

Acorn Income Fund Limited

**Annual Financial Report
for the year ended
31 December 2020**

Investment Objectives and Policy

Investment Objectives

The investment objective and policy of Acorn Income Fund Limited (the "Company" or "Acorn") is to provide shareholders with high income and also the opportunity for capital growth.

The Company's assets predominantly comprise investments in equities and fixed interest securities in order to achieve its investment objective. The Company's investments are held in two portfolios. Approximately 70% to 80% of the Company's assets are invested in smaller capitalised United Kingdom companies, admitted to the Official List of the Financial Conduct Authority (the "FCA") and traded on the main market of the London Stock Exchange (the "LSE") or traded on the Alternative Investment Market ("AIM") at the time of investment (the "Smaller Companies Portfolio"). The Company also aims to enhance income for Ordinary Shareholders by investing approximately 20% to 30% of the Company's assets in high yielding instruments which are predominantly fixed interest securities but may include up to 15% of the Company's overall portfolio (measured at the time of acquisition) in high yielding investment company shares (the "Income Portfolio").

The proportion of the overall portfolio held in the Smaller Companies Portfolio and the Income Portfolio varies from day to day as the market prices of investments move. The Directors retain discretion to transfer funds from one portfolio to the other and generally expect between 70% to 80% of the investments to be held in the Smaller Companies Portfolio.

While the Company's investment policy is to spread risk by maintaining diversified portfolios, there are no restrictions on the proportions of either of the portfolios which may be invested in any one geographical area, asset class or industry sector. However, not more than 7.5% of the Company's gross assets may be invested in securities issued by any one company as at the time of investment, save that (i) in respect of the Income Portfolio only, investments may be made in other investment funds subject only to the restriction set out in paragraph (c) of the section headed "Investment Restrictions" below; and (ii) in respect of the Smaller Companies Portfolio only, provided that not more than 10% of the Company's gross assets are invested in securities issued by any one company at any time, the 7.5% limit may be exceeded on a short term basis, with Board approval, where a company whose securities form part of the Smaller Companies Portfolio issues new securities (for example by way of a rights issue).

The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares is geared relative to the rising capital entitlements of the Preference Shares ("ZDP Shares"). The Company's gearing policy is not to employ any further gearing through long-term bank borrowing, except, with the prior sanction of ZDP Shareholders, the Company will incur no indebtedness other than short term borrowings in the normal course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares.

Investment Restrictions

For so long as required by the LSE Listing Rules in relation to closed-ended investment companies, the Company has adopted the following investment and other restrictions:

- the Company will at all times invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy;
- the Company will not conduct any significant trading activity; and
- not more than 10% in aggregate of the value of the total assets of the Company at the time the investment is made will be invested in other listed closed-ended investment funds. The Listing Rules provide an exception to this restriction to the extent that those investment funds which have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment companies.

Derivatives

The Company may invest in derivatives, money market instruments and currency instruments including contracts for difference, futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates, for investment purposes and for efficient portfolio management. The Company's use of such instruments for investment purposes is limited to 5 per cent of the total assets of the Company. The Company will not use such instruments to engage in any significant trading activity. The Company will not maintain derivative positions should the total underlying exposure of these positions (excluding any currency hedges) exceed one times adjusted total capital and reserves.

Dividend Policy

The Company's policy is to provide Ordinary Shareholders with a high income relative to the average dividend yield of the UK Smaller Companies comprised in the Numis Smaller Companies Index ex Investment Companies. The Company aims to pay a regular quarterly dividend in March, June, September and December. It is intended to distribute substantially all of the Company's net income after expenses and taxation; however the Company may retain a proportion of the Company's income in each year as a revenue reserve to assist in providing long term stability in dividend distributions. Dividends may be paid to holders of Ordinary Shares whenever the financial position of the Company, in the opinion of the Directors, justifies such payment, subject to the Company being able to satisfy the solvency test, as defined under The Companies (Guernsey) Law, 2008. The Board is alert to the potential for new share issuance to dilute earnings and accordingly will have regard to the size and timing of new share issues. The ZDP Shares do not carry a right to a dividend.

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Performance Summary

for the year ended 31 December 2020

	31/12/2020	31/12/2019	% change/ return
Total Return Performance*			
Total Return on Gross Assets***			-10.85%
Numis Smaller Companies (Ex Investment Companies) Index	23,117.10	24,153.03	-4.29%
FTSE All Share Index	7,068.59	7,837.96	-9.82%
FTSE Small Cap (Ex Investment Companies) Index	8,108.86	7,977.20	1.65%
Share Price and NAV Returns			
Ordinary Shares			
Share Price	322.50p	406.00p	-20.57%
NAV**	360.21p	466.43p	-22.77%
IFRS NAV#	360.17p	466.37p	-22.77%
Total Return on Net Assets**			-17.08%
Ordinary Share Price Total Return*			-14.05%
Discount (-) to NAV on Ordinary Shares**	-10.47%	-12.96%	
ZDP Shares			
Share Price	157.00p	155.50p	0.96%
NAV**	160.02p	154.07p	3.86%
IFRS NAV#	160.05p	154.12p	3.85%
Discount (-) Premium (+) to NAV on ZDP Shares**	-1.89%	+0.93%	
Other			
Total Assets less Current Liabilities	£90,946,691	£106,484,933	-14.59%
Package Discount (-) to NAV Combined Ordinary and ZDP Shares	-7.26%	-8.69%	
ZDP Liability**	£33,973,724	£32,710,524	3.86%
Net Assets**	£56,972,967	£73,774,408	-22.77%
Gearing Level	59.63%	44.34%	34.48%
Total Expenses Ratio (calculated on year end Gross Assets)	1.19%	1.13%	5.31%
Ongoing Charges (calculated on average Net Assets)	1.98%	1.79%	10.61%
Dividends and Earnings			
Revenue Return per Ordinary Share	13.75p	22.31p	-38.37%
Dividends Declared per Ordinary Share	23.00p	20.80p	10.58%

* assumes dividends reinvested

** calculated in accordance with the Articles

calculated in accordance with International Financial Reporting Standards

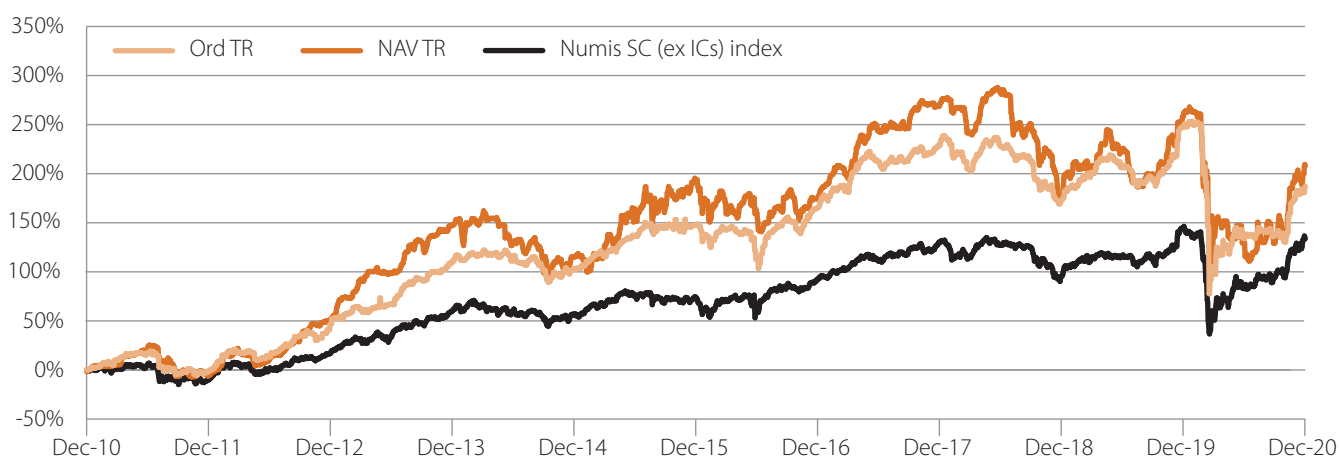
adjusted for share buybacks

Sources: Index data: Bloomberg, Total return on gross and net assets, PFM, JP Morgan Cazenove

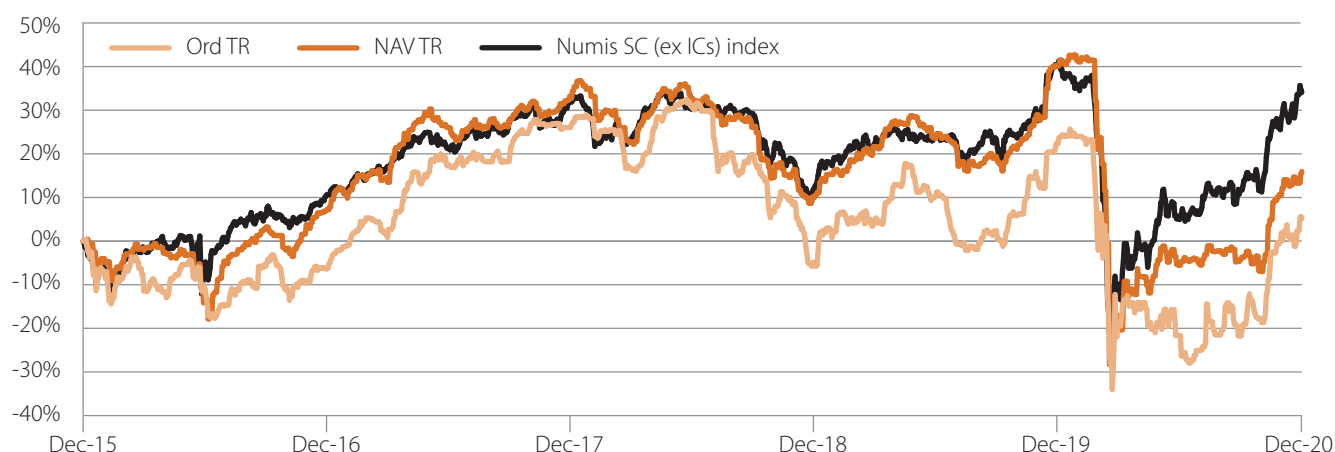
Performance Summary (continued)

for the year ended 31 December 2020

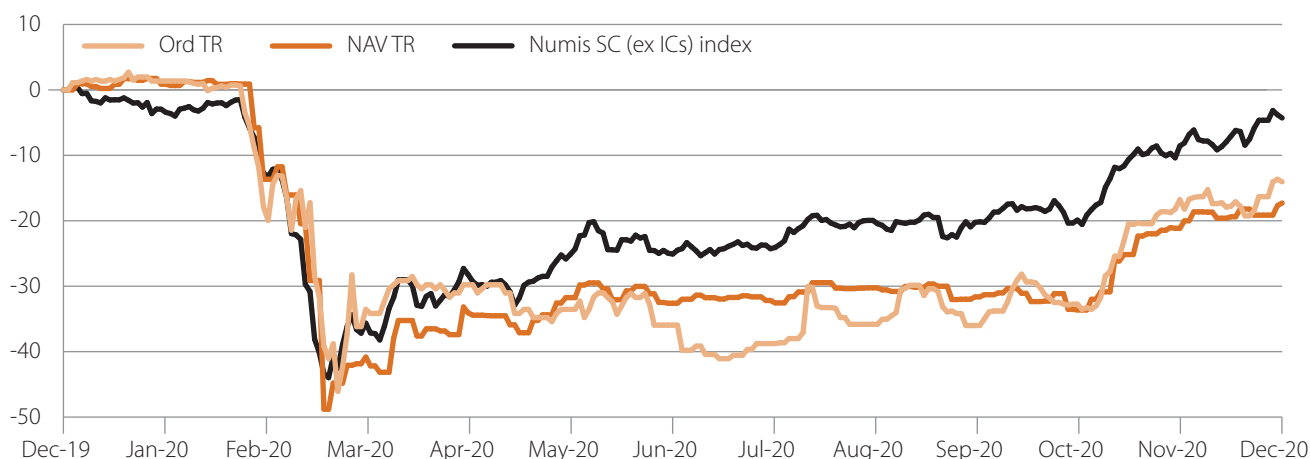
10 Years to 31 December 2020



5 Years to 31 December 2020



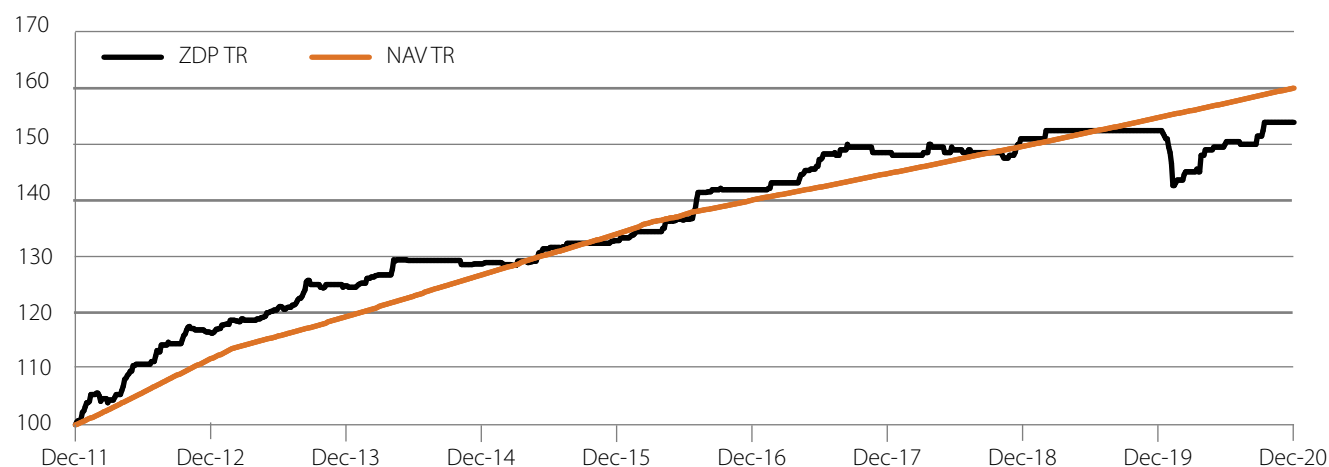
1 Year to 31 December 2020



Performance Summary (continued)

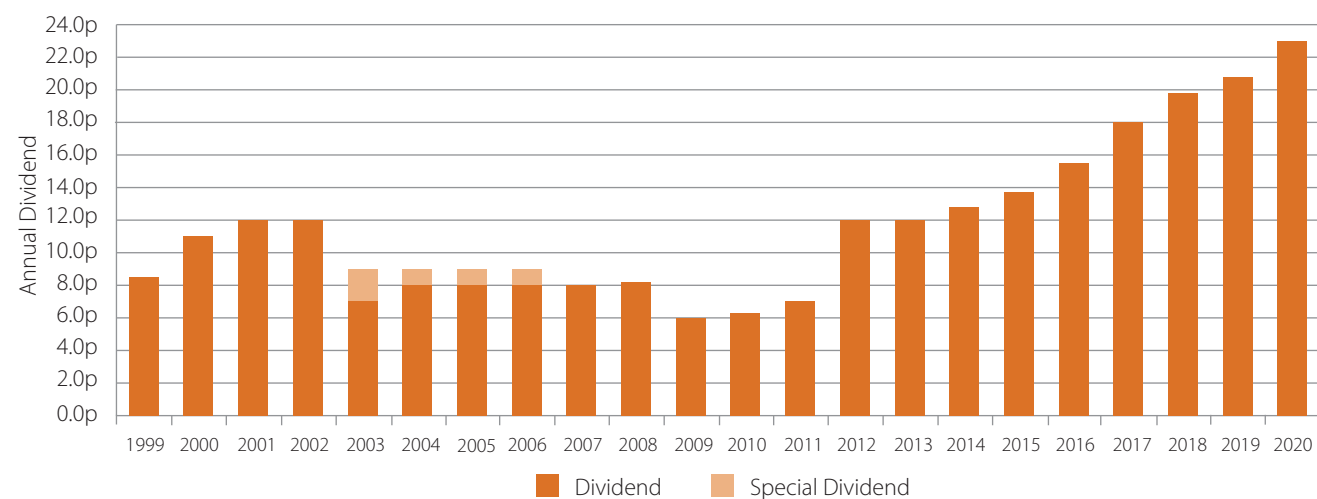
for the year ended 31 December 2020

ZDP since issue 21 November 2011



Performance Charts Source: Premier Miton

Dividend Progression Chart



Dividend Progression Chart: Northern Trust International Fund Administration Services (Guernsey) Limited

Company Summary

History

The Company was incorporated on 5 January 1999 and commenced its activities on 11 February 1999. The portfolio is divided into two sub portfolios, a Smaller Companies Portfolio representing approximately 70-80% of the total with the balance invested in an Income Portfolio investing in fixed income securities, investment company shares and structured investments. The Company has always been leveraged, initially through bank debt and now through Zero Dividend Preference ("ZDP") Shares. In December 2016, shareholders approved the extension of the ZDP Shares setting a new redemption date of 28 February 2022.

Capital Structure

Zero Dividend Preference Share (1p each)	21,230,989 (excluding treasury shares)	The ZDP Shares will have a final capital entitlement of 167.2 pence per ZDP Share on 28 February 2022 following the extension of the life of the existing shares from 31 January 2017, subject to there being sufficient capital in the Company. The ZDP Shares are not entitled to any dividends. ZDP Shareholders rank ahead of the Ordinary Shareholders in regards to rights as to capital. The ZDP Shareholders have the right to receive notice of all general meetings of the Company, but do not have the right to attend or vote unless the business of the meeting involves an alteration of the rights attached to the ZDP Shares, in which case the holders of ZDP Shares can attend and vote.
Ordinary Shares (1p each)	15,816,687 (excluding treasury shares)	The Ordinary Shares, excluding treasury shares, are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.
Treasury Shares		As at 31 December 2020, there were 1,325,972 Ordinary and 1,779,873 ZDP Shares held in treasury.
Shareholder Funds	£56.97 million as at 31 December 2020 (calculated in accordance with IFRS)	£56.97 million as at 31 December 2020 (calculated in accordance with the Articles)
Market Capitalisation of the Ordinary Shares	£51.01 million as at 31 December 2020	

Company Summary (continued)

Company Details

The Board	The Board consists of three independent non-executive directors Nigel Ward (Chairman), David Warr and Sharon Parr and one non-executive director, Nigel Sidebottom, who is not considered independent by virtue of his previous employment with the Premier Miton Group PLC, the parent company of the Investment Manager (the "Directors").
Investment Manager	Premier Asset Management (Guernsey) Limited ("PAMG"), is a subsidiary of Premier Miton Group PLC ("PMG" or "Premier Miton"). PMG had approximately £12.0bn of funds under management as at 31 December 2020. PAMG is licensed under the provisions of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, by the Guernsey Financial Services Commission to carry on controlled investment business.
Investment Advisers	<p>Premier Fund Managers Limited ("PFM") – the Company's Income Portfolio is managed by Chun Lee and Robin Willis.</p> <p>Unicorn Asset Management Limited ("Unicorn") – the Company's Smaller Companies Portfolio is managed by Simon Moon and Fraser Mackersie.</p>
Secretary/Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited.
Corporate Broker	N+1 Singer Advisory LLP ("N+1 Singer"). (appointed 1 August 2020) Numis Securities Limited ("Numis"). (until 31 July 2020)
Management Fee	<p>0.7% per annum (Total Assets) charged 75% to capital and 25% to revenue. Minimum annual management fee £100,000.</p> <p>In addition, a performance fee is payable at the year-end if the target set out on page 51 is achieved. This is charged 100% to capital.</p>
Registrar	JTC Registrars Limited

Financial Calendar

Company's year end	31 December
Annual results announced	April
Company's half year end	30 June
Annual General Meeting	10 August 2021
Half-year results announced	August
Dividend payments	At the end of March, June, September and December
Company Website	
www.acornincome.co.uk	

Chairman's Statement

Year to 31 December 2020

Dear Shareholder

The impact of the COVID-19 pandemic on stock markets around the world during the first part of 2020 was exacerbated in the UK by the uncertainty over the outcome of the Brexit trade negotiations that persisted throughout the year. With their overwhelmingly domestic focus, UK smaller companies were particularly impacted both by this uncertainty and by weaker sterling. While many companies reduced or passed their dividends out of caution rather than necessity during the first half of the year, the majority have now indicated their intention to resume dividend payments, on the back of a marked operational recovery in the second half.

