Keystone Positive Change Investment Trust plc (KPC)

Regulated Information Classification: Annual Financial and Audit Reports

Legal Entity Identifier: 5493002H3JXLXLIGC563

Results for the year to 30 September 2023

Over the year to 30 September 2023, the Company's net asset value per share (NAV) total return was 7.0% compared to a total return of 11.0% for the Comparative Index† (in sterling terms). The share price total return for the same period was 6.0% as the discount widened from 13.2% to 14.0%.

Past performance is not a guide to future performance. Total return information is sourced from Baillie Gifford/LSEG. See disclaimer at the end of this announcement. For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Keystone Positive Change Investment Trust plc ('Keystone Positive Change', 'Keystone' or 'the Company') aims to generate long term capital growth with the aim of the NAV total return exceeding that of the MSCI AC World Index in sterling terms by at least 2% per annum over rolling five year periods; and to contribute towards a more sustainable and inclusive world by investing in the equities of companies whose products or services make a positive social or environmental impact. The performance target stated is in no way guaranteed. Capital growth takes priority over income and dividends. Keystone is managed by Baillie Gifford & Co, an independent fund management group, which has around £217 billion under management and advice.

Keystone is a listed UK company. The value of its shares and any income from them can fall as well as rise and investors may not get back the amount invested. The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. You can find up to date performance information about Keystone at keystonepositivechange.com‡. Past performance is not a guide to future performance.

† The MSCI All Country World Index (in sterling terms) is the principal index against which performance is measured.

‡ Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

28 November 2023

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The following is the Preliminary Results Announcement for the year to 30 September 2023 which was approved by the Board on 27 November 2023.

Chair's statement

Keystone Positive Change Investment Trust plc ('Keystone Positive Change', 'Keystone' or 'the Company') has two objectives of equal importance: to generate attractive long-term capital returns and to contribute towards a more sustainable and inclusive world by investing in companies whose products or services make a positive social or environmental impact. The Positive Change team has an investment horizon of five years and beyond to allow these structural themes to play out.

Performance

Over the year to 30 September 2023, the Company's net asset value ('NAV') total return was +7.0% compared to +11.0% for its benchmark, the MSCI All Country World Index (in sterling terms). While it was encouraging that companies in the portfolio generally outperformed the index in terms of revenue growth, this was offset by the detrimental impact of higher interest rates on the valuation of companies over the period. Further details on the main drivers of performance are contained in the Managers' review on the following pages.

The share price total return was +6.0%, as the discount widened slightly from 13.2% to 14.0%. Over the same period, the average discount of the Global Equity investment company sector (as defined by Deutsche Numis) widened from 9.8% to 14.5%.

Discount

The Board continues to evaluate the range of options at its disposal to address, where possible, the discount at which the Company's shares trade relative to its NAV. The Board does not consider that buying back shares during periods when market sentiment is universally negative will necessarily improve the Company's rating. It has the effect of shrinking the asset base which will also increase the Company's ongoing charges ratio. That notwithstanding, the Board recognises that buying the Company's shares at a discount is accretive to its NAV and may provide short-term liquidity when natural market buyers are in short supply. The Company has the power to buy back its own shares and will do so when the Board considers that such activity will benefit ongoing shareholders.

The Board retains conviction in the Positive Change strategy but recognises that shareholder returns have been disappointing since shareholders approved the change to the Company's strategy in February 2021. The Board therefore commits that, at the annual general meeting ('AGM') in February 2027, being the AGM immediately following a period of five full financial years since the adoption of the Positive Change strategy, a Continuation Vote will be put to shareholders. Further details in relation to this proposal are set out below in the Outlook section.

Impact

The Company invests in listed and private companies that address a social or environmental challenge. Amid a backdrop of uncertainty, we continue to believe that investing for positive change is both important and full of opportunity. We aim to invest in exceptional companies whose products, services and behaviour generate meaningful improvements. Companies held in the portfolio must be positioned to make a significant contribution to solutions in one of four impact areas:

- Social inclusion and education;
- Environment and resource needs;

- Healthcare and quality of life; and
- Base of the pyramid (addressing the needs of the poorest four billion people in the world).

For a company to merit inclusion in the portfolio, it must meet both the anticipated financial return hurdle and the impact criteria. Further details of the Managers' approach are provided on the following pages.

Two senior impact analysts form part of the investment decision-making team, with additional impact analysts providing support. Senior impact analyst Apricot Wilson joined in June 2023 replacing Michelle O'Keeffe who left Baillie Gifford to pursue a PhD. Apricot is a CFA Charterholder and holds an MBA from the China Europe International Business School in Shanghai. Prior to joining Baillie Gifford in 2022, Apricot worked for Investing for Development SICAV, a Luxembourg-based blended fund focused on development finance.

In August 2023, the Company published its second Impact Report, monitoring and measuring the impact that the products and services provided by companies within the portfolio are having on society and the environment. The Impact Report is available on the Company's website, together with its companion document Positive Conversations, which outlines engagement on investee companies' business practices.

Gearing

The Company started the financial year with net gearing of 10.6%, having drawn down £15 million of a £25 million multi-currency revolving credit facility provided by The Royal Bank of Scotland International Limited. At 30 September 2023, net gearing stood at 10.1%, with the only adjustments to drawings being currency rebalancing on the US$ tranche. The Company is expected to continue to maintain a modest level of structural gearing, which should enhance shareholder returns over the long term.

Costs

Under the current management arrangements, the annual management fee is 0.70% on the first £100 million of market capitalisation, 0.65% on the next £150 million of market capitalisation and 0.55% on the remaining market capitalisation. As the fee is calculated on market capitalisation, the Managers receive a smaller fee when the Company's shares are trading at a discount to NAV than they would if the fee was charged on net assets. The fee is also structured so that, as the Company grows, the annual management fee will reduce towards the marginal rate of 0.55%.

Ongoing charges for the year to 30 September 2023 were 0.90% (2022 – 0.90%).

Dividend

The Company's capital growth-focused portfolio is not expected to generate a significant or regular income stream. Dividends will be paid only to the extent needed to maintain the Company's investment trust status. In accordance with the dividend policy, the Board is recommending a final dividend of 0.45p per share (2022 – 0.40p per share). This will be proposed for shareholders' approval at the AGM to be held on 1 February 2024 and, if approved, will be paid on 8 February 2024 to shareholders on the register at close of business on 12 January 2024.

The Board

The Board is cognisant of good corporate governance practice and, as part of the normal process of refreshment, Ian Armfield will not seek re-election to the Board at the AGM to be held in 2025. The Board has commenced a recruitment process seeking to appoint an additional independent non-executive Director who will undertake the role of Audit Committee Chair following Ian's retirement. An independent consultant will be appointed to assist the Board and we will keep shareholders updated as the recruitment process progresses.

The Company is compliant with the FCA's gender representation requirements on company boards, which target that at least 40% of directors will be women and at least one of the senior positions on each board will be held by a woman. The recruitment process in 2022 had a shortlist that comprised 50% women and 33% candidates of a non-white ethnic background. Although Andrew Fleming was the strongest candidate on that occasion, the Board remains alert to the value of including diverse viewpoints to strengthen the Board.

During the year, Katrina Hart was appointed as the Company's Senior Independent Director ('SID').

Annual General Meeting

We anticipate welcoming shareholders to the AGM in London on 1 February 2024, at The Conduit in Covent Garden. This venue was selected as aligning with the Company's ambition to drive positive change, and in the hope of inspiring broader shareholder engagement. To ensure shareholder votes are fairly represented, the Board has decided to hold the voting on a poll, rather than on a show of hands as has previously been customary. I therefore ask shareholders to submit their proxy votes before the applicable deadline on 30 January 2024. This will not prevent you from submitting a polling card on the day but will ensure that your votes are counted should you be unable to attend. Any changes to the AGM arrangements will be announced to the London Stock Exchange regulatory news service and made available at keystonepositivechange.com.

