



# Aberforth Smaller Companies Trust plc

**Half Yearly Report**

**30 June 2019**

## Investment Objective

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than on the Numis Smaller Companies Index (excluding Investment Companies) over the long term.

## Contents

Financial Highlights	1
Chairman's Statement	2
Managers' Report	4
Investment Portfolio	10
Long Term Investment Record	12
Interim Management Report	13
Directors' Responsibility Statement	13
Income Statement	14
Reconciliation of Movements in Shareholders' Funds	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Financial Statements	19
Corporate Information	Back Cover

All data throughout this Half Yearly Report are to, or as at, 30 June 2019 as applicable, unless otherwise stated.

# Financial Highlights

Six months to 30 June 2019

Total Return Performance	%
Net Asset Value <sup>1,5</sup>	8.3
Numis Smaller Companies Index (XIC) <sup>2</sup>	10.5
Ordinary Share Price <sup>3,5</sup>	9.0

	30 June 2019	31 December 2018	30 June 2018
Shareholders' Funds <sup>4</sup>	£1,220m	£1,154m	£1,420m
Market Capitalisation <sup>5</sup>	£1,095m	£1,031m	£1,285m
Actual Gearing <sup>4</sup>	0.9%	1.3%	0.0%
Ordinary Share net asset value <sup>4</sup>	1,350.34p	1,273.72p	1,554.75p
Ordinary Share price <sup>5</sup>	1,212.00p	1,138.00p	1,406.00p
Ordinary Share price discount <sup>5</sup>	10.2%	10.7%	9.6%

Cumulative Returns (%) Period to 30 June 2019	NAV <sup>5</sup>	Index <sup>5</sup>	Share Price <sup>5</sup>
1 year	-10.7	-5.4	-11.1
3 years	33.3	31.5	45.4
5 years	28.2	35.6	32.8
10 years	240.6	254.2	247.9
15 years	294.2	335.8	306.3
Since inception on 10 December 1990	3,010.9	1,666.4	2,762.9

1 Represents net asset value return with dividends reinvested.

2 Represents the return on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2019 consisted of 359 companies, the largest market capitalisation of which was £1.3 billion and the aggregate market capitalisation of which was £140 billion.

3 Represents Ordinary Share price return with dividends reinvested.

4 UK GAAP Measure (refer to the glossary in the 2018 Annual Report).

5 Alternative Performance Measure (refer to the glossary in the 2018 Annual Report).

Past performance is not a guide to future performance. Stockmarket movements may cause the capital value of an investment and the income derived from it to go down as well as up and investors may get back less than they originally invested.

# Chairman's Statement

## Review of performance

For the six months to 30 June 2019, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of 8.3%, which compares with a total return of 10.5% from the Company's investment benchmark, the Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)). The FTSE All-Share Index, which is dominated by larger companies, generated a return of 13.0% over the same period. The Company's share price total return was 9.0%, for the six months to 30 June 2019. At the end of June, the Company's share price was at a 10.2% discount to its net asset value (31 December 2018 – 10.7%).

When compared with global stockmarkets, it is hard not to conclude that both UK stockmarket performance and valuations have been affected by the uncertainty created by the Brexit referendum in June 2016. The Managers' report provides greater insight into the factors that influenced the Company's NAV performance during the first half of 2019 and will also attempt to put them into the context of the remarkable period in history we are all witnessing. The UK has its third prime minister in just over three years, as Brexit, in whatever guise, remains elusive.

## Dividends

The Board is pleased to announce an interim dividend of 10.0p per Ordinary Share for the six months to 30 June 2019. This represents an increase of 5.3% compared with last year's interim dividend. The Board, in implementing its progressive dividend policy, is fully cognisant of the fact that at some point in the future the dividend climate will turn more challenging. In this regard, the increase in the interim dividend should be viewed alongside the Company's brought forward revenue reserves of 69.0p per share or 2.2 times the total of the 2018 Ordinary Share final and 2019 interim dividends. The interim dividend will be paid on 30 August 2019 to Shareholders on the register as at close of business on 9 August 2019. The ex dividend date is 8 August 2019.

The Company operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Aberforth Partners LLP or on its website, [www.aberforth.co.uk](http://www.aberforth.co.uk).

## Gearing

It remains the Company's policy to use gearing in a tactical manner and the Company has available a £125m loan facility until June 2020, provided by The Royal Bank of Scotland International. Gearing levels are reviewed on a regular basis by the Board and Managers. As at 30 June 2019, ASCoT had a geared position of 0.9% of Shareholders' Funds. The Board remains comfortable that the Company has access to sufficient liquidity for investment purposes and for share buy-backs, as and when appropriate.

## Share buy-back

The Company's share buy-back authority is renewed annually at the Annual General Meeting. During the six months to 30 June 2019, 215,460 shares (0.2% of the issued share capital) were purchased for a total consideration of £2,708,000. Any shares purchased are automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital.

# Chairman's Statement

The Board continues to believe that, at the margin, buy-backs provide an increase in liquidity for those Shareholders wishing to crystallise their investment and at the same time deliver an economic uplift for those Shareholders wishing to remain invested with the Company.

