BARINGS

# Annual Report & Audited Financial Statements

for the year ended 30 September 2017

## Baring Emerging Europe PLC

# Contents

# Financial highlights

| | 2017 | 2016 |
|---|---|---|
| Net asset value per ordinary share ("NAV") | **877.99p** | 722.82p |
| Revenue return per ordinary share | **22.31p** | 21.39p |
| Dividends per ordinary share | **32.0p** | 23.0p |
| Share price | **775.00p** | 638.00p |
| Ongoing charges (based on average NAV) | **1.42%** | 1.49% |
| Gearing Ratio – Gross basis | **107%** | 105% |
| Gearing Ratio – Commitment basis | **109%** | 110% |

## Performance **total return basis**

| | 2017 | 2016 |
|---|---|---|
| Net asset value per ordinary share# | **+26.9%** | +41.0% |
| Share price# | **+27.6%** | +37.6% |
| Benchmark* | **+21.4%** | +27.1% |

*The Benchmark Index is the MSCI EM Europe 10/40 Index.
#*Source: Barings*

## Discount **(at 30 September)**

| | 2017 | 2016 |
|---|---|---|
| Discount to net asset value per share* | **11.7%** | 11.7% |

*Based on the net asset value including income.

*Net asset value or NAV* – The value of total assets less current liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share. *NAV divided by number of ordinary shares in issue at the year end (see note 13 on page 50).*

*Discount* – The amount by which the Ordinary share price is lower than the net asset value per Ordinary share. The discount is normally expressed as a percentage of the net asset value per share. *NAV minus share price divided by NAV.*

*Total return* – Total return is the increase/(decrease) in NAV per share plus the dividends paid, which are assumed to be reinvested at the time the share price is quoted ex-dividend.

*Ongoing charges* – Ratio of expenses as a percentage of average daily shareholders' funds calculated as per the Association of Investment Companies industry standard method. *Annualised ongoing charges, including those charged to capital but excluding loan interest, incurred by the Company (see page 40), divided by the average NAV reported in the year.*

*Gearing* – Two methods of calculating such exposure are set out in the AIFMD, gross and commitment.

Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. *Investments divided by Total Shareholders' funds (see page 41).*

The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure. *Investments plus current assets divided by Total Shareholders' funds (see page 41).*

# Investment objective

The investment objective is to achieve long-term capital growth, principally through investment in securities listed on or traded on an Emerging European securities market or in securities of companies listed or traded elsewhere, whose revenues and/or profits are, or are expected to be, derived from activities in Emerging Europe.

# Financial calendar

| | Date |
|---|---|
| Annual general meeting for 2017 | 16 January 2018 |
| Announcement of interim results | May |
| Announcement of final results | December |
| Interim report posted | May |
| Annual report posted | December |

# Chairman’s statement

It has been another good year for your Company despite a number of slightly alarming developments in the geopolitical arena. Emerging European markets have risen in line with equity markets generally, and the political shenanigans in Turkey, and to a lesser extent in other countries, have failed to upset investors. Indeed, equity markets globally have shown remarkable resilience to a deterioration in global stability and one has to conclude that the dominant factor on returns has been the continuing easy monetary environment. In the absence of any real inflation, this seems likely to carry on and act as a support for risky assets, like Emerging European equities. Until recently many international investors seemed to have thrown in the towel on Emerging Europe, as witnessed by low capital markets activity and depressed valuations both in an absolute sense and relative to other regions. Therein has lurked an opportunity. Loose monetary policy and cheap stocks have made a powerful cocktail delivering good returns to our investors of more than 70% over the last two years (2017: 26.9%; 2016: 41.0%).

## Performance

For the second year on the trot, performance was good. In sterling terms, the Net Asset Value (NAV) per share on a total return basis rose by 26.9%, which compares with a rise of 21.4% in the Company’s benchmark, the MSCI Emerging Europe 10/40 Index.

As an investor, if you bought the Company’s shares for what would happen in a given year, then this year you have been lucky or skilful. Operating in a volatile market, however, suggests that you would be wise to take a longer term perspective, as this is a much better basis on which to measure the performance of the manager. I am very pleased to be able to report that over three years, the NAV has risen by 42.2%, compared to 18.9% for the benchmark, and over five years, the NAV has returned 18.7% compared with 4.2% for the benchmark.

Beyond the benchmark, we also keep an eye on where we sit in the peer group, conscious that you as an investor have a choice of where and how to invest. The news here is also good. Against competitor funds, defined by the Morningstar Emerging Europe Universe, your Company ranks 3rd out of 41 over one year, 2nd out of 41 over three years and 3rd out of 41 over five years.

These are excellent numbers and have been achieved not by luck but by the assiduous application of a robust investment process by a talented team, led by Matthias Siller, who has been your Manager for nine years. On behalf of the Board and (I hope) shareholders, I would like to thank him and his colleagues, Maria Szczesna and Adnan El-Araby, for their contributions to the success of the Company.

## Discount Management

This time last year, I wrote that the news on the discount was not good and that we were intending to conduct a tender offer to return some capital to shareholders. We did that and I would like to be able to report that we then burst into the sunlit uplands and were rewarded with a tighter discount. We have made some progress towards this in that our average discount for the year has been 13.4% (the previous year was 14.4%). During the year we have bought back some 772,375 shares at an average price of £6.75, equivalent to a discount on average of 13.6%. In addition, the Company bought back approximately 1.6 million shares by way of tender, to bring the total number of shares bought back in the year to 2.36 million at a cost of £17.7 million. The rise in the NAV has offset this decline in our scale, but the process of buying shares back is death by a thousand cuts.

Nobody can ever know why a discount sits at a particular level, but it seems to reflect a general indifference to the charms of the region, as reflected in a further decline in annual volumes traded. Indeed, it seems that our buyback, excluding the tender, accounted for about 20% of all the shares traded during the year.

We introduced further measures at the time of the tender to rein in the discount and to align the trigger for a future tender with the investing horizon of the investment manager. In summary, these measures are as follows:

1. A tender for up to 25% of the equity would be triggered at the end of the 2020 fiscal year, four years after the last point at which a tender was triggered either if the average discount was higher than 12% during the entire period or performance does not exceed 1% of the benchmark annually over that period;

# Chairman's statement (continued)

2. We announced that we would be paying a dividend at a level which we hoped would be attractive to certain investors, acknowledging that part of this would involve the return of capital to shareholders;
3. We increased the weighting permitted in non-benchmark countries (mostly Middle East and Africa) to 15% from 5%;
4. We would continue to operate the buyback programme; and
5. We would continue to spend some of your money reaching out to new prospective shareholders and intend to embark on an exercise to raise the profile of the Company.

Taken together, the Board hopes that these measures will constrain discount volatility, reduce the level of the discount and make the shares more attractive to a broader range of investors. Time will tell, but the Board continues to believe the investment mandate is relevant and attractive and that it is worth pursuing appropriate action to ensure that the Company remains on investor radar screens.

## Dividends

As you have seen, the Board announced with the tender proposals that it intended to pay a dividend which might not be covered by the income account. At the half-year stage, the Company paid 13 pence per share. At the final stage, we are declaring a dividend of 19 pence per share. This amounts to a total for the year of 32 pence, equivalent to a yield on the current share price of 4% and up 9 pence on the 23 pence paid in 2016. This payment is not covered in total by the income account, which produced a net revenue per share of 22.31 pence per share (2016: 21.39 pence). The primary motivation for placing a greater emphasis on the dividend is to broaden the appeal of the Company's shares, in particular to the group of investors to whom income is important. This policy is not in a vacuum, as it also reflects the greater maturity of Emerging European markets and the likelihood that companies listed there will themselves pay more attention to shareholders and operate more generous dividend policies than in the past.

## Governance

### 1. Regulation

It was too good to last. In 2016, there was nothing to say about this. This year, we have something called MiFID2 (Market in Financial Instruments Directive – the second coming), which starts on 3 January 2018. This is an enormously complex piece of regulation and affects many aspects of the asset management business. Its main visible impact to you will be in the way your Investment Manager pays for research. Previously, the cost of this research as provided by investment banks was bundled into a commission payment which comprised both research and execution. This is now illegal and must be accounted for separately. The Investment Manager can then either pay for that research itself, or seek to pass the cost on to the client. I am delighted to report that Barings has decided to pay for the cost of research itself, which will be a direct benefit to you in that the costs of trading will fall by approximately half. There are all sorts of repercussions from this process of unbundling which are beyond the scope of this statement, but it will have far reaching effects on the quality and quantity or research available to market participants and should be an unmitigated positive for investment managers, like Barings, which have well-resourced research capability.

### 2. Borrowing

The Company has a facility of US$17 million and at the year end, this was deployed to the tune of $12 million. Given low borrowing costs, the borrowing contributed positively to overall returns.

### 3. Company Secretary

Our Company Secretary, Mike Nokes, who has fulfilled that role since shortly after the launch of the predecessor company in 1993, has decided to retire at the end of 2017. I would like to record formally the gratitude of the Board for Mike's engagement with the Company and for his professionalism and calm competence when the going gets tough. Mike is also an engaging person and we will miss him. My

# Chairman’s statement (continued)

colleagues and I wish him a long and happy retirement. Northern Trust (NT) have decided that they will no longer offer named company secretarial services and have appointed, with the agreement of the Board, Link Asset Services to fulfil this function. NT will continue to provide administrative services to the Company.

### 4. Directors

All boards of public companies must be mindful of the need for succession planning. The time has come for me to retire, so this is my last statement as I will not be standing for re-election at the AGM. It has been a privilege to act as Chairman of BEE and I will miss my colleagues and a front row seat at one of the more interesting investment dramas unfolding out there. Frances Daley has agreed to step into my shoes and as this is an upgrade, I believe you will be well served. She joined the board in 2014 and has been Chair of the Audit Committee since 2015, so she is very familiar with the issues surrounding the Company. I am very pleased to report that she will be replaced in the hot seat at the Audit Committee by Calum Thomson, our new recruit. Calum recently retired from Deloitte after a long career as a partner specialising in financial services. He will be an excellent addition to the team and I urge you to support his election at the forthcoming AGM. In line with best practice, all the other directors (except me) will be standing for re-election at the AGM.

## Shareholder Communication

This is your Company and your Board is here to serve your interests. One of our key responsibilities is to communicate effectively with you, and the Annual Report is an important part of that. I hope you find it informative, but please let my successor know if you don’t. My colleagues are ready to address any concerns you have at any point, so please email the Company at beeplccosec@linkgroup.co.uk with any questions you would like us to answer. You are also all invited to attend the AGM, to be held at Barings offices on 16 January 2018, at which Matthias will give his customary presentation on the markets and the outlook for the year ahead. Details can be found on pages 57 and 58 of this document.

## Outlook

Globally it has been a roller-coaster of a year from a political point of view, and it is hard to see the soap operatic nature of public life fading into the background. Global economies are now growing in a co-ordinated fashion and the likelihood is that in the US and UK, some form of quantitative tightening will get under way in the year ahead. As mentioned earlier, markets have benefitted from the fuel of easy liquidity and may hiccup when confronted with the reality of rising interest rates. Nevertheless, the tightening measures are likely to be quite anaemic compared with previous cycles, because growth is not that robust, there is very little inflation and the underlying global economy remains fragile. All of this suggests that Emerging European markets will have a reasonably supportive background and should be able to generate attractive growth by developed market standards, yet this remains visible through a prism in which valuations are low by global standards.

**Steven Bates**
Chairman
6 December 2017

# Report of the Fund Manager

for the year ended 30 September 2017

## Investment Performance

Building on the positive momentum created by good returns last year and benefiting from a supportive macroeconomic backdrop, 2017 saw a substantial increase in profitability across Emerging Europe. Despite increasing global political noise, investors welcomed evidence of further improvement in company operating margins with stock markets reacting positively. The Net Asset value per share of your Company rose by 26.9%, outperforming the MSCI Emerging Europe 10/40 benchmark by 5.54% mostly as a result of good stock selection. However, it was not all straightforward. Good corporate growth was offset to some degree by rising inflationary pressures, and this led to stock market volatility. This was exacerbated as it became clear that US monetary policy would tighten.

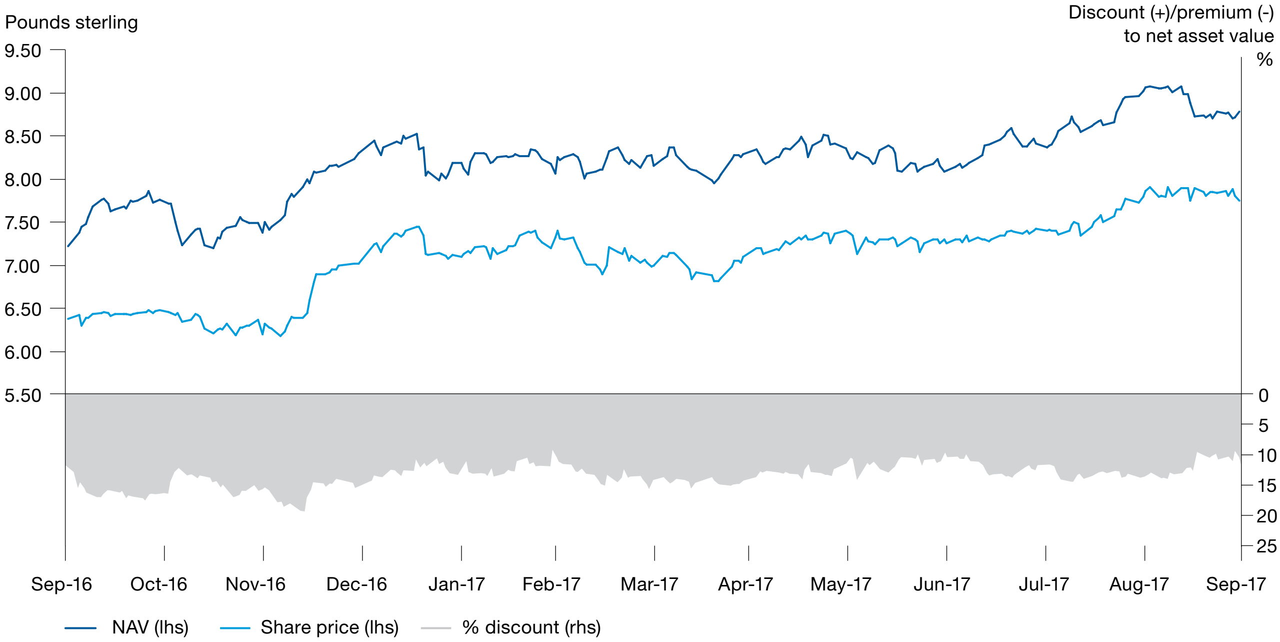
## Economic and Political Background

Russia – The Russian stock market found itself in the spotlight in the first half of the financial year thanks to political changes across the Atlantic. Donald Trump's surprising victory in the US presidential race with a campaign focused on protectionist policies created unrest amongst emerging market investors. Despite the rhetoric, the Trump administration appeared to view a reset in relations with Russia as desirable, with an end to economic sanctions introduced under the Obama administration looking possible. Meanwhile, the Russian Central Bank's impeccable handling of the challenging economic environment saw its credibility reinforced further. Enthusiasm for Russian stocks continued into 2017, supported by tentative signs of returning economic growth. Nevertheless, hopes for political rapprochement were quashed following the surfacing of allegations that the Russian State had interfered in the US elections. This led to the opposite of what many expected the Trump administration to achieve on the diplomatic front. That development, in conjunction with softening energy prices, meant that earnings expectations were adjusted downwards, bringing the positive momentum in the Russian equity market to an abrupt halt.

Turkey – The increasingly positive bilateral relations between Russia and Turkey were a welcome reprieve for the Turkish economy given the sorry state the tourism sector was in at the beginning of the year. This rapprochement led to a substantial rebound of Russian tourist arrivals in Turkey. The fact that Russian visitors have now surpassed Germans in the top spot is a measure of how things have changed.