If you hold shares through a share platform or other nominee, we would encourage you to contact these organisations directly as soon as possible to arrange for you to submit votes in advance of the AGM. Alternatively, the Association of Investment Companies' ('AIC') website www.theaic.co.uk/how-to-vote-your-shares has information on how to vote your shares if you hold them via one of the major platforms. The following link will also take you through to the AIC website where there is information on how your platform can help you attend the AGM in person www.theaic.co.uk/aic/ready-to-invest/shareholder-voting/attending-an-agm.

Outlook

When considering the change of strategy, in late 2020, the Board chose a global strategy investing in listed and private companies with a clear impact objective that would allow shareholders to access strong returns while investing in the social and environmental health of the world in which they live. The Board is sensitive to the tides of market sentiment, which flowed towards 'green' investments and now appear to be in retreat. While environmental, social and governance ('ESG') concerns are obviously given due weight in the Company's approach both to investing in and engaging with the companies held in the portfolio, we are keen to emphasise that Keystone's ambition is more tangible than 'do least harm' and strives to 'do most good' – prioritising active pursuit of positive change over passive screening of negative influences. In doing this, the Company will continue to seek leading technologies addressing difficult areas. We accept that individual company outcomes will be mixed, but financial returns from the successes should be several multiples of the losses from those that fail, and society as a whole cannot afford to lose out on the solutions those successes will deliver.

The Board retains conviction in the Positive Change strategy and believes it should be accessible within a closed-ended structure, which enables the Managers to invest primary capital in private companies, to invest in less liquid public companies and to utilise gearing. Given that the Positive Change team has an investment horizon of five years and beyond, we believe it is appropriate to conduct a fundamental review of financial performance over a similar time horizon and assess the success and viability of the strategy at that point. The Baillie Gifford Positive Change open-ended fund remains a top performing fund over five years. However, we recognise that Keystone's shareholder returns have been disappointing since shareholders approved the change to the Company's strategy almost three years ago. Considering the underperformance, the share price discount and a five year investment time horizon, the Board commits that at the AGM in February 2027, being the AGM immediately following a period of five full financial years since the adoption of the Positive Change strategy, a Continuation Vote will be put to shareholders. If, at that time, shareholders decide not to support the Company's continuation, we will consult with shareholders and propose an outcome that we believe to be in the best interests of shareholders as a whole, which will include a return of capital at close to NAV.

Karen Brade

Chair

27 November 2023

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Managers' review

Philosophy

In a world where ageing populations, increasing geopolitical tensions and rising protectionism present challenges to economic growth, seeking out industries that are vital for the transition to a sustainable and inclusive future should be a fruitful way to search for growth. For example, to combat climate change, we need to rapidly build out renewable energy capacity, invest in the grid and commercialise a range of technologies that can help to decarbonise industries. According to Bloomberg New Energy Finance, investments in renewable energy reached US$358 billion in the first half of 2023, a 22% increase from the same period last year and yet to keep global warming well below 2°C, the world needs to invest more than US$8 trillion in renewable energy between 2023 and 2030, or US$1 trillion per year[1]. Decarbonising industries also present significant opportunities. Wood Mackenzie estimates that decarbonising iron and steel production alone will require US$1.4 trillion of investment[2].

Education is another good example. With technologies such as AI and automation impacting the economy, the need for training and upskilling is increasing. According to Morgan Stanley, the global higher education and lifelong learning market is expected to exceed US$3 trillion by 2030[3]. In healthcare, innovations are improving treatments for noncommunicable diseases, which are increasing in prevalence owing to an ageing population and better diagnosis. The global oncology market is expected to reach US$250 billion by 2024[4]. Not all industries are conducive to profitable growth, given that the level of entry barriers and technology differentiation will vary. However, we are confident that valuable companies will emerge from some of these areas. Focusing on companies that have defendable business models should increase our chance of delivering superior long-term investment returns.

Performance

Over the past twelve months, the Company's NAV total return was 7.0% and the share price total return was 6.0%. In comparison, the benchmark MSCI All Country World Index returned 11.0% (in sterling terms). The underperformance is disappointing, but we continue to focus on the long term and believe a period of five years is the appropriate time horizon to judge our performance.

Although many companies in the portfolio demonstrated strong operating performance over the period, this was not always reflected in their share prices. Over the past twelve months, the median revenue growth of portfolio holdings was 14.3%, compared to 11.3% for the benchmark. More importantly, we believe companies in the portfolio are well-positioned to deliver attractive levels of growth in the future.

Shopify is a platform that makes it easy for merchants of all sizes to sell online. The company provides a range of services, including online storefronts, payment processing and financing. Shopify has a strong competitive position and has been gaining market share. In 2022, merchants on Shopify recorded Gross Merchandise Value ('GMV') of US$197 billion. Despite its size, Shopify continued to grow at a healthy pace. In the most recent quarter, GMV grew by 17% year-over-year and revenue grew by 31%. Over the past year, Shopify was our largest positive contributor to performance.

Remitly is a mobile remittance company. Compared to offline remittance services provided by incumbents such as Western Union, mobile remittance is cheaper and faster. The cost of sending remittance payments with Remitly is roughly half of that of Western Union, ensuring more of migrant workers' hard-earned income goes to their family and friends. This is especially impactful as 75% of remittance goes towards essential goods and services, including food, rent, and healthcare. Because of the advantages of mobile remittance and Remitly's strong execution, the company has grown revenue by at least 40% year-over-year since its IPO in 2021. Furthermore, there are signs that the competitive advantage is strengthening. Remitly's gross margin has expanded by 8 percentage points over the past two years as the company has benefited from economies of scale and lower fraud losses. Remitly currently serves 5 million active customers and has processed US$34 billion of remittance payments over the past 12 months. In comparison, there are 270 million international migrants and the global remittance flow to low- and middle-income countries exceeds US$600 billion annually, which offers significant growth ahead. Over the past year, Remitly was our second-largest positive contributor to performance.

MercadoLibre is Latin America's largest ecommerce company and a major financial technology ('FinTech') business. MercadoLibre helps Latin America's merchants to reach more customers by selling online and its FinTech products help to improve access to finance, especially for low-income consumers who have historically been underserved by incumbent banks. In the most recent quarter, MercadoLibre's revenue grew by 31% and its operating margin reached 16%. This continued a strong run of long-term performance. In an environment of higher interest rates, aggressive competitors such as Shopee have started pulling back to conserve capital, which has allowed MercadoLibre to exploit its competitive advantages to gain market share. MercadoLibre was our third-largest positive contributor to performance over the past year.

In addition to the top contributors, several other holdings have shown good operating progress. **Duolingo**, the developer of the popular language learning app, saw monthly active users increasing 43% year-over-year and revenue growing 47% in FY2022. **Dexcom**, the maker of continuous glucose monitoring devices, achieved revenue growth of 19% year-over-year and its operating margin reached 13% in FY2022. **Coursera**, the online education platform, added 21 million new registered learners in FY2022, helping to support an annual revenue growth of 26%. **Climeworks**, a carbon removal company, announced that the US Department of Energy had selected its applications for direct air capture hubs for grant negotiation, with the largest project eligible for funding of up to US$600 million.

While many portfolio holdings have demonstrated pleasing operating progress, a few companies have experienced more challenges.