In fixed income markets, central bank buying of government bonds kept yields low, enabling companies to repair their balance sheets by issuing debt at favourable interest rates. As a result, the second half of the year saw many companies increase their leverage to maintain liquidity in the face of challenging operational conditions, but this left them vulnerable to future earnings pressure. Amongst investment companies, many have yet to recover following the indiscriminate market sell off of the first quarter, despite showing an underlying resilience and maintaining dividends. The economic background for both parts of the portfolio was therefore decidedly mixed.

Investment Performance

Set against a very turbulent market and economic background - both domestic and global - it was unsurprising though nonetheless disappointing that the total return on Acorn's gross assets, which measures the return on the portfolio including all income and costs, fell by 10.9%, while the total return on net assets, impacted by the gearing effect of the Zero Dividend Preference Shares ("ZDPs"), was down 17.1%. This compared to a fall in the total return from the Numis Smaller Companies (ex-Investment Companies) Index of 4.3%, and in the FTSE All Share Index, which was down 9.8% (also total return).

The performance of the ordinary share price in total return terms, down 14.1%, was a little better than the net asset performance, reflecting the fact that the discount (the difference between the value of the assets and the share price), having widened considerably in the middle part of the year, reduced steadily from late summer onwards, to end the year at 10.5%, more in line with its long term average.

The gearing provided by the ZDPs is a long standing component of the Company, introduced to enhance returns over the long term. During periods of market strength gearing will boost performance, but when the market weakens it will act as a drag on performance, which is why the ordinary share Net Asset Value ("NAV") fell further than total assets in 2020. The gearing level at the year-end, excluding current period revenue, was 58.1%. The Income Portfolio, which is run by the team at PFM, is designed to provide an element of balance to the gearing, but does not match it completely.

Discount Management

The Board pays close attention to the discount on the ordinary shares, considering whether steps including share buy backs are an appropriate measure to enhance long term shareholder value. There were no buy backs during the course of 2020 as the Board was keen to maintain the size of the Company and, in line with the recommendation of the Investment Advisors, to ensure that cash remained available to invest when market conditions started to improve. The average level of discount was almost unchanged on the previous year, at just over 13%, but widened considerably over the summer months. The Directors were therefore pleased to see it narrowing during the final few months of 2020, although we would like to see it narrow further. We attribute this move in part to a gradual recognition by the market that the balance sheets, earnings and therefore income streams of the smaller companies held in the portfolio were more resilient than the sector as a whole. The decision to appoint a new broker (see below) may also have played a part and certainly in reducing the dealing spread, which at one point was unacceptably high.

Change to Corporate Broking Arrangements

In August the Company announced a change of corporate broker, with the appointment of N+1 Singer Advisory LLP ("N+1 Singer") as sole broker, replacing Numis Securities Ltd, who had acted for the Company since 2012. Since taking on the role, the team at N+1 Singer has put considerable effort into promoting Acorn to professional investors, arranging a series of roadshows, and publishing a research initiation piece, all of which we believe may have contributed to a narrowing of the discount. As a Board we look forward to working closely with them going forward.

Chairman's Statement (continued)

Year to 31 December 2020

Asset Allocation

In April 2020, in response to the pandemic-induced market volatility, and following discussions with the Investment Advisers, the Board took the decision to put some downside protection in place, as a form of insurance should the market environment for smaller companies in particular continue to deteriorate. This took the form of a listed put option on the FTSE 100 Index. In the event the stock market recovered, it would result in a cost to the overall portfolio. The cost would have been far outweighed by the return it offered had the market fallen further, as seemed eminently possible at the time the decision was taken, and of course was dwarfed by the increased capital value as the market recovered.

The Investment Advisers have regular discussions to consider the appropriate split of assets between the two parts of the portfolio. At the start of the year, the weighting to Smaller Companies stood at just under 79%, positioned to take advantage of the greater relative opportunities then seen as prevailing in that market. However, following the market's sharp correction and decision to put insurance in place, it was deemed more appropriate to maintain the resulting weighting of 75% to Smaller Companies with 25% remaining in the Income Portfolio, positions that were retained throughout the remainder of the year.

Earnings and Dividends

The first interim dividend for 2020, declared in early February prior to the full impact of COVID-19, was increased by 10.6%, to 5.75p per ordinary share. This level was maintained for the year as a whole, resulting in a total dividend for the year of 23.0p. With COVID-19 leading many UK companies to reduce or cancel dividend payments this impacted on Acorn's earnings in 2020 which declined by 38.34% to 13.75p per share. This decline should however be seen in context. The notional dividend on the Numis Smaller Companies (ex Investment Companies) index declined by 56.3% over the same period. In the view of the Board, the pandemic brought about a situation in which it was felt appropriate to draw on revenue reserves to maintain income levels for investors throughout 2020. Revenue reserves at the start of the year stood at 21.6p per share representing approximately one year's worth of dividend. Maintaining the dividend distribution throughout 2020 reduced reserves to 12.36p per share at 31 December 2020. The Board has been pleased to see the recovery in earnings throughout the second half of the year, certainly reaching a level which was far from visible during the second

quarter, and although our projections do show a recovery in the Company's revenues for 2021 and thereafter, the Board believe that it is likely that a return to a sustainable and covered dividend will necessitate a lower dividend payment in future years.

Zero Dividend Preference Shares ('ZDPs')

The price of the ZDP shares rose by 1.0%, ending the year at 157.0p, a 1.9% discount to NAV. The asset cover at the year-end stood at 2.5x and the yield to maturity was 5.6%. The number of ZDPs in issue is 21,230,989. The ZDPs will mature in February 2022 and the Board will be considering the refinancing options during the second half of 2021.

Environmental, Social, Governance

The growing prominence of ESG reporting continues to be driven both by regulatory momentum, and changing investor preferences. From a reporting perspective, the Association of Investment Companies is encouraging its member companies to publish ESG policies on its website. Reflecting these policies, the Manager is working to integrate ESG considerations more closely into investment processes, drawing on the expertise of Premier Miton's Head of Responsible Investing in order to do so effectively. Premier Miton is a signatory to the United Nations Principles of Responsible Investment which has become an industry standard which marks a further step in embedding responsible investment in the Company.

Investment Adviser Developments

The Premier Miton fixed income team has been bolstered by the addition of three bond fund managers from Merian Global Investors, who joined in the second half of 2020. While Chun Lee and Robin Willis will continue to manage Acorn's Income Portfolio day to day, they will be able to draw on the additional expertise of their new colleagues in doing so. There have been no changes to the Smaller Companies team.

Strategic Review

At the Annual General Meeting in August 2021, a discontinuation vote will be put to the shareholders and they will be asked to vote on whether they wish the Company to continue for a further five years. At the same time the Directors intend to put forward proposals, yet to be finalised, that may involve changes to investment policy, corporate structure, gearing and dividend yield. Shareholders will be able to consider whether they wish the Company to continue for a further five years in the light of these changes. In preparing these proposals the

Chairman's Statement (continued)

Year to 31 December 2020

Board has been working with the Company's broker and has employed an external consultant to conduct a strategic review of the company.

This strategic review is predominantly focussing on the following areas:

- the investment management structure and investment objectives that will seek to address the discount, expand the investor base and facilitate the growth of the Company over the coming years;
- the appropriate level of sustainable yield;
- gearing level together with the resultant impact on income yield; and
- form of gearing, if any, (i.e. ZDPs and/or bank debt) that is most appropriate in the current market environment.

At this time the review is still in active progress and we will report to shareholders as soon as more detailed information is available. As a result of the review the AGM voting documents will be made available separately to this report and are not, as has historically been the Board's practice, included at the end of this report.

As a consequence of the strategic review, there will inevitably be material changes to the formal structure of the relationship with the Investment Advisers and Investment Manager. To this end, the Company has served protective notice to terminate the Investment Management Agreement which has the effect of initiating the notice period required under the Agreement. This action should not be interpreted as an indication that the current Investment Advisers will not be involved in the management of Acorn's portfolio post the conclusion of the strategic review.

Board Refreshment

Last year, the Board announced the appointment of Sharon Parr as a non-executive Director as part of its longer term programme of Board refreshment. Effective 1 May 2020, Sharon took over from David Warr as chair of the audit committee. I am pleased to report that David has agreed to remain on the Board pending the outcome of the strategic review, not least in light of the two significant corporate actions scheduled over the next twelve months.

Outlook

UK equities, and in particular smaller companies, appear attractively valued relative to other markets around the world. UK smaller companies stand to benefit disproportionately from the UK's economic recovery when it comes, so while near term challenges clearly remain, the prospects for the UK market overall look more encouraging.

Contact with shareholders

During the course of 2020 I have received and responded to a number of emails from shareholders expressing interest in and asking questions about Acorn. The next 12 months will see several significant events in the life of the Company and the Board is committed to communicating developments as they arise. Consequently, we welcome engagement with shareholders, who can contact me directly via the email address acorn_income_fund_limited@ntrs.com. Further information on the Company, including factsheets and a regularly updated presentation may be found at www.acornincome.co.uk.

Thank you for your ongoing support as an investor in our Company.

Nigel Ward

Chairman

Investment Advisers' Report

Year to 31 December 2020

The Smaller Companies Portfolio

During the twelve month period to 31st December 2020 the Smaller Companies portfolio generated a total return of -12.16% before expenses, compared to a total return of -4.29% by the Numis Smaller Companies Index (Ex Investment Companies).

The world changed in 2020. We entered the year with confidence at an economic level due to the return of a government majority in the UK and an appetite for clarity around our future relationship with Europe; and at an investee company level with a portfolio of cash generative firms sitting at attractive valuations and holding an optimistic view on the domestic outlook. That confidence came crashing down when COVID-19 forced changes in the behaviour of people, governments, and companies across the globe and the outlook became very uncertain and presented us with unique challenges.

One of the primary challenges caused by this uncertainty came in the form of dividend distributions. The dividend-paying profile of the market went through unparalleled change as companies reacted to the new environment. Dividends fell by 44% across the main market as companies, many of which had previously been paying dividends at unsustainable levels, were forced to cancel or rebase payments to much lower levels. The Smaller Companies Portfolio saw a very different profile of dividends than the wider market with the agility of smaller companies being demonstrated by cuts occurring earlier in the year during the initial highly uncertain period, and payments resuming faster than the wider market as the picture became clearer. Consequently the Portfolio fared better than the market and saw a reduction in dividends received of 36% (compared to 44%), and finished the year with the recovery of payments on a much greater tangent than the market. The managers reacted decisively to the 'new risk' challenge presented by the pandemic with selective disposals and took advantage of the opportunities that the extreme market volatility offered, the details of which are covered below.

In Q3 and Q4 the portfolio lagged the market recovery where speculative companies and those which had most been harmed by changes caused by the pandemic (for example the Travel and Leisure sector) saw sharp share price growth from low bases. The long-standing sector exclusions of Mining and Pharmaceuticals also detracted from relative performance over this period. This is covered in more detail below, but this short term under-performance should be viewed in the context of

the operationally solid performance and quick return to dividend payments seen in the underlying holdings; we believe this will be rewarded as things return to a more normal environment.

Portfolio turnover was slightly higher during 2020 as the managers adapted the portfolio to the challenges presented by the pandemic. As a result the number of holdings within the portfolio fell from 47 to 44 during the period following the disposal of 11 holdings and the addition of eight new names. Activity was significantly lower in the second half of the year, with one disposal and three additions.

The unique and unprecedented challenge the pandemic presented during the year required a decisive approach. The initial focus of the managers was on companies within the portfolio which exhibited either heightened balance sheet risk or long term end mark risk as a direct result of the pandemic and its associated restrictions. A small number of holdings were identified within the portfolio where this risk was elevated, which led to disposals. The vast majority of this activity took place in the first half of the year, with 10 of the 11 disposals completed by the end of June.

The disposals also included companies which had delivered strong capital growth during a number of years in the portfolio but had suffered significant yield compression – these names included DiscoverIE and Alpha FX. This capital was reinvested in higher yielding opportunities in order to enhance the overall yield of the portfolio.

The new long term additions to the portfolio have already provided a helpful contribution to both capital growth and income. One positive by-product of the type of volatile market conditions experienced in 2020 is that opportunities often arise in high quality assets which have been oversold. The number of additions during the year reflected this opportunity and included new investments in Bodycote, Liontrust, EMIS, Trifast, Devro and Curtis Banks. A number of other existing holdings were also topped up during the year on share price weakness.

The average holding period of existing holdings remains at the top end of our three to five year range – highlighting the continued long term approach to investing.

Investment Advisers' Report (continued)

Year to 31 December 2020

Performance during the period, both positively and negatively, was driven by those sectors which found themselves most acutely impacted by the pandemic. General Retail and Travel & Leisure, amongst the sectors hardest hit by the restrictions on activity, were the two largest negative sector contributors to relative performance. Within these sectors holdings in Topps Tiles, Hostelworld and Hollywood Bowl have been retained but positions in Card Factory and Cineworld were exited in full. Combined, these two sectors contributed to over half of the relative underperformance during the year. Two long standing excluded sectors, Mining and Pharmaceuticals & Biotechnology, both produced strong absolute returns and increased the underperformance by over 1% each.

Long standing overweight positions in the Industrial and Financial Services sectors, which combined represent nearly one third of the portfolio both made positive contributions to performance, rising on average by 1% and 6% respectively. The next three largest sectors, Construction, Real Estate and Industrial Transport, which together represent a further 20% of the portfolio, all delivered stronger returns than their sector average but unperformed the benchmark index. Support Services, which accounted for 6% of the portfolio, delivered a small positive performance during the period, well ahead of the 33% decline in the sector average. This was the largest positive sector contribution to performance and was driven by Clipper Logistics, a long term holding whose share price more than doubled during the year as the pandemic accelerated the rapid growth in online retail.

Unlike the prior year, when there were four bid approaches for investee companies, there were none during the period. We do believe corporate activity will increase in 2021 and we were encouraged to participate in the first IPO for some time towards the end of the year when we initiated a position in Conduit Holdings, a re-insurance business. Historically this has been an excellent source of new investment opportunities for the portfolio.

We move into 2021 with increased clarity. The terms of trade with the UK's largest trading partner, the EU, were agreed in a last-minute Christmas Eve deal which removed any likelihood of a damaging no-deal Brexit. This is the first time since the Brexit referendum of 2016 that question has been resolved and the uncertainty surrounding it removed. In our opinion this removes a significant risk that has been integral to net fund flows out of UK equities over that period. Confidence can now return and with it, hopefully a return of asset allocation in to the UK. Vaccine progress has been a stand out success in the government's COVID-19 response and the potential relative benefit to the domestic economy could be significant. These factors combined with the value we currently see in UK equities – especially in smaller companies – and the depressed level of sterling, all allow us to see a sustained equity recovery which would benefit the portfolio.

From the perspective of the global economy, the US has a new president who is more enamoured with the spirit of global cooperation than the last, which is essential to aid the global recovery. The worldwide effect of the pandemic has been brutal and potentially condensed the recession into a short and deep contraction, accordingly this would indicate that the recovery is already underway. As always we maintain our focus on the prospects of our underlying holdings and are well placed to benefit from this with a high quality portfolio of cash generative, well capitalised, dividend paying companies trading at attractive valuations.

Fraser Mackersie and Simon Moon

Unicorn Asset Management Limited

20 April 2021

Investment Advisers' Report (continued)

Year to 31 December 2020

The Income Portfolio

2020 was a tumultuous year but one which, thanks to the unprecedented combination of monetary and fiscal policy, ultimately delivered strong returns across a wide spectrum of asset classes. Within fixed income, central bank interventions in the corporate bond and sovereign markets saw credit spreads end the year just shy of their pre-pandemic levels while government bond yields remained well anchored relative to previous episodes of strong risk asset rallies.

With a global vaccine roll-out now in operation, the question is where markets go from here. Government bonds have been one of the most manipulated assets as central banks continue to purchase them in huge size. While we might yet see yields rise further, there is good reason to think that the move could be contained in comparison to past recoveries. Central banks have signalled that monetary policy will not be tightened for many years whilst economies recover and that the large purchase of government bonds will continue, helping to stop yields from rising too much. Monetary policy has prevented a wave of defaults in credit markets by enabling access to cheap funding. However, this build-up of debt, although at historically low rates of interest, does arguably leave companies more vulnerable to any future crisis and makes it difficult for central banks to let interest rates rise too much as balance sheets are repaired.

Of course the evolution of inflation will be a major determinant of bond yields and we wait to see how the inevitable rise in short term inflation - due to base effects from the recovery in commodity prices, for example - plays out against the longer term disinflationary forces stemming from themes such as demographics, technology and supply and demand imbalances.

Whilst a vaccine-led recovery is now hopefully in sight, the strong performance in corporate bonds due to policy intervention and the hunt for yield is arguably already pricing that in. Maintaining a discerning stance within high quality names, coupled with select improving credits, should continue to be a prudent strategy. Although central banks appear to remain willing to limit the stresses felt in credit markets for now, there are still enough structural challenges to some sector fundamentals to caution against complacency.

To supplement the corporate bond portfolio we continue to invest in both debt and equity issued by investment companies. The debt issuances are largely under researched and therefore often offer attractive relative value versus the broader fixed income sector. Our investment company equity positions are used to gain exposure to alternative asset classes which provide both diversification benefits and attractive dividend yields. Whilst a number of the alternative strategies displayed a low correlation to broader markets during the sell-off in February and March, some did see their discounts to NAV widen considerably. However, the volatile markets also provided the opportunity to rotate some positions into higher yielding investments. Since then it has been pleasing to see, for the most part, that robust underlying performance has led to significant price recovery.

