

CAPITAL GEARING TRUST P.L.C.

Annual Report and Financial Statements

For the year ended 5 April 2020

Company Summary

■ The Company

Capital Gearing Trust P.I.c. (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 2020, 11,509,263 shares were in issue and 102,300 shares were held in treasury (5 April 2019: 7,886,589 shares in issue and no shares held in treasury). Each Ordinary share has one vote.

■ Discount/Premium Control Policy

The Company will aim to 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 Friday 3 July 2020. Please note that as a result of the ongoing Covid-19 pandemic and the imposition of the measures by the UK Government attendance at the Annual General Meeting is unlikely to be

possible. Further details on the arrangements for the Annual General Meeting are provided on page 25.

■ 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 and Depositary services are carried out by The Northern Trust Company.

■ Alternative Investment Fund Manager

CG Asset Management is the Company's full scope 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. These annual accounts are being produced during a period of extraordinary times affecting health, social, economic and financial events around the world. The Board and its advisers, including CG Asset Management and PATAC, have endeavoured to produce these audited accounts in good faith and in accordance with legislation, regulations, reporting standards and to be useful to stakeholders in the Company, including its shareholders.

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Financial Information

Performance Highlights

(All data as at 5 April)

Total Returns

	1 Year	3 Years	5 Years	10 Years
Share Price ¹	1.3%	10.5%	30.4%	69.5%
NAV per Share ¹	0.8%	8.5%	27.0%	75.9%
MSCI UK Index	-24.8%	-17.3%	-4.6%	35.6%
Inflation (RPI)	2.6%	8.7%	13.8%	32.6%
Share Price relative to MSCI UK	34.7%	33.6%	36.7%	25.0%
Share Price relative to RPI	-1.3%	1.7%	14.6%	27.8%

Years ended 5 April

	2020	2019	2017	2015	2010
Market Capitalisation (£m)	482.2	328.9	172.4	97.1	73,594
Shareholders' Funds (£m)	470.1	321.9	169.5	96.5	69.0
Shares in issue	11,509,263	7,886,589	4,453,174	2,926,906	2,794,906

Allocation of Portfolio

Index-Linked Government Bonds	25.1%	33.0%	34.7%	26.8%	33.4%
Conventional Government Bonds	18.8%	10.3%	4.1%	10.5%	25.4%
Preference Shares/Corporate Debt	14.0%	17.6%	21.5%	25.8%	13.3%
Funds/Equities	34.1%	35.2%	33.4%	26.7%	19.2%
Cash	6.9%	2.9%	5.4%	9.0%	7.8%
Gold	1.1%	1.0%	0.9%	1.2%	0.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

Share Price (pence)	4,190.0	4,170.0	3,870.5	3,316.5	2,630.0
NAV per Share (pence)	4,084.2	4,082.0	3,805.0	3,297.6	2,467.4
Premium to NAV ¹	2.6%	2.2%	1.7%	0.6%	6.6%
Earnings per Share (pence)	59.12	51.12	18.26	26.82	23.83
Ordinary dividend per Share (pence)	25.00	23.00	20.00	20.00	15.00
Special dividend per Share (pence)	17.00	12.00	–	–	7.50
Total dividend per Share (pence)	42.00	35.00	20.00	20.00	22.50
Ongoing Charges Ratio ¹	0.65%	0.70%	0.89%	0.96%	1.40%
MSCI UK Index	12,085.7	16,062.4	14,615.9	12,662.4	8,914.8
UK Retail Price Index (at 31 March)	292.6	285.1	269.3	257.1	222.8

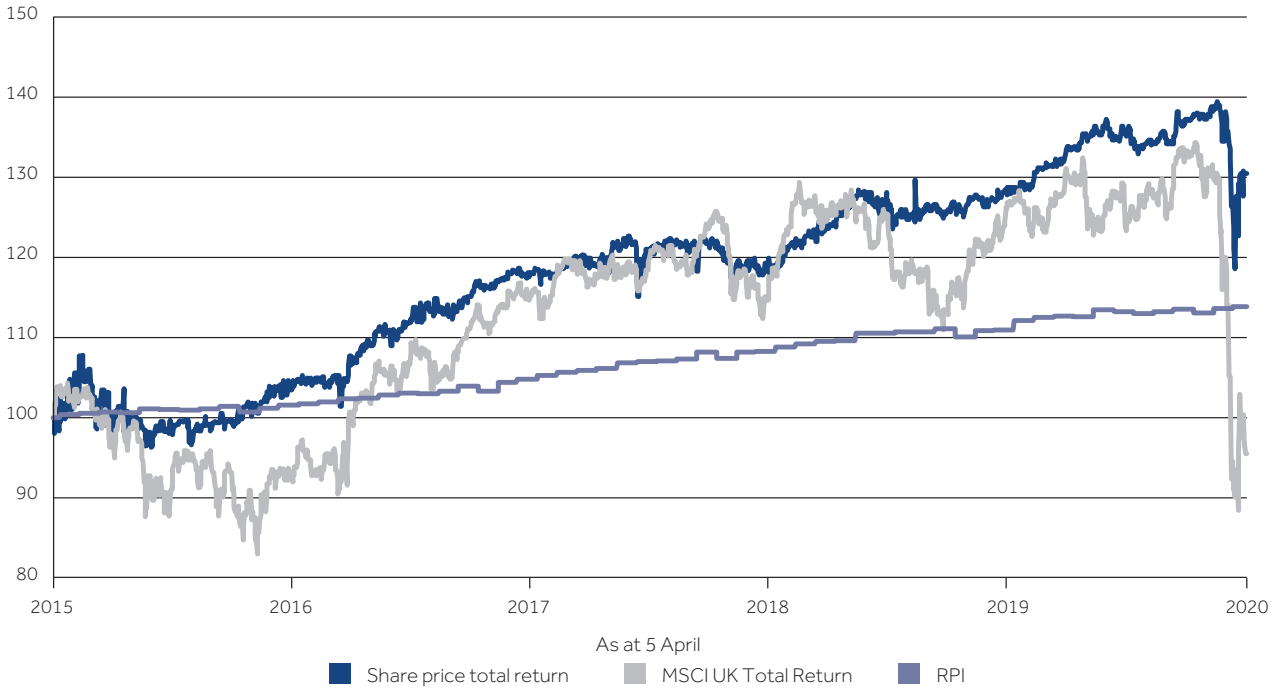
¹ Alternative Performance Measure. Please refer to the inside back cover for a glossary of terms and definitions.

Performance

The Company does not have a formal benchmark but uses the MSCI UK Index and the UK Retail Price Index ("RPI") as relative measures over the medium to longer term.

Share price total return performance 2015 to 2020

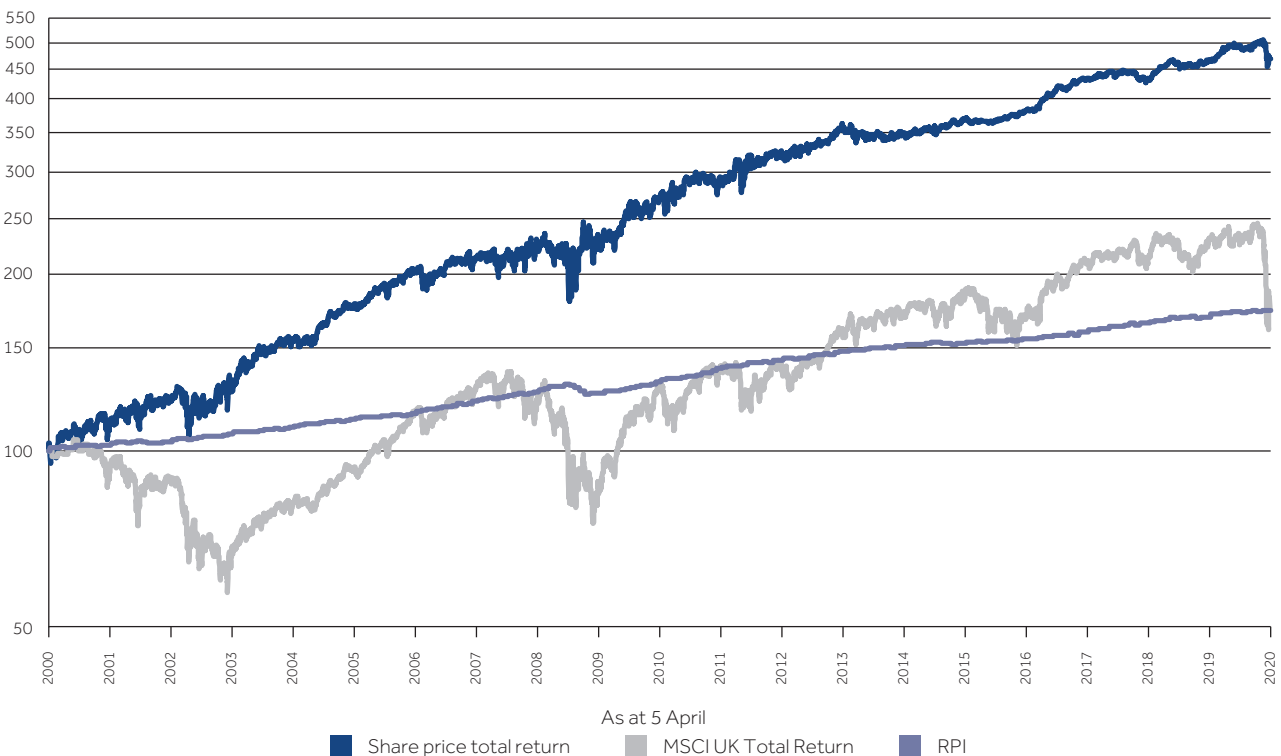
Based on mid-market prices, the graph below illustrates the total return to investors in the Company over the past five years, compared with the total return on the MSCI UK Index and RPI*. Each measure is rebased to 100 in 2015.



*Source: CG Asset Management Limited

Net asset value total return performance 2000 to 2020

Based on the Company's NAV per Ordinary share, the graph below illustrates the total return to investors in the Company over the past 20-years, compared with the total return on the MSCI UK Index and RPI*. Each measure is rebased to 100 in 2000.



*Source: CG Asset Management Limited

The Board's Strategic Report

Chairman's Statement

Overview

Firstly, we hope that our shareholders and their families are managing to remain safe and well in these difficult times. Our thoughts are with all those affected by this pandemic crisis.

Shareholders will recall that "the Company's dual objectives are to preserve shareholders' real wealth and to achieve absolute total return over the medium to longer term". The priority to preserve shareholders' real wealth has been tested severely during the last few months.

The Company's net asset value per share peaked at 4,382p on 20 February 2020 when the closing share price was 4,480p. Investors scarcely need reminding of the cataclysm that ensued. By 19 March, the overall UK equity market had declined by 32.8%. At the same date the Company's net asset value ("NAV") had suffered a maximum drawdown of 9.9%; severe enough, but still a testament to the investment manager's cautious asset allocation and evidence of the defensive features of the portfolio when faced with a market decline of historic dimensions. Throughout this turbulent period, the operation of the Company's discount and premium control policy ("DCP") ensured a robust and orderly secondary market with both adequate liquidity and pricing stability relative to the NAV.

Thanks to the subsequent bear market rally, a well-timed switch into longer duration US Treasury Inflation Protected Securities ("TIPS") and helpful currency movements in the last couple of weeks of the financial year, the Company managed to come out practically level over the full twelve months. As at 5 April 2020, the NAV per share was 4,084.2p, a total return of 0.8% for the year. The share price rose by 0.5%, ending the year at 4,190p. This very modest growth in NAV per share considerably outperformed the 24.8% fall in the MSCI UK Index but failed to beat inflation as measured by the UK Retail Price Index (+2.6%) for only the third time since 1982.

Towards the end of 2019, the investment managers had reduced exposure to some more risky assets and the sharp correction from late February allowed the repurchase of several of these disposals at attractive levels. Abnormally large currency swings also allowed the portfolio to capture some significant currency gains and to reposition the US TIPS portfolio towards more attractive longer duration holdings. Further detail on portfolio movements is provided in the report from the investment managers.

Dividend and Earnings

The revenue return per share, after tax and expenses, for the financial year was 59.12p, a significant increase for the third successive year. Although the Company

does not set a specific income target, but rather uses total return as its yardstick, two principal factors have bolstered the revenue account: one possibly temporary, the other likely to be more sustained. The switch in asset allocation from maturing zero dividend preference shares towards short dated corporate bonds has boosted gross income. 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. A repeat of any such special dividend in succeeding years is not to be implied.

This year the Board is recommending both an underlying dividend of 25p and a special dividend of 17p. The total payment of 42p compares with 35p last year. 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 at the Company's forthcoming AGM.

From the start of the new financial year on 6 April 2020, the Board decided that all the costs of the investment management fee should be charged to income. Previously 60% of the management fee was charged to capital and all other running costs of the Company were charged to income. The change has been agreed with our auditors. The revised allocation of costs will have no impact on total returns, but will tend to somewhat suppress the level of net income in this and future years.

