Aberforth Split Level Income Trust plc

Annual Report and Financial Statements

30 June 2018

Contents

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive (AIFMD) requires certain information to be made available to investors prior to their investment in the shares of a Company. The Company's Investor Disclosure Document is available to view at www.aberforth.co.uk and contains details of the Company's investment objective, policy and strategy together with leverage and risk policies.

Strategic Report

The Board is pleased to present the Strategic Report (pages 1 to 17) which incorporates the Chairman's Statement and Managers' Report. It has been prepared by the Directors in accordance with Section 414 of the Companies Act 2006, as amended.

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.

Financial Highlights

Total Return Performance[1]

Period to 30 June 2018	Total Assets[1]	Ordinary Share NAV[1]	Ordinary Share Share Price[1]	ZDP Share NAV[1]	ZDP Share Share Price[1]
Since inception[1]	**5.6%**	**6.2%**	**0.7%**	**2.9%**	**6.5%**

Ordinary Share

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium)[1]	Return per Share	Ordinary Dividends per Share	Special Dividends per Share	Ongoing Charges[1]	Gearing[1]
2018	**104.7p**	**99.2p**	**5.3%**	**6.8p**	**4.0p**	**0.6p**	**1.1%**	**24.6%**
Inception[1]	100.0p	100.0p	–	n/a	n/a	n/a	n/a	25.0%

Zero Dividend Preference Share (ZDP Share)

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium)[1]	Return per Share	Projected Final Cumulative Cover[1]	Redemption Yield[1]
2018	**102.9p**	**106.5p**	**(3.5%)**	**3.6p**	**3.5x**	**3.0%**
Inception[1]	100.0p	100.0p	–	n/a	3.4x	3.5%

Source: Aberforth Partners LLP

1 Defined in the Glossary on pages 53-54.

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 pleased to present my report for Aberforth Split Level Income Trust plc (ASLIT or the Company) covering the period from the Company's inception on 30 June 2017 to 30 June 2018.

ASLIT's launch was successful despite the uncertain political and economic backdrop at that time. Gross proceeds, before launch costs, were £237.8 million. The Company started its life almost fully invested, with approximately £205.4 million having been subscribed by Shareholders in Aberforth Geared Income Trust plc (AGIT) who elected to "roll over" their investment, and the balance coming from the Company's placing and offer for subscription. On behalf of the Board, I should once again like to thank all Shareholders for their support.

ASLIT is a split capital investment trust, comprising Ordinary Shares and Zero Dividend Preference (ZDP) Shares issued in a ratio of 4:1. The Company's investment objective is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide ZDP Shareholders with a pre-determined final capital entitlement of 127.25p per ZDP Share on the planned winding up date of 1 July 2024. This entitlement equates to a 3.5% gross redemption yield based on the issue price of 100p per ZDP Share.

Capital returns to the Ordinary Shareholders are effectively geared by the capital entitlement due to the ZDP Shareholders. In periods of rising equity prices, this can benefit the net asset value performance attributable to the Ordinary Shares, but the converse also holds true. Ordinary Shareholders are entitled to all net income generated by the portfolio of investments. On a winding up, Ordinary Shareholders are entitled to receive undistributed revenue reserves in priority to the capital entitlements of the ZDP Shareholders. Ordinary Shareholders are also entitled to the net assets of the Company, if any, after all liabilities have been settled and the entitlements of the ZDP Shares have been met.

Performance

ASLIT's total assets total return, essentially its ungeared portfolio return, for the period since inception on 30 June 2017 to 30 June 2018 was 5.6%. This return is calculated after one-off costs of approximately £6.8 million. These comprise a fall in value of £4.0 million relating to the investment portfolio acquired from AGIT between the date agreed for valuing those assets (23 June 2017) and inception (30 June 2017), together with launch costs of £2.8 million. Thereafter, ASLIT's total assets return to 30 June 2018, since its launch on the London Stock Exchange on 3 July 2017, has been 8.7%. The period between inception on 30 June 2017 and launch on 3 July 2017 comprised a weekend, when the London Stock Exchange was closed.

When reporting performance, "since inception" returns will reflect the impact of these one-off costs whilst "since launch" will reflect subsequent performance only, i.e. periods after 30 June 2017, excluding the one-off costs.

As noted above, the Ordinary Shares are geared by the entitlements of the ZDP Shares. The Ordinary Share NAV total return from inception to 30 June 2018 was 6.2% which reflects the return attributable to equity Shareholders of 6.80p together with the effect of the reinvestment of the dividend received by them and the impact of one-off costs. Excluding the impact of one off costs (i.e. since launch), the Ordinary Share NAV total return was 10.0%.

The Numis Smaller Companies Index (excluding investment companies) (NSCI (XIC)), which represents the Company's opportunity base of small UK quoted companies, achieved a total return of 7.6% for the year ended 30 June 2018.