Politically, Turkey was trying to cope with the damage caused by the July 2016 coup. As the prosecution of alleged coup plotters

### Baring Emerging Europe PLC – NAV per share, share price, % discount




*Source: Northern Trust*

continued, President Erdogan tightened his grip on the media and Turkey geared up for the constitutional referendum in April 2017. Unsurprisingly, economic activity stalled and consumer confidence was severely undermined.

This situation was compounded by the approach taken by the Turkish Central Bank to inflationary pressures arising from a weakening Turkish Lira. Investors became concerned about the risk of a pronounced, consumer-led recession, and were quick to sell, triggering a downward spiral in markets. This downward shift continued until the Turkish Central Bank adopted a more decisive approach and raised interest rates sharply. In a coordinated approach the government introduced fiscal measures to shore up demand, the most prominent of which was a Credit Guarantee Fund of substantial size (10% of GDP), aiming to improve access to bank finance for small and medium sized companies. The Turkish Central Bank managed to stabilise the currency which paved the way for a sharp turnaround in consumer confidence. The Credit Guarantee Fund sparked a lending boom and economic activity picked up considerably. Eventually, the referendum resulted in a market friendly outcome with a small majority in favour of the presidential system, providing much needed political stability. These developments had a positive influence on earnings expectations, igniting a broad-based recovery on Turkish markets, which continued as corporate profit expectations climbed higher.

Poland – Turkey was not the only market experiencing a turnaround in fortunes. Polish market participants, suffering from political interference and regulatory uncertainty following the election victory of the conservative PiS in 2015, took notice of the constructive policy measures implemented, amongst others, by Minister for economic development, Morawiecki. In particular, the country benefitted from solid export growth and a positive domestic consumption backdrop. This led to rapid economic growth and a notable increase in real income. Polish households enjoyed an increase of 6% in real wages, the strongest reading in this category in over 8 years.

Other Economies – In Central Europe, pricing power returned to the corporate sector and expanding margins underpinned rising equity markets. Appreciating currencies further contributed to these gains.

In Hungary, a nationalist government, led by Viktor Orban, defied EU policy on migrants and the independence of state institutions, but the stock market took these geo-political hurdles in its stride and responded instead to a better economic tone across the EU and the reflection of that in the performance of Hungarian companies, which was very positive.

The Czech National Bank abolished its exchange rate “floor” against the Euro and returned to a “managed float” regime. The fixed rate to the Euro was originally adopted as a way to keep deflationary pressures at bay. Rising wages ultimately led the Czech Central Bank Governor to abandon this link leading to a subsequent appreciation of the Czech Koruna of more than 3%. This was then accompanied by an interest rate hike in August, the first such increase since 2008.

In Romania, parliamentary elections in December 2016 saw a return of the scandal-ridden Social Democrats forming a coalition government. Having conceded power in the wake of country-wide anti-corruption protests in 2015 their return was made possible by a decline in political participation by the electorate, manifesting itself in a turnout of only 39.5%.

The Greek economy’s reaction to the improving backdrop in Europe was muted in comparison to other regional economies. Markets endured extensive quarrelling over the conditions attached to the release of a crucial EUR 8.5bn loan by the institutions charged with the refinancing of the Greek economy. The eventual positive outcome saw the release of this tranche of credit and allowed the Hellenic Republic to return to the public debt markets with a successful 5yr government bond issuance.

## Investment Strategy

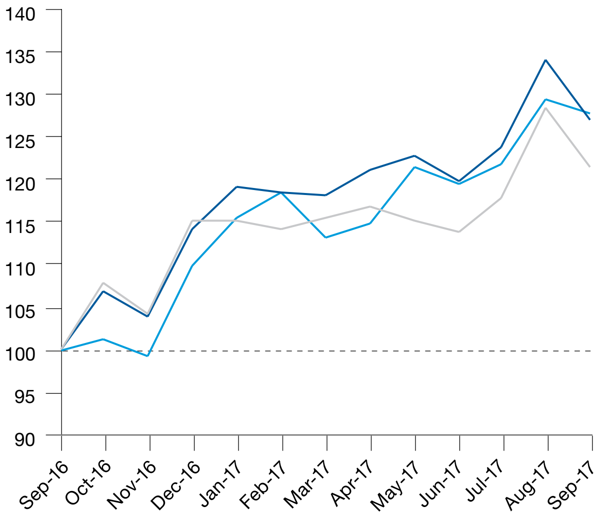
The Company has made use of a gearing facility of up to 7% of NAV for the entire year, as part of its strategy aimed at enhancing returns for shareholders. As in the past, use of this facility in the future will depend on the opportunities present in Emerging European Equity markets. Last year’s decision to expand the regional mandate to the Middle East and Africa, was implemented as the Company undertook its first investment in the region with a position in healthcare operator NMC Health in the UAE, although this was later sold after a strong rise. So far, the Company’s exposure to the extended mandate has been limited to this particular investment.

The Company’s strategic exposure to smaller and medium sized companies increased over the course of the year and the total number of stocks held in the portfolio rose to more than 50.

# Report of the Fund Manager (continued)

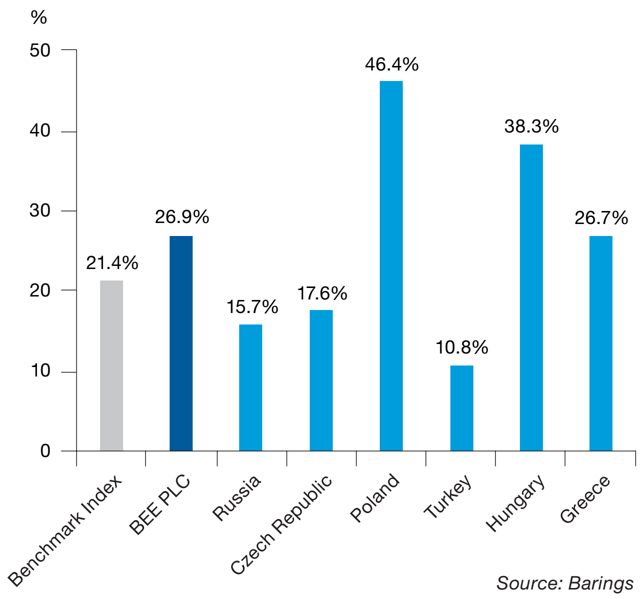
The pick-up in issuance activity, which we see as a measure of the attractiveness of Emerging European markets, is a positive development, increasing liquidity and enlarging the opportunity set. While portfolio activity remained at average levels overall, the Company's stock holdings changed substantially over the course of the year. Of the top 15 holdings, 5 were sold during the year. Notable sales include Halkbank (Turkey, finance), Phosagro (Russia, chemicals), Sabanci Holding (Turkey, industrials), Dogus Holding (Turkey, consumer discretionary), Alior Bank (Poland, financials), NMC Health (UAE, health care), Tupras (Turkey, energy), PZU (Poland, finance), Magnit (Russia, consumer staples), M.Video (Russia, consumer discretionary) and Novatek (Russia, energy). Interestingly, in most cases the decision to sell was driven by a relative or absolute deterioration in the relevant stock's business outlook or a deterioration in corporate governance standards rather than by the level of valuation.

### Performance versus Benchmark Index for the year ended 30 September 2017




*† The Benchmark Index is the MSCI EM Europe 10/40 Index.*

### Fund, Benchmark Index and country returns (£) – 30 September 2016 to 30 September 2017




*Source: Barings*

Exceptions to this were M.Video where we accepted a buyout offer from a competitor aiming to consolidate the electronic goods retailing market, as well as NMC Health and PZU, where 80%+ increases in share prices led the stocks to our assessment of full valuation. It was particularly encouraging from the point of view of governance standards, that M.Video's major shareholder insisted that the favourable terms of the buyout offer were extended to minority shareholders even though the corporation's legal structure would have allowed for separate, less favourable treatment.

The more prominent additions to the portfolio include Hungarian Bank OTP, which stands to benefit from increasing economic activity and a rising interest rate; Russian social network giant/internet company Mail.ru, where we see substantial revenue growth opportunities in a large, underpenetrated market and Koç Holding, the most successful Turkish industrial conglomerate with a substantial export focus. In the small and midcap sector we participated in the IPOs of Russia's leading children's goods retailer Detski Mir; DP Eurasia, the fast growing Domino's Pizza franchise in Turkey and Russia; Dino Polska, a Polish convenience supermarket chain; and Play, the Polish no-frills mobile telephony challenger.

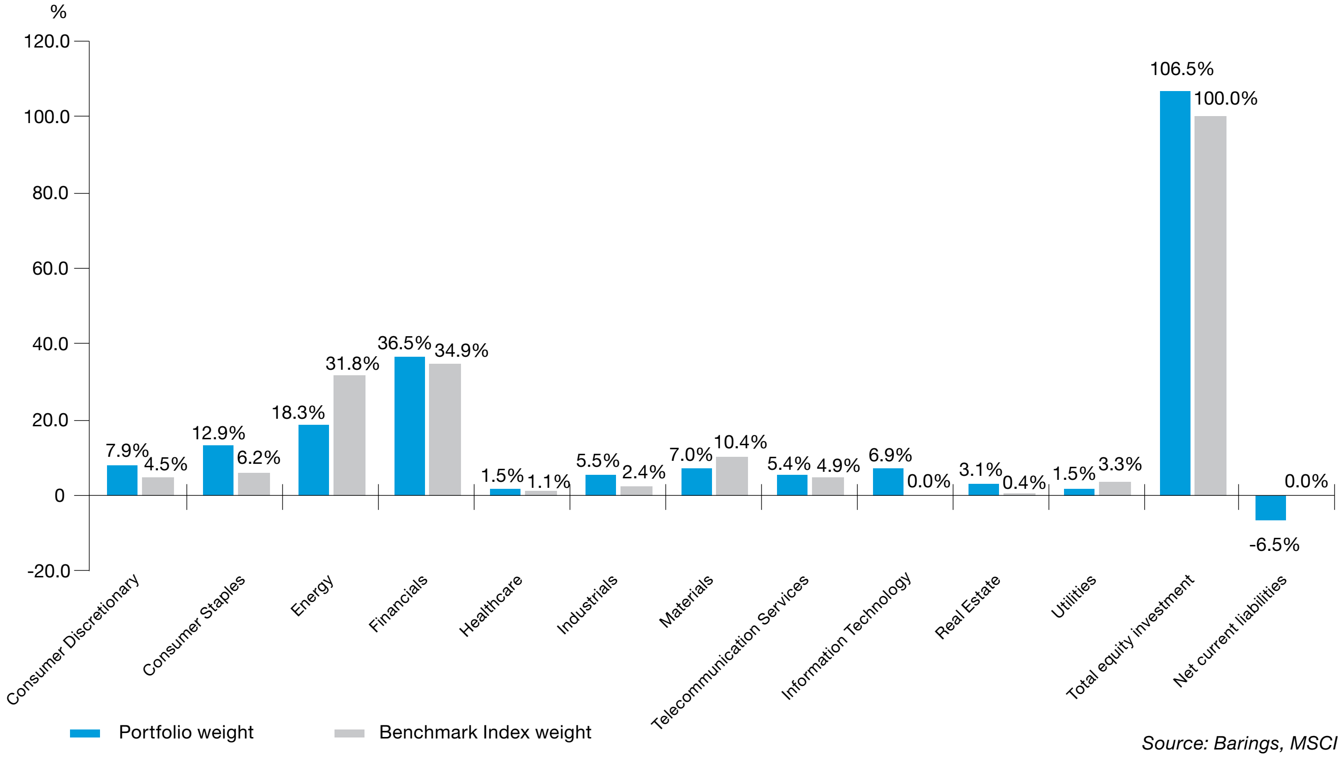
## Sector Weightings

The Company was significantly underweight in the energy sector during the year, and this contributed positively to relative returns as the sector underperformed the regional benchmark. Significant overweight positions in consumer sectors, including both staples and discretionary sub-groups helped returns as these outperformed. Of particular note was a large weighting of approximately 7% in information technology, a sector which

# Report of the Fund Manager (continued)

## Classification of assets

### Sector distribution of portfolio (%) at 30 September 2017




*Source: Barings, MSCI*

has no representation in the benchmark, and which performed very strongly during the year. The investment process followed by Barings does not set target sector (or indeed country) weightings, but reflects the aggregation of individual bottom up investment decisions. In the past year, as in many previous years, this approach has served the Company well.

### Company weighting versus Benchmark Index by country of operation at 30 September 2017

| Country of operation | Company | Benchmark |
|---|---|---|
| Czech Republic | **3.1%** | 2.7% |
| Greece | **2.9%** | 4.9% |
| Hungary | **4.7%** | 5.0% |
| Poland | **14.3%** | 19.8% |
| Russia | **61.5%** | 50.8% |
| Turkey | **11.5%** | 16.8% |
| Romania | **3.6%** | – |
| Other | **4.9%** | – |
| Net current liabilities | **(6.5)%** | – |
| | **100.0%** | 100.0% |

*Source: Barings, MSCI*

## Regional Market Analysis

The heterogenous nature of markets in our region and the low level of synchronisation between the respective business cycles brought positive diversification effects to the portfolio. This allowed volatility – the measure for daily NAV fluctuations – to drop to the lowest level in years. Crucially, we believe that the current environment of low correlation between markets, sectors and individual stocks plays to the strengths of our investment strategy, which focuses on stock picking.

Russia – Domestically orientated stocks such as Sberbank (banking), Yandex and Mail.ru (both internet/social media) managed to add between 45% and 85% (in USD terms). Conversely, the Energy sector featuring oil and gas majors such as Rosneft, Lukoil and Gazprom languished. Contrasts were also evident within sectors. Within retail in Russia for example, X5 and Magnit reacted to the highly competitive environment in different ways, positively in the case of X5, which rose 55% while rival Magnit ran into heavy weather and declined.

# Report of the Fund Manager (continued)

Poland – The Polish equity market, having failed to meet the expectations of investors in recent years, made an impressive comeback. Driven by its blue chips, the market gained in excess of 48% (in USD terms), pushing the Warsaw stock exchange's return right up the global ranking. Insurer PZU (+98% in USD terms), refiner PKN (+96% in USD terms), shoe retailer CCC (+63% in USD terms) and copper miner KGHM (+65% in USD terms) were the dominant contributors to index performance. A combination of investment opportunity and good returns saw our exposure to Poland overtake that of Turkey.

Turkey – The eventual return of political stability in Turkey affected earnings expectations positively. This sparked a broad-based recovery on Turkish markets which continued as corporate profit expectations climbed higher. Of note, the performance of oil refining monopolist Tupras' performance (up 80%) towered above the rest of the market. Nevertheless, the Company's overall weighting in Turkey has shrunk somewhat over the previous year.

Other Regional markets – Hungary's relatively small Budapest exchange, posted a stellar performance propelled by improving corporate profits. The Greek economy, having survived multiple politically induced traumas over recent periods showed tentative signs of recovery resulting in a 30% increase (in USD terms based on MSCI Greece).

Overall, it is encouraging to see large caps from various sectors and various markets contributing to returns. This goes hand in hand with our belief that Emerging European stock markets offer investors a diverse set of quality companies that can successfully identify growth avenues in a geography of 300mn+ people.

## Outlook

Emerging European equity markets have performed strongly over the last two years and we believe there are three key factors that could sustain this in the future.

- Currently, the main Emerging European markets find themselves at different stages of the economic cycle. Aided by global, but also regional developments, the current economic expansion shows little signs of abating. The substantial earnings upgrades exhibited across many markets are indicative of the pronounced effects the economic expansion has had on corporate profitability. Importantly, the share of corporate profits in the overall economy of Central European countries remains low following years of contraction.

- Emerging European companies and economies are in good shape and it is our belief that they are less susceptible to global shocks than in previous cycles. The majority of Emerging European listed companies have used the recent years to improve financial health, overseen by management teams not afraid of taking tough decisions. Increasing cash flow generation and levels of equity are indicative of this development.