## Board changes

I was delighted to become the Company's fifth Chairman since its inception in December 1990. Along with my Board colleagues, I would like to thank my predecessor, Paul Trickett, for his stewardship and leadership and wish him every future success.

## Conclusion

Since becoming Chairman at the end of February, the investment world has been anything but dull. Bond yields around the globe have plummeted and politics continues to be disruptive. In the UK, the failure to deliver Brexit has ushered in a new prime minister, while the UK asset management industry has been rocked by events that saw a high-profile house "gate" its open-ended fund. With an FCA investigation on-going, further regulation is to be anticipated. More positively for the investment companies sector, the affair highlights the advantages of the closed-ended structure, particularly in relation to illiquid asset classes.

Amidst all the negativity, global stock markets once again displayed their ability to climb a wall of worry and deliver meaningful gains for investors.

ASCoT while participating, lagged the benchmark, as the growth style once again beat the value style. Indeed, the first half of 2019 witnessed the worst relative performance from the value style since NSCI (XIC) data began in 1955. Perhaps more importantly for value investors such as Aberforth, valuations have become cheaper, most notably among the "smaller small" companies within the NSCI (XIC). The closed-ended structure of the Company enables the Managers to take advantage of those valuation opportunities rather than run from the risks of illiquidity.

In signing off my first Chairman's Statement, I do so with a portfolio selling on a historical price/earnings multiple of 9.6x and with a yield of 3.6%. The Company's price/earnings multiple relative to the NSCI (XIC)'s, is the lowest in its 29-year history.

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.

Richard Davidson

*Chairman*

26 July 2019

[richard.davidson@aberforth.co.uk](mailto:richard.davidson@aberforth.co.uk)

# Managers' Report

## Introduction

Equity markets performed well in the first six months of the year. The FTSE All-Share's total return was 13.0%. Despite a good start to the year, smaller companies lagged as Brexit concerns re-intensified later in the period: the NSCI (XIC) was up by 10.5%. ASCoT's NAV total return was 8.3%.

An important influence on these numbers was, of course, the depressed starting point. In the final months of 2018, financial markets were bedevilled by concerns about slowing global growth, as the trade war between the US and China escalated and as the Federal Reserve, despite pressure from the president, seemed committed to tighter monetary policy. Sentiment turned as planned tariff increases were postponed in December, followed in January by a dovish shift by Jay Powell, chairman of the Federal Reserve, who averred patience and sensitivity to "economic and financial developments". With the "Powell Put" born, equities and other risk assets around the world commenced their rally.

The mood of optimism persisted until early May, when Donald Trump's tweets brought trade wars back to the forefront of investors' minds. Tariff increases were accompanied by a more aggressive line on Huawei and by a mooted extension of sanctions to encompass another \$325bn of goods imported from China. With collateral damage to the export-oriented economies of Europe and the emerging markets, these developments reawakened concerns about growth around the world. The period drew to a close with a G20 summit in Japan, in which Trump appeared to moderate his stance with regard to China and thus to raise hopes of a trade deal.

While equities gyrated in response to macro-economic developments, government bonds were consistently and unrelentingly strong since the growth concerns of 2018's fourth quarter. In the UK, the ten year gilt yield slipped back below 1%, while the German equivalent is once again negative. In the US, the ten year treasury yield fell from 3.2% in November to 2.1% at the end of June. This move took the US yield curve – longer term yields less shorter term yields – into negative territory on some definitions. With yield curve inversion a historically useful indicator of recession, such developments would seem to portend a gloomy outlook for the global economy. The UK meanwhile continues to contend with the additional complexity of Brexit. As deep uncertainty lingers and both ends of the political spectrum give cause for concern, sterling has weakened again. This has hampered the performance of the domestically oriented NSCI (XIC) in relation to the much more international large company indices. More fundamentally, the saga is also affecting economic activity: recent manufacturing surveys have been weak, which must reflect the unwinding of inventories that were built up in anticipation that the UK would leave the EU as planned on 29 March. Nevertheless, macro economic data, on balance, point to an economy that is making steady if unspectacular progress. This view is backed up by the results reported by small UK quoted companies.

In the first quarter of this year, 115 non resources companies that are tracked closely by the Managers reported their final results to 31 December 2018. Sales and profits of these companies rose by roughly 6%, while the ratio of capital expenditure to depreciation – a measure of how actively businesses are investing – was 1.7x, a level that continues to suggest that companies are investing for future growth. The Managers estimate that sales and profits will grow by 5% in 2019 and that the investment ratio will be a healthy 1.4x, though some of the capital will be deployed in companies' operations outside the UK. These estimates, which do assume that a "hard Brexit" is avoided, point to an acceptable outlook for a useful cross-section of the universe of small quoted companies and belie the depressed valuation ratios for the portfolio and asset class described later in this report.

# Managers' Report

## Investment performance

Over the six months to 30 June 2019, ASCoT's NAV total return was 8.3%; the NSCI (XIC)'s was 10.5%. The table below analyses the difference between the two numbers. The paragraphs thereafter give additional perspective, explaining the factors that have had meaningful influences on performance.