Safaricom provides telecommunication and mobile money services in Kenya and has recently expanded into neighbouring Ethiopia. The investment in Ethiopia has hit near-term profits and Kenya's macroeconomic challenges have resulted in a depreciation of the country's currency. In these tough conditions, Safaricom still grew its revenues, especially for its mobile money service, M-Pesa, which demonstrated the resilience of the business and its importance to customers. Nevertheless, Safaricom's share price declined significantly in sterling terms. Safaricom was our largest detractor from performance last year.

Ørsted, the Danish renewable energy company, faced challenging operating conditions in the offshore wind industry, especially in the US, where inflation, higher interest rates and supply chain disruption resulted in some projects becoming less valuable than before. While the challenges were not unique to Ørsted – other developers pulled back or exited projects – the impact was more noticeable on Ørsted, given its higher exposure to the offshore wind industry. The company recently flagged up a likely impairment on its US assets. While we are confident in the long-term growth of the renewable energy sector, we are reviewing whether the industry structure still supports profitable growth. Ørsted was our second-largest detractor from performance over the past year.

Illumina, the maker of genetic sequencing equipment, saw revenue growth stagnating in FY2022. In addition, the company's acquisition of Grail received legal and regulatory scrutiny while the board and management team faced pressure from activist shareholders, which resulted in the departures of the company's chairman and CEO. While we are still confident in the long-term growth opportunities for gene sequencing, we are closely monitoring the developments at Illumina. We are also researching other companies in the genomics industry to help us understand Illumina's competitive position. Over the past twelve months, Illumina was our third-largest detractor.

Portfolio

During the past twelve months, the Company invested in six new companies. The purchases of Autodesk, Remitly and HDFC were discussed in the Interim Report. In addition, we invested in Boston Metal, WuXi Biologics and Daikin Industries. The latter was sold after the reporting period end in response to new information that we received.

Boston Electrometallurgical Corporation ('Boston Metal') is a private company commercialising a novel technology for producing green steel. Whereas many other technologies for decarbonising steel production, such as carbon capture and storage ('CCS') and green hydrogen, are likely to increase the cost of steel production, Boston Metal's technology, based on direct electrolysis, could produce cost-competitive steel as it removes the need for chemical reductants and is able to use low-grade iron ores.

There are still technology (scaling up inert anode) and execution risks, but the potential impact and financial returns could be very high if Boston Metal succeeds. Boston Metal's technology can also recover high-value metal from mining waste. The company has constructed the first facility for high-value metal recovery in Brazil and is starting pilot production.

Boston Metal is a good example of the opportunities that exist within private markets, which the investment trust structure is well-positioned to support.

WuXi Biologics is a Chinese contract research, development and manufacturing organisation focusing on biologics drugs, listed on the Hong Kong stock exchange. It caters to small biotech and large pharma companies and provides services from drug discovery to commercial manufacturing. By leveraging its scale and expertise, WuXi Biologics helps to save time and costs in drug research, development, and manufacturing. This is particularly valuable for biotech companies, which are often less well-capitalised compared to large pharma companies. As a result, WuXi Biologics helps to support innovation and competition in the pharmaceutical market. Between 2017 and 2022, WuXi Biologics' revenue compounded at 57% per year and its operating profit margin rose from 21% to 36%. The company benefits from favourable access to talent, a differentiated business model and investment in manufacturing processes. The uncertainties with the investment case include geopolitical tensions, the cyclicality of the industry and whether the labour advantage could diminish over time as wages rise in China and WuXi Biologics expands abroad. We will continue to monitor those areas. However, given the significant growth opportunity, strong management track record and attractive valuation, we believe the company deserves a place in the portfolio.

Daikin Industries has a leading position in the heating, ventilation and air conditioning industry ('HVAC'). We were encouraged by Daikin's innovation and environmental leadership in air conditioning and also its growing heat pump business. Before purchasing the stock, we recognised that Daikin derived less than 1% revenue from the defence industry and we asked the company about its exposures. We were satisfied with the information provided and purchased the stock. Subsequently, we were notified that Daikin is involved in the production of white phosphorous smoke bombs for the Japanese Ministry of Defence for training purposes. White phosphorus can have controversial use cases so we undertook further research and engagement. Having carefully considered the activities of the company, we decided to sell our holding post year-end.

The Company sold five companies over the past twelve months. In addition to the sale of Berkeley Lights, which was discussed in the Interim Report, we sold Nibe Industrier, FDM, Peloton Interactive,and Teladoc.

Nibe Industrier is a manufacturer of heat pumps, stoves and elements. It has enjoyed strong share price performance over recent years and is the second top contributor to performance since the take-on of Keystone. The outlook for the adoption of heat pumps is favourable owing to growing awareness of the need to transition heating systems away from fossil fuels and the supportive regulatory backdrop. However, looking forward, despite Nibe's admirable track record and the runway for growth, our analysis points towards a more competitive environment and we feel that at the current valuation it will be more challenging for the company to meet our return hurdle over the coming years. Therefore, we have sold the shares and redeployed capital into companies where we have higher conviction.

FDM recruits, trains and provides career opportunities to graduates, ex-forces personnel and returners-to-work, placing them with clients who require IT expertise. It is proving more challenging for the company to unlock growth than we had initially expected. It is taking longer for potential customers to appreciate FDM's offering and the company appears more vulnerable to external events than anticipated. Another consideration in our decision is the succession risk. Overall, we believe that FDM's ability to drive positive change by providing jobs that enable upward social mobility will be more limited and growth will be harder to realise.

Peloton Interactive sells at-home exercise equipment and digital content. We believe the long-term opportunity in digital fitness remains exciting and the company can maintain market leadership. However, the previous management team at Peloton made execution missteps against a difficult operating backdrop, elevating the cost base and making the company's financial characteristics increasingly unattractive. While the new management team has made admirable progress in recapitalising the business and reducing the rate of cash burn, we believe growth and cash management will be at odds for the foreseeable future.

Teladoc provides virtual healthcare services. Virtual care has great potential to bring efficiency, cost savings and a better quality of care to all parties in the system, from patients and payers to providers. During the Covid-19 pandemic, demand for virtual healthcare accelerated and benefited Teladoc. However, in more recent years, Teladoc has made underwhelming progress in growing its business. This is partly owing to increasing competition attracted by the growth of virtual healthcare and in part owing to the difficulties Teladoc faces in dealing with multiple stakeholders in a very complex system. Our confidence in management was also weakened after the US$6.6 billion impairment charge linked to its acquisition of chronic care management company Livongo in 2020. Overall, we no longer have sufficient conviction that Teladoc will meet our dual objectives over the long term.

Impact

We released the Keystone Positive Change Annual Impact Report in August, which can be found on our website. The report details the impact of the products and services of the portfolio holdings. Our thesis is that impact and investment go hand-in-hand, and the good operating progress for many holdings has been mirrored by their growing impact. For example, in 2022, MercadoLibre had 64.8 million unique users of its digital wallet and the company granted 5.2 million loans to sellers, of which 49% were women. Tesla delivered over 1.3 million electric vehicles and deployed 6.5 GWh of energy storage.

Tesla's products enabled customers to avoid emitting 13.4 million tonnes of CO_2, up from 8.4 million tonnes in 2021. Dexcom's continuous glucose monitoring devices helped 1.7 million people manage their diabetes more effectively.

The Impact Report also provides aggregate data at a portfolio level and maps the portfolio to the United Nations Sustainable Development Goals.

Outlook

In the past year, members of the Positive Change team have been on investment trips to the US, China, India and Europe. We have a rich research pipeline that spans: AI in healthcare; genomics; energy transition; circular economy; and sustainable agriculture. We believe those areas will present exciting investment opportunities over the coming years and decades.