- We take note of the growing understanding of the benefits of Environmental, Social and Corporate governance (ESG) policies, most tangibly seen in increasing dividend payments. Support for clearly defined ESG policies by Emerging European stock market listed companies, encourages us to believe that increased transparency and managerial responsibility stand to benefit shareholders going forward.

# Report of the Fund Manager (continued)

## Investment portfolio

The Company's investment portfolio at 30 September 2017, is set out in the following table:

| | Holding | Primary country of listing or investment | Market value £000 | % of investment portfolio |
|---|---|---|---|---|
| 1 | Sberbank | Russia | 13,518 | 10.98 |
| 2 | Lukoil Holdings | Russia | 9,542 | 7.75 |
| 3 | Magnit | Russia | 6,222 | 5.05 |
| 4 | OTP Bank | Hungary | 5,855 | 4.75 |
| 5 | Novatek | Russia | 4,358 | 3.54 |
| 6 | Mail.ru | Russia | 4,253 | 3.45 |
| 7 | Garanti Bank | Turkey | 4,103 | 3.33 |
| 8 | TCS | Russia | 4,051 | 3.29 |
| 9 | AO Tatneft | Russia | 3,810 | 3.09 |
| 10 | PZU | Poland | 3,786 | 3.07 |
| 11 | CCC | Poland | 3,567 | 2.90 |
| 12 | X5 Retail Group | Russia | 3,565 | 2.89 |
| 13 | Alrosa | Russia | 3,241 | 2.63 |
| 14 | Gazprom | Russia | 3,102 | 2.52 |
| 15 | LSR | Russia | 2,998 | 2.43 |
| 16 | Globaltrans | Russia | 2,917 | 2.37 |
| 17 | National Bank of Greece | Greece | 2,502 | 2.03 |
| 18 | KGHM Polska Miedz | Poland | 2,414 | 1.96 |
| 19 | Yandex | Russia | 2,413 | 1.96 |
| 20 | Bank Pekao | Poland | 2,363 | 1.92 |
| 21 | Megafon | Russia | 2,088 | 1.70 |
| 22 | Yapi ve Kredi Bankasi | Turkey | 2,071 | 1.68 |
| 23 | Moneta Money Bank | Czechia | 2,014 | 1.64 |
| 24 | Epam Systems | Belarus | 1,906 | 1.55 |
| 25 | TMK | Russia | 1,897 | 1.54 |
| 26 | Kofola Ceskoslovensko | Czechia | 1,887 | 1.53 |
| 27 | Electrica | Romania | 1,873 | 1.52 |
| 28 | Mobile Telesystems | Russia | 1,847 | 1.50 |
| 29 | Grupa Kety | Poland | 1,827 | 1.48 |
| 30 | Detsky Mir | Russia | 1,807 | 1.47 |
| 31 | Bank Zachodni WBK | Poland | 1,798 | 1.46 |
| 32 | Coca Cola Icecek | Turkey | 1,776 | 1.44 |
| 33 | Ford Otomotiv Sanayi | Turkey | 1,543 | 1.25 |
| 34 | MD Medical | Russia | 1,497 | 1.22 |
| 35 | Play Communications | Poland | 1,389 | 1.13 |
| 36 | Wizz Air | Hungary | 1,384 | 1.12 |
| 37 | BCA Transilvania | Romania | 1,355 | 1.10 |
| 38 | Vostok New Ventures Ltd | Russia | 1,282 | 1.04 |
| 39 | Koc Holdings | Turkey | 1,240 | 1.01 |
| 40 | Ulker Biskuvi Sanayi | Turkey | 1,106 | 0.90 |
| 41 | Polyus | Russia | 1,027 | 0.83 |
| 42 | OPAP | Greece | 1,020 | 0.83 |

# Report of the Fund Manager (continued)

| | Holding | Primary country of listing or investment | Market value £000 | % of investment portfolio |
|---|---|---|---|---|
| 43 | MHP | Ukraine | 966 | 0.78 |
| 44 | Globalworth Real Estate | Romania | 848 | 0.69 |
| 45 | Turkcell Iletisim Hizmetleri | Turkey | 842 | 0.68 |
| 46 | Brisa Bridgestone Sabanci | Turkey | 800 | 0.65 |
| 47 | Turk Traktor | Turkey | 689 | 0.56 |
| 48 | Global Ports | Russia | 578 | 0.47 |
| 49 | Sistema | Russia | 566 | 0.46 |
| 50 | DP Eurasia | Turkey and Russia | 524 | 0.42 |
| 51 | Sollers | Russia | 441 | 0.36 |
| 52 | BRD Groupe Societe Generale | Romania | 371 | 0.30 |
| 53 | Dino Polska | Poland | 339 | 0.28 |
| 54 | Norilsk Nickel | Russia | 42 | 0.03 |
| | **Total investments** | | **131,220** | **106.53** |
| | **Net current liabilities** | | **(8,047)** | **(6.53)** |
| | **Net assets** | | **123,173** | **100.00** |

## Review of Top Ten Holdings at 30 September 2017

| Holding | Sector | Market value £000 | % of investment portfolio | End weighting relative to benchmark | Company comment |
|---|---|---|---|---|---|
| Sberbank | Finance | **13,518** | **10.98** | Overweight | Russia's largest bank, successful implementation of modernisation strategy offers scope for further improvement of profitability. |
| Lukoil | Energy | **9,542** | **7.75** | Overweight | High yielding Russian oil stock with potential for further dividend growth. |
| Magnit | Consumer Staples | **6,222** | **5.05** | Overweight | One of the leading Russian supermarket chains, pursuing market share growth via country-wide store roll-out strategy. |
| OTP | Finance | **5,855** | **4.75** | Overweight | Hungary's largest bank with a strong regional footprint in Bulgaria, Ukraine and Russia. |
| Novatek | Energy | **4,358** | **3.54** | Overweight | Largest independent gas producer in Russia. Liquified Natural Gas strategy provides significant growth potential. |
| Mail.ru | Internet | **4,253** | **3.45** | Overweight | Russia-based Internet company operating an integrated communications and entertainment platform, the social network "VKontakte" and an Online Games segment. |
| Garanti Bank | Finance | **4,103** | **3.33** | Overweight | One of the largest private banks in Turkey, majority controlled by BBVA. |
| TCS | Finance | **4,051** | **3.29** | Overweight | Russian Fin-Tech challenger bank, providing online retail financial services through a high-tech branchless platform. |
| AO Tatneft | Energy | **3,810** | **3.09** | Overweight | Local energy champion in the Russian independent republic of Tatarstan. Strong cash flows allow for high dividend payout ratios and pursuit of downstream growth strategy. |
| PZU | Financials | **3,786** | **3.07** | Overweight | Largest Polish insurer. Its capital base allows for substantial dividend payout ratios. Potential consolidator in the Emerging European financial sector. |
| | | | **48.3** | | |

**Baring Fund Managers Limited**

6 December 2017

# Strategic report

for the year ended 30 September 2017

The Directors submit to the shareholders their Strategic report, Director's report and the audited financial statements of the Company for the year ended 30 September 2017.

## Business and tax status

In the opinion of the Directors, the Company has conducted its affairs during the period under review, and subsequently, so as to maintain its status as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company has obtained written approval as an investment trust from HM Revenue & Customs for all accounting periods up to the year ended 30 September 2013 and has made a successful application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods starting on or after 1 October 2013 subject to the Company continuing to meet the eligibility conditions contained in Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements outlined in Chapter 3 of Part 2 of the Regulations.

The Company is an investment company as defined in Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

## Alternative Investment Fund Management Directive ("AIFMD")

In order to comply with AIFMD, the Company has appointed Baring Fund Managers Limited ("BFM") to act as its Alternative Investment Fund Manager ("AIFM") pursuant to an Alternative Investment Fund Management Agreement entered into by the Company and the AIFM on 21 July 2014 (the "AIFM Agreement"). BFM has been approved as an AIFM by the UK's Financial Conduct Authority. The investment management agreement entered into by the Company and Baring Asset Management Limited ("BAM") on 12 November 2002 (the "IMA") has been terminated although BFM has delegated the portfolio management of the Company's portfolio of assets to BAM. The AIFM Agreement is based on the IMA and differs to the extent necessary to ensure that the relationship between the Company and BFM is compliant with the requirements of AIFMD. The fees payable to BFM and the notice period under the AIFM Agreement are unchanged from the IMA. The Company and BFM have also entered into a Depositary Agreement with State Street Trustees Limited ("State Street") pursuant to which State Street has been appointed as the Company's Depositary for the purposes of AIFMD.

The Company is managed by external parties in respect of investment management, custodial services and the day-to-day accounting and company secretarial requirements. As noted above the Alternative Investment Fund Manager is BFM and details of the agreement with BFM are given in note 3 to the accounts. The Depositary is State Street Trustees Limited and Custodian is State Street Bank & Trust Company Limited. Secretarial services are provided by Northern Trust Global Services Limited and as of 1 January 2018 this will be delegated to Link Asset Services. The Company has no employees. The Directors are all non-executive.

## Investment objective

The investment objective is to achieve long-term capital growth, principally through investment in securities listed on or traded on an Emerging European securities market or in securities of companies listed or traded elsewhere, whose revenues and/or profits are, or are expected to be, derived from activities in Emerging Europe.

## Investment policy

The policy of the Directors is that, in normal market conditions, the portfolio of the Company should consist primarily of diversified securities listed or traded on Emerging European securities markets (including over the counter markets). Equity securities for this purpose include equity-related instruments such as preference shares, convertible securities, options, warrants and other rights to subscribe for or acquire, or relating to, equity securities. The Company may also invest in debt instruments such as bonds, bills, notes, certificates of deposit and other debt instruments issued by private and public sector entities in Emerging Europe.

# **Strategic report** (continued)

In addition, Emerging European exposure may be obtained by indirect means. Investments may, for example, be made in securities of companies listed on securities markets outside Emerging Europe that derive, or are expected by the Directors to derive, the majority of their revenues and/or profits and/or growth from activities in Emerging Europe.

The Company may also invest in other funds in order to gain exposure to Emerging Europe where, for example, such funds afford one of the few practicable means of access to a particular market, or where such a fund represents an attractive investment in its own right. The Company will not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).

The Company may from time to time invest in unquoted securities, but the amount of such investment is not expected to be material. Furthermore the Board has agreed that the maximum exposure to unquoted securities should be restricted to 5% of the Company's gross assets.

For the purposes of this investment policy the Board has defined Emerging Europe as the successor countries of the former Soviet Union, Poland, Hungary, the Czech Republic, Slovakia, Turkey, the States of former Yugoslavia, Romania, Bulgaria, Albania and Greece. There is no restriction on the proportion that may be invested in these countries.

In addition the Board has agreed that up to 15% of the gross assets may be invested in other countries (see page 20) provided that any investments made are companies listed on a regulated stock exchange.

The Board has agreed that the maximum value of any one investment should not exceed 12% of the Company's gross assets save with the prior written consent of the Board. Where excess occurs due to market movement the manager will notify the Board of this and will reduce the holding to below 12% within six months.

In addition to the above restriction on investment in a single company the Board seeks to achieve a spread of risk in the portfolio through monitoring the country and sector weightings of the portfolio. There will be a minimum of 30 stocks in the portfolio.

The Company's Articles provide that the Company may borrow an amount equal to its share capital and reserves. At 30 September 2017, the only loan facility in place was a US$17 million loan facility with State Street Bank and Trust Company Limited which can be used as a source of gearing. In order to provide a mechanism to gear the portfolio the Board has authorised the Alternative Investment Fund Manager to invest in long only derivatives in Polish, Russian and Turkish index futures where feasible. The Alternative Investment Fund Manager has discretion to operate with an overall exposure of the portfolio to the market of between 90% and 110%, to include the effect of any derivative positions. Gearing was employed during the year, US$12 million was drawn down on 10 July 2016 and remained at this level up to and including 30 September 2017.

## Return per ordinary share

| | **30 September 2017** | | | 30 September 2016 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | Total |
| Return per ordinary share | **22.31p** | **168.65p** | **190.96p** | 21.39p | 184.53p | 205.92p |

Revenue return (earnings) per ordinary share is based on the return for the year of £3,294,000 (2016: £3,623,000). Capital return per ordinary share is based on net capital gains for the financial year of £24,897,000 (2016: net capital gains of £31,261,000). These calculations are based on the weighted average of 14,762,470 (2016: 16,940,616) ordinary shares in issue during the year.

# **Strategic report** (continued)

At 30 September 2017 there were 14,028,979 ordinary shares of 10 pence each in issue (2016: 16,387,212) which excludes 3,318,207 ordinary shares held in treasury (2016: 3,318,207 shares held in treasury). The shares held in treasury are treated as not being in issue when calculating the weighted average of ordinary shares in issue during the year. All shares repurchased during the year were cancelled.

## Dividends

The Board recommends a final dividend of 19p per share. Subject to approval of the Annual General Meeting, the recommended annual dividend will be paid on 16 February 2018 to members on the register at the close of business on 12 January 2018. The shares will be marked ex-dividend on 11 January 2018.

## Tender offer, change in investment policy and change in discount control mechanism

On 15 December 2016 the Company announced proposals to return capital to shareholders through a tender offer of up to 10 per cent. of the issued share capital of the Company at a 2.5 per cent. discount to net asset value per share as at 24 January 2017 ("Tender Offer"). The Company also proposed a change of its investment policy (the "Investment Policy") (the Tender Offer and the change in Investment Policy being referred to as the "Proposals") and certain changes to the Company's approach to discount management (subject to the shareholders' approval of the Proposals and certain other proposals).

A circular (the "Circular") setting out the full details of the Proposals and the changes to the Company's approach to discount management and containing a notice of general meeting convened for 3.00 pm on 24 January 2017 was published on 15 December 2016.

In 2013, the Board set out a discount management target of maintaining the "Discount to NAV" for any given financial year at an average of under 12 per cent., failing which a tender would be offered to shareholders. During the financial year to 30 September 2016, despite the Board's efforts to manage this process, the Discount to NAV had averaged 14.4 per cent, which meant that the conditions for a tender offer were triggered. Through the course of the financial year to 30 September 2016, the shares had traded at a Discount to NAV in a range between 18.8 per cent. and 7.9 per cent. In accordance with the intention set out in 2013, the Board decided to offer shareholders the opportunity to receive a return of capital closer to NAV through the implementation of a Tender Offer.

Notwithstanding the implementation of the Tender Offer, the Board decided that it was in the Company's interest that it takes certain steps to address the long term viability of the Company's approach to discount management and has approved the implementation of the following measures.

1. With effect from 1 June 2017, the introduction of a policy to offer shareholders a tender of up to 25 per cent. of the shares (at the minimum discount at which no dilution will occur) in the event that:

(i) the average daily Discount to NAV ('cum-income') exceeds 12 per cent. as calculated with reference to the trading of the shares over the four year period immediately preceding each relevant publication date of the Company's financial results (the "New Calculation Period"), provided that the first New Calculation Period will be the period between 1 October 2016 and 30 September 2020 (Discount to NAV, for discount management purposes, was previously calculated with reference to the 365 day period prior to the publication of the Company's results for the financial year); or

(ii) the performance of the Company's portfolio on a total return basis does not exceed its benchmark (being the MSCI EM Europe 10/40 Index) by an average of 100 basis points per annum over the New Calculation Period.

2. An increase in the Company's focus on a dividend yield by paying dividends from capital where considered appropriate by the Board. The Board anticipates paying out up to one per cent. per annum of NAV from capital.