For the six months ended 30 June 2019	Basis points
Stock selection	-343
Sector selection	100
<b>Attributable to the portfolio of investments, based on mid prices</b> (after transaction costs of 7 basis points)	<b>-243</b>
Movement in mid to bid price spread	46
Cash/gearing	15
Purchase of ordinary shares	3
Management fee	-38
Other expenses	-3
<b>Total attribution based on bid prices</b>	<b>-220</b>

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 8.3%; Benchmark Index = 10.5%; difference is -2.2% being -220 basis points).

### Style

The relapse in government bond yields described in the introduction represented an unfavourable backdrop for the value style: all else being equal, lower risk free rates imply lower discount rates for valuing equities, which favours those stocks whose cash flows are biased to the more distant future. Such stocks are growth stocks, which have benefited from the extraordinary monetary policies that have persisted since the financial crisis. The first half of 2019 was particularly hostile for value, being the toughest start to a calendar year in ASCoT's 29 years and, indeed, in the NSCI (XIC)'s 64 year history. Though not insurmountable, such conditions are a challenge to the relative performance of the portfolio. The Managers believe that it is important to remain true to the value investment philosophy. The number of UK small company investment trusts and funds following such an approach has dwindled as the growth style has prospered – the resultant skew is intriguing, at least for those with a degree of contrarian spirit. History supports mean reversion and suggests that it is rarely “different this time”.

### Size

Market capitalisation	< £101m	£101-350m	£351-600m	£601-1000m	> £1000m
ASCoT distribution	5%	25%	32%	21%	16%
Tracked universe distribution	1%	13%	20%	27%	38%
Tracked universe 2019 EV/EBITA	8.0x	8.1x	11.0x	12.1x	13.6x

As the table shows, the portfolio retains its bias to the smaller small companies within the “tracked universe”, which represents the 276 small caps that the Managers follow closely and

## Managers' Report

which accounts for 98% by value of the entire NSCI (XIC). Those small companies with market capitalisations of £601m or more (the two columns to the right) represent the overlap with the FTSE 250. The relative performance of the FTSE SmallCap against the FTSE 250 is therefore a useful gauge of whether ASCoT's size positioning has been beneficial. In the six months under review, mid caps performed considerably better than the smaller small companies, which, all else being equal, was a drag on portfolio performance. The under-performance of the smaller smalls was particularly severe in June. Beyond the usual ups and downs of individual stocks, it would seem likely that the well-publicised problems of a high profile portfolio management house's open-ended funds intensified the aversion to less liquid asset classes.

As the final row in the table demonstrates, the positioning is a function of the Managers' value investment style: smaller small companies are much more modestly rated than larger small companies. The size discount has been particularly pronounced since the financial crisis as investors in general run shy of less liquid stocks. Concerns about illiquidity have trumped fundamentals: profits growth over the next couple of years from the smaller small companies (those with market capitalisations below £601m) is estimated to be no lower than that from larger small companies. With its closed-ended structure, ASCoT would seem well placed to benefit from the narrowing of the size discount.

### Sector

The Brexit process has created a sector opportunity within the NSCI (XIC). As sterling weakened in the aftermath of the referendum, overseas facing sectors substantially out-performed those parts of the stockmarket that are more reliant on the domestic economy. The resultant valuation gap prompted a shift in the portfolio from an under-weight position in the domestics at the start of 2018 to an over-weight position by the end of the year. That over-weight remained in place at the end of June 2019: 62% of the underlying revenues of the portfolio's holdings were generated in the domestic economy, compared with 60% for the NSCI (XIC). This shift benefited the portfolio's relative performance: the domestics, while still relatively weak since the referendum, have out-performed the overseas companies since August 2018. Resilient results, consistent with the analysis in the Introduction, have helped, though, with Brexit still unresolved, there is inevitably scope for further volatility.

### Balance sheets

Based on 2019 estimates	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Loss makers
ASCoT	19%	55%	25%	1%
Tracked universe	29%	39%	27%	5%

While balance sheets remain strong across the NSCI (XIC), the past five years or so have seen leverage ratios rise. For example, since 2013 the proportion of the tracked universe with net cash on the balance sheet has fallen from 33% to 29%. These moves can be interpreted in two ways. More positively, they display a confidence on the part of boards to invest for future growth; more negatively, they would leave the companies more vulnerable to the next economic downturn. While circumstances inevitably change, the Managers are comfortable that current



# Managers' Report

funding structures are on the whole appropriate to the underlying businesses. It is noteworthy, however, that lending standards and credit conditions continue to tighten in sectors such as retail, construction and property.

## *Income*

Down	Nil payers	No change	Increase	Other
11	16	18	32	2

The table above splits ASCoT's holdings into categories that are determined by each company's most recent dividend announcement, excluding specials. In comparison with the corresponding analysis in ASCoT's last annual report and accounts, the notable change is an increase, from seven, in the number of cutters. This development is consistent with the suggestion in the report that 2018 witnessed the start of a deceleration in the rate of dividend growth that the NSCI (XIC) has enjoyed in recent years. While abundant special dividends and near double-digit dividend growth might have passed, the overall picture for the portfolio, and indeed the investment universe, remains encouraging. In comparison with the FTSE 100, income within the NSCI (XIC) remains much less concentrated and dividend cover – at 2.9x for the portfolio, 2.2x for the NSCI (XIC) and 1.6x for the FTSE All-Share – is considerably higher.

