

CAPITAL GEARING TRUST P.L.C.

Annual Report and Financial Statements

For the year ended 5 April 2019

Company Summary

■ The Company

Capital Gearing Trust (the "Company") is an investment trust with shares listed on the premium segment of the Official List and traded on the main market of the London Stock Exchange.

■ Investment objectives

The Company's dual objectives are to preserve shareholders' real wealth and to achieve absolute total return over the medium to longer term.

■ Capital structure and voting rights

The share capital comprises Ordinary shares of 25 pence each. As at 5 April 2019, 7,886,589 shares were in issue (5 April 2018: 5,762,919). Each Ordinary share has one vote.

■ Discount/Premium Control Policy

The Company will purchase or issue shares to ensure, in normal market conditions, that the shares trade consistently close to their underlying Net Asset Value per share.

■ Annual general meeting

The annual general meeting of the Company will be held at the offices of Smith & Williamson Investment Management, 25 Moorgate, London EC2R 6AY at 11.00 a.m. on Tuesday, 9 July 2019.

■ Management and Administration

Investment management is carried out by CG Asset Management for an annual fee of 0.60% of net assets up to £120m, 0.45% on net assets above £120m to £500m and 0.30% thereafter. Company secretarial and various administrative services are provided by PATAC. Custodial services are carried out by The Northern Trust Company.

■ Alternative Investment Fund Manager

CG Asset Management is the Company's Alternative Investment Fund Manager.

■ ISA

The Company manages its affairs so as to be a fully qualifying investment trust under the individual savings account (ISA) rules.

■ Non-Mainstream Pooled Investment Rules

The Company's shares are 'excluded securities' for the purposes of the rules relating to non-mainstream pooled investments. This means they can be recommended by independent financial advisors to their ordinary retail clients, subject to normal suitability requirements.

■ Dividends

The Company pays an annual dividend but focuses on total return rather than any net income level.



The Association of
Investment Companies

The Company is a member of the Association of Investment Companies.

Information disclaimer

This report is produced for members of the Company with the purpose of providing them with information relating to the Company and its financial results for the period under review. This report contains subjective opinion, analysis and forward looking statements which, by their very nature involve uncertainty. Events beyond the control of the directors and the Company may affect actual future results which may therefore differ to those indicated within this historical report. Market and currency fluctuations may occur which may in turn have an impact on the value of the Company's underlying investments in the future. Past performance is no guarantee of future performance. Investments are not guaranteed and you may not get back the amount you originally invested. Neither the directors nor the Company take responsibility for matters outside of their control.

Contents

Company Summary	Inside front cover
Contents page	1
Financial Information	2
Performance	3
The Board's Strategic Report	4-15
Chairman's Statement	4-6
Investment Objectives and Investment Policy	7
Strategic Review	8-9
Investment Manager's Report	10-11
Portfolio Analysis	12-15
Governance Report	16-38
Board, Management and Administration	16-17
Directors' Report	18-23
Corporate Governance Statement	24-30
Audit Committee Report	31-33
Directors' Remuneration Policy	34
Directors' Remuneration Report	35-37
Directors' Responsibilities Statement	38
Independent Auditors' Report	39-45
Financial Statements	46-62
Income Statement	46
Statement of Changes in Equity	47
Statement of Financial Position	48
Cash Flow Statement	49
Notes to the Financial Statements	50-62
Notice of Annual General Meeting	63-66
Shareholder Information	67-68
Shareholder Analysis	68
Glossary of Terms and Definitions	IBC*

* Inside back cover

Financial Information

Performance Highlights

(All data as at 5 April)

Total Returns

	1 Year	3 Years	5 Years	10 Years
Share Price ¹	7.4%	24.1%	28.5%	87.5%
NAV per Share ¹	7.9%	22.2%	33.9%	105.1%
MSCI UK Index	7.9%	37.9%	34.0%	167.0%
Inflation (RPI)	2.4%	9.2%	11.9%	34.9%
Share Price relative to MSCI UK	-0.5%	-10.0%	-4.1%	-29.8%
Share Price relative to RPI	4.9%	13.6%	14.8%	39.0%

Years ended 5 April

	2019	2018	2016	2014	2009
Market Capitalisation (£m)	328.9	225.3	109.1	97.7	59.4
Shareholders' Funds (£m)	321.9	219.6	107.9	91.3	66.2
Shares in issue	7,886,589	5,762,919	3,190,981	2,926,906	2,794,906

Allocation of Portfolio

Index-Linked Government Bonds	33.0%	37.9%	31.7%	33.0%	40.6%
Conventional Government Bonds	10.3%	1.1%	—	5.0%	23.4%
Preference Shares/Corporate Debt	17.6%	17.3%	27.7%	23.3%	13.0%
Funds/Equities	35.2%	36.9%	29.4%	27.5%	18.7%
Cash	2.9%	5.8%	10.0%	9.8%	3.5%
Gold	1.0%	1.0%	1.2%	1.4%	0.8%
	100.0%	100.0%	100.0%	100.0%	100.0%

Share Price (pence)	4,170.0	3,910.0	3,402.0	3,339.5	2,370.0
NAV per Share (pence)	4,082.0	3,809.8	3,382.0	3,119.7	2,125.4
Premium/Discount to NAV ¹	2.2%	2.6%	1.1%	7.0%	11.5%
Earnings per Share (pence)	51.12	37.04	16.91	10.77	28.50
Ordinary dividend per Share (pence)	23.00	21.00	20.00	16.00	22.00
Special dividend per Share (pence)	12.00	6.00	—	—	—
Total dividend per Share (pence)	35.00	27.00	20.00	16.00	22.00
Ongoing Charges Ratio ¹	0.70%	0.77%	1.04%	1.24%	1.60%
MSCI UK Index	16,062.4	14,884.2	11,645.5	11,986.4	6,015.9
UK Retail Price Index (at 31 March)	285.1	278.3	261.1	254.8	211.3

¹ Alternative Performance Measure. Please refer to the inside back cover for a glossary of terms and definitions.

Performance

Share price total return performance 2009 to 2019

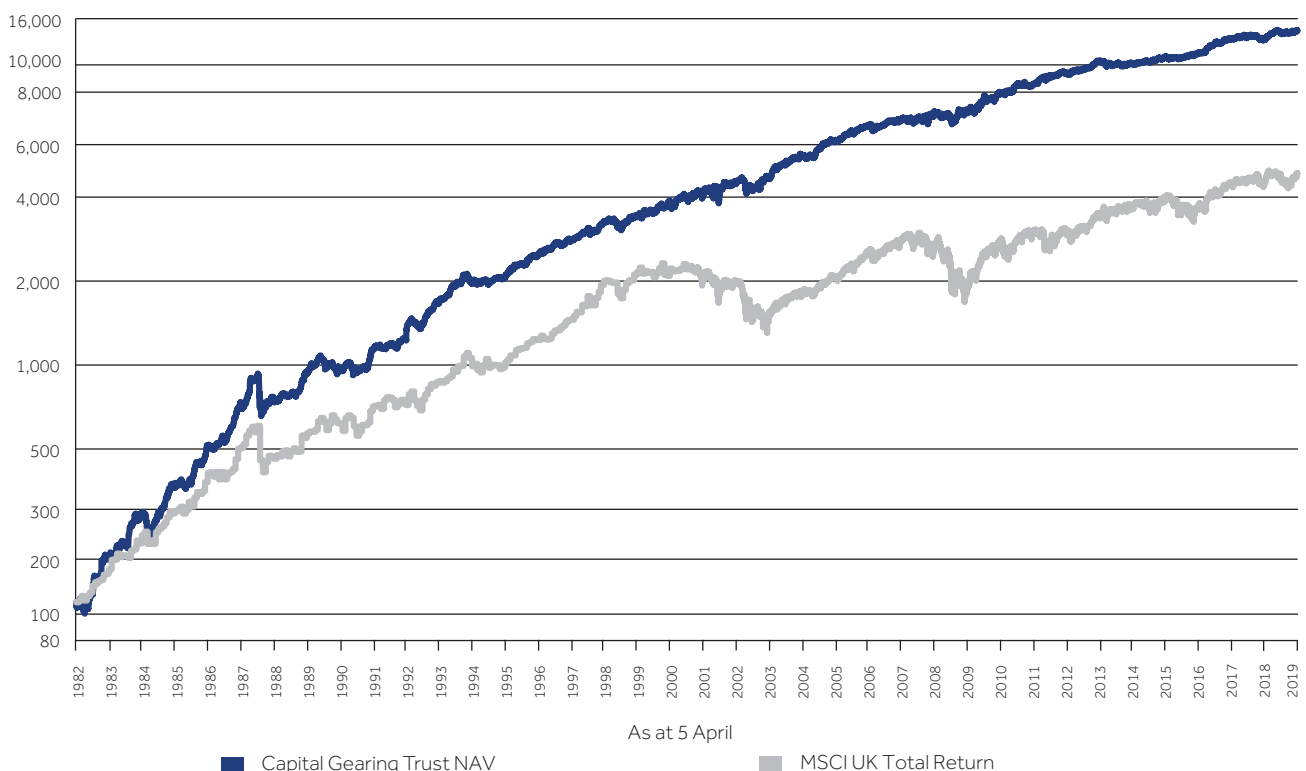
Based on mid-market prices, the graph below illustrates the total return to investors in the Company over the past 10 years, compared with the total return on the MSCI UK Index*. Each measure is rebased to 100 in 2009.



*Source: CG Asset Management Ltd

Net asset value performance 1982 to 2019

Based on the Company's NAV per Ordinary share, the graph below illustrates the total return to investors in the Company since 1982, compared with the total return on the MSCI UK Index*. Each measure is rebased to 100 in 1982.



*Source: CG Asset Management Ltd

The Board's Strategic Report

Chairman's Statement

Overview

As at 5 April 2019, the net asset value ("NAV") per share was 4,082.0p, a total return of 7.9% for the year. The share price rose by 7.4% in total return terms, ending the year at 4,170.0p. After a disappointing outcome in 2017/2018, when the growth in NAV per share had failed to match inflation for only the second time since 2000, performance in this most recent year was more encouraging, with growth in NAV per share matching the MSCI UK Index (+7.9%) and outstripping the UK Retail Price Index (+2.4%).

The portfolio has remained defensively positioned with some 20% of the portfolio at the end of the year being held in either cash or short-term government bonds. Despite this, overall performance measured up well against equity markets. Several risk asset classes contributed to this, as noted in the investment manager's report, as did the sizeable holdings in US inflation linked bonds. Further weakness in sterling, after a period of sterling/dollar strength in the previous year, also helped performance.

A very important feature of the performance of the Company's net asset value in recent years has been to offset excessive market movements, notably on the downside, as a result of portfolio positioning. In conjunction with the successful application of the discount control policy, which has limited share price volatility, the absence of significant setbacks in portfolio value has been an important element in preserving shareholder value.

Dividend and Earnings

The revenue return per share after tax and expenses for the financial year was 51.12p, a sharp increase for the second year in a row. Although the trust does not set a specific income target per se, rather using total return as its yardstick, two principal factors have bolstered the revenue account – one possibly temporary, the other more sustainable. The switch in asset allocation from zero dividend preference shares towards short-dated corporate bonds has boosted gross revenues. Meanwhile, strict control of fixed costs and a lower average percentage charge for the investment management fee have also improved the net revenue return.

As in the recent past, the Board is recommending an underlying dividend, which is viewed as at least sustainable in normal circumstances, and a special dividend, which could be subject to fluctuation in future, largely in order to meet the requirements of investment trust status. A repeat of any such special dividend in succeeding years is not implied.

This year the Board is recommending a total dividend of 35.0p per share comprising an underlying dividend of

23.0p per share and a special dividend of 12.0p per share. The total payment of 35.0p per share compares with 27.0p per share last year (comprised of an underlying dividend of 21.0p per share and a special dividend of 6.0p per share). The Board believes that the Company's dividend policy, which is not a material part of the Company's total return, is consistent with former years and so recommends this for shareholder approval.

Annual General Meeting

This year, the AGM will be held in London at the Moorgate offices of Smith & Williamson on Tuesday, 9 July 2019 at 11:00 a.m. The notice convening the fifty-sixth AGM of the Company is set out on pages 63 to 66. The directors look forward to meeting shareholders then. We are revising the format this year and our investment managers will be making a short presentation on the outlook for capital markets and the Company's investments, before we proceed to the formal business of the meeting. There will be an opportunity for shareholders to ask questions after the investment manager's presentation, and during the formal part of the AGM.

Share Issuance and Buybacks

In terms of issuance, we issued 2,123,670 shares (all at a premium to NAV per share) for net proceeds of £86,185,000 during the last financial year.

The Company's discount control policy ("DCP") has now been in operation for almost four years. It is instructive to look back at the progress since then. At the instigation of the policy in August 2015, the Company had 2,926,906 shares in issue, net assets of £94.56m whilst the daily trading volume was typically less than 1,000 shares.

With the exception of one short period in late 2015 when the Company bought back a small amount of shares at a very modest discount to NAV, the DCP has operated exclusively in one direction, issuing shares at a premium to NAV. At the latest financial year end, there were 7,886,589 shares in issue (nearly 2.7 times the August 2015 level), net assets were £321.93m and in the latest quarter average daily trading volumes have been in excess of 12,000 shares.

Although the Company incurs modest costs for operating the DCP and when renewing shareholder authority from time to time, issuance at a premium under the DCP more than compensates and is consistently accretive to NAV. The Board estimates that since inception NAV has gained by some £2.56m after all costs, with £1.39m of this gain being generated in the latest financial year.

The Board's Strategic Report (continued)

Chairman's Statement

The expansion in assets under management has had no impact on our investment strategy nor adversely affected our NAV per share performance. When measured against its twin, the hard closed Capital Gearing Portfolio Fund, the Company shows a small positive differential gain in performance. Over the year to 31 March 2019, the Company delivered a NAV total return of 7.8% compared to the Capital Gearing Portfolio Fund total return of 6.9%. This is a consequence of the accretion to NAV from issuance at a small premium and the reduction in the ongoing cost ratio, examined in greater detail below.

The Board is firmly of the view that the continued implementation of the DCP remains in the best interest of shareholders. Trading in the Company's shares is much more liquid (for buyers and, potentially, for sellers), the costs per share of running the Company are significantly reduced and issuance at a premium has augmented underlying growth in NAV per share to a modest, but measurable, extent.

Costs

The Board continues to monitor and exact close control on the costs of running your Company. The key measure of overall costs is the ongoing charges ratio ("OCR"). This has declined yet again from 0.77% in the year to 5 April 2018 to 0.70% this year. This is largely due to our fixed costs being spread over a larger asset base, but total fixed costs (i.e. excluding the investment management fee which is linked to the size of the portfolio) at £0.42m remained at the same level as the previous year. Before the Company commenced its DCP in 2015, the OCR for the much smaller Company was 0.96 per cent.

Looking ahead at potential factors that will influence the OCR in future years, there are three worthy of mention (and only the potential reduction in the investment management fee linked to the amount of assets under management of any significant materiality):

- Directors' fees were revised upwards on 6 April 2019 to reflect increased time, workload and comparisons with other trusts, along with the need to attract new directors. Further detail is provided in the Directors' Remuneration Report on page 35.
- A new agreement between the Company and PATAC, which provides secretarial and various administration services, will result in an increase of some £38,000 per annum in the fees paid to PATAC which were set at and unchanged since their appointment in 2015. Further details are provided in the Directors' report on page 19.

- The investment management agreement with CG Asset Management has an annual fee of 0.60% of net assets up to £120m, 0.45% of net assets above £120m and up to £500m, and 0.30% thereafter. It is possible, if inflows to the Company continue at recent rates, that this third lower tier of charges will be triggered, perhaps even in the current year. This would over time have a significant positive impact on the OCR of the Company, which is already very competitive for what the Company aims to achieve for shareholders.

AIFM Status

Currently, the Company's Alternative Investment Fund Manager, CG Asset Management, is registered as a "small authorised UK AIFM". However, as it now seems possible that the Company's assets under management could exceed the upper threshold under the AIFM regime of €500 million within the current financial year, if the present rate of share issuance persists, the Board has requested CG Asset Management to seek permission from the FCA to become a "full scope AIFM". This move will require the Company to appoint a depositary and thereby incur some additional costs. Full scope authorisation will also allow the Company to gear its balance sheet and to trade in certain instruments (e.g. writing options or buying warrants), activities from which the Company has been hitherto prohibited.

It should be stressed that the Board has no present intention of borrowing capital or gearing the balance sheet.

Board Succession

George Prescott and I, both having served more than nine years on the Board, are standing for re-election at the AGM this year. However, mindful of the need to refresh the board on a periodic basis, neither of us will stand for re-election at the AGM in July 2020. George is relinquishing the chair of the audit committee at this year's AGM, to be succeeded in this role by Robin Archibald. After George's planned retirement from the Board early in 2020, Robin will succeed him as Senior Independent Director. Robin has served as audit chair on other listed investment companies and is a chartered accountant.