# **Strategic report** (continued)

In addition, the Board sought approval from shareholders at the General Meeting to implement certain changes to the Investment Policy. As reported in the Company's 2015 annual report, following a proposal from the Company's investment manager to expand the geographical remit of the Company to permit investment in the Middle East and Africa (MEA), the Board agreed to increase the limit on investment in other countries, outside Emerging Europe, from two per cent. to five per cent. to provide some scope for this. The immediate trigger for the proposal was the opening up of the Saudi market to foreign investors, but capital markets in both Africa and the Middle East continue to develop rapidly and may offer opportunities to expand the scope of investments. In order to provide the Company's investment manager with additional flexibility, the Board obtained Shareholder approval to increase the permitted investment in other countries, outside Emerging Europe, from five per cent. to 15 per cent. The Board currently intends that the "other countries" for the purposes of the change in the Investment Policy will comprise Bahrain, Egypt, Jordan, Kenya, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Oman, Qatar, Saudi Arabia, South Africa, Tunisia and UAE. The Company's benchmark will remain unchanged (MSCI EM Europe 10/40 Index).

At the General Meeting held on 24 January 2017 the special resolutions to approve the repurchase of shares by the Company in connection with the Tender Offer, and to change the Company's investment policy as described in the circular to Shareholders dated 15 December 2016, were duly approved.

The NAV as at the Calculation Date for the Tender Offer (24 January 2017) was 806.28 pence per Share. Accordingly, the Tender Price was 784.18 pence per Share, being 97.5 per cent. of the NAV (after accounting for the costs of the Tender Offer) as at the Calculation Date.

On 27 January 2017 the Company announced that a total of 1,585,858 Shares, representing approximately 10 per cent. of the Company's issued share capital (excluding any Shares held in treasury), had been successfully tendered.

During the year ended 30 September 2017, 2,358,233 shares were repurchased (including the Tender Offer) at a cost of £17,972,000 (1,364,512 shares were repurchased during the year ended 30 September 2016 at a cost of £7,453,000). Any shares repurchased were cancelled.

During the period from 1 October 2016 to the year ended 30 September 2017 the average discount was 13.4% (2016: 14.4%).

## Viability statement

In accordance with provision C.2.2 of the Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Board conducted this review for a period of three years which was selected because it was considered to be a reasonable time horizon given that the Company invests in Emerging markets which may be more volatile than developed markets. The Board also regularly considers the strategic position of the Company including investor demand for the Company's shares and a three year period is considered to be a reasonable time horizon for this.

The Directors' have carried out a robust assessment of the Company's principal risks and its current position. The principal risks faced by the Company and the procedures in place to monitor and mitigate them are detailed below. As the Company's portfolio consists of shares which are listed on regulated markets, many of which are highly liquid, funds can be raised to meet the Company's liabilities as they fall due. The Company has no long term debt. At 30 September 2017 the Company had drawn down US$12 million from its loan facility with State Street Bank as a result of which the Company's portfolio was 6.5% geared. This exposure does increase risk but is carefully monitored by the Board and in any event is limited to 10% of gross assets. The interest cost of the loan is covered 19 times by the revenue surplus. On the basis of the current portfolio yield, the Directors expect the Company to continue to generate a revenue surplus.

Based on the above assessment the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities over the three year period to December 2020.

# **Strategic report** (continued)

## Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives of which the most important are as follows:

- ### Performance against the peer group
  The Board monitors performance relative to a broad range of competitor funds, as defined by the Morningstar Emerging Europe Universe. In the year ended 30 September 2017 the Company was ranked 3rd out of 41 funds in this universe. Over three years to 30 September 2017 it was ranked 2nd out of 41 funds and over five years it was ranked 3rd out of 41 funds.

- ### Performance against the Benchmark Index
  A chart of NAV performance versus Benchmark Index for the nine years ended 30 September 2017 (total return) is set out in the Directors' Remuneration report on page 29.

- ### Discount to NAV
  The average discount for the year ended 30 September 2017 was 13.4%.

- ### Ongoing charges
  The annualised ongoing charges figure for the year was 1.42% (2016: 1.49%). This figure, which has been prepared in accordance with the recommended methodology of the Association of Investment Companies represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses excluding loan interest. The Board reviews each year an analysis of the Company's ongoing charges figure and a comparison with its peers.

## Principal risks

The key risks to the Company fall broadly under the following categories:

- ### Investment and strategy
  The Board regularly reviews the investment mandate and long-term investment strategy in relation to the market and economic conditions. The Board also regularly monitors the Company's investment performance against the Benchmark Index and the peer group and its compliance with the investment guidelines.

- ### Accounting, legal and regulatory
  In order to qualify as an investment trust, the Company must comply with the provisions contained in Section 1158 of the Corporation Taxes Act 2010. A breach of Section 1158 in an accounting period could lead to the Company being subject to corporation tax on gains realised in that accounting period. Section 1158 qualification criteria are continually monitored by Baring Fund Managers Limited and the results reported to the Board at its regular meetings. The Company must also comply with the Companies Act and the UKLA Listing Rules. The Board relies on the services of the administrator, Northern Trust Global Services Limited and its professional advisers to ensure compliance with the Companies Act and the UKLA Listing Rules.

- ### Loss of investment team or Alternative Investment Fund Manager
  A sudden departure of the Alternative Investment Fund Manager or several members of the investment management team could result in a short-term deterioration in investment performance. The Alternative Investment Fund Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team-based approach, as well as special efforts to retain key personnel.

- ### Discount
  A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount policy and has set parameters for the Company's broker to follow with regard to the buy-back of shares.

# **Strategic report** (continued)

- ## Corporate governance and shareholder relations

  Details of the Company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 23 to 27.

- ## Operational

  Like most other investment trust companies, the Company has no employees. The Board currently consists of six non-executive Directors, two of whom are female and the other four are male and is chaired by Steven Bates. The Company therefore relies upon the services provided by third parties and is dependent on the control systems of the Alternative Investment Fund Manager and the Company's service providers. The security of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems. These are regularly tested and monitored. The Depositary and Custodian and the Alternative Investment Fund Manager also produce annual reports on internal controls which are reviewed by their respective auditors and give assurance regarding the effective operation of controls.

- ## Financial

  The financial risks faced by the Company are disclosed in note 18 on pages 51 to 55.

- ## Future developments

  The future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments in the countries in which it invests. The Alternative Investment Fund Manager discusses the outlook in its report on page 10.

- ## Social, community and human rights

  The Company does not have any specific policies on social, community or human rights issues as it is an investment company which does not have any physical assets, property, employees or operations of its own.

- ## Modern Slavery Act

  The Company is an investment vehicle and does not provide goods or services in the normal course of its business, or have customers. Accordingly, the Directors consider that the Company is not within the scope of the Modern Slavery Act 2015.

For and on behalf of the Board

**Steven Bates**
Chairman
6 December 2017

# Report of the Directors

## Directors

The present Directors are listed below and on page 56. They are all non-executive and have served throughout the year apart from Calum Thomson who was appointed on 21 September 2017. The Board consists of two females and four males.

**Steven Bates** spent 18 years with the Fleming group until 2002, latterly as head of emerging markets of JPMorgan. He has extensive experience in both emerging and developed markets. He is a director of GuardCap which is a specialist asset management business and is also the chief investment officer of Salisbury Partners. He is also on the boards of a number of financial companies. He was appointed a Director of Baring Emerging Europe PLC on 27 January 2003 and was appointed Chairman of Baring Emerging Europe PLC on 19 January 2010.

**Jonathan Woollett** is the founding partner of Acoro Capital Partners LLP, an investment partnership and a director of Thames Capital Holdings Limited, a London property company. He has over 20 years experience in the region as a director at the European Bank for Reconstruction and Development and prior to EBRD, a director at Credit Suisse Asset Management and CS First Boston. Prior to Credit Suisse, he worked for UBS, having started his banking career with Deutsche Bank in 1979. He was appointed a Director of Baring Emerging Europe PLC on 23 July 2008.

**Ivo Coulson** has over 25 years of experience in the City, first with BZW as a director in their investment management division and then as a director with SG Warburg in their equity trading operation, latterly heading up their closed end fund team. He is currently head of portfolio management at Stanhope Capital LLP, a prominent multi family office based in the West End of London and a non executive director of JPMorgan Smaller Companies Investment Trust PLC. He was appointed a Director of Baring Emerging Europe PLC on 29 September 2010.

**Frances Daley** a Chartered Accountant with a predecessor firm to EY and spent 9 years in Corporate Finance followed by 18 years in various CFO roles. From 2007 to 2012 she was group finance director of the private equity backed Lifeways Group, the UK's largest provider of specialist support to adults with learning disabilities and mental health needs. She is also Chair of Haven House Children's Hospice and Chair of James Allen's Girls' School and a non-executive director of Henderson Opportunities Trust PLC. She was appointed a Director of Baring Emerging Europe PLC on 29 April 2014.

**Nadya Wells** is a Non-Executive Director with over 20 years Emerging and frontier markets experience as a long-term investor and governance specialist. Latterly she spent 13 years with the Capital Group until 2015, as a portfolio manager and analyst with a focus on EMEA markets. Prior to that she was a portfolio manager at Invesco Asset Management investing in Eastern Europe in closed end funds until 1999. She started her career with EY in management consulting. She is also an independent non-executive director on the Supervisory Board of Sberbank of Russia where she sits on audit, risk and strategy committees and a non-executive director of ECEX AB in Sweden. She has an MBA from INSEAD. She was appointed to the Board of Baring Emerging Europe PLC on 23 September 2015.

**Calum Thomson** is a Non-Executive Director who is a Chartered Accountant with over 25 years' experience in the financial services industry. For the past 21 years, he has been an audit partner at Deloitte LLP, specialising in the asset management sector, with clients including a wide range of managers, investment trusts, banks, sovereign wealth funds, large charities and private equity funds. During his career he has led Deloitte LLP's global and UK asset management groups. He is also a non-executive director and audit committee chairman of The Diverse Income Trust plc, British Empire Trust plc, Standard Life Private Equity Trust plc and BLME Holdings plc. He was appointed to the Board of Baring Emerging Europe PLC on 21 September 2017.

There were no contracts or arrangements subsisting during or at the end of the financial year in which any Director is or was materially interested.

# Report of the Directors (continued)

## Substantial shareholdings

At 6 December 2017, the Company had received notification of the following disclosable interests in the ordinary share capital of the Company:

| | Number of shares | % |
|---|---|---|
| City of London Investment Management Company Ltd | 2,575,405 shares | 18.60% |
| Lazard Asset Management LLC | 1,408,455 shares | 10.17% |
| City of Bradford Metropolitan District Council | 929,000 shares | 6.71% |

## Corporate governance

The statement of Corporate Governance, as shown on pages 23 to 27, is incorporated by cross reference into this report.

## Going concern

The Directors believe that, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, the Company has adequate resources and an appropriate financial structure in place to continue in operational existence for the foreseeable future. The assets of the Company consist mainly of securities which are readily realisable. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## Socially responsible investment

The Board has delegated the investment management function to Baring Fund Managers Limited. The Alternative Investment Fund Manager's primary objective is to produce superior financial returns to investors. It believes that over the long term sound social, environmental and ethical policies make good business sense and takes these issues into account when, in its view, they have a material impact on either the investment risk or the expected return from an investment.

## Global greenhouse gas emissions for the year ended 30 September 2017

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emission producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

## Annual General Meeting ("AGM")

### THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

The AGM will be held on Tuesday, 16 January 2018 at 2.30pm. The formal notice of the AGM is set out on pages 57 and 58. Separate resolutions are proposed for each substantive issue. Resolutions relating to the following items of special business will be proposed at the AGM, for which shareholder approval is required in order to comply with the Companies Act 2006.

### Authorities to allot shares and to disapply pre-emption rights (Resolutions 11 and 12)

Approval is sought to give the Board the authority to allot ordinary shares or grant rights to subscribe for or convert any securities into ordinary shares up to an aggregate nominal amount equal to £69,226 (representing 692,261 ordinary shares of 10 pence each). This amount represents approximately 5% of the issued ordinary share capital (excluding treasury shares) of the Company as at

5 December 2017, being the latest practicable date prior to publication of the notice of meeting on pages 57 and 58 (the "Notice"). As at the date of the Notice, 3,318,207 ordinary shares are held by the Company in treasury.

The Directors do not intend to allot ordinary shares pursuant to this power other than to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's existing shareholders to do so.

Resolution 12 would, if passed, give the Board the authority to allot shares (or sell any shares held in treasury) for cash on a non pre-emptive basis up to an aggregate amount of £85,817 This amount represents 858,172 shares and is approximately 5% of the total share capital of the Company in issue (including treasury shares) as at 5 December 2017, being the latest practicable date prior to publication of the Notice. This will enable the Company to issue new shares (or to sell treasury shares) to investors when the Directors consider that it is in the best interests of shareholders to do so. **This power will not be utilised when it would result in any dilution of the net asset value per ordinary share.**

In respect of this amount, the Board confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three year period. The Principles provide that usage in excess of 7.5% of share capital should not take place without prior consultation with shareholders.

The full text of the resolutions is set out in the Notice.

If Resolutions 11 and 12 are approved, the authorities will expire at the conclusion of the AGM in 2019.

## Authority to purchase own shares (Resolution 13)

At the AGM held on 24 January 2017, shareholders renewed the Director's authority to buyback up to 14.99% of the Company's ordinary shares. Pursuant to this authority, a total of 244,527 shares were purchased and cancelled during the year under review. This represented 1.74% of the issued share capital at 30 September 2017. The prices paid for these shares ranged from 704.67p to 790.00p and the total cost amounted to £1,826,000. 183,741 further shares have been brought back since the Company's year end.

The Board proposes that the Company should be given renewed authority to purchase ordinary shares in the market either for cancellation or to be held, sold, transferred or otherwise dealt with as treasury shares in accordance with the Companies Act.

The Directors consider that the renewal of this authority is in the interests of shareholders as a whole as the repurchase of ordinary shares at a discount to their net asset value ("NAV") would enhance the NAV of the remaining ordinary shares. Accordingly a special resolution will be proposed at the AGM to authorise the Company to make market purchases of up to 14.99% of the ordinary shares in issue, equivalent to 2,075,401 ordinary shares as at 5 December 2017, being the latest practicable date prior to publication of the Notice. Under the Listing Rules of the Financial Conduct Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

Purchases of shares will be made within guidelines set from time to time by the Board and will only be made in the market at prices below the prevailing NAV and, in any event, not below a minimum price of 10 pence per share.

The authority for the Company to purchase its own ordinary shares will, by virtue of the Treasury Share Regulations 2003 and the Companies (Share Capital and Acquisition by a Company of its Own Shares) Regulations 2009, allow the Company to hold ordinary shares so purchased in treasury, as an alternative to immediate cancellation.

Any exercise by the Company of the authority to purchase shares will occur only when market conditions are appropriate. Purchases will be funded either by using available cash resources, debt or by selling investments.

This authority shall expire at the earlier of the conclusion of the AGM in 2019 or 15 July 2019, unless such authority has been renewed prior to such time.

# Report of the Directors (continued)

**The Board considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board unanimously recommends that you vote in favour of them.**

## Conflict of interest

Section 175 of the Companies Act 2006, which came in to effect on 1 October 2009, introduced a duty for directors to avoid unauthorised conflicts of interest. The Articles of Association approved by Resolution 2 at the General Meeting held on 15 January 2009 allows the Directors to authorise such conflicts and potential conflicts, where appropriate. The Board has expanded the terms of reference of the Audit Committee to review conflicts and potential conflicts and make recommendations to the Board as to whether any such conflicts should be authorised.

## Companies Act 2006 Disclosures

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- the Company's capital structure is summarised on page 49, voting rights are summarised on page 59, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- details of the substantial shareholders in the Company are listed on page 20;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there exist no agreements to which the Company is party to that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

The Board recognises the requirement under Section 417(5) of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies. As the Company has no employees or policies in these matters this requirement does not apply. Notwithstanding, the Alternative Investment Fund Manager takes into account these considerations when making investment decisions and determines its voting instructions at investee company meetings accordingly.

## Auditor

The Company's Auditor, KPMG LLP, has indicated its willingness to continue in office. Resolutions for the re-appointment of KPMG LLP and to authorise the Board to determine its remuneration will be proposed at the Annual General Meeting.