Annual General Meeting

Due to the measures imposed by the UK Government to control the spread of Covid-19, this year's AGM will be held in a "restricted format" on Friday, 3 July 2020 at 11:00 a.m. The notice convening the fifty-seventh AGM of the Company is set out on pages 65 to 68. It will not be possible under the current lockdown rules for shareholders to physically attend the meeting. Shareholders will be able to submit questions in advance through the Company Secretary. Answers will be posted on the Company's website shortly after the meeting. It is customary, before the formal business is completed, for our Investment Manager to make a short presentation on the outlook for capital markets and the Company's investments. This year there will be a video presentation which can be viewed on the Company's website from Monday, 6 July. The Board look forward to resuming the normal AGM format next year.

The Board's Strategic Report (continued)

Chairman's Statement

Annual General Meeting (continued)

The Board firmly believes that all of the resolutions being proposed are in the best interests of the Company and its shareholders and encourages shareholders to vote by proxy in favour of the resolutions, as the Board intends to do in respect of their own shareholdings which amount to 0.4%. We would strongly encourage shareholders to return their votes by electronic proxy given the disruptions and delays that may affect the postal service.

Share Issuance and Buybacks

I am pleased to report that the DCP has proved functionally robust and continues to protect and serve shareholders well in providing good liquidity, enabling the shares to trade consistently close to NAV even in the most volatile market conditions.

Until the onset of the Covid-19 crisis in February, the DCP had operated (with only one exception) exclusively in one direction, through the issuance of shares at a premium to NAV. In the last two turbulent months of the financial year, the operation of the DCP was tested in terms of both issuance and buyback. The Company bought back 198,300 shares at a modest discount to NAV for a total value of £7.8m, with these shares being held in treasury and available for re-issuance at a premium. Of these shares held in treasury, 96,000 were subsequently re-issued at a premium to NAV for proceeds of £4.0m.

During the Company's financial year, we also issued 3,724,974 new shares (all at a premium to NAV per share) for net proceeds of £156.3m. Nearly 90% of this issuance occurred in the first ten months of the financial year.

The Company's DCP has now been in operation for almost five years. The DCP has proved to be a major factor in the development of the Company 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.

At the latest financial year end, there were 11,509,263 shares in issue (nearly 4 times the August 2015 level), net assets were £470.1m and in the latest quarter average daily trading volumes have been in excess of 37,000 shares, or roughly 3 times the volume of a year previously.

Although the Company incurs modest costs for operating the DCP and when renewing shareholder authority from time to time, issuance at a premium and buying back at a discount under the DCP more than compensates and is consistently accretive to NAV. The

Board estimates that since inception NAV has gained by some £5.3m after all costs, with £2.7m of this gain being generated in the latest financial year.

The expansion in assets under management has had no impact on our investment strategy nor on NAV per share performance. When measured against its twin, the open-ended CG Portfolio Fund, Capital Gearing Trust shows a small positive differential gain in performance as measured by NAV per share. 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 remains firmly of the view that the continued implementation of the DCP remains in the best interest of shareholders. Much greater trading liquidity, the significant reduction in the ongoing cost ratio and the incremental improvement in NAV stemming from issuance and buy back under the DCP provide a benefit to all investors.

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). In the year to 5 April 2020, this has declined yet again from 0.70% last year to 0.65% this year. This is partly due to our fixed costs being spread over a larger asset base. Before the Company commenced its DCP in 2015, the ongoing charges ratio for the then much smaller Company was 0.96%.

Looking ahead at potential factors that will influence the ongoing charges ratio in the coming years, there are two changes worthy of mention:

- In accordance with regulations on the rotation of auditors, PwC will step down as auditors at the forthcoming AGM. The Company has appointed BDO in their place. The change will entail an anticipated small increase in the audit fee in the coming year.
- The investment management fee paid per annum to CG Asset Management is tiered at 0.6% of net assets up to £120m, 0.45% of net assets above £120m and up to £500m, and 0.3% thereafter. It is possible, if inflows to the Company continue at recent rates, that this third lowest tier will be triggered, perhaps even during the current year. This would, over time, have a significant positive impact on the continuing cost ratio of the Company.

The Board's Strategic Report (continued)

Chairman's Statement

Operations during the Covid-19 Crisis

The development of the Covid-19 pandemic has resulted in a difficult period for organisations and businesses large and small. The operations of Capital Gearing Trust are small in scale, even when compared to many other investment companies, which might enjoy the resilience and support in depth that can be achieved when being part of a "stable". In particular, both our investment managers (CGAM) and our company secretary and administrators (PATAC) each rely on a handful of key individuals. Both organisations were quick to move to offsite working even before imposition of the lockdown and have functioned smoothly throughout the last few months. Any resurgence of the pandemic would create another challenge for these operations, but the Board is encouraged that, when tested this Spring, PATAC, CGAM and all other agents of the Company performed very effectively without any perceptible interruption to "service as normal".

Board Matters

As announced in my interim statement, George Prescott retired from the Board in January 2020 having served more than nine years on the Board. George performed the role of Audit Chair throughout his tenure with diligence and rigour. His fellow directors thank him for his contribution and wise counsel. Robin Archibald succeeded to the Audit Chair in July 2019.

Paul Yates was appointed as a non-executive director with effect from 2 December 2019. As reported then, Paul has had a senior career in the investment management industry, principally with UBS, and more recently he has served on the boards of a number of prominent investment trusts. Paul's experience and skill-set complements those of existing board members and he has already made a valuable contribution to the Board's strategic thinking.

As previously announced, I will step down from the chair at the forthcoming AGM handing over to Jean Matterson. It had been intended that a new independent director would be in place by now to allow some overlap and restore the size of the Board to its customary five directors. The impact of the Covid-19 pandemic has

delayed this recruitment. Exceptionally, therefore, the Board has asked if I would remain in place as an independent non-executive director for some six months, thereby providing a degree of continuity and support during this unparalleled period of financial and societal turmoil, and to allow for the unhurried search for, and recruitment of, a new non-executive Director during the second half of 2020. I have agreed to this proposal and therefore am standing for re-election to allow for this temporary solution.

I would like to take this opportunity to express my gratitude to my fellow directors for their unwavering support and assistance during my five years in the chair. Special thanks are also due to the team at PATAC, the Company Secretary, and, of course, to CGAM, the investment managers to the Company.

Outlook

There can scarcely be a point in time when the crystal ball has seemed so cloudy. Governments and central banks have acted swiftly to support countries and economic sectors operating in either lockdown or severely constrained mode. Currently equity markets are exhibiting fragile optimism that any recession will be mostly very short-lived, perhaps for a quarter or two at worst. However, commodities and energy markets appear to be signalling greater pessimism. The prognosis and timescale for defeating or quelling the virus is as uncertain as ever while the world awaits the "silver bullet" of a vaccine. The extent of damage to the global economic or social fabric will not be known for many months, perhaps years. The investment lessons of recent years are of little value in assessing this deeply uncertain new world.

In conclusion, I can do no better than to reiterate last year's envoi. "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

26 May 2020

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 Full Scope UK AIFM, having changed its authorisation status from Small Authorised UK AIFM during the year to 5 April 2020.

Although the investment policy of the Company permits gearing, including the use of derivatives, and the full scope status of the AIFM now permits gearing, the Board has no current intention to employ gearing.

The Board's Strategic Report (continued)

Strategic Review

Investment strategy and business model

Capital Gearing Trust P.I.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 closed ended investment companies 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, 10 and 20 years 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 2.2% compared with 2.6% at the year end with an average of 2.0% for the year; 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 0.65% for the year to 5 April 2020 (2019: 0.70%).

Principal risks and uncertainties

The world has been subject to the most extraordinary challenges, largely as a result of the Covid-19 virus which has affected most parts of the world bringing medical, social, economic and financial crises. It is impossible to quantify the extent of damage that may be wrought over the longer term and the emerging risks that will be faced for the Company. The Directors continue to work with the agents and advisers to the Company to try and manage the risks, including emerging risks, as best as they can. The central aims remain to preserve value in the Company's portfolio and liquidity in the Company's shares. The Directors are also trying to ensure that the Company maintains its investment strategy, has operational resilience, meets its regulatory requirements as an investment trust (and in particular in the provision of regular information to the market) and tries to navigate the financial and economic circumstances in these very uncertain times.

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 and uncertainties facing the Company, together with the mitigating actions the Board take, 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. This strategy has been reviewed specifically in the light of the current Covid-19 pandemic. 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.

The Board's Strategic Report (continued)

Strategic Review

Principal risks and uncertainties (continued)

Risk	Mitigation
<p>Premium/discount level</p> <p>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.</p> <p>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.</p> <p>Fluctuations in the share price can cause volatility which may not be reflective of the underlying investment portfolio.</p>	<p>The Company operates a discount/premium control policy ("DCP"), under which it will aim to 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 DCP has been reviewed specifically in the light of the Covid-19 pandemic.</p> <p>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.</p> <p>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.</p>
<p>Operational</p> <p>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 and key teams at such service providers. Failure of the internal control systems of these third-parties could result in inaccurate information being reported or risk to the Company's assets.</p>	<p>The Audit Committee formally reviews each service provider at least annually, considering their reports on internal controls and the resources available to them.</p> <p>The operational requirements of the Company, including from its service providers, have been subject to rigorous testing as to their application during the Covid-19 pandemic, where increased use of out of office working and online communication has been required. To date the operational arrangements have proven robust.</p> <p>Further details of the Company's internal control and risk management system is provided on page 30.</p>
<p>Regulatory</p> <p>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.</p>	<p>Compliance with relevant regulations is monitored on an ongoing basis by the company secretary and Investment Manager who report regularly to the Board.</p> <p>The Board monitors changes in the regulatory environment and receives regulatory updates from the Investment Manager, company secretary, lawyers and auditors as relevant. The Board is being kept apprised of changes in the regulatory environment caused by the Covid-19 pandemic and has been able to put those into effect as required.</p>
<p>Financial and economic</p> <p>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.</p> <p>The exogenous risks posed by the Covid-19 pandemic impact on all the financial and economic risks the Company faces.</p>	<p>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 59 to 64. Brexit, and other political situations, are considered a component of market risk.</p> <p>The Company has sufficient cash resources and liquidity in its portfolio to meet its operating requirements, including the operation of DCP. In common with most commercial operations, there are always exogenous risks over which the Company has no control. The Company does what it can to address these risks when they emerge, not least operationally and in trying to meet its investment objective.</p>

The Board's Strategic Report (continued)

Strategic Review

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 in government bonds. The investment 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.

In meeting its responsibilities to its own shareholders the Company aims to preserve value in its portfolio and liquidity in its shares. The Board is mindful of all of its stakeholders, including the employees of the agents who provide services to the Company and is operating to protect those interests in these extraordinary times.

Gender and diversity

The Board, which was recently engaged in succession planning, is focused on having an effective and operational Board which consists of experienced non-executive Directors who can function well together and have a good operational knowledge of the Company and the closed ended investment company sector more generally. Accordingly, the Board currently consists of four independent Directors in Jean Matterson, Graham Meek, Robin Archibald and Paul Yates and one non-independent Director in Alastair Laing.

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 is to have a relatively small and effective independent Board of non-executive Directors with the requisite abilities and experience to oversee the Company, its investments and its corporate structure, including its third party advisers. Any new appointee would make an appropriate contribution to

those skills. 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 25.

How the Board meets its obligations under section 172 of the Companies Act

The Board is required to describe to the Company's shareholders how the Directors have discharged their duties and responsibilities over the course of the financial year under section 172 (1) of the Companies Act 2006 (the "Section 172 Statement"). This requires an explanation of how the Directors have promoted the success of the Company for the benefit of its members as a whole, taking into account the likely long term consequences of decisions, the need to foster relationships with all stakeholders in the Company and the impact of the Company's operations on the environment. Factored into this, has been how the Board has reacted to the Covid-19 pandemic since it emerged during the first quarter of 2020 and where protection of stakeholders' interests has been a prominent focus for the Board.

The purpose of the Company and role of the Board

The purpose of the Company is to act as an investment vehicle which aims to provide, over time, financial returns (both capital and income) as well as preservation of real capital value to its shareholders. Investment trusts, such as the Company, are long-term investment vehicles and are typically externally managed, have no employees, and are overseen by an experienced independent non-executive Directors.

The Board currently comprises four independent and one non-independent non-executive Directors. It has a broad range of skills and experience across all major functions that affect the Company. The Board has responsibility for decisions relating to the Company's investment objective and policy, gearing, corporate governance and strategy, and for monitoring the performance of the Company's various service providers.

The Company's main stakeholders are Shareholders, the Investment Manager, and its service providers. The Company also engages with its investee companies where appropriate, particularly on performance and corporate governance issues.

