Discount Control Mechanism ("DCM")

Shareholders in the Company will know that the principal difference between investment trusts and the other most common collective investment vehicles, unit trusts and open ended investment companies ("OEICs"), is that

- to participate in unit trusts and OEICs, investors apply to the fund managers for new units or shares. These are normally issued and redeemed at or near to net asset value ("NAV") per share, whereas
- to participate in an investment trust requires the purchase or sale of the shares in that trust through the stock market.

The shares in an investment trust tend to track the NAV per share, but they seldom if ever trade at exactly the NAV per share, or at "par" as it is known. Historically the great majority of investment trusts have traded at a discount to NAV per share, often well into double digits, although there are a select few, usually specialist, investment trusts that trade at a premium.

There are some investors who find the ability to buy stock in investment trusts at a discount attractive, although they are rarely so enthusiastic if they have to sell at a discount. However, your Directors believe that it is in the best interests of all our shareholders (whether buying, holding or selling) that the Company's shares trade at a price as close to NAV per share as practicable.

The level of discount, or premium, at which investment trust shares trade is very substantially affected by the law of supply and demand; put simply a much sought-after share rarely trades at a significant discount and may even trade at a premium, whereas out of favour shares often move to material discounts.

In an effort to try to eliminate discount volatility, your Directors introduced a discount control mechanism ("DCM") in 2004. Under our DCM, we will normally buy in the Company's shares being offered on the stock market whenever the discount reaches a level of 5% or more and then hold those shares in "treasury". Shares held by a company in treasury are, for accounting purposes, effectively eliminated but, legally and for Stock Exchange purposes, they continue to exist, which means they can later be sold back to the market if conditions permit.

In recent years the Company's successful performance has generated substantial investor interest, which in the absence of the other side of our DCM could have led to our shares moving to a significant premium to NAV per share. Your Directors consider that limiting the premium is just as important as limiting the discount; no-one likes to pay over the odds for an investment! The other side of our DCM is therefore that whenever there are unsatisfied buying orders for our shares in the market, we issue new shares at a small premium to NAV per share. This ensures that there is no asset dilution to our existing shareholders, but stops the market price going to a significant and possibly unsustainable premium. We do therefore effectively become a market maker in our own shares and you can see from the chart in the Annual Report how successful that has been.

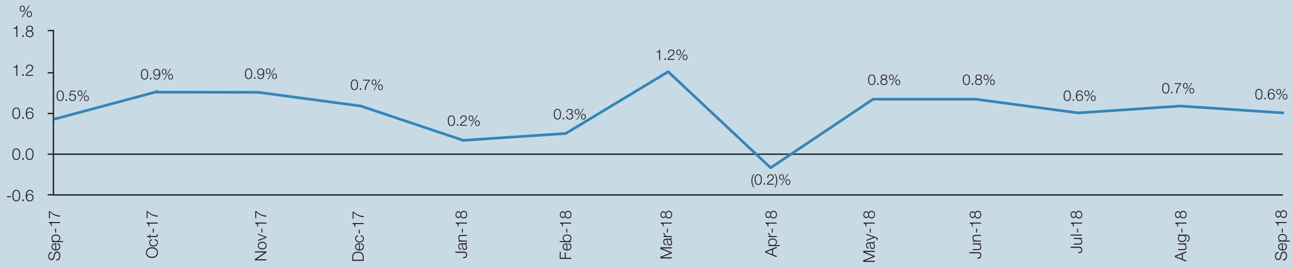
These two sides of our DCM are widely to be found elsewhere in the investment trust sector, but there is a third aspect to ours that is rare. As explained above, shares held in treasury continue to exist legally and can be re-sold, but in most cases shareholders will only permit that if they are re-sold at NAV per share or higher. For many years we have sought and obtained the authority of our shareholders to re-sell shares held in treasury at a discount to NAV per share, provided that any sale is at a narrower discount to NAV per share than that prevailing when the shares were bought in. The round trip of buying them in and then selling them out again at a finer discount is always asset-accretive to shareholders, but it is the increased liquidity that this arrangement permits that is the real benefit.

We have not had to use this power for many years, but there was a point some years ago where it was very useful to us in helping us place a large holding of shares in the Company that was too large for the market to digest in one go. We therefore bought part of that holding into treasury and then sold the shares out to the market over the next few months in smaller parcels at a finer discount. The whole operation was a great success and we are therefore very keen to keep this power in our DCM armoury.

It is Resolutions 10, 11, 12 and 13 in the Notice of Annual General Meeting that enable us to operate what we consider to have been a very effective DCM in recent years and we strongly recommend that shareholders therefore vote in favour of those resolutions in order to continue it.

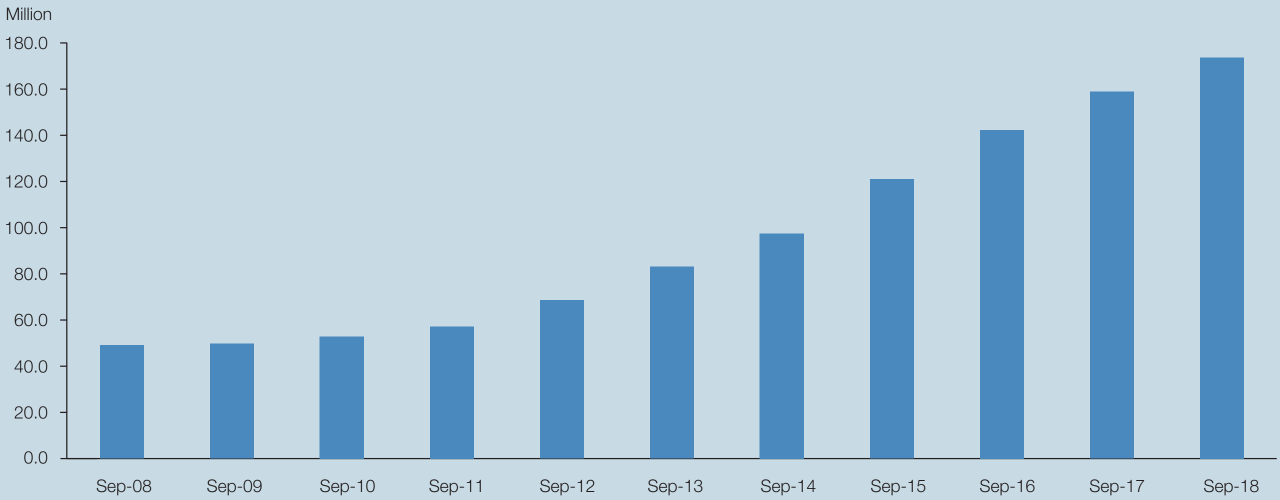
Discount Control Mechanism ("DCM")

1 Year Premium/(Discount) of Share Price to NAV per Share to 30 September 2018



Source: Frostrow Capital LLP

10 Years Shares in Issue Excluding Treasury Shares



Source: Frostrow Capital LLP

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