Over the past twelve months, many of the portfolio companies have demonstrated strong revenue and profit growth. However, share prices have yet to appreciate in tandem, as rising interest rates have put growth stocks out of favour with the market. Once global interest rates are on a more stable trajectory, long-term investment returns should be driven primarily by profit and cash flow growth. The transition towards a more sustainable and inclusive future will present large growth opportunities for purpose-driven companies. By investing in a subset of them with outstanding management teams and the potential to build durable competitive advantages, we continue to believe that the Company can generate attractive long-term investment returns for its shareholders and contribute towards a better future.

Kate Fox

Lee Qian

27 November 2023

[1] Renewable Energy Investment Hits Record-Breaking $358 Billion in 1H 2023 – Bloomberg New Energy Finance

[2] Pedal to the metal: Iron and steel's US$1.4 trillion shot at decarbonisation – Wood Mackenzie

[3] Global Education's $8 Trillion Reboot – Morgan Stanley

[4] Delivering innovation: 2020 oncology market outlook – McKinsey

Investing for Positive Change

Delivering attractive long-term investment returns

We aim to deliver attractive investment returns, which we define as meaningful outperformance (by 2% annually net of fees) of the MSCI ACWI over rolling five-year periods.

Our emphasis on growth and competitive advantage means that we expect the delivered returns of the portfolio to come primarily from revenue and profit growth at the companies we hold, rather than from changes in valuation. In broad terms, we look for companies with the potential to double in value over a five year period, while still having significant growth prospects thereafter.

Patience is required to tolerate short-term volatility that we embrace in order to generate superior long-term financial returns. We expect our portfolio of 30–60 listed and private companies to differ significantly from the benchmark index, many of whose major constituents are likely to suffer from precisely the challenges that we outline in our four Impact Themes, and whose very scale makes it difficult for them to innovate. While measuring portfolio returns relative to a benchmark index can be a helpful way to monitor the output of our investment process, we do not consider the benchmark when constructing the portfolio.

Delivering a positive impact

We look for listed and private companies for whom delivering a positive impact is core to their business; whose products and services represent a significant improvement to the status quo; and who conduct business with honesty and integrity. We look for areas where there is a meaningful, and widely accepted, opportunity gap between the current situation and the desirable social outcome, and for companies that are proactively narrowing that gap through their business activities. To this end, we have identified four Impact Themes.

Similar to financial returns, making a meaningful positive impact requires patience and perseverance. We are not looking for quick fixes, but genuine improvements which often take years, if not decades, of hard work. We believe a period of five to ten years is a useful timeframe for assessing companies' social and environmental contributions. We expect the four Impact Themes to evolve over time, hopefully as challenges are resolved.

Four Impact Themes

Social inclusion and education

Income and wealth inequalities have risen significantly over the past 30 years and now threaten our acceptance of capitalism as a force for good. We look for companies that are building a more inclusive society through their products and services. We also look for companies that are improving the quality or accessibility of education as we believe that the diffusion of skills and knowledge is one of the best tools to reduce inequality.

Environment and resource needs

The environmental impact of human activities is increasing, and basic resources such as food and water are becoming scarcer. Throughout history, climate change and famine have repeatedly limited the development of nations[1]. Left unresolved, those problems could jeopardise international relations, destabilise our society and damage our planet. We are looking for companies that are improving our resource efficiency and reducing the environmental impact of our economic activities.

Healthcare and quality of life

We are living longer but we are not necessarily healthier. We are richer but we are not necessarily happier. The stress of modern life is damaging our physical and mental health. We are searching for companies that are actively improving the quality of life in developed and developing countries.

Base of the pyramid

Economic growth has led to improvements in living conditions in many parts of the world. However, the fruits of human ingenuity have not filtered down to everyone. We are looking for companies that are addressing the basic and aspirational needs of the billions of people at the bottom of the global income ladder.

[1] The Measure of Civilisation: How Social Development Decides the Fate of Nations, 2013.

Investment Process

Analysing investment and impact using a robust and consistent process

Both our objectives are of equal importance. To reflect this, we have established a six-stage process which allows both the impact and investment objectives to be considered equally in the key parts of our process: research, portfolio construction and reporting.

01 What we look for

A vast opportunity set for long-term stock pickers

The universe of companies in which we can invest is vast. We make no attempt to cover the whole universe. Neither do we use quantitative screens to cut it down to a manageable size. Instead, we rely on a clear and consistent set of filters to focus our attention on the relatively small number of businesses that might be of interest to us. These filters flow naturally from our dual objectives, and focus on: (1) the company’s potential to address one of our four thematic global challenges; (2) its potential to build a profitably growing business.

02 Idea generation

Ideas naturally flow from our dual objectives. Curiosity is key

We are bottom-up stock pickers who let our curiosity and enthusiasm drive our research agenda. Idea generation takes place throughout the investment process: when we meet companies; through attendance at conferences; during team meetings; and through general reading. Our long-term time horizon, focus on fundamental in-house research and desire to take a different perspective means we use diverse sources of information, from independent research to engaging with academics and industry experts. Sharing a common objective with the rest of our investment colleagues (seeking high quality growth companies), we are fortunate in being able to leverage the intellectual resources of our wider investment department of around a hundred investors, including regional and global teams and sector specialists, and our ESG team.

03 Fundamental company research: eight questions

Consistent framework focuses on dual objectives

Our company analysis consists of two stages: fundamental company research and impact analysis.

Our fundamental company research involves an Investment Manager examining eight questions relating to the quality of the business and its growth prospects as well as the impact the company is expected to deliver.

To assess the growth potential and quality of a business, we consider the company’s broad opportunity set, the strength and durability of the competitive advantage, the financial characteristics and management attitudes. To assess the expected impact of a holding, we consider the challenge the company is tackling, its product characteristics and business practices.

Valuation analysis focuses on whether we think the long-term growth prospects of a company are under-appreciated. Here, we use a range of measures for valuing companies and remain very much focused on the potential for a business in five years' time. If a company has backing from an Investment Manager, it will be taken forward to the second stage of research: the Impact Analysis.

8 Question framework

01 What change is the company driving?
02 What is the scale of the growth opportunity and how might it evolve over time?
03 What is required to unlock the opportunity and how quickly can the company capitalise on it?
04 What is the competitive edge and how might it develop?
05 What attributes of the culture, governance, and management attitude will support or detract from the company's ability to capitalise on the opportunity?
06 What are the financial characteristics today and how might they evolve?
07 What might the company look like and what might its valuation be in 5 to 10 years?
08 What will it take to be an outlier?

04 Impact analysis

Independent and disciplined

The second stage of research focuses specifically on the impact potential of a business. This is carried out by one of the Positive Change Teams' Impact Analysts. Analysing impact is complex and can be highly subjective. Our impact analysis is carried out independent of the investment case using a rigorous, qualitative framework that is based upon three factors: Intent; Product impact; and Business practices.

This analysis is holistic: we recognise that there is no perfect company and under each of these three factors we also consider areas of controversy, the negative consequences of operations and a company's awareness of those issues.

Monitoring and reporting impact is important: as one of our dual objectives it is as important as monitoring and reporting financial performance. The monitoring of impact is ongoing and is interwoven with our monitoring of the investment case for a company. We look at company reports and disclosures and are engaged with management, we monitor significant news, always with a focus on the long term and the key milestones we expect a company to reach in order to deliver impact.

Once a potential idea has been identified, we analyse it using a consistent framework of questions: (1) *Intent* – Forward looking strategy that supports the positive outcome? Backed up by actions, commitments and structures? Uses influence to drive solutions in the wider industry? (2) *Product impact* – Relationship between the product and the impact? Breadth and depth of impact? Materiality in the context of the business and the problem? Linkage with the United Nations Sustainable Development Goals (UN SDGs)? (3) *Business practices* – Addresses impacts across the full value chain? Transparent in its actions? Leads the industry in business practices?