By order of the Board

**M. J. Nokes F.C.A.**
Secretary
6 December 2017

# Statement of Corporate Governance

## Introduction

The Board is accountable to the Company's shareholders for the governance of the Company's affairs and this statement describes how the principles of the Financial Reporting Council's UK Corporate Governance Code issued in April 2016 ("the Code") have been applied to the affairs of the Company. In applying the principles of the Code, the Directors have also taken account of the Code of Corporate Governance published by the Association of Investment Companies ("the AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide") issued in July 2016, which has established a framework of best practice specifically for the boards of investment trust companies. There is some overlap in the principles laid down by the two Codes and there are some areas where the AIC Code is more flexible for investment trust companies.

## Applications of the Code's principles

The Board is committed to high standards of corporate governance and seeks to observe the principles identified in the Code and in the AIC Code. It should be noted that, as an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties and the Directors are all non-executive. Thus not all the provisions of the Code are directly applicable to the Company.

## The Board

The Board currently consists of six non-executive Directors, two of whom are female and the other four are male and is chaired by Steven Bates. The Chairman and Jonathan Woollett have served on the Board for over nine years and under the Code may not be considered to be independent of the Company and the Alternative Investment Fund Manager. The Board however, takes the view that independence is not necessarily compromised by length of tenure on the Board and experience can add significantly to the Board's strength. It has therefore been determined that in performing the role as Directors, the Chairman and Jonathan Woollett remain wholly independent and all the Directors are considered by the Board to be independent of the Company and the Alternative Investment Fund Manager. Their biographies are set out on page 19. Collectively the Board has the requisite range of business and financial experience which enables it to provide clear and effective leadership and proper stewardship of the Company.

The number of meetings of the Board, the Audit Committee and the Nomination Committee held during the financial year and the attendance of individual Directors are shown below:

| | Board | Audit Committee | Nomination Committee |
|---|---|---|---|
| **Number of meetings in the year** | **5** | **2** | **1** |
| Steven Bates | 5 | 2 | 1 |
| Jonathan Woollett | 5 | 2 | 1 |
| Ivo Coulson | 5 | 2 | 1 |
| Frances Daley | 5 | 2 | 1 |
| Nadya Wells | 5 | 2 | 1 |
| Calum Thomson (appointed 21 September 2017) | 1 | 0 | 1 |

All of the Directors attended the Annual General Meeting held in January 2017, apart from Calum Thomson who was appointed on 21 September 2017.

The Board deals with the Company's affairs, including the consideration of overall strategy, the setting and monitoring of investment policy and the review of investment performance. The Alternative Investment Fund Manager takes decisions as to asset allocation and the purchase and sale of individual investments. The Board papers circulated before each meeting contain full information on the financial condition of the Company. Key representatives of the Alternative Investment Fund Manager attend most of the Board meetings, enabling Directors to probe further or seek clarification on matters of concern.

Matters specifically reserved for discussion by the full Board have been defined and a procedure adopted for the Directors to take independent professional advice if necessary at the Company's expense.

# Statement of Corporate Governance (continued)

The Chairman of the Company is a non-executive Director. A senior non-executive Director has not been identified as the Board is comprised entirely of non-executive Directors.

## Performance evaluation/re-election of Directors

An appraisal process has been established in order to review the effectiveness of the Board, the Committees and individual Directors. This process involves the Chairman meeting with individual Directors to obtain their views on the performance of the Board and its Committees. In addition, the other Directors meet collectively once a year to evaluate the performance of the Chairman. The Board has also reviewed the Chairman's and Directors' other commitments and is satisfied that the Chairman and other Directors are capable of devoting sufficient time to the Company.

The performance of the Company is considered in detail at each Board meeting.

## Board Committees

The Board believes that the interests of shareholders in an investment trust company are best served by limiting its size so that all Directors are able to participate fully in all the activities of the Board. It is for this reason that the membership of the Audit and Nomination Committees is the same as that of the Board as a whole. Functions normally carried out by a remuneration committee are dealt with by the whole Board, all Directors are non-executive. Matters which would fall under a management engagement committee are carried out by the Board as a whole.

### Audit Committee

The Directors have appointed an Audit Committee consisting of the whole Board, and is chaired by Frances Daley. The Board's view is that the members of the Committee, taken as a whole, have the necessary recent and relevant financial experience. The Audit Committee reviews audit matters within clearly-defined written terms of reference (copies of which are available upon request from the Company Secretary).

In particular, in respect of the financial statements, the Committee shall review and challenge where necessary:

- the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the Strategic Report and the Statement of Corporate Governance (insofar as it relates to the audit and risk management).

The main significant issue that the Committee has considered is around the completeness, valuation and existence of quoted investments at the year ended 30 September 2017. The Committee is satisfied that the investments at the year ended 30 September 2017 exist and are correctly valued at fair value (which is the bid market price for listed investments).

The Committee meets at least twice a year and is responsible for reviewing the annual and interim reports, the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the Auditor, including its remuneration and the provision of any non-audit services. The Committee has considered the independence of the Auditor and the objectivity of the audit process and is satisfied that KPMG LLP has fulfilled its obligations to shareholders. The Audit Committee will meet if required with the Auditor to review the proposed audit programme of work and the findings of the Auditor. The Committee shall also use this as an opportunity to assess the effectiveness of the audit process. KPMG LLP has been the Company's Auditor for the last fifteen years and there has been no re-tendering of the Audit in that time. To comply with the provision in the Code the Company will review the option to re-tender the external audit on a regular basis.

The Audit Committee regularly reviews the terms of the different service providers to the Company including contracts with the Alternative Investment Fund Manager, the Company Secretary, the Depositary and the Custodian. The Audit Committee meets representatives of the

# **Statement of Corporate Governance** (continued)

Alternative Investment Fund Manager and its Compliance Officer who provides reports on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Alternative Investment Fund Manager operate. The Company's external Auditor also attends this Committee at its request and report on its findings in relation to the Company's statutory audit.

As the Company has no employees, section C.3.4 of the Code, which deals with arrangements for staff to raise concerns in confidence about possible improprieties in respect of financial reporting or other matters, is not directly relevant to it. The Audit Committee has however, confirmed with the Alternative Investment Fund Manager and the administrator that they do have "whistle blowing" policies in place for their staff.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

## Nomination Committee

The Nomination Committee consists of the whole Board and is chaired by the Chairman. The Committee meets at least annually and terms of reference are in place which include reviewing the Board's size, structure and diversity, succession planning and training. Possible new Directors are identified against the requirements of the Company's business and the need to have a balanced Board. External search consultants may be used to ensure that a wide range of candidates can be considered.

A Director who has been appointed during the year is required under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require a Director who has held office at the time of the two preceding Annual General Meetings and who did not retire at either to seek re-election. In addition, a Director who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may seek re-election by the members. Notwithstanding the provisions of the Articles of Association, the Board has adopted a policy that Directors will offer themselves for annual re-election except where they intend to retire at an Annual General Meeting.

The Board appointed one new Director during the year. A sub-committee of the Nomination Committee considered an extensive list of candidates put forward by external search consultants, Cornforth Consulting, who could either fulfil the role of Chairman of the Board (as the current Chairman is intending to retire from the Board at the AGM in January 2018) or Chairman of the Audit Committee and interviewed a short list of individuals. The objective was to find the best contribution of new skills to the balance of experience of remaining Board members. Following the completion of this process, the unanimous conclusion of the sub-committee was that Mr Calum Thomson should be appointed as a Director. A recommendation was then made to the Board and following acceptance by the Board as a whole, the appointment of Mr Thomson was confirmed. The sub-committee also recommended to the Board that Ms Daley should take over as Chairman when Mr Bates retires in January 2018 with Mr Thomson, who had been an audit partner at Deloitte specialising in the asset management sector, replacing her as Chairman of the Audit Committee. The Board has agreed with these recommendations.

The Committee recommended to the Board, with the relevant Directors absenting themselves from these discussions, the nominations for re-election of Ivo Coulson, Frances Daley, Nadya Wells and Jonathan Woollett for the following reasons and Calum Thomson who offers himself for election following his appointment to the Board on 21 September 2017:

- Ivo Coulson, who was appointed a Director in 2010, has significant experience in the investment management industry and has been significantly involved with the Boards' shareholder relations.
- Frances Daley, who was appointed a Director on 29 April 2014, has significant financial and accounting experience.
- Nadya Wells, who was appointed a Director on 23 September 2015, has significant experience in the investment management industry.
- Jonathan Woollett, who was appointed a Director in 2008, has over 20 years experience in the Emerging European region with experience in both private equity and financial services.

The Chairman has decided to retire from the Board and will not seek re-election at the AGM.

# Statement of Corporate Governance (continued)

## Remuneration

Functions normally carried out by a remuneration committee are dealt with by the whole Board, all Directors are non-executive. The Directors' Remuneration policy and Directors' fees are detailed in the Directors' Remuneration report on page 28.

## Risk management and internal control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard shareholders' investment and the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

The Board as a whole is primarily responsible for the monitoring and review of risks associated with investment matters and the Audit Committee is primarily responsible for other risks.

As the Board has contractually delegated to external parties the investment management, the depositary and custodial services and the day-to-day accounting and company secretarial requirements, the Company relies significantly upon the internal controls operated by those companies. Therefore the Directors have concluded that the Company should not establish its own internal audit function. The Board continues to monitor its system of internal control in order to ensure it operates as intended and the Directors review annually whether an internal audit function is required. Alternative investment fund management services are provided by BFM and details of the agreement with BFM are given in note 3 to the accounts. The Depositary is State Street Trustees Limited and the Custodian is State Street Bank & Trust Company Limited. Secretarial services are provided by Northern Trust Global Services Limited.

The risk map has been considered at all regular meetings of the Board and Audit Committee. As part of the risk review process, regular reports are received from the Alternative Investment Fund Manager on all investment matters including compliance with the investment mandate, the performance of the portfolio compared with the Benchmark Index and compliance with investment trust status requirements.

## Accountability and audit

Set out on page 32 is a Statement by the Directors of their responsibilities in respect of the accounts.

As noted earlier, an Audit Committee has been established consisting of independent Directors.

The Board as a whole regularly reviews the terms of the management and secretarial contracts and those of other service providers.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

The Directors were covered by directors' and officers' insurance that was in place during the financial year and at the date of this report.

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The indemnities were executed on 20 April 2011 and are currently in force.

## Relations with shareholders

The Board regularly reviews the Alternative Investment Fund Manager's contacts with the Company's shareholders and monitors its shareholder profile. The Board supplements this with some direct contact with shareholders and is available to speak with any shareholder who wishes to do so. The Board supports the principle that the Annual General Meeting be used to communicate with private investors. The full Board attends

# Statement of Corporate Governance (continued)

the Annual General Meeting and the Chairman of the Board chairs the meeting. Details of the proxy votes received in respect of each resolution are made available to shareholders at the meeting. The Alternative Investment Fund Manager attends to give a presentation to the meeting. A quarterly newsletter is produced by the Alternative Investment Fund Manager and is available to shareholders.

If a shareholder would like to contact the Board directly, he or she should write to the Chairman at 155 Bishopsgate, London EC2M 3XY and mark their letter private and confidential.

## Corporate Governance and Voting Policy

The Company delegates responsibility for voting to its Alternative Investment Fund Manager, Baring Fund Managers Limited ("BFM"). BFM have in turn delegated this responsibility to Baring Asset Management Limited ("BAM"). The following is a summary of Barings statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from the Barings website (www.barings.com) and is contained within the paper titled "Corporate engagement at Barings" dated June 2015.

"Barings is charged to secure a satisfactory rate of return on capital entrusted to it by its clients. We do this by providing companies with their risk capital, buying stocks and shares which we believe will outperform the broader market and deliver these returns to our clients.

We assess these companies and decide which to invest in through a process of fundamental research. As long-term investors, corporate engagement is at the heart of what we do. It is particularly relevant for equity investing, where we will develop and maintain a purposeful dialogue on strategy, performance and the management of risk, but it is also an integral part of the investment process for sub-investment grade (or "high yield") credit.

In our assessment of the risk factors, before making an investment in these classes we will take in to account the corporate governance structure of the company; judging whether the structure could inhibit the delivery of good returns and whether the interests of the management are aligned with those of the investors in the company.

We make use of an external agency, Institutional Shareholder Services (ISS) Voting Services to assist on our voting procedures. ISS gives recommendations which we assess and then we vote in accordance with what we believe to be in the best interests of our clients."

## Evaluation of performance of Alternative Investment Fund Manager

Investment performance is reviewed at each regular Board meeting at which representatives of the Alternative Investment Fund Manager are required to provide answers to any questions raised by the Board. The Board conducts an annual formal review of the Alternative Investment Fund Manager which includes consideration of:

- performance compared with Benchmark Index and peer group;
- investment resources dedicated to the Company;
- investment management fee arrangements and notice period compared with the peer group; and
- marketing effort and resources provided to the Company.

The Board believes that Baring Fund Managers Limited has served the Company well both in terms of investment portfolio management and general support and confirms the continuation of its appointment.

## Statement of compliance

The Board considers that it has complied with all the material provisions set out in Section 1 of the Code throughout the year.

By order of the Board

**M. J. Nokes F.C.A.**
Secretary
6 December 2017

# Directors' Remuneration report

for the year ended 30 September 2017

This report is presented in accordance with Section 421 of the Companies Act 2006. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the level of fees paid to Directors, which are reviewed on a periodic basis, is dealt with by the whole Board.

The Directors' and their families' interests in the Company's shares are stated below (non-audited):

| Beneficial | 5 December 2017 | 30 September 2017 | 30 September 2016 |
|---|---|---|---|
| Steven Bates | **3,000** | **3,000** | 3,000 |
| Jonathan Woollett | **3,000** | **3,000** | 3,000 |
| Ivo Coulson | **2,000** | **2,000** | 2,000 |
| Frances Daley | **3,000** | **3,000** | 3,000 |
| Nadya Wells | **–** | **–** | – |
| Calum Thomson | **–** | **–** | – |

## Directors' remuneration policy

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors. Subject to this overall limit, currently £175,000, it is the Company's policy to determine the level of Directors' fees having regard to fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil, and the time committed to the Company's affairs.

No Director has a service contract with the Company. A Director may be removed without notice and compensation will not be due on leaving office.

The Company does not provide pension benefits, rights to any bonuses, share options or long-term incentive schemes for Directors.

## Directors' emoluments for the year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Steven Bates | **33.0** | 33.0 |
| Jonathan Woollett | **25.0** | 25.0 |
| Ivo Coulson | **25.0** | 25.0 |
| Frances Daley | **27.5** | 27.5 |
| Nadya Wells | **25.0** | 25.0 |
| Calum Thomson (appointed 21 September 2017) | **–** | – |
| Saul Estrin (retired 13 January 2016) | **–** | 7.0 |
| **Total** | **135.5** | 142.5 |

During the year ended 30 September 2017 the Chairman received a fee of £33,000 per annum, the Chairman of the Audit Committee received a fee of £27,500 per annum and other Directors £25,000 per annum.

## Relative importance of spend on pay (audited)

The following table compares the remuneration paid to the Directors with aggregate distributions to shareholders in the year to 30 September 2017 and the prior year. This disclosure is a statutory requirement, however, the Directors consider that comparison of Directors' remuneration with annual dividends does not provide a meaningful measure relative to the Company's overall performance as an investment trust with an objective of providing shareholders with long-term capital growth.

