



Aberforth Split Level Income Trust plc

Half Yearly Report

31 December 2019

Investment Objective

The investment objective of Aberforth Split Level Income Trust plc (ASLIT) is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement of 127.25p on the planned winding-up date of 1 July 2024.

Investment Policy

The Company aims to achieve its objective by investing in a diversified portfolio of securities issued by small UK quoted companies. Further details of the Investment Policy are available on the Managers' website www.aberforth.co.uk.

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All data throughout this Half Yearly Report are to, or as at, 31 December 2019 as applicable, unless otherwise stated.

Financial Highlights

Total Return Performance

Period to 31 December 2019	Total Assets ¹	Ordinary Share		ZDP Share	
		NAV ¹	Share Price ¹	NAV ¹	Share Price ¹
Six months	17.3%	22.3%	26.1%	1.8%	-2.7%
Twelve months	27.9%	36.3%	30.2%	3.6%	3.8%
Since Inception	11.8%	12.9%	3.6%	8.6%	8.5%

Ordinary Share

As at:	Net Asset Value per Share ¹	Share Price	Discount/ (Premium) ¹	Return per Share	First Interim Dividend per Share	Gearing ¹
31 December 2019	102.3p	93.5p	8.6%	18.5p	1.51p	26.5%
31 December 2018	79.1p	75.9p	4.1%	-22.4p	1.45p	33.1%

At inception an Ordinary Share had a NAV of 100p and a gearing¹ level of 25%.

Zero Dividend Preference Share (ZDP Share)

As at:	Net Asset Value per Share ¹	Share Price	Discount/ (Premium) ¹	Return per Share	Projected Final Cumulative Cover ¹	Redemption Yield ¹
31 December 2019	108.6p	108.5p	0.0%	1.9p	3.6x	3.6%
31 December 2018	104.8p	104.5p	0.3%	1.9p	2.9x	3.6%

At inception a ZDP Share had a NAV of 100p, a Projected Final Cumulative Cover¹ of 3.4x, and a Redemption Yield¹ of 3.5%.

Source: Aberforth Partners LLP

¹ Defined in the Glossary on pages 22 to 23.

The valuation statistics above consisting of Redemption Yields and Final Cumulative Cover are projected, illustrative and do not represent profit forecasts. There is no guarantee these returns will be achieved.

Chairman's Statement

Introduction

I am delighted to write my first statement as Chairman of Aberforth Split Level Income Trust plc (ASLIT), for the six month period to 31 December 2019. I was appointed as Chairman following the Company's Annual General Meeting on 24 October 2019, when Jonathan Cartwright, your previous Chairman, retired. Along with my Board colleagues, I would like to thank Jonathan for his stewardship and leadership and wish him every success for the future.

Performance

It has been a very interesting six months for your Company as the stockmarket has reacted to both local and global events. Whilst the on-going 'tit for tat' global trade negotiations between the US and China remain unresolved, and US foreign policy has a habit of providing surprises, closer to home the political stalemate brought on by the 2016 Brexit referendum has been alleviated following the decisive Conservative party victory in the December election. This should be positive for the area of the market in which we invest and we are hopeful that investors across the world, who had significant underweight positions in the United Kingdom whilst political uncertainty reigned, will now reverse those positions to the benefit of our portfolio.

This has started to come to fruition. The UK election result was taken well by the market and was helpful for an investment trust exposed to small UK quoted companies, particularly with ASLIT's capital structure and value investment philosophy. The total assets total return, which captures the Company's ungeared portfolio performance, was 17.3% in the period. Geared by the Zero Dividend Preference (ZDP) Shares, the net asset value total return of the Ordinary Shares was 22.3%. This encapsulates the return attributable to equity shareholders of 18.5p per Ordinary Share in the six months to 31 December 2019, together with the effect of the reinvestment of previously declared dividends. With the uplift in the portfolio value, the projected final cumulative cover of the ZDP shares was 3.6 times at the end of the reporting period.

For reference, the Numis Smaller Companies Index (excluding investment companies) ("NSCI (XIC)"), which defines ASLIT's opportunity base of small UK quoted companies, delivered a total return of 13.3% over the six months to 31 December 2019. The FTSE All-Share Index, which is representative of larger UK listed companies, often more internationally biased, recorded a total return of 5.5% over the same period.

Further detail on portfolio performance is provided in the Managers' Report.

Earnings and Dividends

Ordinary Shareholders enjoy rights to all income generated by the portfolio. The dividend environment for small UK quoted companies has been very positive since the global financial crisis, but, unsurprisingly, the rate of progress has moderated over the last two calendar years. Against this backdrop, ASLIT experienced a few stock specific dividend disappointments in the six months to 31 December 2019. Nevertheless, the Board remains confident that ASLIT can fulfil its income objectives over the life of the Company.

Chairman's Statement

Reflecting this confidence, the Board has declared a first interim dividend of 1.51p per Ordinary Share in respect of the year ending 30 June 2020. This is 4.1% higher than the corresponding dividend payment in 2019. The first interim dividend of 1.51p will be paid on 6 March 2020 to Ordinary Shareholders on the register as at the close of business on 7 February 2020. The ex dividend date is 6 February 2020. The Company operates a Dividend Reinvestment Plan and details, including the Form of Election, are available from Aberforth Partners LLP on their website, www.aberforth.co.uk.

Outlook

Although I am optimistic about the future of your Company for reasons I have already stated, and for very many others detailed in the Managers' report, it would be remiss to imply that there are no risks at all. The terms of separation of the UK from the EU still need to be negotiated and, further from home, the uncertain backdrop of trade wars remains ever present in investors' minds, as does the recent ratcheting up of tensions in the Middle East.