In just over 12 months, at the AGM in July 2020, I will step down from the Chair and will be succeeded by Jean Matterson. As well as having more than four years service on our Board, Jean has two directorships with other investment trusts, including eight years experience as Chair of Pacific Horizon Investment Trust plc. She is well-qualified and has the full support of the Board to take over the leadership of your Company.

The Board's Strategic Report (continued)

Chairman's Statement

In parallel with these changes to the roles of current board members, a search has commenced for a suitable candidate to join the Board later this year. We are taking outside advice in compiling a list of suitable applicants and expect to be well advanced in making an appointment before the end of this year.

Outlook

Despite the recent rebound in equity and fixed interest markets from a sharp sell-off at the end of calendar year 2018, confidence in financial markets appears narrowly based. Central banks have recently blinked when confronted by investor reaction to the possibility of higher short-term rates. This has provided some temporary relief, but major unresolved issues such as Brexit, the rise and impact of populist politics, the Sino-US trade negotiations and conflicting signs of a slowdown in global growth, could at any time lead to an evaporation of this market rally.

Whilst a case can be made that, in certain equity markets, valuations are discounting some of these worries, we believe that the market volatility of the past 12 months looks set to continue. Pockets of value do occur from time to time in the markets we survey, though in the investment trust field discounts are very tight and liquidity often non-existent. It will come as no surprise to our shareholders that in this climate it is the preservation of capital value which remains our priority.

Graham Meek

Chairman

28 May 2019

The Board's Strategic Report (continued)

Investment Objectives and Investment Policy

Investment objectives

The Company's dual objectives are to preserve shareholders' real wealth and to achieve absolute total return over the medium to longer term.

Investment policy

The Company aims to achieve its investment objectives through long only investment in quoted closed-ended funds and other collective investment vehicles, bonds, commodities and cash, as considered appropriate.

Given the diverse attributes of closed-ended funds and other collective investment vehicles, as well as the lower-risk characteristics attached to the other asset classes in which the Company invests, a flexible approach to asset allocation is adopted. It is anticipated that under most market conditions, a broad mix of assets will be maintained and a maximum 80% exposure to either equity or fixed-interest securities (including index-linked securities and cash) may be held at any time.

The investment manager has the authority to invest in any geographical region and has no set limits on industry sector or country exposure. The Company will not invest more than 15% of its investment portfolio in any single investment.

The Company does not have a formal benchmark but uses the UK Retail Price Index ("RPI") as the minimum target for returns to be achieved over the medium to longer term, thereby aiming to at least preserve the real value of shareholders' investments.

The Company, in pursuing total return, does not aim to invest for income to support any target dividend payment, since capital return is likely to be the largest component of the absolute return objective.

The maximum proportion of the Company's gross assets that can be held in other UK-listed investment companies (which do not have a stated investment policy to invest no more than 15% of their gross assets in other UK investment companies) is 10% in accordance with Listing Rule 15.2.5. It is, however, the aim of the Company to maintain a maximum 6% investment level in such companies in order to avoid any potential breach of this rule and to maintain investment flexibility.

The Company may invest in derivatives such as warrants, options, swaps and forward contracts for the purpose of efficient portfolio management, subject to prior Board approval. Investments in other funds managed by CG Asset Management, or by associates of CG Asset Management, will be considered by the Board on a case by case basis and are subject to Board approval.

Borrowing powers

The Company has the authority to borrow up to 20% of net assets, subject to prior Board approval.

AIFMD status

The Company is an Alternative Investment Fund ("AIF") as defined by the AIFMD and CG Asset Management is the Company's Alternative Investment Fund Manager ("AIFM"). CG Asset Management is authorised as a Small Authorised UK AIFM.

Although the investment policy of the Company permits gearing, including the use of derivatives, the Company is not permitted to employ gearing whilst the AIFM continues to be registered under its present AIFM status.

The Board's Strategic Report (continued)

Strategic Review

Investment strategy and business model

Capital Gearing Trust P.L.C. seeks to preserve shareholders' real wealth and deliver absolute total returns through the construction of multi asset portfolios with a specialist focus on investment trust equities and related securities. Portfolio construction is the key tool to mitigate capital loss in any given year. The investment manager allocates across asset classes based on an assessment of capital markets and macro-economic risks, with the aim of avoiding capital loss. In addition a portion of the portfolio is invested into the investment trust market with the aim of exploiting inefficiencies to generate risk adjusted returns that are superior to those available in more liquid equity markets.

Key performance indicators ("KPIs")

The Board monitors numerous KPI indices and ratios for the purpose of assessing and reporting investment performance. The Company seeks to achieve capital growth in real terms over both short-term and long-term periods. The Board monitors the performance of the investment manager against RPI

over the short-term (3 years) and the MSCI UK over the longer-term (10 years).

Tables and graphs showing the performance of the Company's NAV per share compared with the RPI and the MSCI UK Index over 1, 3, 5 and 10 years and over the period from 1982 are shown on pages 2 and 3.

In addition, the Board monitors the following KPIs:

- Share price premium/discount to NAV, an important measure of demand for the Company's shares and a key indicator of the need for shares to be bought back or issued. At the start of the year under review the premium to NAV was 2.6% compared with 2.2% at the year end; and
- Ongoing charges percentage, calculated using the methodology recommended by the Association of Investment Companies which enables the Board to measure the control of costs. This percentage was 0.70% for the year to 5 April 2019 (2018: 0.77%).

Principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks facing the Company are set out in the table below.

Risk	Mitigation
Investment Strategy and Performance The Board is responsible for setting the investment strategy of the Company and monitoring investment performance. Inappropriate strategy and/or poor investment performance may have an adverse effect on shareholder returns.	The Company's strategy is formally reviewed by the Board at least annually, considering investment performance, shareholder views, developments in the marketplace and the structure of the Company. Investment performance is reviewed by the Board on a regular basis against RPI and the MSCI UK Index. The composition of the portfolio is provided at each Board meeting to allow monitoring of the spread of investments. Stock selection, portfolio composition and liquidity are explained in detail by the investment manager at each meeting. The investment manager is formally appraised at least annually by the Management Engagement Committee.
Premium/Discount Level The Company's share price could be impacted by a range of factors causing it to be higher than (at a premium to) or lower than (at a discount to) the underlying NAV per share. Excessive demand for, or supply of, shares can create liquidity issues, restricting the ability of investors to buy and sell shares in the secondary market. Fluctuations in the share price can cause volatility which may not be reflective of the underlying investment portfolio.	The Company operates a discount/premium control policy ("DCP"), under which it will purchase or issue shares to ensure, in normal market conditions, that the shares trade close to their underlying NAV per share. The DCP increases liquidity and reduces volatility by preventing the build up of excessive demand for the Company's shares which, the Board believes, is in the best interests of shareholders. The levels of issuance/buyback of shares are reported to the Board on an ongoing basis and at each Board meeting the Board considers the investment manager's ability to invest new proceeds (in the case of issuance) and maintain sufficient liquidity (in the case of buybacks) to meet the demands of the DCP. The company secretary monitors the relevant authority levels, which are regularly reported to the Board, to maintain, as far as possible, uninterrupted operation of the DCP.

The Board's Strategic Report (continued)

Strategic Review

Principal risks and uncertainties (continued)

Risk	Mitigation
Operational The Company is reliant on third-party service providers including CGAM as investment manager, PATAC as company secretary and administrator and Northern Trust as custodian. Failure of the internal control systems of these third-parties could result in inaccurate information being reported or risk to the Company's assets.	The Audit Committee formally reviews each service provider at least annually, considering their reports on internal controls. Further details of the Company's internal control and risk management system is provided on pages 29 and 30.
Regulatory The Company operates in a regulatory environment. Failure to comply with section 1158 of the Corporation Tax Act 2010 could result in the Company losing investment trust status and being subject to tax on capital gains. Failure to comply with other regulations could result in financial penalties or the suspension of the Company's listing on the London Stock Exchange.	Compliance with relevant regulations is monitored on an ongoing basis by the company secretary and investment manager who report regularly to the Board. The Board monitors changes in the regulatory environment and receives regulatory updates from the investment manager, company secretary, lawyers and auditors as relevant.
Financial and Economic The Company's investments are impacted by financial and economic factors including market prices, interest rates, foreign exchange rates and credit which could cause losses to the investment portfolio.	The Board regularly reviews and monitors the management of market risk, interest rate risk, foreign currency risk and credit risk. These are explained in detail in note 15 to the financial statements on pages 57 to 62. Brexit, and other political situations, are considered a component of market risk.

Employee, human rights, social and environmental matters

The Board recognises the requirement under section 414C of the Companies Act 2006 to provide information about employees, human rights and community issues, including information in respect of any policies it has in relation to these matters and their effectiveness. These requirements do not apply to the Company as it has no employees, all directors are non-executive and it has outsourced all its functions to third-party providers. The Company has therefore not reported further in respect of these provisions.

The Company has limited direct impact on the environment. It invests primarily in closed-ended and other collective investment vehicles or government bonds. The sectors chosen do not generally raise ethical issues. The Board monitors and is satisfied with the underlying investee companies' policies to act with due regard to community, welfare and environmental factors. The Company aims to conduct itself responsibly, ethically and fairly and has sought to ensure that the investment manager's management of the portfolio of investments takes account of social, environmental and ethical factors where appropriate.

Gender and diversity

The Board supports the principle of boardroom diversity in its broadest sense, in terms of gender, expertise, geographic background, age and race. The Company is specialised and the Board's priority for shareholders is to have a Board with the requisite abilities to look after the Company's investments. In addition, the Board should be able to conclude that any new appointee would make an appropriate contribution. It is the Board's policy to review its composition regularly and, when appropriate, to refresh the Board through recruitment, with the aim of having the blend of skills and attributes that will best serve shareholders in the future. At the end of the year under review, the Board comprised four male and one female director.

Bribery and corruption

The Company's policy in relation to bribery and corruption can be found in the Directors' Report on page 22.

The Board's Strategic Report (continued)

Investment Manager's Report

Review

For a portfolio as defensive as Capital Gearing Trust's to deliver high single digit returns, almost everything had to go our way in the year. Many assets that were selected primarily for their defensive characteristics delivered double digit returns in sterling terms. These notably included material holdings in Swedish and German property companies, renewable and PFI infrastructure funds and the near 25% holding in US inflation linked government bonds. The strong performance of these assets allowed the Company to deliver acceptable returns whilst holding in excess of 35% of the portfolio in cash or short-dated high quality sterling bonds and preference shares. These defensive cash and cash like holdings were important in minimising NAV declines during the equity market weakness of late 2018. Stock selection and asset allocation worked together to protect the downside. In short it was a fortunate year.

In the conventional equity portfolio we initiated one large new position, Investor AB, which is now the core of our conventional European equity exposure. Investor AB is a liquid Swedish holding company which itself holds a range of high quality listed and unlisted European businesses. In the summer of 2018 Investor AB was trading at unusually wide discounts, at a time that the Swedish krona had weakened markedly against the euro. This combination offered an attractive entry point. Whilst it is early days for our holding, it has outperformed the broader European equity market by more than 10% since we bought into the company.

The property and alternative portfolios delivered exceptional returns, given their relatively low risk profile. The fund participated in new stock placings in John Laing Environmental Assets, The Renewables Infrastructure Group, Greencoat UK Wind, Foresight Solar Fund and Greencoat Renewables. This renewable infrastructure portfolio delivered in excess of 20% returns due to strong demand for stable investments with environmental credentials. After a weak year in 2017/2018, the PFI infrastructure funds also delivered strong returns, boosted by the move to take John Laing Infrastructure Fund private, and out of the public market. The most outstanding returns came from the Company's circa 2% holding in Swedish commercial property. The principle holding, Castellum AB, returned in excess of 25% as demand for commercial office space in Sweden dramatically outstripped new supply. Even the circa 2% position in loan funds delivered double digit returns, helped by discount narrowing in a new position, P2P Global Investments.

As always we had some notable underperformers, although they were limited in number over the last 12 months. For a second year running Ground Rents Income Fund delivered double digit declines as political scrutiny of the ground rents market continues. Whilst this was a setback, we continue to believe that long-term return prospects are strong. More disappointing was the, fortunately small, investment in CATCo Reinsurance Opportunities Fund ("CATCo") purchased in early 2018. Our timing was poor as a catastrophe prone year followed and furthermore CATCo was subject to a probe regarding its historic reserve policies. CATCo is now in managed wind down that will certainly result in a small permanent capital loss. The episode demonstrates that "discounted" opportunities in the investment trust market are a flag of risk as well as an opportunity. Generally, with investment trust discounts at historically narrow levels, we remain wary of the risk of discount widening in a bear market.

The steady inflow of funds into the Company from the DCP has had no impact on the asset allocation, which has stayed largely unchanged over the last 12 months. Within the risk asset portfolio new investments have primarily focused on property and infrastructure, given these areas offered the more exciting opportunities. Within the bond portfolios the new inflows have allowed the lengthening of the US inflation linked portfolio to circa 9 years duration in a cost efficient manner.

Outlook

The long experiment of persistently stimulative monetary policy conducted by the Federal Reserve looked last autumn as though it might be ending. However, in December Chairman Powell capitulated as even modestly rising interest rates proved problematic for the over-indebted US economy. The market now anticipates that the next move will be a cut. Accommodative monetary policy, combined with large deficit funded tax cuts, has kept the US economy moving forward. Even supporters of these stimulative policies recognise their possible toxic effects, including asset price bubbles, over-leveraging, misallocation of capital, socially undesirable distributional effects and difficulties in funding insurance and pension obligations. Implicitly, these costs are acceptable because the alternative, a recession with elevated debt levels, could spiral into something significantly worse.

The Board's Strategic Report (continued)

Investment Manager's Report

Outlook (continued)

In Europe, the bold experiment of the ECB doing "whatever it takes" to protect the integrity of the Eurozone is still a work in progress. Trend growth is so slow that the threat of recession is ever present. Growth rates anticipated for Italy in 2019 are close to zero, which will require fiscal tightening if deficit targets are to be met. More likely, another political row between the European Commission and the Italian government looms. This highlights that the structural reforms that are required to provide stability to the currency union are nowhere in sight and a redenomination crisis cannot be excluded. Arguing against that outcome is the almost religious belief that the euro is critical to the future of the European project and the fear of the huge losses that any restructuring would crystallise. So the euro will likely muddle through but at a huge cost. The ECB looks likely to enter the next downturn, whenever that will be, with a weak banking system, inflation below target and negative nominal interest rates. To resist a deflationary spiral from that starting place will require heroic monetary policies combined with a significant fiscal stimulus. Under current constitutional and treaty constraints neither of these policy paths are available. One thing seems certain, real interest rates will be negative for a long time to come.

With real rates set to remain at historically low levels, it is not easy to identify a short-term catalyst that will bring an end to the current business cycle and the associated powerful equity bull market. The fragile macro-economic backdrop, combined with elevated equity and bond valuations, suggest that portfolio returns will be modest over the medium term and could be negative if there is a period of recession. As with the past year, capital preservation remains the key objective of portfolio allocation, until valuations return to more attractive levels. An objective of merely preserving capital sounds modest. But, if it can be delivered over a period of normalising asset prices it will represent a significant achievement and lay the foundation for potentially more exciting returns in the future.