Chun Lee and Robin Willis

Premier Fund Managers Limited
20 April 2021

Schedule of Principal Investments

as at 31 December 2020

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2020	Percentage of Total Assets 2019
Smaller Companies Portfolio					
1	Polar Capital Holdings plc	3,252,400	4.69	3.57	2.08
2	Sabre Insurance Group plc	2,917,075	4.21	3.20	1.79
3	Telecom Plus plc	2,868,000	4.14	3.14	2.88
4	Chesnara plc	2,798,150	4.04	3.07	1.46
5	Primary Health Properties plc	2,667,000	3.85	2.92	1.80
6	Numis Corporation plc	2,493,750	3.60	2.73	2.16
7	Severfield plc	2,163,800	3.12	2.37	2.38
8	Goodwin plc	2,107,000	3.04	2.31	2.05
9	Somero Enterprises Inc	2,039,713	2.94	2.24	1.90
10	Ocean Wilsons Holdings Limited	2,012,750	2.90	2.21	2.04
11	Clipper Logistics plc	1,820,800	2.63	2.00	1.87
12	Brewin Dolphin Holdings plc	1,769,000	2.55	1.94	2.05
13	Epwin Group plc	1,765,400	2.55	1.94	1.86
14	FDM Group Holdings plc	1,764,680	2.55	1.93	2.15
15	Regional Reit Limited	1,764,386	2.55	1.93	2.25
16	XPS Pensions Group plc	1,748,250	2.52	1.92	1.61
17	James Halstead plc	1,659,200	2.39	1.82	1.96
18	Wincanton plc	1,631,846	2.35	1.79	1.99
19	Boot (Henry) plc	1,606,500	2.32	1.76	1.24
20	STV Group plc	1,604,159	2.31	1.76	1.63
TOTAL		42,453,859	61.25	46.55	
Income Portfolio					
1	Pershing Square Holdings 5.50% 15/07/2022	772,559	3.73	0.85	0.75
2	Value & Income Trust 11.00% 31/03/2021	733,575	3.54	0.80	0.75
3	APQ Global Limited 3.5% CULS 30/09/2024	696,870	3.37	0.76	0.74
4	Credit Suisse Group 2.75% 08/08/2025	654,577	3.16	0.72	0.59
5	AT&T 2.9% 04/12/2026	554,276	2.68	0.61	0.49
6	Verizon Communications 1.875% 19/09/2030	535,380	2.59	0.59	–
7	Citigroup 1.75% 23/10/2026	526,522	2.54	0.58	0.47
8	UK Municipal Bonds Agency 1.625% 26/08/2060	522,141	2.52	0.57	–
9	GS Group 3.125% 25/07/2029	467,796	2.26	0.51	0.40
10	RM plc ZDP	465,400	2.25	0.51	0.44
11	France Telecom 8.125% 2028	463,188	2.24	0.51	0.21
12	British American Tobacco plc 4% 04/09/2026	459,454	2.22	0.50	0.41
13	Wells Fargo 2.5% 02/05/2029	441,267	2.13	0.48	–
14	HSBC Holdings 2.256% FRN 13/11/2026	425,932	2.06	0.47	0.38
15	Barclays 3.125% 17/01/2024	425,386	2.06	0.47	0.39
16	US 0.875% IL Treasury 2047	424,170	2.05	0.47	0.32
17	Karbon Homes Ltd 3.375% 15/11/2047	420,740	2.03	0.46	–
18	Lloyds Bank 1.75% 11/07/2024	413,215	2.00	0.45	0.38
19	SSE plc 3.75% FRN PERP	412,668	1.99	0.45	–
20	Morrison Supermarket 4.75% 04/07/2029	383,097	1.85	0.42	–
TOTAL		10,198,213	49.27	11.18	

Directors' Biographies

for the year ended 31 December 2020

Directors

Nigel Ward, David Warr and Sharon Parr are non-executive Directors and considered independent of the Investment Manager.

Nigel Sidebottom is not considered independent by virtue of his previous employment with PMG.

David Warr and Sharon Parr are chartered accountants. All four Directors have extensive non-executive director experience. Further details of the qualifications and suitability of each of the Director's appointments are as follows:

Nigel Ward (Chairman)

Nigel joined the Company in December 2011. He has over 40 years experience of international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry gained at Nat West, TSB Bank, Baring Asset Management and Bank Sarasin. Nigel is a full-time non-executive director serving on a number of boards including LSE Listings*. He was a founding Commissioner of the Guernsey Police Complaints Commission, is an Associate of the Institute of Financial Services, a member of the Institute of Directors and holder of the IoD Diploma in Company Direction. Nigel is a resident of Guernsey.

David John Warr

David joined the Company in August 2012. David is a Fellow of the Institute of Chartered Accountants in England and Wales having qualified as a chartered accountant in 1976. In 1981 David was appointed a partner in Reads & Co., a Guernsey based firm of chartered accountants, which he helped develop into a more broadly based financial services business leading up to its sale at the end of 1998. David's experience at Reads & Co. included audit, trust and company administration. David has acted as a non-executive director on a broad range of listed companies over the past 15 years whilst combining those responsibilities with charitable work*. David is a resident of Guernsey.

Nigel Sidebottom

Nigel joined the Company in February 2019. Nigel is a Chartered Fellow of the Chartered Institute of Securities and Investment and a Chartered Wealth Manager. Between 2005 and 2018 he was Deputy Chief Investment Officer and Head of Closed Ended Funds at Premier Asset Management, now Premier Miton Group Plc, the parent company of the Company's Investment Manager. He has over 30 years' experience in private client stockbroking and in investment management and has served as a non-executive director on a number of LSE listed companies. Nigel is resident in the UK.

Sharon Parr

Sharon was appointed to the Board in August 2019. In 2003 she completed a private equity backed MBO of the trust and fund administration division of Deloitte and Touche, called Walbrook, selling it to Barclays Wealth in 2007. As a Managing Director of Barclays, she ultimately became global head of their trust and fund administration businesses, comprising over 450 staff in 10 countries. She stepped down from her executive roles in 2011 to focus on other areas and interests but has maintained directorships in several companies. She is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Society of Trust and Estate Practitioners, and is a resident of Guernsey.

*Details of the Directors' other directorships for public companies can be found on page 26.

The Directors submit to the shareholders their Strategic Report, Directors' Report and the Audited Financial Statements of the Company for the year ended 31 December 2020.

Business Model and Strategy

The Company is a closed-ended investment company, incorporated with limited liability in Guernsey. The Company has been granted exemption from income tax within Guernsey. It is the intention of the Directors to continue to operate the Company so that each year this tax-exempt status is maintained.

Investment Objectives and Policy

The Company's investment objectives are to provide Ordinary Shareholders with a high income with the opportunity for capital growth. The Company seeks to achieve these objectives by investing in a combination of smaller capitalised United Kingdom companies listed on the London Stock Exchange or AIM, and high yielding, predominantly fixed interest, instruments.

High Income

The Ordinary Shares are designed to offer a high dividend yield. The Board intends to pay quarterly interim dividends with equal amounts paid in March, June, September and December each year.

It is intended that the Company's income will consist wholly or mainly of investment income. The Directors intend to distribute substantially all of the Company's income after expenses and tax to the holders of the Ordinary Shares.

The full year dividend for 2020 totalled 23.0p (2019: 20.8p) representing a yield of 7.13% on the year end share price.

The chart on page 5 shows the annual dividends paid by the Company since 1999, including special dividends in 2003 to 2006.

Long Term Growth in Capital Value

The asset value of the Company's portfolios is heavily influenced by external macro-economic factors. The Directors meet with the Investment Manager and Investment Advisers regularly to discuss the portfolio. Additional details are covered in the Chairman's Statement and Investment Advisers' Reports.

Business Environment

Principal and Emerging Risks

The Board has an on-going process in place for identifying, evaluating and managing the significant risks faced by the Company. The responsibility for carrying out the risk review is undertaken by the Risk Committee (see page 28 for details of the Risk Committee), which meets at least four times per year. The results of the risk evaluations are then reported back to the Board. The last risk assessment took place on 9 November 2020. The current process is in line with the Association of Investment Companies ("AIC") Code of Corporate Governance (the "AIC Code").

Coronavirus Risk

Coronavirus ("COVID-19") continues to be considered as a significant risk.

The Board has continued to monitor the development of the COVID-19 outbreak and has considered the impact it has had to date and will continue to have on the future of the Company and the performance of the Smaller Companies Portfolio and Income Portfolio (the "Portfolios"). Notwithstanding the impact the outbreak has already had on the Company's share price and NAV performance, there remains continued uncertainty about the development and scale of the COVID-19 outbreak particularly in relation to the length and extent of the impact of social distancing restrictions and the impact on the economy in general.

From an operational perspective, the Company uses a number of service providers. These providers have established, documented and regularly tested Business Resilience Policies in place, to cover various scenarios whereby staff cannot turn up for work at the designated office and conduct business as usual. Since the COVID-19 pandemic outbreak, service providers have deployed these alternative working policies to good effect, thus ensuring continued business service.

Risks of the Structure of the Company and Gearing

The Company's business could be materially and adversely affected by a number of risks. External factors to the Company may either adversely or favourably affect the volatility and liquidity of the Portfolios, as well as their values. These can be caused by economic conditions, changes to tax laws, competition and a number of other factors.

Strategic Report (continued)

For the year ended 31 December 2020

Investors holding either Ordinary Shares or ZDP Shares should have carefully considered whether these investments, given the risks attached, are suitable for them.

The market value of ZDP Shares will be affected by changes in general interest rates, with upward movements in interest rates likely to lead to reductions in the market value of ZDP Shares, although not affecting the ultimate redemption value.

Although the holders of ZDP Shares have a priority entitlement to the other assets of the Company (after payment of its liabilities) on a winding-up, if the gross assets of the Company fall to a level that is insufficient to redeem the ZDP Shares in full, investors in the ZDP Shares would receive a lower payment than the Fixed Capital Entitlement on the ZDP Shares repayment date.

In certain circumstances, such as a major fall in the capital value of the Portfolios such that the Final Capital Entitlement of the ZDP Shares is significantly uncovered but where the Company's Portfolios are still generating revenue, the interests of ZDP Shareholders and the Ordinary Shareholders may conflict. In such circumstances, the Directors may find it impossible to meet both sets of expectations fully, and so will need to act in a manner which they consider to be fair and equitable to both Ordinary Shareholders and ZDP Shareholders, while having regard to the entitlements of each class of shares.

Further risks to the ZDP Shares include a lower level of regulatory protection than applies to premium listed shares.

The Ordinary Shares are geared by the ZDP Shares and should be regarded as carrying above average risk since a positive Net Asset Value ("NAV") for the Ordinary Shareholders will be dependent upon the Company's assets being sufficient to meet those prior entitlements of the holders of ZDP Shares. As a consequence of the gearing, a decline in the value of the Company's investment portfolio will result in a greater percentage decline in the NAV of the Ordinary Shares.

Ordinary Shareholders do not have the right for their shares to be redeemed and those Ordinary Shareholders wishing to realise their investment will be required to dispose of their shares on the stock market.

Market liquidity in the shares of companies such as the Company is less than market liquidity in shares issued by

larger companies traded on the LSE. There can be no guarantee that a liquid market will exist for the Ordinary Shares or the ZDP Shares which may prevent any holder of Ordinary Shares or ZDP Shares from disposing of such shares at a price or at such time that they wish.

The Company's future performance depends on the success of its strategy and the skill and judgements of the Investment Manager and of the Investment Advisers. The departure of key personnel from either provider may have an adverse effect on the performance of the Company.

The Company may use derivatives to hedge exposure to currency risk and interest rate risk. No assurance can be given that any hedging strategies which may be used by the Company will be successful under all or any market conditions and, if unsuccessful, could have an adverse effect on the Company's financial position.

Risk Associated With Investment in Other Investment Companies

The Income Portfolio may contain higher yielding investment company shares (including shares of split capital investment trusts). As a result of the gearing in some investment company shares, any increase or decrease in the value of the investments held by those investment companies might magnify movements in their NAV and consequently affect the value of the Income Portfolio. In accordance with the Listing Rules, where appropriate, the Company makes Stock Exchange announcements detailing its holdings in other UK listed investment companies which themselves do not have a stated investment policy to invest no more than 15% of their gross assets in other UK listed investment companies (including investment trusts).

Market Price Risk

Since the Company invests in financial instruments, market price risk is inherent in these investments. In order to minimise this risk, a detailed analysis of the risk/reward relationship of each investee company is undertaken by the Investment Advisers prior to making investments.

Interest Rate Risk

The Company's investment portfolios, particularly the Income Portfolio, include investments bearing interest at fixed rates. Generally when interest rates rise the market prices of fixed interest securities fall and when interest rates fall the prices of fixed interest securities rise. The Company will therefore be exposed to movements in

Strategic Report (continued)

For the year ended 31 December 2020

interest rates. The Company has fixed rate leverage through its ZDP Shares. In January 2017, the redemption date of the Company's ZDP Shares was extended to 28 February 2022 at a rate of 3.85% per annum. Replacing this leverage in 2022 might involve the Company paying a higher accrual rate on an issue of new ZDP Shares if interest rates have risen.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities that are settled by delivery of cash or another financial asset. Some of the Company's investments in smaller company equities and in certain bond issues may have relatively low levels of daily turnover such that it might take several days or even weeks to sell a holding into the market.

Discount Volatility

Being a closed-end fund, the Company's shares may trade at a discount or premium to their NAV. The magnitude of this discount or premium fluctuates daily and can vary significantly. Thus, for a given period of time, it is possible that the market price could decrease despite an increase in the Company's NAV.

The Directors review the discount levels regularly. The Investment Advisers actively communicate with the Company's major shareholders and potential new investors, with the aim of managing discount levels.

Due to the COVID-19 pandemic, 2020 saw significant movements in the Company's share price and discount.

Brexit

The UK's departure from the EU has introduced new uncertainties and instability into the financial markets. Despite a last minute agreement, details of which continue to emerge, the Board and the Investment Manager expect an ongoing period of market uncertainty as the implications are clarified.

Dividend Levels

Dividends paid on the Company's Ordinary Shares principally rely on receipt of dividends and interest payments from the securities in which the Company invests. The Board monitors the income of the Company and reviews an income forecast for the current financial year at its regular quarterly Board meetings. Although our

projections do show a recovery in the Company's revenues for 2021, the Board believe that it is likely that a return to a sustainable and covered dividend will necessitate a lower dividend payment in future years.

Currency Risk

The Company invests in overseas securities and its assets are therefore subject to currency exchange rate fluctuations. The Company may hedge against foreign currency movements affecting the value of the investment portfolio where adverse movements are anticipated but otherwise takes account of this risk when making investment decisions.

Operational

Like most other investment companies, the Company has no employees. The Company therefore relies upon the services provided by third parties and is dependent on the control systems of the Investment Manager and the Company's other service providers. The security, for example, of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems. The Board reviews, at least annually, the performance of all the Company's third party service providers, as well as reviewing service providers' anti-bribery and corruption policies to address the provisions of the Bribery Act 2010. The Board and Audit Committee regularly review statements on internal controls and procedures provided by PMG and other third parties and also subject the books and records of the Company to an annual external audit.

Accounting, Legal and Regulatory

The Board relies on the services of the administrator, PMG and its other professional advisers to ensure compliance with the Companies Act and the UKLA Listing Rules.

Counterparty/ Service Provider Risk

The Board reviews all aspects of the services provided by the Company's service providers on an annual basis to ensure good standards are maintained. This review also includes consideration of business continuity and procedures in place to mitigate cyber attack risks. Regular communication is maintained with and between Service Providers. Agreements with service providers include sufficient notice period clauses to allow for alternative arrangements to be made should contracts be terminated.

Strategic Report (continued)

For the year ended 31 December 2020

Discontinuation Vote

In accordance with Article 53.1 of the Articles of Incorporation of the Company, shareholders are to be given the opportunity to vote against the discontinuation of the Company. As this opportunity was last presented to the shareholders on 26 September 2016, the next discontinuation resolution is to be proposed at the Annual General Meeting on 10 August 2021 at which point it is anticipated that the Directors will propose the shareholders vote against the resolution (i.e. that the Company continues). Due to the unknown outcome of this vote, as noted further in the Directors' Report on page 23, the Directors are disclosing that a material uncertainty exists which casts doubt about the Company's ability to continue as a going concern.

Future Prospects

The Board's main focus is the achievement of a high income from the portfolio together with the generation of long-term capital growth. The future of the Company is dependent upon the success of the investment strategy, as discussed both in the Chairman's Statement and the Investment Advisers' report on pages 8 to 13, together with the outcome of the strategic review as outlined in the Chairman's Statement.

Board Diversity

When appointing new directors and reviewing the Board composition, the Nomination Committee considers, amongst other factors, diversity, balance of skills, knowledge, gender, social and ethnic background and experience. The Nomination Committee however does not consider it appropriate to establish targets or quotas in this regard. As at 31 December 2020, the Board comprised of one female and three male directors. The Company has no employees.

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.

Position and Performance

PRIIPs KIDs

The Company has published Key Information Documents ("KIDs") in compliance with the Packaged Retail and Insurance-based Investment Products ("PRIIPs")

Regulation. KIDs for the Ordinary and ZDP Shares can be found on the Company's area on the PMG website at: www.acornincome.co.uk

The Company is not responsible for the information contained in the KIDs. The process for calculating the risks, cost and potential returns are prescribed by regulation. The figures in the KIDs may not reflect the expected returns for the Company and anticipated returns cannot be guaranteed.

Key Performance Indicators

The Company's Directors meet regularly to review the performance of the Company and its shares. The key performance indicators ("KPIs") used to measure the progress and performance of the Company over time are as follows:

- (1) *The performance against a set of reference points.* The Investment Adviser's performance is not assessed against a formal benchmark but rather against a set of reference points which are more general in nature and intended to be representative of the broad spread of assets in which the portfolio invests. These references include the Numis Smaller Companies (Ex Investment companies) Index, FTSE All share Index and FTSE Small Cap (Ex Investment Companies) Index (see Performance Summary page 4).
- (2) *The performance against the peer group.* The assessment of the Investment Adviser's performance against companies which invest in similar, but not necessarily the same, securities allows the Board to evaluate the effectiveness of the Company's investment strategy.
- (3) *The performance of the Company at the gross asset level.* This shows how the assets attributable to shareholders as a whole have performed (see Performance Summary Total Return on Gross Assets).
- (4) *The performance of the Ordinary Shares, both in terms of share price total return (i.e. accounting for dividends received) and in terms of total return on net asset value.* The share price performance is the measure of the return that shareholders have actually received and will reflect the impact of widening or narrowing of discounts to NAV.

Strategic Report (continued)

For the year ended 31 December 2020

(5) *Ongoing charges*. The annualised ongoing charges figure for the year was 1.98% (2019: 1.79%). 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 any performance fee.

All of these areas were examined throughout the year and the table below summarises the key indicators:

	As at or year to: 31 December 2020	As at or year to: 31 December 2019	% change
Total Return Performance			
Total Return on Gross Assets	–	–	-10.85%
Numis Smaller Companies (Ex Investment Companies) Index	23,117.10	24,153.03	-4.29%
Ordinary Share Performance			
Total return on Net Assets			-17.08%
Revenue return per Ordinary Share	13.75p	22.31p	-38.37%
Net dividends declared per Ordinary Share	23.00p	20.80p	10.58%
Discount to Net Asset Value	-10.46%	-12.96%	
Ongoing Charges	1.98%	1.79%	10.61%

Return Per Share – Basic

Total loss per Ordinary Share is based on the net total loss on ordinary activities after tax of £13,158,700 (2019: net total return £16,237,744).

These calculations are based on the weighted average number of Ordinary Shares in issue during the year to 31 December 2020, of 15,816,687 (2019: 15,816,687).

	Year ended 31 December 2020 Pence per Ordinary Share	Year ended 31 December 2020 GBP '000	Year ended 31 December 2019 Pence per Ordinary Share	Year ended 31 December 2019 GBP '000
Revenue return per Ordinary Share	13.75p	2,175	22.31p	3,529
Net capital (loss)/gain	-96.95p	-15,334	80.35p	12,709
Net total (loss)/gain	-83.20p	-13,159	102.66p	16,238

Net Asset Value

The net asset value per Ordinary Share, including revenue reserve, at 31 December 2020 was 360.17p (31 December 2019: 466.37p) based on net assets as at 31 December 2020 of £56,967,287 divided by number of Ordinary Shares in issue of 15,816,687.

The net asset value of a ZDP Share at 31 December 2020 was 160.05p (31 December 2019: 154.12p) based on the accrued capital entitlement as at 31 December 2020 of £33,979,404 divided by the number of ZDP Shares in issue of 21,230,989.

Dividends

During the year the following dividends were paid:

	Payment Date	Dividend pence (net per share)
First Interim for the year ended 31 December 2020	31 March 2020	5.75p
Second Interim for the year ended 31 December 2020	29 June 2020	5.75p
Third Interim for the year ended 31 December 2020	30 September 2020	5.75p
Fourth Interim for the year ended 31 December 2020	18 December 2020	5.75p

Subsequent to the year end the Directors declared the first interim dividend for the year ended 31 December 2021 of 5.75p, payable on 31 March 2021 to members on the register at the close of business on 12 March 2021. The shares were marked ex-dividend on 11 March 2021. This dividend relates to the year ended 31 December 2020 but in accordance with International Financial Reporting Standards, it is recognised in the period in which it is paid. Further dividend details can be found in note 8 on page 52.