05 Portfolio construction

Two elements – investment and impact considered in tandem

The Positive Change team meets regularly to discuss new ideas and the level of conviction in existing holdings. The team's conviction in both the impact and investment potential of a company is taken into consideration when making portfolio decisions and sizing positions. Investment decisions are made by the five decision makers: three Investment Managers: Kate Fox, Lee Qian and Thaiha Nguyen, and two Senior Impact Analysts: Edward Whitten and Apricot Wilson. Every stock must have the backing of an Investment Manager and at least one sponsor of the impact objective. The group heavily relies on and respects the opinions of team members to help inform individual views. We think this process allows us to harness diverse perspectives while also retaining conviction and accountability of individual decision-making and reducing personal bias.

We are active investors and our portfolio will differ significantly from the benchmark, many of whose major constituents are likely to face headwinds from the challenges we identify. In order for a company to enter our portfolio, it must meet both of our objectives – there are no compromises.

With a long-term investment horizon, portfolio turnover will be low, we expect it to be below 20% per annum over the long term. We will carefully monitor the companies in which we invest through ongoing research and engagement with management teams. It is inevitable that businesses will have setbacks and we are happy to own companies through periods of short-term operational weakness. However, if longer-term concerns develop that are not addressed by management, if we detect a deterioration in the fundamental investment case, for either element of our dual objectives, we will sell a holding.

06 Monitoring, engagement and reporting

Rigorous, ongoing and with a long-term focus

Once we have taken a holding, we continue to monitor operational performance and progress towards delivering positive change. In doing so we engage with management teams on an ongoing basis. We report on how the strategy has delivered on both its financial objective and its impact objective.

The impact different companies make is not always quantifiable, nor should it be. Furthermore, comparing impact across companies with very different activities is problematic. And, where impact is more easily quantifiable, it is not always measured and disclosed in a uniform way. Despite its challenges, we have developed a robust approach using our in-depth knowledge of companies, and we report annually, though we always remain focused on our five-year-plus time horizon.

6.1 Company impact

Consistent with our bottom-up, fundamental investment approach, we identify bespoke metrics or milestones for each company that will help us monitor its progress in delivering positive change. We represent this impact through 'The Positive Chain', a model which demonstrates how each company is contributing to positive outcomes and impacts through its inputs, activities and outputs. We depend primarily on company reported data but do not limit ourselves to current levels of disclosure: where there are gaps we will engage with companies and request more information.

Company engagement more broadly is ongoing, and we will discuss with management teams both areas where we would like to see improvements as well as areas where companies excel.

6.2 Portfolio contribution to United Nations Sustainable Development Goals

At an overall portfolio level, we also link the product impact for each company to the United Nations' Sustainable Development Goals ('UN SDGs'). The UN developed the SDGs in 2015 as part of an ambitious programme which aims to end poverty in all forms, to build peaceful and inclusive societies, to protect human rights and promote gender equality, and to ensure the protection of the planet and its natural resources by the end of 2030. With 17 goals split into 169 specific targets covering a broad range of topics, we do not intend the portfolio to address every single goal. However, mapping the contribution of individual holdings to these goals via the underlying 169 targets allows us to assess the contribution of the portfolio as a whole using an independent framework.

The companies in the portfolio take different approaches and we hope to gain insight into what works best and to share our learnings across holdings. For those companies that report how their business is aligned with the SDGs, we take this into consideration when making the linkage to the goals, but we are selective in order to be as consistent as possible across all holdings.

Baillie Gifford's approach to valuing private companies

We aim to hold our private company investments at 'fair value', i.e. the price that would be paid in an open-market transaction. Valuations are adjusted both during regular valuation cycles and on an ad hoc basis in response to 'trigger events'. Our valuation process ensures that private companies are valued in both a fair and timely manner.

The valuation process is overseen by a valuations group at Baillie Gifford, which takes advice from an independent third party (S&P Global). The valuations group is independent from the investment team, with all voting members being from different operational areas of the firm, and the investment managers only receive final notifications once they have been applied.

We revalue the private holdings on a three-month rolling cycle, with one third of the holdings reassessed each month. During stable market conditions, and assuming all else is equal, each investment would be valued twice in a six month period. For investment trusts, the prices are also reviewed twice per year, at the interim and financial year end, by the respective investment trust boards and are subject to the scrutiny of external auditors in the annual audit process.

Beyond the regular cycle, the valuations team also monitors the portfolio for certain 'trigger events'. These may include: changes in fundamentals; a takeover approach; an intention to carry out an Initial Public Offering ('IPO'); company news which is identified by the valuation team or by the portfolio managers, or significant changes to the valuation of comparable public companies. Any ad hoc change to the fair valuation of any holding is implemented swiftly and reflected in the next published net asset value. There is no delay.

The valuations team also monitors relevant market indices on a weekly basis and updates valuations in a manner consistent with our external valuer's (S&P Global) most recent valuation report where appropriate. Continued market volatility has meant that recent pricing has moved much more frequently than would have been the case with the quarterly valuations cycle.

Portfolio companies split by impact theme as at 30 September 2023

Social inclusion and education - Building a more inclusive society and/or improving the quality and accessibility of education;

Environment and resource needs - Improving our resource efficiency and reducing the environmental impact of our economic activities;

Healthcare and quality of life - Actively improving the quality of life in developed and developing countries;

Base of the pyramid - Addressing the basic aspirational needs of people at the bottom of the global income ladder.

Social inclusion and education	Value £'000	%	Environment and resource needs	Value £'000	%	Healthcare and quality of life	Value £'000	%	Base of the pyramid	Value £'000	%
MercadoLibre	12,639	7.8	Deere	6,604	4.1	Moderna	6,728	4.1	Bank Rakyat Indonesia	6,848	4.2
ASML	9,418	5.8	Tesla	5,891	3.6	Dexcom	5,683	3.5	Remitly Global	5,954	3.7
TSMC	6,829	4.2	Xylem	5,275	3.3	Alnylam Pharmaceuticals	5,674	3.5	Safaricom	1,871	1.3
Shopify	6,711	4.1	Northvolt AB [u]	3,802	2.3	Sartorius	3,843	2.4			
Duolingo	5,675	3.5	Autodesk	3,681	2.3	WuXi Biologics	3,807	2.3			
Nu Holdings	5,178	3.2	Umicore	3,530	2.2	Illumina	3,608	2.2			
HDFC Bank	4,887	3.0	Ørsted	3,431	2.1	Discovery Holdings	3,567	2.2			
Coursera	4,765	3.0	Novozymes	3,311	2.1	10x Genomics	2,409	1.5			
PsiQuantum [u]	1,443	0.9	Ecolab	3,275	2.0	M3	2,256	1.4			
			Daikin Industries	3,067	1.9	Chr. Hansen	2,093	1.3			
			Climeworks [u]	1,820	1.1	AbCellera Biologics	1,522	0.9			
			Joby Aviation	1,817	1.1						
			Boston Electrometallurgical Corp [u]	1,639	1.0						
			Spiber [u]	946	0.6						
	57,545	35.5		48,089	29.7		41,190	25.3		14,673	9.1
									Net liquid assets*	651	0.4
									Total assets*	**162,148**	**100.0**

* For a definition of terms used, see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

[u] Denotes unlisted/private company holding.