While the stockmarket oscillates in response to the "big picture" issues of macro-economics and politics, your Board notes that the Managers are resolutely unwavering in their dedication to value investment. This approach is reflected in the holdings' attractive valuation ratios, both absolute and relative, and in a markedly differentiated portfolio from the majority of small company open-ended funds and investment trusts. Your Board is encouraged by the recent indications of a return of interest in such small companies and, while acknowledging the inevitable challenges to come, considers that the Company is well positioned for the future.

Finally, the Board very much welcomes the views of Shareholders and we are available to talk to you directly. My email address is noted below.

Angus Gordon Lennox

Chairman

27 January 2020

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Managers' Report

Introduction

Equity markets were strong in the six months to 31 December 2019, ideal conditions for a trust with ASLIT's capital structure. The FTSE All-Share, which is representative of larger companies in the UK, produced a total return of 5.5%. The return from smaller companies, as gauged by the NSCI (XIC), was 13.3%. ASLIT's total assets total return, which captures its ungeared portfolio performance, was 17.3%.

Two and a half years into its planned seven year life, ASLIT has been confronted by volatile equity markets as global macro economic and political issues have played out. The trust was born in mid 2017, when markets were enthused by the prospect of "synchronised global recovery". However, this optimism proved short-lived, as Donald Trump's trade wars intensified towards the end of 2018. Into 2019, fears of a tariff-induced slowdown were allayed by widespread monetary stimulus, with the Federal Reserve cutting interest rates and further quantitative easing deployed by the European Central Bank. These swings in sentiment were echoed in government bond yields, whose relevance is explained in the section on style below: US ten year yields, which started 2017 at 2.5%, reached almost 3.5% in 2018, before sinking back below 2.0% at the end of 2019.

The UK economy and stockmarket have not been unaffected by these global moves, but their effects have been overshadowed by the all-consuming issue of Brexit. In the face of gnawing uncertainty about the eventual terms of the UK's divorce from the EU, the economy proved more resilient than might have been expected. However, the steady – if unspectacular – progress since the referendum masks an undoubted opportunity cost, which is reflected in sterling weakness and the under-performance of UK equities against other stockmarkets. As 2019 drew on, it was notable that the incidence of profit warnings from small UK quoted companies rose. It would seem that the uncertainty of Brexit is catching up with businesses reliant on the domestic economy, while the impact of the trade wars is taking its toll on companies more reliant on overseas markets. Against this background, 2019 ended in an encouraging fashion. A trade deal between China and the US is apparently imminent, while a decisive election result in the UK promises to bring clarity to the first stage of the Brexit process at least. This latter development is particularly helpful to smaller companies, which are more dependent than their larger peers on the domestic economy.

Investment performance

To recap, ASLIT's total assets total return over the six months to 31 December 2019 was 17.3%. The most important influence on this performance was the strength of equity markets in general and of the investment universe in particular, with the NSCI (XIC) up by 13.3%. Ultimately, for a trust with ASLIT's capital structure, positive absolute returns are fundamental. The following paragraphs provide further detail, picking out other influences and analysing positioning against the NSCI (XIC) to provide greater insight.

Style

The Managers are value investors. This means that ASLIT's portfolio returns are influenced by the performance of the value style, for better or worse. Data from the London Business School allow analysis of the value style's performance within the NSCI (XIC). Since Aberforth was founded in 1990, the index's value stocks have out-performed its growth stocks by 1.5% per annum; that premium rises to 3.2% over the NSCI (XIC)'s full 64 year history. However, since ASLIT's inception and indeed the financial crisis, the growth style

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has led the way. This pre-eminence was pronounced in the first six months of 2019, the worst start to a calendar year for small cap value in 64 years. It is therefore pleasing to note an improvement in the value style's fortunes in the six months to 31 December 2019, which helped ASLIT's investment performance.

Previous rallies for value in the period since the financial crisis, notably in 2013, have been led by higher government bond yields, which can signal higher nominal economic growth and increase the discount rates used to value other assets. In contrast the rally over recent months came without a meaningful pick-up in yields: in both the US and the UK, ten year yields ended 2019 below their levels at the start of the year and at the end of June. The turn to value perhaps simply reflects a rebound from the extreme under-performance of the previous six months. It may also be influenced by the struggles of some of the high growth companies, particularly in the unquoted world: the IPOs of Lyft and Uber have disappointed, while WeWork now looks more like a capital intensive property company than the next disruptive platform business. A third influence may be the gathering optimism since the change of prime minister that a badly handled Brexit can be avoided – this buoyed the share prices of domestically oriented companies, many of which are classified as value stocks at the current time.

Size

Constituents of the NSCI (XIC) are those stocks within the bottom 10% of the total UK stockmarket by value. This definition means that the market capitalisation of the largest constituent is £1,632m and that the index has a significant overlap with the FTSE 250. Mid caps – or “larger small” companies – represent 61% of the total value of the NSCI (XIC), but just 35% of ASLIT's portfolio. ASLIT therefore has a relatively high exposure to the NSCI (XIC)'s “smaller small” companies, those that FTSE includes in its SmallCap and Fledgling indices.