Viability Statement

In accordance with the UK Corporate Governance Code 2018, published by the Financial Reporting Council in July 2018 (the "UK Code"), the Directors have assessed the viability of the Company over a three year period, taking into account the Company's position at 31 December 2020.

A period of three years has been chosen for the purposes of the assessment of viability as the Board believes that this reflects a suitable time horizon for reviewing the Company's circumstances and strategy, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating

Strategic Report (continued)

For the year ended 31 December 2020

costs, dividends, availability of funding and the ongoing strategic review as noted in the Chairman's Statement. The Directors had regard to the general advice that equity investment should be made on a medium to longer term view (perhaps 3 to 5 years) but also to evidence that the average holding time for an equity investment is under three years. The Directors consider that three years is a sufficient investment time horizon to be relevant to shareholders and that choosing a longer time period can present difficulties given the lack of longer term economic visibility.

In their assessment of the viability of the Company, the Directors have considered that the discontinuation vote scheduled for the 2021 AGM is the Company's biggest risk. The Directors expect to support a vote against the discontinuation of the Company and have a reasonable expectation that this will be supported by a majority of the Company's shareholders. The Board has also considered the Company's other principal and emerging risks and uncertainties as detailed on pages 16 to 18, in particular:

- (i) the Company's ability to repay the final capital entitlement of the ZDP Shares on 28 February 2022;
- (ii) any potential falls in value of the Company's investment portfolio; and
- (iii) the potential impact of COVID-19.

The Directors have also considered the Company's income and expenditure projections taking into account the fact that the Company's investments principally comprise liquid securities listed on recognised stock exchanges. Consideration has also been given to potential reduction in income due to global economic slowdown from the COVID-19 pandemic.

The Directors have carried out a robust assessment of the risks outlined above and the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation to serve shareholders appropriately and to meet its liabilities as they fall due over the three year period to December 2023.

Directors' Report

for the year ended 31 December 2020

The Directors have pleasure in presenting their Directors' Report for the year ended 31 December 2020.

Principal Activities and Business Review

The principal activity of the Company is to carry on business as an investment company. The Directors do not envisage any change in these activities for the foreseeable future. A description of the activities of the Company in the period under review is given in the Chairman's Statement on page 8.

Business and Tax Status

The Company is a closed-ended investment company, incorporated with limited liability in Guernsey on 5 January 1999, registered number 34778. The Company operates under The Companies (Guernsey) Law, 2008, (the "Law"), the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended and the Authorised Closed Ended Investment Scheme Rules 2008.

The Company's Ordinary Shares and ZDP Shares are traded on the LSE with the Ordinary Shares having a premium listing and the ZDP Shares having a standard listing, as defined by the LSE.

The Company's management and administration takes place in Guernsey and the Company has been granted exemption from income tax within Guernsey by the Administrator of Income Tax. It is the intention of the Directors to continue to operate the Company so that each year this tax-exempt status is maintained.

In respect of the Criminal Finances Act 2017 which has introduced a new corporate criminal offence of 'failing to take reasonable steps to prevent the facilitation of tax evasion', the Board confirms that they are committed to zero tolerance towards the criminal facilitation of tax evasion.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company is an 'Alternative Investment Fund' ("AIF"), as defined by the Alternative Investment Fund Managers Directive ("AIFMD") and is self managed. The Company was approved as an AIF and submitted an Article 42 Notification to the FCA under the National Private Placement Regime on 3 August 2015 (see Going Concern section below).

The Directors have set a maximum gearing level for the purpose of AIFMD of 400% for both the commitment

exposure level and gross leverage level. As at 31 December 2020 the commitment exposure level was 160% and the gross leverage level was 167%.

Regulatory disclosures, including the Company's Investor Disclosure Document, are provided on the Company's website www.acornincome.co.uk.

General Meetings/ Discontinuation Vote

At the Annual General Meeting held on 26 September 2016, shareholders were given the opportunity in accordance with Article 53.1 of the Articles of incorporation of the Company, to vote for the discontinuance of the Company. The special resolution was not carried and it was noted that the Company would continue in its present form. The next discontinuation resolution will be proposed at the Annual General Meeting on 10 August 2021.

Following the publication of the updated AIC Code in February 2019, when 20% or more of Shareholder votes have been cast against a Board recommendation for a resolution, the Company should explain, when announcing the voting results, what actions it intends to take to consult Shareholders in order to understand the reasons behind the result. An update on the views received from Shareholders and actions taken should be published no later than six months after the shareholder meeting. The Board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next Shareholder meeting, on what impact the feedback has had on any decision, action or resolution subsequently proposed. No resolutions received 20% or more votes against it during the year.

Foreign Account Tax Compliance Act ("FATCA")

FATCA requires certain financial institutions outside the United States ("US") to pass information about their US customers to the US tax authorities, the Internal Revenue Service (the "IRS"). A 30% withholding tax is imposed on the US source income and disposal of assets of any financial institution within the scope of the legislation that fails to comply with this requirement.

The Board of the Company has taken all necessary steps to ensure that the Company is FATCA compliant and confirms that the Company is registered and has been issued a Global Intermediary Identification Number ("GIIN") by the IRS. The Company will use its GIIN to identify that it is FATCA compliant to all financial counterparties.

Directors' Report (continued)

for the year ended 31 December 2020

Common Reporting Standard

The Common Reporting Standard is a global standard for the automatic exchange of financial account information developed by the Organisation for Economic Co-operation and Development ("OECD"), which has been adopted in Guernsey and which came into effect in January 2016.

The Company is subject to Guernsey regulations and guidance on the automatic exchange of tax information and the Board will therefore take the necessary actions to ensure that the Company is compliant in this regard.

Going Concern

Whilst the Company is obliged to hold a discontinuation vote at the 2021 AGM, the Directors in line with the AIC Statement of Recommended Practice ("SORP"), do not believe this should automatically trigger the adoption of a basis in the preparation of the financial statements other than going concern. The SORP states that it is more appropriate to prepare financial statements on a going concern basis unless a vote has already been triggered and shareholders have voted against continuation. Additionally, the SORP guidance sets out that it is appropriate for the financial statements to be prepared on a going concern basis whilst making a material uncertainty disclosure as set out in accounting standards.

The Directors will consider a number of factors in determining the recommendation they put to shareholders in relation to the discontinuation vote and, in conjunction with the strategic review discussed in more detail in the Chairman's statement, has engaged in discussions with a number of shareholders and its advisers. Based on this assessment the Directors have made the assumption that the discontinuation vote will fail, and the Company will as a result continue, however they recognise that the outcome of the vote is not yet known which creates some uncertainty. In accordance with the SORP guidance, the Directors note that these conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

The Directors have arrived at this opinion by considering, inter alia, the following additional factors:

- the Company has sufficient liquidity to meet all ongoing expenses. The Company has net current assets of £942,956 at the year end. In January 2017, the ZDP Shares were refinanced and their life was

extended to 28 February 2022. In addition, the Board regularly reviews the cash flow of the Company and is confident that the Company will have sufficient resources to meet all future obligations;

- both the Income and Smaller Companies Portfolios consist substantially of listed investments which are readily realisable and therefore the Company has sufficient resources to meet its liquidity requirements; and
- as at 31 December 2020, the Company had no borrowings other than the ZDP Shares which, as explained in Note 13, have a final capital entitlement on 28 February 2022.

In the opinion of the Directors, taking into account the considerations above, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

Gearing Policy

The Company's gearing policy is not to employ any gearing through long-term bank borrowing. Save with the prior sanction of the ZDP Shareholders the Company will not incur any indebtedness other than short term borrowings in the normal course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares.

Results and Dividends

The results attributable to Ordinary Shareholders for the period are shown on page 39. The Company made a revenue return for the year of 13.75 pence (2019: 22.31 pence) per Ordinary Share and a capital loss of 96.95 pence (2019: capital gain of 80.35 pence) per Ordinary Share. The dividend for the year was increased by 10.58% to 23.0p per Ordinary Share. With earnings of 13.75p per Ordinary Share, revenue reserves decreased to £1,954,448 representing 12.36p per Ordinary Share, the decrease being due to dividend payments during the year.

A bar chart on page 5 of this report displays the history of dividend payments.

Directors' Report (continued)

for the year ended 31 December 2020

Company Performance

Key Performance Indicators and Analysis of Company's Performance

At each quarterly Board meeting, the Directors consider a number of performance measures in order to assess the Company's success in achieving its objectives. The key areas reviewed are as follows:

- The history of the NAV.
- Receive an update on the market activity of the Ordinary Shares and the ZDP Shares from N+1 Singer, the Company's corporate broker.
- Receive updates on the performance of both the Income Portfolio and the Smaller Companies Portfolio from the Investment Advisers.
- Discount to NAV.
- Consideration of the revenue projection.

On-going Charges and Total Expense Ratio (the "TER")

The annual on-going charges figure for the year was 1.98% (2019: 1.79%). This figure has been prepared in accordance with the recommended methodology provided by AIC and represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses. In 2020, no performance fee was accrued (2019: £ nil).

The TER of the Company is calculated as a percentage of costs against total assets at the year end and is capped at 1.5%. For 2020 the TER was 1.19% (2019: 1.13%). The calculation of costs excludes performance fees, non-routine administration and professional fees. The net management fee charged in 2020 was £601,436 (2019: £693,387).

Share Price Rating and Discount Management including information on Treasury Shares

At the Annual General Meeting on 11 August 2020, the Directors obtained shareholder approval to issue up to 1,591,668 Ordinary Shares and 2,123,098 ZDP Shares, also obtaining the necessary pre-emption waiver from the ZDP Shareholders in respect of any new issue of ZDP Shares.

The shareholders approved renewal of the Company's authority to buy back Ordinary Shares and ZDP Shares. As

at 11 August 2020, 2,370,921 Ordinary Shares and 3,182,525 ZDP Shares were authorised to be purchased.

The Directors also obtained authority to sell from treasury Ordinary Shares at a discount to the prevailing NAV per Ordinary Share, provided that the authority conferred was limited to issues or sales of Ordinary Shares at the same time as ZDP Shares are issued or sold from treasury at a premium, such that, the combined effect of the issue or sale of Ordinary Shares and the issue or sale of ZDP Shares at a premium is that; (i) the NAV per Ordinary Share is thereby increased; and (ii) gearing is not thereby increased.

The Company intends to seek annual renewal of these authorities from shareholders at each future general meeting to be held under section 199 of the Law. In accordance with the Law, any share buy backs will be affected by the purchase of a package of Ordinary Shares and ZDP Shares (in a specified ratio as set out in the Company's Prospectus) in the market for cash at a package price which in aggregate is at a discount to the prevailing NAVs of each class of Share, where the Directors believe such a purchase will enhance shareholder value. Shares which are purchased may be cancelled or held in treasury.

Investment Management and Administration

Management Agreement and Fees

The Board is responsible for the determination of the Company's investment policy and has overall responsibility for the Company's day-to-day activities. The Company has, however, entered into a Management Agreement with PAMG.

The Manager has discretion to make minor changes to the portfolios and also has discretion to move cash from the Smaller Companies Portfolio to the Income Portfolio. The Manager will refer any proposals to the Board to alter the split of assets between the Income Portfolio and the Smaller Companies Portfolio materially. The Board determines when any potential investment limits can be exceeded, together with dividend levels and the appropriate issue size for the ZDP Shares and hence the level of gearing.

Under separate Investment Adviser Agreements, PAMG has delegated a number of its duties and responsibilities to PFM and Unicorn. In relation to the Income Portfolio and Smaller Companies Portfolio respectively, both PFM and Unicorn act as Investment Advisers who are responsible for the identification and analysis of investments meeting the investment objectives and

Directors' Report (continued)

for the year ended 31 December 2020

strategy of the Company. PFM and Unicorn are authorised and regulated by the FCA.

The Board keeps under review the performance of the Investment Manager and the Investment Advisers. In the opinion of the Directors the continuing appointment of the Investment Manager on the terms agreed is in the interest of shareholders as a whole, due to the experience and proven track record of the fund management team in the chosen markets. The Directors consider the investment performance of the Company is satisfactory relative to the markets in which the Company invests.

A list of the top 20 holdings for each portfolio is shown on page 14 of this report and the top 10 holdings for each portfolio is included in the monthly fund factsheet, available on the Company's website.

For the Company's full holdings information please refer to pages 67 to 69.

Administration Agreement

The administration of the Company is undertaken by Northern Trust International Fund Administration Services (Guernsey) Limited ("Northern Trust").

Custodian

The custodian of the Company is Northern Trust (Guernsey) Limited.

Segmental Reporting

The Company has two reportable segments, being the Income Portfolio and the Smaller Companies Portfolio. Each of these portfolios is managed separately, entails different investment objectives and contains investments in different products. A more comprehensive disclosure can be found within Note 2 of the Notes to the Financial Statements.

Corporate Governance

On 1 October 2013, the Company became a member of the AIC, and on 19 November 2013 the Company formally resolved to adopt and comply with the AIC Code.

The Financial Reporting Council ("FRC") has confirmed that an AIC member which reports according to the AIC Code and who follows the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"), will be meeting their Listing Rule obligations in relation to reporting in accordance with The UK Code.

Statement of Compliance with the UK Code

The UK Code was revised, and became effective for accounting periods commencing 1 January 2019. Following a consultation the 2019 AIC Code has been endorsed by the FRC and the Guernsey Financial Services Commission. The revised UK Code places great emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity.

The Board of the Company has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

Due to the Ordinary Shares having a premium listing on the LSE, the Company must comply with Listing Rule 9.8.6(5) which requires the Company to apply the provisions of the UK Code to the extent that they are considered relevant to the Company. By complying with the AIC Code the Company is meeting its obligation under the UK Code and as such is not required to report further on issues contained in the UK Code which are irrelevant to it. The Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained within the Company.

The AIC Code is available for download from the AIC website: www.theaic.co.uk.

With effect from 1 January 2012, the Company was also required to comply with the Guernsey Financial Services Commission Financial Sector Code of Corporate Governance (the "Guernsey Code"). As the Company reports under the AIC Code it is deemed to meet the Guernsey Code and the Board has undertaken to evaluate its corporate governance compliance on an ongoing basis.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code throughout the year, except for a number of provisions which the Board considers as not relevant to the Company due to being an externally managed

Directors' Report (continued)

for the year ended 31 December 2020

investment company. In particular, all of the Company's day to day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company therefore has not reported further in respect of these provisions.

Other areas of non-compliance with the AIC Code by the Company, and the reasons therefore, are as follows:

The non-executive Directors of the Company do not meet without the Chairman present to appraise the Chairman's performance. This is not in accordance with the AIC Code. However, the Company has a Chairman's Performance Evaluation Questionnaire which is completed by all Directors (other than the Chairman) and analysed annually to facilitate the review of the Chairman's performance.

Contrary to the AIC Code, but in line with the Company's Articles of Incorporation, the Directors are not subject to re-election by the shareholders except in their first year of appointment, nor are they appointed for specific terms as required by these provisions, as this is not felt to be appropriate for the size and nature of the Company. However, to facilitate good corporate governance practice, subsequent to 2016, each director will offer themselves for re-election every three years until their ninth year of service. Any Director with over nine years service shall be eligible for re-election every year thereafter. As a result, the Directors were elected as follows:

Nigel Ward will be eligible for re-election in 2021 having served on the Board since 1 December 2011.

David Warr will be eligible for re-election in 2021 having served on the Board since 22 August 2012.

Nigel Sidebottom and Sharon Parr are next eligible for re-election in 2023.

In accordance with the AIC Code, the following details are of all other public company directorships and employment held by each director and shared directorships of any commercial company held by two or more Directors:

David Warr

- None

Nigel Ward

- Fair Oaks Income Fund Limited[#]

Nigel Sidebottom

- None

Sharon Parr

- JZ Capital Partners Limited[#]

[#] Traded on the Specialist Fund Segment of the LSE

The Company does not comply with the AIC Code insofar as it does not have a formal policy on diversity, however the Company has established a Nomination Committee that adheres to formal terms of reference and which is responsible for identifying any gaps on the Company's Board that need to be filled. When considering candidates the Board has due regard to the benefits of diversity on the Board and amongst other considerations this includes gender.

The Chairman of the Board has been in place since 17 August 2019 and served on the Board since 1 December 2011. In normal circumstances, and in accordance with the Board's policy on tenure, the Board would be actively addressing plans for his replacement. However, it was felt that this process should be temporarily suspended until the outcome of both the discontinuation vote scheduled for August 2021 and the strategic review currently underway and referred to in the Chairman's Statement, are known. The Board consider that this is in the best interests of the shareholders and will report further in the interim report to 30 June 2021.

Conflicts of Interest

None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements at the date of this report and none of the Directors has or had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the reporting period.

David Warr holds 63,000 Ordinary Shares in the capital of the Company, which represented an interest of 0.40% of the Company's Ordinary Shares in issue as at 31 December 2020.

Nigel Sidebottom holds 4,366 Ordinary Shares in the capital of the Company, which represented an interest of 0.03% of the Company's Ordinary Shares in issue as at 31 December 2020, and 5,205 ZDP Shares in the capital of the Company, which represented an interest of 0.02% of the Company's ZDP Shares in issue as at 31 December 2020.

Nigel Ward holds 7,000 Ordinary Shares in the capital of the Company, via a nominee account, which represented an interest of 0.04% of the Company's Ordinary Shares in issue as at 31 December 2020, and 10,000 ZDP Shares in

Directors' Report (continued)

for the year ended 31 December 2020

the capital of the Company, which represented an interest of 0.05% of the Company's ZDP Shares in issue as at 31 December 2020.

At the date of this report, there are no outstanding loans or guarantees between the Company and any Director.

Board Responsibilities

The Board comprises four non-executive Directors, who meet at least quarterly to consider the affairs of the Company in a prescribed and structured manner. All Directors are considered independent of the Investment Manager for the purposes of the AIC Code and Listing Rule 15.2.12A, except for Nigel Sidebottom by virtue of his prior employment with PFM. Biographies of the Directors for the period from 1 January 2020 to the date of this report appear on page 15 demonstrating the wide range of skills and experience they bring to the Board. David Warr is the Senior Independent Director.

The Board's policy on tenure is that it is the Board's expectation that Directors will not serve beyond the Annual General Meeting following the ninth anniversary of their appointment. However the Board takes the view that independence of individual Directors is not necessarily compromised by length of tenure on the Board and experience can add significantly to the Board's strength. Nigel Ward was appointed Chairman effective 17 August 2019. Please refer the Chairman's Statement, page 10, for details on Board refreshment, and to the comment on the board's tenure policy, page 26.

The Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense, which is in accordance with the AIC Code. The Directors also have access to the advice and services of the Company Secretary through its appointed representatives who are responsible to the Board for ensuring that the Board's procedures are followed and that applicable rules and regulations are complied with. To enable the Board to function effectively and allow the Directors to discharge their responsibilities, full and timely access is given to all relevant information.

The Directors are requested to confirm their continuing professional development is up to date and any necessary training is identified during the annual performance reviews carried out and recorded by the Nomination Committee.

None of the Directors has a contract of service with the Company.

Substantial Shareholdings

As at 19 April 2021, the latest practicable date for disclosure in this report, the Company had no individual Shareholders with a holding greater than 10%.

Shareholder Communication

In line with the AIC Code, the Investment Advisers communicate with both the Chairman and shareholders and are available to communicate and meet with major shareholders. The Company has also appointed N+1 Singer to liaise with all major shareholders together with PFM and Unicorn, all of who report back to the Board at quarterly Board meetings ensuring that the Board is fully aware of shareholder sentiment and expectation.

Director Attendance

During the year ended 31 December 2020, the number of Board meetings attended was as follows:

	Quarterly Board Meetings*	Ad hoc Board Meetings*	Committee Meetings*
Nigel Ward	4 of 4	5 of 5	10 of 10
David Warr	4 of 4	5 of 5	10 of 10
Nigel Sidebottom	4 of 4	3 of 5	9 of 10
Sharon Parr	4 of 4	5 of 5	9 of 10

* Only meetings held during their membership of the Board and relevant committees have been considered.