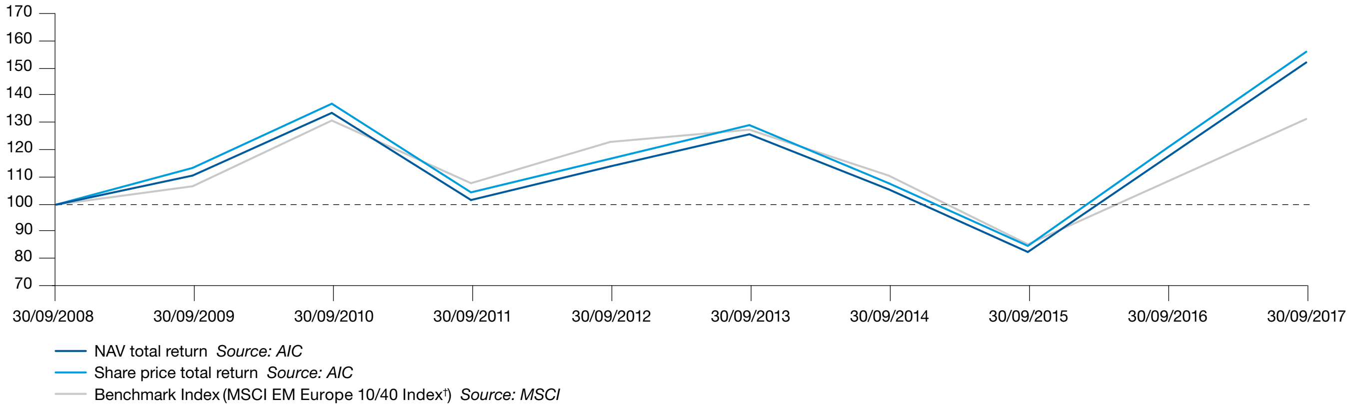
# Directors' Remuneration report (continued)

| | **Year ended 30 September 2017 £000** | Year ended 30 September 2016 £000 | **Change £000** |
|---|---|---|---|
| Aggregate Directors' emoluments plus expenses | **136** | 143 | **(7)** |
| Aggregate shareholder distributions in respect of the year | **4,513** | 3,769 | **744** |

## Share price performance (not audited)

The following graph compares the share price and net asset value performance against the Benchmark Index†:

Nine year performance versus Benchmark Index†




## Statement of voting at the Annual General Meeting

At the Annual General Meeting of the Company held on 24 January 2017 a binding resolution was put to shareholders to approve the Directors' Remuneration policy set out in the 2016 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the binding resolution were:

| | **For** | **Against** | **Withheld** |
|---|---|---|---|
| Number of proxy votes | **7,540,500** | **16,975** | **10,433** |

## Voting at last Annual General Meeting

At the Annual General Meeting of the Company held on 24 January 2017 an advisory resolution was put to shareholders to approve the Directors' Remuneration report, set out in the 2016 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the advisory resolution were:

| | **For** | **Against** | **Withheld** |
|---|---|---|---|
| Number of proxy votes | **7,546,940** | **11,235** | **9,733** |

## Approval

A resolution for the approval of the Directors' Remuneration report for the year ended 30 September 2017 will be proposed at the Annual General Meeting.

By order of the Board

**M. J. Nokes F.C.A.**
Secretary
6 December 2017

# Audit Committee report

## Composition and terms of reference

The composition and summary terms of reference of the Audit Committee are set out on pages 24 and 25.

## Activities

The Audit Committee met in April 2017 and considered the form and content of the Company's half year report to 31 March 2017 which was published on 17 May 2017. The Committee also reviewed the key risks of the Company and the Internal control framework operating to control risk. The Committee also reviewed the terms of engagement of the audit firm and its proposed programme for the year end audit. The Audit Committee has reviewed the effectiveness of the Auditor including: independence; the quality of the audit work including the ability to resolve issues in a timely manner, its communication with the Company; and the quality of people and services. The Committee met again in November 2017 and reviewed the outcome of the audit work and the final draft of the financial statements for the year ended 30 September 2017. The Audit Committee was satisfied that the audit process was effective for the year under review. During this review the Audit Committee met with representatives of both the Alternative Investment Fund Manager and the Administrator and sought assurances where necessary.

## Risk

Although the Board has ultimate responsibility for the management of risk, the Audit Committee assists by reviewing annual reports from the Alternative Investment Fund Manager, the Depositary and the Custodian on their internal controls and their operation. These reports are designed to provide details of the internal control procedures operated by the relevant entity and include a report by an independent reporting accountant.

The Audit Committee confirms that appropriate procedures to review the effectiveness of the Company's system of internal control have been in place which cover all controls including financial, operational and compliance controls and risk management. An assessment of internal control, which includes a review of the Company's risk map, an assessment of the quality of reports on internal control from the service providers and the effectiveness of the Company's reporting process, is carried out on an annual basis.

## Significant accounting matters

The Audit Committee in its work consider that the key accounting issue in relation to the financial statements is the valuation and existence of quoted investments. As part of the day to day controls of the Company there are regular reconciliations between the accounting records and the records kept by the custodian of the assets they safeguard which are owned by the Company. During the year and at the year end there were no matters brought to light which call in to question that the key controls in this area were not working, or that the existence of assets recorded in the books of account are not held in safe custody.

As more fully explained in note 1 (b) on page 43 at the year ended 30 September 2017 the Committee agreed that the fair value of quoted investments is the bid market price.

## The Audit

The external Auditor attended the year end Audit Committee meeting on 17 November 2017 and presented a report on the audit findings which did not include any significant issues in relation to the financial statements. During that meeting the Audit Committee satisfied itself that the Auditor was independent and also concluded to keep under review putting the audit out to tender. KPMG LLP have been the Auditor since the launch of the Company in 2002 and during that time the audit has not been put out to tender.

## Non-audit services

Contracts for non-audit services must be notified to the Audit committee who consider any such engagement in the light of the requirement to maintain audit independence. The Committee believe that all such appointments for non-audit work were appropriate and unlikely to influence the audit independence. In light of the new Auditor Independence regulations, the Company has appointed BDO LLP to provide certain tax compliance services in place of KPMG LLP.

# **Audit Committee report** (continued)

## Financial Statements

In finalising the financial statements for recommendation to the Board for approval the Committee has considered whether the going concern principle is appropriate, and concluded that it is. The Audit Committee has also satisfied itself that the Annual Report and financial statements taken as a whole are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

**Frances Daley**
Chairman of the Audit Committee
6 December 2017

# Statement of Directors' responsibilities 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 regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate Governance statement that comply with that law and those regulations.

The financial statements are published on the www.bee-plc.com website, which is maintained by Baring Asset Management Limited. The maintenance and integrity of the website maintained by Baring Asset Management Limited is, so far as it relates to the Company, the responsibility of Baring Asset Management Limited. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the annual report

We confirm to the best of our knowledge:

- the financial statements prepared in accordance with applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For Baring Emerging Europe PLC

**Steven Bates**
Chairman
6 December 2017

# The Alternative Investment Fund Manager & AIFMD disclosures

## The Alternative Investment Fund Manager

The Alternative Investment Fund Manager ("AIFM") of Baring Emerging Europe Plc ("the Fund") is Baring Fund Managers Limited ("BFM"), authorised by the FCA as an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

## AIFMD disclosures

### Pre-Investment Disclosures

BFM and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment can be found on the Company's website www.bee-plc.com under the prospectus and literature heading, the document is titled "Pre-investment disclosures", dated September 2016. There have been no material changes to the disclosures contained within the document since publication in July 2015.

### Leverage Disclosure

For the purposes of this disclosure, leverage is any method by which the Company's exposure is increased, whether through borrowing cash or securities, or leverage embedded in contracts for difference or by any other means. The AIFMD requires that each leverage ratio be expressed as the ratio between a Company's exposure and its NAV, and prescribes two required methodologies, the Gross Methodology and the Commitment Methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure. Using the methodologies prescribed under the AIFMD, the leverage ratios of the Company calculated on a Gross Basis was 107% and on a Commitment Basis was 109% as at 30 September 2017.

### Baring Emerging Europe Plc Remuneration Disclosure

BFM's Remuneration Policy ensures that the remuneration arrangements of AIFMD remuneration "Identified Staff" as defined in "ESMA's Guidelines on Sound Remuneration Policy under AIFMD, ESMA 2013/201" (the 'ESMA Guidelines'), (as amended) are:

(i) consistent with and promote sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile, rules or instruments of incorporation of BFM or the Fund; and

(ii) consistent with BFM's business strategy, objectives, values and interests and includes measures to avoid conflicts of interest.

BFM is also subject to the FCA's AIFM Remuneration Code (SYSC 19B). An AIFM firm must comply with the AIFMD remuneration principles in a way and to the extent that is appropriate to its size and business.

### Remuneration Committee

Due to the size and nature of BFM the Board considers it appropriate to dis-apply the requirement to appoint a remuneration committee.

Baring Asset Management Limited ("BAML") employs and remunerates all UK staff within the Barings group (which includes BFM). BAML is also the appointed delegate to carry out Investment Management.

BAML has an HR and Salaries Committee as well as a Remuneration Committee to ensure the fair and proportionate application of the remuneration rules and requirements across the Barings' group. The Committees ensure that potential conflicts arising from remuneration are managed and mitigated appropriately. All staff are subject to the Barings' Performance Management Review process, which includes both financial and non-financial criteria as appropriate.

# The Alternative Investment Fund Manager & AIFMD disclosures (continued)

## AIFMD Remuneration Identified Staff

BFM must determine its Identified Staff, whose professional activities have a material impact on its risk profile. Identified staff consists of staff whose professional activities have a material impact on the risk profiles of the AIFM or the Fund, which includes senior managers, controlled functions and risk takers.

### a) Senior Managers and controlled functions

BFM has a Board of Directors (the "Board") which comprises of four directors. The Directors have waived their entitlement to receive a director's fee from BFM. The Directors are all employees of BAML and accordingly are remunerated by BAML.

### b) Risk takers

Risk takers as defined by the BFM Remuneration Policy are as follows:

i. The Permanent Risk Management Function ("PRMF"): BFM's PRMF comprises of an Organisational Risk team and an Investment Risk team. The individuals who discharge these functions are identified staff and are remunerated by BAML. Their remuneration is not directly linked to the performance of the Fund.

ii. Investment Managers: BFM has delegated investment management to BAML and accordingly the Investment managers are remunerated by BAML under an equivalent remuneration regime (BAML and its subsidiaries are subject to remuneration rules contained in the Capital Requirements Directive ("CRD") and these are considered to be equally as effective as those contained in the AIFMD).

## Remuneration Disclosure: Baring Emerging Europe Plc

The table below summarises the fixed and variable remuneration paid to Identified Staff as well as other Barings' staff (remunerated by BAML) that carry out activities for the AIFM, for BFM's financial year ending 31 December 2016. The disclosures below show remuneration relevant to the Fund, apportioned using total Barings' Assets Under Management ("AUM").

| AIF Level | Number of beneficiaries | Total Fixed Remuneration for the period | Total Variable Remuneration for the period | Total Remuneration |
|---|---|---|---|---|
| AIFM Staff | 348 | £366,572 | £350,601 | £717,173 |
| Identified Staff | 8 | £247,520 | £273,602 | £521,122 |

Notes:

1. AIFM staff: this assumes all UK staff employed by BAML carry out some activities on behalf of BFM. Remuneration is apportioned based on the relevant AUM. Other than the Identified Staff noted above, none of the staff are considered to be senior managers or others whose actions may have a material impact on the risk profile of the Fund.

2. Identified Staff: These are as defined in the BFM Remuneration Policy; no direct payments are received by Identified Staff from BFM. Remuneration is paid by BAML and is apportioned on an AUM basis.

3. Variable remuneration consists of cash bonus and deferred awards awarded in the period.

4. The Fund does not pay either performance related fees or carried interests to any person.

*Shareholders should be aware that the value of the Company's Shares and the income from them may fluctuate. In addition, there is no guarantee that the market prices of shares in investment trusts will fully reflect their underlying Net Asset Value.*

# Special considerations and risk factors

The risks inherent in investments by the Company in Emerging Europe are of a nature and degree not typically encountered in investing in securities of companies listed on the major securities markets. Such risks are both political and economic and in addition to the normal risks inherent in any equity investment.

Investments in the Company should be regarded as long-term in nature. There can be no guarantee that the Company's investment objectives will be achieved.

# Alternative Performance Measures ("APMs")

We assess our performance using a variety of measures that are not specifically defined under FRS and therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies.

### Share Price Discount/Premium to Net Asset Value

If the share price of an investment trust is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount/premium is shown on page 2. The Board monitors the level of discount or premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share buy-backs, where appropriate.

### Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (see page 17). The Board continues to be conscious of expenses and works hard to maintain a sensible balance between good quality service and cuts.

### Gearing

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds (see page 2). This measures the impact on returns of borrowings or cash balances on the Company's relative performance.

### Return Per Share

Return per share is calculated using the net return on ordinary activities after finance costs and taxation divided by the weighted average number of shares in issue for the financial year (see note 8, page 47). The Directors also regard return per share to be a key indicator of performance.

# Independent Auditor’s report

to the members of Baring Emerging Europe PLC

## 1. Our opinion is unmodified

We have audited the financial statements of Baring Emerging Europe PLC (“the Company”) for the year ended 30 September 2017 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 30 September 2017 and of the Company’s profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor prior to 2002. The period of total uninterrupted engagement is at least the 16 years ended 30 September 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matter (unchanged from 2016) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

**Carrying amount of quoted equity investments £131m (2016: £124.5m)**

Refer to page 30 (Audit Committee Report), page 43 (accounting policy) and pages 40 to 55 (financial disclosures).

The risk – The Company’s portfolio of quoted investments makes up 98% (2016: 96%) of the Company’s total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response – Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- Tests of detail: Agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and
- Inquiry of custodians: Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodians.

Our results – We found the resulting carrying amount of quoted equity investments to be acceptable.

## 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £1.337m (2016: £1.125m), determined with reference to a benchmark of total assets, of which, it represents 1% (2016: 1%).

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £67,000 (2016: £56,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the administrator's offices in London.

## 4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement on page 20 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 32 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

## 5. We have nothing to report on the other information in the Annual Report

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

# **Independent Auditor's report** (continued)

## Directors' Remuneration Report

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

## Disclosures of Principal Risks and Longer-Term Viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement heading in the Strategic report (page 16) 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 and liquidity;
- the Principal Risks disclosures (pages 17 and 18) describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

## Corporate Governance Disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

## 6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

# **Independent Auditor's report** (continued)

## 7. Respective responsibilities

### Directors' Responsibilities

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## 8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Ravi Lamba (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
*Chartered Accountants*

15 Canada Square
London E14 5GL
6 December 2017

# Income statement

(incorporating the Revenue Account*) for the year ended 30 September 2017

| | | **Year ended 30 September 2017** | | | Year ended 30 September 2016 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Revenue £000** | **Capital £000** | **Total £000** | Revenue £000 | Capital £000 | Total £000 |
| Gains on investments held at fair value through profit or loss | 14 | **–** | **25,502** | **25,502** | – | 31,822 | 31,822 |
| Income | 2 | **5,146** | **–** | **5,146** | 5,363 | – | 5,363 |
| Investment management fee | 3 | **(476)** | **(476)** | **(952)** | (402) | (465) | (867) |
| Other expenses | 4 | **(765)** | **–** | **(765)** | (711) | – | (711) |
| **Return on ordinary activities** | | **3,905** | **25,026** | **28,931** | 4,250 | 31,357 | 35,607 |
| Finance costs | 5 | **(129)** | **(129)** | **(258)** | (96) | (96) | (192) |
| **Return on ordinary activities before taxation** | | **3,776** | **24,897** | **28,673** | 4,154 | 31,261 | 35,415 |
| Taxation | 6 | **(482)** | **–** | **(482)** | (531) | – | (531) |
| **Return for the year** | | **3,294** | **24,897** | **28,191** | 3,623 | 31,261 | 34,884 |
| **Return per ordinary share** | 8 | **22.31p** | **168.65p** | **190.96p** | 21.39p | 184.53p | 205.92p |

*The total column of this statement is the profit and loss account of the Company.

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

The annexed notes on pages 43 to 55 form part of these accounts.