	“Smaller smalls”	“Larger smalls”
ASLIT's exposure	65%	35%
NSCI (XIC) exposure	39%	61%
Tracked universe EV/EBITA* 2019	9.6x	11.3x
Tracked universe profit growth 2019-2021	12.6%	9.6%

*EV = Enterprise value; EBITA = earnings before interest, tax and amortisation

The table above demonstrates that ASLIT's size positioning is a function of the Managers' value investment style. The portfolio's exposure to “smaller smalls” is entirely through holdings in fully listed companies. At the current time, they are both cheaper than their larger peers and are expected to grow more quickly. This is an unusual state of affairs, the explanation for which would appear to be reluctance to assume liquidity risk. The much lower valuations for “smaller smalls” have been evident since the financial crisis, which heightened concern about illiquidity. That concern was further intensified in 2019 by the unfortunate events at Woodford Investment Management and their knock-on effect on other parts of the investment management industry. As a consequence, the size discount widened further in 2019 and valuations for several “smaller small” companies approached distressed levels. This represents opportunity for a closed-end fund such as ASLIT, though the Managers' enthusiasm may be tempered by the regulatory reaction to what has come to pass.

Geography

A further dislocation within the valuation framework of small UK quoted companies ensued from the EU referendum. The share prices of overseas-facing companies out-performed as sterling weakened and

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boosted their profits through translation gains. Meanwhile, many domestic-facing businesses faced narrowing margins as they had to pay higher sterling prices for goods sourced from outside the UK. In anticipation of this currency dynamic, the stockmarket penalised the share prices of the domestics to the extent that valuations for this cohort fell to much more attractive levels. ASLIT therefore has a relatively high exposure to domestic-facing businesses, which account for 64% of the portfolio, determined by the companies' underlying revenues. The NSCI (XIC)'s domestic exposure fell to 54% following the annual rebalancing of the index on 1 January 2020. This reflects the rally in share prices of domestic companies towards the end of the year, following which several became too large for continued membership of the NSCI (XIC).

The portfolio's positioning is a function of the Managers' value investment discipline and has been modestly advantageous to ASLIT's returns since the end of the third quarter of 2018, with the share prices of domestic companies having performed more strongly than those of their overseas peers. This reflects both the impact of the trade wars on the prospects of the overseas earners and, since the emergence of Boris Johnson's Brexit deal, building optimism – demonstrated by sterling strength – that a disorderly divorce will be avoided. It should be noted, though, that the nature of the UK's future relationship with the EU will take time to define and consequently that Brexit risk has not vanished: the trading conditions of small UK quoted companies, particularly those addressing the domestic economy, remain vulnerable to a badly handled Brexit.

M&A

The size and geographical positioning of the portfolio are consequences of the Managers' adherence to the value investment philosophy. However, unlike that philosophy, they will not be constant features of ASLIT's portfolio. Over time, basic economic forces will mean that these specific opportunities are arbitrated away. In the case of the geographical bias, the obvious catalyst for such arbitrage is greater clarity on the Brexit process, which now seems forthcoming. Resolution of the size opportunity may be more distant: while the market will take care of overhangs in individual stocks, the full reaction to Woodford Investment Management's problems – not least in terms of regulation – has yet to play out. However, Brexit clarity may encourage more M&A activity within the smaller companies universe. There were signs of a pick-up in takeovers of NSCI (XIC) constituents in calendar 2019, albeit from a low base. ASLIT received bids for two of its holdings in the six months to 31 December 2019 and for three in 2019 as a whole. An important caveat is that the standard takeover premium of around 30% may be insufficient for the Managers, given the particularly low valuations of "smaller small" companies.

High active share

Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a better chance of performing differently from the index, for better or worse. The Managers target a ratio of at least 70% for ASLIT in relation to the NSCI (XIC) and at 31 December 2019 the ratio was 80%.

Turnover

In the six months to 31 December 2019, annualised portfolio turnover – defined as the sum of the lesser of purchases and sales divided by average month end assets – was 27%. This rate of turnover is lower than long term average for portfolios run by Aberforth of 33%. A return to higher turnover would probably be good news for ASLIT's investors. This counterintuitive assertion has its explanation in the

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Managers' value investment style. If the stockmarket has little interest in ASLIT's holdings, they are unlikely to see their share prices rise towards the Managers' price targets. There is therefore no reason for holdings to be sold. On the other hand, were the stockmarket to be seeking out value stocks – typically those domestically oriented “smaller smalls” – the Managers would be inclined to take profits and reinvest the proceeds into still under-valued businesses. This “value roll” would imply good relative returns for ASLIT. The Managers do not, therefore, focus on turnover rates, which are an output of the investment process. Moreover, the average three year holding period implied by the 33% turnover rate of Aberforth's longest standing portfolios masks a more nuanced underlying picture. These portfolios contain positions that have been held for well over a decade – the underlying businesses continue to perform well but have not yet been re-rated by the stockmarket. Thus, the Managers are patient and take a long term view – it is just that the stockmarket can be rather shorter term and offer opportunities to recycle capital more quickly.

Attractive income characteristics

Addressing small UK quoted companies with a value investment perspective tends to bring income advantages. First, the NSCI (XIC), whose largest constituent is circa 1% of the index, offers a much more diversified income profile than does the FTSE All-Share, where a handful of high yielding stocks and sectors generate a disproportionate amount of the index's income. Second, dividend cover is considerably higher in the small cap world: the NSCI (XIC)'s cover at 31 December 2019 was 2.1x, which compares with 1.6x for the FTSE All-Share and with 2.2x for the portfolio. Superior dividend cover, all else being equal, should improve the chances of higher dividend growth. Third, historical evidence suggests that small companies' dividend growth is higher: since 1955 the growth rate for constituents of the NSCI has been 3% per annum in real terms, against just over 1% for large companies. The fourth advantage is more specific to ASLIT: the Managers' value investment style tends to result in a portfolio with a higher yield than that of the NSCI (XIC) as a whole. At 31 December 2019, ASLIT's average portfolio yield was 4.5%, compared with the index's 3.2%.