Committees

The Company has established four committees: the Audit Committee, the Nomination Committee, the Remuneration and Management Engagement Committee and the Risk Committee (together the "Committees"). The Nomination and Risk Committees comprise the whole Board to ensure that these key areas benefit from the review and input from the experience of all Board members. Nigel Ward, David Warr and Sharon Parr sit on the Audit Committee and Remuneration and Management Engagement Committee. The Terms of Reference for each committee are available on request from the Administrator, or on the Company website www.acornincome.co.uk.

The Audit Committee

A full report regarding the Audit Committee can be found on pages 31 and 32.

Nomination ("NOM") Committee

In accordance with the AIC Code, a Nomination Committee has been established. David Warr is Chairman. The Nomination Committee meets at least once a year in

Directors' Report (continued)

for the year ended 31 December 2020

accordance with the terms of reference and reviews, inter alia, the structure, size and composition of the Board. When the appointment of a non-executive director is being considered the Nomination Committee will make recommendations to the Board after evaluating candidates from a wide range of backgrounds. Whilst considering the composition of the Board, the Nomination Committee will be mindful of diversity, inclusiveness and meritocracy and, in considering a new candidate, the Nomination Committee will apply comparative analysis of candidates' qualifications and experience, applying pre-established clear, neutrally formulated and unambiguous criteria to determine the most suitable candidate sought for the specific position.

Other duties of the Nomination Committee are to give full consideration to succession planning for Directors, to review regularly the leadership needs of the non-executive Directors, ensure non-executive Directors receive a formal letter of appointment and to review the results of the Board's performance evaluation process.

Remuneration and Management Engagement ("RME") Committee

David Warr is Chairman of the RME Committee. The RME Committee meets at least once a year to determine and agree with the Board the framework for the remuneration of the Company's Chairman, Directors and service providers, taking into account remuneration trends and all other factors which it deems necessary. The RME Committee also reviews contractual terms and performance of all service providers to ensure their satisfactory conduct and performance.

During a meeting held on 16 August 2019 it was proposed and agreed that fees be increased as follows effective 1 September 2019:

Base fee increased from £25,000 per annum to £30,000 per annum

NOM / RME / Risk committee Chairs fee increased from £30,000 per annum to £35,000 per annum

Audit Chair fee increased from £32,500 per annum to £37,500 per annum

Board Chair fee increased from £35,000 per annum to £40,000 per annum

Details of the Directors' remuneration can be found in Note 6.

Risk Committee

Nigel Sidebottom is Chairman of the Risk Committee. The Risk Committee meets at least four times a year, reviewing

the effectiveness of the Company's internal controls and risk management systems and procedures on a quarterly basis, actively seeking to identify, manage and monitor risks such as Market, Credit, Liquidity, Counterparty, Operational and Leverage. In doing so the Risk Committee reviews a quarterly report from the Investment Adviser and reviews arrangements for monitoring investment risk. The Risk Committee also ensures that the risk profile of the Company's portfolios are appropriate to the size; structure and investment strategies applied and reports its findings and recommendations to the Board quarterly.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's systems of internal control ensuring that they are designed to meet the particular needs of the Company and the risks to which it is exposed, and by their very nature provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal control are as follows:

Investment advice is provided by PFM and Unicorn under Investment Adviser Agreements. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Advisers at regular Board meetings. Both PFM and Unicorn provide the Board with updates at each quarterly Board meeting and at any other time that the Board requests.

The administration and company secretarial duties of the Company are performed by Northern Trust International Fund Administration Services (Guernsey) Limited.

Registrar duties are performed by JTC Registrars Limited

The custody of assets, is undertaken by Northern Trust (Guernsey) Limited.

The duties of investment management, accounting and the custody of assets are segregated. The procedures of the individual parties are designed to complement one another.

The Directors of the Company clearly define the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their on-going performance and contractual arrangements. A detailed annual review of the main service providers is undertaken by the RME Committee and its findings are reported to the Board.

Directors' Report (continued)

for the year ended 31 December 2020

Mandates for authorisation of investment transactions and expense payments are set out by the Board.

The Board reviews detailed financial information produced by the Investment Advisers and the Administrator on a regular basis.

The Board is provided, on a quarterly basis, with a Compliance Report produced by a specialist Compliance and Legal department at Premier Miton Group. The monitoring programme seeks to ensure that all activities of PFM, for the year under review, have been in accordance with both internal procedures and with FCA principles for firms and individuals. Prior to the COVID-19 pandemic, the Compliance team also makes regular external visits to both Unicorn and the Administrator, the latest visit being to Unicorn on 25 April 2019. A visit to Northern Trust took place on 23 May 2018. The Secretary provides a report at each quarterly Board meeting which highlights any areas of non-compliance with any applicable regulations and laws. The Board has access, at all times, to all relevant compliance personnel.

The Company does not have an internal audit department. All the Company's management and administration functions are delegated to independent third parties and it is therefore felt there is no need for the Company to have an internal audit facility.

No significant findings were found during the internal controls review.

Packaged Retail and Insurance-Based Investment Products ("PRIIPs")

As a listed closed-ended fund, the Company falls under the definition of a retail investment product for PRIIPs Regulation issued by the FCA which came into effect 1 January 2018. As such, the Company is required to produce KIDs which are available on the Company's website www.acornincome.co.uk.

Relations with Shareholders

All holders of Ordinary Shares in the Company have the right to receive notice of, and attend and vote at the general meetings of the Company. The holders of ZDP Shares have the right to receive notice of all general meetings but only have the right to attend and vote if the business of the meeting proposes a resolution which will vary, modify or abrogate any of the special rights attached to the ZDP Shares.

At each general meeting of the Company, the Board and the Investment Advisers are available to discuss issues affecting the Company. This is in accordance with the AIC Code. Only Ordinary Shares carry full voting rights, holders of ZDP Shares are only entitled to vote on issues affecting their share class. The primary responsibility for shareholder relations lies with PFM. However, the Directors are always available to enter into dialogue with shareholders and the Chairman is always willing to communicate with major shareholders as the Company believes such communication to be important.

Shareholders are welcome to contact the Chairman directly by emailing at: Acorn_Income_Fund_Limited@ntrs.com

Anti-Bribery and Corruption Policy

The Company has adopted a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly.

Voting and Stewardship Code

The Investment Manager is committed to the principles of the Financial Reporting Council's UK Stewardship Code and this also constitutes the disclosure of that commitment required under the rules of the FCA (Conduct of Business Rule 2.2.3).

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for other emission producing sources.

Signed on behalf of the Board by:

Nigel Ward

Chairman

20 April 2021

7	New Revision	Ben Martin	20/04/2021,
15:46	03:46:50 pm	IMAC01	
8	New Revision	Ben Martin	21/04/2021,
10:03	10:03:26 am	IMAC01	

Statement of Directors' Responsibility in Respect of the Annual Financial Report

for the year ended 31 December 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Financial Report and 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 International Financial Reporting Standards as issued by the IASB and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable 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 proper 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 (Guernsey) Law, 2008. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

Disclosure of Information to Auditors

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

Responsibility Statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the 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 Management Report (comprising the Chairman's Statement, the Investment Advisers' Reports, Strategic Report, Directors' Report and Audit Committee 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 financial report, 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.

Reappointment of Auditor

The Auditor, KPMG Channel Islands Limited, has expressed its willingness to continue in office as Auditor. A resolution proposing their reappointment will be submitted at the forthcoming general meeting to be held pursuant to section 199 of the Law.

Signed on behalf of the Board by:

Nigel Ward

Chairman

20 April 2021

Audit Committee Report

for the year ended 31 December 2020

In accordance with the AIC Code an Audit Committee has been established consisting of David Warr, Sharon Parr, and Nigel Ward. Sharon Parr is the Chairman of the Audit Committee, effective 1 May 2020.

The Audit Committee meets at least twice a year and, when requested, provides advice to the Board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for the shareholders to assess the Company's performance, business model and strategy. The Audit Committee also reviews, inter alia, the financial reporting process and the system of internal control and management of financial risks including understanding the current areas of greatest financial risk and how these are managed by the Investment Manager, reviewing the annual report and accounts, assessing the fairness of preliminary and interim statements and disclosures and reviewing the external audit process. The Audit Committee is responsible for overseeing the Company's relationship with the external auditor (the "Auditor"), including making recommendations to the Board on the appointment of the Auditor and their remuneration.

Since the extent of COVID-19 became ever more apparent the Audit Committee has been working very closely with the Investment Advisers to ensure the annual report and accounts remain valid and reflect the Company's position as at the date of signing.

The Audit Committee considers the nature, scope and results of the Auditor's work and reviews, and develops and implements a policy on the supply of any non-audit services that are to be provided by the Auditor. The Audit Committee annually reviews the independence and objectivity of the Auditor and also considers the appointment of an appropriate Auditor.

At the Audit Committee meeting on 9 November 2020 the appointment of the Auditor was considered and the Board subsequently decided that the Auditor was sufficiently independent and was appropriately appointed in order to carry out the audit for the year ended 31 December 2020. During the year under review, the Auditor was not engaged to provide any non-audit services to the Company.

The valuation of the Company's investments, given that they represent the majority of net assets of the Company is considered to be a significant area of focus. In discharging its responsibilities the Audit Committee has

specifically considered the valuation of investments as follows:

- The Board reviews the portfolio valuations on a regular basis throughout the year and meets with the Investment Advisers at least quarterly. It also seeks assurance that the pricing basis is appropriate and in line with relevant accounting standards as adopted by the Company and that the carrying values are correct.
- The Company's net asset value is calculated twice weekly using a third party pricing source.
- The Audit Committee receives and reviews reports from the Investment Advisers and the Auditor relating to the Company's annual financial report. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual financial report remains with the Board.
- The Audit Committee holds an annual meeting to approve the Company's annual financial report before its publication. At a meeting held on 9 November 2020 the Audit Committee met with the Auditor to discuss the audit plan and approach. During this meeting it was agreed with the Auditor that the area of significant audit focus related to the valuation of investments given that they represent the majority of net assets of the Company. The scope of the audit work in relation to this asset class was discussed. At the conclusion of the audit, the Audit Committee met with the Auditor and discussed the scope of their annual audit work and also their audit findings.
- The Audit Committee reviews the scope and results of the audit, its cost effectiveness together with the independence and objectivity of the Auditor. The Audit Committee has particular regard to any non-audit work that the Auditor may undertake and the terms under which the Auditor may be appointed to perform non-audit services. In order to safeguard the Auditor's independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the Auditor does not conflict with their statutory audit responsibilities.

Audit Committee Report (continued)

for the year ended 31 December 2020

In addition to the above the Audit Committee paid particular attention during the year to the discontinuation vote that is to be presented at the 2021 AGM. In reaching its conclusion the Audit Committee reviewed the AIC SORP which states that it is more appropriate to prepare financial statements on a going concern basis unless a vote has already been triggered and shareholders have voted against continuation. The SORP guidance goes on to state that it is appropriate for the financial statements to be prepared on a going concern basis whilst making a material uncertainty disclosure as set out in accounting standards.

To fulfil its responsibilities regarding the independence of the Auditor, the Audit Committee considered:

- a report from the Auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of the non-audit services provided by the Auditor.

To assess the effectiveness of the Auditor, the committee reviewed:

- the Auditor's fulfilment of the agreed audit plan and variations from it;
- the audit findings report highlighting any major issues that arose during the course of the audit; and
- the effectiveness and independence of the Auditor having considered the degree of diligence and professional scepticism demonstrated by them.

The Audit Committee is satisfied with KPMG Channel Islands Limited's ("KPMG") effectiveness and independence as Auditor.

As KPMG has been previously engaged to provide the annual audit, the Board was able to rely on both their previous experiences with KPMG and their conduct during the current year audit.

Sharon Parr

Chairman of the Audit Committee

20 April 2021

Independent Auditor's Report to the Members of Acorn Income Fund Limited

Our opinion is unmodified

We have audited the financial statements of Acorn Income Fund Limited (the "Company"), which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2020, and of the Company's financial performance and cash flows for the year then ended;

- are prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

Going concern:

Refer to Audit Committee Report on page 32.

We draw attention to note 1(a) to the financial statements which indicates that the Company is obliged to hold a discontinuation vote at the 2021 Annual General Meeting of Shareholders.

This condition constitutes a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The risk

Disclosure quality:

The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Company.

That judgment is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements, in particular in relation to the discontinuation vote.

The risk for our audit is whether or not those risks are such that they amounted to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.

Our response

Our procedures included, but were not limited to:

We obtained and inspected a Board approved written assessment of going concern on the Company and corroborated the assessment with our knowledge of the business.

We considered the risk that the outcome of the discontinuation vote could affect the Company for at least a year from the date of approval of the financial statements (the "going concern period") by inspecting minutes of meetings held by the directors, inquiring with management as to their assessment of the likelihood of uptake of the discontinuation vote, and considering key financial metrics including the discount of the Company's share price against its net asset value.

Assessing disclosures:

We considered whether the going concern disclosure in note 1(a) to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

Independent Auditor's Report to the Members of Acorn Income Fund Limited (continued)

Other key audit matters: our assessment of the 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. Going concern is a significant key audit matter and is described in the 'Material uncertainty relating to going concern' section of our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the other key audit matter was as follows (unchanged from 2019):

	The risk	Our response
Valuation of investments (Financial assets designated at fair value through profit or loss) £90,003,736; (2019: £103,788,482) Refer to the Audit Committee Report on page 31, accounting policy notes 1(b), 1(l) and disclosure note 10.	<p>Basis: As at 31 December 2020 the Company had invested the equivalent of 158.0% (2019: 140.7%) of its net assets in listed equities, bonds and structured notes (together, the "investments").</p> <p>The Company's listed investments are valued based on market prices while its structured notes are valued based on price quotes obtained from a third party pricing provider (the "Price Quotes"). Where the Price Quotes may not be representative of fair value, the Company will use the resources of the Investment Manager to augment its own fair value analysis to determine the most appropriate fair value for such investments.</p> <p>Risk: The valuation of the Company's investments, given that it represents the majority of the Company's net assets is considered to be a significant area of our audit.</p>	<p>Our audit procedures included, but were not limited to:</p> <p><i>Use of KPMG Valuation Specialist:</i> We used our KPMG Valuation Specialist to independently price listed investments to a third party pricing source.</p> <p>For structured notes our KPMG Valuation Specialist assisted us with the assessment of the quality and integrity of the Price Quotes, through comparison to available quotes from independent sources or through applying a valuation model based on contractual terms and market data.</p> <p>Assessing disclosures: We also considered the Company's disclosures (see note 1 (b)) in relation to the use of judgments regarding valuation of investments and the Company's valuation policies adopted (see note 1(l)) and fair value disclosures in note 10 for compliance with IFRS.</p>

Independent Auditor's Report to the Members of Acorn Income Fund Limited (continued)

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £850,000, determined with reference to a benchmark of net assets of £56,967,287, of which it represents approximately 1.5% (2019: 1.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £637,000. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £42,500 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, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic over the going concern period. As stated in the 'material uncertainty relating to going concern' section of our report, they have also concluded that there is a material uncertainty relating to going concern.

An explanation of how we evaluated the directors' assessment is set out in the 'material uncertainty relating to going concern' section of our report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

- we have nothing material to add or draw attention to in relation to the directors' statement in the notes to the financial statements on the use of the going concern basis of accounting, and their identification therein of a material uncertainty over the Company's use of that basis for the going concern period and we found the going concern disclosure in note 1(a) to be acceptable; and
- the related statement under the Listing Rules set out on page 23 is materially consistent with the financial statements and our audit knowledge.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Independent Auditor's Report to the Members of Acorn Income Fund Limited (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

Disclosures of emerging and principal risks and longer term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge. We have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement (page 20 and 21) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal disclosures describing these risks and explaining how they are being managed or mitigated;
- the directors' explanation in the Viability Statement (page 20 and 21) as to how they have assessed the prospects of the Company, over what period they

Independent Auditor's Report to the Members of Acorn Income Fund Limited (continued)

have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on pages 20 and 21 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual financial 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;
- the section of the annual financial report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual financial report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 30, 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 or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Independent Auditor's Report to the Members of Acorn Income Fund Limited (continued)

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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.

Barry Ryan
For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors, Guernsey

20 April 2021

Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	Revenue GBP	Capital GBP	Year ended 31 Dec 2020 Total GBP	Year ended 31 Dec 2019 Total GBP
Net (losses)/gains on financial assets designated as at fair value through profit or loss	10	–	(13,516,405)	(13,516,405)	14,541,087
Gains on derivative financial instruments	4	–	106,175	106,175	249,850
Investment income	3	2,813,232	–	2,813,232	4,220,187
Foreign exchange gains/(losses)		567	(97,148)	(96,581)	(204,962)
Total income and gains/(losses)		2,813,799	(13,507,378)	(10,693,579)	18,806,162
Expenses	5	(638,738)	(568,086)	(1,206,824)	(1,360,747)
Return/(loss) on ordinary activities before finance costs and taxation		2,175,061	(14,075,464)	(11,900,403)	17,445,415
Interest payable and similar charges	7	–	(1,258,297)	(1,258,297)	(1,207,671)
Return/(loss) on ordinary activities before taxation		2,175,061	(15,333,761)	(13,158,700)	16,237,744
Taxation on ordinary activities		–	–	–	–
Other comprehensive income		–	–	–	–
Total comprehensive income/(loss) for the year attributable to Ordinary Shareholders		2,175,061	(15,333,761)	(13,158,700)	16,237,744
		Pence	Pence	Pence	Pence
Return/(loss) per Ordinary Share	9	13.75	(96.95)	(83.20)	102.66
Dividend per Ordinary Share	8	23.00	–	23.00	20.80
Return per ZDP Share	9	–	5.93	5.93	5.69

The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice ("SORP") issued by the AIC.

In arriving at the results for the financial year, all amounts above relate to continuing operations. No operations were acquired or discontinued in the year.

The Notes on pages 43 to 66 form an integral part of the financial statements.