Peter Spiller Alastair Laing Christopher Clothier

28 May 2019

The Board's Strategic Report (continued)

Portfolio Analysis

Distribution of investment assets of £323,306,000 at 5 April 2019

	Currency Exposure						2019 Total %
	Sterling %	US Dollar %	Euro %	Swedish Krona %	Japanese Yen %	Other %	
Index-Linked Government Bonds	8.5	24.3	—	0.2	—	—	33.0
Conventional Government Bonds	10.3	—	—	—	—	—	10.3
Preference Shares/Corporate Debt	14.3	1.5	0.9	—	—	0.9	17.6
Funds/Equities	13.8	3.2	7.5	3.9	2.2	4.6	35.2
Cash	2.7	0.1	—	0.1	—	—	2.9
Gold	1.0	—	—	—	—	—	1.0
Total	50.6	29.1	8.4	4.2	2.2	5.5	100.0

Distribution of investment assets of £219,164,000 at 5 April 2018

	Currency Exposure						2018 Total %
	Sterling %	US Dollar %	Euro %	Swedish Krona %	Japanese Yen %	Other %	
Index-Linked Government Bonds	11.3	24.3	—	2.3	—	—	37.9
Conventional Government Bonds	1.1	—	—	—	—	—	1.1
Preference Shares/Corporate Debt	16.4	0.7	—	—	—	0.2	17.3
Funds/Equities	16.6	2.9	7.8	2.4	2.6	4.6	36.9
Cash	5.2	0.5	—	0.1	—	—	5.8
Gold	1.0	—	—	—	—	—	1.0
Total	51.6	28.4	7.8	4.8	2.6	4.8	100.0

Investments of the Company

	2019 £'000	2018 £'000
Index-Linked Government Bonds		
Sweden	475	5,112
United Kingdom	27,387	24,710
United States of America	78,711	53,174
	106,573	82,996
Conventional Government Bonds		
United Kingdom	33,438	2,497

The Board's Strategic Report (continued)

Portfolio Analysis

Investments of the Company (continued)

	2019 £'000	2018 £'000
Preference Shares/Corporate Debt		
Zero Dividend Preference shares		
NB Private Equity 2022	3,409	3,379
JZ Capital Partners 2022	2,431	2,431
Utilico Investments 2020	2,147	1,001
Acorn Income Fund 2022	1,553	1,523
GLI Finance 2019	1,538	1,431
Ranger Direct Lending 2021	1,371	935
Polar Capital 2024	901	728
Premier Energy & Water Trust 2020	894	879
NB Private Equity Partners 2024	636	–
RM Secured Direct Lending 2021	561	555
Taliesin Property Fund 2018	–	816
Utilico Investments 2018	–	1,531
Investments with a market value below £500,000	855	837
	16,296	16,046
Corporate debt		
Pershing Square 5.5% 2022	4,810	1,495
Tesco Personal Finance 1.0% 2019	1,933	1,097
JZ Capital Partners 6.0% Convertible Unsecured Loan Stock 2021	1,898	1,862
Burford Capital 6.5% 2022	1,809	528
Landmark Mortgages 6.375% 2019	1,751	–
Unite Group 6.125% 2020	1,675	870
Primary Healthcare Properties 5.375% 2019	1,658	1,031
Helical 4.0% 2019	1,603	907
National Grid 1.25% 2021	1,498	923
Aberdeen Asian Smaller Companies 2.25% 2025	1,491	–
Burford Capital 6.125% 2024	1,401	374
Places for People Capital Markets 1% 2022	1,234	800
E.ON 6.0% 2019	1,026	–
Northern Gas Networks 5.875% 2019	1,011	–
Severn Trent 1.3% 2022	988	749
Southern Water Services 5.0% 2021	961	–
Bruntwood Investments 6.0% 2020	891	801
A2D Fund 4.75% 2022	889	217
Home Group Zero Coupon Loan Stock 2027	825	–
Koninklijke KPN 6.0% 2019	805	–
Tate & Lyle 6.75% 2019	800	244
Sydney Airport Finance Company 3.76% 2020	798	393
GE Capital UK Funding Unlimited Company 4.375% 2019	750	–
Yorkshire Water Finance 6.0% 2019	712	–
Birmingham Airport (Finance) 6.25% 2021	702	–
TP ICAP 5.25% 2019	692	155
Northern Powergrid (Yorkshire) 9.25% 2020	635	–
Export Development Canada 1.375% 2019	602	–
REA Finance B.V. 8.75% 2020	600	500
Bupa Finance 3.375% 2021	519	–
Retenbank 1.5% 2019	502	–
City Natural Resources 3.5% Convertible Unsecured Loan Stock 2018	–	1,220

The Board's Strategic Report (continued)

Portfolio Analysis

Investments of the Company (continued)

	2019 £'000	2018 £'000
Corporate debt (continued)		
CLS Holdings 5.5% 2019	–	1,179
Grainger 5.0% 2020	–	587
Intermediate Capital Group 7.0% 2018	–	84
National Grid 2.983% 2018	–	141
National Grid North America 1.875% 2018	–	501
NEX Group 5.5% 2018	–	904
Workspace Group 6.0% 2019	–	1,477
Investments with a market value below £500,000	3,559	2,745
	41,029	21,784
	57,325	37,829
Funds/Equities		
Vonovia	8,699	5,937
iShares Core FTSE 100 ETF	7,218	3,570
Deutsche Wohnen	6,329	4,278
Vanguard FTSE Japan UCITS ETF	6,312	5,686
North Atlantic Smaller Companies	6,053	5,491
Investor AB	5,772	–
Vanguard S&P 500 UCITS ETF	4,379	–
Grainger	4,098	2,031
Castellum	4,086	3,381
Residential Secure Income	3,466	3,268
Tritax Big Box REIT	3,227	–
Empiric Student Property	2,808	1,023
PRS REIT	2,638	1,195
The Renewables Infrastructure Group	2,554	–
Greencoat Renewables	2,534	–
Ground Rents Income Fund	2,392	2,342
John Laing Environmental Assets	2,254	–
Leg Immobilien	2,000	1,737
P2P Global Investments	1,978	–
Vanguard FTSE Emerging Markets UCITS ETF	1,912	454
Kungsleden	1,803	1,456
Witan Pacific Investment Trust	1,504	524
Grand City Properties	1,498	686
ADO Properties	1,468	779
Oryx International Growth Fund	1,424	1,442
Target Healthcare REIT	1,296	410
The Establishment Investment Trust	1,292	–
RM Secured Direct Lending	1,290	1,560
Vanguard FTSE Developed Asia Pacific ex-Japan UCITS ETF	1,215	–
JPEL Private Equity USD	1,077	1,179
Pershing Square	1,052	85
SQN Asset Finance C Shares	999	–
Ecofin Global Utilities and Infrastructure Trust	981	791
Triple Point Social Housing REIT	932	1,788
Civitas Social Housing	915	1,437
SME Loan Fund	914	914
Gulf Investment Fund	845	326

The Board's Strategic Report (continued)

Portfolio Analysis

Investments of the Company (continued)

	2019 £'000	2018 £'000
Funds/Equities (continued)		
Vanguard FTSE Developed Europe ex-UK UCITS ETF	799	2,697
Secure Income REIT	796	221
Better Capital PCC	736	1,026
SDCL Energy Efficiency Income Trust	727	—
Phoenix Spree Deutschland	718	—
Baillie Gifford Japanese Smaller Companies Fund	711	—
International Public Partnerships	701	597
CLS Holdings	694	427
Eurovestech	675	675
EPE Special Opportunities	628	1,017
Atrium Ljungberg AB	570	350
Vanguard FTSE 250 UCITS ETF	511	513
Artemis Alpha Trust	472	1,199
LXI REIT	346	1,435
CATCo Reinsurance Opportunities Fund	180	659
GCP Asset Backed Income Fund	2	618
Candover Investments	—	646
Civitas Social Housing C Shares	—	1,143
DW Catalyst Fund	—	513
Edinburgh Dragon Trust	—	1,184
Foresight Solar Fund	—	884
GCP Infrastructure Investments	—	1,559
HICL Infrastructure	—	811
iShares JP Morgan Emerging Market Local Government Bond UCITS ETF	—	534
North American Income Trust	—	804
Rights & Issues Investment Trust	—	528
Schroder UK Growth Fund	—	1,174
SQN Asset Finance Income Fund	—	1,005
Unite Group	—	1,492
Investments with a market value below £500,000	2,845	3,425
	113,325	80,907
Gold		
iShares Physical Gold ETC	3,210	2,167
Total investments	313,871	206,397
Cash	9,435	12,767
Total investment funds	323,306	219,164

The full portfolio listing of the Company as at 5 April 2019 is published on its website at www.capitalgearingtrust.com.

The Board's Strategic Report, contained on pages 4 to 15, has been approved by the Board and signed on its behalf by:

Graham Meek

Chairman
28 May 2019

Governance Report

Board, Management and Administration

Directors

Graham Meek MSc Chairman

Appointed a director in 2004 and Chairman with effect from 8 July 2015. Mr Meek is a former investment banker and stockbroker and was previously an executive director of Smith New Court plc. He has subsequently served as a non-executive director, head of audit committee or chairman on the boards of quoted and unquoted companies, most recently that of King's College Hospital NHS Foundation Trust. He currently serves as a trustee of the Royal College of Physicians.

George Prescott BA FCA Chairman of the Audit Committee/Senior Independent Director

Appointed a director in 2010 and Senior Independent Director in 2015. Mr Prescott is also Chairman of the Company's Audit Committee. Mr Prescott is a chartered accountant and until his retirement in 2009 was Deputy Group Chief Executive of the Ecclesiastical Insurance Group. He is currently a member of the Board of JP Morgan Cazenove Pension Trustee Company and Qatar Reinsurance Company Ltd. He sits on the Advisory Committee of The Equities Investment Fund for Charities (Charifund) and also on the Board of The Charibond Charities Fixed Interest Common Investment Fund. Mr Prescott is a member of the Court and of the Finance & Investment Committee of the Worshipful Company of Coopers.

Alastair Laing CA MBA

Appointed a director in November 2013. Mr Laing joined CG Asset Management Limited in 2011 and has been co-manager of the Company since that time. Mr Laing joined CG Asset Management Limited from Hg Capital LLP (a pan-European private equity fund) and previously worked with the mergers and acquisitions team at Deloitte LLP. Mr Laing was educated at Edinburgh University and was an MBA Scholar at London Business School. He is a member of the Institute of Chartered Accountants of Scotland.

Jean Matterson Chartered FCSI

Appointed a director in May 2015. Miss Matterson is a partner of Rossie House Investment Management in Edinburgh which specialises in private client portfolio management with particular emphasis on investment trusts. She was previously with Stewart Ivory & Co Ltd for 20 years, as an investment manager and director. She is the Chairman of Pacific Horizon Investment Trust plc and a non-executive director of BlackRock Throgmorton Trust plc. She is also a director of Herald Investment Management Limited and HIML Holdings Limited.

Robin Archibald BCom CA

Appointed a director in May 2015. Mr Archibald was formerly head of corporate finance and broking at Winterflood Investment Trusts. He qualified as a chartered accountant in 1983 and subsequently worked with Samuel Montagu, SG Warburg Securities, NatWest Wood Mackenzie and as partner and corporate financier with the corporate finance division of a Scottish accountancy firm. Since the early nineties, he has concentrated on advising and managing transactions in the UK closed-ended funds sector. He is a non-executive director and audit chairman of Albion Technology and General VCT plc and Shires Income plc, senior independent director of Ediston Property Investment Company plc and non-executive director of Henderson European Focus Trust plc.

Governance Report (continued)

Board, Management and Administration

Investment manager

CG Asset Management Limited

25 Moorgate, London EC2R 6AY
Telephone: 020 7131 4987

Established in 2000. The company currently has total funds under management of £1.9 billion.

Custodian and Banker

The Northern Trust Company

50 Bank Street, Canary Wharf, London E14 5NT
Telephone: 020 7982 2000

Company secretary and administrator

PATAC Limited

21 Walker Street, Edinburgh EH3 7HX
E-mail: company.secretary@capitalgearingtrust.com
Telephone: 0131 538 1400

Registered office

c/o PricewaterhouseCoopers LLP, Waterfront Plaza,
8 Laganbank Road, Belfast BT1 3LR

AIC

Association of Investment Companies

www.theaic.co.uk

Registrar

Computershare Investor Services PLC

The Pavilions, Bridgwater Road, Bristol BS13 8AE
Telephone: 0370 873 5864

Independent auditors

PricewaterhouseCoopers LLP

Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR

Corporate stockbroker

JP Morgan Cazenove

25 Bank Street, Canary Wharf, London E14 5JP

Governance Report (continued)

Directors' Report

The directors present the annual report and financial statements of Capital Gearing Trust P.L.C. for the year ended 5 April 2019.

Company status

The Company is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust, approved as such by HM Revenue and Customs, in accordance with Chapter 4 of Part 24 of the Corporation Tax Act 2010 (the "CT Act"). This legislation provides conditions that the Company must meet in respect of each accounting period for which it seeks to be classified as an investment trust. The Company will continue to conduct its affairs as an investment trust. The Company does not fall within the definition of a 'close company' under the CT Act.

Revenue and dividend

The net return attributable to ordinary shareholders for the financial year was £3,392,000 (2018: £1,871,000).

The Company does not aim to invest for income to support any target dividend payment, and dividend payments are affected by the requirement to distribute a certain level of income to maintain investment trust status.

The Board recommends the payment of a dividend of 35p per Ordinary share for the year ended 5 April 2019, (2018: 27p) for approval by shareholders at the forthcoming annual general meeting. The dividend will be payable on 19 July 2019 to shareholders on the register of members on 14 June 2019, the associated ex-dividend date being 13 June 2019. Final dividends should not be accrued in the financial statements under FRS 102 unless they are approved by shareholders before the balance sheet date. As such, the amount recognised in the 2019 financial statements comprises the 2018 final dividend.

Net asset value per Ordinary share

The net assets per Ordinary share of the Company as at 5 April 2019 was 4,082.0p, compared with 3,809.8p as at 5 April 2018.

Share capital

The Company's share capital comprises Ordinary shares of 25p each nominal value. The voting rights of the Ordinary shares on a poll are one vote for each share held. As at 5 April 2019, 7,886,589 Ordinary shares were in issue (2018: 5,762,919) and no shares were held in treasury (2018: nil).

There are no:

- restrictions on transfer of or in respect of the voting rights of the Company's shares;
- agreements, known to the Company, between holders of securities regarding the transfer of such shares; or
- special rights with regard to control of the Company attaching to any such shares.

As at the date of this report the issued share capital consisted of 8,249,307 Ordinary shares and no shares were held in treasury. Whilst shares are held in treasury no dividends are paid on them and they have no voting rights.

Management and contracts

Investment manager

The Company's investments are managed by CG Asset Management Limited ("CGAM") under an agreement dated 10 November 2017. Under this agreement, CGAM receives an annual investment management fee of 0.60% of the net assets of the Company up to £120m, 0.45% of net assets above £120m up to £500m, and 0.30% thereafter, based on quarterly valuations and payable quarterly in arrears, as detailed in note 3 to the financial statements on page 52. The agreement is terminable on six months' notice, and in the event of termination otherwise than at the end of a quarter, the Company shall pay to CGAM a due proportion of the fee for the period ended on the termination of the agreement, calculated by reference to the net assets of the Company as at the date of termination. No other compensation would arise in the event of termination.

In November 2017 CGAM were appointed as the Company's AIFM. There was no alteration to the fee payable to CGAM as a result of this appointment nor will there be as a result of CGAM applying to become a full scope AIFM.

The investment manager operates under the investment policy and guidelines drawn up by the Board as detailed on page 7. Any proposed deviation from these guidelines is required to be discussed with and agreed by the Board or by the Chairman where authority is required between Board meetings. In addition, the investment manager presents a report at each Board meeting detailing compliance with the policy during the preceding quarter and outlining any instances where approval for investment decisions was sought from either the Board or the Chairman.

The investment manager also provides marketing and investor relation services under the investment management agreement.

Governance Report (continued)

Directors' Report

Performance, evaluation and the continuing appointment of the investment manager

The directors held detailed reviews into the investment strategy adopted by the investment manager at the Board meeting on 21 May 2019. The performance of the investment manager during the year and the contractual arrangements with the investment manager were discussed at the meeting. Mr Laing, as a director of the investment manager, was not present during the course of the discussion.

In reviewing the investment manager's performance, the directors consider the following:

- adherence to the pre-agreed investment policy and guidelines as prescribed by the Board;
- whether the strategy adopted by the investment manager has been and continues to be consistent with the Company's aims;
- the asset value performance achieved in the year under review as well as over the longer term and whether this satisfies the investment objectives as communicated to shareholders;
- performance comparison to a selected peer group; and
- compliance and administration competence.

Based on investment performance over the year, the independent directors concluded that the continuing appointment of the investment manager on the existing terms is in the best interests of the shareholders as a whole.

Company secretarial, administrative and accounting services

PATAC Limited ("PATAC") was appointed by the Company in 2015 to provide company secretarial, administrative and accounting services. PATAC also provides discount and premium control services to the Company. This agreement may be terminated on three months' notice. For the year ended 5 April 2019, PATAC received a fee of £142,000 for these services. The fees are recalculated annually in line with the increase in the Consumer Price Index for the preceding 12 month period.

With effect from 6 April 2019, PATAC is entitled to receive a fixed fee of £150,000 per annum in respect of the company secretarial and administration services provided to the Company payable quarterly in arrears. In addition, in respect of its services in connection with the operation of the Company's discount and premium control policy, PATAC is entitled to a fee of £30,000 per annum plus a variable fee of 0.1% of the aggregate

consideration received or paid in respect of any Ordinary shares issued or bought back over the period.

Details of the fees paid during the year, including those paid to Northern Trust and PATAC are recorded in note 4 of the financial statements on page 53.

Custodian

The Northern Trust Company was appointed on 22 September 2011 to provide custodial services for the portfolio. Pursuant to the terms of this agreement, The Northern Trust Company receives a safe-keeping fee and transaction fees which vary by market, subject to a minimum fee of £12,000 per annum. Termination of the custody agreement requires one month's written notice.

Creditor payment policy

It is the Company's payment policy to obtain the best possible terms for all business. Whilst following no formal code, the Company settles all its investment transactions within the time frames indicated in the markets in which it operates, generally within one week of the transaction. Other expenses are paid within 30 days in the normal course of business or under agreed terms with suppliers.

Going concern

The Company's investment objectives and business activities, together with the main trends and factors likely to affect its future development and performance, are described in The Board's Strategic Report. The financial position of the Company, including its cash flows and liquidity positions, is also described in the Strategic Report and financial statements. Note 15 to the financial statements describes the Company's processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to market price, interest rates, foreign currency, credit and liquidity risk. The directors believe that the Company is well placed to manage its business risks successfully and consider that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements. The directors do not consider that there are any material uncertainties to the Company's ability to continue to adopt this approach over a period of at least twelve months from the date of approval of these financial statements.