A caveat is necessary. Real dividend growth from the NSCI (XIC) since 2010 has been over 8% per annum, significantly higher than the 3% long term average and therefore unsustainable. There were signs in 2018 that the underlying rate of progress was moderating, a trend also evident in 2019. This is reflected in the following table, which splits holdings into categories that are determined by each company's most recent dividend announcement, excluding special dividends.

Down	Nil payers	No change	Increase	Other
10	1	25	27	2

As highlighted by the corresponding analysis in ASLIT's Annual Report and accounts for 30 June 2019, several of the holdings have cut their dividends most recently. The impact of these on ASLIT's income account is mitigated by the fact that some of the reductions were anticipated in the Managers' dividend forecasts. Also helpful is the “Other” category, which contains companies that previously did not pay dividends. The one “Nil payer” may be able to resume dividend payments in the near term. Special dividends remain a feature of the small cap universe, though they are less frequent than in recent years. In the six months to 31 December 2019, three specials were announced by ASLIT's investee companies. The overall income picture for ASLIT is consistent with further progress, though at rates closer to the long term historical average than to the period since the financial crisis.

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Low valuations

ASLIT's portfolio enjoys the low valuation ratios that one would expect of a portfolio managed by a value investor. The most extreme metric at present is the historical PE ratio. For ASLIT, this was 10.1x at 31 December 2019, against 14.9x for the NSCI (XIC). The portfolio's PE discount was therefore 32%. To put this in context, the average PE discount over the 29 years of Aberforth's longest standing portfolio has been 11%. The wide discount at present is in effect the culmination of the portfolio's differentiated positioning in terms of size and geographical exposure described previously in this report.

Portfolio Characteristics	31 December 2019		31 December 2018	
	ASLIT	NSCI (XIC)	ASLIT	NSCI (XIC)
Number of companies	65	346	68	359
Weighted average market capitalisation	£617m	£883m	£545m	£732m
Price earnings (PE) ratio (historic)	10.1x	14.9x	9.3x	10.9x
Dividend yield (historic)	4.5%	3.2%	5.1%	3.6%
Dividend cover	2.2x	2.1x	2.1x	2.6x

Moving from a historical metric to forward valuations on the Managers' preferred ratio, the table below sets out the EV/EBITA numbers for ASLIT and for the "tracked universe", which is 98% by value of the NSCI (XIC) and is made up of those 267 small caps that the Managers follow most closely. The table also shows data for two subsets of the "tracked universe", a collection of 47 growth stocks and the other 220 stocks. It is from this latter group that ASLIT's portfolio is usually constructed.

EV/EBITA	2019	2020	2021
ASLIT's portfolio	10.0x	9.4x	8.5x
Tracked universe	11.7x	11.0x	9.7x
- Growth stocks	19.2x	16.3x	13.5x
- The rest	10.6x	10.1x	8.9x

On the basis of data within the 2020 column, the tracked universe is 17% more expensive than ASLIT's portfolio, while the subset of growth stocks is on a 73% EV/EBITA premium to the portfolio. While macro economic pressures meant that 2019 was a year of little profit progression within the NSCI (XIC), the ratios above imply a return to growth in 2020 and 2021. The profit estimates underlying this are the Managers' own and assume that the further stages of the Brexit process are not disorderly and that recession for this, or any other, reason is avoided. The lack of profit growth in 2019 across the small cap universe is consistent with an upsurge in profit warnings since the half year, as the Brexit uncertainty since the referendum eventually took its toll and as the trade wars affected the fortunes of overseas facing businesses. It is notable that, for the first time in perhaps ten years, these profit warnings were often greeted by flat or rising share prices. The stockmarket would thus seem to have anticipated bad news, as imminent clarity on the political outlook acted as the catalyst for a change in sentiment towards these companies.

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Conclusion & Outlook

What a difference a year can make. As 2018 drew to a close, pessimism reigned as trade wars clouded the global outlook and the Brexit process was mired in uncertainty. Twelve months on, the strong gains enjoyed by equity markets attest to a rediscovered optimism. The received wisdom is now that Donald Trump will act in a rational fashion to conclude a “great” deal with the Chinese as he enters the election year. At home, one of the extreme political outcomes has been avoided and the expectation in the immediate aftermath of the election was that Boris Johnson, now free of the Brexit hardliners, would use his majority to cultivate a softer form of Brexit. However, events quickly highlighted the risk of such assumptions, as the government indicated that it would seek to make it legally impossible to prolong the transition period beyond December 2020. With a hard Brexit still therefore on the table, sterling and UK equities have been given pause for thought.

The point here is less about the further twists and turns of share prices on the road to the UK’s eventual relationship with the EU, or indeed to the US’s eventual relationship with China – stockmarket gyrations of this sort are inevitable. It is more about the problems of an investment climate in which politics in general and the whims of individual politicians have so great an influence. Faith in the capabilities or good intentions of politicians is no substitute for a system in which the state plays a defined and understood role – whether American or Scandinavian in its reach – and lets other participants in the economy conduct their affairs accordingly. It may be argued that today’s situation is effectively normality, with the exception being the “great moderation” of the two decades or so before the financial crisis. Either way, it might not be unreasonable to expect today’s political uncertainty to be reflected in greater scepticism about the promises made by governments and in the valuations of assets particularly reliant on these promises. And yet, even as fiscal spending seems set to rise, vast swathes of even long-dated government bonds yield close to zero, which allows investment horizons to be generously extended to support the valuations of speculative growth companies.