It is important to emphasise that ASLIT's investment objective reduces the relevance of assessing its performance relative to an equity index. For ASLIT to succeed over its seven-year life, the Company needs to produce capital returns at the total assets level greater than the hurdle rate imposed by the 127.25p final capital entitlement to ZDP Shareholders on 1 July 2024.

The major influences on portfolio performance are analysed in detail in the Managers' Report.

Earnings and Dividends

The Company invests in a diversified portfolio of small UK quoted companies, which comprised 69 holdings at 30 June 2018. The small company universe has delivered a strong and growing stream of dividend income since the global financial crisis. As explained in the Managers' Report, this trend has been maintained in the first year of ASLIT's life and has generated a Revenue Return per Ordinary Share of 5.43p for the period from inception to 30 June 2018.

The Company's policy is to distribute a significant proportion of its net revenue in the form of dividends to Ordinary Shareholders.

The Board has declared a second interim dividend of 2.6p per Ordinary Share for the period ended 30 June 2018. Together with the first interim dividend of 1.4p paid on 6 March 2018, the total underlying dividend with respect to the period is

Chairman's Statement

4.0p per Ordinary Share. This level of underlying dividend is in line with the Board's intention at launch, which was to pay total dividends of not less than 4.0p per Ordinary Share in respect of the period from inception to 30 June 2018.

In addition, the Company has declared a special dividend of 0.6p per Ordinary Share. This reflects strong income performance, not all of which may be expected to recur, and the requirement to retain no more than 15% of total income (for tax purposes) in order to retain the benefits of investment trust status.

After accounting for the second interim dividend and the special dividend, retained revenue reserves were approximately 0.8p per Ordinary Share at 30 June 2018. At this stage in the Company's planned life, the Board believes that this is a prudent level of retention given the continuing volatility and uncertainties surrounding the UK economy generally. The ability to retain revenue reserves is one of the main structural advantages of investment trusts when compared with open ended funds (e.g. unit trusts).

The second interim dividend of 2.6p per Ordinary Share and the special dividend of 0.6p per Ordinary Share will be paid on 31 August 2018 to Ordinary Shareholders on the register on 10 August 2018. The ex dividend date for the second interim dividend and the special dividend is 9 August 2018.

Your Company operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Aberforth Partners LLP or on their website, www.aberforth.co.uk.

Annual General Meeting

The first AGM of the Company will be held on 23 October 2018 at 11.00 a.m. at 14 Melville Street, Edinburgh EH3 7NS. Details of the resolutions to be considered by Shareholders are set out in the Notice of the Meeting on page 55. Among the resolutions are those for the election of all Directors in accordance with the terms of the Articles and the AIC Corporate Governance Code.

Outlook

The Company has enjoyed an encouraging start to its life. However, I would caution investors against extrapolating the level of absolute returns from what has been a relatively short period since launch.

At a global level, the spectre of trade tariffs and the continued unwinding of the exceptional monetary stimulus in place since the global financial crisis will surely challenge companies of all sizes and nationalities. Closer to home, the uncertain political and economic consequences of the UK's exit from the EU is an even more obvious reason to expect choppy waters for UK companies in the short and medium term. Furthermore, the portfolio's fortunes will be influenced by the Managers' commitment to the value investment style. There can be periods when the value investment style is out of favour although the value approach within small UK quoted companies has resulted in superior returns to those of the NSCI (XIC) over the long term.

As the Managers' Report describes, the portfolio seeks to be invested in good businesses where the cost of each investment is considered to already discount some or all of the risks described above, leaving significant scope for an uplift in value. Therefore, your Board considers that the Company is well positioned to meet its investment objectives despite the inevitable market challenges it is likely to encounter along the way.

Jonathan Cartwright
Chairman
26 July 2018

jonathan.cartwright@aberforth.co.uk

Investment Policy and Strategy

Investment Policy

The Company aims to achieve its objective by investing in a diversified portfolio of securities issued by small UK quoted companies. Small UK quoted companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10%, by market capitalisation, of the London Stock Exchange's Main Market for listed securities or companies in the Numis Smaller Companies Index (excluding investment companies) ("NSCI (XIC)"). As at 1 January 2018 (the date of the last annual NSCI (XIC) rebalancing), the NSCI (XIC) consisted of 350 companies, with an aggregate market capitalisation of £169 billion. Its upper market capitalisation limit was £1.5 billion, although this limit will change owing to movements in the stockmarket. If any investee company no longer satisfies the definition of a small UK quoted company its securities will become candidates for sale unless the Managers determine that the Company's investment objective would be better served by their retention. Notwithstanding the above, the Managers would not normally expect more than 10% of the value of the Company's portfolio to be invested in a combination of: (i) securities issued by small UK quoted companies that are neither securities with equity rights, nor securities convertible to such; and/or (ii) holdings in companies that satisfied the definition of a small UK quoted company at the time of purchase but no longer do so and that are not categorised as candidates for sale.