Governance Report (continued)

Directors' Report

Viability statement

The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. The Board has drawn up a risk map of the risks facing the Company and has put in place appropriate processes and controls in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to manage these, are detailed on pages 8 and 9.

The Company is a long-term investor and the Board believes it is appropriate to assess the Company's viability over a three year period in recognition of the investment manager's long-term horizon and also what the directors believe to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as shown on pages 8 and 9 of this annual report.

The directors also took into account the liquidity of the portfolio when considering the viability of the Company over the next three years and its ability to meet liabilities as they fall due.

The directors do not expect there to be any significant change in the principal risks that have been identified and the adequacy of the controls in place. Also the directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. The directors believe that only a substantial financial crisis affecting the global economy could have an impact on this assessment.

Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Political and charitable contributions

No contributions were made during the year for political or charitable purposes (2018: nil).

Greenhouse gas emissions

As the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company, the Company has no

greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Whistleblowing policy

As the Company has neither executive directors nor employees, a formal whistleblowing policy has not been adopted. However, the Board has agreed a procedure by means of which any directors or employees of external service providers can bring to the attention of the Chairman or Senior Independent Director matters of concern to them. No matters of concern have been raised during the year to 5 April 2019.

Directors' indemnity

The Company has directors' and officers' liability insurance in place for all directors, which is reviewed periodically. Subject to the provisions of UK legislation, the Company's articles of association (the "Articles") provide the directors with a qualifying third-party indemnity provision against costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the courts, as defined by section 234 of the Companies Act 2006. The qualifying third-party indemnity provision was in force throughout the financial year and at the date of approval of the annual report.

Conflicts of interest

In line with the Companies Act 2006, the Board has the power to authorise any potential conflicts of interest that may arise and impose such limits or conditions as it thinks fit. A register of interests and potential conflicts is maintained and is reviewed at every Board meeting to ensure all details are kept up to date. Appropriate authorisation is sought prior to the appointment of any new director or if any new conflicts or potential conflicts arise.

Directors

The directors of the Company who held office at 5 April 2019 and at the date of approval of this report are set out on page 16, together with their biographies. Directors' interests in the shares of the Company are set out in the Directors' Remuneration Report on page 36.

Governance Report (continued)

Directors' Report

Retirement and re-election of directors

The following directors will retire at the forthcoming AGM and, being eligible, will be proposed for re-election.

Mr Meek offers himself for re-election in accordance with Principle 3 of the AIC Code as he has served as a director for more than nine years.

Mr Prescott offers himself for re-election in accordance with the Articles of the Company.

In accordance with the new AIC Code, which will be applicable for the year ending 5 April 2020, all directors will offer themselves for re-election in 2020 and on an annual basis going forward.

After due consideration of the results of the performance evaluation, the Board confirms that they are content that the performances of Mr Meek and Mr Prescott continue to be effective and demonstrate commitment to their role, including the necessary commitment of time for Board and committee meetings and other duties as required. The Board believes that the re-election of Mr Meek and Mr Prescott is in the best interests of the Company and its shareholders.

Directors' meeting attendance

The number of meetings held during the year from 6 April 2018 to 5 April 2019 and the directors' attendance is detailed below.

	Board	Audit Committee	Management Engagement Committee
Mr E G Meek	5/5	3/3	2/2
Mr G A Prescott	5/5	3/3	2/2
Mr A L Laing	5/5	3/3	N/A
Miss J G K Matterson	5/5	3/3	2/2
Mr R Archibald	5/5	3/3	2/2

All directors attended the 2018 AGM.

Apart from regular Board meetings, members of the Board attended a number of ad hoc committee meetings during the year, for strategic discussions and continued implementation of the discount/premium control policy.

Substantial shareholders

During the year to 5 April 2019, the Company received notification of interest in the company's shares from LGT Vestra. These interests together with any non-discretionary holdings are included in the following table.

Since 5 April 2019 to the date of this report, the Company has not been informed of any change in its notifiable Ordinary share holdings.

At 5 April 2019, persons with a significant direct or indirect holding of shares in the company were as follows:

Name	Number of Ordinary shares	Issued share capital held
Smith & Williamson	832,039	10.55%
R P A Spiller	401,931	5.10%
Hargreaves Lansdown	622,908	7.90%
J M Finn & Co	578,397	7.33%
Alliance Trust Savings	436,593	5.54%
LGT Vestra	396,770	5.03%
A J Bell	346,945	4.40%
Brewin Dolphin	345,453	4.38%
Interactive Investor	242,402	3.07%

Other statutory information

The following information is disclosed in accordance with the Companies Act 2006:

- The rules on the appointment and replacement of the directors are set out in the Articles. Any change to the Articles would be governed by the Companies Act 2006;
- Subject to the provisions of the Companies Act 2006, the Articles, and any directions given by special resolution, the business of the Company shall be managed by the directors who may exercise all the powers of the Company. The powers shall not be limited by any special power given to the directors by the Articles and a meeting of the directors at which a quorum is present may exercise all powers exercisable by the directors. The directors' powers to issue and buy back shares, in force at the year end, are recorded on pages 22 and 23; and
- There are no agreements:
 - (i) to which the Company is a party that might affect its control following a takeover bid; and/or
 - (ii) between the Company and its directors concerning compensation for loss of office.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 24 to 30. The Corporate Governance Statement forms part of this Directors' Report.

Governance Report (continued)

Directors' Report

Bribery Act 2010

The Company has zero tolerance towards bribery and is committed to carrying out business fairly, honestly and openly. The investment manager also adopts a zero tolerance approach and has policies and procedures in place to prevent bribery.

Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Annual general meeting (the "AGM")

The following is important and requires your immediate attention. If you are in any doubt as to the action you need to take, please seek advice from your stockbroker, bank manager, solicitor, accountant or other financial advisor authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your Ordinary shares in the Company, please send this document, but not the accompanying form of proxy, to the purchaser/transferee or to the stockbroker, bank or other agent through whom the sale or transfer was affected.

The AGM of the Company will be held on 9 July 2019 at 11.00 a.m. at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY. The formal notice of such is set out on pages 63 to 66.

Resolutions relating to items of noteworthy and/or special business as detailed below will be proposed at the AGM.

Resolution 3 – Approval of Remuneration Policy

The Company seeks approval of the Remuneration Report annually (Resolution 2) and approval of the Remuneration Policy every three years. The Remuneration Policy remains that the remuneration of each director should be commensurate with the duties, responsibilities and time commitment of each respective role and consistent with the requirement to attract and retain directors of appropriate quality and experience. Revisions to directors remuneration, as detailed in the Remuneration Report on page 35, are consistent with this policy and, the Board believes, appropriate for operating an effective Board for the activities of the Company.

Resolutions 5 and 6 – Re-election of directors

The Board has noted the recommendation in the AIC Code of Corporate Governance that non-executive directors serving longer than nine years be subject to annual re-election. Accordingly, Mr Meek and Mr Prescott

will offer themselves for re-election at this year's AGM. As noted earlier, the Board subscribes to the AIC Code view that length of tenure is not necessarily an issue, rather the director's contribution, their ability and assertion of their authority. The directors are conscious of the benefits of continuity on the Board and believe that retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders. Moreover, long-serving directors are less likely to take a short-term view. This opinion is based on the following assessment of Mr Meek and Mr Prescott's contribution to the operation of the Board.

Mr Meek is a former investment banker and stockbroker, with significant experience in senior financial roles, including previous appointments as an executive director and a non-executive chairman for publicly listed companies. Mr Prescott was, until his retirement in 2009, Deputy Group Chief Executive of Ecclesiastical Insurance Group and has extensive experience in investment management, finance, internal audit and compliance. Their knowledge and experience, including in relation to the development of the Company, are of great value to the Board.

Mr Meek has noted his intention to retire at the AGM in 2020, and Mr Prescott in early 2020, in line with the Board's succession plan. Further details are contained in the Chairman's Statement on page 5.

The Board recommends that Mr Meek and Mr Prescott be re-elected.

Resolutions 9 and 10 – Directors' authority to allot shares and disapply pre-emption rights

At the AGM held on 6 July 2018 (the "2018 AGM"), the directors were given the authority until the date of the following AGM to allot up to 1,971,323 Ordinary shares and to disapply pre-emption rights in respect of up to 1,182,793 of these shares. At general meetings on 10 January 2019 and 2 April 2019 the directors were given further authority to allot up to 857,176 and 868,634 Ordinary shares respectively and to disapply pre-emption rights in respect of all of these shares. Details of the shares issued under these authorities can be found in note 12 on page 56.

At this year's AGM, the directors are seeking authority to allot up to 2,749,769 Ordinary shares, in aggregate a nominal value of £687,442.25, representing one third of the issued share capital as at the date of this report. The directors are also seeking to disapply pre-emption rights in respect of the allotment of up to 10% of the issued share capital of the Company (equivalent to 824,930 Ordinary shares at the date of this report with an aggregate nominal value of £206,232.50), including any shares which have been bought back as treasury shares.

Governance Report (continued)

Directors' Report

Annual general meeting (the "AGM") (continued)

The Board recognises institutional investor guidelines which state that non pre-emptive issues should be limited to a maximum of 10% for investment companies.

Resolution 11 – Authority to make market purchases of the Company's shares

At the 2018 AGM, the directors were given the authority until the date of the following AGM to buy back up to 886,503 Ordinary shares (14.99% of the issued share capital at the date of the 2018 AGM). There have been no shares bought back under this authority.

At this year's AGM, the directors are seeking authority to buy back up to 1,236,571 Ordinary shares (14.99% of the issued share capital at the date of this report) for cancellation or holding up to 10% in treasury for re-sale into the market during more favourable market conditions at values equal or at a premium to NAV.

If approved, the powers, as detailed above and in the formal notice of the AGM, will expire at the AGM to be held in 2020 unless previously renewed, varied or revoked by the Company in general meeting. These powers will be exercised only if the Board is of the opinion that it would result in an enhancement to the NAV per share of the Company and therefore have a positive effect on shareholder funds. The ability to buyback shares is an important part of the operation of the DCP, if and when required.

Resolution 12 – Notice of general meeting

At the 2018 AGM, a resolution was passed to allow the Company to call a general meeting other than an AGM on at least 14 clear days' notice. Such shareholder authority must be renewed annually, and must exclude AGMs, which can only be held on 21 clear days' notice. Without such shareholder authority, all general meetings need 21 clear days' notice.

The Board considers it prudent to retain the ability to call general meetings other than AGMs on the shorter notice period of 14 clear days, and this resolution seeks such approval from shareholders.

Recommendation

The directors consider that all the resolutions detailed in the formal notice of the AGM are in the best interests of the Company and the shareholders taken as a whole and therefore unanimously recommend to shareholders that they vote in favour of each resolution, as the directors intend to in respect of their own holdings.

Statutory auditor

The Audit Committee is satisfied that PricewaterhouseCoopers LLP is independent of the Company. A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditors will be put to shareholders at the forthcoming AGM.

Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed on page 16. Each director in office at the date of this report confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

PATAC Limited

Company Secretary
28 May 2019

Governance Report (continued)

Corporate Governance Statement

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for investment companies (the "AIC Guide"). The AIC Code is endorsed by the Financial Reporting Council, and as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, whilst setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board believes that the AIC Code, which incorporates the UK Corporate Governance Code, provides the most appropriate governance framework for the Company. Accordingly, the Company reports against the principles and recommendations of the AIC Code by reference to the AIC Guide, as the Board believes this should provide better information to shareholders. The July 2016 edition of the AIC Code and AIC Guide are applicable to the year under review and can be found at www.theaic.co.uk.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an

internal audit function. For the reasons set out in the AIC Code and as explained in the UK Corporate Governance Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations and has therefore not reported further in respect of these provisions.

The following table demonstrates how the principles of the 2016 AIC Code and relevant provisions of the UK Corporate Governance Code have been applied and explains those recommendations which were not followed during the year.

The Board has been advised of the new UK Corporate Governance Code issued in July 2018 and the new AIC Code issued in February 2019, both effective for accounting periods beginning on or after 1 January 2019. The Company expects to comply with the provisions set out in the new AIC Code, and relevant provisions of the new UK Corporate Governance Code, for the reporting period to 5 April 2020.

Principle

1. The chairman should be independent.

Company compliance

Mr Meek is the Chairman of the Board and has served on the Board for 15 years. The Board subscribes to the AIC Code view that the director's contribution is the issue, rather than the length of service. The Board believes that Mr Meek is independent in character and judgement and is free of relationships which may create a conflict of interest between his own and the shareholders' interests. The directors are conscious of the benefits of continuity on the Board and believe that retaining a chairman with sufficient experience of both the Company and the markets is of great benefit to shareholders, as is the likelihood of a long-serving director to take a longer-term view.

Mr Prescott is the senior independent director ("SID") and is available to shareholders if they have concerns in respect of which contact through the Chairman is inappropriate.

2. A majority of the Board should be independent of the manager.

The Board comprises five non-executive directors, all of whom are considered to be independent in both character and judgement, and with the exception of Mr Laing, an employee of CGAM, all are considered to be independent of the Company's investment manager. Independence questionnaires are completed annually by each director other than Mr Laing, and reviewed by the Chairman and by the Board as a whole. With regard to the length of tenure, as noted above, the Board subscribes to the AIC's belief that, in the case of investment companies, lengthy service on a Board does not compromise independence from the manager and that therefore long-serving directors can form part of an independent majority. In light of the benefits of Board continuity, long-term vision and retention of sufficient experience of both the Company and the markets, the Board believes that the achievement of a balance of newly serving and long-serving directors is of great benefit to shareholders.

Governance Report (continued)

Corporate Governance Statement

Principle	Company compliance
3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	Directors are initially appointed for a three year term, following which they are subject to re-election by shareholders at the intervals specified in the Company's Articles and in accordance with good governance practice. Those directors serving for more than nine years are subject to annual re-election. Board support for re-election is based on the outcome of an annual performance evaluation. The performance of each director and nominations for re-election are discussed by the Board as a whole in the absence of the director in question.
4. The Board should have a policy on tenure which is disclosed in the annual report.	Subject to annual re-election and the need to refresh its membership from time to time, the Board is of the opinion that the term of office of individual directors should be determined by the Board's judgement of their continuing effectiveness and performance. No limit is placed on the age or length of service of the directors by the Board or by the Articles. The Board does not consider that age or tenure should prevent a director from being regarded as independent from the investment manager. No director has a contract of employment with the Company. Directors' terms and conditions for appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and will be on display at the AGM.
5. There should be full disclosure of information about the Board.	The directors' biographies can be found on page 16; details of their interests in shares and meeting attendance are on pages 36 and 21 respectively. The directors' remuneration report is set out on pages 35 to 37. The Board's policy is to establish committees where appropriate, and has accordingly established an Audit Committee and a Management Engagement Committee. Owing to the small size of the Board, the directors do not feel it necessary to establish a separate remuneration or nomination committee at present. The functions of remuneration and nomination are carried out by the Board as a whole as part of the agenda of regular Board meetings.
6. The board should aim to have a full balance of skills, experience, length of service and knowledge of the company.	The directors' biographies on page 16 demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors of the Company. The independence, contribution and performance of each Board member are evaluated annually and the process incorporates analysis of the balance and composition of the Board. It is the directors' measured opinion that the Board displays the necessary balance of skills, experience, length of service and knowledge of the Company.
7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Evaluation questionnaires in respect of the performance of individual directors, the Audit Committee, the Board as a whole and the actions of the Board in conjunction with its advisors are completed annually by each member of the Board, then externally collated. The performance of the Company as a whole is considered in detail at each Board meeting. Furthermore all independent directors complete an evaluation of the investment manager within the Management Engagement Committee. Within the evaluation process, each director is encouraged to raise any concerns for the Board to act upon. The company secretary analyses and presents the results, whilst the Board as a whole examines the evaluation results and discusses areas for change or improvement. The performance of the Board, the Audit Committee and the Chairman are considered separately, and the Chairman is not present during the course of the discussion concerning his own evaluation.

Governance Report (continued)

Corporate Governance Statement

Principle

7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. (continued)

8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.

9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.

10. Directors should be offered relevant training and induction.

Company compliance

The Chairman and the SID confirm that the performance of each director continues to be effective and demonstrates his or her commitment to the role. This includes time for specific work and ad hoc communications throughout the year in addition to formal Board and committee meetings.

The results of the performance evaluations in respect of the year ended 5 April 2019 were analysed at a meeting of the Board on 21 May 2019. No material issues were identified from this review. The evaluation process itself is examined and refreshed periodically to ensure optimal rigour and practical outcomes.

Directors' remuneration is reviewed by the Board as a whole on an annual basis. The Board determines and approves directors' fees following proper consideration, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of Board and committee responsibilities, the time committed to the Company's affairs, and activity during the period in question.

The Company's Articles currently limit the aggregate fees payable to the Board to a total of £150,000 per annum. Detailed information on the remuneration arrangements for the directors of the Company can be found in the Directors' Remuneration Report on pages 35 to 37.