Statement of Financial Position

as at 31 December 2020

	Notes	31 Dec 2020 GBP	31 Dec 2019 GBP
NON-CURRENT ASSETS			
Financial assets designated as at fair value through profit or loss	10	90,003,736	103,788,482
CURRENT ASSETS			
Receivables	11	458,353	491,738
Cash and cash equivalents		609,466	2,324,683
Derivative financial instruments		132,269	186,453
		1,200,088	3,002,874
TOTAL ASSETS		91,203,824	106,791,356
CURRENT LIABILITIES			
Derivative financial instruments		–	6,661
Payables – due within one year	12	257,133	299,762
		257,133	306,423
NON-CURRENT LIABILITIES			
ZDP Shares	13	33,979,404	32,721,106
TOTAL LIABILITIES		34,236,537	33,027,529
NET ASSETS		56,967,287	73,763,827
EQUITY			
Share capital and premium	14	27,420,824	27,420,824
Revenue reserve		1,954,448	3,417,227
Capital reserve		22,372,177	37,705,938
Other reserves	15	5,219,838	5,219,838
TOTAL EQUITY		56,967,287	73,763,827
		Pence	Pence
Net asset value per Ordinary Share (per Articles)		360.21	466.43
Net asset value per Ordinary Share (per IFRS)		360.17	466.37
Net asset value per ZDP Share (per Articles)		160.02	154.07
Net asset value per ZDP Share (per IFRS)		160.05	154.12

The financial statements on pages 39 to 66 were approved by the Board of Directors and authorised for issue on 20 April 2021 and signed on its behalf by:

Nigel Ward
Chairman

The Notes on pages 43 to 66 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	31 Dec 2020 GBP	31 Dec 2019 GBP
Operating activities			
(Loss)/return on ordinary activities before taxation		(13,158,700)	16,237,744
Net losses/(gains) on financial assets designated as at fair value through profit or loss	10	13,516,405	(14,541,087)
Dividend income	3	(2,357,237)	(3,679,715)
Interest income	3	(455,995)	(536,887)
Bank Interest income	3	–	(3,585)
Interest expense	7	1,258,297	1,207,671
Decrease/(increase) in derivative financial assets		54,184	(172,367)
Decrease in derivative financial liabilities		(6,661)	(192,939)
(Decrease)/increase in payables and appropriations excluding amount due to brokers	12	(15,515)	47,537
(Increase)/decrease in receivables excluding accrued investment income and due from brokers	11	(2,524)	13,949
Net cash flow used in operating activities before investment income		(1,167,746)	(1,619,679)
Dividend income received		2,360,099	3,673,593
Interest income received		474,249	595,235
Net cash flow from operating activities before taxation		1,666,602	2,649,149
Tax paid		–	–
Net cash flow from operating activities		1,666,602	2,649,149
Investing activities			
Purchase of financial assets designated at fair value through profit or loss		(25,565,259)	(34,951,668)
Sale of financial assets designated at fair value through profit or loss		25,821,280	35,032,464
Net cash flow from investing activities		256,021	80,796
Financing activities			
Equity dividends paid	8	(3,637,840)	(3,289,872)
Net cash flow used in financing activities		(3,637,840)	(3,289,872)
Decrease in cash and cash equivalents		(1,715,217)	(559,927)
Cash and cash equivalents at beginning of year		2,324,683	2,884,610
Cash and cash equivalents at end of year		609,466	2,324,683

The Notes on pages 43 to 66 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Share Capital and Premium 31 Dec 2020 GBP	Revenue Reserve 31 Dec 2020 GBP	Capital Reserve 31 Dec 2020 GBP	Other Reserves 31 Dec 2020 GBP	Total 31 Dec 2020 GBP
Balances as at 1 January 2020		27,420,824	3,417,227	37,705,938	5,219,838	73,763,827
Total comprehensive income/(loss) for the year attributable to Ordinary Shareholders		–	2,175,061	(15,333,761)	–	(13,158,700)
Dividends	8	–	(3,637,840)	–	–	(3,637,840)
Balances as at 31 December 2020		27,420,824	1,954,448	22,372,177	5,219,838	56,967,287

	Notes	Share Capital and Premium 31 Dec 2019 GBP	Revenue Reserve 31 Dec 2019 GBP	Capital Reserve 31 Dec 2019 GBP	Other Reserves 31 Dec 2019 GBP	Total 31 Dec 2019 GBP
Balances as at 1 January 2019		27,420,824	3,178,203	24,997,090	5,219,838	60,815,955
Total comprehensive income for the year attributable to Ordinary Shareholders		–	3,528,896	12,708,848	–	16,237,744
Dividends	8	–	(3,289,872)	–	–	(3,289,872)
Balances as at 31 December 2019		27,420,824	3,417,227	37,705,938	5,219,838	73,763,827

The Notes on pages 43 to 66 form an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2020

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), the Association of Investment Companies ("AIC") Statements of Recommended Practice ("SORP") (as revised in October 2019 and applicable to periods beginning 1 January 2019) where this is consistent with the requirements of IFRS and in compliance with the Companies (Guernsey) Law, 2008. All accounting policies adopted for the period are consistent with IFRS issued by the IASB. The financial statements have been prepared on an historical cost basis except for the measurement at fair value of financial assets designated as at fair value through profit or loss and derivative financial instruments.

Whilst the Company is obliged to hold a discontinuation vote at the 2021 AGM, the Directors in line with the AIC SORP, do not believe this should automatically trigger the adoption of a basis of preparation other than going concern. The SORP states that it is more appropriate to prepare financial statements on a going concern basis unless a vote has already been triggered and shareholders have voted against continuation. Additionally, the SORP guidance sets out that it is appropriate for the financial statements to be prepared on a going concern basis whilst making a material uncertainty disclosure as set out in accounting standards.

The Directors will consider a number of factors in determining the recommendation they put to shareholders in relation to the discontinuation vote and, in conjunction with the strategic review discussed in more detail in the Chairman's statement, has engaged in discussions with a number of shareholders and its advisers. Based on this assessment the Directors have made the assumption that the discontinuation vote will fail, and the Company will as a result continue, however they recognise that the outcome of the vote is not yet known which creates some uncertainty. In accordance with the SORP guidance, the Directors note that these conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

Other factors the Directors have considered are, inter alia, the following:

- the Company has sufficient liquidity to meet all ongoing expenses. The Company has net current assets of £942,955 at the year end. In January 2017, the ZDP Shares were refinanced and their life was extended to 28 February 2022. In addition, the Board regularly reviews the cash flow of the Company and is confident that the Company will have sufficient resources to meet all future obligations;
- both the Income and Smaller Companies Portfolios consist substantially of listed investments which are readily realisable and therefore the Company has sufficient resources to meet its liquidity requirements; and
- as at 31 December 2020, the Company had no borrowings other than the ZDP Shares which, as explained in Note 13, have a final capital entitlement on 28 February 2022.
- the ongoing impact of the COVID-19 pandemic and ability of key service providers to maintain business continuity and resiliency whilst working from home.

In the opinion of the Directors, taking into account the considerations above, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of Preparation (continued)

New Standards, Forthcoming Standards or Amendments and Interpretations Effective During the Reporting Period

The following standards are newly effective in the current year but will have no significant impact on the Company.

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

(b) Use of Estimates and Judgements

The preparation of the financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Directors use judgements in allocating expenses between Revenue and Capital and in ascertaining the risk disclosures contained in Note 18. The Directors use judgements in valuing the market value of the investments contained in Note 10.

No significant estimates have been used.

(c) Dividend Policy

The Company aims to pay a regular quarterly dividend in March, June, September and December. It is intended to distribute substantially all of the Company's net income after expenses and taxation; however the Company may retain a proportion of the Company's income in each year as a revenue reserve to assist in providing long term stability in dividend distributions.

(d) Share Capital

Ordinary Shares are classified as equity. Share capital includes the nominal value of Ordinary Shares that have been issued and any premiums received on the initial issuance of shares. Incremental costs directly attributable to the issue of new Ordinary Shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury reserve included in other reserves in the Statement of Financial Position. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

(e) Zero Dividend Preference Shares

Under IAS 32 – Financial Instruments: Presentation, the ZDP Shares are classified as financial liabilities and are held at amortised cost. Appropriation for the period in respect of ZDP Shares is included in the Statement of Comprehensive Income as a finance cost and is calculated using the effective interest rate method ("EIR"). The costs of issue of the ZDP Shares are being amortised over the period until the ZDP Shares are due for redemption.

(f) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and has elected to remain exempt following changes to the Guernsey tax regime. The Company paid an annual fee of £1,200 (2019: £1,200).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Capital Reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of financial assets designated at fair value through profit or loss and derivative financial instruments;
- expenses charged to this account in accordance with the expenses policy below;
- increases and decreases in the valuation of the financial assets designated at fair value through profit and loss held at the year end and derivative financial instruments; and
- unrealised exchange differences of a capital nature.

(h) Expenses

All expenses are accounted for on an accruals basis and are recognised in profit or loss. Expenses are charged to the capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

75% of the Company's management fee costs are charged to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio.

All other expenses are charged through the revenue reserve.

(i) Investment Income

Interest income and distributions receivable are accounted for on an accruals basis. Interest income relates only to interest on bank balances. Bond income is accounted for using the EIR basis. Dividends are recognised on the ex-dividend date. Investment income is treated as a revenue item, except for special dividends of a capital nature which are treated as a capital item, in the Statement of Comprehensive Income.

(j) Foreign Currency Translation

The currency of the primary economic environment in which the Company operates (the functional currency) is Great British Pounds ("GBP") which is also the presentational currency.

Transactions denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities, other than investments, denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss in the Statement of Comprehensive Income. Foreign exchange differences relating to investments are taken to the capital reserve. Realised and unrealised foreign exchange differences on non-capital assets or liabilities are taken to profit or loss in the Statement of Comprehensive Income in the period in which they arise.

(k) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash, deposits at bank and money market deposits with a maturity of less than three months.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Investments

All investments have been classified as financial assets at “fair value through profit or loss”. Investments are initially recognised on the date of purchase at fair value, with transaction costs recognised in profit or loss in the Statement of Comprehensive Income. Unrealised gains and losses on movement in fair value of investments are recognised in profit or loss in the Statement of Comprehensive Income. Investments are derecognised on the date of sale. Gains and losses on the sale of investments, which is the difference between its initial cost and sale value, will be taken to the profit or loss in the Statement of Comprehensive Income in the period in which they arise. For investments actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices as at the close of business on the reporting date.

For investments not actively traded, the Directors will consider where practical, multiples used in recent transactions in comparable stocks. Where there are no comparable listed or unlisted stocks the Directors will take into consideration the performance of the stock, maturity date and finance arrangements to determine the fair value.

(m) Derivatives

Derivatives consist of forward exchange contracts which are initially measured at fair value and any directly attributable transaction costs are recognised in profit or loss in the Statement of Comprehensive Income as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss in the Statement of Comprehensive Income. Derivatives contracts in a receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. Derivatives contracts in a payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss.

(n) Trade Date Accounting

All “regular way” purchases and sales of financial assets are recognised on the “trade date”, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the timeframe generally established by regulation or convention in the market place.

(o) Segmental Reporting

The Company retains two Investment Advisers: Unicorn Asset Management Limited and Premier Fund Managers Limited for the Smaller Companies Portfolio and Income Portfolio respectively. As the Board reviews the performance of each portfolio separately and decides on the allocation of resources based on this performance, the Board, as chief operating decision maker, has determined that the Company has two reportable segments (2019: two).

The Board is charged with setting the Company’s investment strategy in accordance with the Prospectus. They have delegated the day to day implementation of this strategy to its Investment Advisers but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The investment decisions of the Investment Advisers are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Advisers have been given full authority to act on behalf of the Company, including the authority to purchase and sell securities and other investments on behalf of the Company and to carry out other actions as appropriate to give effect thereto. Whilst the Investment Advisers may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Advisers. The Board, therefore, retains full responsibility as to the major allocation decisions made on an ongoing basis. The Investment Advisers will always act under the terms of the Prospectus.

The key measure of performance used by the Board to assess the Company’s performance and to allocate resources is the total return on the Company’s net asset value (“NAV”), as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Schedule of Principal Investments held as at the year end is presented on page 14.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is currently a legally and contractually enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. A current legally and contractually enforceable right to offset must not be contingent on a future event. Furthermore, it must be legally and contractually enforceable in (i) the normal course of business; (ii) the event of default; and (iii) the event of insolvency or bankruptcy of the Company and all of the counterparties.

2 OPERATING SEGMENTS

The Company has two reportable segments, being the Income Portfolio and the Smaller Companies Portfolio. Each of these portfolios is managed separately as they entail different investment objectives and strategies and contain investments in different products.

For each of the portfolios, the Board reviews internal management reports on a quarterly basis. The objectives and principal investment products of the respective reportable segments are as follows:

Segment	Investment Objectives and Principal Investments Products
Income Portfolio	To enhance income and control risk by investing in fixed interest securities, including convertible securities, structured investments across a range of asset classes, shares of other investment companies, including property investment companies, and open-ended fixed interest funds.
Smaller Companies Portfolio	To maximise income and capital growth through investments in smaller capitalised UK companies.

Information regarding the results of each reportable segment follows. Performance is measured based on the increase in value of each portfolio, as included in the internal management reports that are reviewed by the Board.

Segmental information is measured on the same basis as that used in the preparation of the Company's financial statements.

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
31 December 2020				
External revenues:				
Net gains/(losses) on financial assets designated as at fair value through profit or loss	481,328	(13,997,733)	–	(13,516,405)
Gains on derivative financial instruments	106,175	–	–	106,175
Investment income:				
Dividend income	142,424	2,214,813	–	2,357,237
Bond income	455,995	–	–	455,995
Foreign exchange loss	–	–	(96,581)	(96,581)
Total income/(losses)	1,185,922	(11,782,920)	(96,581)	(10,693,579)
Expenses	–	–	(1,206,824)	(1,206,824)
Interest payable and similar charges	–	–	(1,258,297)	(1,258,297)
Total comprehensive income/(loss) for the year attributable to shareholders	1,185,922	(11,782,920)	(2,561,702)	(13,158,700)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
31 December 2020				
Financial assets designated as at fair value through profit or loss	20,698,208	69,305,528	–	90,003,736
Receivables	437,351	21,002	–	458,353
Derivative financial instruments	132,269	–	–	132,269
Cash and cash equivalents	307,493	301,973	–	609,466
Total assets	21,575,321	69,628,503	–	91,203,824
Payables	–	–	257,133	257,133
Total current liabilities	–	–	257,133	257,133

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
31 December 2019				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	449,802	14,091,285	–	14,541,087
Gains on derivative financial instruments	249,850	–	–	249,850
Investment income:				
Dividend income	156,327	3,523,388	–	3,679,715
Bond income	536,887	–	–	536,887
Foreign exchange loss	–	–	(204,962)	(204,962)
Sundry Income	3,585	–	–	3,585
Total income	1,396,451	17,614,673	(204,962)	18,806,162
Expenses	–	–	(1,360,747)	(1,360,747)
Interest payable and similar charges	–	–	(1,207,671)	(1,207,671)
Total comprehensive income for the year attributable to shareholders	1,396,451	17,614,673	(2,773,380)	16,237,744

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
31 December 2019				
Financial assets designated as at fair value through profit or loss	20,619,082	83,169,400	–	103,788,482
Receivables	458,467	31,976	1,295	491,738
Derivative financial instruments	186,453	–	–	186,453
Cash and cash equivalents	1,561,066	763,617	–	2,324,683
Total assets	22,825,068	83,964,993	–	106,791,356
Derivative financial instruments	6,661	–	–	6,661
Payables	–	–	299,762	299,762
Total current liabilities	6,661	–	299,762	306,423

Geographical Information

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the domicile countries of the investees and counterparties to derivative transactions. The table below excludes net gains on financial assets designated as at fair value through profit or loss and gains or losses on derivative instruments.

	UK GBP	Guernsey GBP	Other Europe GBP	Rest of the World GBP	Total GBP
31 December 2020					
External revenues					
Total Revenue	2,348,117	104,116	63,453	297,546	2,813,232
31 December 2019					
External revenues					
Total Revenue	3,597,917	120,371	171,620	330,279	4,220,187

The Company did not hold any non-current assets during the year other than financial instruments (2019: £nil).

Major Customers

The Company regards its shareholders as customers. The Company had no Shareholders with a holding greater than 10% at the year end (2019: nil).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

3 INVESTMENT INCOME

	Year ended 31 Dec 2020 GBP	Year ended 31 Dec 2019 GBP
Dividend income	2,357,237	3,679,715
Bond income	455,995	536,887
Bank interest	–	3,585
	2,813,232	4,220,187

4 GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 Dec 2020 GBP	Year ended 31 Dec 2019 GBP
Unrealised (loss)/gain on forward foreign currency contracts	(47,523)	365,305
Realised gain/(loss) on forward foreign currency contracts	153,698	(115,455)
	106,175	249,850

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5 EXPENSES

	Year ended 31 Dec 2020			Year ended 31 Dec 2019		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Manager's fee*	150,359	451,077	601,436	173,347	520,040	693,387
Administrator's fee**	84,775	–	84,775	84,221	–	84,221
Registrar's fee	35,784	–	35,784	45,050	–	45,050
Directors' fees	144,908	–	144,908	128,255	–	128,255
Custody fees	23,169	–	23,169	23,214	–	23,214
Audit fees	37,775	–	37,775	36,422	–	36,422
Directors' and Officers' insurance	26	–	26	12,653	–	12,653
Annual fees	18,219	–	18,219	31,118	–	31,118
Commissions and charges paid	–	117,009	117,009	–	149,932	149,932
Legal and professional fees	34,104	–	34,104	39,949	–	39,949
Broker fees	64,677	–	64,677	56,510	–	56,510
Bank interest	4,279	–	4,279	–	–	–
Sundry costs	40,663	–	40,663	60,036	–	60,036
	638,738	568,086	1,206,824	690,775	669,972	1,360,747

Manager's Fee

*The Company has entered into a Management Agreement with Premier Asset Management (Guernsey) Limited, a wholly-owned, Guernsey incorporated subsidiary of Premier Miton Group PLC. The Investment Manager receives a management fee of 0.7% per annum of total assets (subject to a minimum of £100,000) calculated monthly and payable quarterly in arrears, out of which it pays fees to the Investment Advisers. The Investment Manager is also paid a shareholder communication and support fee of £3,100, annually. Please refer to Note 1(h) for details on how expenses are charged to the capital reserve and revenue account. The Management Agreement may be terminated, in writing, by either party giving 6 months' notice, provided the initial 12 month period from signing has expired, this date being 17 April 2020. The Company has entered into an agreement with the Investment Manager for the provision of AIFM reporting services for a fee of £19,450 per annum from 1 September 2017.

Administrator's Fee

**The Company entered into an Administration Agreement with Northern Trust International Fund Administration Services (Guernsey) Limited on 1 April 2015. The Company shall pay the Administrator a fee of 12 basis points per annum on the net assets between £0 – £100 million, 10 basis points per annum on the net assets between £100 million – £150 million and 8 basis points per annum on the net assets over £150 million subject to a minimum of £7,000 per month. The Administration Agreement may be terminated by either party on ninety days notice.

Performance Fee

The Investment Manager is also entitled to a performance fee equal to 15% of any excess of the NAV per Ordinary Share (together with any dividends paid) over the higher of the first benchmark or the second benchmark. The first benchmark is the NAV per share immediately following the tender in January 2007 increasing at 10% per annum compound. The second benchmark is the highest NAV per Ordinary Share as of the last calculation day in any preceding financial period commencing after completion of the tender in January 2007 in respect of which a performance fee has been paid compounded at 10% per annum. A performance fee amounting to £nil was accrued for the year ended 31 December 2020 (2019: £nil).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

6 DIRECTORS' REMUNERATION

Under their terms of appointment, each Director is paid a basic fee of £30,000 per annum by the Company. In addition to this, the Chairman receives an extra £10,000 per annum, the Audit Committee Chairman receives an extra £7,500 per annum, the Risk Committee Chairman receives an extra £5,000 per annum, and the Remuneration and Management Engagement Committee Chairman receives an extra £5,000 per annum..

Directors fees were increased as of 1 September 2019 as detailed on page 28 in the Directors' Report.

A special resolution was passed on 20 December 2016 for the new Articles of Incorporation which included that the ordinary remuneration of the Directors shall not exceed in aggregate of £200,000 per annum.

7 INTEREST PAYABLE AND SIMILAR CHARGES

	Revenue GBP	Year ended 31 Dec 2020 Capital GBP	Total GBP
Appropriation in respect of ZDP Shares	–	1,258,297	1,258,297
	–	1,258,297	1,258,297
	Revenue GBP	Year ended 31 Dec 2019 Capital GBP	Total GBP
Appropriation in respect of ZDP Shares	–	1,207,671	1,207,671
	–	1,207,671	1,207,671

8 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	Year ended 31 Dec 2020		Year ended 31 Dec 2019	
	GBP	Pence per share	GBP	Pence per share
First interim payment	909,460	5.75	822,468	5.20
Second interim payment	909,460	5.75	822,468	5.20
Third interim payment	909,460	5.75	822,468	5.20
Fourth interim payment	909,460	5.75	822,468	5.20
	3,637,840	23.00	3,289,872	20.80

Further details on the Company's dividend policy can be found on page 2.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

9 EARNINGS PER SHARE

Ordinary Shares

The total loss per Ordinary Share (per IFRS) is based on the total loss on ordinary activities for the year attributable to Ordinary Shareholders of £13,158,700 (2019: return of £16,237,744) and on 15,816,687 (2019: 15,816,687) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The revenue return per Ordinary Share (per IFRS) is based on the revenue return on ordinary activities for the year attributable to Ordinary Shareholders of £2,175,061 (2019: £3,528,896) and on 15,816,687 (2019: 15,816,687) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The capital loss per Ordinary Share (per IFRS) is based on the capital loss on ordinary activities for the year attributable to Ordinary Shareholders of £15,333,761 (2019: capital gain of £12,708,848) and on 15,816,687 (2019: 15,816,687) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

ZDP Shares

The return per ZDP Share is based on the appropriation in respect of ZDP Shares, the amortisation of ZDP Share issue costs and ZDP Share issue costs totalling £1,258,297 (2019: £1,207,671) and on 21,230,989 (2019: 21,230,989) shares, being the weighted average number of ZDP Shares in issue during the year.