## *Corporate activity*

Despite continuing worries about Brexit, the first six months of 2019 witnessed a pick-up in the number of bids for NSCI (XIC) constituents. Nine were announced, compared with six in the corresponding period last year, though two were at prices lower than the prevailing stockmarket price. Of the nine, ASCoT owned one. With vast sums of cash in the hands of private equity, it is likely that Brexit resolution would reduce uncertainty about sterling and bring about an increase in the frequency of M&A. A similar argument might be applied to the IPO market, which remains becalmed: six were completed in the six months, none of which were of interest to ASCoT.

## *Turnover*

Portfolio turnover through the first six months of the year was low, annualising at 15%. This compares with a long term average of 33%. The depressed activity is influenced by the style dynamics previously described: with the value style out of favour, few holdings were re-rated close to their price targets and there was consequently little incentive to reduce the positions. The Managers are careful not to mix up cause and effect, but history suggests that better relative performance tends to be associated with higher rates of portfolio turnover.

## *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 higher chance of performing differently from the index, for better or worse. The Managers target a ratio of at least 70% for ASCoT in relation to the NSCI (XIC) and at the end of June the ratio was 77%.

# Managers' Report

## Valuations

Portfolio characteristics	30 June 2019		30 June 2018	
	ASCoT	NSCI (XIC)	ASCoT	NSCI (XIC)
Number of companies	<b>81</b>	<b>349</b>	85	344
Weighted average market capitalisation	<b>£597m</b>	<b>£883m</b>	£612m	£889m
Price earnings (PE) ratio (historic)	<b>9.6x</b>	<b>13.8x</b>	12.2x	13.9x
Dividend yield (historic)	<b>3.6%</b>	<b>3.2%</b>	3.1%	2.9%
Dividend cover	<b>2.9x</b>	<b>2.2x</b>	2.6x	2.5x

The table above shows a reduction in valuations as a result of the weakness of equity markets over the past twelve months. Over a slightly longer timeframe, the de-rating has been more severe: at the end of June 2015, the year before the EU referendum, the NSCI (XIC)'s historical PE was 15.7x. Turning to ASCoT, the portfolio PE has been on average 11% lower than that of the NSCI (XIC) since 1990; at the end of June, the discount was 30%. This divergence, which is the widest in 29 years, is consistent with the recent struggles of the value investment style in comparison with growth and highlights the opportunities within the small cap world for those prepared to embrace smaller small companies and to look beyond Brexit.

The following table focuses on prospective valuations, using the Managers' preferred metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Again, the portfolio's valuation advantage is obvious against the index, here represented by the tracked universe. Also shown are the EV/EBITA ratios for a collection of 47 growth stocks, none of which are currently held in the portfolio but several of which have been holdings in the past. These stocks have performed strongly over the past six months and, on the basis of estimates for 2019, are on a 94% premium to ASCoT's portfolio.

EV/EBITA	2018	2019	2020
ASCoT	10.2x	9.4x	8.5x
Tracked universe (276 stocks)	12.2x	11.6x	10.6x
- 47 growth stocks	19.9x	18.3x	16.5x
- 229 other stocks	11.1x	10.5x	9.7x

## Outlook & Conclusion

In explaining ASCoT's investment returns since the financial crisis, the Managers' reports have made frequent reference to the hostile climate for the value investment style. As explained in the Style section above, the Managers are inclined to view value's struggles as a function of financial conditions, specifically the extraordinary monetary policies deployed by many central banks. By extension, one means by which today's style headwinds might turn to tailwinds would be for an improvement in the outlook for real economic growth, in which context a resolution to the trade wars and Brexit would undoubtedly be helpful. Alternatively, a bit less complacency about inflation could also prove the catalyst. The risk of higher inflation might lurk in the prospect of interest rate cuts for a US economy close to full employment, but the timing of a turn

# Managers' Report

in sentiment is difficult to pinpoint. What is clear is that when the stockmarket's mood changes it does so abruptly: within the NSCI (XIC), value has out-performed growth by 3.6% per annum since 1955; in that 768 month period, the value premium would have been forgone had just the best 39 months for the style been missed.

In the meantime, the Managers continue to focus on bottom-up stock selection in seeking to achieve the investment objective. This is conducted through an investment process that has been consistently applied for almost 30 years and that is based on fundamental analysis, team-based decision making and discreet engagement with investee companies. At the current time, the process is being applied to a universe of small companies in which valuation anomalies abound: opportunities result from concerns about domestic exposure in the wake of the EU referendum and from the deep aversion to smaller small companies since the financial crisis. In view of recent unfortunate events in the open-ended fund world, this latter factor might become even more pertinent, but ASCoT's closed-ended structure is better suited to exploiting the illiquidity premium. Another influence on today's stockmarket valuations is the fascination for "disruptive business models". This does not only represent risk to the value investor. The portfolio has benefited from holdings in disruptive companies, albeit ones not valued as such at purchase. Moreover, the narrow focus on disruption, which benefits the valuations of the growth stocks in the table above, entails that resilient "old economy" franchises are overlooked and languish on attractive valuations.