The directors have previously determined that, owing to the size of the Board, there has been no requirement for a separate nomination committee. The Board annually reviews its size and structure, and is responsible for succession planning. The Board has an open mind regarding the use of external recruitment consultants or internal process and has, in the past, chosen to combine both routes to ensure best practice. The Board believes that diversity of experience and approach amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance when making new appointments.

The Board seeks to search for candidates and make appointments based on merit, against objective criteria and with due regard for the benefits of diversity on the Board. It also assesses the roles of the existing directors in office to ensure that there continues to be a balanced Board in terms of skills, knowledge, experience and diversity, as well as planning for efficient succession and the progressive refreshing of the Board.

In light of the current search for candidates for a Board appointment, the Board intends to establish a separate Nomination Committee.

On appointment, directors are provided with key information on their responsibilities and duties as directors, together with relevant background information on the Company and its activities and an induction to the work of the investment manager. Further appropriate training is arranged where this is considered necessary.

In addition, each director is encouraged to seek ongoing training opportunities, both in relation to his or her office with the Company and otherwise. In the annual Board evaluation process each director, together with the Chairman, considers if appropriate training has been undertaken.

All directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board has an established procedure, whereby directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense. Directors are updated regularly on statutory, regulatory and industry matters and internal controls, and changes affecting directors' responsibilities are advised to the Board as they arise.

Governance Report (continued)

Corporate Governance Statement

Principle	Company compliance
11. The chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	Not applicable to the Company.
12. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meets quarterly and additionally as necessary to review the overall business of the Company, as well as to consider matters specifically reserved for it. Detailed information is provided by the investment manager, administrator and company secretary at each meeting, enabling the directors to monitor the Company's investment performance and other matters of relevance. Details of the numbers of Board and committee meetings held during the financial year and the attendance record of each director are shown on page 21.
13. The primary focus at regular Board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues.	The Board is responsible for the effective stewardship of the Company's affairs. Certain strategic issues are monitored by the Board at meetings against a framework which has been agreed with the investment manager, as the Board supervises the management of the investment portfolio, contractually delegated to the investment manager. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information from the company secretary and other advisors, as appropriate. At each meeting, the investment manager presents an update on the investment performance of the Company and a compliance report. The Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature on the Company and its activities. The directors thereby monitor compliance with the Company's objectives and ensure adherence to the investment policy, or authorise any policy changes where appropriate. The company secretary attends all Board and committee meetings and advises the Board, through the Chairman, on all matters relating to Board procedures and corporate governance.
14. Boards should give sufficient attention to overall strategy.	The Board regularly considers and discusses the performance, investment mandate and strategy of the Company.
15. The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).	The Board has established a Management Engagement Committee ("MEC"), which comprises the four independent directors and is chaired by Mr Meek. The performance of and contractual arrangements with the investment manager are evaluated annually and discussed by the MEC to ensure the continued suitability of CGAM to manage the Company's portfolio. To this end the investment management agreement is reviewed and updated periodically so that its terms remain competitive, fair and in the best interests of the shareholders. Details of the items considered in the evaluation of the investment manager and the rationale for the continuance of the contract can be found on pages 18 and 19.
16. The Board should agree policies with the manager covering key operational issues.	The investment manager, CGAM, operates under the investment policy and within guidelines drawn up by the Board. The guidelines set out parameters within which the investment manager operates, including the overall investment strategy of the Company. Any proposed deviation from the guidelines is required to be discussed with and agreed by the Board or by the Chairman on the Board's behalf where authority is required between meetings.

Governance Report (continued)

Corporate Governance Statement

Principle

16. The Board should agree policies with the manager covering key operational issues.
(continued)

17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.

18. The Board should monitor and evaluate other service providers.

19. The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.

Company compliance

CGAM reports at every Board meeting on the performance of the Company and submits a statement of compliance with the investment policy. The Board monitors the investment manager's performance and adherence to the policy and regularly discusses the Company's investment strategy.

Unless specifically directed by the Board, the investment manager has the authority to vote the shares held in the investee companies in the best interests of the Company and will bring to the attention of the Board any matters requiring direction or of a contentious nature. The investment manager broadly supports the principles of the Financial Reporting Council's Stewardship Code, and a statement of its position on each of the seven principles of the Stewardship Code can be found on its website: www.cgasset.com.

The Board pays close attention to the level of discount and premium to net asset value and gives careful consideration to the most appropriate means of optimising the situation for shareholders, given the stated objectives of the Company. The Company operates a discount/premium control policy to minimise share price volatility against NAV. Details of the shares issued and bought back during the year can be found in note 12 on page 56.

In addition to investment management, the Board has delegated to external third parties the custodial services (which include the safeguarding of assets), the day-to-day accounting and company secretarial services, payroll and registration services. Each contract was entered into after full and proper consideration of the quality and cost of the services offered, including the control systems in operation insofar as they relate to the affairs of the Company. The performance and contractual arrangements of all key service providers, including the company secretary, the registrar and the custodian, are reviewed at least annually.

Shareholder relations are accorded a high priority by both the Board and the investment manager. All shareholders have the opportunity to attend and vote at the AGM, at which a presentation is made by the investment manager. Shareholders have the opportunity to address questions to the Chairman and the Chairman of the Audit Committee and the directors are available to discuss key issues affecting the Company. All shareholders are encouraged to vote on resolutions presented by the Company and attend the AGM.

The Board reviews large transactions within the shareholder register as they occur and at Board meetings where required. Informal communications with major shareholders continue to be maintained by the Chairman and/or investment manager in order that the Board has an understanding of their views on the Company. In addition, every director is always available to discuss issues of concern raised by any of the shareholders.

It is the intention of the Board that the annual report and financial statements and notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders and others wishing to contact the Board are invited to do so by writing to the company secretary at the address given on page 17 or via the Company website at www.capitalgearingtrust.com. All meetings between the investment manager and shareholders are reported to the Board.

Governance Report (continued)

Corporate Governance Statement

Principle

20. The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.

21. The Board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.

Company compliance

The Board is directly involved in and responsible for communications on major corporate issues.

The prime medium by which the Company communicates with shareholders is through the half-yearly and annual reports which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation of the NAV of the Company's shares and quarterly portfolio updates, together with the full portfolio list at each half-year and year end, which are published on the London Stock Exchange and the Company's website. The annual report and half-yearly report are posted to each shareholder, and are also available on the Company's website. All information provided is considered to be a useful update for shareholders and others taking an interest in the Company.

The annual report sets out the responsibilities reserved for the Board and those delegated to the investment manager, and records the Board's consideration of the performance of the investment manager over the year.

Internal controls

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. In common with the majority of investment trusts, the Board has determined that the most efficient and effective management of the Company is achieved by the directors determining the investment strategy, and the investment manager being responsible for the day to day investment management decisions on behalf of the Company. Accounting, company secretarial and custodial services have also been delegated to organisations that are specialists in these areas, and which can provide, because of their size and specialisation, economies of scale, segregation of duties and all that is required to provide proper systems of internal control within a regulated environment.

As the Company has no employees and its operational functions are undertaken by third parties, the Audit Committee does not consider it necessary for the Company to establish its own internal audit function. Instead, the Audit Committee examines internal control reports received from its principal service providers to satisfy itself as to the controls in place. The internal controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable.

Control of risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Company by a series of regular investment performance statements, financial and risk analyses, investment manager reports and control reports. Key risks have been identified and controls put in place to mitigate them, including those not directly the responsibility of the investment manager. The effectiveness of the internal controls is assessed on a continuing basis by the investment manager, the custodian and the company secretary. Each maintains its own system of internal controls, and the Board and Audit Committee receive regular reports from them. The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risk of failure to achieve objectives.

It is a requirement that the Board monitors the Company's risk management and internal controls systems and, at least annually, carries out a review of their effectiveness. The Board has established a process for identifying, evaluating and managing the principal risks faced by the Company in accordance with the Financial Reporting Council's guidance document "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". Business

Governance Report (continued)

Corporate Governance Statement

Internal controls (continued)

risks have also been analysed by the Board and recorded in a risk map that is reviewed regularly. The Board confirms that no significant failings or weaknesses were identified from the ongoing review of the efficacy of internal controls during the year. These controls have been in place throughout the period under review and up to the date of signing the financial statements.

Management Engagement Committee

A Management Engagement Committee comprises all the independent directors of the Company and is chaired by Mr Meek. The Committee meets at least once a year to consider the performance and remuneration of the investment manager and to review the terms of the investment management contract.

Compliance with the recommendations of AIC Code and UK Corporate Governance Code

Subject to the exceptions explained in the forgoing table and paragraphs, during the financial year the Company has complied with the recommendations of the 2016 AIC Code and the relevant provisions of the UK Corporate Governance Code.

Gender and diversity

The Company's statement in relation to gender and diversity is within the Strategic Review on page 9.

Directors' Report

This Corporate Governance Statement forms part of the Directors' Report on pages 18 to 23.

Matters reserved for the Board

The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings, including strategy, management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

By order of the Board

PATAC Limited

Company Secretary
28 May 2019

Governance Report (continued)

Audit Committee Report

Dear Shareholder,

As Chairman of the Company's Audit Committee (the "Committee") I am pleased to present the Committee's report to shareholders for the year ended 5 April 2019.

This report presents an opportunity to show more clearly the range of work that the Committee has considered and the judgements it has exercised. The Committee, which met in full three times during the year, has continued to support the Board in fulfilling its oversight responsibilities, reviewing the financial reporting process, the systems of internal control and management of risk, the audit process and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct.

Role and responsibilities

The responsibilities of a company's audit committee are set out in the UK Corporate Governance Code and Disclosure Guidance and Transparency Rule 7.1. The key objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so, the Committee operates within its terms of reference, which are available on the Company's website at <http://www.capitalgearingtrust.com/about-us/board-committees>, and are reviewed annually. It discharges the following key functions:

- The Committee meets at least three times a year to review the internal financial and non-financial controls, to consider the integrity of and recommend to the Board for approval the contents of the draft half-yearly and annual reports to shareholders and related announcements;
- To review the accounting policies and significant financial reporting judgements;
- To review the external auditors' independence, objectivity, effectiveness, appointment,

remuneration, the quality of the services of the service providers to the Company;

- Together with the investment manager, to review the Company's compliance with financial reporting and regulatory requirements; and
- To meet with representatives of the investment manager and receive reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

Composition

The Audit Committee comprises myself as Chairman, Mr Meek, Miss Matterson and Mr Archibald, all of whom have recent and relevant financial experience from their senior management and other non-executive roles. I am a chartered accountant with substantial experience in senior financial roles in a number of business sectors. My biography and those of the other committee members can be found on page 16.

As noted in the Chairman's Statment on page 5, I shall step down as Chairman of the Audit Committee at the AGM on 9 July 2019. Mr Archibald will succeed me, bringing to the role considerable financial and industry experience.

Significant issues considered regarding the annual report and financial statements

During the year, the Committee considered the significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements.

The table below sets out the key areas of risk identified and also explains how these were addressed during the year to 5 April 2019.

Significant Issue	How the issue was addressed
Risk of fraud in revenue recognition, particularly as a result of investing in delisted trusts	The investment manager reported to the Committee that less than 1% of the Company's portfolio is invested in delisted investment trusts. Receipts from these investments are reviewed by the administrator and investment manager to ensure they are appropriately allocated to revenue or capital.
Potential for management override of controls	The Committee together with the Board have established clear lines of responsibility between the investment manager, custodian, company secretary and administrator and receive appropriate reports from them regarding the operation of those organisations controls.

Governance Report (continued)

Audit Committee Report

Significant issues considered regarding the annual report and financial statements (continued)

Significant Issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies disclosed in note 1 to the financial statement on page 50. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations. The external auditors test the value and existence of targeted investments.
AIFM Directive – AIFM registration under small authorised UK AIFM vs full scope	The investment manager has been instructed to manage its leveraged positions to comply with the sub-threshold regulations. The Committee regularly reviews and discusses the Company's position in relation to the AIFMD and in November 2017 the investment manager became the Company's AIFM under the Small Authorised UK AIFM regime. Owing to the continuing growth in the Company's assets under management, the AIFM will be seeking permission to become a full scope AIFM in the coming year.
Going concern	The content of the investment portfolio, trading activity, portfolio diversification and the cash balances are discussed at each meeting. After due consideration, the Committee concluded it was appropriate to prepare the Company's financial statements on a going concern basis and made this recommendation to the Board. The relatively high level of liquidity of the portfolio was a key factor that led to this conclusion.
Compliance with sections 1158 and 1159 Corporation Tax Act 2010	Approval for the Company as an investment trust under sections 1158 and 1159 of the Corporation Tax Act 2010 for financial years commencing on or after 6 April 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

2019 – 2020 Action plan

A number of similar matters will be considered again during the year to 5 April 2020, particularly those relating to the changing regulatory and economic environment, and the risks and opportunities so presented. The annual report and financial statements and the half-yearly statement will occupy much Committee time.

The audit tender process will also require significant attention from the Committee over the coming year. Further detail is provided below.

Auditors and audit tenure

The Company's current auditors, PricewaterhouseCoopers LLP ("PwC") have acted in this role since inception of the Company. The Committee reviews the performance of the auditors on a regular basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. The audit partner changes at least every five years with Martin Cowie being appointed in 2017. On the basis of the auditor's performance, the Audit Committee considers their on-going selection to be in the best interests of the Company and has recommended their continuing appointment to the Board.

Changes to UK legislation as a result of the EU audit framework mean that we will have to rotate our auditor every ten years although this can be extended by a further ten years if a tender process is undertaken at the end of the first ten years. Based on these changes, we will be required to rotate our current auditor by 2020. The Committee has commenced planning for the audit tender and will complete the tender process over the coming year, with the intention of appointing a new auditor at the AGM in 2020. The Committee will invite large and mid-tier firms to tender for the audit. It is expected that the first year end for the new auditor will be the year to 5 April 2021.

There are no contractual obligations that restrict the Company's choice of auditor. The Audit Committee monitors the level of any non-audit work carried out by the auditor and seeks assurances from the auditor that they maintain suitable policies and processes ensuring independence, and monitors compliance with the relevant regulatory requirements on an annual basis. The Company operates on the basis whereby the provision of non-audit services by the auditor is permissible where no conflict of interest arises, where the independence of the auditor is not likely to be impinged on by undertaking the work and the quality and objectivity of both the non-audit work and audit work will not be compromised.

Governance Report (continued)

Audit Committee Report

Auditors and audit tenure (continued)

There was no non-audit work carried out during the year by PwC. The fees paid to the external auditor are set out in note 4 on page 53.

Representatives of PwC attend the Committee and subcommittee meetings at which the draft annual report and financial statements are reviewed, and are given the opportunity to speak to the Committee members without the presence of the representatives of the investment manager or company secretary. The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

The auditors have indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the directors to determine their remuneration for the ensuing year will be proposed at the AGM.

Assessment of the efficacy of the external audit process

To assess the effectiveness of the external audit, the Audit Committee has adopted a framework in its review of the effectiveness of the external audit process and audit quality. This includes a review of the following areas:

- a) the quality of the audit engagement partner and the audit team;
- b) the expertise of the audit firm and the resources available to it;
- c) identification of areas of audit risk;
- d) planning, scope and execution of the audit;
- e) consideration of the appropriateness of the level of audit materiality adopted;
- f) role of the Board, the investment manager and third-party service providers in an effective audit process;
- g) communications by the auditor with the Audit Committee;
- h) how the auditor supports the work of the Audit Committee;
- i) how the audit contributes added value;
- j) a review of independence and objectivity of the audit firm; and
- k) the quality of the formal audit report to shareholders.

The Committee regularly reviews the effectiveness of the external audit process against these criteria, and is satisfied that audit quality continues to be sufficient to allow the Company to meet its obligations, and to gain value from the services provided.

Committee evaluation

The Board conducts a formal annual review of the Committee's effectiveness, using an evaluation questionnaire. The outcome was positive with no significant concerns expressed.

Conclusions in respect of the annual report and financial statements

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. One of the key governance requirements of the Company's Annual Report and Financial Statements is that they are fair, balanced and understandable. The Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Financial Statements fulfil these requirements, and that the Audit Committee has given consideration to the following:

- a) the comprehensive documentation that is in place setting out the controls over the production of the Annual Report and Financial Statements, including the verification processes in place to deal with the factual content;
- b) the comprehensive reviews that are undertaken at different levels in the production process of the Annual Report and Financial Statements, by the investment manager, the third-party service providers responsible for accounting services and the Audit Committee that aim to ensure consistency and overall balance; and
- c) the controls that are in place at the investment manager and third party service providers to ensure the completeness and accuracy of the Company's financial records and the security of the Company's assets.

As a result of the work performed, the Committee has concluded that the Annual Report and Financial Statements for the year ended 5 April 2019, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, position, business model and strategy and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 38.