10 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 2020 GBP	31 Dec 2019 GBP
INVESTMENTS		
Opening portfolio cost	87,991,361	85,087,877
Purchases at cost	25,538,145	34,978,783
Sales		
– proceeds	(25,806,486)	(35,060,945)
– realised gains on sales	6,229,665	6,179,329
– realised losses on sales	(7,294,885)	(3,193,683)
Closing book cost	86,657,800	87,991,361
Unrealised appreciation on investments	12,291,265	20,503,186
Unrealised depreciation on investments	(8,945,329)	(4,706,065)
Fair value	90,003,736	103,788,482
Realised gains on sales	6,229,665	6,179,329
Realised losses on sales	(7,294,885)	(3,193,683)
(Decrease)/increase in unrealised appreciation on investments	(8,211,921)	8,019,527
(Increase)/decrease in unrealised depreciation on investments	(4,239,264)	3,535,914
Net (losses)/ gains on financial assets designated as at fair value through profit or loss	(13,516,405)	14,541,087

As at 31 December 2020, the closing fair value of investments comprises £69,305,528 (December 2019: £83,169,400) of Smaller Companies Portfolio, £20,698,208 (December 2019: £20,619,082) of Income Portfolio. The Market value of open Futures included in the Income Portfolio was £nil (December 2019: liability of £43,458). Refer to pages 67 to 69 for further detail.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

10 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

IFRS 13 requires the fair value of investments to be disclosed by the source of inputs using a three-level hierarchy as detailed below:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Details of the value of each classification are listed in the table below. Values are based on the market value of the investments as at the reporting date:

Financial Assets Designated as at Fair Value Through Profit or Loss

	31 Dec 2020 Market Value %	31 Dec 2020 Market Value GBP	31 Dec 2019 Market Value %	31 Dec 2019 Market Value GBP
Level 1	81.36	73,221,136	81.72	84,817,978
Level 2	17.87	16,085,730	18.28	18,970,504
Level 3	0.77	696,870	–	–
Total	100.00	90,003,736	100.00	103,788,482

Bonds and structured investments are priced by reference to market quotations which incorporate assessment of yield, maturity and the instrument's terms and conditions.

The following table is a reconciliation of investments the Company held during the years ended 31 December 2020 and 31 December 2019 at fair value using unobservable inputs (Level 3):

	31 Dec 2020 Market Value GBP	31 Dec 2019 Market Value GBP
Balance at start of the year	–	–
Transfer from Level 2 to Level 3	696,870	–
Balance at end of the year	696,870	–

For investments categorised in Level 3 as at 31 December 2020, the below details the valuation methodologies used:

Silverdell plc – The stock is suspended and is valued at zero.

JPMorgan Global Convertibles Income – The stock is in liquidation and is valued at zero. The Investment Adviser does not expect any return of capital.

During the year ended 31 December 2020 APQ Global Limited 3.5% CULS 30/09/2024 was moved from level 2 to level 3 due to low liquidity. The value of this investment is currently derived by adjusting the latest available broker price and applying a 10% discount to reflect the lack of liquidity in this investment. The unadjusted market value of the investment is GBP 774,300. The discount of 10% represents a reduction in value of GBP 77,430. If the discount were to be increased or decreased to 25% the value of APQ Global Limited 3.5% CULS 30/09/2024 would increase or decrease by GBP 193,575.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

10 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Derivative Financial Assets and Liabilities Designated as at Fair Value Through Profit or Loss

	31 Dec 2020 Market Value %	31 Dec 2020 Market Value GBP	31 Dec 2019 Market Value %	31 Dec 2019 Market Value GBP
Level 1 derivative financial assets	–	–	–	846
Level 2 derivative financial assets	0.15	132,269	0.18	185,607
Level 2 derivative financial liabilities	–	–	(0.01)	(6,661)

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the end of the reporting year. Transfers into each level shall be disclosed and discussed separately from transfers of each level.

During the year ended 31 December 2020 Credit Suisse Group 2.75% 08/08/2025 and GS Group 5.50% 12/10/2021 were transferred from Level 1 to Level 2 due to an analysis of trading activity. During the year ended 31 December 2019, Castings plc, Braemar Shipping Services plc, Alumasc Group plc and Barclays plc 8% PERP – 2049 were transferred from Level 1 to Level 2 due to an analysis of trading activity.

During the year ended 31 December 2020 HipGnosis Songs Fund Limited and Fondul Proprietatea were transferred from Level 2 to Level 1 due to an analysis of trading activity. During the year ended 31 December 2019, Credit Suisse Group 2.75% 08/08/2025 and GS Group 5.50% 12/10/2021 were transferred from Level 2 to Level 1 due to an analysis of trading activity.

The derivative financial instruments held by the Company have been classified as Level 1 and 2. This is in accordance with the fair value hierarchy. The Company uses widely recognised valuation models for determining fair value of derivative financial instruments that use only observable market data and require little management judgement and estimation.

There were no transfers to or from level 3 during the year ended 31 December 2019.

11 RECEIVABLES

	31 Dec 2020 GBP	31 Dec 2019 GBP
Due from brokers	13,688	28,481
Prepayments	7,314	4,790
Accrued investment income	437,351	458,467
	458,353	491,738

12 PAYABLES

	31 Dec 2020 GBP	31 Dec 2019 GBP
Accrued expenses	104,284	93,235
Amounts due to brokers	–	27,114
Trade creditors	152,849	179,413
	257,133	299,762

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

13 ZDP SHARES

	31 Dec 2020 GBP	31 Dec 2019 GBP
ZDP Share entitlement	33,979,404	32,721,106
The above entitlement comprises the following:		
21,230,989 ZDP Shares issued to date up to 31 Dec 2020	22,831,682	–
21,230,989 ZDP Shares issued to date up to 31 Dec 2019	–	22,831,682
ZDP Premium	(5,680)	(10,581)
Appropriation in respect of ZDP Shares	11,147,722	9,889,424
ZDP value (calculated in accordance with the Articles)	33,973,724	32,710,525
Add back ZDP Premium	5,680	10,581
ZDP value (calculated in accordance with IFRS)	33,979,404	32,721,106

The fair value of the ZDP Shares as at 31 December 2020 was £33,332,653 (31 December 2019: £33,014,188). The ZDP Shares are classified under Level 1 based on unadjusted quoted prices in active markets. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation does not entail a significant degree of judgement (2019: Level 1).

A Continuation Offer proposal to ZDP Shareholders was published in November 2016, whereby such holders were given an opportunity to either receive their 2017 Final Capital Entitlement of 138p or to continue their investment in the existing ZDP Shares. Shareholders approved the scheme and 91.4% of ZDP Shareholders elected to remain invested.

Following the proposals, 19,523,014 ZDP Shares were elected for the Continuation Offer with a further 1,842,207 New ZDP Shares being issued through an Initial Placing at 140.0p which represented a premium of 1.4% to the opening NAV per New ZDP Share.

1,834,160 ZDP Shares were elected for Redemption at their 2017 Final Capital Entitlement of 138p.

ZDP Shares carry no entitlement to income distributions to be made by the Company. The ZDP Shares will not pay dividends but have a final capital entitlement at the end of their life on 28 February 2022 of 167.2 pence following the extension of the life of the existing ZDP Shares from 31 January 2017.

It should be noted that the predetermined capital entitlement of a ZDP Share is not guaranteed and is dependent upon the Company's gross assets being sufficient on 28 February 2022 to meet the final capital entitlement of ZDP Shares.

Under the Articles of Incorporation, the Company is obliged to redeem all of the ZDP Shares on 28 February 2022 (if such redemption has not already been effected).

The number of authorised ZDP Shares is 50,000,000. The number of issued ZDP Shares is 21,230,989 (31 December 2019: 21,230,989). The non-amortisation of the ZDP Shares in line with the Articles has the effect of increasing the NAV per Ordinary Share by 0.10 pence.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

14 SHARE CAPITAL AND PREMIUM

Authorised

	GBP	GBP
Ordinary Shares of 1p each	unlimited	unlimited

Issued

	31 Dec 2020 Number of shares	31 Dec 2019 Number of shares
Number of shares in issue at the start of the year	15,816,687	15,816,687
Number of shares in issue at the end of the year	15,816,687	15,816,687
Issued and fully paid capital at the end of the year	£196,606	£196,606

	Share Capital 31 Dec 2020 GBP	Share Premium 31 Dec 2020 GBP	Total 31 Dec 2020 GBP	Total 31 Dec 2019 GBP
Opening share capital and premium	196,606	27,224,218	27,420,824	27,420,824
Closing share capital and premium	196,606	27,224,218	27,420,824	27,420,824

The Ordinary Shares (excluding treasury shares) are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.

The issued and fully paid capital as at 31 December 2020 was £196,606 (31 December 2019: £196,606).

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

15 OTHER RESERVES

TREASURY RESERVE

	31 Dec 2020 GBP	31 Dec 2019 GBP
Balance as at the beginning of the year	(4,780,162)	(4,780,162)
Balance as at the end of the year	(4,780,162)	(4,780,162)

The other reserves presented on the Statement of Financial Position comprise the treasury reserve of (£4,780,162) and special reserve of £10,000,000 totalling £5,219,838.

ORDINARY SHARES HELD IN TREASURY

	31 Dec 2020 No. Shares	31 Dec 2019 No. Shares
Balance as at the beginning of the year	1,325,972	1,325,972
Balance as at the end of the year	1,325,972	1,325,972

A Special reserve of £10,000,000 was created on the cancellation of part of the Company's Share premium account.

16 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Investment Manager and operates under the terms of the Management Agreement in force which delegates its authority over the Company's investment portfolios.

£601,436 (2019: £693,387) of costs were incurred by the Company with this related party in the year, of which £152,849 (2019: £179,413) was due to this related party as at 31 December 2020.

During the year ended 31 December 2020, £nil (31 December 2019: £nil) was charged as performance fees of which, £nil (31 December 2019: £nil) remained payable at year end.

The Directors' remuneration is disclosed in Notes 5 and 6.

David Warr holds 63,000 (31 December 2019: 63,000) Ordinary Shares in the capital of the Company, which represented an interest of 0.40% (31 December 2019: 0.40%) of the Company's Ordinary Shares in issue as at 31 December 2020.

Nigel Sidebottom holds 4,366 (31 December 2019: 4,366) Ordinary Shares in the capital of the Company, which represented an interest of 0.03% (31 December 2019: 0.03%) of the Company's Ordinary Shares in issue as at 31 December 2020, and 5,205 (31 December 2019: 5,205) ZDP Shares in the capital of the Company, which represented an interest of 0.02% (31 December 2019: 0.02%) of the Company's ZDP Shares in issue as at 31 December 2020.

Nigel Ward holds 7,000 Ordinary Shares in the capital of the Company, via a nominee account (31 December 2019: 7,000). This represents an interest of 0.04% (31 December 2019: 0.04%), and 10,000 (31 December 2019: nil) ZDP Shares in the capital of the Company, which represented an interest of 0.05% (31 December 2019: nil) of the Company's ZDP Shares in issue as at 31 December 2020.

As at 31 December 2020 employees of the Investment Manager held interest in 5,990 Ordinary Shares of the Company representing 0.04% of the issued share capital.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

17 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Investments in listed entities, receivables and payables;
- (c) ZDP Shares; and
- (d) Derivative financial instruments.

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The following table details the categories of financial assets and liabilities held by the Company at the reporting date:

	31 Dec 2020 GBP	31 Dec 2019 GBP
Financial Assets		
Financial assets designated as at fair value through profit or loss	90,003,736	103,788,482
Derivative financial assets	132,269	186,453
Total financial assets at fair value through profit or loss	90,136,005	103,974,935
Loans and receivables		
Cash and equivalents	609,466	2,324,683
Receivables (excluding prepayments)	451,039	486,948
Total assets (excluding prepayments)	91,196,510	106,786,566
	31 Dec 2020 GBP	31 Dec 2019 GBP
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Derivative financial liabilities	–	6,661
Total financial liabilities at fair value through profit or loss	–	6,661
Financial liabilities measured at amortised cost		
ZDP Shares	33,979,404	32,721,106
Payables	257,133	299,762
Total Financial liabilities measured at amortised cost	34,236,537	33,020,868
Total liabilities excluding net assets attributable to holders of Ordinary Shares	34,236,537	33,027,529

Loans and receivables presented above represents cash and cash equivalents, balances due from brokers and other receivables (excluding prepayments) as detailed in the Statement of Financial Position.

Financial liabilities measured at amortised cost presented above represents accrued expenses and ZDP Shares as detailed in the Statement of Financial Position.

Derivative financial assets and liabilities presented above represent forward foreign exchange contracts. Unrealised gains and losses on movement in fair value are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Company's financial instruments are market price risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and COVID-19 risk (refer to page 16 for details on COVID-19 risk). The Board regularly reviews and agrees policies for managing each of these risks and these are summarised in Notes 18(a) to 18(e).

(a) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Investment Advisers actively monitor market prices and report to the Board as to the appropriateness of the prices used for valuation purposes. The Investment Advisers also attempt to minimise market price risk by undertaking a detailed analysis of the risk/reward relationship of each investee company prior to any investment being made.

Unicorn monitors the industry concentration exposure for the Smaller Companies Portfolio.

Details of the Company's Investment Objective and Policy are given inside the front cover of this Report.

Price Sensitivity

The following details the Company's sensitivity to a 25% (2019: 25%) increase and decrease in the market prices, with 25% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At 31 December 2020, if market prices had been 25% (2019: 25%) higher with all the other variables held constant, the return attributable to shareholders for the year would have been £22,500,934 (2019: £25,947,121) greater, due to the increase in the fair value of financial assets at fair value through profit or loss. This would represent an increase in Net Assets of 39% (2019: 35%).

If market prices had been 25% (2019: 25%) lower with all the other variables held constant, the return attributable to shareholders for the year would have been £22,500,934 (2019: £25,947,121) lower, due to the decrease in the fair value of financial assets at fair value through profit or loss. This would represent a decrease in Net Assets of 39% (2019: 35%).

At 31 December 2020, the Company's largest exposure to a single investment was £3,252,400 (2019: £3,073,783), 3.57% (2019: 2.88%) of total assets.

(b) Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Directors receive financial information on a regular basis which is used to identify and monitor risk. It is the Company's policy not to invest, at the time of investment, more than 7.5% in any one fixed interest security.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties. At 31 December 2020, the Company's largest exposure to a single counterparty was £3,252,400 (2019: £3,073,783), 3.57% (2019: 2.88%) of total assets.

Investors should be aware that the prospective returns to shareholders mirror the returns under the quoted securities held or entered into by the Company and that any default by an issuer of any such quoted security held by the Company would have a consequential adverse effect on the ability of the Company to pay some or all of the entitlement to its shareholders. Such a default might, for example, arise on the insolvency of an issuer of a quoted security.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit Risk (continued)

The Company's financial assets exposed to credit risk are as follows:

	31 Dec 2020 GBP	31 Dec 2019 GBP
Financial assets designated as at fair value through profit or loss (fixed income securities and structured investments only)	16,627,397	15,588,001
Cash and cash equivalents	609,466	2,324,683
Interest, dividends and other receivables	451,039	486,948
Derivatives financial instruments	132,269	186,453
	17,820,171	18,586,085

The credit ratings of the bonds, as rated by Moody's Investor Services Inc ("Moody's") were:

Rating	31 Dec 2020	31 Dec 2019
Aaa	4.54%	8.97%
Aa	4.94%	4.62%
A	21.38%	11.97%
Baa	40.64%	36.99%
Ba	2.17%	2.04%
No ratings available	26.33%	35.41%

The cash and cash equivalents were held with Northern Trust (Guernsey) Limited, a fully owned subsidiary of The Northern Trust Company, which at the year ended 31 December 2020 held a credit rating, as rated by Moody's, of Aa2 (31 December 2019: Aa2). The Investment Adviser for the Income Portfolio selects investments having regard to their potential return and the credit risk associated with them. The Investment Adviser carries out its own assessment of credit risk and the rating provided by a credit rating agency is just one of the factors taken into account. The absence of a rating is not necessarily a reflection on credit risk. The Board reviews the whole portfolio at quarterly Board meetings.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's main financial commitments are its ongoing operating expenses.

The ZDP Shares will not pay dividends but will have a final capital entitlement at the end of their life on 28 February 2022 of 167.2 pence. It should be noted that the predetermined capital entitlement of the 2022 ZDP Shares is not guaranteed and is dependent upon the Company's gross assets being sufficient on 28 February 2022 to meet the final capital entitlement of the ZDP Shares.

The Investment Advisers ensure that the Company has sufficient liquid resources available to fulfil its operational plans and to meet its financial obligations as they fall due. This is monitored by carrying out a solvency calculation on a quarterly basis by reference to management accounts and revenue projections. The Board will approve a Solvency Certificate resolution prior to declaring any interim distributions.

The Board intends to monitor the financial position of the Company to ensure that it has sufficient liquid resources available to fulfil its obligation upon maturity of the ZDP Shares.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity Risk (continued)

The table below details the residual contractual undiscounted maturities of financial liabilities:

	As at 31 December 2020		As at 31 December 2019	
	0-3 months GBP	Over 1 year GBP	0-3 months GBP	Over 1 year GBP
<i>Financial liabilities including derivatives</i>				
Payables – due within one year	257,133	–	299,762	–
Derivative financial instruments	–	–	6,661	–
ZDP Share entitlement	–	35,498,214	–	35,498,214
	257,133	35,498,214	306,423	35,498,214

(d) Interest Rate Risk

The Company could hedge interest rate risk using various different methods.

The following table details the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity date measured by the carrying value of the assets and liabilities:

As at 31 December 2020:

	Less than 1 month GBP	Fixed interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets				
Financial assets at fair value through profit or loss on initial recognition	–	16,627,397	73,376,339	90,003,736
Cash and cash equivalents	609,466	–	–	609,466
Interest, dividends and other receivables	–	–	451,039	451,039
Derivative financial instruments	–	–	132,269	132,269
Total Financial Assets	609,466	16,627,397	73,959,647	91,196,510
Financial Liabilities				
Payables	–	–	257,133	257,133
ZDP Share entitlement	–	33,979,404	–	33,979,404
Total Financial Liabilities	–	33,979,404	257,133	34,236,537
Total Interest Sensitivity Gap	609,466	(17,352,007)		

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Interest Rate Risk (continued)

As at 31 December 2019:

	Less than 1 month GBP	Fixed interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets				
Financial assets at fair value through profit or loss on initial recognition	–	15,588,001	88,200,481	103,788,482
Cash and cash equivalents	2,324,683	–	–	2,324,683
Interest, dividends and other receivables	–	–	486,948	486,948
Derivative Financial instruments	–	–	186,453	186,453
Total Financial Assets	2,324,683	15,588,001	88,873,882	106,786,566
Financial Liabilities				
Derivative Financial instruments	–	–	6,661	6,661
Payables	–	–	299,762	299,762
ZDP Share entitlement	–	32,721,106	–	32,721,106
Total Financial Liabilities	–	32,721,106	306,423	33,027,529
Total Interest Sensitivity Gap	2,324,683	(17,133,105)		

Interest rate sensitivity takes account of the effect of interest rate movements on cash balances. Interest rate risk does not affect the cash flows of the fixed interest securities but does affect the fair value and as such this sensitivity has been reflected in the market price risk disclosures at Note 18(a).

