sales total</i>		<i>0.20%</i>	<i>–</i>	
<i>Transaction cost % of average NAV</i>		<i>0.06%</i>	<i>–</i>	

Average portfolio dealing spread at 31.12.19 is 3.37% (31.12.18: 3.37%).

31.12.18	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	84,936	89	61	85,086
Purchases total	<u>84,936</u>	<u>89</u>	<u>61</u>	<u>85,086</u>
<i>Transaction cost % of purchases total</i>		<i>0.10%</i>	<i>0.07%</i>	
<i>Transaction cost % of average NAV</i>		<i>0.06%</i>	<i>0.05%</i>	
Ordinary shares	24,747	(49)	–	24,698
Sales total	<u>24,747</u>	<u>(49)</u>	<u>–</u>	<u>24,698</u>
<i>Transaction cost % of sales total</i>		<i>0.20%</i>	<i>–</i>	
<i>Transaction cost % of average NAV</i>		<i>0.03%</i>	<i>–</i>	

## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 December 2019

#### 16. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

**Level 1:** Unadjusted quoted price in an active market for an identical instrument;

**Level 2:** Valuation techniques using observable inputs other than quoted prices within Level 1;

**Level 3:** Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.12.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	200,060	–	–	200,060

  

31.12.18	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	148,525 <sup>1</sup>	–	–	148,525

<sup>1</sup> Hertsford Capital was reclassified from Level 2 in the prior year to Level 1 to be consistent with the current year presentation.

#### 17. Subsequent Events

On 11 March 2020 the World Health Organisation declared the COVID-19 outbreak a pandemic. As a result, global markets have experienced a period of volatility which has impacted the performance of the Fund since the balance sheet date. The length of time the volatility remains will largely depend on the scale and duration of the outbreak. The spread and impact of COVID-19 is considered as a non-adjusting event after the reporting period.

Since the balance sheet date, the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	05.06.20	Movement
'A' Accumulation	4,970.99	4,485.98	(9.76)%
'B' Retail Income	185.29	166.77	(10.00)%
'B' Retail Accumulation	186.63	167.98	(9.99)%
'C' Institutional Income	185.56	167.03	(9.99)%
'C' Institutional Accumulation	192.24	173.48	(9.76)%
'D' Income	114.29	102.88	(9.98)%
'D' Accumulation	115.20	104.03	(9.70)%

## FINANCIAL STATEMENTS *continued*

### DISTRIBUTION TABLE

for the year ended 31 December 2019 – in pence per share

#### EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Interim	Final
From	01.01.19	01.07.19
To	30.06.19	31.12.19

#### 'A' ACCUMULATION SHARES

Interim	Net Revenue	Equalisation	Allocated 31.08.19	Allocated 31.08.18
Group 1	22.4799	–	22.4799	23.3320
Group 2	22.4799	0.0000	22.4799	23.3320

Final	Net Revenue	Equalisation	Allocation 30.04.20	Allocated 30.04.19
Group 1	12.8005	–	12.8005	11.3321
Group 2	12.8005	0.0000	12.8005	11.3321

#### 'B' RETAIL INCOME SHARES

Interim	Net Revenue	Equalisation	Paid 31.08.19	Paid 31.08.18
Group 1	0.2960	–	0.2960	0.3240
Group 2	0.2960	0.0000	0.2960	0.3240

#### 'B' RETAIL ACCUMULATION SHARES

Interim	Net Revenue	Equalisation	Allocated 31.08.19	Allocated 31.08.18
Group 1	0.3307	–	0.3307	0.3815
Group 2	0.3007	0.0300	0.3307	0.3815

There was no final distribution for the 'B' Retail Income and 'B' Retail Accumulation classes in the current or prior year.

**FINANCIAL STATEMENTS** *continued*

**DISTRIBUTION TABLE** *continued*

**'C' INSTITUTIONAL INCOME SHARES**

<b>Interim</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Paid 31.08.19</b>	<b>Paid 31.08.18</b>
Group 1	0.8433	–	0.8433	0.8861
Group 2	0.6084	0.2349	0.8433	0.8861
<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Payable 30.04.20</b>	<b>Paid 30.04.19</b>
Group 1	0.4699	–	0.4699	0.4704
Group 2	0.0070	0.4629	0.4699	0.4704

**'C' INSTITUTIONAL ACCUMULATION SHARES**

<b>Interim</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocated 31.08.19</b>	<b>Allocated 31.08.18</b>
Group 1	0.8693	–	0.8693	0.9119
Group 2	0.7234	0.1459	0.8693	0.9119
<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 30.04.20</b>	<b>Allocated 30.04.19</b>
Group 1	0.4911	–	0.4911	0.4459
Group 2	0.1963	0.2948	0.4911	0.4459

**'D' INCOME SHARES**

<b>Interim</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Paid 31.08.19</b>	
Group 1	0.6353	–	0.6353	
Group 2	0.5795	0.0558	0.6353	
<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Payable 30.04.20</b>	<b>Paid 30.04.19</b>
Group 1	0.3638	–	0.3638	0.1112
Group 2	0.3638	0.0000	0.3638	0.1112

There was no interim distribution for the 'D' Income class in the prior year as the share class launched 2 November 2018.

**FINANCIAL STATEMENTS** *continued*

**DISTRIBUTION TABLE** *continued*

**'D' ACCUMULATION SHARES**

<b>Interim</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocated 31.08.19</b>	
Group 1	0.6317	–	0.6317	
Group 2	0.6317	0.0000	0.6317	
<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 30.04.20</b>	<b>Allocated 30.04.19</b>
Group 1	0.3739	–	0.3739	0.1200
Group 2	0.3739	0.0000	0.3739	0.1200

There was no interim distribution for the 'D' Accumulation class in the prior year as the share class launched 2 November 2018.



## GENERAL INFORMATION

### Valuation Point

The current valuation point of the Fund is at 12.00 noon (London time) on each dealing day. Valuations may be made at other times with the Depositary's approval.

### Buying and Selling Shares

The ACD will accept orders to buy or sell shares on normal business days between 8.30am and 5.30pm (London time) and transactions will be effected at prices determined by the following valuation. Instructions to buy or sell shares may be either in writing to: PO Box 389, Darlington DL1 9UF or by telephone on 0345 922 0044.

### Prices

The prices of all shares are published on every dealing day on the website: [www.linkfundsolutions.co.uk](http://www.linkfundsolutions.co.uk). The prices of shares may also be obtained by calling 0345 922 0044 during the ACD's normal business hours.

### Other Information

The Instrument of Incorporation, Prospectus, Key Investor Information Document and the most recent interim and annual reports may be inspected at the office of the ACD which is also the Head Office. Copies of these may be obtained upon application and, excepting the Instrument of Incorporation, can be found on the ACD's website, [www.linkfundsolutions.co.uk](http://www.linkfundsolutions.co.uk).

Shareholders who have any complaints about the operation of the Fund should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service at Exchange Tower, London E14 9SR.

### Data Protection Act

Shareholders' names will be added to a mailing list which may be used by the ACD, its associates or third parties to inform investors of other products by sending details of such products. Shareholders who do not want to receive such details should write to the ACD requesting their removal from any such mailing list.



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