ASLIT stands in sharp contrast to the boldness implicit in such valuations, with the portfolio enjoying attractive value metrics both in absolute terms and relative to the NSCI (XIC). The opportunity has arisen because of the general reluctance since the financial crisis to embrace economic cyclicality and stockmarket illiquidity. However, as the closing months of 2019 showed, sentiment can turn quickly, while the tentative pick-up in M&A points to how some of the valuation anomalies will be rectified. The timing of such events is impossible to call, so in the meantime the Managers continue to follow their investment process designed to identify attractive investment opportunities, funding positions in these with capital from mature holdings and thus moulding a diversified portfolio of attractively valued smaller companies. Guided by the Managers’ value investment philosophy, ASLIT is distinguished from the overwhelming majority of small cap investment trusts and open-ended funds, which are reliant on the continued ascendancy of growth stocks. This differentiation ensures the relevance of ASLIT’s proposition and underpins the Managers’ optimism for investment performance in the years ahead.

Aberforth Partners LLP

Managers

27 January 2020

Investment Portfolio

Fifty Largest Investments as at 31 December 2019

No.	Company	Valuation £'000	% of Total	Business Activity
1	Reach	7,264	3.0	UK newspaper publisher
2	Brewin Dolphin Holdings	7,262	3.0	Private client fund manager
3	Morgan Advanced Materials	6,984	2.9	Manufacture of carbon & ceramic materials
4	Bovis Homes Group	6,911	2.8	Housebuilding
5	Wincanton	6,784	2.8	Logistics
6	Rank Group	6,539	2.7	Multi-channel gaming operator
7	Keller	6,493	2.7	Ground engineering services
8	Go-Ahead Group	6,302	2.6	Bus & rail operator
9	TI Fluid Systems	6,027	2.5	Automotive parts manufacturer
10	Vesuvius	5,938	2.4	Metal flow engineering
Top Ten Investments		66,504	27.4	
11	DFS Furniture	5,859	2.4	Furniture retailer
12	Forterra	5,832	2.4	Manufacture of bricks
13	Bloomsbury Publishing	5,525	2.3	Independent publishing house
14	SThree	5,505	2.3	Recruitment
15	Paypoint	5,267	2.2	Alternative payment services
16	Essentra	5,207	2.1	Filters & packaging products
17	Bakkavor Group	5,191	2.1	Food manufacturer
18	Eurocell	5,139	2.1	Manufacture of UPVC building products
19	RPS Group	5,011	2.1	Energy & environmental consulting
20	Anglo Pacific Group	4,986	2.0	Natural resources royalties
Top Twenty Investments		120,026	49.4	
21	Restaurant Group	4,883	2.0	Restaurant operator
22	Northgate	4,851	2.0	Van rental
23	McKay Securities	4,791	2.0	Property – London & South East offices
24	TT Electronics	4,646	1.9	Sensors & other electronic components
25	Wilmington Group	4,606	1.9	Business publishing & training
26	International Personal Finance	4,456	1.8	Home credit provider
27	Vitec Group	4,432	1.8	Photographic & broadcast accessories
28	Speedy Hire	4,422	1.8	Plant hire
29	RM	4,173	1.7	IT services for schools
30	U and I Group	4,118	1.7	Property – investment & development
Top Thirty Investments		165,404	68.0	

Investment Portfolio

Fifty Largest Investments as at 31 December 2019

No.	Company	Valuation £'000	% of Total	Business Activity
31	SIG	4,076	1.7	Specialist building products distributor
32	Stagecoach Group	3,919	1.6	Bus & rail operator
33	N Brown Group	3,558	1.5	Catalogue retailer
34	Sabre Insurance Group	3,510	1.4	Car insurance
35	Huntsworth	3,509	1.4	Public relations
36	Castings	3,508	1.4	Engineering – automotive castings
37	STV Group	3,436	1.4	Multi-channel digital media
38	Senior	3,407	1.4	Aerospace & automotive engineering
39	CMC Markets	3,375	1.4	Financial derivatives dealer
40	Headlam Group	3,190	1.3	Distributor of floor coverings
Top Forty Investments		200,892	82.5	
41	Halfords Group	2,682	1.1	Automotive & cycling products retailer
42	Topps Tiles	2,651	1.1	Ceramic tile retailer
43	Pets at Home Group	2,522	1.0	Pet food, products & services retailer
44	Vectura Group	2,506	1.0	Inhaled pharmaceuticals – respiratory specialism
45	Hansteen Holdings	2,497	1.0	Property – industrial
46	RDI REIT	2,263	0.9	Property – retail & commercial
47	Amigo Holdings	2,154	0.9	Guarantor lender
48	Card Factory	2,071	0.8	Retailing – greetings cards
49	Chesnara	2,028	0.8	Life insurance
50	Devro	2,012	0.8	Sausage casings
Top Fifty Investments		224,278	91.9	
Other Investments (15)		20,017	8.1	
Total Investments		244,295	100.0	
Net Liabilities		(49,602)		
Total Net Assets		194,693		

Hurdle Rates & Redemption Yields

Hurdle Rates¹

	Ordinary Shares Hurdle Rates to return			ZDP Shares Hurdle rates to return	
	100p	Share Price	Zero Value	127.25p	Zero Value
At 31 December 2019	1.7%	0.6%	(25.7%)	(25.7%)	(74.4%)
At 30 June 2019	4.5%	0.6%	(21.2%)	(21.2%)	(69.8%)
Inception	1.5%	n/a	(17.0%)	(17.0%)	(57.2%)

Redemption Yields¹ & Terminal NAVs¹ (Ordinary Shares) as at 31 December 2019

Capital Growth (per annum)	Ordinary Share Redemption Yields ¹ Dividend Growth (per annum)				Terminal NAV ¹
	0.0%	+2.5%	+5.0%	+7.5%	
0.0%	4.3%	4.7%	5.1%	5.5%	90.3p
2.5%	7.4%	7.8%	8.2%	8.6%	104.7p
5.0%	10.4%	10.8%	11.1%	11.5%	120.4p
7.5%	13.4%	13.8%	14.1%	14.5%	137.4p

¹ Defined in the Glossary on pages 22 to 23.