List of investments as at 30 September 2023

Name	Business	Impact theme*	Fair value £'000	% of total assets†
MercadoLibre	Ecommerce platform and fintech	Social	12,639	7.8

ASML	Supplier to semiconductor industry	Social	9,418	5.8
Bank Rakyat Indonesia	Bank	Base	6,848	4.2
TSMC	Semiconductor manufacturer	Social	6,829	4.2
Moderna	Messenger RNA therapeutics	Healthcare	6,728	4.1
Shopify	Online commerce platform	Social	6,711	4.1
Deere	Agricultural equipment	Environment	6,604	4.1
Remitly Global[#]	Online money transfer payments for immigrants and their families	Base	5,954	3.7
Tesla	Electric cars and renewable energy solutions	Environment	5,891	3.6
Dexcom	Continuous glucose monitoring	Healthcare	5,683	3.5
Duolingo	Language learning website and mobile app	Social	5,675	3.5
Alnylam Pharmaceuticals	Biotechnology	Healthcare	5,674	3.5
Xylem	Innovative water solutions	Environment	5,275	3.3
Nu Holdings	Digital banking company	Social	5,178	3.2
HDFC Bank[#]	Mortgage provider	Social	4,887	3.0
Coursera	Online learning	Social	4,765	3.0
Sartorius	Biopharmaceutical and laboratory tooling	Healthcare	3,843	2.4
WuXi Biologics[#]	Contract research, development and manufacturing organisation focusing on biologics drugs	Healthcare	3,807	2.3
Northvolt AB [u]	Battery developer and manufacturer, specialising in lithium-ion technology for electric vehicles	Environment	3,802	2.3
Autodesk[#]	Software products for architecture, engineering, construction, and manufacturing industries	Environment	3,681	2.3
Illumina	Gene sequencing equipment	Healthcare	3,608	2.2
Discovery Holdings	Life and health insurance provider	Healthcare	3,567	2.2

Umicore	Global materials technology and recycling	Environment	3,530	2.2
Ørsted	Renewable energy	Environment	3,431	2.1
Novozymes	Biological solutions	Environment	3,311	2.1
Ecolab	Water, hygiene and infection prevention services	Environment	3,275	2.0
Daikin Industries[#]	Air conditioning and refrigeration equipment	Environment	3,067	1.9
10x Genomics	Life science technology	Healthcare	2,409	1.5
M3	Online medical services	Healthcare	2,256	1.4
Chr. Hansen	Biological solutions	Healthcare	2,093	1.3
Safaricom	Telecommunications and mobile payments	Base	1,871	1.2
Climeworks [u]	Direct air carbon capture	Environment	1,820	1.1
Joby Aviation	Electric aircraft	Environment	1,817	1.1
Boston Electrometallurgical Corp[#] [u]	Novel technology for producing green steel	Environment	1,639	1.0
AbCellera Biologics	Antibody drug discovery tools	Healthcare	1,522	0.9
PsiQuantum [u]	Silicon photonic quantum computing	Social	1,443	0.9
Spiber [u]	Novel protein biomaterials	Environment	946	0.6
Total investments			**161,497**	**99.6**
Net liquid assets[†]			651	0.4
Total assets[†]			**162,148**	**100.0**

	Listed equities %	Unlisted securities‡ %	Net liquid assets[†] %	Total assets[†] %
30 September 2023	93.7	5.9	0.4	100.0

30 September 2022	93.5	6.0	0.5	100.0

* Abbreviated as follows: Healthcare – Healthcare and quality of life; Social – Social inclusion and education; Environment – Environment and resource needs; Base – Base of the pyramid.

u Denotes unlisted/private company holding.

† For a definition of terms used see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

New purchase during the year. Complete sales during the year were: FDM; Nibe Industrier; Peloton Interactive; Berkeley Lights; Teladoc.

‡ Includes holdings in ordinary shares, preference shares and promissory notes.

Income statement

For the year ended 30 September	Notes	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
Gains/(losses) on investments	2	–	9,884	**9,884**	–	(72,765)	**(72,765)**
Currency gains/(losses)		–	589	**589**	–	(1,333)	**(1,333)**
Income		1,618	–	**1,618**	1,459	–	**1,459**
Investment management fee	3	(223)	(668)	**(891)**	(247)	(741)	**(988)**
Other administrative expenses		(477)	–	**(477)**	(506)	–	**(506)**
Net return before finance costs and taxation		**918**	**9,805**	**10,723**	**706**	**(74,839)**	**(74,133)**
Finance costs of borrowings		(234)	(666)	**(900)**	(101)	(266)	**(367)**
Net return on ordinary activities before taxation		**684**	**9,139**	**9,823**	**605**	**(75,105)**	**(74,500)**
Tax on ordinary activities		(244)	(7)	**(251)**	(216)	–	**(216)**
Net return on ordinary activities after taxation		**440**	**9,132**	**9,572**	**389**	**(75,105)**	**(74,716)**

Net return per ordinary share	4	**0.71p**	**14.77p**	**15.48p**	**0.63p**	**(121.50p)**	**(120.87p)**
Note: Dividends per share paid and payable in respect of the year	5	0.45p			0.40p		

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

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

A Statement of Comprehensive Income is not required as the Company does not have any other comprehensive income and the net return on ordinary activities after taxation is both the profit/(loss) and total comprehensive income/(expense) for the year.

Balance sheet

As at 30 September	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Investments	6		161,497		152,067
Current assets					
Debtors		313		199	
Cash at bank		728		962	
		1,041		1,161	
Creditors					
Amounts falling due within one year	7	(15,628)		(15,650)	
Net current liabilities			(14,587)		(14,489)
Total assets less current liabilities			**146,910**		**137,578**

	Notes		
Creditors			
Amounts falling due after more than one year	7	(257)	(250)
Net assets		**146,653**	**137,328**
Capital and reserves			
Share capital		6,760	6,760
Share premium account		3,449	3,449
Capital redemption reserve		466	466
Capital reserve		135,396	126,264
Revenue reserve		582	389
Total shareholders' funds	8	**146,653**	**137,328**

Statement of changes in equity

For the year ended 30 September 2023	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 October 2022		6,760	3,449	466	126,264	389	**137,328**
Net return on ordinary activities after taxation		-	-	-	9,132	440	**9,572**
Dividends paid during the year	5	-	-	-		(247)	**(247)**
Shareholders' funds at 30 September 2023		**6,760**	**3,449**	**466**	**135,396**	**582**	**146,653**

For the year ended 30 September 2022	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 October 2021		6,760	3,449	466	203,842	–	**214,517**
Net return on ordinary activities after taxation		–	–	–	(75,105)	389	**(74,716)**
Dividends paid during the year	5	–	–	–	(2,473)	–	**(2,473)**
Shareholders' funds at 30 September 2022		**6,760**	**3,449**	**466**	**126,264**	**389**	**137,328**

Cash Flow Statement

For the year ended 30 September	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Cash flows from operating activities					
Net return before finance costs and taxation			10,723		(74,133)
Tax on overseas income			(249)		(207)
Adjustments for:					
Purchase of investments		(36,264)		(20,553)	
Sale of investments		36,718		20,185	
			454		(368)
(Gains)/losses on investments held at fair value			(9,884)		72,765
Movement in unrealised currency gains and losses			(607)		1,374
Increase in debtors			(109)		(76)

(Decrease)/increase in creditors			(19)		41
Net cash inflow/(outflow) from operating activities			**309**		**(604)**
Cash flows from financing activities					
Interest and facility fee paid on bank facility		(861)		(329)	
Preference dividends paid		(12)		(12)	
Bank facility drawn		620		3,727	
Net equity dividends paid	5	(247)		(2,473)	
Net cash (outflow)/inflow from financing activities			**(500)**		**913**
Net (decrease)/increase in cash at bank			**(191)**		**309**
Exchange movements			(43)		60
Cash at bank at the start of the year			962		593
Cash at bank at the end of the year			**728**		**962**

Cash flow from operating activities includes		
Dividends received	1,554	1,434
Interest received	20	2

Notes to the Financial Statements

1. Principal accounting policies

The Financial Statements for the year to 30 September 2023 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' on the basis of the accounting policies set out in the Annual Report and Financial Statements which are unchanged from the prior year and have been applied consistently.