The Board's Strategic Report (continued)

Strategic Review

How the Board engages with stakeholders

The Board considers its stakeholders at Board meetings and receives feedback on the Investment Manager's interactions with them.

Stakeholder	How we engage
Shareholders	<p>Shareholders are key stakeholders and the Board places great importance on communication with them. The Board welcomes all shareholder's views and aims to act fairly between shareholders. The Company's shareholder register is retail investor dominated and has wealth managers and private client brokers on it representing private investors. The Investment Manager and Company's broker regularly meet with current and prospective shareholders to discuss performance. Shareholder feedback is discussed by the Directors at Board meetings. The Board is kept apprised of changes to the share register and the Investment Manager is in contact with investor platforms to identify how best to communicate with the direct retail investor community. The Investment Manager maintains a website which includes current information for investors. The operation of DCP is crucial to providing secondary market liquidity for investors.</p> <p>Regular updates are provided to shareholders through the Annual Report, Half Yearly Report, monthly factsheets, quarterly reports, company announcements, including daily net asset value announcements, and the Company's website. The Investment Manager prepares factsheets on a quarterly basis.</p> <p>The Company's Annual General Meeting typically provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Investment Manager. The Board encourages as many shareholders as possible to attend the Company's Annual General and to provide feedback on the Company. The Company Secretary also deals with regular shareholder queries on behalf of the Board.</p>
Investment Manager	<p>The Investment Manager's Report on pages 13 and 14 details the key investment decisions taken during the year. The Investment Manager has continued to manage the Company's assets in accordance with the Company's mandate, with the oversight of the Board.</p> <p>The Board reviews regularly the Company's performance against its investment objective and the application of its investment policy and restrictions. The Board undertakes an annual strategy review meeting to ensure that the Company is positioned well for the future delivery of its objective for its stakeholders.</p> <p>The Board receives presentations from the Investment Manager at every Board meeting to help it to exercise effective oversight of the Investment Manager and the Company's strategy in operation.</p> <p>The Board, through the Management Engagement Committee, formally reviews the performance of the Investment Manager at least annually.</p>
Service Providers	<p>The Board seeks to maintain constructive relationships with the Company's suppliers either directly or through the Investment Manager with regular communications and meetings. The most important relationship is with PATAC who provide company secretarial, administration and accounting services, as well operating the Company's DCP. The Board maintains very regular direct contact with PATAC.</p> <p>The Management Engagement Committee conducts an annual review of the performance, terms and conditions of the Company's main service providers to ensure they are performing in line with Board expectations and providing value for money.</p>

The Board's Strategic Report (continued)

Strategic Review

Specific examples of stakeholder consideration during the year

The Board has always been mindful of its responsibilities to the stakeholders of the Company, and this has been part of both scheduled board meetings and discussions between these meetings as required.

Since the Covid-19 pandemic emerged in early 2020, there has been increased interaction with the Investment Manager, the Company Secretary and other agents to the Company to ensure that the Company has sufficient resilience in its portfolio and in its operational structure to meet the challenged circumstances, which has proven to be the case.

During the year Mr Meek and Miss Matterson met a number of shareholders to gather views on the performance and general operation of the Company, including the DCP. This information was reported to the rest of the Board and is an important part of the annual strategic review on how the Company is operating.

The operation of DCP is considered to be a fundamental part of the Company's operating structure, offering, as it does, liquidity in the secondary market close to the prevailing net asset value. Ensuring that the DCP continues to operate effectively requires constant monitoring, maintaining the requisite authorities in place, and sustaining sufficient liquidity in the portfolio. The Board, together with PATAC, is responsible for maintaining the operational resilience for both buyback and issuance. The Company held two General Meetings on 27 August 2019 and on 1 May 2020 to request renewed shareholder authorities to issue additional shares on a non pre-emptive basis and to take additional buy back authority as well. Shareholders were very supportive of the resolutions proposed both in the percentage voting in favour of the resolutions and in shareholder turnout.

Management of the portfolio and agents to the Company

The Investment Manager's Report on pages 13 and 14 details the key investment decisions taken during the year, including meeting the challenges of the last quarter. The overall diversified shape and structure of the investment portfolio is an important factor in delivering the Company's stated investment objective.

As explained in more detail on page 29, during the year, the Management Engagement Committee decided that the continuing appointment of the Investment Manager was in the best interests of shareholders. A similar conclusion was reached on the continued appointment of PATAC. There were no other changes in agents to the Company during the year.

Share issuance

During the year the Company issued 96,000 Ordinary shares from treasury and 3,724,974 new Ordinary shares for an aggregate consideration of £160.3 million. The shares were issued to satisfy investor demand and were issued at a premium to the NAV thereby providing a small accretion to the NAV per share. All shares were issued in accordance with the DCP, which is detailed further on page 9. Since the year end, the Company has issued, either from treasury or as new shares a further 160,300 shares.

Directorate

The Board has made progress with its succession plans during the year, Paul Yates was appointed as an independent non-executive Director on 2 December 2019 and George Prescott retired on 28 January 2019. Further details are provided in the Chairman's Statement. The Board believes that shareholders' interests are best served by ensuring a smooth and orderly refreshment of the Board with experienced candidates, whilst maintaining a small but focussed independent Board.

The Board's Strategic Report (continued)

Investment Manager's Report

Review

It is a considerable relief to report the modest progress achieved during the year. The economic and social havoc unleashed by the Covid-19 crisis caused a bear market of historic proportions in the final quarter of the year. Even government bond markets were in turmoil experiencing, perhaps, their most volatile month ever in March. A dramatic end to what was, until mid February, an unexceptional year.

The Company's activity until February was characterised by reducing exposure to riskier assets. The S&P 500 and Nasdaq displayed characteristics of an exuberant blow-off and pulled the prices of risk assets in many other jurisdictions with them. During December, January and February, the Company sold close to a third of its large holdings in Investor AB, Castellum AB and Grainger plc. The Company also sold substantially all of its holdings in renewable infrastructure such as Greencoat UK Wind plc. With the benefit of hindsight, we should have sold more. A similar trend occurred in our corporate credit and preference share holdings, a number of which matured and were not replaced. The combination of an inverted yield curve and exceptionally tight credit spreads meant the Company resorted to holding unusually high levels of cash. By mid-February cash and near cash (treasury bills and very short dated index linked gilts) represented more than 25% of the portfolio.

As the bear market took hold in late February and March, the Company added continuously to its equity holdings, including buying back many of the disposals made earlier in the year. For a brief period, conventional investment trust discounts rose to interesting levels though the most attractive opportunities were short-lived. By the financial year end, risk assets represented 36% of the portfolio, the highest level of the year and close to decade high weightings. If equity prices had remained at mid-March levels for longer, our equity holdings would have grown even further. However prices recovered rapidly to less interesting levels.

During March, sterling experienced a short lived but pronounced period of weakness against the dollar. The Company sold a majority of its short-dated US Treasury Inflation Protected Securities ("TIPS") and repatriated the proceeds to sterling to crystallise the foreign exchange gain. As a result, the exposure to TIPS reduced from c.25% to c.20% but the average duration of the remaining holdings increased. These judgements proved generally correct as sterling rapidly recovered by the year end and prices of long TIPS rose strongly from their nadir. The strong performance of TIPS was central to avoiding greater losses in March.

Notwithstanding a busy year, the overall asset allocation does not look dramatically different at the end than it did at the beginning. Equity, credit and cash positions have marginally increased and inflation linked bonds have been correspondingly reduced but the overall shape and defensive positioning of the Company remains a consistent theme. Portfolio liquidity is excellent, boosted by elevated cash holdings, a significant weighting to government bonds and our increasing use of ETFs to access those equity markets in which investment trusts are not offering value opportunities.

Outlook

Where will we be once the virus has been contained and ultimately defeated? That partly depends on the duration of restrictions and the shape of the recovery. It is clear that some pre-existing trends have been accelerated. British Land believes that online retailers will double their market share to 40%; some estimate that 30% of closed shops and restaurants will never re-open. On the other hand, the evidence from China is that manufacturing can snap back relatively quickly. Travel may be constrained for much longer and is at risk from border controls; this will be particularly tough on tourist-dependent countries in Southern Europe. Deeper structural changes are more important. Globalisation, already under pressure from trade wars, will roll back as its weaknesses emerge. The model of just-in-time, single sourced but complex international supply chains may be replaced by more emphasis on higher inventories with a greater number of, and more local, suppliers.

The extent of policy support has been, and is likely to continue to be, astonishing. The U.S. Committee for a Responsible Federal Budget estimates that the U.S. budget deficit will quadruple to 19% of GDP. In 2021 it is likely that Trump's ambition (or the Democratic presidential candidate, if he is elected) for a substantial infrastructure programme will still be in place, suggesting a second year of double digit deficits. Central bankers have already spent over \$5 trillion on public and private assets and are a long way from finished. Indeed, with the U.S. Treasury backstopping credit risk in corporate and junk bonds, the distinction between monetary and fiscal policy is completely blurred. Monetary finance of government spending will be a sustained feature and will not be deemed an issue so long as inflation does not rise to problematic levels. However, this very mindset significantly increases the risk of inflation actually becoming problematic.

The Board's Strategic Report (continued)

Investment Manager's Report

The overwhelming policy support unleashed during March rapidly re-inflated the deflating asset price bubble. At the trough, valuations in mid-March equity values were at interesting levels. At the time of writing, however, the S&P 500 is at 2,940, a level it was at in May 2019. We thought valuations expensive then, corresponding to a cyclically adjusted price earnings ratio of 29x. Since then fundamental values have fallen but prices have not.

Investors have learned the lesson over recent decades "not to fight the Fed" and they may be right to do the same again and to buy equities. Their calculation may be that, poor though the prospective returns to equities may be, there is no alternative. Our investment approach has been, and remains, not to be reliant on the kindness of strangers – even one as munificent as the Federal Reserve. For the time being, we continue to proceed with caution, by focusing on wealth preservation and seeking no more than to achieve a modest positive return after inflation, taxes and fees. We will leave it to others to exploit the opportunities of a reflatting asset price bubble, with all the risks that entails.

Peter Spiller Alastair Laing Christopher Clothier

26 May 2020

The Board's Strategic Report (continued)

Portfolio Analysis

Distribution of investment assets of £478,492,000 at 5 April 2020

	Currency Exposure						2020 Total %
	Sterling %	US Dollar %	Euro %	Swedish Krona %	Japanese Yen %	Other %	
Index-Linked Government Bonds	4.0	20.1	–	1.0	–	–	25.1
Conventional Government Bonds	18.8	–	–	–	–	–	18.8
Preference Shares/Corporate Debt	10.8	1.3	1.1	–	–	0.8	14.0
Funds/Equities	17.4	2.7	3.9	2.6	3.4	4.1	34.1
Cash	6.3	0.6	–	–	–	–	6.9
Gold	–	–	–	–	–	1.1	1.1
Total	57.3	24.7	5.0	3.6	3.4	6.0	100.0

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

Portfolio Investments

	2020 £'000	2019 £'000
Index-Linked Government Bonds		
Index-Linked Bonds - Sweden	4,475	475
Index-Linked Bonds - United Kingdom	19,262	27,387
Index-Linked Bonds - United States	95,771	78,711
	119,508	106,573
Conventional Government Bonds		
United Kingdom	90,037	33,438
	90,037	33,438

The Board's Strategic Report (continued)

Portfolio Investments (continued)

	2020 £'000	2019 £'000
Zero Dividend Preference shares		
NB Private Equity 2022	3,289	3,409
Utilico Investments 2020	2,089	2,147
JZ Capital Partners 2022	1,875	2,431
Acorn Income Fund 2022	1,452	1,553
Premier Energy & Water Trust 2020	1,237	894
RM Secured Direct Lending 2021	984	561
Polar Capital 2024	927	901
GLI Finance 2019	819	1,538
NB Private Equity Partners 2024	594	636
Investments with a market value below £500,000	788	2,226
	14,054	16,296
Corporate Debt		
Pershing Square 5.5% 2022	4,519	4,810
JZ Capital Partners 6.0% Convertible Unsecured Loan Stock 2021	2,384	1,898
Severn Trent 1.3% 2022	2,302	988
National Grid 1.25% 2021	2,203	1,498
Kreditanstalt Fuer Wiederaufbau 1.375% 2021	2,016	–
Burford Capital 6.5% 2022	1,946	1,809
Bruntwood Investments 6.0% 2025	1,916	–
Places for People Capital Markets 1% 2022	1,761	1,234
Juneau Investments 5.9% 2021	1,671	–
Tesco Personal Finance 5.0% 2020	1,543	300
Burford Capital 6.125% 2024	1,527	1,401
A2D Fund 4.75% 2022	1,470	889
Southern Water Services 5.0% 2021	1,445	961
Aberdeen Asian Smaller Companies 2.25% 2025	1,393	1,491
Unite (USA) 3.374% 2028	1,382	–
First Hydro 9% 2021	1,365	–
Heathrow Funding 9.2% 2021	1,328	–
Porterbrook Rail Finance 6.5% 2020	1,207	–
Sydney Airport Finance Company 3.76% 2020	1,181	798
Birmingham Airport (Finance) 6.25% 2021	1,038	702
Aqiva Funding 4.04% 2035	1,037	–
SSE Plc 4.25% 2021	1,033	–
General Electrics 6.25% 2020	1,022	–
Thames Water Utilities Finance 5.05% 2020	1,008	–
Assura 4.25% 2021	988	–
VW Financial Services 1.5% 2021	987	–
National Grid 4.1875% 2022	891	–
Home Group Zero Coupon Loan Stock 2027	889	825
Innogy Finance 6.5% 2021	784	–
Southern Gas Network 4.875% 2020	766	–
The Great Rolling Stock 6.25% 2020	760	–
General Electrics 6.44% 2022	737	–
MPT Operating Partnership 2.55% 2023	732	–
Northern Electric 8.061%	597	275
REA Finance B.V. 8.75% 2020	543	600
Burford Capital 5.0% 2026	525	–
SGSP (Australia) Assets 5.125% 2021	514	–