Interest Rate Sensitivity

If interest rates had been 25 basis points higher and all other variables were held constant, the Company's return attributable to Ordinary Shareholders for the year ended 31 December 2020 would have increased by approximately £1,524 (2019: £5,812) or 0.002% (2019: 0.005%) of Total Assets, due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points lower and all other variables were held constant, the Company's return attributable to Ordinary Shareholders for the year ended 31 December 2020 would have decreased by approximately £1,524 (2019: £5,812) or 0.002% (2019: 0.005%) of Total Assets, due to a decrease in the amount of interest receivable on the bank balances.

(e) Foreign Exchange Risk

Forward currency transactions are used to hedge the foreign currency exposure in bonds, other investments and cash balances held within the Income Portfolio. The purpose of the hedge is to protect the Company's assets from a decline in value that might arise from the depreciation of a foreign currency against Sterling.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Foreign Exchange Risk (continued)

At 31 December 2020, the Company's holdings in derivatives translated into GBP were as specified below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets and liabilities GBP
Forward	January 2021	Sold EUR	(200,000)	3,785
Forward	January 2021	Sold RON	(986,915)	2,117
Forward	January 2021	Sold USD	3,565,000	139,140
Forward	January 2021	Purchased USD	237,959	(9,406)
Forward	January 2021	Purchased USD	350,000	(3,367)
				132,269

At 31 December 2019, the Company's holdings in derivatives translated into GBP were as specified below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value liabilities GBP
Forward	January 2020	Purchased EUR	71,855	(907)
Forward	January 2020	Sold EUR	(885,000)	(23,973)
Forward	January 2020	Sold RON	(1,121,440)	(4,481)
Forward	January 2020	Sold USD	(4,841,366)	(156,576)
Forward	January 2020	Purchased USD	260,000	6,661
Forward	January 2020	Purchased USD	53,690	(516)
				(179,792)

Exchange rate exposures are managed by minimising the amount of foreign currency held at any one time and entering into forward exchange contracts.

The following table sets out the Company's total exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities:

At 31 December 2020:

	Monetary Assets GBP	Monetary Liabilities GBP	Forward FX Contracts GBP	Net Exposure GBP
Euro	183,040	–	(179,054)	3,986
US Dollar	53,300	–	(2,177,668)	(2,124,368)
Romanian Leu	–	(1)	(181,353)	(181,354)

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Foreign Exchange Risk (continued)

At 31 December 2019:

	Monetary Assets GBP	Monetary Liabilities GBP	Forward FX Contracts GBP	Net Exposure GBP
Euro	634,495	–	(689,249)	(54,754)
US Dollar	3,423,652	(19,670)	(3,416,705)	(12,723)
Romanian Leu	66	–	(198,383)	(198,317)

Amounts in the above table are based on the carrying value of monetary assets and liabilities and the underlying principal amount of forward currency contracts.

(f) Capital Management

The principal investment objectives of the Company are to provide shareholders with a high income and also the opportunity for capital growth.

The Company's investments are held in two portfolios. The Company's assets comprise investments in equities and fixed interest and other income-bearing securities in order to achieve its investment objectives. Approximately 70%–80% of the portfolio are invested in smaller capitalised United Kingdom companies, admitted to the Official List of the Financial Conduct Authority (the "FCA") and traded on the London Stock Exchange (the "LSE") or traded on the Alternative Investment Market ("AIM") at the time of investment. The Company also aims to further enhance income for shareholders by investing approximately 20%–30% of its assets in high yielding securities which will be predominantly fixed income securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at time of acquisition) in high yielding investment company shares.

As the Company's Ordinary Shares are traded on the LSE, the Ordinary Shares may trade at a discount or premium to their Net Asset Value per Share on occasion. However, the Directors and the Investment Manager monitor the discount on a regular basis and can use share buy backs to manage the discount.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of Financial Position. Capital for the reporting periods under review is summarised as follows:

	GBP
Distributable reserves	7,174,286
Share capital and share premium	27,420,824
Non distributable reserves	22,372,177
Total	56,967,287

The distributable reserves comprise the revenue reserve and other reserves. The other reserves presented on the Statement of Financial Position comprise the treasury reserve and special reserve as detailed in Note 15. The special reserve of £10,000,000 was created on the cancellation of part of the Company's share premium account. The non distributable reserves comprise the capital reserve.

(g) Dividend Levels

Dividends paid on the Company's Ordinary Shares rely on receipt of interest payments and dividends from the securities in which the Company invests. The Company's revenue levels are monitored on a regular basis by the Board and the Investment Advisers.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

19 SUBSEQUENT EVENTS

These Financial Statements were approved for issue by the Board on 20 April 2021. Subsequent events have been evaluated until this date.

A dividend of 5.75p was declared on 25 February 2021 and was paid to Ordinary Shareholders on 31 March 2021.

As a consequence of the ongoing strategic review, on 13 April 2021, the Company served protective notice to terminate the Investment Management Agreement. This action is not an indication that the current Investment Advisers will not be involved in the management of Acorn's portfolio post the conclusion of the strategic review.

Unaudited Full List of Investment Holdings

as at 31 December 2020

Company	Nominal Holdings	Valuation GBP	Percentage of Total Assets 2020
Smaller Companies Portfolio			
Polar Capital Holdings plc	470,000	3,252,400	3.57
Sabre Insurance Group plc	1,055,000	2,917,075	3.20
Telecom Plus plc	200,000	2,868,000	3.14
Chesnara plc	955,000	2,798,150	3.07
Primary Health Properties plc	1,750,000	2,667,000	2.92
Numis Corporation plc	750,000	2,493,750	2.73
Severfield plc	3,100,000	2,163,800	2.37
Goodwin plc	70,000	2,107,000	2.31
Somero Enterprises Inc	691,428	2,039,713	2.24
Ocean Wilsons Holdings Limited	242,500	2,012,750	2.21
Clipper Logistics plc	320,000	1,820,800	2.00
Brewin Dolphin Holdings plc	580,000	1,769,000	1.94
Epwin Group plc	1,940,000	1,765,400	1.94
FDM Group Holdings plc	157,000	1,764,680	1.93
Regional Reit Limited	2,170,216	1,764,386	1.93
XPS Pensions Group plc	1,350,000	1,748,250	1.92
James Halstead plc	340,000	1,659,200	1.82
Wincanton plc	637,440	1,631,846	1.79
Boot (Henry) plc	630,000	1,606,500	1.76
STV Group plc	536,508	1,604,159	1.76
Hill & Smith Holdings plc	110,000	1,548,800	1.70
Macfarlane Group plc	1,600,000	1,379,200	1.51
Gateley Holdings plc	950,000	1,377,500	1.51
Castings plc	380,000	1,375,600	1.51
Hollywood Bowl Group plc	675,000	1,346,625	1.48
Vesuvius plc	250,000	1,341,250	1.47
River & Mercantile Group plc	750,000	1,263,750	1.39
Iomart Group plc	382,529	1,216,442	1.33
Palace Capital plc	600,000	1,191,000	1.31
Curtis Banks Group Limited	524,460	1,164,301	1.28
Trifast plc	750,000	1,147,500	1.26
Devro plc	750,000	1,140,000	1.25
Braemar Shipping Services plc	750,000	1,125,000	1.23
Emis Group plc	100,000	1,082,000	1.19
Secure Trust Bank plc	125,000	1,052,500	1.15
4imprint Group plc	40,000	1,026,000	1.12
Conduit Holdings Limited	200,000	998,800	1.10
Bodycote plc	130,000	969,150	1.06
Topps Tiles plc	1,700,000	955,400	1.05
Warpaint London plc	1,220,570	903,222	0.99
Alumasc Group plc	794,444	873,888	0.96
Hostelworld Group plc	1,115,694	870,241	0.95
Park Group plc	2,750,000	863,500	0.95
Liontrust Asset Management plc	50,000	640,000	0.70
Silverdell plc	3,090,546	–	0.00
TOTAL		69,305,528	76.00

Unaudited Full List of Investment Holdings (continued)

as at 31 December 2020

Company	Nominal Holdings	Valuation GBP	Percentage of Total Assets 2020
Income Portfolio			
Pershing Square Holdings 5.50% 15/07/2022	1,000,000	772,561	0.85
Value & Income Trust 11.00% 31/03/2021	719,191	733,575	0.80
APQ Global Limited 3.5% CULS 30/09/2024	178	696,870	0.76
Credit Suisse Group 2.75% 08/08/2025	600,000	654,577	0.72
AT&T 2.9% 04/12/2026	500,000	554,276	0.61
Verizon Communications 1.875% 19/09/2030	500,000	535,380	0.59
Citigroup 1.75% 23/10/2026	500,000	526,522	0.58
UK Municipal Bonds Agency 1.625% 26/08/2060	500,000	522,141	0.57
GS Group 3.125% 25/07/2029	400,000	467,796	0.51
RM plc ZDP	447,500	465,400	0.51
France Telecom 8.125% 2028	300,000	463,188	0.51
British American Tobacco plc 4% 04/09/2026	400,000	459,454	0.50
Wells Fargo 2.5% 02/05/2029	400,000	441,267	0.48
HSBC Holdings 2.256% FRN 13/11/2026	400,000	425,932	0.47
Barclays 3.125% 17/01/2024	400,000	425,386	0.47
US 0.875% IL Treasury 2047	400,000	424,170	0.47
Karbon Homes Ltd 3.375% 15/11/2047	300,000	420,740	0.46
Lloyds Bank 1.75% 11/07/2024	400,000	413,215	0.45
SSE plc 3.75% FRN PERP	391,000	412,668	0.45
Morrison Supermarket 4.75% 04/07/2029	300,000	383,097	0.42
Burford Capital 6.5% 2022	365,000	361,383	0.40
Real Estate Investors plc	1,054,413	347,956	0.38
EDF 6% FRN PERP	300,000	341,550	0.37
HSBC Holdings 3% FRN 29/05/2030	300,000	341,478	0.37
US 2.375% Treasury Note 2029	400,000	330,709	0.36
Grainger 3% 03/07/2030	300,000	326,628	0.36
Tesco Corporate Treasury 2.5% 02/05/2025	300,000	321,202	0.35
Phoenix Group Holdings 4.125% 20/07/2022	300,000	312,660	0.34
GS Group 5.50% 12/10/2021	300,000	311,686	0.34
Aberdeen Asian Sma 2.25%	308,982	301,257	0.33
VPC Specialty Lending Investments plc	350,000	274,400	0.30
Orange 5.75% PERP	250,000	273,750	0.30
United Kingdom 1.25% IL Treasury 2032	125,000	268,872	0.29
UIL Finance Ltd	200,000	268,000	0.29
Places for People 1% IL 31/01/2022	211,000	263,701	0.29
Alternative Credit Investments plc	30,000	260,400	0.29
Phoenix Group Holdings 6.625% 18/12/2025	200,000	239,876	0.26
Supermarket Income REIT plc	225,000	238,500	0.26
Fidelity International 7.125% 2024	200,000	236,494	0.26
EJF Investments Ltd	200,000	232,000	0.25
Real Estate Credit Investments Limited	175,000	231,000	0.25
Thames Water Utilities 4.00% 2025	200,000	229,186	0.25
Wells Fargo 5.25% 01/08/2023	200,000	222,752	0.24
SDCL Energy Efficiency Income Trust plc	208,505	222,058	0.24
Lloyds Bank 2.707% FRN 03/12/2035	211,000	221,008	0.24
Sequoia Economic Infrastructure Income Fund Limited	200,000	219,600	0.24

Unaudited Full List of Investment Holdings (continued)

as at 31 December 2020

Company	Nominal Holdings	Valuation GBP	Percentage of Total Assets 2020
Income Portfolio (continued)			
HipGnosis Songs Fund Limited	175,000	216,125	0.24
A2D Funding Plc 4.75% 18/10/2022	200,000	212,130	0.23
Credit Suisse Group 2.25% FRN 09/06/2028	200,000	211,900	0.23
UK Mortgages Limited	319,622	207,754	0.23
Barclays Plc 2.375% FRN 06/10/2023	200,000	205,554	0.23
Sainsbury 2.875% FRN PERP	200,000	204,294	0.22
Biopharma Credit plc	275,000	199,568	0.22
Tetragon Financial Group Limited	25,000	173,013	0.19
Folio Residential Finance 1.246% 31/10/2037	167,000	171,579	0.19
RL Finance Bonds plc 6.125% 2043	150,000	169,277	0.19
Fondul Proprietatea	13,318	165,629	0.18
Close Brothers Finance 1.625% 03/12/2030	156,000	158,430	0.17
Assura Financing 1.5% 15/09/2030	150,000	157,069	0.17
Wells Fargo 1.375% 6/2022	150,000	151,937	0.17
Gore Street Energy Storage Fund plc	145,216	151,025	0.17
Gresham House Energy Storage Fund plc	135,547	150,457	0.16
Tesco 6% 14/12/2029	110,000	145,922	0.16
Wm Morrison Supermarkets 3.50%	100,000	114,097	0.13
Tesco Property Finance 6.125% 2022	83,000	88,202	0.10
Citigroup Global Markets 31/7/2023	10	47,925	0.05
JPMorgan Global Convertibles Income	515,000	–	–
		20,698,208	22.66
TOTAL		90,003,736	98.66

Glossary of Terms and Alternative Performance Measures

ALTERNATIVE PERFORMANCE MEASURES ("APMS")

In accordance with ESMA Guidelines on Alternative Performance Measures ("APMs") the Board has considered what APMs are included in the annual report and accounts which require further clarification. APMs are defined as a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

COVER

The Cover on the ZDP Shares measures the amount by which the final redemption value of the ZDP Shares is covered by the total assets of the Company allowing for all prior ranking liabilities and the accrual of expenses to capital over the remaining period to the redemption of the ZDP Shares. The calculation used in this report is for non-cumulative cover and represents a fraction where the numerator is equal to the gross assets of the Company less current liabilities (other than debt and liabilities to ZDP Shareholders) less the Company's revenue reserves and the denominator is the aggregate amount payable to ZDP Shareholders on the repayment date plus any other borrowing plus the cumulative management fee charged to capital over the remaining period to the repayment date. The full definition of the calculation is set out in the Company's Prospectus that can be found on the Company's website.

COVER TEST

The Cover Test is required to be met if the Company, with appropriate Shareholder approval, issues new ZDP Shares in a manner that would result in a reduction in Cover for existing ZDP Shareholders. For the Cover Test to be met the ZDP Cover immediately after the issue of new ZDP Shares must be at least 2.0 times.

DISCOUNT/PREMIUM

If the share price of an investment company is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

GEARING

Also known as leverage. Gearing is introduced when a company borrows money or issues prior ranking share classes such as ZDP Shares, to buy additional investments. The objective is to enhance returns to Ordinary Shareholders but there is the risk of the opposite effect if the additional investments fall in value.

HURDLE RATE

The compound rate of growth or decline of the total assets required each year until the redemption date for shareholders to receive the predetermined redemption price on a ZDP Share or the current share price on an Ordinary Share.

NET ASSETS RECONCILIATION PER ORDINARY SHARES AND ZDP SHARES

Ordinary Shares		NAV per Share (pence)	ZDP Shares		NAV per Share (pence)
Net Assets (per Articles)	56,972,967	360.21	ZDP value (per Articles)	33,973,724	160.02
ZDP Premium	(5,680)	(0.04)	ZDP premium	5,680	0.03
Net Assets (per IFRS)	56,967,287	360.17	ZDP value (per IFRS)	33,979,404	160.05

NET ASSET VALUE ("NAV")

NAV is the assets attributable to Ordinary Shareholders expressed as an amount per individual share. Within this report two different methods are used for calculating NAV. One using the accounting standards specified by International Financial Reporting Standards ("IFRS") and one which has been calculated in accordance with the Company's Articles of Association. The latter is the method which would be used to calculate the amount due to Ordinary Shareholders on the winding up of the Company. However, the Financial Statements are prepared in accordance with IFRS and where this method has been used it will be indicated.

Glossary of Terms and Alternative Performance Measures (continued)

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 3). The Board continues to be conscious of expenses and works hard to maintain a sensible balance between good quality service and cost.

for the year ended 31 December	2020 GBP	2019 GBP
Average NAV	53,623,233	66,267,314
Investment management fee	601,436	693,386
Other operating expenses	461,098	495,508
Total expenses excluding finance costs	1,062,534	1,188,894
Ongoing Charges	1.98%	1.79%

PACKAGE DISCOUNT TO NAV

The difference between NAV of Ordinary and ZDP Shares and Share price of Ordinary and ZDP Shares as a percentage of the ZDP Shares to Ordinary Shares ratio.

Calculated as:

$$\frac{(A + (B * (C/D))) - (E + (F * (C/D)))}{E + (F * (C/D))}$$

Where:

- A is Share price of Ordinary Shares
- B is Share price of ZDP Shares
- C is Number of ZDP Shares in issue
- D is Number of Ordinary Shares in issue
- E is NAV of Ordinary Shares
- F is NAV of ZDP Shares

REVENUE RETURN PER ORDINARY SHARE

Revenue per share is calculated using the net loss on ordinary activities after finance costs and taxation, 2020, net total loss of £13,158,700, (2019: net total return of £16,237,744) divided by the weighted average number of shares in issue for the financial year, 2020, 21,230,989 shares (2019: 21,230,989 shares). The Directors also regard returns per share to be a key indicator of performance. The revenue return per share is shown on page 3.

TOTAL RETURN ON TOTAL ASSETS, NAV AND SHARE PRICE

The combined effect of any dividends paid, together with the rise or fall in the Total Assets, NAV or share price. Total return statistics enable the investor to make performance comparisons between companies with different dividend policies. Any dividends received by a shareholder are assumed to have been invested in the month that the shares go ex-dividend at a value representing an average of the start and end values for that month of the Total Assets, NAV or share price as appropriate. The Total Assets Total Return, the NAV Total Return and the share price Total Return figures are shown on page 3.

Glossary of Terms and Alternative Performance Measures (continued)

		2020 Total assets	2020 Ordinary share NAV	2020 Ordinary share price	2019 Total assets	2019 Ordinary share NAV	2019 Ordinary share price
Closing NAV per share/ share price (pence)	(a)	576.63	360.17	322.50	675.18	466.37	406.00
Dividend adjustment factor	(b)	1.0714	1.0714	1.0714	1.0337	1.0337	1.0337
Adjusted closing NAV per share/share price (pence)	(c = a x b)	617.80	385.89	345.53	697.93	482.09	419.68
Opening NAV per share/ share price (pence)	(d)	675.18	466.37	406.00	586.43	384.51	334.00
Total return	(c / d) -1	-8.5%	-17.3%	-14.9%	19.0%	25.4%	25.7%

TOTAL ASSETS

Total assets less current liabilities, before deduction of all borrowings.

TOTAL EXPENSE RATIO

This represents the total expenses, excluding Performance Fee, commissions and exchange gain/losses as a percentage of total assets.

YIELD

The annual interest payments on a fixed-interest security, or the annual dividends on an equity (less any withholding tax) expressed as a percentage of the current market value of the security. The Company's yield was arrived at considering total dividends paid in 2020 of 23p as a percentage of year end share price of 322.50p.

Directors, Advisers and Contacts

Directors

Nigel Ward (Chairman)
David John Warr
Nigel Sidebottom
Sharon Parr

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Company Details

Company Number: 34778
GIIN Number: CY0IXM.99999.SL.831
Ordinary Shares
ISIN: GB0004829437
Ticker: AIF
ZDP Shares
ISIN: GGOOBYMJ7X48
Ticker: AIFZ