The Company may, at the time of purchase, invest up to 15% of its assets in securities issued by any one company although, in practice, each exposure will typically be substantially less and, at market value, generally represent less than 5% of the portfolio on an on-going basis. The Board expects that this approach will normally result in a portfolio comprising holdings in between 50 and 100 companies. The Company will not invest in any securities issued by other closed ended UK listed investment companies with the exception of real estate investment trusts (REITs) that are eligible to be included in the NSCI (XIC).

Investment will only be made in companies with securities traded on the Main Market or, in limited circumstances, in AIM listed investments. AIM listed investments will only be held in the Company's portfolio if they have given a formal commitment to move to the Main Market, or in the situation where an existing investee company has moved its listing from the Main Market to AIM.

The Company will aim to be near to fully invested at all times. There will normally be no attempt to engage in market timing by holding high levels of liquidity though due consideration will be given to liquidity requirements as the Company nears the end of its Planned Life. The Company does not intend to utilise any bank borrowings other than short term overdraft or working capital facilities. The Directors expect that, in normal market conditions, bank borrowings will not exceed 2.5% of Total Assets. The Articles limit the level of such bank borrowings to a maximum of 5% of Total Assets at the time of drawdown. The Company has a policy to maintain total gearing, including the ZDP Shares, below the total of: (i) the accrued capital entitlement of the ZDP Shares from time to time; plus (ii) 5% of its Total Assets at the time of drawdown. The Directors have delegated responsibility to the Managers for the operation of the Company's overdraft and working capital facilities within the above parameters.

Subject to the prior approval of the Board, the Managers may use derivative instruments, such as financial futures, exchange traded funds, and options, for the purpose of efficient portfolio management. The Board's current expectation is that derivatives will rarely be used, if at all.

Any material changes to the Company's investment objective and policy will be subject to Shareholder approval at a general meeting. In the event of a breach of the Company's investment policy, the Directors will announce through a Regulatory Information Service the actions that will be taken to rectify the breach.

Investment Strategy

Aberforth Partners (the Managers) adheres to a value investment philosophy. While there can be extended periods when the value investment style is out of favour, there is compelling evidence that the value approach within small UK quoted companies has resulted in superior returns to those of the NSCI (XIC) as a whole over the long term.

In valuing businesses, the Managers place emphasis on the ratio of total enterprise value (which is the market capitalisation of the small UK quoted company adjusted for the average debt or cash level of such company) to the earnings before interest, tax and amortisation that the company generates (in short, the EV/EBITA ratio). The Managers also utilise other valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of the value investment approach, the average valuation metrics of the Company's holdings will usually be more modest than those of the NSCI (XIC), the investment universe.

The Managers will select companies for the Company's portfolio on the basis of fundamental or "bottom-up" analysis. The "bottom-up" analysis includes the Managers scrutinising prospective investee companies' financial statements and assessing their market positions within their sectors. An important part of the process is regular engagement with the board members and management of prospective and existing investments. In addition, a "top down" evaluation is undertaken regularly.

Opportunities are often found in businesses where short-term trading, broad macro economic concerns or the vagaries of stockmarket sentiment have caused valuations to fall to levels at which the Managers consider significant upside to be available. The closing of valuation gaps usually requires the passage of time but can be expedited by a change of strategy, a change of management or takeover.

In seeking to achieve the investment objective, the Managers believe that the portfolio must be adequately differentiated from the NSCI (XIC), the investment universe. Therefore, within the diversification parameters described in the Company's investment policy, the Managers will regularly review the level of differentiation, with the aim of achieving a meaningful active weight for each holding within the Company's portfolio. Holdings are expected to be sold when their valuations reach the targets determined by the Managers.

Principal Risks

The Board has established an on-going process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the period and continues in place up to the date of this report.

Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is reasonable when comparing individual companies, it is much less so when comparing the risks inherent in diversified portfolios of small and large companies. In addition, the Company has a simple capital structure and outsources all the main operational activities to recognised, well-established firms.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below.

(i) Investment policy/performance risk – The investment portfolio is exposed to share price movements owing to the nature of the Company's investment policy and strategy. The performance of the investment portfolio will be influenced by market related risks including market price and liquidity (refer to Note 11 on page 45 for further details). The Board's aim is to achieve the investment objective by ensuring the investment portfolio is managed in accordance with the policy and strategy. The Board has outsourced portfolio management to experienced Managers with a clearly defined investment philosophy and investment process. The Board receives regular and detailed reports on investment performance. Senior representatives of Aberforth Partners attend each Board meeting. Peer group performance is also regularly monitored by the Board.

(ii) Structural conflicts of interest – The different rights and expectations of the holders of Ordinary Shares and the holders of ZDP Shares may give rise to conflicts of interest between them. While the Company's investment objective and policy seeks to strike a balance between the interests of both classes of Shareholder, there can be no guarantee that such a balance will be achieved and maintained during the life of the Company.