The Board's Strategic Report (continued)

Portfolio Investments (continued)

	2020 £'000	2019 £'000
Corporate Debt (continued)		
Bupa Finance 3.375% 2021	509	519
E.ON 6.0% 2019	–	1,026
Export Development Canada 1.375% 2019	–	602
GE Capital Funding Unlimited Company 4.375% 2019	–	750
Helical 4.0% 2019	–	1,603
Koninklijke KPN 6.0% 2019	–	805
Landmark Mortgages 6.375% 2019	–	1,751
Northern Gas Networks 5.875% 2019	–	1,011
Northern Powergrid (Yorkshire) 9.25% 2019	–	635
Primary Healthcare Properties 5.375% 2019	–	1,658
Retenbank 1.5% 2019	–	502
Tate & Lyle 6.75% 2019	–	800
Tesco Personal Finance 1.0% 2019	–	1,933
TP ICAP 5.25% 2019	–	692
Unite Group 6.125% 2024	–	1,675
Yorkshire Water Finance 6.0% 2019	–	712
Investments with a market value below £500,000	3,208	3,876
	53,127	41,029
	67,181	57,325
Funds/Equities		
Vanguard FTSE Japan UCITS ETF	16,160	6,312
iShares Core FTSE 100 ETF	14,673	7,218
Vonovia	8,116	8,699
North Atlantic Smaller Companies	7,530	6,053
Vanguard FTSE 100 UCITS ETF	7,013	–
Pershing Square	5,961	1,052
Grainger	5,829	4,098
Investor AB	5,720	5,772
Tritax Big Box REIT	5,471	3,227
Vanguard S&P 500 UCITS ETF	5,396	4,379
Civitas Social Housing	4,835	915
Vanguard FTSE 250 UCITS ETF	4,726	511
Castellum	4,294	4,086
Residential Secure Income	4,165	3,466
Witan Pacific Investment Trust	3,650	1,504
Phoenix Spree Deutschland	2,690	718
Empiric Student Property	2,620	2,808
Secure Income REIT	2,461	796
PRS REIT	2,453	2,638
SQN Asset Finance C Shares	2,431	999
Hadrians Wall Secured Investments	2,431	–
Vanguard FTSE Developed Europe ETF	2,078	799
Vanguard FTSE Emerging Markets UCITS ETF	1,954	1,912
Triple Point Social Housing REIT	1,868	932
Tritax Eurobox	1,763	–
Oryx International Growth Fund	1,756	1,424
Ground Rents Income Fund	1,703	2,392
SQN Asset Finance Income Fund	1,666	–
Aquila Renewables	1,618	–

The Board's Strategic Report (continued)

Portfolio Investments (continued)

	2020 £'000	2019 £'000
Funds/Equities (continued)		
Polar Capital Global Financials	1,589	–
Raven Property Group	1,440	–
Kungsleden	1,425	1,803
SDCL Energy Efficiency Income Trust	1,350	727
International Public Partnerships	1,318	701
CLS Holdings	1,220	694
Deutsche Wohnen	1,212	6,329
Target Healthcare REIT	1,141	1,296
Leg Immobilien	1,048	2,000
Weiss Korea Oportunity Fund	987	–
JP Morgan Multi Asset	919	121
RM Secured Direct Lending	890	1,290
GCP Student Living	883	–
Honeycomb Investment Trust	851	–
BH Global GBP	846	–
HICL Infrastructure	839	–
SME Loan Fund	829	914
Grand City Properties	773	1,498
Alder Real Estate	767	–
Vanguard FTSE Developed Asia Pacific ex-Japan UCITS ETF	750	1,215
Gulf Investment Fund	740	845
LXI REIT	722	346
Atrium Ljungberg AB	720	570
Crystal Amber Fund	596	–
Pollen Street	582	1,978
Unite Group	540	–
JPEL Private Equity USD	538	1,077
ADO Properties	–	1,468
Baillie Gifford Japanese Smaller Companies Fund	–	711
Ecofin Global Utilities and Infrastructure Fund	–	981
Greencoat Renewables	–	2,534
John Laing Environmental Assets	–	2,254
Investments with a market value below £500,000	4,130	9,263
	162,676	113,325
Gold		
Wisdomtree Physical Swiss Gold	5,449	–
iShares Physical Gold ETC	–	3,210
	5,449	3,210
Total investments	444,851	313,871
Cash	33,641	9,435
Total investment funds	478,492	323,306

The full portfolio listing of the Company as at 5 April 2020 is published on its website at www.capitalgearingtrust.com.

The Board's Strategic Report, contained on pages 4 to 18, has been approved by the Board and signed on its behalf by:

Graham Meek

Chairman
26 May 2020

Governance Report

Board, Management and Administration

The Board are all experienced Directors and are working closely with PATAC and CGAM in the day to day operations of the Company. Alastair Laing, as CEO of CGAM, is non-independent and does not receive any remuneration for his services to the Board. Apart from the scheduled board meetings, the Board is in regular contact on matters arising and all of the Board have demonstrated sufficient commitment and experience to acquit their responsibilities in the current unusual circumstances.

Non-executive 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. Mr Meek will retire as Chairman at the upcoming Annual General Meeting on 3 July 2020 but will continue as a non-executive Director for a period of up to six months.

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 and will assume the position of Chair following the Annual General Meeting on 3 July 2020. Miss Matterson retired recently as 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 a non-executive director of BlackRock Throgmorton Trust plc and a director of Herald Investment Management Limited and HIML Holdings Limited.

Robin Archibald BCom CA Chairman of the Audit Committee/Senior Independent Director

Appointed a Director in May 2015, as Audit Chair in July 2019. Mr Archibald was formerly head of corporate finance and broking at Winterflood Investment Trusts until April 2014. 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 chair of Albion Technology and General VCT plc and Shires Income plc, senior independent director and audit committee chair of Ediston Property Investment Company plc and non-executive director of Henderson European Focus Trust plc.

Paul Yates BCom

Appointed a Director in December 2019. Paul Yates is chairman of the advisory board of 33 St James's Limited and is a non-executive director of Fidelity European Values PLC and Witan Investment Trust PLC. His extensive career in investment management began at Samuel Montagu & Co in 1980. He joined Phillips and Drew in 1985, being the year that it was acquired by UBS. During his time at UBS he held a number of positions covering management, portfolio management, pensions, strategy and client service. He was CEO of UBS Global Asset Management (UK) Limited between 2001 and 2005 and, after undertaking a number of global roles at UBS, he retired in 2007.

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 £2.5 billion.

Depository, 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

Carson McDowell LLP, Murray House,
Murray Street, Belfast BT1 6DN

Registered number

NI005574

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

From 3 July 2020

BDO LLP

Lindsay House, 10 Callender Street, Belfast BT1 5BN

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.I.c. for the year ended 5 April 2020.

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 £5,849,000 (2019: £3,392,000).

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 42p per Ordinary share for the year ended 5 April 2020, (2019: 35p) for approval by shareholders at the forthcoming Annual General Meeting. The dividend will be payable on 17 July 2020 to shareholders on the register of members on 5 June 2020, the associated ex-dividend date being 4 June 2020. 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 2020 financial statements comprises the 2019 final dividend.

Net asset value per Ordinary share

The net assets per Ordinary share of the Company as at 5 April 2020 was 4,084.2p, compared with 4,082.0p as at 5 April 2019.

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 2020, 11,509,263 Ordinary shares were in issue (2019: 7,886,589) and 102,300 shares were held in treasury (2019: 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 11,669,563 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. 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 was there as a result of CGAM becoming a full scope AIFM in February 2020.

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

Management and contracts (continued)

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. PATAC is entitled to receive a fixed fee of £150,000 per annum 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.

Depository and Custodian

The Northern Trust Company was appointed on 22 September 2011 to provide custodial services for the portfolio and subsequently appointed to act as depository on 20 December 2019 to fulfil the

requirements of the AIFMD. Pursuant to the terms of this agreement, The Northern Trust Company receives a depository fee which is based on the net asset value of the Company, subject to a minimum of £50,000 per annum, and safe-keeping and transaction fees which vary by market. Termination of the depository and custody agreement requires six month's written notice.

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 55.

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 acknowledge that there are uncertainties which might affect the Company's ability to continue in the way it currently operates as a direct result of the Covid-19 virus, as is the case with many investment funds and listed entities. However, the Directors believe that the Company is well placed to manage its business risks successfully and consider that the Company currently has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence, including meeting the provisions of the DCP. 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 further dramatic deterioration in circumstances in the financial and other crises besetting global markets 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 (2019: 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 2020.

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. During the year the Directors entered into new letters of appointment on substantially the same terms as the former letters of appointment but updated to reflect recent changes in corporate governance and board responsibilities.

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 2020 and at the date of approval of this report are set out on page 19, together with their biographies. Directors' interests in the shares of the Company are set out in the Directors' Remuneration Report on page 38.

Governance Report (continued)

Directors' Report

Retirement and re-election of Directors

In accordance with the new AIC Code, all Directors offer themselves for re-election at the forthcoming AGM 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 performance of each Director continues 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 had previously reported that Mr Meek would not be standing for re-election at the 2020 AGM. However, in light of the current uncertain circumstances, the Board believe it is imperative that there is continuity on the Board for the immediate future while it navigates unprecedented global crises. Therefore, Mr Meek will relinquish the role of Chairman at the forthcoming AGM but will stand for re-election as a Director. The Board believes that the re-election of all Directors 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 2019 to 5 April 2020 and the Directors' attendance is detailed below.

	Board	Audit Committee	Management Engagement Committee	Nomination Committee
Mr E G Meek	4/4	3/3	1/1	1/1
Mr G A Prescott (retired 28 January 2020)	4/4	3/3	1/1	1/1
Mr A L Laing	4/4	3/3	N/A	N/A
Miss J G K Matterson	4/4	3/3	1/1	1/1
Mr R Archibald	4/4	3/3	1/1	1/1
Mr P Yates (appointed 2 December 2019)	1/1	1/1	N/A	N/A

All Directors attended the 2019 AGM except Mr Yates who had not yet been appointed.

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. Since the commencement of the year the Board has met on four additional occasions informally to review and discuss the Company's resilience in the light of the Covid-19 pandemic.

Substantial shareholders

During the year to 5 April 2020, the Company received notification of interest in the Company's shares from LGT Vestra, Rathbones, Smith & Williamson and Woodside. These interests together with any non-discretionary holdings are included in the following table.

Since 5 April 2020 to the date of this report, the Company has not been informed of any change in its notifiable Ordinary share holdings.

At 5 April 2020, 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
LGT Vestra	800,910	7.0%
J M Finn & Co	578,397	5.0%
Rathbones	528,141	4.6%
Smith & Williamson	521,793	4.5%
R P A Spiller	401,931	3.5%
Woodside	362,786	3.2%

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 page 26; 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.

Governance Report (continued)

Directors' Report

Corporate governance

Full details are given in the Corporate Governance Statement on pages 28 to 31. The Corporate Governance Statement forms part of this 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 3 July 2020 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 65 to 68.

As a result of the Covid-19 pandemic and the imposition of measures to control the spread of the virus by the UK Government, attendance at the AGM is unlikely to be possible. Shareholders are strongly advised to appoint the Chairman of the meeting to vote on their behalf by completing and returning their form of proxy. The safety of shareholders is of great importance and the Company may, in accordance with the Articles of Association, impose entry restrictions to the AGM.

Shareholders are encouraged to submit questions to the Board using the email address company.secretary@capitalgearingtrust.com by Thursday, 2 July 2020. The proxy voting results, answers to any questions raised ahead of the AGM

and the presentation from the Investment Manager will be made available on the Company's website following the AGM.