Within the portfolio there are some holdings whose investment cases are off track, but that has been the case whether the value style is in the doldrums or the ascendancy over the past 29 years. However, across the portfolio as a whole, profit growth compares well with that of the NSCI (XIC) on the basis of current estimates. Thus, the stockmarket is presently configured to allow the value investor to benefit from a pronounced valuation advantage without sacrifice in terms of fundamental prospects. While risks clearly remain, not least to economic activity from Brexit, ASCoT's "policy on cake is pro having it and pro eating it", as our new prime minister might put it.

Aberforth Partners LLP

*Managers*

26 July 2019

# Investment Portfolio

Fifty Largest Investments as at 30 June 2019

No.	Company	Valuation £'000	% of Total	Business Activity
1	Urban&Civic	45,151	3.7	Property - investment & development
2	FirstGroup	40,972	3.4	Bus & rail operator
3	Future	39,272	3.2	Special interest consumer publisher
4	Brewin Dolphin Holdings	34,331	2.8	Private client fund manager
5	Grainger	33,647	2.8	Property - residential rentals
6	Mitchells & Butlers	32,484	2.7	Operator of restaurants, pubs & bars
7	Ultra Electronics Holdings	32,196	2.6	Specialist electronic & software technologies
8	Vitec Group	31,302	2.6	Photographic & broadcast accessories
9	Robert Walters	29,244	2.4	Recruitment
10	Wincanton	28,806	2.4	Logistics
<b>Top Ten Investments</b>		<b>347,405</b>	<b>28.6</b>	
11	Huntsworth	28,586	2.3	Public relations
12	SDL	28,340	2.3	Software - translation & content management
13	Morgan Advanced Materials	26,935	2.2	Manufacture of carbon & ceramic materials
14	Keller	25,119	2.1	Ground engineering services
15	RM	24,979	2.1	IT services for schools
16	Anglo Pacific Group	24,877	2.0	Natural resources royalties
17	Forterra	24,358	2.0	Manufacture of bricks
18	Ei Group	24,228	2.0	Leased & managed pub operator
19	Essentra	23,998	2.0	Filters & packaging products
20	Northgate	23,974	2.0	Van rental
<b>Top Twenty Investments</b>		<b>602,799</b>	<b>49.6</b>	
21	TT Electronics	22,038	1.8	Sensors & other electronic components
22	KCOM Group	21,173	1.7	Telecoms & related services
23	Eurocell	20,425	1.7	Manufacture of UPVC building products
24	Restaurant Group	20,105	1.6	Restaurant operator
25	McKay Securities	20,067	1.6	Property - London & South East offices
26	Go-Ahead Group	19,562	1.6	Bus & rail operator
27	Spirent Communications	19,305	1.6	Telecoms test equipment
28	SIG	18,640	1.5	Specialist building products distributor
29	DFS Furniture	18,342	1.5	Furniture retailer
30	TI Fluid Systems	18,075	1.5	Automotive parts manufacturer
<b>Top Thirty Investments</b>		<b>800,531</b>	<b>65.7</b>	

# Investment Portfolio

Fifty Largest Investments as at 30 June 2019

No.	Company	Valuation £'000	% of Total	Business Activity
31	EnQuest	18,062	1.5	Oil & gas exploration and production
32	Speedy Hire	17,508	1.4	Plant hire
33	Just Group	17,165	1.4	Individually underwritten annuities
34	Vectura Group	16,730	1.4	Inhaled pharmaceuticals - respiratory specialism
35	Dunelm Group	16,539	1.4	Homewares retailer
36	International Personal Finance	16,364	1.3	Home credit provider
37	De La Rue	15,537	1.3	Bank note printer
38	Rank Group	15,453	1.3	Multi-channel gaming operator
39	Wilmington Group	14,986	1.2	Business publishing & training
40	U and I Group	14,858	1.2	Property - investment & development
<b>Top Forty Investments</b>		<b>963,733</b>	<b>79.1</b>	
41	Senior	13,985	1.1	Aerospace & automotive engineering
42	RPS Group	13,836	1.1	Energy & environmental consulting
43	Reach	13,416	1.1	UK newspaper publisher
44	Castings	13,360	1.1	Engineering - automotive castings
45	Bakkavor Group	12,474	1.0	Food manufacturer
46	Stagecoach Group	11,892	1.0	Bus & rail operator
47	Halfords Group	11,424	0.9	Automotive & cycling products retailer
48	N Brown Group	11,285	0.9	Catalogue retailer
49	Charles Stanley Group	11,191	0.9	Private client fund manager
50	Non-Standard Finance	10,218	0.8	Home credit provider
<b>Top Fifty Investments</b>		<b>1,086,814</b>	<b>89.0</b>	
Other Investments (31)		144,744	11.9	
<b>Total Investments</b>		<b>1,231,558</b>	<b>100.9</b>	
Net Liabilities		(11,322)	(0.9)	
<b>Total Net Assets</b>		<b>1,220,236</b>	<b>100.0</b>	