(iii) Significant fall in investment income – A significant fall in investment income could lead to the inability to provide a high level of income and income growth. The Board receives regular and detailed reports from the Managers on income performance together with income forecasts.

(iv) Loss of key investment personnel – The Board believes that a risk exists in the loss of key investment personnel at the Managers. The Board recognises the collegiate approach employed by the Managers mitigates this risk. Board members are in regular contact with the partners and staff of the Managers and monitor personnel changes.

(v) Regulatory risk – Breach of regulatory rules could lead to suspension of the Company's share price listings, financial penalties or a qualified audit report. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company losing investment trust status and, as a consequence, any capital gains would then be subject to capital gains tax. The Board reviews regular reports from the Secretaries to monitor compliance with regulations.

Viability Statement

The Directors have assessed the viability of the Company over the five year period to June 2023, taking account of the Company's position, its investment strategy and the potential impact of the relevant principal risks detailed above. Based on this assessment, the Directors have a reasonable expectation that the Company will meet its liabilities as they fall due and be able to continue in operation over the five year period to June 2023.

In making this assumption, the Directors took comfort from the results of a series of stress tests that considered the impact of a number of severe market downturn scenarios on the Company's financial position and, in particular, its ability to settle projected liabilities of the Company as they fall due. The Company invests in companies listed and traded on the London Stock Exchange. These shares are actively traded and, whilst less liquid than larger quoted companies, the portfolio is well diversified by both number of holdings and industry sector. The Directors determined that a five year period to June 2023 is an appropriate period for which to provide this statement given the Company's investment objective, the simplicity of the business model, the resilience demonstrated by the stress testing and the relatively low working capital requirements.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objectives against the following key performance indicators:

- Total Assets total return;
- Ordinary Share Net Asset Value total return;
- Ordinary Share Net Asset Value;
- Ordinary Share Price discount;
- Dividend per Ordinary Share;
- ZDP Share Net Asset Value;
- ZDP Share Projected Final Cumulative Cover; and
- Hurdle Rates.

A record of these measures is provided within Financial Highlights (page 1), Hurdle Rates and Redemption Yields (below). Further analysis is provided within the Chairman's Statement (pages 2 to 3) and the Managers' Report (pages 8 to 12). The Managers' Report has been prepared by Aberforth Partners LLP and the Board endorses the analysis provided in respect of the key performance indicators.

Hurdle Rates & Redemption Yields[1]

Hurdle Rates[2]

	Ordinary Shares Hurdle Rates to return			ZDP Shares Hurdle rates to return	
At 30 June	100p	Share Price	Zero Value	127.25p	Zero Value
2018	**1.2%**	**1.1%**	**(20.0%)**	**(20.0%)**	**(64.0%)**
Inception[2]	1.5%	n/a	(17.0%)	(17.0%)	(57.2%)

Redemption Yields[2] as at 30 June 2018 (Ordinary Shares)

	Ordinary Share Redemption Yields[2] Dividend Growth (per annum)				
Capital Growth (per annum)	0.0%	+2.5%	+5.0%	+7.5%	Terminal NAV[2]
0%	**3.2%**	**3.6%**	**4.0%**	**4.4%**	90.5p
+2.5%	**6.1%**	**6.5%**	**6.8%**	**7.2%**	110.1p
+5.0%	**9.0%**	**9.4%**	**9.7%**	**10.0%**	132.3p
+7.5%	**11.9%**	**12.2%**	**12.5%**	**12.8%**	157.3p

1 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.

2 Defined in the Glossary on pages 53-54.

Other Business Information

Company Status

The Company is a closed-ended investment trust listed on the London Stock Exchange and an Alternative Investment Fund under the Alternative Investment Fund Managers (AIFM) Directive. The Company has been approved by HM Revenue & Customs as an investment trust from 3 July 2017 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an investment trust. Furthermore, the Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006.

Board Diversity

The Board recognises the importance of diversity in its broadest sense (including skills, experience, gender and tenure) in enabling it to fulfil the present and future needs of the Company. As at 30 June 2018, there were five male directors and no female directors.

Environmental, Human Rights, Employee, Social Community Issues

The requirement to detail information about environmental matters, human rights, social and community issues does not apply to the Company as it has no employees; all Directors are non-executive and it has outsourced its functions to third party service providers. The Company's and the Managers' approach to social, environmental and ethical issues is set out within the Corporate Governance Report on page 25.

Managers' Report

Introduction

Equity returns in ASLIT's first year were supportive of the company's investment objective and capital structure. Large companies, as gauged by the FTSE All-Share, generated a total return of 9.0%. The return from small companies, defined by the NSCI (XIC), was 7.6%. From launch on 3 July 2017, ASLIT's total assets total return, which captures its ungeared portfolio performance, was 8.7%.