2. Gains/(losses) on investments

For the year ended 30 September	2023 £'000	2022 £'000
Gains/(losses) on investments:		
Realised losses on sales	(12,870)	(6,963)
Changes in investment holding gains and losses	22,754	(65,802)
	9,884	**(72,765)**

3. Management fee

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. The annual management fee is 0.70% on the first £100 million of market capitalisation, 0.65% on the next £150 million of market capitalisation and 0.55% on the remaining market capitalisation. Management fees are calculated and payable on a quarterly basis. Market capitalisation is calculated using middle market quotations derived from the Stock Exchange Daily Official List and the weighted average number of shares in issue during the quarter.

4. Net return per ordinary share

For the year ended 30 September	2023 Revenue	2023 Capital	2023 Total	2022 Revenue	2022 Capital	2022 Total
Net return per ordinary share	**0.71p**	**14.77p**	**15.48p**	**0.63p**	**(121.50p)**	**(120.87p)**

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £440,000 (2022 –£389,000) and on 61,815,632 (2022 – 61,815,632) ordinary shares of 10p, being the weighted average number of ordinary shares in issue during the year. Capital return per ordinary share is based on the net capital gain for the financial year of £9,132,000 (2022 – loss of £75,105,000) and on 61,815,632 (2022 – 61,815,632) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

5. Ordinary dividends

For the year ended 30 September	2023 p	2023 £'000	2022 p	2022 £'000
Amounts recognised as distributions in the year:				
Previous year's final dividend/fourth interim dividend	0.40	247	4.00	2,473

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £440,000 (2022 – £389,000).

For the year ended 30 September	2023 p	2023 £'000	2022 p	2022 £'000
Amounts paid and payable in respect of the financial year:				
Proposed final (payable 8 February 2024)	0.45	278	0.40	247

The Board recommends a final dividend of 0.45p per ordinary share for the year. If approved, the recommended final dividend will be paid on 8 February 2024 to shareholders on the register at the close of business on 12 January 2024. The ex-dividend date is 11 January 2024.

6. Investments

As at 30 September 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	151,847	–	–	**151,847**
Unlisted securities	–	–	9,650	**9,650**

Total financial asset investments	**151,847**	**–**	**9,650**	**161,497**

As at 30 September 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	142,878	–	–	**142,878**
Unlisted securities	–	–	9,189	**9,189**
Total financial asset investments	**142,878**	**–**	**9,189**	**152,067**

Investments in securities are financial assets held at fair value through profit or loss. In accordance with Financial Reporting Standard 102, the tables above provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair value hierarchy

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit and loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The Company's unlisted investments at 30 September 2023 were valued using a variety of techniques. These include using comparable company multiples, net asset values, assessment of comparable company performance and assessment of milestone achievement at the investee companies. The determinations of fair value included assumptions that the trading multiples and comparable companies chosen for the multiples approach provide a reasonable basis for the determination of fair value. Valuations are cross-checked for reasonableness to alternative multiples-based approaches or benchmark index movements as appropriate. In some cases the latest dealing price is considered to be the most appropriate valuation basis, but only following assessment using the techniques described above.

The valuation techniques used by the Company are further explained in the accounting policies on page 94 of the Annual Report and Financial Statements. A sensitivity analysis by valuation technique of the unlisted securities is on pages 108 to 109 of the Annual Report and Financial Statements.

The Company received proceeds of £36,718,000 (2022 – £20,185,000) from investments sold during the year. The book cost of these investments when they were purchased was £49,588,000 (2022 – £27,148,000). These investments have been revalued over time and, until they were sold, any unrealised gains/losses were included in the fair value of the investments. Transaction costs of £24,000 (2022 – £5,000) and £9,000 (2022 – £8,000) were suffered on purchases and sales respectively.

7. Creditors

Borrowing facilities

At 30 September 2023 the Company had a 3 year £25 million multi-currency unsecured floating rate revolving facility with The Royal Bank of Scotland International Limited, which expires on 31 August 2024.

At 30 September 2023 drawings were as follows:

— The Royal Bank of Scotland International Limited: US$9.5 million at an interest rate of 1.25% over SOFR and £7.5 million at an interest rate of 1.25% over SONIA, both maturing in December 2023 (2022 – US$8.7 million at an interest rate of 1.25% over US LIBOR and £7.5 million at an interest rate of 1.25% over SONIA, both maturing in December 2022).

The main covenants relating to the above loans are that total borrowings shall not exceed 25% of the Company's adjusted portfolio value and the Company's minimum adjusted portfolio value shall be £100 million.

There were no breaches of loan covenants during the year.

Amounts falling due after more than one year – as at 30 September	2023 £'000	2022 £'000
5% cumulative preference shares of £1 each	250	250
Provision for tax liability in respect of Indian capital gains	7	-
	257	**250**

Preference share dividends are paid bi-annually in March and September.

Provision for Tax Liability

The tax liability provision at 30 September 2023 of £7,000 (30 September 2022 – nil) relates to a potential liability for Indian capital gains tax that may arise on the Company's Indian investments should they be sold in the future, based on the net unrealised taxable capital gains at the period end and on enacted Indian tax rates. The amount of any future tax amounts payable may differ from this provision, depending on the value and timing of any future sales of such investments and future Indian tax rates.

Fair value of borrowings	2023 Par	2023 Book	2023 Market	2022 Par	2022 Book	2022 Market

	value £'000	value £'000	value £'000	value £'000	value £'000	value £'000
Bank loans due within one year	15,245	15,245	15,245	15,275	15,275	15,275
5% cumulative preference shares	250	250	239	250	250	239
	15,495	**15,495**	**15,484**	**15,525**	**15,525**	**15,514**

8. **Shareholders' funds per ordinary share**

As at 30 September	2023 £'000	2022 £'000
Shareholders' funds	£146,653,000	£137,328,000
Number of ordinary shares in issue at the year end	61,815,632	61,815,632
	237.2p	**222.2p**

The shareholders' funds figures above have been calculated after deducting borrowings at book value, in accordance with the provisions of FRS 102. For the prior year, the difference between borrowings at book value, borrowings at par and borrowings at market value is negligible (see note 7 above) and no reconciliation between NAV at book/par value and NAV at market/fair value is provided, as the NAV per share is the same on both bases. A reconciliation between shareholders' funds per share and NAV per share at market value at 30 September 2023 is provided in the Glossary of Terms and Alternative Performance Measures at the end of this announcement.

9. **Shares in Issue**

The Company is limited by shares. The ordinary shares are fully participating and, on a poll, carry one vote per £1 nominal held (one vote per 10 ordinary shares of 10 pence each). The Company's capital structure at 30 September 2023 consists of 67,593,995 ordinary shares of 10p each (30 September 2022 – 67,593,995) of which 61,815,632 (30 September 2022 – 61,815,632) are allotted and fully paid and 5,778,363 (30 September 2022 – 5,778,363) are held in treasury. The Company also has 250,000 5% cumulative preference shares of £1 each in issue.

In the year to 30 September 2023, the Company issued and bought back no ordinary shares (2022 – no shares issued or bought back). At 30 September 2023 the Company had authority to buy back 9,266,163 ordinary shares and to allot or sell from treasury 6,181,563 ordinary shares without application of pre-emption rights. Under the provisions of the Company's Articles of Association share buy-backs are funded from the capital reserve.

10. **Related Parties and transactions with the Managers**

The Directors' fees and shareholdings are detailed in the Directors' Remuneration Report on pages 74 to 77 of the Annual Report and Financial Statements. No Director has a contract of service with the Company. During the year no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

Baillie Gifford & Co Limited has been appointed as the Company's Alternative Investment Fund Managers ('AIFM') and Company Secretaries. Details of the terms of the Investment Management Agreement are set out on page 57 of the Annual Report and Financial Statements and details of the fees during the year and the balances outstanding at the year end are shown in notes 3 and 11 of the Annual Report and Financial Statements respectively.