# Long Term Investment Record

## Historical Total Returns<sup>5</sup>

Period	Discrete Annual Returns (%)		
	NAV <sup>1</sup>	Index <sup>2</sup>	Share Price <sup>3</sup>
1 year to 30 June 2019	-10.7	-5.4	-11.1
1 year to 30 June 2018	10.0	7.6	15.7
1 year to 30 June 2017	35.7	29.1	41.4
1 year to 30 June 2016	-15.2	-6.6	-21.7
1 year to 30 June 2015	13.4	10.4	16.6
1 year to 30 June 2014	31.8	20.3	31.9
1 year to 30 June 2013	36.3	31.8	44.6
1 year to 30 June 2012	-8.7	-4.1	-12.6
1 year to 30 June 2011	36.3	34.2	36.3
1 year to 30 June 2010	18.9	28.0	15.2

Periods to 30 June 2019	Annualised Returns (%)			Cumulative Returns (%)		
	NAV <sup>1</sup>	Index <sup>2</sup>	Share Price <sup>3</sup>	NAV <sup>1</sup>	Index <sup>2</sup>	Share Price <sup>3</sup>
2 years	-0.9	0.9	1.4	-1.8	1.9	2.8
3 years	10.1	9.6	13.3	33.3	31.5	45.4
4 years	3.1	5.3	3.3	13.0	22.9	13.9
5 years	5.1	6.3	5.8	28.2	35.6	32.8
6 years	9.1	8.5	9.8	68.9	63.1	75.2
7 years	12.7	11.6	14.2	130.2	115.0	153.3
8 years	9.7	9.5	10.4	110.1	106.2	121.5
9 years	12.4	12.0	13.1	186.5	176.7	201.9
10 years	13.0	13.5	13.3	240.6	254.2	247.9
15 years	9.6	10.3	9.8	294.2	335.8	306.3
28.6 years from inception <sup>4</sup>	12.8	10.6	12.5	3,010.9	1,666.4	2,762.9

1 Represents Net Asset Value return with dividends reinvested.

2 Represents capital appreciation/(depreciation) on the Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested.

3 Represents Ordinary Share price return with dividends reinvested.

4 Inception date of the Company was 10 December 1990.

5 Alternative Performance Measures (refer to the glossary in the 2018 Annual Report).

# 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 established an on-going process for identifying, evaluating and managing the principal risks faced by the Company. The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a simple capital structure; invests only in small UK quoted companies; has never been exposed to derivatives and does not presently intend any such exposure; and outsources all the main operational activities to recognised, well established firms.

The principal risks faced by the Company relate to investment policy/performance, share price discount, gearing, reputational risk and regulatory risk. An explanation of these risks and how they are managed can be found in the Strategic Report contained within the 2018 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2018 Annual Report, though the political environment remains volatile.

## 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 the Statement "Half-yearly financial reports" issued by the Financial Reporting Council; and
- (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 first six months of the year 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  
Richard Davidson  
*Chairman*

26 July 2019

# Income Statement

(unaudited)

For the six months ended 30 June 2019

	Six months ended 30 June 2019		
	Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	–	21,841	21,841
Movement in fair value	–	57,713	57,713
Net gains/(losses) on investments	–	79,554	79,554
Investment income	21,578	–	21,578
Other income	–	–	–
Investment management fee (Note 2)	(1,633)	(2,721)	(4,354)
Transaction costs	–	(845)	(845)
Other expenses	(360)	–	(360)
<b>Net return before finance costs and tax</b>	<b>19,585</b>	<b>75,988</b>	<b>95,573</b>
Finance costs	(206)	(344)	(550)
<b>Return on ordinary activities before tax</b>	<b>19,379</b>	<b>75,644</b>	<b>95,023</b>
Tax on ordinary activities	–	–	–
<b>Return attributable to equity shareholders</b>	<b>19,379</b>	<b>75,644</b>	<b>95,023</b>
Returns per Ordinary Share (Note 4)	21.43p	83.63p	105.06p

## Dividends

On 26 July 2019, the Board declared an interim dividend for the year ending 31 December 2019 of 10.00p per Ordinary Share (2018 – 9.50p) which will be paid on 30 August 2019.