These twelve month returns mask a favourable stockmarket environment in the first six months of the financial year, as reflationary conditions gave rise to a period of synchronised growth around the world, but a more challenging period in the second half. The lacklustre share price performance of UK companies, both large and small, in the opening months of 2018 was influenced by heightened concerns about macro economic and geopolitical risks. In this Donald Trump has played a central role, with his transactional approach to foreign relations in which confusion and unpredictability may indeed be by design. His threatened withdrawal from the Iranian nuclear deal has contributed to a higher oil price, which in itself acts as a drag on economic activity around the globe. Moreover, his trade initiatives threaten to exacerbate the protectionist instincts of politicians in other countries to the detriment of economic activity around the world.

Donald Trump's domestic strategy, based on fiscal stimulus, has succeeded in supporting economic growth but brings further inflationary pressure and concern about the pace at which interest rates need to rise. The ten year US government bond has responded, with the yield rising to 3% for the first time since 2013. This is a significant move for arguably the world's most important financial instrument, which is the basis for the valuation of other assets around the world. Among these are equities and the specific implications for the value investment style are described later in this report.

To the extent that the higher ten year US yield reflects higher nominal economic growth, it is to be welcomed. However, the message is complicated by an accompanying increase in shorter term government bond yields with the effect that the yield curve has flattened. Historically, an inverted yield curve – when shorter term yields exceed longer term yields – has been a useful indicator of recession. While inversion has not come to pass, the risk inevitably tempers the enthusiasm that might otherwise accompany a return to 3% yields and a tentative normalisation of monetary conditions.

Meanwhile, in Europe, there are indications that 2017's robust recovery in economic activity has lost momentum, with various indicators suggesting that while activity continues to improve it is doing so at a more modest rate. This comes against the backdrop of renewed concern about the politics of the euro zone. Angela Merkel is confronted by domestic concerns about immigration and by Emmanuel Macron's integrationist agenda, while Italy's general election in March was followed by the eventual assumption of power by populist parties who retain a sceptical stance on the European Union.

Turning to the UK, progress with the exit negotiations remains frustratingly slow: fundamental details about relations with the EU after March 2019 are yet to be settled. Consequently, the economy remains beset by uncertainty and gloom about UK equities is pervasive, typified by a recent survey by Bank of America Merrill Lynch suggesting that the asset class is the least popular among fund managers around the globe. Within the UK market, the closer one gets to companies exposed to the domestic economy, and thus further away from businesses whose overseas profits have been boosted by sterling weakness, the worse sentiment becomes. To an extent this is understandable: consumer behaviour continues to be hampered by wages that are struggling to grow in real terms. However, such is the negativity that many companies are being written off as "Brexit victims", when deeper scrutiny reveals a more nuanced picture. For those with a contrarian inclination, value among businesses reliant on the domestic economy continues to emerge. The Managers, while cognisant of the risk of a badly handled exit from the EU, have taken advantage of this situation by redirecting capital from overseas facing businesses to domestics as bottom-up opportunities emerge, a process described in the following section.

Investment Performance

To recap, ASLIT's total assets total return in the period since launch to 30 June 2018 was 8.7%. The opportunity base of the NSCI (XIC) generated a total return of 7.6%. The following paragraphs describe and explain the important influences on ASLIT's performance.

Style

The Managers have consistently followed a value investment philosophy. The performance of the portfolios that they manage is therefore influenced by the stockmarket's style cycles. Most of the period since the financial crisis has been

Managers' Report

characterised by headwinds for the value style. This was the case in 2017, despite a good year of economic progress, to the extent that it was the style's ninth worst year since 1955. The first two months of 2018 followed a similar pattern, but, as ten year US government bond yields rose, the value style picked up and was a gentle following wind for ASLIT's portfolio over the second half of its financial year. It is tempting to compare this recent episode with the events of 2013, when ten year bond yields in the US last reached 3% and the value style performed strongly. Experience would thus appear to back up the theory of a relationship between the cost of money and investment style.

There are two aspects to the theory. First, today's population of value stocks is biased to companies sensitive to the economic cycle: a pick-up in economic activity, signalled by higher bond yields, thus ought to favour the value style. Second, higher bond yields imply the use of higher discount rates in valuing financial assets. Longer duration assets – i.e. those whose cash flows are weighted to more distant periods – are more affected to changes in discount rates. In stockmarket terms, growth stocks may be thought of as long duration equities, while value stocks are relative beneficiaries of a return to a normal cost of money.

Size

The portfolio is biased towards the NSCI (XIC)'s "smaller small" constituents: companies with market capitalisations of more than £750m account for 58% of the NSCI (XIC) but for just 28% of the portfolio. This is due to the lower ratings that persist for such companies and the premium that investors at large are still willing to pay for greater size and liquidity: at 30 June 2018, NSCI (XIC) companies with market capitalisations above £750m are on average 47% more expensive, using 2018 EV/EBITA ratios, than those of £100m or less. In the twelve months to 30 June 2018, the larger stocks within the NSCI (XIC) – specifically, those also in the FTSE 250 – under-performed the smaller stocks, which implies that the size effect had a beneficial effect on portfolio returns.