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

Resolutions 4 to 8 – Election and re-election of Directors

The Board has noted the recommendation in the AIC Code of Corporate Governance that all non-executive Directors be subject to annual re-election. Accordingly, all will offer themselves for re-election at this year's AGM. As noted earlier, Mr Meek, who was previously due to retire from the Board, has agreed to stand for re-election to provide continuity to the Board in these uncertain times. Mr Meek has served on the Board for over nine years. However, 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 is important. 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'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. His knowledge and experience, including in relation to the development of the Company, are of great value to the Board, particularly during the current circumstances. Miss Matterson will take over the role of Chairman following the forthcoming AGM, and Mr Meek will retire once the outlook for the Company and the financial and economic environment are more stable.

The Board recommends that all Directors be elected or re-elected.

Resolution 9 – Appointment of auditor

In accordance with the audit rotation rules the audit of the Company was put out to tender during the year to appoint a new auditor for the year ending 5 April 2021. Further details of the tender process are included in the Audit Committee Report on pages 32 to 35. The Board recommend the appointment of BDO as auditor of the Company. BDO are independent of the Company and have significant experience auditing investment trust companies.

Governance Report (continued)

Directors' Report

Annual General Meeting (the "AGM") (continued)

Resolutions 11, 12 and 13 – Directors' authority to allot shares and disapply pre-emption rights

At the AGM held on 9 July 2019 (the "2019 AGM"), the Directors were given the authority until the date of the following AGM to allot up to 2,749,769 Ordinary shares and to disapply pre-emption rights in respect of up to 824,930 of these shares. At the general meeting held on 27 August 2019 the Directors were given further authority to allot up to 953,772 Ordinary shares and to disapply pre-emption rights in respect of all of these shares. At a further general meeting held on 1 May 2020 the Directors were given further authority to allot up to 2,322,312 Ordinary shares 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 58.

At this year's AGM, the Directors are seeking authority to allot up to 3,889,854 Ordinary shares, in aggregate a nominal value of £972,463.50, representing one third of the issued share capital as at 22 May 2020. 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 1,166,956 Ordinary shares at 22 May 2020 with an aggregate nominal value of £291,739), including any shares which have been bought back as treasury shares. The Directors are also seeking to disapply pre-emption rights in respect of the allotment of up to a further 10% of the issued share capital of the Company (equivalent to 1,166,956 Ordinary shares at 22 May 2020 with an aggregate nominal value of £291,739), including any shares which have been bought back as treasury shares.

The Board recognises institutional investor guidelines which state that non pre-emptive issues should be limited to a maximum of 10% for investment companies. However, the Board believe the that the continued operation of the DCP in a cost effective manner is in the best interest of shareholders and is therefore proposing an aggregate authority in excess of this. The Board hopes shareholders will vote in favour of both resolutions but believe that seeking the authority over two resolutions in this manner provides shareholders who may object to such level of authority to do so whilst still allowing their approval of 10% issuance authority.

Resolution 14 – Authority to make market purchases of the Company's shares

At the 2019 AGM, the Directors were given the authority until the date of the following AGM to buy back up to 1,236,571 Ordinary shares (14.99% of the issued share capital at the date of the 2019 AGM). At the general meeting held on 1 May 2020 the Directors were given

further authority to buy back up to 1,727,487 Ordinary shares. There have been no shares bought back under these authorities.

At this year's AGM, the Directors are seeking authority to buy back up to 1,749,267 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 under Resolutions 11 to 14 and in the formal notice of the AGM, will expire at the AGM to be held in 2021 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 buy back shares is an important part of the operation of the DCP, if and when required.

Resolution 15 – Cancellation of the Company's share premium account

The Company has built up a substantial share premium account owing to the high level of issuance since the introduction of the discount and premium control policy. This account is non-distributable. The Company may cancel the share premium account and convert the amount into a distributable reserve following approval by shareholders and confirmation of the Court.

The Board believes that converting the share premium account to a distributable reserve would provide a significant pool of reserves which can be used in future, if required, to fund share buybacks or other returns of capital in accordance with the applicable law. The cancellation will therefore facilitate the effective operation of the DCP and provide the Company with more flexibility in how the reserves are established for future events. The Board seeks approval from shareholders at the forthcoming AGM to cancel the share premium account, following which it will make an application to the Court to obtain its approval to the cancellation and the creation of an equivalent distributable reserve.

Resolution 16 – Notice of general meetings

At the 2019 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.

Governance Report (continued)

Directors' Report

Annual General Meeting (the "AGM") (continued)

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 PwC is independent of the Company. PwC will retire as the Company's auditors at the forthcoming AGM in accordance with the audit rotation rules. The audit Committee is also satisfied that the proposed audit firm, BDO, is also independent of the Company.

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 19. 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
26 May 2020

Governance Report (continued)

Corporate Governance Statement

The Board has considered the principles and provisions of the AIC Code of Corporate Governance (the "AIC Code"). The AIC Code is endorsed by the Financial Reporting Council and adapts the principles and provisions set out in the UK Corporate Governance Code to make them relevant to investment companies.

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 provisions of the AIC Code as the Board believes this should provide better information to shareholders. The February 2019 edition of the AIC Code is 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, the need for an internal audit function and workforce engagement. 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.

Application of the AIC Code

Operation of the Board

The Board is ultimately responsible for framing and executing the Company's strategy and for closely monitoring risks. 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 premium/discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

It has delegated investment management, within clearly defined parameters and dealing limits, to CG Asset Management ("CGAM", or the "Investment Manager") and the company secretarial and administration functions have been delegated to PATAC Limited ("PATAC", or the "Company Secretary"). The Board reviews the performance of the Company at Board meetings and sets the objectives for the Investment Manager.

The Company Secretary is responsible to the Board, inter alia, for ensuring that Board procedures are followed and for compliance with applicable rules and regulations including the AIC Code.

The Board believes that the content and presentation of Board papers circulated before each meeting contain sufficient information concerning the financial condition of the Company. Key representatives of CGAM attend each Board meeting enabling Directors to probe on matters of concern or seek clarification on certain issues.

Biographies of those Directors in office at the date of signing of the financial statements are set out on page 19.

Audit Committee

The Audit Committee is a formally constituted Committee of the Board with defined terms of reference. Its role and responsibilities are set out in the Report of the Audit Committee on page 32. The Board is satisfied that members of the Audit Committee have relevant and recent financial experience to fulfil their role effectively and also have sufficient experience relevant to the closed ended investment company sector and UK listed companies. The auditor, who the Board has identified as being independent, is invited to attend the Audit Committee meeting at which the annual accounts are considered and any other meetings that the Committee deems necessary. The Committee is chaired by Robin Archibald.

Nomination Committee

A Nomination Committee comprising all the Directors has been established to oversee a formal review procedure governing the appointment of new Directors and to evaluate the overall composition of the Board from time to time, taking into account the existing balance of skills and knowledge. This Committee is chaired by Graham Meek.

During the year the Board appointed Paul Yates as a non-executive Director. The process leading up to this appointment involved the creation of a long list of various candidates either known personally to or recommended by individual board members and agents and advisers, this long list was then scrutinised in detail and a short list was agreed to interview a number of candidates. Following the extensive review and interview process it was decided to proceed with the appointment of Mr Yates as the candidate best qualified to complement the existing balance of skills and experience of the Board. Mr Yates will stand for election at the AGM.

Governance Report (continued)

Corporate Governance Statement

Application of the AIC Code (continued)

The Committee is also responsible for assessing on an annual basis the individual performance of Directors and for making recommendations as to whether they should remain in office and be put forward for election or re-election at the AGM.

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.

Independence of the Directors

With the exception of Mr Laing each of the Directors is independent of any association with the Investment Manager and has no other relationships or circumstances which might be perceived to interfere with the exercise of independent judgement on the affairs of the Company. One of the five Directors, Mr Meek, has served on the Board for more than nine years from the date of his first election, but given the nature of the Company as an investment trust and the strongly independent mindset of the individual, the Board is firmly of the view that all of the Directors, save for Mr Laing, can be considered to be independent. In arriving at this conclusion the Board makes a clear distinction between the activities of an investment trust and a conventional trading company. An investment trust has no employees or executive Directors, the most significant relationship being with the Investment Manager. In overseeing this relationship it is the view of the Board that long service can aid the understanding and judgement of the Directors. The Directors have a range of business and financial skills and experience relevant to the direction of the Company. Robin Archibald is currently the Senior Independent Director, having been appointed to this role in January 2020 on the retirement of Mr Prescott. Mr Archibald has significant direct corporate and market experience of investment companies and of acting as a non-executive director and audit chair for other investment companies.

Director tenure

In accordance with the AIC Code all Directors 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.

The Board's view is that length of tenure is not necessarily an issue, rather the Director's contribution, their ability and assertion of their authority are important factors in determining the value the individual brings to the Board. 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. The Chairman and Directors would generally be expected to serve a term of nine years. However, certain circumstances may require continuity and this term would be adjusted accordingly, as is the case this year whilst the impact of the Covid-19 pandemic is developing.

Director remuneration

The Company's policy on Director remuneration is set out within the Directors' Remuneration Report on pages 36 to 39.

Diversity

The Company's statement in relation to gender and diversity is within the Strategic Review on page 10.

Induction and training

New Directors appointed to the Board are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular briefings are provided during the year on industry and regulatory matters and the Directors receive other relevant training as required.

Ongoing evaluation

On an annual basis the Board formally reviews its performance, together with that of the Audit and Nomination Committees and the effectiveness and contribution of the individual Directors, including the Chairman, within the context of service on those bodies. The review encompasses an assessment of how cohesively these bodies work as a whole as well as the performance of the individuals within Board and on the Committees.

Shareholder communications

Shareholder relations are given high priority by both the Board and the Investment Manager. The principal medium by which the Company communicates with shareholders is through half yearly and annual reports. The information contained therein is supplemented by daily NAV announcements and by a monthly fact sheet and quarterly report available on the Company's website.

Governance Report (continued)

Corporate Governance Statement

Application of the AIC Code (continued)

The Board largely delegates responsibility for communication with shareholders to the management company and, through feedback, from the Investment Manager, expects to be able to develop an understanding of shareholders' views. There is also a communication line with shareholders through PATAC in its role as company secretary and operator of the DCP. The Board receives a quarterly report from the Investment Manager summarising any shareholder correspondence. Members of the Board are always happy to meet with shareholders for the purpose of discussing matters in relation to the operation and prospects of the Company. During the year the Chairman and Chair elect engaged in a proactive series of discussions with major shareholders to consider various aspects of the Company's management and procedures.

In normal circumstances, the Board encourages investors to attend the AGM and welcomes questions and discussion on issues of concern or areas of uncertainty.

Following the formal AGM proceedings the Investment Manager typically makes a presentation to the meeting outlining the key investment issues that face the Company. This year the presentation will be made available on the Company's website because of the likely restrictions on physical attendance at the AGM.

Accountability, internal controls and audit

The Board pays careful attention to ensuring that all documents released by the Company, including the Annual Report, present a fair and accurate assessment of the Company's position and prospects.

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 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.

Since the Covid-19 pandemic emerged earlier in 2020, the Board has worked with all of its agents, directly or indirectly, to ensure that internal controls and the resilience of operating systems continue to be in place, which has proven to be the case. This has resulted in more Board Committee meetings and reporting, which included a detailed assessment of operational risks that the Company might face in these more challenging market conditions. The systems and controls have proven to be robust to date, despite the challenges imposed by offsite working and lockdown provisions and increased reliance on internet and phone communication.

Governance Report (continued)

Corporate Governance Statement

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

Subject to the exceptions explained in the forgoing paragraphs, during the financial year the Company has complied with the provisions of the 2019 AIC Code and the relevant provisions of the UK Corporate Governance Code.

Directors' Report

This Corporate Governance Statement forms part of the Directors' Report on pages 28 to 31.

By order of the Board

PATAC Limited

Company Secretary
26 May 2020

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 2020.

This report presents an opportunity to show the range of work that the Committee has considered, been engaged in and the judgements it has exercised. The Committee, met in full three times during the year, and its members more regularly on an informal basis. The Committee 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. The Committee has also been involved in the tendering process for rotation of auditor for the forthcoming financial year.

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 Mr Meek, Miss Matterson, Mr Yates and myself as Chair, all of whom have recent and relevant financial experience from their senior management and other non-executive roles. I am a chartered accountant with considerable financial and investment company experience, including serving as audit chair for other investment companies. My biography and those of the other Committee members can be found on page 19.

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 Committee also took into account the more recent developments since the advent of the Covid-19 pandemic early in 2020.

Governance Report (continued)

Audit Committee Report

Significant issues considered regarding the Annual Report and Financial Statements (continued)

The table below sets out the key areas of risk identified and also explains how these were addressed during the year to 5 April 2020.

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, including internal controls and reviews.
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 52. 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 a significant proportion of the Company's investments held during the year.
AIFM Directive	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 sought permission to become a full scope AIFM during the year which was granted in February 2020.
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, as well as the Company's continued ability to meet its investment objective, being ungeared and its ability to fulfil the aims under its DCP.
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.