## Income Statement

Six months ended 30 June 2018			Year ended 31 December 2018		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	110,936	110,936	–	121,190	121,190
–	(100,398)	(100,398)	–	(372,209)	(372,209)
–	10,538	10,538	–	(251,019)	(251,019)
25,514	3,429	28,943	46,263	3,429	49,692
–	–	–	7	–	7
(1,879)	(3,131)	(5,010)	(3,777)	(6,295)	(10,072)
–	(2,114)	(2,114)	–	(2,935)	(2,935)
(367)	–	(367)	(742)	–	(742)
23,268	8,722	31,990	41,751	(256,820)	(215,069)
(152)	(254)	(406)	(301)	(501)	(802)
23,116	8,468	31,584	41,450	(257,321)	(215,871)
–	–	–	–	–	–
23,116	8,468	31,584	41,450	(257,321)	(215,871)
25.08p	9.19p	34.27p	45.30p	(281.22)p	(235.92)p

# Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2019

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
<b>Balance as at 31 December 2018</b>	<b>906</b>	<b>82</b>	<b>115,375</b>	<b>949,213</b>	<b>88,160</b>	<b>1,153,736</b>
Return on ordinary activities after tax	–	–	–	75,644	19,379	95,023
Equity dividends paid	–	–	–	–	(25,815)	(25,815)
Purchase of Ordinary Shares	(2)	2	(2,708)	–	–	(2,708)
<b>Balance as at 30 June 2019</b>	<b>904</b>	<b>84</b>	<b>112,667</b>	<b>1,024,857</b>	<b>81,724</b>	<b>1,220,236</b>

For the year ended 31 December 2018

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2017	930	58	148,201	1,206,534	79,919	1,435,642
Return on ordinary activities after tax	–	–	–	(257,321)	41,450	(215,871)
Equity dividends paid	–	–	–	–	(33,209)	(33,209)
Purchase of Ordinary Shares	(24)	24	(32,826)	–	–	(32,826)
Balance as at 31 December 2018	906	82	115,375	949,213	88,160	1,153,736

For the six months ended 30 June 2018

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2017	930	58	148,201	1,206,534	79,919	1,435,642
Return on ordinary activities after tax	–	–	–	8,468	23,116	31,584
Equity dividends paid	–	–	–	–	(24,551)	(24,551)
Purchase of Ordinary Shares	(16)	16	(22,249)	–	–	(22,249)
Balance as at 30 June 2018	914	74	125,952	1,215,002	78,484	1,420,426

# Balance Sheet

(unaudited)

As at 30 June 2019

	30 June 2019 £'000	31 December 2018 £'000	30 June 2018 £'000
<b>Fixed assets:</b> investments at fair value through profit or loss	<b>1,231,558</b>	1,168,165	1,414,842
<b>Current assets</b>			
Amounts due from brokers	1,424	–	28
Other debtors	4,541	3,230	5,039
Cash at bank	344	59	678
	<b>6,309</b>	3,289	5,745
<b>Creditors</b> (amounts falling due within one year)			
Amounts due to brokers	–	–	–
Bank debt facility	(17,441)	–	–
Other creditors	(190)	(309)	(161)
	<b>(17,631)</b>	(309)	(161)
<b>Net current (liabilities)/assets</b>	<b>(11,322)</b>	2,980	5,584
<b>Total assets less current liabilities</b>	<b>1,220,236</b>	1,171,145	1,420,426
<b>Creditors</b> (amounts falling due after more than one year)			
Bank debt facility	–	(17,409)	–
<b>TOTAL NET ASSETS</b>	<b>1,220,236</b>	1,153,736	1,420,426
<b>CAPITAL AND RESERVES: EQUITY INTERESTS</b>			
Share Capital: Ordinary Shares	904	906	914
<b>Reserves:</b>			
Capital redemption reserve	84	82	74
Special reserve	112,667	115,375	125,952
Capital reserve	1,024,857	949,213	1,215,002
Revenue reserve	81,724	88,160	78,484
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>1,220,236</b>	1,153,736	1,420,426
<b>Net asset value per share (Note 6)</b>	<b>1,350.34p</b>	1,273.72p	1,554.75p
<b>Share price</b>	<b>1,212.00p</b>	1,138.00p	1,406.00p

# Cash Flow Statement

(unaudited)

For the six months ended 30 June 2019

	<b>Six months ended 30 June 2019 £'000</b>	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
<b>Net cash inflow from operating activities</b>	<b>15,569</b>	21,946	38,964
<b>Investing activities</b>			
Purchases of investments	<b>(91,523)</b>	(234,976)	(357,515)
Sales of investments	<b>105,415</b>	269,345	376,211
<b>Cash inflow from investing activities</b>	<b>13,892</b>	34,369	18,696
<b>Financing activities</b>			
Purchase of Ordinary Shares	<b>(2,708)</b>	(22,249)	(32,826)
Equity dividends paid	<b>(25,815)</b>	(24,551)	(33,209)
Interest and fees paid	<b>(653)</b>	(380)	(609)
Net repayment of bank debt facilities (before costs)	–	(8,750)	8,750
<b>Cash outflow from financing activities</b>	<b>(29,176)</b>	(55,930)	(57,894)
<b>Change in cash during the period</b>	<b>285</b>	385	(234)
Cash at the start of the period	<b>59</b>	293	293
Cash at the end of the period	<b>344</b>	678	59

# Notes to the Financial Statements

## 1. Accounting Standards

The financial statements have been prepared on a going concern basis and in accordance with the Financial Reporting Standard 104 and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2014 and updated in 2018. The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period. The same accounting policies used for the year ended 31 December 2018 have been applied.