Sector

At the sector level, the main issue since the EU referendum and the subsequent devaluation of sterling has been the contrast in fortunes between those sectors exposed to the domestic economy and those earning their profits outside the UK. From the end of May 2016 to the end of June 2017, the latter out-performed the former by 19% in total return terms, and the gap widened by a further 18% in ASLIT's financial year to 30 June 2018. All else being equal, this would have represented a drag on the performance of the portfolio, which has a relatively high exposure to domestic companies: at 30 June 2018, 65% of the aggregate sales of the portfolio's holdings were in the UK's domestic economy, compared with 62% for the NSCI (XIC). While acknowledging Brexit's uncertainties and the more challenging trading conditions presently confronting domestically oriented companies, the Managers are attracted by the overly negative sentiment presently afflicting the stockmarket valuations of many such businesses. Contrarianism and opportunism of this sort are part of the Managers' value investment philosophy, though it is important to emphasise that the positioning is not driven by a top-down view; rather it is the result of decisions about the prospects and valuations of individual companies.

Results

Of the companies that the Managers follow closely within the NSCI (XIC), many have December year ends and report results in the first calendar quarter. This year, with those involved in the mining and oil industries excluded, there were 124 such businesses. The aggregated sales and profits of the 124 rose by 9% and 2%. It was therefore a year of progress, albeit one with a squeeze on margins, particularly for those companies paying more in sterling terms for goods and services sourced from outside the UK. While domestic facing businesses experienced greater pressure on profits, it is noteworthy that most of the domestics within the analysis were still able to grow their profits.

Investment by the 124 companies was encouraging: the ratio of aggregated capital expenditure to depreciation was 1.4x. For several years now, the ratio has been well above 1x, which suggests that small and medium sized companies have been investing for future growth. This bodes well and paints a different picture from that of the overall UK economy, which is inevitably influenced by the actions of large companies. The healthy rate of investment by small companies comes alongside evidence that boards of directors are willing to deploy the balance sheet strength that was built up in the years following the financial crisis. This is consistent with a broader recovery in confidence, which is also manifest in growing dividends and gives reason for optimism about an economy that seldom seems short of bad news.

Managers' Report

Corporate activity

The last calendar year was relatively quiet in terms of M&A activity within the NSCI (XIC). This was surprising since valuations for small UK quoted companies were low and sterling's decline following the EU referendum rendered UK assets in general more affordable to overseas buyers. That reasoning has seen some vindication so far in 2018, with six deals announced up to the end of June, of which ASLIT owned two. The renewed enthusiasm for British businesses on the part of other corporates and private equity contrasts sharply with the Bank of America Merrill Lynch survey noted previously. Additionally, the incidence of shareholder activism within the NSCI (XIC) is notably higher so far in 2018. While the Managers choose to engage with company boards directly and discreetly, the proclamations of the public activists draw attention to opportunities within the small cap universe.

Income

The table below categorises the portfolio's holdings depending on each company's most recent dividend action. With numerous dividend increases and few cuts, the first twelve months of ASLIT's life have been supportive of its income account. This is a continuation of the strong growth trend that has been a feature the small company universe since the end of the financial crisis. The "Other" category contains companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year.

Down	No change	Increase	Other
3	21	42	3

Perhaps the most worrisome aspect about small company dividends at present is that the growth has been so strong for so long. At some point, it is probable that something will happen to bring the rate of progress back closer to the long term average of 2.7% per annum in inflation adjusted terms. However, such a setback would not appear imminent: dividend cover for the portfolio as a whole of 2.0x gives comfort and, while trading is difficult for some, a year of profit growth for the majority of companies in the NSCI (XIC) looks likely.

Turnover

Portfolio turnover over the twelve months to 30 June 2018 was 19%. The rate of turnover can be influenced by situations in which ASLIT is required to sell, notably when one of its holdings is subject to a takeover approach. Turnover for other portfolios overseen by the Managers has averaged over 30% over the long term. ASLIT's relatively subdued rate highlights a correlation between investment style and portfolio activity. If the broader stockmarket shows little appetite for the value stocks held by the portfolio, there is no incentive for the Managers to sell these stocks and seek to redeploy the proceeds in fresher opportunities with greater upside. The stockmarket's enthusiasm for growth stocks for much of the past twelve months thus contributes to the relatively low rate of 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. The upper limit to the ratio is 100% and the higher the ratio, the greater the chance that the portfolio will perform differently from the index, for better or worse. The Managers consider active share a useful discipline to ensure that portfolios do not come to resemble too closely the NSCI (XIC). They target a ratio of at least 70%. At 30 June 2018, ASLIT's active share was 78%.