Governance Report (continued)

Audit Committee Report

2020 – 2021 action plan

A number of similar matters will be considered again during the year to 5 April 2021, particularly those relating to the changing regulatory and economic environment, and the risks and opportunities so presented. The current global crises caused by Covid-19 and its economic and financial impact will be a fundamental consideration for the Committee over the coming year. The annual report and financial statements and the half-yearly statement will also occupy much Committee time, as will examining the resilience of the Company's operations and internal controls in these more challenged times.

Auditors and audit tenure

The Company's current auditors, 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.

Changes to UK legislation as a result of the EU audit framework mean that we 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, and the fact that PwC have been auditor for well over 20 years, we were required to rotate our current auditor this year. Further details of the audit tender process are provided below.

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.

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 55.

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 being present.

Audit tender

This is the final year in which PwC will be the Company's auditor owing to the length of their service as auditor. PwC will therefore cease to act as auditor after the conclusion of the forthcoming AGM. The Committee invited seven audit firms to tender for the audit. It received and considered three tender submissions. Two audit firms were invited to present to the Committee in November 2019. The presentations were gauged against a number of objective and subjective measures which included consideration of some of the issues discussed under the efficacy of the audit process below. Based on this, the Audit Committee determined that BDO would be the most suitable appointee for the Company's requirements. BDO demonstrated strength and depth of experience in the investment company sector; presented a knowledgeable team who exhibited a good understanding of the Company and its reporting requirements and the risks associated with the Company; and were competitive as to proposed audit fees. It was therefore agreed by the Committee to recommend to the Board that BDO be appointed as auditor. A resolution to that effect will be put to shareholders at the forthcoming AGM, such that the first year to be audited by BDO will be the year to 5 April 2021.

The Committee thanks PwC for their audit work, and assistance to the Committee and the Company more generally, over many years since the Company's inception.

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:

- the quality of the audit engagement partner and the audit team;
- the expertise of the audit firm and the resources available to it;
- identification of areas of audit risk;
- planning, scope and execution of the audit;
- consideration of the appropriateness of the level of audit materiality adopted;

Governance Report (continued)

Audit Committee Report

Assessment of the efficacy of the external audit process (continued)

- 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. This was assessed for both current and proposed audit firms.

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 2020, 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 40.

Robin Archibald

Chairman
Audit Committee
26 May 2020

Governance Report (continued)

Directors' Remuneration Report

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, which were revised during the last financial year, 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 2019 and it will be put to Shareholders again at the 2022 AGM. The Company has implemented the approved remuneration policy with effect from 10 July 2019. 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. Directors are entitled to receive out of pocket expenses incurred in connection with their responsibilities, which principally relate to travel and accommodation expenses.

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.

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 41 to 47. An ordinary resolution for the approval of this report will be put to the members at the forthcoming AGM and every year thereafter.

Governance Report (continued)

Directors' Remuneration Report

Review of remuneration policy (continued)

The Directors who served during the year received remuneration as detailed below and in note 5 to the financial statements on page 55. The fee rates, having been determined are applied where a director assumes additional responsibilities as chair, senior independent director and chair of the audit committee.

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:

	2020 fees £	Other taxable benefits £	Performance related benefits £	Pension related benefits £
Chairman	35,000	n/a	n/a	n/a
Audit Committee Chairman	30,000	n/a	n/a	n/a
All other Directors	25,000	n/a	n/a	n/a

Directors' fees are reviewed every year and a detailed review was undertaken in January 2020 at which a modest increase to fees was agreed but under the current circumstances of the Covid-19 pandemic the Board have agreed to defer such increases.

The total figure of remuneration for the Board as a whole over the five years ending 5 April 2020 is summarised below:

	Fees £	Other taxable benefits £	Performance related benefits £	Pension related benefits £
2020	121,000	n/a	n/a	n/a
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

Single total figure of remuneration (audited)

The single total figure of remuneration for the Board as a whole for the year ended 5 April 2020 was £121,000 (2019: £99,000). The single total figure table for the total remuneration of each Director for the year ended 5 April 2020, together with the prior year's comparative, is set out in the table below:

Directors	Total	
	2020 £	2019 £
Mr E G Meek (Chairman of the Board)	35,000	30,000
Mr R Archibald (Chairman of the Audit Committee)	29,000	22,000
Mr A R Laing	–	–
Miss J G K Matterson	25,000	22,000
Mr G A Prescott (retired 28 January 2020)	24,000	25,000
Mr P T Yates (appointed 2 December 2019)	8,000	–
	121,000	99,000

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 55.

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 2020 (2019: nil).

Governance Report (continued)

Directors' Remuneration Report

Directors and their interests (audited)

The Directors in office at 5 April 2020 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 2020	5 April 2019
Mr E G Meek Non-executive Chairman	17,100	14,841
Mr A R Laing Non-executive Director and director of the Investment Manager	14,623	14,623
Miss J G K Matterson Non-executive Director	12,000	10,000
Mr R Archibald Non-executive Director and Senior Independent Director	920	920
Mr P T Yates Non-executive Director	1,000	–

No changes in these holdings have been notified since 5 April 2020 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.

Performance graphs

Graphs showing the Company's net asset value compared with the MSCI UK Index and RPI over the period from 2000 to 2020 and comparing the Company's share price total return to shareholders over the last five years with the MSCI UK Index and RPI, are shown on page 3. Over the same five year period the net assets of the Company increased from £96.5 million to £470.1 million.

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

	2020	2019	% change
Remuneration paid to all Directors	£121,000	£99,000	22.2%
Distribution to shareholders by way of dividend**	£4,834,000	£2,760,000	75.1%

** Dividend for 2020 comprises the final dividend proposed for the year but not yet paid (estimated on 11,509,263 shares, being the number of shares in issue at 5 April 2020 (2019: 7,886,589)).

Statement of voting at the last Annual General Meeting

At the last AGM held on 9 July 2019, shareholders passed the resolution to approve the Directors' Remuneration Report on a show of hands. Furthermore of the total 1,800,962 proxy votes cast, 1,799,182 were in favour, 1,780 were against and 395 votes were withheld. There were therefore no substantial shareholder votes against the resolutions at the AGM in 2019. 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.

Governance Report (continued)

Directors' Remuneration Report

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 2020:

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

On behalf of the Board

Graham Meek

Chairman
26 May 2020

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;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent;
- 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors 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 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.

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's 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
26 May 2020

Independent auditors' report to the members of Capital Gearing Trust P.I.c.

Report on the audit of the Financial Statements

Opinion

In our opinion, Capital Gearing Trust P.I.c.'s financial statements:

- give a true and fair view of the state of the Company's affairs as at 5 April 2020 and of its net 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 2020; 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 2019 to 5 April 2020.

Our audit approach

Overview



- Overall materiality: £4,700,000 (2019: £3,200,000), 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 (the "Administrator") are appointed by the Company to provide company secretarial, administrative and accounting services.
 - 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.
 - We obtained an understanding of the control environment in place at the Administrator and adopted a fully substantive testing approach using reports obtained from the Administrator.
-
- Income recognition
 - Valuation and existence of investments
 - Impact of Covid-19 on the financial statements

Independent auditors' report to the members of Capital Gearing Trust P.I.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 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 relate to the inappropriate classification of income between revenue and capital. Audit procedures performed by the engagement team included:

- Discussion 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;
- 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;
- Identifying and testing journal entries in particular manual year end journal entries posted during the preparation of the financial statements; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 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.

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

Our audit approach (continued)

Key audit matter

How our audit addressed the key audit matter

Income recognition (continued)

We considered the risk to specifically relate to the risk of misstating unrealised/realised gains/losses on investments and the accuracy and completeness of dividend Income recognition and its presentation in the Income Statement as set out 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 understood and assessed the design and implementation of key controls and surrounding income recognition.

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.

Valuation and existence of investments

The Investment portfolio at the year-end principally comprised listed equity Investments valued at £445 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.

We tested the existence of the Investment portfolio by agreeing the holdings of investments to an independent custodian confirmation from Northern Trust as at 5 April 2020. No differences were identified.

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

Our audit approach (continued)

Key audit matter

How our audit addressed the key audit matter

Impact of Covid-19 on the financial statements

Refer to the Chairman's Statement (pages 4 to 6), Principal Risk and Uncertainties (pages 8 and 9), Viability Statement (page 23) and the Investment Manager's Report (pages 13 and 14), which disclose the impact of the Covid-19 coronavirus pandemic.

The coronavirus impacted global capital markets significantly in March 2020, resulting in the trust's Net Asset Value (NAV) falling to a low of £452m on 18 March 2020. At the balance sheet date NAV had increased to £470m and as of 22 May 2020 the NAV of the trust had further increased to £497m.

The Directors have prepared the financial statements of the Company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the assessment that notwithstanding the significant market fall and the related uncertainties, they are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and that the Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels through the coronavirus pandemic.

We evaluated the Directors' assessment of the impact of the Covid-19 pandemic on the Company by:

- Evaluating the Company's updated risk assessment and considering whether it addresses the relevant threats presented by Covid-19.
- Evaluating management's assessment of operational impacts, considering their consistency with other available information and our understanding of the business and assessing the potential impact on the financial statements.

We obtained and evaluated the Directors' going concern assessment which reflects conditions up to the point of approval of the Annual Report.

We obtained evidence to support the key assumptions and forecasts driving the Directors' assessment. This included reviewing the Directors assessment of the Company's financial position and forecasts as well as their review of the operational resilience of the Company and oversight of key third party service providers.

We assessed the disclosures presented in the Annual Report in relation to Covid-19 by:

- Reading the other information, including the Principal Risks and Viability Statement set out in the Strategic Report, and assessing its consistency with the financial statements and the evidence we obtained in our audit. Our conclusions relating to other information are set out in the 'Reporting on other information' section of our report.

Our conclusions in relation to going concern are set out in the 'Going Concern' section of this report below.

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.

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.

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

Overall materiality	£4,700,000 (2019: £3,200,000).
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.

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

Our audit approach (continued)

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £235,000 (2019: £160,000) 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.

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.

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.

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 and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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 2020 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)

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

Reporting on other information (continued)

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 23 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)

Other Code Provisions

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

- The statement given by the directors, on page 35, 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 32 to 35 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 Financial Statements set out on page 40, 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.

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

Responsibilities for the financial statements and the audit (continued)

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.

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 5 April 1985 and subsequent financial periods. The period of total uninterrupted engagement is 36 years, covering the years ended 5 April 1985 to 5 April 2020. Prior to the reregistration of Capital Gearing Trust P.I.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

26 May 2020

Income Statement

for the year ended 5 April 2020

	Note	Revenue £'000	Capital £'000	2020 Total £'000	Revenue £'000	Capital £'000	2019 Total £'000
Net (losses)/gains on investments	9	–	(10,759)	(10,759)	–	14,991	14,991
Exchange gains		–	289	289	–	10	10
Investment income	2	7,775	–	7,775	4,671	–	4,671
Gross return		7,775	(10,470)	(2,695)	4,671	15,001	19,672
Investment management fee	3	(856)	(1,283)	(2,139)	(568)	(852)	(1,420)
Other expenses	4	(545)	–	(545)	(419)	–	(419)
Net (loss)/return before tax		6,374	(11,753)	(5,379)	3,684	14,149	17,833
Tax (charge)/credit on net return	6	(525)	425	(100)	(292)	267	(25)
Net (loss)/return attributable to equity shareholders		5,849	(11,328)	(5,479)	3,392	14,416	17,808
Net return per Ordinary share	8	59.12p	(114.49)p	(55.37)p	51.12p	217.28p	268.40p

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 52 to 64 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 5 April 2020

	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 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
Balance at 6 April 2019		1,972	203,043	16	112,450	4,447	321,928
Net return attributable to equity shareholders and total comprehensive income for the year		–	–	–	(11,328)	5,849	(5,479)
Shares bought back		–	–	–	(7,761)	–	(7,761)
Shares issued from treasury		–	269	–	3,720	–	3,989
New shares issued		931	159,414	–	–	–	160,345
Dividends paid	7	–	–	–	–	(2,963)	(2,963)
Total transactions with owners recognised directly in equity		931	159,683	–	(4,041)	(2,963)	153,610
Balance at 5 April 2020		2,903	362,726	16	97,081	7,333	470,059

* The capital reserve balance at 5 April 2020 includes unrealised losses on fixed asset investments of £5,288,000 (5 April 2019 – gains of £19,360,000).

As at 5 April 2020 £102,383,000 (2019: £93,090,000) of the capital reserve is regarded as being available for distribution.

The notes on pages 52 to 64 form an integral part of these financial statements.