George Prescott

Chairman
Audit Committee
28 May 2019

Governance Report (continued)

Directors' Remuneration Policy

This section provides details of the remuneration policy for the directors of the Company. All directors are non-executive, appointed under the terms of letters of appointment and none have a service contract. The Company has no employees.

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. The shareholders approved the remuneration policy at the Annual General Meeting in 2016 and it will again be put to Shareholders at the AGM on 9 July 2019. Shareholders also approved, at the AGM in 2016, an amendment to the Articles increasing the limit on aggregate annual fees to £150,000 per annum. The Company has implemented the approved remuneration policy with effect from 8 July 2016. This policy, together with the directors' letters of appointment, may be inspected at the Company's registered office.

The Board is composed wholly of non-executive directors who together consider and determine all matters relating to the directors' remuneration at the beginning of each financial year. A remuneration committee has not been formed as all the directors are non-executive. The directors are remunerated exclusively by fixed fees in cash, save for Mr Laing who does not receive a fee for his services. There are no performance related elements to the directors' fees and the Company does not operate any type of incentive, share scheme or pension scheme. Therefore, no directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company.

Policy on directors' remuneration

The Company's policy is that the remuneration of each director should be commensurate with the duties, responsibilities and time commitment of each respective role and consistent with the requirement to attract and retain directors of appropriate quality and experience. The remuneration should also be comparable to that of similar investment trusts within the AIC Flexible Investment Sector and other investment trusts which are similar in size and structure. No shareholder has expressed any views to the Company in respect of the remuneration policy and the directors' remuneration. The remuneration policy is not subject to employee consultation as the Company has no employees. As such, there are no employee comparative data to provide in relation to the setting of the remuneration policy of the directors.

The Board, at its discretion, shall determine directors' remuneration subject to the aggregate annual fees not exceeding the amount set out in the Company's Articles from time to time. The current limit of the total aggregate annual fees payable is £150,000. This limit can be increased by ordinary resolution of the shareholders. Such remuneration is solely composed of directors' fees and directors are not eligible for any other remuneration for their duties. Fees for each financial year are agreed and approved by the Board at each January board meeting.

The Board will consider any comments received from shareholders on the remuneration policy on an ongoing basis and will take account of these views where appropriate. It is intended that this policy will remain in place for the following financial year and subsequent financial years.

Loss of office

A director may be removed from office without notice and no compensation will be due on loss of office.

Expenses

All directors are entitled to the reimbursement of reasonable out of pocket expenses incurred by them in order to perform their duties as directors of the Company.

Review of remuneration policy

The Board reviews the above policy at least annually to ensure that it remains appropriate.

Governance Report (continued)

Directors' Remuneration Report

This report is prepared in accordance with section 421 of the Companies Act 2006. The Company's auditors are required to report on certain information contained within this report. These elements are described below as 'audited'. The auditors' opinion is included within the auditors' report set out on pages 39 to 45. An ordinary resolution for the approval of this report will be put to the members at the forthcoming AGM and every year thereafter.

The directors who served during the year received remuneration as detailed below and in note 5 to the financial statements on page 53.

The directors are remunerated exclusively by fixed fees in cash and do not receive bonus payments or pension contributions from the Company or other benefits and do not hold options to acquire shares in the Company:

	2019 fees £	Other taxable benefits £	Performance related benefits £	Pension related benefits £
Chairman	30,000	n/a	n/a	n/a
Audit Committee Chairman	25,000	n/a	n/a	n/a
All other directors	22,000	n/a	n/a	n/a

Directors' fees are reviewed every year, and were last amended by the Board in January 2017. This year, the Board conducted a detailed review of Board remuneration. The review took account of the Board workload and responsibilities, considered recruitment and succession and included external guidance from advisers, such as market research on other investment companies and their remuneration levels.

It was decided that upward revisions in annual fees were appropriate, and would be implemented with effect from 6 April 2019 as follows:

- Chairman £35,000 (previously £30,000)
- Chair of Audit Committee £30,000 (previously £25,000)
- Non-executive Director £25,000 (previously £22,000)

In the year to 5 April 2019, the remuneration of directors amounted to a cost of £99,000. The non-independent director, Alastair Laing, as a director of the investment manager, receives no fee from the Company. In the year to 5 April 2020, it is anticipated that directors' fees will include the recruitment of a new director in the second half of the Company's financial year, and the increase in remuneration as outlined above, and will amount to approximately £123,000. This is within the Board's current limit of £150,000.

The total figure of remuneration for the Board as a whole over the five years ending 5 April 2019 is summarised below:

	Fees £	Other taxable benefits £	Performance related benefits £	Pension related benefits £
2019	99,000	n/a	n/a	n/a
2018	121,000	n/a	n/a	n/a
2017	99,000	n/a	n/a	n/a
2016	98,362	n/a	n/a	n/a
2015	85,500	n/a	n/a	n/a

Governance Report (continued)

Directors' Remuneration Report

Single total figure of remuneration (audited)

The single total figure of remuneration for the board as a whole for the year ended 5 April 2019 was £99,000 (2018: £121,000). The single total figure table for the total remuneration of each director for the year ended 5 April 2019, together with the prior year's comparative, is set out in the table below:

Directors	Total	
	2019 £	2018 £
Mr E G Meek (Chairman of the Board)	30,000	30,000
Mr G A Prescott (Chairman of the Audit Committee)	25,000	25,000
Mr A R Laing	—	22,000
Miss J G K Matterson	22,000	22,000
Mr R Archibald	22,000	22,000
	99,000	121,000

The Board agreed that Mr A R Laing would no longer receive a Director's fee, effective 6 April 2018. Details of his remuneration from CGAM are in note 5 to the financial statements on page 53.

No payments were made to any former directors and no loss of office payments were made to any person who has previously served as a director of the Company at any time during the financial year ended 5 April 2019 (2018: nil).

Directors and their interests (audited)

The directors in office at 5 April 2019 and the number of shares in the Company over which they held an interest are listed below. The interests of each director include the interests of their connected persons:

	Ordinary shares of 25p each	
	5 April 2019	5 April 2018
Mr E G Meek Non-executive Chairman	14,841	14,834
Mr G A Prescott Non-executive Director and Senior Independent Director	200	200
Mr A R Laing Non-executive Director and director of the investment manager	14,623	11,900
Miss J G K Matterson Non-executive Director	10,000	9,000
Mr R Archibald Non-executive Director	920	920

No changes in these holdings have been notified since 5 April 2019 up to the date of this report. The Company has no share options or any share schemes, and does not operate a pension scheme. None of the directors are required to own shares in the Company.

Governance Report (continued)

Directors' Remuneration Report

Performance graphs

Graphs showing the Company's net asset value compared with the MSCI UK Index over the period from 1982 to 2019 and comparing the Company's share price total return to shareholders over the last ten years with the MSCI UK Index, are shown on page 3. Over the same ten year period the net assets of the Company increased from £66.2 million to £321.9 million.

Actual expenditure by the Company on remuneration and distributions to shareholders for the current and prior year are detailed in the table below:

	2019	2018	% change
Remuneration paid to all directors	99,000	£121,000	(18.2)%
Distribution to shareholders by way of dividend**	£2,760,000	£1,619,000	70.5%

** Dividend for 2019 comprises the final dividend proposed for the year but not yet paid (estimated on 7,886,589 shares, being the number of shares in issue at 5 April 2019 (2018: 5,762,589)).

Statement of voting at the last Annual General Meeting

At the last AGM held on 6 July 2018, shareholders passed the resolution to approve the Directors' Remuneration Report on a show of hands. Furthermore of the total 1,495,278 proxy votes cast, 1,493,273 were in favour and 1,050 were against. No votes were withheld. There were therefore no substantial shareholder votes against the resolutions at the AGM in 2018. Should there be in the future, the directors will seek to discuss with relevant shareholders the reasons for any such vote and any actions in response will be disclosed in future reports.

Annual statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report summarises as appropriate for the year ended 5 April 2019:

- the major decisions on directors' remuneration;
- any substantial changes relating to directors' remuneration made during the year; and
- the context in which those changes occurred and decisions were taken.

By order of the Board

Graham Meek

Chairman
28 May 2019

Governance Report (continued)

Directors' Responsibilities Statement in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 net return of the Company for that year. 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, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements are published on the Company's website which is maintained by the investment manager. The investment manager is responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Declaration

Each of the directors, whose names and functions are listed in the Governance Report, confirms that, to the best of his or her knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Board's Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Graham Meek

Chairman
28 May 2019

Independent auditors' report to the members of Capital Gearing Trust P.L.C.

Report on the audit of the financial statements

Opinion

In our opinion, Capital Gearing Trust P.L.C.'s financial statements:

- give a true and fair view of the state of the company's affairs as at 5 April 2019 and of its return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 5 April 2019; the income statement, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 6 April 2018 to 5 April 2019.

Our audit approach

Overview



- Overall materiality: £3,200,000 (2018: £2,200,000), based on 1% of net assets.
- The Company is a standalone Investment Trust Company and engages CG Asset Management Limited (the "Manager") to manage its assets.
- PATAC Limited are appointed by the Company to provide company secretarial, administrative and accounting services (the "Administrator").
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- Income recognition.
- Valuation and existence of investments.

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Listing Rules and section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase revenue or decrease expenditure; and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of the reports made by management;
- Reviewing relevant meeting minutes, including those of the audit committee; and
- Assessment of the Company's compliance with the requirements of section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

How our audit addressed the key audit matter

Income recognition

ISAs (UK) presume there is a risk of fraud in income recognition because of the pressure management may feel to achieve total return in line with the objectives of the Company.

We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.

We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.

We understood and assessed the design and implementation of key controls surrounding income recognition.

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Our audit approach (continued)

Key audit matter

How our audit addressed the key audit matter

Income recognition (continued)

We tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third-party sources. No misstatements were identified. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.

The gains/losses on investments held at fair value comprise realised and unrealised gains/losses:

- For realised gains/losses, we tested a sample of disposal proceeds by agreeing the proceeds to bank statements and sale agreements and we re-performed the calculation of a sample of realised gains/losses.
- For unrealised gains/losses, we obtained an understanding of, and then tested the valuation process to ascertain whether these gains/losses were appropriately calculated.

No material misstatements were identified by our testing which required reporting to those charged with governance.

Valuation and existence of investments

The investment portfolio at the year-end principally comprised listed equity investments valued at £314 million.

We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.

We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No material misstatements were identified by our testing which required reporting to those charged with governance.

We tested the existence of the investment portfolio by agreeing the holdings of investments to an independent custodian confirmation from The Northern Trust Company. No differences were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements and determined that testing of controls in place at the Administrator was not required because sufficient substantive testing was performed.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3,200,000 (2018: £2,200,000).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted benchmark for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £160,000 (2018: £110,100) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Outcome

We have nothing material to add or to draw attention to.
However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Reporting on other information (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 5 April 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 24 to 30) about internal controls and risk management systems in relation to financial reporting processes in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 24 to 30) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (CA06)

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 8 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 20 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Reporting on other information (continued)

Other Code Provisions

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

- The statement given by the directors, on page 38, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on pages 31 and 32 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement in Respect of the Annual Report and the Financial Statements set out on page 38, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Capital Gearing Trust P.L.C. (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors in 1984 to audit the financial statements for the year ended 05 April 1985 and subsequent financial periods. The period of total uninterrupted engagement is 35 years, covering the years ended 05 April 1985 to 05 April 2019. Prior to the reregistration of Capital Gearing Trust P.L.C. as a public company in 1984 we were the auditors of Capital Gearing Trust Limited since inception in 1963.

Martin Cowie (Senior Statutory Auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Belfast

28 May 2019

Income Statement

for the year ended 5 April 2019

	Note	Revenue £'000	Capital £'000	2019 Total £'000	Revenue £'000	Capital £'000	2018 Total £'000
Net gains/(losses) on investments	9	–	14,991	14,991	–	(1,243)	(1,243)
Exchange gains/(losses)		–	10	10	–	(187)	(187)
Investment income	2	4,671	–	4,671	2,876	–	2,876
Gross return		4,671	15,001	19,672	2,876	(1,430)	1,446
Investment management fee	3	(568)	(852)	(1,420)	(434)	(652)	(1,086)
Other expenses	4	(419)	–	(419)	(419)	–	(419)
Net return before tax		3,684	14,149	17,833	2,023	(2,082)	(59)
Tax (charge)/credit on net return	6	(292)	267	(25)	(152)	140	(12)
Net return attributable to equity shareholders		3,392	14,416	17,808	1,871	(1,942)	(71)
Net return per Ordinary share	8	51.12p	217.28p	268.40p	37.04p	(38.45p)	(1.41p)

The total column of this statement represents the income statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance issued by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

There are no gains or losses other than those recognised in the income statement and therefore no statement of comprehensive income has been presented.

The notes on pages 50 to 62 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 5 April 2019

	Note	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Total equity share- holders' funds £'000
Balance at 6 April 2017		1,113	66,610	16	99,976	1,730	169,445
Net return attributable to equity shareholders and total comprehensive income for the year		–	–	–	(1,942)	1,871	(71)
New shares issued		328	50,779	–	–	–	51,107
Dividends paid	7	–	–	–	–	(927)	(927)
Total transactions with owners recognised directly in equity		328	50,779	–	–	(927)	50,180
Balance at 5 April 2018		1,441	117,389	16	98,034	2,674	219,554
Balance at 6 April 2018		1,441	117,389	16	98,034	2,674	219,554
Net return attributable to equity shareholders and total comprehensive income for the year		–	–	–	14,416	3,392	17,808
New shares issued		531	85,654	–	–	–	86,185
Dividends paid	7	–	–	–	–	(1,619)	(1,619)
Total transactions with owners recognised directly in equity		531	85,654	–	–	(1,619)	84,566
Balance at 5 April 2019		1,972	203,043	16	112,450	4,447	321,928

* The capital reserve balance at 5 April 2019 includes unrealised gains on fixed asset investments of £19,360,000 (5 April 2018 – gains of £10,819,000).

As at 5 April 2019 £93,090,000 (2018: £87,215,000) of the capital reserve is regarded as being available for distribution.

The notes on pages 50 to 62 form an integral part of these financial statements.

Statement of Financial Position

as at 5 April 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	313,871	206,397
Current assets			
Debtors	10	2,901	1,036
Cash at bank and in hand		9,435	12,767
		12,336	13,803
Creditors: amounts falling due within one year	11	(4,279)	(646)
Net current assets		8,057	13,157
Total assets less current liabilities		321,928	219,554
Capital and reserves			
Called-up share capital	12	1,972	1,441
Share premium account		203,043	117,389
Capital redemption reserve		16	16
Capital reserve		112,450	98,034
Revenue reserve		4,447	2,674
Total equity shareholders' funds		321,928	219,554
Net asset value per Ordinary share	13	4,082.0p	3,809.8p

The financial statements on pages 46 to 62 were approved by the Board on 28 May 2019 and signed on its behalf by:

Graham Meek

Chairman

The notes on pages 50 to 62 form an integral part of these financial statements.

Cash Flow Statement

for the year ended 5 April 2019

	Note	2019 £'000	2018 £'000
Net cash outflow from operations before dividends and interest	14	(1,652)	(1,649)
Dividends received		2,683	1,472
Interest received		1,905	1,381
Net cash inflow from operating activities		2,936	1,204
Payments to acquire investments		(204,843)	(139,925)
Receipts from sale of investments		114,338	92,457
Net cash outflow from investing activities		(90,505)	(47,468)
Equity dividends paid	7	(1,619)	(927)
Issue of Ordinary shares		85,856	50,837
Net cash inflow from financing activities		84,237	49,910
(Decrease)/increase in cash and cash equivalents		(3,332)	3,646
Cash and cash equivalents at start of year		12,767	9,121
Cash and cash equivalents at end of year		9,435	12,767
(Decrease)/increase in cash and cash equivalents		(3,332)	3,646
Cash and cash equivalents consist of cash at bank, and in hand		9,435	12,767

The notes on pages 50 to 62 form an integral part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Basis of accounting

Capital Gearing Trust P.L.C. is a public company limited by shares, is incorporated and domiciled in Northern Ireland and carries on business as an investment trust. Details of the registered office and company status can be found on pages 17 and 18 respectively.

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice (Accounting Standards "UK GAAP") including Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (the "SORP") issued by the Association of Investment Companies in November 2014 and updated in February 2018. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of Investments held at fair value through profit or loss.

The principal accounting policies are set out below. These policies have been applied consistently throughout the current and prior year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There are no critical accounting estimates or judgements.

b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with a documented investment strategy and information is provided internally on that basis to the Board. Accordingly, upon initial recognition the investments are designated by the Company as "held at fair value through profit or loss". Investments are included initially at fair value which is taken to be their cost, including expenses incidental to purchase. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

All purchases and sales are accounted for on a trade date basis.

c) Accounting for reserves

Gains and losses on sales of investments and management fee and finance costs allocated to capital and any other capital charges are included in the Income Statement and dealt with in the capital reserve. Increases and decreases in the valuation of investments held at the year end and foreign exchange gains and losses on cash balances held at the year end are also included in the Income Statement and dealt with in the capital reserve. The cost of repurchasing the Company's own shares for cancellation including the related stamp duty and transaction costs is charged to the distributable element of the capital reserve. The costs relating to the issue of new Ordinary shares are charged to the share premium account.

d) Dividends

In accordance with FRS 102 the final dividend is included in the financial statements in the year that it is approved by shareholders.

e) Income

Dividends receivable on listed equity shares are recognised on the ex-dividend date as a revenue return, and the return on zero dividend preference shares is recognised as a capital return.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Special dividends receivable have been taken to capital where relevant circumstances indicate that the dividends are capital in nature.