Valuations

The table below contains historical PE and yield data for the portfolio and the NSCI (XIC) at 30 June 2018 and, for comparison, at 31 December 2017. On both measures, the portfolio is cheaper than the opportunity base, consistent with the Managers' value investment style. The major development in PE terms within the UK stockmarket has come from large companies, with the FTSE All-Share's historical PE, according to the London Business School, dropping from 21.6x at 31 December 2017 to 13.0x at 30 June 2018. A fall was to be expected as large companies reported their 2017 results, which benefited from higher commodity prices and the boost to overseas profits from sterling weakness.

Managers' Report

However, there was an additional factor at work: through its purchase of Reynolds, British American Tobacco earned a one-off profit that brought its historical PE down to 2x reported earnings. Given the size of the company, this distorts the PE of the FTSE All-Share, which will persist for a year. With British American Tobacco excluded, the large cap PE would be just under 17x, which is a more representative gauge of large company valuation. This would represent a premium of 14% over the small cap PE, higher than the average since 1990 of 10%.

	30 June 2018		31 December 2017	
Portfolio Characteristics	**ASLIT**	**NSCI (XIC)**	ASLIT	NSCI (XIC)
Number of companies	**69**	**344**	72	350
Weighted average market capitalisation	**£655m**	**£889m**	£703m	£878m
Price earnings ratio or PE (historic)	**11.3x**	**13.9x**	12.2x	14.3x
Dividend yield (historic)	**4.4%**	**2.9%**	4.0%	2.8%
Dividend cover	**2.0x**	**2.5x**	2.0x	2.5x

The table below focuses on the Managers' favoured valuation metric: the ratio of enterprise value to earnings before interest, tax and amortisation. EV/EBITA is shown for the portfolio, for the Tracked Universe – a set of 280 stocks that are followed closely by the Managers – and for certain subsets of the Tracked Universe. The analysis confirms the valuation advantage enjoyed by the portfolio in relation to the Tracked Universe and to the constituency of growth stocks in particular. The table also compares the valuations of all the Tracked Universe's domestic and overseas companies, an approach that excludes the resources sectors and those businesses with no particular geographical skew. This highlights the valuation gap between domestic and overseas companies, with the latter on a 17% premium to the former for 2018, measured as a multiple of profits that have themselves, in many cases, never been higher. In contrast, the domestics are valued on lower multiples of profits that, in several instances, have already declined meaningfully.

EV/EBITA	**2017**	**2018**	**2019**
ASLIT	11.0x	10.6x	9.5x
Tracked universe (280 stocks)	13.9x	13.0x	11.6x
- 43 growth stocks	22.4x	18.7x	16.3x
- 237 other stocks	12.7x	12.2x	11.0x
- 55 overseas stocks	15.4x	14.9x	13.1x
- 141 domestic stocks	13.3x	12.7x	11.5x

Conclusion & outlook

It is now nine years since the last recession, a period in which total returns from the FTSE All-Share and the NSCI (XIC) have been 166% and 274% respectively. Given that length of time and the strength of those returns, a degree of nervousness about a less rewarding period is understandable. Early in 2018, the markets appeared to have found good reason for concern as monetary tightening in the US combined with rising political risk around the world to cloud the outlook. And, of course, the situation in the UK is complicated by the possibility of a Brexit settlement that proves hostile to business.

In the event, the elevated volatility of the quarter to 31 March 2018 proved transient and many indices ended ASLIT's financial year at or close to historical highs. However, there is a different story in the bond markets, with the US ten year yield still around 3%. This would imply better prospects for economic activity in nominal terms but it remains to be seen whether the world economy can endure such a repricing of money. The experience of 2013 does not bode well, but today's growth is more balanced among the major economies and inflationary pressures are more difficult to ignore, with employment markets tightening and populism encouraging looser fiscal policies. At the very least, 3% bond yields give financial markets pause for thought. Will the investment strategies and styles that have prospered in a decade of easy money prove so successful as circumstances change?

Managers' Report

As these big picture issues play out and have their inevitable influence on ASLIT's performance, it is important not to lose sight of the progress being made by the substantial majority of businesses within the portfolio and the NSCI (XIC). Notwithstanding the continuing negotiations with the EU, another year of higher sales and profits looks likely. A healthy level of investment and above average dividend growth suggest confidence on the part of company boards. However, in the context of broader equity markets, valuations of small UK quoted companies remain low, especially among the "smaller small" companies and domestic businesses to which the Managers are attracted through their value investment philosophy. This combination of factors should be supportive of future returns from ASLIT's portfolio.