The valuation statistics in the tables above are projected, illustrative and do not represent profit forecasts. There is no guarantee these returns will be achieved.

Interim Management Report

A review of the half year and the outlook for the Company can be found in the Chairman's Statement and the Managers' Report.

Risks and Uncertainties

The Directors have a process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the period ended 31 December 2019 and continues in place up to the date of this report. The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares is geared by the rising capital entitlements of the ZDP Shares and accordingly the Ordinary Shares should be regarded as carrying above average risk. The Company also has a £2 million overdraft facility, which when utilised increases the level of gearing. Mitigating factors in the Company's risk profile include that it has a relatively simple capital structure, invests in a diversified portfolio of small UK quoted companies, and outsources all of its main operational activities to recognised, well established firms.

The principal risks faced by the Company relate to investment policy/performance, structural conflicts of interest, fall in income, loss of key investment personnel and regulatory risk. The main risks from its financial instruments are market price risk, credit risk, liquidity risk and interest rate risk. An explanation of the risks and how they are managed can be found in the 2019 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2019 Annual Report.

Going Concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

- (i) the condensed set of financial statements has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".
- (ii) the Half Yearly Report includes a fair review of information required by:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events during the six months to 31 December 2019 and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being disclosure of related party transactions and changes therein.
- (iii) the Half Yearly Report, taken as whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, objective and strategy.

On behalf of the Board

Angus Gordon Lennox
Chairman

27 January 2020

Income Statement

(unaudited)

For the six months ended 31 December 2019

	Notes	Six months ended 31 December 2019		
		Revenue £'000	Capital £'000	Total £'000
Realised net gains/(losses) on sales		–	8,307	8,307
Movement in fair value		–	23,601	23,601
Net gains/(losses) on investments		–	31,908	31,908
Investment income		5,447	78	5,525
Investment management fee	3	(242)	(565)	(807)
Portfolio transaction costs		–	(253)	(253)
Other expenses		(189)	–	(189)
Net return before finance costs and tax		5,016	31,168	36,184
Finance costs:				
Appropriation to ZDP Shares	8	–	(912)	(912)
Interest expense and overdraft fee		(1)	(2)	(3)
Return on ordinary activities before tax		5,015	30,254	35,269
Tax on ordinary activities		–	–	–
Return attributable to Equity Shareholders		5,015	30,254	35,269
Returns per Ordinary Share	5	2.64p	15.90p	18.54p

Dividends

On 27 January 2020, the Board declared a first interim dividend for the year ending 30 June 2020 of 1.51p per Ordinary Share, which will be paid on 6 March 2020.

Income Statement

Six months ended 31 December 2018			Year ended 30 June 2019		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	(1,851)	(1,851)	–	474	474
–	(44,094)	(44,094)	–	(32,444)	(32,444)
–	(45,945)	(45,945)	–	(31,970)	(31,970)
5,417	–	5,417	10,639	–	10,639
(272)	(635)	(907)	(507)	(1,183)	(1,690)
–	(124)	(124)	–	(274)	(274)
(176)	–	(176)	(357)	–	(357)
4,969	(46,704)	(41,735)	9,775	(33,427)	(23,652)
–	(882)	(882)	–	(1,764)	(1,764)
(5)	(10)	(15)	(5)	(11)	(16)
4,964	(47,596)	(42,632)	9,770	(35,202)	(25,432)
–	–	–	–	–	–
4,964	(47,596)	(42,632)	9,770	(35,202)	(25,432)
2.61p	(25.02)p	(22.41)p	5.14p	(18.50)p	(13.36)p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 31 December 2019

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2019	1,902	-	187,035	(32,592)	8,596	164,941
Return on ordinary activities after tax	-	-	-	30,254	5,015	35,269
Equity dividends paid (Note 4)	-	-	-	-	(5,517)	(5,517)
Balance as at 31 December 2019	1,902	-	187,035	(2,338)	8,094	194,693

For the year ended 30 June 2019

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2018	1,902	-	187,035	2,610	7,673	199,220
Return on ordinary activities after tax	-	-	-	(35,202)	9,770	(25,432)
Equity dividends paid (Note 4)	-	-	-	-	(8,847)	(8,847)
Balance as at 30 June 2019	1,902	-	187,035	(32,592)	8,596	164,941

For the six months ended 31 December 2018

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2018	1,902	-	187,035	2,610	7,673	199,220
Return on ordinary activities after tax	-	-	-	(47,596)	4,964	(42,632)
Equity dividends paid (Note 4)	-	-	-	-	(6,088)	(6,088)
Balance as at 31 December 2018	1,902	-	187,035	(44,986)	6,549	150,500

Balance Sheet

(unaudited)