Statement of Financial Position

as at 5 April 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	444,851	313,871
Current assets			
Debtors	10	2,214	2,901
Cash at bank and in hand		33,641	9,435
		35,855	12,336
Creditors: amounts falling due within one year	11	(10,647)	(4,279)
Net current assets		25,208	8,057
Total assets less current liabilities		470,059	321,928
Capital and reserves			
Called-up share capital	12	2,903	1,972
Share premium account		362,726	203,043
Capital redemption reserve		16	16
Capital reserve		97,081	112,450
Revenue reserve		7,333	4,447
Total equity shareholders' funds		470,059	321,928
Net asset value per Ordinary share	13	4,084.2p	4,082.0p

The financial statements on pages 48 to 64 were approved by the Board on 26 May 2020 and signed on its behalf by:

Graham Meek

Chairman

The notes on pages 52 to 64 form an integral part of these financial statements.

Cash Flow Statement

for the year ended 5 April 2020

	Note	2020 £'000	2019 £'000
Net cash outflow from operations before dividends and interest	14	(2,281)	(1,652)
Dividends received		4,696	2,683
Interest received		3,590	1,905
Net cash inflow from operating activities		6,005	2,936
Payments to acquire investments		(438,109)	(204,843)
Receipts from sale of investments		302,761	114,338
Net cash outflow from investing activities		(135,348)	(90,505)
Equity dividends paid	7	(2,963)	(1,619)
Repurchase of Ordinary shares		(7,756)	–
Cost of share issues		(687)	–
Issue of Ordinary shares		164,955	85,856
Net cash inflow from financing activities		153,549	84,237
Increase/(decrease) in cash and cash equivalents		24,206	(3,332)
Cash and cash equivalents at start of year		9,435	12,767
Cash and cash equivalents at end of year		33,641	9,435
Increase/(decrease) in cash and cash equivalents		24,206	(3,332)
Cash and cash equivalents consist of cash at bank, and in hand		33,641	9,435

The notes on pages 52 to 64 form an integral part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Basis of accounting

Capital Gearing Trust P.I.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 20 and 21 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 October 2019. 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 has elected to adopt Sections 11 and 12 of FRS 102 in respect of investments and other financial instruments. 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% (2019: 60%) to capital and 40% (2019: 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.

As from 6 April 2020, all expenses are charged to revenue. This change, which does not require a prior year adjustment or represent a post balance sheet event, reflects the way in which the Company is managed to provide total return with less emphasis on the ability to pay dividends, other than to maintain investment trust status.

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 re-issue

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 re-issued 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

	2020 £'000	2019 £'000
Income from investments:		
Interest from UK bonds	1,452	892
Income from UK equity and non-equity investments	3,950	1,846
Interest from overseas bonds	1,506	1,050
Income from overseas equity and non-equity investments	867	883
Total income	7,775	4,671
	2020 £'000	2019 £'000
Total income comprises:		
Dividends	4,817	2,729
Interest	2,958	1,942
	7,775	4,671
	2020 £'000	2019 £'000
Income from investments comprises:		
Listed in the UK	5,402	2,738
Listed overseas	2,373	1,933
	7,775	4,671

3 Investment management fee

	Revenue £'000	Capital £'000	2020 Total £'000	Revenue £'000	Capital £'000	2019 Total £'000
Investment management fee	856	1,283	2,139	568	852	1,420

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 (2019: 0.60%, 0.45% and 0.30% respectively). At 5 April 2020 £573,000 (2019: £407,000) 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 53 with effect from 6 April 2020 all expenses will be charged to revenue. The terms of the investment management agreement are detailed on page 21.

Notes to the Financial Statements (continued)

4 Other expenses

	2020 £'000	2019 £'000
Fees payable to Company auditors for the audit of Company financial statements	23	20
Directors' remuneration (note 5)	121	99
Company secretarial, administration and accountancy services	150	142
Custody services	57	46
General expenses	194	112
	545	419

The above expenses include irrecoverable VAT where appropriate.

5 Directors' remuneration

	2020 £'000	2019 £'000
The fees payable to the Directors were as follows:		
Mr E G Meek	35	30
Mr G A Prescott	24	25
Mr R A Archibald	29	22
Mr A R Laing	–	–
Miss J G K Matterson	25	22
Mr P Yates	8	–
	121	99

The Company made no pension contributions (2019: £nil) in respect of Directors and no pension benefits are accruing to any Director (2019: £nil).

Mr A R Laing no longer receives a fee from the Company, effective 6 April 2018. He received remuneration totalling £111,000 (2019: £64,600) 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	2020 Total £'000	Revenue £'000	Capital £'000	2019 Total £'000
Current tax:						
Overseas withholding tax	(36)	–	(36)	(25)	–	(25)
Corporation tax	(489)	425	(64)	(267)	267	–
Current tax (charge)/credit for the year	(525)	425	(100)	(292)	267	(25)

Notes to the Financial Statements (continued)

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

The tax assessed for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	Revenue £'000	Capital £'000	2020 Total £'000	Revenue £'000	Capital £'000	2019 Total £'000
Net return before tax	6,374	(11,753)	(5,379)	3,684	14,149	17,833
Return at the standard rate of UK corporation tax	1,211	(2,233)	(1,022)	700	2,688	3,388
UK franked dividends	(722)	–	(722)	(433)	–	(433)
Capital returns*	–	1,988	1,988	–	(2,850)	(2,850)
Utilisation of prior year management charges	–	(180)	(180)	–	(105)	(105)
Overseas withholding tax	36	–	36	25	–	25
Current tax charge/(credit) for the year	525	(425)	100	292	(267)	25

* 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.

No deferred tax asset has been recognised as there are no unrelieved management charges at 5 April 2020 (unrecognised deferred tax asset of £180,000 at 5 April 2019).

As the Company's unrelieved management expenses have been exhausted, a corporation tax charge of £64,000 is payable in respect of the year ended 5 April 2020 (2019: nil).

7 Dividends paid

	2020 £'000	2019 £'000
Ordinary shares		
2019 dividend paid 19 July 2019 (35.0p per share (23.0p ordinary dividend and 12.0p special dividend))	2,963	–
2018 dividend paid 20 July 2018 (27.0p per share (21.0p ordinary dividend and 6.0p special dividend))	–	1,619

The 2019 dividend was paid on 19 July 2019 to shareholders on the register on 14 June 2019 when there were 8,468,038 Ordinary shares in issue. The 2018 dividend was paid on 20 July 2018 to shareholders on the register on 15 June 2018 when there were 5,997,619 Ordinary shares.

The Directors have recommended to shareholders a final dividend of 42p per share (25p ordinary dividend and 17p special dividend) for the year ended 5 April 2020. If approved, this dividend will be paid to shareholders on 17 July 2020. 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 £4,834,000 (based on the number of shares in issue at 5 April 2020).

	2020 £'000	2019 £'000
Revenue available for distribution by way of dividend for the year	5,849	3,392
Proposed final dividend of 42p for the year ended 5 April 2020	4,834	(2,760)
Revenue surplus for purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010*	1,015	632

* Undistributed revenue comprises approximately 13.1% (2019: 13.5%) of income from investments of £7,775,000 (2019: £4,671,000).

Notes to the Financial Statements (continued)

8 Net return per Ordinary share

The net return per Ordinary share of (55.37p) (2019: 268.40p) is based on the total net return after taxation for the financial year of (£5,479,000) (2019: £17,808,000) and on 9,894,077 (2019: 6,634,778) Ordinary shares, being the weighted average number of Ordinary shares in issue in each year.

Revenue return per Ordinary share of 59.12p (2019: 51.12p) is based on the net revenue return after taxation of £5,849,000 (2019: £3,392,000) and on 9,894,077 (2019: 6,634,778) Ordinary shares, being the weighted average number of Ordinary shares in issue in each year.

Capital return per Ordinary share of (114.49p) (2019: 217.28p) is based on the net capital return for the financial year of (£11,328,000) (2019: £14,416,000) and on 9,894,077 (2019: 6,634,778) 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

	2020 £'000	2019 £'000
Investments comprise –		
Listed investment companies:		
Ordinary shares UK	56,797	36,384
Ordinary shares overseas	53,128	54,597
Zero dividend preference shares UK	14,054	16,296
Listed UK government bonds	109,299	60,825
Listed UK non-government bonds	40,019	31,770
Listed overseas government bonds	100,246	79,186
Listed overseas non-government bonds	13,108	9,259
Exchange traded funds	58,200	25,554
	444,851	313,871
Cost of investments held at 6 April	294,511	195,578
Unrealised appreciation at 6 April	19,360	10,819
Fair value of investments held at 6 April	313,871	206,397
Additions at cost	444,245	208,300
Effective yield adjustment*	(682)	(346)
Sales proceeds	(301,824)	(115,471)
(Losses)/gains on investments	(10,759)	14,991
Fair value of investments held at 5 April	444,851	313,871
Book cost at 5 April	450,139	294,511
Unrealised (depreciation)/appreciation at 5 April	(5,288)	19,360
	444,851	313,871
Disposals – realised gains	13,889	6,450
(Decrease)/increase in unrealised appreciation	(24,648)	8,541
Net (losses)/gains on investments	(10,759)	14,991

The Company received £301,824,000 (2019: £115,471,000) from investments sold in the year. The average book cost of these investments when they were purchased was £287,935,000 (2019: £109,021,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of investments.

The geographical spread of investments is shown on page 15.

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

The total transaction costs on additions were £257,000 (2019: £108,000) and on sales £38,000 (2019: £31,000). These costs are included in the book cost of acquisitions and the net proceeds of sales.

* See Income section of Accounting Policies on page 52 for a fuller description.

Notes to the Financial Statements (continued)

10 Debtors

	2020 £'000	2019 £'000
Other debtors	1,049	1,921
Prepayments and accrued income	1,161	963
Taxation	4	17
	2,214	2,901

11 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Other creditors	9,880	3,739
Accruals and deferred income	703	540
Corporation tax	64	–
	10,647	4,279

12 Called-up share capital

	2020 £'000	2019 £'000
Allotted and fully paid		
At the beginning of the year: 7,886,589 Ordinary shares (2019: 5,762,919)	1,972	1,441
Allotted during the year: 3,724,974 Ordinary shares (2019: 2,123,670)	931	531
At the end of the year: 11,611,563 Ordinary shares (2019: 7,886,589)	2,903	1,972

During the year to 5 April 2020 there were 198,300 (2019: nil) Ordinary shares of 25p each repurchased by the Company for cash costs totalling £7,761,000 (2019: nil). 96,000 (2019: nil) Ordinary shares of 25p each re-issued from treasury by the Company for cash proceeds totalling £3,989,000 (2019: nil). No shares were purchased for cancellation during the year (2019: nil) and at the year end 102,300 shares were held in treasury (2019: nil).

During the year to 5 April 2020 there were 3,724,974 (2019: 2,123,670) new Ordinary shares of 25p each issued by the Company for cash proceeds totalling £160,345,000 (2019: £86,185,000).

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

	2020	2019
Ordinary shares	4,084.2p	4,082.0p

Net asset value attributable to

	2020 £'000	2019 £'000
Ordinary shares	470,059	321,928

Net asset value per Ordinary share is based on the net assets, as shown above, and on 11,509,263 (2019: 7,886,589) 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

	2020 £'000	2019 £'000
Net (loss)/return before taxation	(5,379)	17,833
Less capital loss/(return) before taxation	11,753	(14,149)
(Increase)/decrease in prepayments	(28)	5
Increase in accruals and deferred income	165	176
Management fees charged to capital	(1,283)	(852)
Increase in overseas withholding tax	(36)	(1)
Decrease/(increase) in recoverable UK taxation	13	(3)
Dividends received	(4,817)	(2,729)
Interest received	(2,958)	(1,942)
Realised gains on foreign currency transactions	289	10
Net cash outflow from operations before dividends and interest	(2,281)	(1,652)

15 Financial instruments

The Company has the following financial instruments:

	2020 £'000	2019 £'000
Financial assets at fair value through profit or loss		
– Investments held at fair value through profit and loss	444,851	313,871
Financial assets that are debt instruments measured at amortised cost		
– Cash at bank and at hand	33,641	9,435
– Other debtors	1,049	1,921
– Accrued income	1,119	949
	480,660	326,176
	2020 £'000	2019 £'000
Financial liabilities measured at amortised cost		
– Other creditors	9,860	3,724
– Accruals	703	540
	10,563	4,264

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 15 to 18. 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.

	2020 5% increase in market prices £'000	2020 5% decrease in market prices £'000	2019 5% increase in market prices £'000	2019 5% decrease in market prices £'000
Income Statement – net return after tax				
Revenue return	(35)	35	(23)	23
Capital return	22,188	(22,188)	15,656	(15,656)
Total return after taxation	22,153	(22,153)	15,633	(15,633)
Net assets	22,153	(22,153)	15,633	(15,633)
Net asset value per Ordinary share	192.48p	(192.48)p	198.22p	(198.22)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.