Income from fixed-interest securities is recognised as revenue on a time apportionment basis so as to reflect their effective yield.

Income from securities where the return is linked to an inflation index is recognised on a time apportionment basis so as to reflect their effective yield, including the anticipated inflationary increase in their redemption value. The element of the total effective yield that relates to the inflationary increase in their redemption value is considered to represent a capital return, and is included in the Income Statement as such in accordance with the SORP.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

f) Expenses

All expenses include, where applicable, value added tax ("VAT"). Expenses are charged through the revenue account except when expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. The investment management fees have been allocated 60% (2018: 60%) to capital and 40% (2018: 40%) to revenue, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

g) Other financial instruments

Other debtors and creditors do not carry any interest, are short-term in nature and initially recognised at fair value and then held at amortised cost, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

Cash at bank and in hand may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

h) Taxation

The charge for taxation is based on the net return for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Statement of Financial Position date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date. Deferred tax is measured on an undiscounted basis.

The tax effect of the allocation of expenditure between capital and revenue is reflected in the financial statements using the Company's effective rate of tax for the year.

i) Foreign currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. The directors, having regard to the currency of the Company's share capital and the predominant currency in which the Company operates, have determined the functional currency to be sterling.

Transactions denominated in foreign currencies are recorded in the functional currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

j) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year end;
- realised exchange differences of a capital nature;
- expenses (transaction and investment) and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies; and
- unrealised exchange differences of a capital nature.

k) Repurchases of shares into Treasury and subsequent reissues

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of "called-up share capital" and into "capital redemption reserve".

The sales proceeds of Treasury shares reissued are treated as a realised profit up to the amount of the purchase price of those shares and is transferred to capital reserves. The excess of the sales proceeds over the purchase price is transferred to "share premium".

Notes to the Financial Statements (continued)

2 Investment income

	2019 £'000	2018 £'000
Income from investments:		
Interest from UK bonds	892	662
Income from UK equity and non-equity investments	1,846	1,281
Interest from overseas bonds	1,050	650
Income from overseas equity and non-equity investments	883	283
Total income	4,671	2,876
	2019 £'000	2018 £'000
Total income comprises:		
Dividends	2,729	1,564
Interest	1,942	1,312
	4,671	2,876
	2019 £'000	2018 £'000
Income from investments comprises:		
Listed in the UK	2,738	1,943
Listed overseas	1,933	933
	4,671	2,876

3 Investment management fee

	Revenue £'000	Capital £'000	2019 Total £'000	Revenue £'000	Capital £'000	2018 Total £'000
Investment management fee	568	852	1,420	434	652	1,086

The Company's investment manager CG Asset Management Limited received an annual management fee equal to 0.60% of the net assets of the Company up to £120m, 0.45% on net assets above £120m to £500m and 0.30% thereafter (2018: 0.60%, 0.45% and 0.30% respectively). At 5 April 2019 £407,000 (2018: £292,000) was payable. The percentage allocation of the investment management fee charged to capital and revenue is 60:40 as explained further in note 1(f) on page 51. The terms of the investment management agreement are detailed on page 18.

Notes to the Financial Statements (continued)

4 Other expenses

	2019 £'000	2018 £'000
Fees payable to Company auditors for the audit of Company financial statements	20	20
Directors' remuneration (note 5)	99	121
Company secretarial, administration and accountancy services	142	138
Custody services	46	39
General expenses	112	101
	419	419

The above expenses include irrecoverable VAT where appropriate.

5 Directors' remuneration

	2019 Total £'000	2018 Total £'000
The fees payable to the directors were as follows:		
Mr E G Meek	30	30
Mr G A Prescott	25	25
Mr R A Archibald	22	22
Mr A R Laing	–	22
Miss J G K Matterson	22	22
	99	121

The Company made no pension contributions (2018: Enil) in respect of directors and no pension benefits are accruing to any director (2018: Enil).

Mr A R Laing no longer receives a fee from the Company, effective 6 April 2018. He received remuneration totalling £64,600 (2018: £58,020) from CG Asset Management Limited in respect of its services to the Company. CG Asset Management Limited does not recharge this remuneration to the Company.

Details of transactions with CG Asset Management Limited, of which Mr A R Laing is a director, are disclosed in note 3. There were no other transactions with directors during the year.

6 Tax (charge)/credit on net return

	Revenue £'000	Capital £'000	2019 Total £'000	Revenue £'000	Capital £'000	2018 Total £'000
Current tax:						
Corporation tax	(292)	267	(25)	(152)	140	(12)
Current tax (charge)/credit for the year	(292)	267	(25)	(152)	140	(12)

Notes to the Financial Statements (continued)

6 Tax (charge)/credit on net return (continued)

The tax assessed for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	Revenue £'000	Capital £'000	2019 Total £'000	Revenue £'000	Capital £'000	2018 Total £'000
Net return before tax	3,684	14,149	17,833	2,023	(2,082)	(59)
Return at the standard rate of UK corporation tax	700	2,688	3,388	384	(396)	(12)
UK franked dividends	(433)	–	(433)	(244)	–	(244)
Capital returns*	–	(2,850)	(2,850)	–	272	272
Utilisation of prior year management charges	–	(105)	(105)	–	(16)	(16)
Overseas withholding tax	25	–	25	12	–	12
Current tax charge/(credit) for the year	292	(267)	25	152	(140)	12

* The Company is an Investment Trust as defined by section 1158 of the Corporation Tax Act 2010 and capital gains are not subject to corporation tax within an Investment Trust.

No deferred tax liability has been recognised on unrealised gains on investments as it is anticipated that the Company will retain investment company status in the foreseeable future.

Potential deferred tax assets in respect of unrelieved management charges of £180,000 at 5 April 2019 (£286,000 at 5 April 2018) have not been recognised as the prospect for their recovery against future taxation liabilities is uncertain.

7 Dividends paid

	2019 £'000	2018 £'000
Ordinary shares		
2018 dividend paid 20 July 2018 (27.0p per share (21.0p ordinary dividend and 6.0p special dividend))	1,619	–
2017 dividend paid 21 July 2017 (20.0p per share)	–	927

The directors have recommended to shareholders a final dividend of 35.0p per share (23.0p ordinary dividend and 12.0p special dividend) for the year ended 5 April 2019. If approved, this dividend will be paid to shareholders on 19 July 2019. This dividend is subject to approval by shareholders at the AGM and, therefore, in accordance with FRS 102, it has not been included as a liability in these financial statements. The total estimated dividend to be paid is £2,760,000 (based on the number of shares in issue at 5 April 2019).

	2019 £'000	2018 £'000
Revenue available for distribution by way of dividend for the year	3,392	1,871
Proposed final dividend of 35.0p for the year ended 5 April 2019	(2,760)	(1,619)
Revenue surplus/(deficit) for purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010*	632	252

* Undistributed revenue comprises approximately 13.5% (2018: 8.7%) of income from investments of £4,671,000 (2018: £2,876,000).

Notes to the Financial Statements (continued)

8 Net return per Ordinary share

The net return per Ordinary share of 268.40p (2018: (1.41)p) is based on the total net return after taxation for the financial year of £17,808,000 (2018: £(71,000)) and on 6,634,778 (2018: 5,050,988) Ordinary shares, being the weighted average number of Ordinary shares in issue in each year.

Revenue return per Ordinary share of 51.12p (2018: 37.04p) is based on the net revenue return after taxation of £3,392,000 (2018: £1,871,000) and on 6,634,778 (2018: 5,050,988) Ordinary shares, being the weighted average number of Ordinary shares in issue in each year.

Capital return per Ordinary share of 217.28p (2018: (38.45)p) is based on the net capital return for the financial year of £14,416,000 (2018: £(1,942,000)) and on 6,634,778 (2018: 5,050,988) Ordinary shares, being the weighted average number of Ordinary shares in issue in each year.

The Company does not have dilutive securities. Therefore the basic and diluted returns per share are the same.

9 Investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Investments comprise –		
Listed investment companies:		
Ordinary shares UK	36,384	32,199
Ordinary shares overseas	54,597	35,254
Zero dividend preference shares UK	16,296	16,046
Listed UK government bonds	60,825	27,207
Listed UK non-government bonds	31,770	19,896
Listed overseas government bonds	79,186	58,286
Listed overseas non-government bonds	9,259	1,888
Exchange traded funds	25,554	15,621
	313,871	206,397
Cost of investments held at 6 April	195,578	138,832
Unrealised appreciation at 6 April	10,819	21,805
Fair value of investments held at 6 April	206,397	160,637
Additions at cost	208,300	139,591
Effective yield adjustment*	(346)	(238)
Sales – proceeds	(115,471)	(92,350)
– net gains on sales	6,450	9,743
Movement in unrealised appreciation in the year	8,541	(10,986)
Fair value of investments held at 5 April	313,871	206,397
Book cost at 5 April	294,511	195,578
Unrealised appreciation at 5 April	19,360	10,819
	313,871	206,397
Disposals – realised gains	6,450	9,743
Increase/(decrease) in unrealised appreciation	8,541	(10,986)
Net gains/(losses) on investments	14,991	(1,243)

The geographical spread of investments is shown on page 12.

The Company's investment policy is detailed on page 7.

The total transaction costs on additions were £108,000 (2018: £88,000) and on sales £31,000 (2018: £28,000). These costs are included in the book cost of acquisitions and the net proceeds of sales.

* See Income section of Accounting Policies on page 50 for a fuller description.

Notes to the Financial Statements (continued)

10 Debtors

	2019 £'000	2018 £'000
Other debtors	1,921	386
Prepayments and accrued income	963	623
Taxation	17	27
	2,901	1,036

11 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Other creditors	3,739	280
Accruals and deferred income	540	366
	4,279	646

12 Called-up share capital

	2019 £'000	2018 £'000
Allotted and fully paid		
At the beginning of the year: 5,762,919 Ordinary shares (2018: 4,453,174)	1,441	1,113
Allotted during the year: 2,123,670 Ordinary shares (2018: 1,309,745)	531	328
At the end of the year: 7,886,589 Ordinary shares (2018: 5,762,919)	1,972	1,441

During the year to 5 April 2019 there were no Ordinary shares of 25p each repurchased by the Company (2018: nil).

No shares were purchased for cancellation during the year (2018: nil) and at the year end no shares were held in Treasury (2018: nil).

During the year to 5 April 2019 there were no Ordinary shares of 25p each re-issued by the Company (2018: nil).

During the year to 5 April 2019 there were 2,123,670 (2018: 1,309,745) new Ordinary shares of 25p each issued by the Company for cash proceeds totalling £86,185,000 (2018: £51,107,000).

13 Net asset value per Ordinary share

The net asset value per Ordinary share and the net asset value attributable to the Ordinary shares at the year end, calculated in accordance with the Articles, were as follows:

Net asset value per Ordinary share attributable to

	2019	2018
Ordinary shares (basic)	4,082.0p	3,809.8p

Net asset value attributable to

	2019 £'000	2018 £'000
Ordinary shares (basic)	321,928	219,554

Net asset value per Ordinary share is based on the net assets, as shown above, and on 7,886,589 (2018: 5,762,919) Ordinary shares, being the number of Ordinary shares in issue at the year end (excluding shares held in Treasury).

Notes to the Financial Statements (continued)

14 Reconciliation of net return before finance costs and taxation to net cash outflow from operations before dividends and interest

	2019 £'000	2018 £'000
Net return before taxation	17,833	(59)
Less capital return before taxation	(14,149)	2,082
Decrease/(increase) in prepayments	5	(3)
Increase in accruals and deferred income	176	72
Management fees charged to capital	(852)	(652)
Increase in overseas withholding tax	(1)	(12)
Increase in recoverable UK taxation	(3)	(14)
Dividends received	(2,729)	(1,564)
Interest received	(1,942)	(1,312)
Realised gains/(losses) on foreign currency transactions	10	(187)
Net cash outflow from operations before dividends and interest	(1,652)	(1,649)

15 Financial instruments

The Company has the following financial instruments:

	2019 £'000	2018 £'000
Financial assets at fair value through profit or loss		
– Investments held at fair value through profit and loss	313,871	206,397
Financial assets that are debt instruments measured at amortised cost		
– Cash at bank and at hand	9,435	12,767
– Other debtors	1,921	386
– Accrued income	949	603
	326,176	220,153
	2019 £'000	2018 £'000
Financial liabilities measured at amortised cost		
– Other creditors	3,724	268
– Accruals	540	366
	4,264	634

The Company's financial instruments comprise:

- investment company ordinary shares, zero dividend preference shares, exchange traded funds and fixed and index-linked securities that are held in accordance with the Company's investment objectives;
- cash and liquid resources that arise directly from the Company's operations; and
- debtors and creditors.

The main risks arising from the Company's financial instruments are market risk, interest rate risk, foreign currency risk and credit risk. The Board regularly reviews and monitors the management of each of these risks and they are summarised below.

Other debtors and creditors do not carry any interest and are short-term in nature and accordingly are stated at their nominal value.

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Market risk

Market risk arises mainly from uncertainty about the future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Company invests in the shares of other investment companies. These companies may use borrowings or other means to gear their balance sheets which may result in returns that are more volatile than the markets in which they invest, and the market value of investment company shares may not reflect their underlying assets.

To mitigate these risks, the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined financial, market and sector analysis, with the emphasis on long-term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the systemic risk and the risk arising from factors specific to a country or sector. The investment manager actively monitors market prices throughout the year and reports to the Board, which meets regularly to consider investment strategy. A list of the investments held by the Company is shown on pages 12 to 15. All investments are stated at bid value, which in the directors' opinion is equal to fair value.

Price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Ordinary share to an increase or decrease of 5% in market prices. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's investments at the Statement of Financial Position date with all other variables held constant.

	2019 5% increase in market prices £'000	2019 5% decrease in market prices £'000	2018 5% increase in market prices £'000	2018 5% decrease in market prices £'000
Income Statement – net return after tax				
Revenue return	(23)	23	(18)	18
Capital return	15,656	(15,656)	10,291	(10,291)
Total return after taxation	15,633	(15,633)	10,273	(10,273)
Net assets	15,633	(15,633)	10,273	(10,273)
Net asset value per Ordinary share	198.22p	(198.22)p	178.26p	(178.26)p

Interest rate risk

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The investment manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a price different from its purchase level and a profit or loss may be incurred.

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Interest rate sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Ordinary share to an increase or decrease of 1% in regard to the Company's monetary financial assets and financial liabilities. The financial assets affected by interest rates are funds held by the custodian on deposit. There are no financial liabilities affected by interest rates. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments at the Statement of Financial Position date with all other variables held constant.

	2019 1% increase in market prices £'000	2019 1% decrease in market prices £'000	2018 1% increase in market prices £'000	2018 1% decrease in market prices £'000
Income Statement – net return after tax				
Revenue return	76	(76)	102	(102)
Total return after taxation	76	(76)	102	(102)
Net assets	76	(76)	102	(102)
Net asset value per Ordinary share	0.96p	(0.96)p	1.77p	(1.77)p

The interest rate profile of the Company's assets at 5 April 2019 was as follows:

	Total (as per Statement of Financial Position) £'000	Floating rate £'000	Index- linked £'000	Other fixed rate £'000	Assets/ (liabilities) on which no interest is paid £'000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Assets							
Investment trusts & other funds	132,831	–	–	–	132,831	–	–
UK index-linked government bonds	27,387	–	27,387	–	–	0.5	0.8
UK index-linked non-government bonds	7,449	–	7,449	–	–	1.1	2.1
UK government bonds	33,438	–	–	–	33,438	–	–
UK non-government bonds	24,321	–	–	24,321	–	2.0	2.2
Overseas index-linked government bonds	79,186	–	79,186	–	–	1.0	9.8
Overseas index-linked non-government bonds	798	–	798	–	–	2.7	1.6
Overseas non-government bonds	8,461	–	–	8,461	–	2.6	2.2
Invested funds	313,871	–	114,820	32,782	166,269		
Cash at bank	9,435	9,435	–	–	–	–	–
Other debtors	2,901	–	–	–	2,901	–	–
Liabilities							
Creditors	(4,279)	–	–	–	(4,279)	–	–
Total net assets	321,928	9,435	114,820	32,782	164,891		

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

The interest rate profile of the Company's assets at 5 April 2018 was as follows:

	Total (as per Statement of Financial Position) £'000	Floating rate £'000	Index- linked £'000	Other fixed rate £'000	Assets/ (liabilities) on which no interest is paid £'000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Assets							
Investment trusts & other funds	99,120	—	—	—	99,120	—	—
UK index-linked government bonds	24,710	—	24,710	—	—	0.5	1.8
UK index-linked non-government bonds	4,239	—	4,239	—	—	1.5	3.2
UK government bonds	2,497	—	—	—	2,497	—	—
UK non-government bonds	15,657	—	—	15,657	—	5.2	2.1
Overseas index-linked government bonds	58,286	—	58,286	—	—	1.1	6.9
Overseas index-linked non-government bonds	393	—	393	—	—	3.8	2.6
Overseas non-government bonds	1,495	—	—	1,495	—	5.5	4.3
Invested funds	206,397	—	87,628	17,152	101,617		
Cash at bank	12,767	12,762	—	—	5	—	—
Other debtors	1,036	—	—	—	1,036	—	—
Liabilities							
Creditors	(646)	—	—	—	(646)	—	—
Total net assets	219,554	12,762	87,628	17,152	102,012		

Fair value of financial assets and liabilities

All financial assets and liabilities are either included in the Statement of Financial Position at fair value or at a reasonable approximation of fair value.