## 2. Investment Management Fee

The Managers, Aberforth Partners LLP, receive an annual management fee, payable quarterly in advance, equal to 0.75% of net assets up to £1 billion, and 0.65% thereafter.

The investment management fee has been allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

## 3. Dividends

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
--	--	--	--

### Amounts recognised as distributions to equity holders in the period:

Final dividend of 19.75p for the year ended 31 December 2017	–	18,332	18,332
Special dividend of 6.70p for the year ended 31 December 2017	–	6,219	6,219
Interim dividend of 9.50p for the year ended 31 December 2018	–	–	8,658
Final dividend of 20.75p for the year ended 31 December 2018	<b>18,795</b>	–	–
Special dividend of 7.75p for the year ended 31 December 2018	<b>7,020</b>	–	–
	<b>25,815</b>	24,551	33,209

The interim dividend for the year ending 31 December 2019 of 10.00p (2018 – 9.50p) will be paid on 30 August 2019 to shareholders on the register on 9 August 2019. The ex dividend date is 8 August 2019. The interim dividend has not been included as a liability in these financial statements.

# Notes to the Financial Statements

## 4. Returns per Ordinary Share

The returns per Ordinary Share are based on:

	30 June 2019	30 June 2018	31 December 2018
Returns attributable to Ordinary Shareholders	<b>£95,023,000</b>	£31,584,000	(£215,871,000)
Weighted average number of shares in issue during the period	<b>90,449,270</b>	92,176,403	91,501,299
Return per Ordinary Share	<b>105.06p</b>	34.27p	(235.92p)

## 5. 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); and

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

### Investments held at fair value through profit or loss

As at 30 June 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	<b>1,231,558</b>	–	–	<b>1,231,558</b>
Unlisted equities	–	–	–	–
<b>Total financial asset investments</b>	<b>1,231,558</b>	–	–	<b>1,231,558</b>

As at 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,168,165	–	–	1,168,165
Unlisted equities	–	–	–	–
<b>Total financial asset investments</b>	<b>1,168,165</b>	–	–	<b>1,168,165</b>

As at 30 June 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,414,842	–	–	1,414,842
Unlisted equities	–	–	–	–
<b>Total financial asset investments</b>	<b>1,414,842</b>	–	–	<b>1,414,842</b>

## 6. Net Asset Value per Ordinary Share

The net assets and the net asset value per share attributable to the Ordinary Shares at each period end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	<b>30 June 2019 £'000</b>	31 December 2018 £'000	30 June 2018 £'000
Net assets attributable	<b>1,220,236</b>	1,153,736	1,420,426
Ordinary Shares in issue at end of period	<b>90,364,851</b>	90,580,311	91,360,251
Net asset value per Ordinary Share	<b>1,350.34p</b>	1,273.72p	1,554.75p

## 7. Share Capital

During the period, the Company bought back and cancelled 215,460 shares (2018: 1,638,886) at a total cost of £2,708,000 (2018: £22,249,000). 175,610 shares have been bought back for cancellation between 1 July 2019 and 26 July 2019 at a total cost of £2,083,000.

## 8. Related party transactions

There were no matters during the six months ended 30 June 2019 requiring disclosure under section 412 of the Companies Act 2006.

## 9. Further Information

The foregoing do not constitute statutory accounts of the Company (as defined in section 434(3) of the Companies Act 2006). The financial information for the year ended 31 December 2018 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 six months to 30 June 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.

# Corporate Information

## Directors

Richard Davidson (Chairman)  
Paula M Hay-Plumb  
Julia Le Blan  
Richard A Rae  
Martin R Warner

## Investment Managers & Secretaries

Aberforth Partners LLP  
14 Melville Street  
Edinburgh EH3 7NS  
Tel: 0131 220 0733  
Email: [enquiries@aberforth.co.uk](mailto:enquiries@aberforth.co.uk)  
[www.aberforth.co.uk](http://www.aberforth.co.uk)

## Depository

NatWest Trustee & Depository Services Limited  
Drummond House  
1 Redheughs Avenue  
Edinburgh EH12 9RH

## Registrars

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Shareholder enquiries:

Tel: 0871 664 0300  
(Calls cost 12p per minute plus network extras)  
Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)  
[www.linkassetsservices.com](http://www.linkassetsservices.com)  
Shareholder Portal: [www.signalshares.com](http://www.signalshares.com)

## Custodian

The Northern Trust Company  
50 Bank Street  
Canary Wharf  
London E14 5NT

## Bankers

The Royal Bank of Scotland International Limited  
280 Bishopsgate  
London EC2M 4RB

## Independent Auditor

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2DB

## Solicitors & Sponsors

Dickson Minto WS  
16 Charlotte Square  
Edinburgh EH2 4DF

## Registered Office

14 Melville Street  
Edinburgh EH3 7NS

Registered in Scotland No:  
SC 126524

## Security Codes

SEDOL:	0006655
Bloomberg :	ASL LN
Reuters:	ASL.L
GIIN:	U6SSZS.99999.SL.826
LEI:	213800GZ9WC73A92Q326