The supplementary revenue and capital columns are both prepared under the guidance published by the Association of Investment Companies.

There is no other comprehensive income and therefore the return for the year is also the total comprehensive income for the year.

# Statement of financial position

as at 30 September 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value through profit or loss | 9 | **131,220** | 124,527 |
| **Current assets** | | | |
| Debtors | 10 | **1,679** | 3,473 |
| Cash and cash equivalents | | **762** | 1,934 |
| | | **2,441** | 5,407 |
| **Current liabilities** | | | |
| **Creditors:** amounts falling due within one year | 11 | **(10,488)** | (11,484) |
| **Net current liabilities** | | **(8,047)** | (6,077) |
| **Net assets** | | **123,173** | 118,450 |
| **Capital and reserves** | | | |
| Called-up share capital | 12 | **1,735** | 1,971 |
| Share premium account | | **1,411** | 1,411 |
| Redemption reserve | | **3,053** | 2,817 |
| Capital reserve | | **111,384** | 104,459 |
| Revenue reserve | | **5,590** | 7,792 |
| **Total Shareholders' funds** | | **123,173** | 118,450 |
| **Net asset value per share** | 13 | **877.99p** | 722.82p |

The financial statements on pages 40 to 55 were approved by the Board on 6 December 2017 and signed on its behalf by:

**Steven Bates**
Chairman

The annexed notes on pages 43 to 55 form part of these accounts.

**Company registration number 4560726**

# Statement of changes in equity

for the year ended 30 September 2017

| | Called-up share capital £000 | Share premium account £000 | Redemption reserve £000 | Capital reserve £000 | Revenue reserve £000 | Total £000 |
|---|---|---|---|---|---|---|
| **For the year ended 30 September 2017** | | | | | | |
| Beginning of year | **1,971** | **1,411** | **2,817** | **104,459** | **7,792** | **118,450** |
| Return for the year | **–** | **–** | **–** | **24,897** | **3,294** | **28,191** |
| Buyback of own shares for cancellation | **–** | **–** | **–** | **(17,682)** | **–** | **(17,682)** |
| Transfer to capital redemption reserve | **(236)** | **–** | **236** | **–** | **–** | **–** |
| Tender offer costs | **–** | **–** | **–** | **(290)** | **–** | **(290)** |
| Dividends paid | **–** | **–** | **–** | **–** | **(5,496)** | **(5,496)** |
| **Balance at 30 September 2017** | **1,735** | **1,411** | **3,053** | **111,384** | **5,590** | **123,173** |

| | Called-up share capital £000 | Share premium account £000 | Redemption reserve £000 | Capital reserve £000 | Revenue reserve £000 | Total £000 |
|---|---|---|---|---|---|---|
| **For the year ended 30 September 2016** | | | | | | |
| Beginning of year | 2,107 | 1,411 | 2,681 | 80,672 | 8,077 | 94,948 |
| Return for the year | – | – | – | 31,261 | 3,623 | 34,884 |
| Buyback of own shares for cancellation | – | – | – | (7,474) | – | (7,474) |
| Transfer to capital redemption reserve | (136) | – | 136 | – | – | – |
| Dividends paid | – | – | – | – | (3,908) | (3,908) |
| **Balance at 30 September 2016** | 1,971 | 1,411 | 2,817 | 104,459 | 7,792 | 118,450 |

The annexed notes on pages 43 to 55 form part of these accounts.

Distributable reserves comprise: the revenue reserve and capital reserves attributable to realised profits.

All investments are held at fair value through profit or loss. When the Company revalues the investments still held during the period, any gains or losses arising are credited/charged to the capital reserve.

# Notes to the accounts

for the year ended 30 September 2017

## 1. Accounting policies

A summary of the principal policies, all of which have been applied consistently throughout the year, is set out below:

### (a) Basis of accounting

The financial statements have been prepared in accordance with the applicable UK Accounting Standards, being FRS102 – The Financial Reporting Standard – and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (issued in November 2014 and updated in January 2017).

They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Directors consider that the Company has adequate resources to enable it to continue in operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to adopt the going concern basis in preparing the Company's financial statements.

### (b) Valuation of investments

Upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They 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 is bid market price for listed investments. Unquoted investments are included at a valuation determined by the Directors after discussion with the Alternative Investment Fund Manager on the basis of the latest accounting and other relevant information.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the capital column of the income statement within "Gains/(losses) from investments held at fair value through profit or loss". All purchases and sales are accounted for on a trade date basis.

Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

### (c) Foreign currency

Transactions denominated in foreign currencies are translated into sterling at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve. Foreign exchange movements on fixed asset investments are included in the Income Statement within gains on investments held at fair value through profit or loss.

### (d) Income

Investment income, which includes related taxation, has been accounted for on an ex-dividend basis or when the Company's right to the income is established.

Interest receivable on deposits is accounted for on an accruals basis.

# Notes to the accounts (continued)

## 1. Accounting policies (continued)

### (e) Expenses

All expenses are accounted for on an accruals basis and are charged as follows:

- the basic investment management fee is charged 50% to revenue and 50% to capital;
- any investment performance bonus payable to Baring Fund Managers Limited is charged wholly to capital;
- dealing costs are charged wholly to capital; and
- other expenses are charged wholly to revenue.

### (f) Interest payable

Interest payable is accounted for on an accruals basis, and is charged 50% to revenue and 50% to capital.

### (g) Capital reserve

Gains or losses on disposal of investments and changes in fair values of investments are transferred to the capital reserve. Any investment performance fee payable to Baring Fund Managers Limited is accounted for in the capital reserve.

### (h) Special reserve

Pursuant to a special resolution passed on 8 November 2002, the Company's application to reduce its share premium account was approved by the High Court and registered with the Registrar of Companies on 18 December 2002. The amount of the reduction was £86,624,982, representing the share premium arising on the issue of shares by the Company on 17 December 2002. This amount was transferred to a special reserve which has been utilised for the repurchase by the Company of its own shares.

### (i) Taxation

The charge for taxation is based upon the net revenue for the year. The tax charge is allocated to the revenue and capital accounts according to the marginal basis whereby revenue expenses are first matched against taxable income arising in the revenue account; the effect of this for the year ended 30 September 2017 was that all the deductions for tax purposes went to the revenue account.

Deferred taxation will be recognised as an asset or a liability if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset will not be recognised to the extent that the transfer of economic benefit is uncertain.

## 2. Income

| | **2017** **£000** | 2016 £000 |
|---|---|---|
| **Income from investments** | | |
| Overseas dividends – Quoted | **5,146** | 5,363 |
| | **5,146** | 5,363 |

# Notes to the accounts (continued)

## 3. Investment management fee

Baring Fund Managers Limited ("BFM") acts as the Alternative Investment Fund Manager ("AIFM") of the Company under an agreement terminable by either party giving not less than six months' written notice. Under this agreement BFM receives a basic fee (charged 50% to revenue and 50% to capital) which is calculated monthly and payable at an annual rate of 0.8% of the net asset value of the Company.

From 1 April 2016 the performance fee has been discontinued. Previously under the agreement BFM was entitled to a performance fee (charged to capital) which is payable at the rate of 10% of the amount by which the change in the Company's net asset value per share (on a total return basis) exceeds the Benchmark Index and any previous underperformance must be recovered before any fee is payable. The performance fee was capped at 0.6% of the net asset value of the Company on the first day of the performance period. The final performance fee was calculated on 31 March 2016. The whole of the performance fee was charged to the capital account as it is deemed to have arisen entirely as a result of the capital performance of the Company. A performance fee of £63,000 was paid for the year ended 30 September 2016.

The investment management fee comprises:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Basic fee (50% charged to revenue) | **476** | 402 |
| Basic fee (50% charged to capital) | **476** | 402 |
| Performance fee (100% charged to capital) | **–** | 63 |
| | **952** | 867 |

At 30 September 2017, £86,000 (30 September 2016: £78,000) of this fee remained outstanding.

## 4. Other expenses

| | **2017 £000** | 2016 £000 |
|---|---|---|
| Custody and administration expenses | **599** | 538 |
| Auditor's remuneration for: | | |
| – audit | **31** | 30 |
| Directors' fees | **135** | 143 |
| | **765** | 711 |

# Notes to the accounts (continued)

## 5. Finance costs

| | 2017 £000 | 2016 £000 |
|---|---|---|
| On short-term loan and gearing facility with State Street Bank & Trust Company repayable within 5 years, not by installments | | |
| Bank loan interest (50% charged to revenue) | **129** | 96 |
| Bank loan interest (50% charged to capital) | **129** | 96 |
| | **258** | 192 |

## 6. Taxation

### (a) Current tax charge for the year:

| | 2017 Revenue £000 | 2017 Capital £000 | 2017 Total £000 | 2016 Revenue £000 | 2016 Capital £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Overseas taxation (note 6(b)) | **482** | **–** | **482** | 531 | – | 531 |

### (b) Factors affecting the current tax charge for the year

The taxation rate assessed for the year is different from the standard rate of corporation taxation in the UK. The differences are explained below:

| | 2017 Revenue £000 | 2017 Capital £000 | 2017 Total £000 | 2016 Revenue £000 | 2016 Capital £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Return on ordinary activities before taxation | **3,776** | **24,897** | **28,673** | 4,154 | 31,261 | 35,415 |
| Return on ordinary activities multiplied by the standard rate of corporation tax of 19.50% (2016: 20.0%) | **736** | **4,855** | **5,591** | 831 | 6,252 | 7,083 |
| Effects of: | | | | | | |
| Non taxable overseas dividends | **(976)** | **–** | **(976)** | (1,068) | – | (1,068) |
| Non taxable UK dividends | **–** | **–** | **–** | (5) | – | (5) |
| Overseas withholding tax | **482** | **–** | **482** | 531 | – | 531 |
| Capital gains not deductible for tax | **–** | **(4,973)** | **(4,973)** | – | (6,364) | (6,364) |
| Loan relationship deficit not utilised | **25** | **25** | **50** | 19 | 19 | 38 |
| Excess management expenses not utilised/recognised | **215** | **93** | **308** | 223 | 93 | 316 |
| Current tax charge for the year | **482** | **–** | **482** | 531 | – | 531 |

The Company is not liable to tax on capital gains due to its status as an investment trust.

# Notes to the accounts (continued)

## 6. Taxation (continued)

The Company has an unrecognised deferred tax asset of £1,389,000 (2016: £1,570,000) based on the long term prospective corporation tax rate of 17.0% (2016: 17.0%). This asset has accumulated because deductible expenses have exceeded taxable income in past years. No asset has been recognised in the accounts because, given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

## 7. Dividend

| | **2017 Pence per share** | **2017 £000** | 2016 Pence per share | 2016 £000 |
|---|---|---|---|---|
| Annual dividend per ordinary share | **19p** | **2,665** | 23p | 3,769 |
| Interim dividend per ordinary share | **13p** | **1,848** | – | – |

## 8. Return per ordinary share

| | **Revenue** | **Capital** | **Total 2017** | Revenue | Capital | Total 2016 |
|---|---|---|---|---|---|---|
| Return per ordinary share | **22.31p** | **168.65p** | **190.96p** | 21.39p | 184.53p | 205.92p |

Revenue return (earnings) per ordinary share is based on the net revenue on ordinary activities after taxation of £3,294,000 (2016: £3,623,000).

Capital return per ordinary share is based on net capital profit for the financial year of £24,897,000 (2016: net capital profit of £31,261,000).

These calculations are based on the weighted average of 14,762,470 (2016: 16,940,616) ordinary shares in issue during the year.

At 30 September 2017 there were 14,028,979 ordinary shares of 10 pence each in issue (2016: 16,387,212) which excludes 3,318,207 ordinary shares held in treasury (2016: 3,318,207 shares held in treasury). The shares held in treasury are treated as not being in issue when calculating the weighted average of ordinary shares in issue during the year.

# Notes to the accounts (continued)

## 9. (i) Fixed asset investments

| Primary country of investment | **Quoted overseas £000** | **Total 2017 £000** | Quoted overseas £000 | Total 2016 £000 |
|---|---|---|---|---|
| Hungary | **7,239** | **7,239** | – | – |
| Austria | **–** | **–** | 1,882 | 1,882 |
| Czech Republic | **3,901** | **3,901** | 4,071 | 4,071 |
| Poland | **17,483** | **17,483** | 17,057 | 17,057 |
| Russia | **77,586** | **77,586** | 69,478 | 69,478 |
| Turkey | **14,170** | **14,170** | 21,888 | 21,888 |
| Greece | **3,522** | **3,522** | 1,987 | 1,987 |
| Romania | **4,447** | **4,447** | – | – |
| Other | **2,872** | **2,872** | 8,164 | 8,164 |
| **Total** | **131,220** | **131,220** | 124,527 | 124,527 |

## 9. (ii) Movements in the year

| | **Quoted overseas £000** | **Total 2017 £000** | Quoted overseas £000 | Total 2016 £000 |
|---|---|---|---|---|
| Book cost at beginning of year | **117,902** | **117,902** | 134,026 | 134,026 |
| Gains/(losses) on investments held at beginning of year | **6,625** | **6,625** | (30,350) | (30,350) |
| Valuation at beginning of year | **124,527** | **124,527** | 103,676 | 103,676 |
| Movements in year: | | | | |
| Purchases at cost | **51,628** | **51,628** | 50,748 | 50,748 |
| Sales proceeds | **(70,648)** | **(70,648)** | (62,781) | (62,781) |
| Gains/(losses) on investments sold in year | **10,163** | **10,163** | (4,062) | (4,062) |
| Gains on investments held at year end | **15,550** | **15,550** | 36,946 | 36,946 |
| Valuation at end of year | **131,220** | **131,220** | 124,527 | 124,527 |

Expenses incidental to the purchase or sale of investments are included within the purchase cost or deducted from sales proceeds. Transaction costs on purchases for the year ended 30 September 2017 amounted to £87,000 (2016: £72,000) and on sales for the year they amounted to £114,000 (2016: £100,000).

A list of the Company's investments by market value is shown on pages 11 and 12, and a geographical classification and industrial classification of the investment portfolio are shown on pages 8 and 9.

# Notes to the accounts (continued)

## 10. Debtors

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| **Amounts due within one year** | | |
| Amounts due from brokers | **1,359** | 2,663 |
| Prepayments and accrued income | **308** | 775 |
| Other debtors | **12** | 35 |
| | **1,679** | 3,473 |

## 11. Creditors

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Bank loans | **8,944** | 10,008 |
| Amounts outstanding to brokers due to the buyback of own shares | **1,245** | 1,167 |
| Other creditors | **299** | 309 |
| | **10,488** | 11,484 |

The Company has a US$17 million loan facility with State Street Bank and Trust Company. Under this facility, the Company may draw up to a maximum principal amount of US$17 million in varying proportions and for varying periods at prevailing interest rates. The amount outstanding in relation to this facility at 30 September 2017 was US$12 million (at 30 September 2016: US$13 million), which is repayable on 31 December 2017, interest is charged at the rate of LIBOR plus 1.25%.

## 12. Called-up share capital

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| **Allotted, issued and fully paid up** | | |
| 17,347,186 (2016: 19,705,419) ordinary shares of 10 pence (fully paid) | **1,735** | 1,971 |

During the year 2,352,233 ordinary shares were repurchased for cancellation for £17,682,000 (2016: 1,364,512 ordinary shares were repurchased for cancellation for £7,474,000). During the year no ordinary shares were repurchased to be held in treasury and no ordinary shares which were held in treasury were cancelled. The Company holds 3,318,207 ordinary shares in treasury which are treated as not being in issue when calculating the number of ordinary shares in issue during the year (2016: 3,318,207 ordinary shares were held in treasury). Shares held in treasury are non-voting and not eligible for receipt of dividends. Subsequent to the year end a further 183,741 shares have been repurchased for cancellation.