FRS 102 requires financial instruments to be categorised into a hierarchy consisting of the three levels below. Note that the criteria used to categorise investments include an amendment to paragraph 34.22 of FRS 102, issued by the Financial Reporting Council in March 2016.

Level 1: valued using unadjusted quoted prices in active markets for identical assets.

Level 2: valued using observable inputs other than quoted prices included within Level 1.

Level 3: valued using inputs that are unobservable.

The Company's assets that are measured at fair value through the Income Statement are investments in listed securities and are fair valued under level 1 of the fair value measurement hierarchy. The fair value of financial instruments traded in active markets is based on quoted market prices at the Statement of Financial Position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 of the fair value measurement hierarchy.

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Foreign currency risk

The Company's investments in foreign currency securities are subject to the risk of currency fluctuations. The investment manager monitors current and forward exchange rate movements in order to mitigate this risk. The Company's investments denominated in foreign currencies are:

	2019 Investments £'000	2019 Accrued interest £'000	2018 Investments £'000	2018 Accrued interest £'000
Euro	22,528	–	13,417	–
US Dollar	86,946	390	57,418	201
Swedish Krona	13,062	1	10,300	18
Australian Dollar	839	2	431	1
	123,375	393	81,566	220

Foreign currency sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per Ordinary share to an increase or decrease of 10% in the rates of exchange of foreign currencies relative to sterling. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's foreign currency investments at the Statement of Financial Position date with all other variables held constant.

	2019 10% appreciation of Sterling £'000	2019 10% depreciation of Sterling £'000	2018 10% appreciation of Sterling £'000	2018 10% depreciation of Sterling £'000
Income statement – net return after taxation				
Revenue return	(157)	157	(75)	75
Capital return	(12,338)	12,338	(8,157)	8,157
Total return after taxation	(12,495)	12,495	(8,232)	8,232
Net assets	(12,495)	12,495	(8,232)	8,232
Net asset value per Ordinary share	(158.43)p	158.43p	(142.84)p	142.84p

Liquidity risk

Liquidity risk is not considered to be significant as the Company has no bank loans or other borrowings and the majority of the Company's assets are investments in quoted securities which are readily realisable. All liabilities are payable within three months.

Credit risk

In addition to interest rate risk, the Company's investment in bonds, the majority of which are government bonds, is also exposed to credit risk which reflects the ability of a borrower to meet its obligations. Generally, the higher the quality of the issue, the lower the interest rate at which the issuer can borrow money. Issuers of a lower quality will tend to have to pay more to borrow money to compensate the lender for the extra risk taken. Investment transactions are carried out with a number of brokers whose standing is reviewed periodically by the investment manager. The investment manager assesses the risk associated with these investments by prior financial analysis of the issuing companies as part of his normal scrutiny of existing and prospective investments and reports regularly to the Board. Cash is held with a reputable bank with a high-quality external credit rating.

A further credit risk is the failure of a counterparty to a transaction to discharge its obligations under that transaction, which could result in a loss to the Company. The following table shows the maximum credit risk exposure.

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Credit risk exposure

Compared to the Statement of Financial Position, the maximum credit risk exposure is:

	2019 Statement of Financial Position £'000	2019 Maximum exposure £'000	2018 Statement of Financial Position £'000	2018 Maximum exposure £'000
Fixed assets – listed investments at fair value through profit and loss	313,871	181,040	206,397	107,811
Debtors – amounts due from the custodian, dividends and interest receivable	2,870	2,870	989	989
Cash at bank	9,435	9,435	12,767	12,767
	326,176	193,345	220,153	121,567

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the capital and income return to its equity.

The Company's capital at 5 April 2019 of £321,928,000 (2018: £219,554,000) comprises its equity share capital and reserves.

The Board, with the assistance of the investment manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- consideration of future use of gearing, which takes into account the investment manager's views on the market;
- the operation and impact of the discount and premium control policy; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting year. The Company is subject to externally imposed capital requirements:

- as a public company, the Company must have a minimum share capital of £50,000; and
- in order to pay dividends out of profits available for distribution, the Company must meet the capital restriction test imposed on investment companies by company law.

16 Related party transactions

Related party transactions with Mr A R Laing, director of the Company, for the year ended 5 April 2019 are disclosed in notes 3 and 5 to the financial statements. There were no other related party transactions.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the fifty-sixth Annual General Meeting of the Company will be held at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY on Tuesday, 9 July 2019 at 11.00 a.m. for the following purposes:

Ordinary business

To consider, and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the Report of the Directors and the audited financial statements for the year ended 5 April 2019.
2. To approve the Directors' Remuneration Report for the year ended 5 April 2019, together with the report of the auditor thereon.
3. To approve the remuneration policy of the Company.
4. To declare a final dividend of 35 pence per Ordinary share.
5. To re-elect Graham Meek as a director.
6. To re-elect George Prescott as a director.
7. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company.
8. To authorise the directors to determine the remuneration of the auditors.

Special business

To consider and, if thought fit, pass the following resolutions, of which resolution 9 will be proposed as an ordinary resolution and resolutions 10 to 12 will be proposed as special resolutions:

Ordinary resolution

Directors' authority to allot shares

9. THAT the directors be generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the "Act"), to exercise all powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to a maximum aggregate nominal value of £687,442.25 (being one third of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed, and representing 2,749,769 Ordinary shares of 25 pence each), provided that such authority shall expire at the conclusion of the AGM

of the Company to be held in 2020, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

Special resolutions

Directors' authority to disapply pre-emption rights

10. THAT the directors be and are hereby empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred on them by resolution 9 above or otherwise as if section 561 of the Act did not apply to any such allotment, and be empowered pursuant to section 573 of the Act to sell relevant equity securities (within the meaning of section 560 of the Act) if, immediately before the sale, such equity securities were held by the Company as treasury shares (as defined in section 724 of the Act ("treasury shares")), for cash as if section 561 of the Act did not apply to any such sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares, in connection with and pursuant to:
 - a) an offer of equity securities open for acceptance for a period fixed by the Board where the equity securities respectively attributable to the interests of holders of Ordinary shares of 25 pence each in the Company (the "Ordinary Shares") are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Board may consider necessary, appropriate or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
 - b) otherwise than pursuant to sub-paragraph a) above, up to an aggregate nominal value of £206,232.50 or, if less, the number representing 10% of the issued share capital of

Notice of Annual General Meeting (continued)

the Company at the date of the meeting at which this resolution is proposed; and

this power shall expire at the conclusion of the AGM of the Company to be held in 2020, unless previously renewed, varied or revoked by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Board may allot equity securities or sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

Authority to make market purchases of the Company's own shares

11. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693 of the Act) of Ordinary shares of 25 pence each in the Company (the "Ordinary Shares"), provided that:

- a) the maximum aggregate number of Ordinary Shares to be purchased shall be 1,236,571 or, if less, the number representing 14.99% of the issued share capital of the Company at the date of the meeting at which this resolution is proposed;
- b) the minimum price which may be paid for an Ordinary Share shall be 25 pence;
- c) the maximum price, excluding expenses, which may be paid for an Ordinary Share shall be an amount equal to the higher of:

- (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such purchase is made; and
 - (ii) the higher of the last independent trade and the highest current independent bid relating to an Ordinary Share on the trading venue where the purchase is carried out;
- d) the authority hereby conferred shall expire at the conclusion of the AGM of the Company to be held in 2020 unless such authority is renewed prior to such time; and
 - e) the Company may enter into a contract to purchase Ordinary Shares under this authority prior to the expiry of such which will or may be completed or executed wholly or partly after the expiration of such authority.

Notice of general meetings

12. THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the Board

PATAC Limited Company Secretary

Registered Office:
Waterfront Plaza
8 Laganbank Road
Belfast BT1 3LR
28 May 2019

Notice of Annual General Meeting (continued)

Location of Annual General Meeting

Smith & Williamson Investment Management Limited
at 11.00 a.m. on Tuesday, 9 July 2019
25 Moorgate
London
EC2R 6AY

Nearest National Railway Stations:

Moorgate, Liverpool Street and Cannon Street

Nearest London Underground Stations:

Moorgate – Circle, Metropolitan, Hammersmith & City
and Northern Lines

Bank – Central, Northern, Waterloo & City Lines and
Docklands Light Railway

Notes

- Members are entitled to attend, speak and vote at the annual general meeting (the "AGM"). A member entitled to attend, speak and vote at the AGM is also entitled to appoint one or more proxies to attend, speak and vote instead of him/her. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attached to different shares.
- A form of proxy is enclosed with this notice, together with a pre-paid reply envelope. Completion and return of such form of proxy either by post or through www.eproxyappointment.com or submission of any CREST Proxy Instruction (as described in note 8 below) will not prevent a member from subsequently attending the AGM and voting in person if they so wish.
- To be valid any form of proxy or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed, or a notarially certified copy of such power of authority, must be received by post or (during normal business hours only) by hand at the offices of the Company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or through www.eproxyappointment.com no later than 11.00 a.m. on 5 July 2019 or no later than 48 hours (excluding non-working days) before the time of any adjourned meeting.
- A person who is not a member of the Company, but has been nominated by a member of the Company (the "relevant member") under section 146 of the Companies Act 2006 to enjoy information rights (the "nominated person"), does not have a right to appoint any proxies under note 1 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the AGM. If a nominated person does not have such a right, or has such a right and does not wish to exercise it, he/she may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights. It is important to remember that a nominated person's main contact in terms of their investment remains as the relevant member (or perhaps the custodian or broker who administers the investment) and a nominated person should continue to contact them (and not the Company) regarding any changes or queries relating to their personal details and holding (including any administration thereof). The only exception to this is where the Company writes to a nominated person directly for a response.
- In the case of joint holders the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members.
- The Company, pursuant to section 360B of the Companies Act 2006 and to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members detailed in the register of members at the specified time shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. For the purposes of the AGM members must be entered on the register as at the close of business on 5 July 2019. Changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend and vote at the AGM. If the AGM is adjourned to a time not more than 48 hours after the time applicable to the original AGM, that time will also apply for the purpose of determining the entitlement of members to attend and vote. If however the AGM is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours (excluding non-working days) prior to the time fixed for such adjourned AGM.
- Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Notice of Annual General Meeting (continued)

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of AGM. For this purpose, the time of the receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection,

CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such questions relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.
10. Resolutions 1 to 9 are proposed as ordinary resolutions which, to be passed, require more than half of the votes cast to be in favour of the resolution. Resolutions 10 to 12 are proposed as special resolutions which, to be passed, require at least three-quarters of the votes cast to be in favour of the resolution.
11. As at 28 May 2019 (being the last practicable date prior to the publication of this document) the total number of Ordinary shares of 25p each in issue and the total number of voting rights was 8,249,307.
12. Biographical details of the directors seeking re-election can be found at page 16 of the report and financial statements.
13. Copies of the letters of appointment for the non-executive directors will be available for inspection at the Company's registered office and the office of the company secretary, during usual business hours on any weekday (public holidays excluded) from the date of this notice until the close of the AGM and will also be available for inspection at the AGM from 10.30 a.m. until the close of the AGM.
14. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.capitalgearingtrust.com.

Shareholder Information

Financial Reporting

Copies of the Company's annual and half-year reports may be obtained from the company secretary and electronic copies can be accessed on the Company's website www.capitalgearingtrust.com.

Contacting the Board

Any shareholders wishing to communicate directly with the Board should do so via the company secretary.

Capital Gains Tax

As at 31 March 1982 the adjusted value for capital gains tax purposes of the 25p Ordinary shares was 21.25p.

Financial Calendar (guide)

Annual Results	June
Annual General Meeting	July
Dividend Payment Date	July
Half-Year Report	November

Frequency of NAV Publication

Daily

Share Price

The Company's share price can be found on the London Stock Exchange website by using the Company's TIDM code 'CGT' within the price search facility. The share price is also available on the Company's website.

How to Invest

Via your bank, stockbroker or other financial advisor.

Sources of Further Information

Company's website	www.capitalgearingtrust.com
AIC	www.theaic.co.uk

For registrar queries contact Computershare on 0370 873 5864.

Share Identification Codes

SEDOL:	0173861
ISIN:	GB0001738615
BLOOMBERG:	CGT:LN
TIDM:	CGT

Substantial Shareholdings

The Disclosure Guidance and Transparency Rules require shareholders of the Company simultaneously to inform the Company and the Financial Conduct Authority (the "FCA") of changes to major holdings in the Company's shares within two trading days of the change.

For further information, please visit the FCA's website: www.fca.org.uk/markets/ukla/regulatory-disclosures/submit-investor-notification

Nominee Share Code

The Company will arrange for copies of shareholder documents to be made available on request to interested parties and operators of nominee accounts.

Disability Act

Access for the hard of hearing to the services of the registrar to the Company, Computershare Investor Services PLC, is provided by their contact centre's text phone service on 0370 702 0005. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the RNID) you should dial 18001 followed by the number you wish to dial.

Data Protection

The Company is committed to ensuring the privacy of any personal data provided to us. Further details of the Company's privacy policy can be found on the Company's website www.capitalgearingtrust.com.

Key Information Document

In line with the European regulations for packaged investment products, which came into force in January 2018, a key information document (KID) has been produced for the Company by its AIFM and is available on the Company's website. The KID, which is not the responsibility of the Company, is produced in a prescribed form, with little scope for deviation. Investor's should note that the procedures for calculating risks, costs and potential returns contained in the KID are prescribed by law. These may not reflect the expected returns for the Company and anticipated returns cannot be guaranteed. The costs disclosed in the KID include transaction charges and look through costs, being the operating costs of investee funds, in addition to the ongoing charges of the Company.

Shareholder Information (continued)

Beware of Share Fraud

Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These are typically from overseas 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares.

Shareholders may also be advised that there is an imminent offer for the Company, and the caller may offer to buy shares at significantly above the market price if an administration fee is paid. This is known as 'boiler room fraud'.

You can find more information about investment scams at the Financial Conduct Authority (FCA) website: www.fca.org.uk/consumer/protect-yourself-scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

Shareholder Analysis

Beneficial owner analysis

As at 5 April:	2019 Number of shares	2019 % of Issued capital	2018 Number of shares	2018 % of Issued capital
Retail-Private Client	5,500,896	69.75	3,601,952	62.5
Named Private Individuals	1,004,751	12.74	1,059,928	18.4
Bank-Building Society	382,500	4.85	362,201	6.3
Open Ended Investment Companies	358,840	4.55	283,651	4.9
Other types of beneficial owner	639,602	8.11	455,187	7.9
	7,886,589	100	5,762,919	100

Glossary of Terms and Definitions

Alternative Performance Measure

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes UK GAAP, including FRS 102, and the AIC SORP. The Company's alternative performance measures are NAV total return, share price total return, premium/discount to NAV and ongoing charges. Further information is provided below. These numerical measures are used by the Board to assess the Company's performance against a range of criteria and are viewed as particularly relevant for an investment trust.

Earnings per share

The earnings per share is calculated by dividing the net return attributable to equity shareholders by the weighted average number of Ordinary shares in issue.

Net Asset Value or NAV

The value of total assets less liabilities. To calculate the net asset value per share the net asset value is divided by the number of shares in issue.

Ongoing Charges

The management fee and all other administrative expenses expressed as a percentage of the average daily net assets during the year.

	2019 £'000	2018 £'000
Investment Management fee	1,420	1,086
Administrative expense	419	419
Ongoing charges	1,837	1,505
Average net assets	264,455	194,847
Ongoing charges ratio	0.70%	0.77%

Premium/Discount to NAV

The amount by which the share price is higher/lower than the net asset value per share, expressed as a percentage of the net asset value per share.

		2019	2018
NAV per share	a	4,082.0p	3,809.8p
Share price	b	4,170.0p	3,910.0p
Premium	c c=(b-a)/a	2.2%	2.6%

Total Return

Net asset value/share price total return measures the increase/(decrease) in net asset value per share/share price plus the dividends paid in the period, which are assumed to be reinvested at the time that the share price is quoted ex-dividend.

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