11. Audited financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2023 or 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered in due course. The auditor has reported on these accounts; the reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

12. Publication date

The Annual Report and Financial Statements will be available on the Company's page of the Managers' website keystonepositivechange.com‡ on or around 8 December 2023.

‡ Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Glossary of terms and alternative performance measures ('APM')

Total assets

This is the Company's definition of Adjusted Total Assets, being the total value of all assets held less all liabilities (other than liabilities in the form of borrowings).

Shareholders' funds

Shareholders' funds is the value of all assets held less all liabilities, with borrowings deducted at book cost.

Net Asset Value (APM)

When a Company's borrowings are all short-term, flexible facilities, Net Asset Value ('NAV') equates to shareholders' funds, being the value of all assets held less all liabilities (including borrowings). Per share amounts are calculated by dividing the relevant figure by the number of ordinary shares in issue (excluding shares held in treasury). For the prior year, the difference between borrowings at book value, borrowings at par and borrowings at market value is negligible (see note 19 on page 110 of the Annual Report and Financial Statements) and no reconciliation between NAV with debt at book/par value and NAV with debt at market value is provided. For the current year, a reconciliation is provided below, as the NAV per share differs by 0.1p owing to roundings.

As at 30 September		2023	2022
Shareholders' funds (net assets)	(a)	£146,653,000	£137,328,000
Ordinary shares in issue (excluding treasury shares)	(b)	61,815,632	61,815,632
Net asset value per share ('NAV') with debt at book/par	**(a ÷ b x 100)**	**237.2p**	**222.2p**

As at 30 September		2023
Shareholders' funds net (assets)		£146,653,000
Add back: debt at book/par		£15,495,00
Less: debt at market value		(£15,484,000)
Net asset value with debt at market value	(a)	£146,664,000
Ordinary shares in issue (excluding treasury shares)	(b)	61,815,632
Net asset value per share ('NAV') with debt at market value	**(a ÷ b x 100)**	**237.3p**

Discount/premium (APM)

As stock markets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is 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, this situation is called a premium.

As at 30 September		2023	2022
Net asset value per ordinary share	(a)	237.3p	222.2p

Share price	(b)	204.0p	192.8p
Discount	**((b) – (a)) ÷ (a)**	**(14.0%)**	**(13.2%)**

Net liquid assets

Net liquid assets comprise current assets less current liabilities (excluding borrowings) and provisions.

Active share (APM)

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Total return (APM)

The total return is the return to shareholders after reinvesting the dividend on the date that the share price goes ex-dividend, as detailed below.

For the year to 30 September		2023 NAV	2023 Share price	2022 NAV	2022 Share price
Closing NAV per share/share price	(a)	237.3p	204.0p	222.2p	192.8p
Dividend adjustment factor*	(b)	1.00166	1.00194	1.01228	1.01242
Adjusted closing NAV per share/share price	**(c) = (a) x (b)**	**237.7p**	**204.4p**	**224.9p**	**195.2p**
Opening NAV per share/share price	(d)	222.2p	192.8p	347.0p	344.0p
Total return	**(c) ÷ (d) -1**	**7.0%**	**6.0%**	**(35.2%)**	**(43.3%)**

* The dividend adjustment factor is calculated on the assumption that dividends of 0.4p (2022 – 4.0p) paid by the Company during the year were reinvested into shares of the Company at the cum income NAV/share price, as appropriate, at the ex-dividend dates.

Ongoing Charges (APM)

The total expenses (excluding dealing and borrowing costs) incurred by the Company as a percentage of the daily average net asset value (with borrowings at market value), as detailed below.

For the year to 30 September		2023 £'000	2022 £'000
Investment management fee		891	988
Other administrative expenses		477	506
Total expenses	**(a)**	**1,368**	**1,494**
Average net asset value	(b)	152,538	166,326
Ongoing charges	**((a) ÷ (b) expressed as a percentage)**	**0.90%**	**0.90%**

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gross gearing, also referred to as potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds (a ÷ c in the table below).

Net gearing, also referred to as invested gearing is borrowings at book value less cash at bank (any certificates of deposit are not deducted) and brokers' balances expressed as a percentage of shareholders' funds (b ÷ c in the table below).

As at 30 September		2023 £'000	2022 £'000
Borrowings (at book cost)	(a)	15,495	15,525
Less: cash at bank		(728)	(962)
Less: sales for subsequent settlement		–	–
Add: purchases for subsequent settlement		–	–

Adjusted borrowings	(b)	14,767	14,563
Shareholders’ funds	(c)	146,653	137,328
Gross Gearing	**(a) as a percentage of (c)**	**10.6%**	**11.3%**
Net Gearing	**(b) as a percentage of (c)**	**10.1%**	**10.6%**

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers (‘AIFM’) Regulations, leverage is any method which increases the Company’s exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company’s exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company’s positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other. The leverage figures at 30 September 2023 are detailed on page 136 of the Annual Report and Financial Statements.

Unlisted (private) company

An unlisted or private company means a company whose shares are not available to the general public for trading and are not listed on a stock exchange.

Compound annual return (APM)

The compound annual return converts the return over a period of longer than one year to a constant annual rate of return applied to the compounded value at the start of each year.

Treasury shares

The Company has the authority to make market purchases of its ordinary shares for retention as treasury shares for future reissue, resale, transfer, or for cancellation. Treasury shares do not receive distributions and the Company is not entitled to exercise the voting rights attaching to them.

Bottom-up stock pickers

Baillie Gifford describes its investment style as being ‘bottom-up stock pickers’ which means that portfolios are built ‘bottom-up’, based on enthusiasm for the growth prospects of individual companies, rather than ‘top-down’, by reference to pre-determined allocations on geographical or industrial sectoral grounds.

Sustainable Finance Disclosure Regulation (‘SFDR’)

The EU SFDR does not have direct impact in the UK but, as Keystone Positive Change Investment Trust plc is marketed in the EU, SFDR reporting obligations apply. Owing to its impact objective, Keystone is classified as an Article 9 fund and must report against a detailed taxonomy in the form prescribed by the regulations.

United Nations Global Compact ('UNGC')

The UNGC is the world's largest corporate sustainability initiative, which calls upon companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. Over 12,000 companies based in over 160 countries are participating.

United Nations Sustainable Development Goals ('SDGs')

In September 2015, all 193 Member States of the United Nations adopted a plan for achieving a better future for all – laying out a path to end extreme poverty, fight inequality and injustice, and protect our planet by 2030. At the heart of 'Agenda 2030'; are the 17 Sustainable Development Goals. These are: 1. No poverty; 2. Zero hunger; 3. Good health and well-being; 4. Quality education; 5. Gender equality; 6. Clean water and sanitation; 7. Affordable and clean energy; 8. Decent work and economic growth; 9. Industry, innovation and infrastructure; 10. Reduced inequalities; 11. Sustainable cities and communities; 12. Responsible consumption and production; 13. Climate action; 14. Life below water; 15. Life on land; 16. Peace, justice and strong institutions; and 17. Partnerships for the goals.

Organisation for Economic Co-operation and Development ('OECD')

The OECD is an international organisation of 38 member countries, with a goal to shape policies that foster prosperity, equality, opportunity and well-being for all through the development of evidence-based international standards.

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FTSE Index Data

Source: London Stock Exchange Group plc and its group undertakings (collectively, the 'LSE Group').

Regulated Information Classification: Annual Financial and Audit Reports.

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