# Notes to the accounts (continued)

## 13. Net asset value per share

Total shareholders' funds and the net asset value per share attributable to the ordinary shareholders at the year-end calculated in accordance with the Articles of Association were as follows:

| | 2017 | 2016 |
|---|---|---|
| Total shareholders' funds (£000) | **123,173** | 118,450 |
| Net asset value (pence per share) | **877.99p** | 722.82p |

The net asset value per share is based on total shareholders' funds above, and on 14,028,979 ordinary shares in issue at the year end (2016: 16,387,212 ordinary shares in issue) which excludes 3,318,207 ordinary shares held in treasury (2016: 3,318,207 ordinary shares held in treasury). The ordinary shares held in treasury are treated as not being in issue when calculating the net asset value per share.

## 14. Capital reserve

| | Capital reserve | | |
|---|---|---|---|
| | **Gains/(losses) on sale of investments £000** | **Investment holdings gains/(losses) £000** | **Total £000** |
| At 1 October 2016 | **98,926** | **5,533** | **104,459** |
| Net gains on disposal of investments | **10,163** | **–** | **10,163** |
| Repurchase of share costs | **(17,972)** | **–** | **(17,972)** |
| Net movement in unrealised appreciation of investments | **–** | **15,550** | **15,550** |
| Losses on foreign exchange | **–** | **(211)** | **(211)** |
| Management fees charged to capital | **(476)** | **–** | **(476)** |
| Finance charges charged to capital | **(129)** | **–** | **(129)** |
| At 30 September 2017 | **90,512** | **20,872** | **111,384** |

## 15. Financial commitments

At 30 September 2017, there were no outstanding capital commitments (2016: £nil).

# Notes to the accounts (continued)

## 16. Custodian's lien

Under the terms of the Custody Agreement with State Street Bank & Trust Company ("State Street"), the Company has granted a lien over its securities and other assets that are deposited with State Street to cover all sums due in connection with the loan facility and the Custody Agreement.

## 17. Related party disclosures and transactions with the Alternative Investment Fund Manager

The Company is required to provide additional information concerning its relationship with the Alternative Investment Fund Manager, BFM, and details of the investment management fee charged by Baring Fund Managers Limited are set out in note 3. The ultimate holding company of BFM is Massachusetts Mutual Life Insurance Company. Fees paid to the Directors and full details of Directors' interests are disclosed in the Directors' Remuneration report on page 28.

## 18. Risk management policies and procedures

As an investment trust the Company invests in equities and other investments for the long-term so as to secure its investment objective stated on page 2. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends.

These risks, include market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk, and credit risk, and the Directors' approach to the management of them are set out below.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, that are set out below, have not changed from the previous accounting period.

### (a) Market risk

Special considerations and risk factors associated with the Company's investments are discussed on page 35. The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk (see (b) below), interest rate risk (see (c) below) and other price risk (see (d) below). The Board of Directors reviews and agrees policies for managing these risks, which have remained substantially unchanged from those applying in the year ended 30 September 2016. The Company's Alternative Investment Fund Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

### (b) Currency risk

Most of the Company's assets, liabilities, and income, are denominated in currencies other than sterling (the Company's functional currency, and in which it reports its results). As a result, movements in the rate of exchange between sterling and the currencies of the countries in which the Company invests, which are identified in the table shown in note 9, may affect the sterling value of those items. In addition the Company's uninvested cash balances are usually held in US dollars.

#### Management of the risk

The Alternative Investment Fund Manager monitors the Company's exposure and reports to the Board on a regular basis.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

# Notes to the accounts (continued)

## 18. Risk management policies and procedures (continued)

### (b) Currency risk (continued)

#### Foreign currency exposures

At 30 September 2017 monetary assets included cash balances totalling £761,741 (2016: £1,934,000) that were held in US dollars.

At 30 September 2017 monetary liabilities included a bank loan totalling £8,944,211 (2016: £10,008,000) that was due in US dollars.

At 30 September 2017 and at 30 September 2016 all of the equity investments were priced in a foreign currency.

#### Foreign currency sensitivity

The following table illustrates the sensitivity of the revenue return for the year in regard to the Company's monetary financial assets to changes in the exchange rates for the various currencies to which the Company is exposed.

If sterling had weakened by an average of 10%, this would have had the following effect:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| **Income statement – profit after taxation:** | | |
| Revenue return – increase | **355** | 382 |
| Capital return – increase | **13,122** | 12,453 |
| Total | **13,477** | 12,835 |

If sterling had strengthened by an average of 10%, this would have had the following effect:

| | **2017 £000** | 2016 £000 |
|---|---|---|
| **Income statement – profit after taxation:** | | |
| Revenue return – decrease | **(355)** | (382) |
| Capital return – decrease | **(13,122)** | (12,453) |
| Total | **(13,477)** | (12,835) |

Impact on capital return is disclosed in note 18 (d).

### (c) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits.

Cash at bank at 30 September 2017 (and 30 September 2016) was held at floating interesting rates, linked to current short-term market rates.

Interest rate movements may affect the interest payable on the Company's variable rate borrowings.

#### Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when borrowing under the bank loan facility.

# Notes to the accounts (continued)

## 18. Risk management policies and procedures (continued)

### (c) Interest rate risk (continued)

#### Interest rate exposure

The exposure at 30 September 2017 of financial assets and financial liabilities to floating interest rates is shown below:

| | **2017 Total (within one year) £000** | 2016 Total (within one year) £000 |
|---|---|---|
| Exposure to floating interest rates: | | |
| Cash at bank | **762** | 1,934 |
| Creditors: | | |
| Borrowings under bank loan facility | **(8,944)** | (10,008) |
| | **(8,182)** | (8,074) |

#### Interest rate sensitivity

The Company is primarily exposed to interest rate risk through its bank loan facility.

Due to the insignificant impact of fluctuations in interest rates no sensitivity analysis is shown.

### (d) Other price risk

Other price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the quoted and unquoted equity investments.

#### Management of the risk

The Board of Directors believe that as the Company's investment objective is to provide exposure to Emerging European Securities its neutral position in respect of this risk is full exposure to the market as represented by its Benchmark Index. The Alternative Investment Fund Manager has been given discretion around the Benchmark Index to enable it to add value. The amount by which the portfolio diverges from the Benchmark Index is closely monitored by the Board with the goal of ensuring that the risk taken is proportionate to the value added.

#### Concentration of exposure to other price risk

An analysis of the Company weighting versus Benchmark Index and a sector breakdown and geographical allocation of the portfolio is contained in the Fund Manager's report on pages 8 and 9.

# Notes to the accounts (continued)

## 18. Risk management policies and procedures (continued)

### (d) Other price risk (continued)

#### Other price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% in the fair values of the Company's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each balance sheet date, with all other variables held constant.

| | **Increase in fair value 2017 £000** | **Decrease in fair value 2017 £000** | Increase in fair value 2016 £000 | Decrease in fair value 2016 £000 |
|---|---|---|---|---|
| **Income statement – profit after taxation:** | | | | |
| Capital return – increase/(decrease) | **13,122** | **(13,122)** | 12,453 | (12,453) |
| Total profit after taxation other than arising from interest rate or currency risk – increase/(decrease) | **13,122** | **(13,122)** | 12,453 | (12,453) |
| Equity | **13,122** | **(13,122)** | 12,453 | (12,453) |

### (e) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

#### Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities that are readily realisable.

The Company has a bank loan facility of US$17 million of which £8,944,211 (2016: £10,008,000) was drawn down at 30 September 2017.

#### Liquidity risk exposure

The contractual maturities of the financial liabilities at 30 September 2017, based on the earliest date on which payment can be required were as follows:

| | **2017 Total (due within one year) £000** | 2016 Total (due within one year) £000 |
|---|---|---|
| Bank loan | **8,944** | 10,008 |
| Other creditors and accruals | **1,544** | 1,476 |
| | **10,488** | 11,484 |

The Board gives guidance to the Alternative Investment Fund Manager as to the maximum amount of the Company's resources that should be invested in any one holding.

# Notes to the accounts (continued)

## 18. Risk management policies and procedures (continued)

### (f) Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

#### Management of the risk

This risk is not significant, and is managed as follows:

- the majority of transactions take place through clearing houses on a delivery versus payment basis;
- investment transactions are carried out with an approved list of brokers, whose credit-standing is reviewed periodically by the Alternative Investment Fund Manager, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

None of the Company's financial assets are secured by collateral or other credit enhancements.

### (g) Fair values of financial assets and liabilities

Financial assets and liabilities are either carried in the balance sheet at their fair value (investments), or the balance sheet amount if it is a reasonable approximation of fair value (amounts due from brokers, dividends receivable, accrued income, amounts due to brokers, accruals and cash balances).

The table below sets out fair value measurements using the fair value hierarchy.

| Financial assets at fair value through profit or loss at 30 September 2017: | **Level 1 £000** | **Total 2017 £000** |
|---|---|---|
| Equity investments | **131,220** | **131,220** |
| Total | **131,220** | **131,220** |

| Financial assets at fair value through profit or loss at 30 September 2016: | Level 1 £000 | Total 2016 £000 |
|---|---|---|
| Equity investments | 124,527 | 124,527 |
| Total | 124,527 | 124,527 |

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

**Level 1 –** valued using quoted prices in active markets for identical assets.

**Level 2 –** valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1 (there are no Level 2 investments at 30 September 2017).

**Level 3 –** valued by reference to valuation techniques using inputs that are not based on observable market data (there are no Level 3 investments at 30 September 2017).

In preparing these financial statements the Company has adopted "Amendments to FRS102: fair value hierarchy disclosure (March 2016)" published by the FRC.

The valuation techniques used by the Company are explained in the accounting policies note on page 43.

# Directors and officers

## Directors
Steven Bates, Chairman
Jonathan Woollett
Ivo Coulson
Frances Daley
Nadya Wells
Calum Thomson (appointed 21 September 2017)

## Secretary
M. J. Nokes F.C.A.

## Registered office
155 Bishopsgate
London EC2M 3XY

## Company number
4560726

## Alternative Investment Fund Manager
Baring Fund Managers Limited
155 Bishopsgate
London EC2M 3XY

Telephone: 020 7628 6000
Facsimile: 020 7638 7928

## Auditor
KPMG LLP
15 Canada Square
London E14 5GL

## Depositary
State Street Trustees Limited
20 Churchill Place
Canary Wharf
London E14 5HJ

## Custodian
State Street Bank & Trust Company Limited
20 Churchill Place
Canary Wharf
London E14 5HJ

## Administrator
Northern Trust Global Services Limited
50 Bank Street
Canary Wharf
London E14 5NT

Telephone: 0207 982 2000

## Registrars and transfer office
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300
Overseas: +44 371 664 0300
(Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom are charged at the applicable international rate.)
Lines are open 9:00 am - 5:30 pm, Monday to Friday
Email: enquiries@linkgroup.co.uk

## Website
www.bee-plc.com

# Notice of Annual General Meeting

## THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Notice is hereby given that the Annual General Meeting of the Company will be held at 155 Bishopsgate, London EC2M 3XY on Tuesday, 16 January 2018, at 2:30pm to consider and, if thought fit, pass the following resolutions, which will be proposed as to resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 as ordinary resolutions, and as to resolutions 12 and 13 as special resolutions:

### Ordinary business

1. **To receive the Directors' report and statement of accounts for the year ended 30 September 2017.**

2. **To approve the Directors' Remuneration report for the year ended 30 September 2017.**

3. **To approve the annual dividend.**

4. **To re-elect Ivo Coulson as a Director of the Company.**

5. **To re-elect Jonathan Woollett as a Director of the Company.**

6. **To re-elect Frances Daley as a Director of the Company.**

7. **To re-elect Nadya Wells as a Director of the Company.**

8. **To elect Calum Thomson as a Director of the Company.**

9. **To re-appoint KPMG LLP as Auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the financial statements are laid before members.**

10. **To authorise the Directors to determine the Auditor's remuneration.**

### Special business

11. **Authority to allot new ordinary shares – Ordinary Resolution:**
    That, the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant rights to subscribe for or convert any security into shares in the Company (within the meaning of Section 551 of the Companies Act 2006) up to an aggregate nominal amount of £69,226, (being approximately 5% of the issued share capital of the Company as at 5 December 2017 being the latest practicable date prior to the publication of this notice of meeting excluding shares held in treasury at that date) PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make one or more offers or agreements which would or might require relevant securities to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Board may allot relevant securities or grant rights to subscribe for or convert securities into shares in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

12. **Authority to disapply pre-emption rights on allotment of ordinary shares – Special Resolution:**
    That if resolution 11 set out in the notice convening the Annual General Meeting of the Company dated 6 December 2017 (the "Notice") is passed, the Board be given power to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or where the allotment is treated as an allotment of equity securities under section 560(3) of the Companies Act 2006, free of the restriction in section 561(1) of the Companies Act 2006, such power to be limited:

# **Notice of Annual General Meeting** (continued)

(a) to the allotment of equity securities in connection with an offer of equity securities to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and
(b) in the case of the authority granted under resolution 11 of the Notice and/or in the case of any transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the Companies Act 2006, to the allotment or such transfer (otherwise than under paragraph (a) above) of equity securities up to a nominal amount of £85,817;

such power to apply until the earlier of the conclusion of the Annual General Meeting of the Company in 2019 or 15 July 2019, but during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ends and the Board may allot equity securities under any such offer or agreement as if the power had not ended.

**13. Authority to repurchase the Company's shares – Special Resolution:**
That, the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 10 pence each in the capital of the Company (the "shares") provided that:

(a) the maximum number of shares hereby authorised to be purchased shall be 2,075,401 (being approximately 14.99% of the issued share capital of the Company as at 5 December 2017 being the latest practicable date prior to the publication of this notice of meeting, excluding shares held in treasury);
(b) the minimum price (exclusive of any expenses) which may be paid for a share is 10 pence;
(c) the maximum price (exclusive of any expenses) which may be paid for a share is an amount equal to the highest of:
  (i) 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the share is purchased; or
  (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out;
(d) the authority hereby conferred shall expire at the earlier of the conclusion of the Annual General Meeting of the Company in 2019 or 15 July 2019, unless such authority is renewed prior to such time;
(e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will be or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract; and
(f) all shares purchased pursuant to the said authority shall be either:
  (i) cancelled immediately upon completion of the purchase; or
  (ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act.

By order of the Board

**M. J. Nokes F.C.A.**
Secretary
6 December 2017

155 Bishopsgate
London EC2M 3XY

# Notes to the Notice of Annual General Meeting

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's registrars, Link Asset Services (contact details can be found on page 56).
2. To be valid any proxy form or other instrument appointing a proxy must be received by post using the enclosed Business Reply Envelope, or (during normal business hours only) by hand at the offices of the Company's registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 2:30pm on Friday, 12 January 2018 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting for the purposes of which no account is to be taken of any part of a day that is not a working day).
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at the close of business on Friday, 12 January 2018 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting for the purposes of which no account is to be taken of any part of a day that is not a working day). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. As at 5 December 2017 (being the last business day prior to the publication of this Notice) the Company's issued share capital consisted of 13,845,238 ordinary shares, carrying one vote each (excluding 3,318,207 shares held in treasury by the Company in relation to which voting rights are suspended). Therefore, the total voting rights in the Company as at 5 December 2017 are 13,845,238.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.
9. 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 instruction, as described in the CREST Manual (available

# Notes to the Notice of Annual General Meeting (continued)

via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is 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 issuer's agent (ID RA10) by 2:30pm on Friday, 12 January 2018 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting for the purposes of which no account is to be taken of any part of a day that is not a working day). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer'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.

10. 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 message. 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, 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. 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.

12. 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.

13. Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

14. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting 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 meeting that the question be answered.

15. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.bee-plc.com.

# **Notice of Annual General Meeting** (continued)

## Inspection of documents

The following documents will be available for inspection at the Company's registered office from 6 December 2017 until the time of the AGM and at the AGM location from 15 minutes before the AGM until it ends:

- Copies of letters of appointment of the non-executive Directors.

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