As at 31 December 2019

	31 December 2019 £'000	30 June 2019 £'000	31 December 2018 £'000
Fixed assets:			
Investments at fair value through profit or loss (Note 6)	244,295	213,581	196,113
Current assets			
Other debtors	813	1,067	936
Cash at bank	1,257	1,062	3,322
	2,070	2,129	4,258
Creditors (amounts falling due within one year)			
Other creditors	(42)	(51)	(35)
	(42)	(51)	(35)
Net current assets	2,028	2,078	4,223
Total assets less current liabilities	246,323	215,659	200,336
Creditors (amounts falling due after more than one year)			
ZDP Shares (Note 8)	(51,630)	(50,718)	(49,836)
TOTAL NET ASSETS	194,693	164,941	150,500
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital:			
Ordinary Shares	1,902	1,902	1,902
Reserves:			
Special reserve	187,035	187,035	187,035
Capital reserve	(2,338)	(32,592)	(44,986)
Revenue reserve	8,094	8,596	6,549
TOTAL EQUITY SHAREHOLDERS' FUNDS	194,693	164,941	150,500
Net Asset Value per Ordinary Share (Note 7)	102.34p	86.70p	79.11p
Net Asset Value per ZDP Share price (Note 7)	108.55p	106.63p	104.78p

Approved and authorised for issue by the Board of Directors on 27 January 2020 and signed on its behalf by:

Angus Gordon Lennox
Chairman

Cash Flow Statement

(unaudited)

For the six months ended 31 December 2019

	Six months ended 31 December 2019 £'000	Six months ended 31 December 2018 £'000	Year ended 30 June 2019 £'000
Net cash inflow from operating activities	4,774	4,764	8,907
Investing activities			
Purchases of investments	(28,995)	(14,719)	(32,100)
Sales of investments	29,936	15,504	29,242
Cash inflow/(outflow) from investing activities	941	785	(2,858)
Financing activities			
Equity dividends paid (Note 4)	(5,517)	(6,088)	(8,847)
Interest and fees paid	(3)	(15)	(16)
Cash (outflow) from financing activities	(5,520)	(6,103)	(8,863)
Change in cash during the period	195	(554)	(2,814)
Cash at the start of the period	1,062	3,876	3,876
Cash at the end of the period	1,257	3,322	1,062

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been presented under Financial Reporting Standard 104 (FRS 104) and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 2019. The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of the Company's investments as described below. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates. The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period. The accounting policies used for the period ended 30 June 2019 have been applied.

2. Alternative Performance Measures

Alternative Performance Measures (APMs) are measures that are not defined under the requirements of FRS 102 and FRS 104. The Company believes that APMs, referred to within "Financial Highlights" on page 1, provide Shareholders with important information on the Company. These APMs are also a component of management reporting to the Board. A glossary of the APMs can be found on page 22.

3. Investment Management Fee

The Managers, Aberforth Partners LLP, receive an annual management fee, payable quarterly in advance, equal to 0.75% of the Company's Total Assets.

4. Dividends

	Six months ended 31 December 2019 £'000	Six months ended 31 December 2018 £'000	Year ended 30 June 2019 £'000
Amounts recognised as distributions to equity holders:			
Second interim dividend of 2.60p for period to 30 June 2018 (paid 31/08/18)	–	4,946	4,946
Special dividend of 0.60p for period to 30 June 2018 (paid 31/08/18)	–	1,142	1,142
First interim dividend of 1.45p for year ended 30 June 2019 (paid 07/03/19)	–	–	2,759
Second interim dividend of 2.71p for the year ended 30 June 2019 (paid 30/08/19)	5,156	–	–
Special dividend of 0.19p for the year ended 30 June 2019 (paid 30/08/19)	361	–	–
Total	5,517	6,088	8,847

The first interim dividend for the year ending 30 June 2020 of 1.51p (2019: 1.45p) per Ordinary Share will be paid on 6 March 2020 to holders of Ordinary Shares on the registrar on 7 February 2020. The ex dividend date is 6 February 2020. The first interim dividend has not been recorded in the financial statements as at 31 December 2019.

Notes to the Financial Statements

5. Returns per Share

Period ended:	31 December 2019	31 December 2018	30 June 2019
Net return	£35,269,000	(£42,632,000)	(£25,432,000)
Weighted average Ordinary Shares in issue	190,250,000	190,250,000	190,250,000
Return per Ordinary Share	18.54p	(22.41)p	(13.36)p
Appropriation to ZDP Shares	£912,000	£882,000	£1,764,000
Weighted average ZDP Shares in issue	47,562,500	47,562,500	47,562,500
Return per ZDP Share	1.92p	1.85p	3.71p

6. Investments at Fair Value

In accordance with FRS 102 and FRS 104, fair value measurements have been classified using the fair value hierarchy.

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.

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

All investments are held at fair value through profit or loss. As at the reporting dates all investments are traded on a recognised stock exchange and have been classified as Level 1.

7. Net Asset Value (“NAV”) per Share

The Net Assets and the Net Asset Value per Share attributable to the Ordinary Shares and ZDP Shares as at 31 December 2019 are as follows.

	Ordinary Shares	ZDP Shares	Total Assets
Net assets attributable	£194,693,000	£51,630,000	£246,323,000
Number of Shares	190,250,000	47,562,500	237,812,500
NAV per Share (a)	102.34p	108.55p	103.58p
Dividend reinvestment factor ¹ (b)	1.103194	–	1.079125
NAV per Share on a total return basis at 31 December 2019 (c) = (a) x (b)	112.90p	108.55p	111.77p
NAV per Share on a total return basis at 30 June 2019 (d)	92.31p	106.63p	95.28p
Total Return performance (c) ÷ (d) - 1	22.3%	1.8%	17.3%

¹ Defined in the Glossary on pages 22 to 23.