	2020 1% increase in market prices £'000	2020 1% decrease in market prices £'000	2019 1% increase in market prices £'000	2019 1% decrease in market prices £'000
Income Statement – net return after tax				
Revenue return	249	(249)	76	(76)
Total return after taxation	249	(249)	76	(76)
Net assets	249	(249)	76	(76)
Net asset value per Ordinary share	2.16p	(2.16)p	0.96p	(0.96)p

The interest rate profile of the Company's assets at 5 April 2020 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	182,179	–	–	–	182,179	–	–
UK index-linked government bonds	19,262	–	19,262	–	–	0.84	3.13
UK index-linked non-government bonds	9,111	–	9,111	–	–	1.12	1.75
UK government bonds	90,037	–	–	–	90,037	–	–
UK non-government bonds	30,908	–	–	30,908	–	2.46	2.36
Overseas index-linked government bonds	100,246	–	100,246	–	–	1.23	8.37
Overseas index-linked non-government bonds	1,181	–	1,181	–	–	3.67	0.63
Overseas non-government bonds	11,927	–	–	11,927	–	2.89	2.09
Invested funds	444,851	–	129,800	42,835	272,216		
Cash at bank	33,641	33,641	–	–	–	–	–
Other debtors	2,214	–	–	–	2,214	–	–
Liabilities							
Creditors	(10,647)	–	–	–	(10,647)	–	–
Total net assets	470,059	33,641	129,800	42,835	263,783		

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

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							
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		

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 and are valued by the Directors using International Private Equity and Venture Capital Valuation ('IPEV') guidelines, such as earnings multiples, recent transactions and net assets, which equate to their fair values.

The Company's assets are measured at fair value through the Income Statement. 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. As at 5 April 2020 £444,311,000 (2019: £313,871,000) of the Company's investments were classified as Level 1 with £540,000 classified as Level 3. During the year four assets (Eurovestec, Mithras Investment Trust, EF Realisation Company Limited and Aberdeen Private Equity Fund) were moved from Level 1 to Level 3 as they were delisted. These assets had a valuation of £613,000 at 5 April 2019.

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:

	2020 Investments £'000	2020 Accrued interest £'000	2019 Investments £'000	2019 Accrued interest £'000
Euro	11,917	–	22,528	–
US Dollar	100,469	375	86,946	390
Swedish Krona	16,959	19	13,062	1
Australian Dollar	1,181	4	839	2
	130,526	398	123,375	393

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.

	2020 10% appreciation of Sterling £'000	2020 10% depreciation of Sterling £'000	2019 10% appreciation of Sterling £'000	2019 10% depreciation of Sterling £'000
Income statement – net return after taxation				
Revenue return	(194)	194	(157)	157
Capital return	(13,053)	13,053	(12,338)	12,338
Total return after taxation	(13,247)	13,247	(12,495)	12,495
Net assets	(13,247)	13,247	(12,495)	12,495
Net asset value per Ordinary share	(115.10)p	115.10p	(158.43)p	158.43p

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:

	2020 Statement of Financial Position £'000	2020 Maximum exposure £'000	2019 Statement of Financial Position £'000	2019 Maximum exposure £'000
Fixed assets – listed investments at fair value through profit and loss	444,851	262,672	313,871	181,040
Debtors – amounts due from the custodian, dividends and interest receivable	2,168	2,168	2,870	2,870
Cash at bank	33,641	33,641	9,435	9,435
	480,660	298,481	326,176	193,345

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 2020 of £470,059,000 (2019: £321,928,000) 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

There have been no related party transactions in the year ended 5 April 2020.

17 Alternative Investment Fund Managers Directive ('AIFMD')

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM, CG Asset Management, is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy and the numerical remuneration disclosures in respect of the AIFM's relevant reporting period (year ending 30 April 2019) are available from CG Asset Management on request.

The Company's maximum and actual leverage levels at 5 April 2020 are shown below:

	Gross Method	Commitment Method
Maximum limit	200%	200%
Actual	100%	100%

The investor disclosure document and all additional periodic disclosures required in accordance with the requirements of the FCA Rules implementing the AIFMD in the UK are made available on the Company's website (www.capitalgearingtrust.com).

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the fifty-seventh Annual General Meeting of the Company will be held at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY on Friday, 3 July 2020 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 2020.
2. To approve the Directors' Remuneration Report for the year ended 5 April 2020, together with the report of the auditor thereon.
3. To declare a final dividend of 42 pence per Ordinary share.
4. To re-elect Graham Meek as a Director.
5. To re-elect Jean Matterson as a Director.
6. To re-elect Robin Archibald as a Director.
7. To re-elect Alastair Laing as a Director.
8. To elect Paul Yates as a Director.
9. To appoint BDO LLP as auditors of the Company.
10. 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 11 will be proposed as an ordinary resolution and resolutions 12 to 16 will be proposed as special resolutions:

Ordinary resolution

Directors' authority to allot shares

11. 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 £972,463.50 (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 3,889,854 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 2021, 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

12. 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 11 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 £291,739 or, if less, the number representing 10% of the issued share capital of the Company at the date of the meeting at which this resolution is proposed; and

Notice of Annual General Meeting (continued)

this power shall expire at the conclusion of the AGM of the Company to be held in 2021, 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.

13. THAT, in addition to the authority granted by resolution 12 above, 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 11 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 £291,739 or, if less, the number representing 10% of the issued share capital of 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 2021, 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

14. 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 1,749,267 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 2021 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 Annual General Meeting (continued)

Cancellation of the Company's share premium account

15 THAT, subject to the confirmation of the Court of Judicature of Northern Ireland (the "Court") (i) the share capital of the Company be reduced by cancelling the Company's entire share premium account as at the date of the final hearing before the Court at which confirmation of the said cancellation is sought; and (ii) the credit thereby arising in the Company's books of account be available as distributable profits to be used for all purposes permitted by the Companies Act 2006 and The Companies (Reduction of Share Capital) Order 2008.

Notice of general meetings

16. 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:
Carson McDowell LLP
Murray House
Murray Street
Belfast BT1 6DN

26 May 2020

Location of Annual General Meeting

Smith & Williamson Investment Management Limited
25 Moorgate
London
EC2R 6AY
at 11.00 a.m. on Friday, 3 July 2020

Please note that as a result of the Covid-19 pandemic and the imposition of measures by the UK Government to control the spread of the virus, attendance at the Annual General Meeting is unlikely to be possible. In line with the measures, shareholders are strongly discouraged from attending the meeting. In accordance with the Company's Articles of Association and Government Guidance, the Company may impose entry restrictions on attendance.

Shareholders are strongly encouraged to vote in favour of the resolutions to be proposed at the Annual General Meeting. In the light of Covid-19 and restrictions on attendance at the Annual General Meeting, shareholders are strongly advised to vote by form of proxy. If shares are not held directly shareholders are encouraged to arrange for their nominee to vote on their behalf.

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 1 July 2020 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.

Notice of Annual General Meeting (continued)

6. 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 1 July 2020. 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.

7. 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.

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. In the circumstances shareholders are encouraged to submit questions to the Board using the email address company.secretary@capitalgearingtrust.com.
10. Resolutions 1 to 11 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 12 to 16 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 22 May 2020 (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 11,669,563.
12. Biographical details of the Directors seeking election and re-election can be found at page 19 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.
15. Given the risks posed by the spread of Covid-19 and in accordance with the provisions of the Articles of Association and Government guidance including measures in place as at the date of this Notice, attendance in person at the AGM is unlikely to be possible. If law or Government guidance so requires at the time of the AGM, the Chairman of the AGM will limit, in his sole discretion, the number of individuals in attendance at the meeting. If the current measures are in place at the time of the AGM, such attendance will be limited to two persons. Should the Government guidance change and the measures be relaxed by the time of the AGM, the Company may still impose entry restrictions on certain persons wishing to attend in order to secure the orderly and proper conduct of the meeting.

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.	

Shareholder Information (continued)

Data Protection

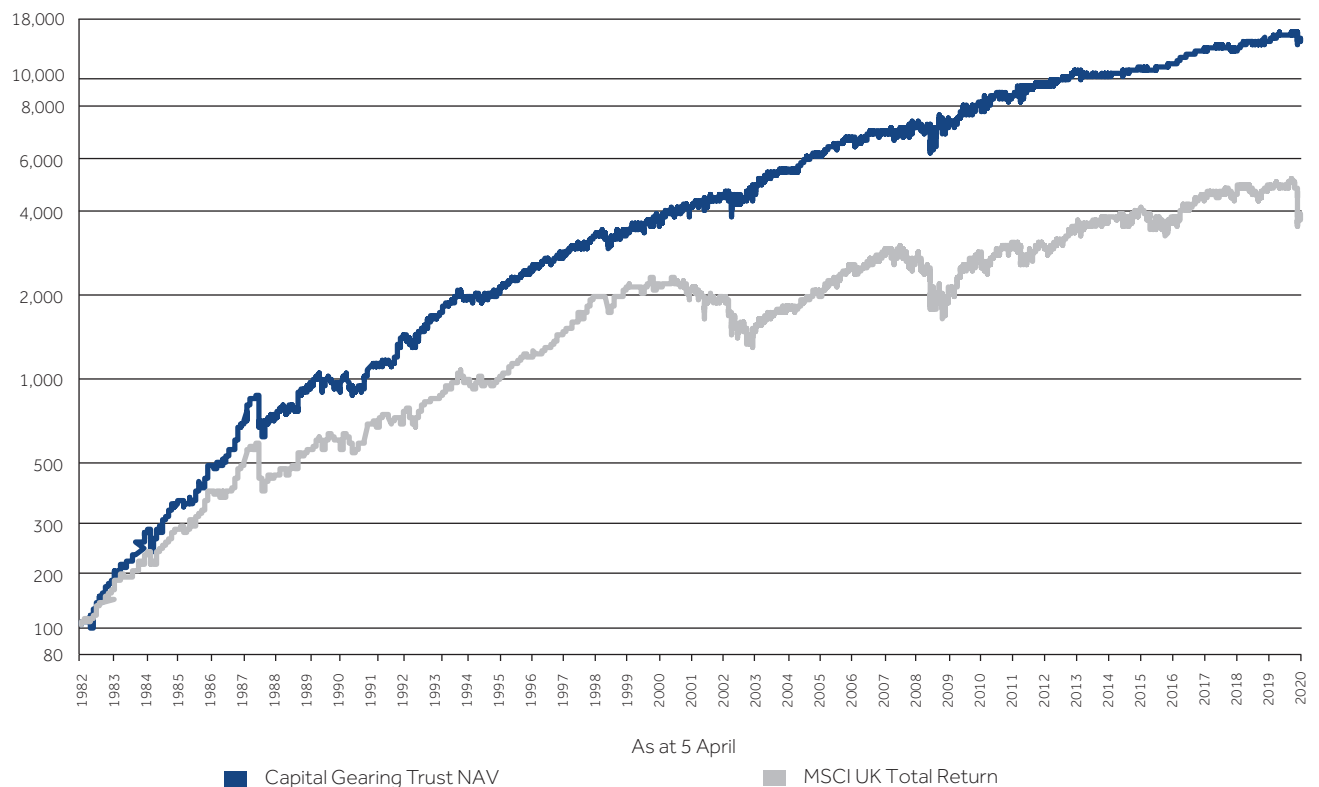
The Company is committed to ensuring the privacy of any personal data provided to us. Further details of the Company's privacy policy can be found on the Company's website www.capitalgearingtrust.com.

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.

Net asset value performance 1982 to 2020

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 Limited

Shareholder Information (continued)

Beware of Share Fraud

We note over recent months an increase in the number of increasingly sophisticated but fraudulent financial scams. This is often by a phone call or email which can originate from outside UK. 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'.

If you are contacted, we recommend that you do not respond with any personal information, including access to financial information or bank accounts. If you are in any doubt you should seek financial advice before taking any action.

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

	2020 Number of shares	2020 % of Issued capital
As at 5 April:		
Retail	10,256,529	89.1
Other collective investment undertakings	603,047	5.2
Pension plans	204,973	1.8
Insurance corporations	202,543	1.8
Non-financial corporations	155,219	1.3
Other	86,952	0.8
	11,509,263	100.0

Source: RD:IR

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 (OCR). 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.

Drawdown

For the purposes of the Company, a drawdown is a peak-to-trough decline in the Company's portfolio value during a specific period. It is usually quoted as the percentage between the peak and subsequent trough.

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.

	2020 £'000	2019 £'000
Investment Management fee	2,139	1,420
Administrative expense	545	419
Fixed element of DCP fee	30	–
Ongoing charges	2,714	1,839
Average net assets	418,310	264,455
Ongoing charges ratio	0.65%	0.70%

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.

		2020	2019
NAV per share	a	4,084.2p	4,082.0p
Share price	b	4,190.0p	4,170.0p
Premium	c c=(b-a)/a	2.6%	2.2%

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.

Capital Gearing Trust P.I.c.

Carson McDowell LLP

Murray House

Murray Street

Belfast BT1 6DN

www.capitalgearingtrust.com