Notes to the Financial Statements

8. Zero Dividend Preference Shares

	31 December 2019 £'000	30 June 2019 £'000	31 December 2018 £'000
Period ended:			
Opening balance	50,718	48,954	48,954
Issue costs amortised during the period	21	41	21
Capital growth of ZDP Shares	891	1,723	861
Closing balance	51,630	50,718	49,836

9. Share Capital

	31 December 2019	
	Shares	£'000
Issued		
Ordinary Shares of 1p each	190,250,000	1,902
ZDP Shares of 1p each	47,562,500	476
Total issued and allotted	237,812,500	2,378

There have been no changes in the issued share capital since the launch of the Company on 3 July 2017.

10. Related Party Transactions

Under UK GAAP, the Directors have been identified as related parties and their fees and interests are disclosed in the 2019 Annual Report. During the period no Director or entity controlled by a Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

11. Further Information

The foregoing do not constitute statutory accounts of the Company (as defined in section 434(4) of the Companies Act 2006). The financial information for the period ended 30 June 2019 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The Auditor issued an unqualified opinion on those accounts and did not make any statements under section 498(2) or (3) of the Companies Act 2006. All information shown for the period to 31 December 2019 is unaudited.

Certain statements in this report are forward looking. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

Glossary of UK GAAP Performance Measures

Net Asset Value also described as Shareholders' Funds, is the value of total assets less all liabilities. The Net Asset Value or NAV per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

Net Asset Value (ZDP Share) is the value of the entitlement to the ZDP Shareholders. The Net Asset Value or NAV per ZDP Share is calculated by dividing this amount by the total number of ZDP Shares in issue.

Glossary of Alternative Performance Measures

Total Assets Total Return represents the return of the combined funds of the Ordinary Shareholders and ZDP Shareholders assuming that dividends paid to Ordinary Shareholders were reinvested at the NAV per Ordinary Share at the close of business on the day the Ordinary Shares were quoted ex dividend.

Ordinary Share NAV Total Return represents the theoretical return on the NAV per Ordinary Share, assuming that dividends paid to Shareholders were reinvested at the NAV per Ordinary Share at the close of business on the day the shares were quoted ex dividend.

ZDP Share NAV Total Return represents the return on the NAV value of a ZDP Share. The ZDP Share NAV as at 31 December 2019 was 108.55p (30 June 2019: 106.63p).

Ordinary Share Price Total Return represents the theoretical return to an Ordinary Shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the Ordinary Shares of the Company at the close of business on the day the shares were quoted ex dividend.

ZDP Share Price Total Return represents the theoretical return to a ZDP Shareholder, on a closing market price basis.

Discount is the amount by which the stockmarket price per Share is lower than the NAV per Share. The discount is normally expressed as a percentage of the NAV per Share.

Premium is the amount by which the stockmarket price per Share exceeds the NAV per Share. The premium is normally expressed as a percentage of the NAV per Share.

Glossary

Other Glossary Terms

Active Share Ratio is the sum of the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all stocks in the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%. Active Share is addressed in "How Active is Your Fund Manager?" (Antti Petajisto and Martijn Cremers, Yale School of Management, 2009).

Dividend Reinvestment Factor is calculated on the assumption that dividends paid by the Company were reinvested into Ordinary Shares of the Company at the NAV per Ordinary Share or the share price, as appropriate, on the day the Ordinary Shares were quoted ex dividend.

Gearing/Leverage is calculated by dividing the asset value attributable to the ZDP Shares by the asset value attributable to the Ordinary Shares.

Glossary

Hurdle Rate is the rate of capital growth per annum in the Company's investment portfolio to return a stated amount per Share at the planned winding-up date.

Ongoing Charges represents the percentage per annum of investment management fees and other operating expenses to the average published Ordinary Shareholders' NAV over the period.

Portfolio Turnover is calculated by summing the lesser of purchases and sales over the relevant period divided by the average portfolio value for that period.

Projected Final Cumulative Cover is the ratio of the total assets of the Company as at the calculation date, to the sum of the assets required to pay the final capital entitlement of 127.25p per ZDP Share on the planned winding-up date plus future estimated investment management fees charged to capital and estimated winding-up costs.

Redemption Yield (Ordinary Share) is the annualised rate at which projected future income and capital cash flows (based on assumed future capital/dividend growth rates) is discounted to produce an amount equal to the share price at the date of calculation.

Redemption Yield (ZDP Share) is the annualised rate at which the total discounted value of the planned future payment of capital equates to its share price at the date of calculation.

Retained Revenue per Share is a cumulative figure calculated after accounting for dividends, including those not yet recognised in the financial statements.

Terminal NAV (Ordinary Share) is the projected NAV per Ordinary Share at the planned winding-up date at a stated rate of capital growth in the Company's investment portfolio after taking into account the final capital entitlement of the ZDP Shares, future estimated costs charged to capital and estimated winding-up costs.

Important Dates

Company Incorporation Date 19 April 2017

Inception Date 30 June 2017

Launch/Listing Date 3 July 2017

Planned Winding-Up Date 1 July 2024

Corporate Information

Directors

Angus Gordon Lennox (Chairman)
Graeme Bissett
Dominic Fisher, OBE
Lesley Jackson
Graham Menzies

Managers & Secretaries

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Security Codes

	Ord Shares	ZDP Shares
SEDOL:	BYPBD39	BYPBD51
Bloomberg:	ASIT LN	ASIZ LN
GIIN:	JMOCLZ.99999.SL.826	
LEI:	21380013QYW082NZV529	