Aberforth Partners LLP
Managers
26 July 2018

Thirty Largest Investments

As at 30 June 2018

No.	Company	£'000	% of Total	Business Activity
1	Vesuvius	9,177	3.8	Metal flow engineering
2	Keller	7,201	3.0	Ground engineering services
3	Brewin Dolphin Holdings	6,479	2.7	Private client fund manager
4	Dunelm Group	6,326	2.6	Homewares retailer
5	Northgate	6,261	2.6	Van rental
6	RPS Group	5,925	2.4	Energy & environmental consulting
7	Bovis Homes Group	5,829	2.4	Housebuilding
8	Spirent Communications	5,820	2.4	Telecoms test equipment
9	Wincanton	5,692	2.3	Logistics
10	Essentra	5,208	2.1	Filters & packaging products
	Top Ten Investments	**63,918**	**26.3**	
11	Huntsworth	5,140	2.1	Public relations
12	Eurocell	5,014	2.1	Manufacture of UPVC building products
13	Go-Ahead Group	4,917	2.0	Bus & rail operator
14	SThree	4,853	2.0	Recruitment
15	De La Rue	4,847	2.0	Bank note printer
16	TT Electronics	4,792	2.0	Sensors & other electronic components
17	U and I Group	4,781	2.0	Property - investment & development
18	Restaurant Group	4,764	2.0	Restaurant operator
19	RM	4,726	1.9	IT services for schools
20	McKay Securities	4,660	1.9	Property - London & South East offices
	Top Twenty Investments	**112,412**	**46.3**	
21	Senior	4,618	1.9	Aerospace & automotive engineering
22	Vitec Group	4,572	1.9	Photographic & broadcast accessories
23	Paypoint	4,539	1.9	Alternative payment services
24	Morgan Advanced Materials	4,448	1.8	Manufacture of carbon & ceramic materials
25	McColl's Retail Group	4,396	1.8	Retailing - convenience stores
26	Ultra Electronics Holdings	4,103	1.7	Aerospace & defence technologies
27	Forterra	4,087	1.7	Manufacture of bricks
28	KCOM Group	3,894	1.6	Telecoms & related services
29	Halfords Group	3,695	1.5	Automotive & cycling products retailer
30	STV Group	3,689	1.5	Television and digital media
	Top Thirty Investments	**154,453**	**63.6**	
	Other Investments (39)	88,514	36.4	
	Total Investments	**242,967**	**100.0**	
	Net Liabilities	(43,747)		
	Total Net Assets	**199,220**		

Investment Portfolio

As at 30 June 2018

Sector/Security	Business Activity	Value £'000	% of Total Investments
Oil & Gas Producers		**1,068**	**0.4**
SOCO International	Oil & gas exploration & production	1,068	0.4
Oil Equipment, Services & Distribution		**1,234**	**0.5**
Gulf Marine Services	Build & rental of support vessels	1,234	0.5
Mining		**3,657**	**1.5**
Anglo Pacific Group	Natural resources royalties	3,657	1.5
Construction & Materials		**18,602**	**7.7**
Eurocell	Manufacture of UPVC building products	5,014	2.1
Forterra	Manufacture of bricks	4,087	1.7
Keller	Ground engineering services	7,201	3.0
Kier Group	Construction & facilities management	2,300	0.9
Aerospace & Defence		**8,721**	**3.6**
Senior	Aerospace & automotive engineering	4,618	1.9
Ultra Electronics Holdings	Aeropsace & defence technologies	4,103	1.7
General Industrials		**10,592**	**4.4**
Low & Bonar	Manufacture of industrial textiles	1,415	0.6
Vesuvius	Metal flow engineering	9,177	3.8
Electronic & Electrical Equipment		**9,240**	**3.8**
Morgan Advanced Materials	Manufacture of carbon & ceramic materials	4,448	1.8
TT Electronics	Sensors & other electronic components	4,792	2.0
Industrial Engineering		**7,157**	**3.0**
Castings	Engineering - automotive castings	2,585	1.1
Vitec Group	Photographic & broadcast accessories	4,572	1.9
Industrial Transportation		**5,692**	**2.3**
Wincanton	Logistics	5,692	2.3
Support Services		**37,503**	**15.5**
Biffa	Waste & disposal services	1,909	0.8
Connect Group	Newspaper distribution	1,125	0.5
De La Rue	Bank note printer	4,847	2.0
Essentra	Filters & packaging products	5,208	2.1
Menzies (John)	Distribution & aviation services	1,163	0.5
Northgate	Van rental	6,261	2.6
Paypoint	Alternative payment services	4,539	1.9
RPS Group	Energy & environmental consulting	5,925	2.4
SIG	Specialist building products distributor	1,673	0.7
SThree	Recruitment	4,853	2.0
Automobiles & Parts		**3,500**	**1.4**
TI Fluid Systems	Automotive parts manufacturer	3,500	1.4
Food Producers		**4,446**	**1.8**
Bakkavor Group	Food manufacturer	2,186	0.9
Devro	Sausage casings	2,260	0.9
Household Goods & Home Construction		**6,344**	**2.6**
Bovis Homes Group	Housebuilding	5,829	2.4
Headlam Group	Distributor of floor coverings	515	0.2
Food & Drug Retailers		**4,396**	**1.8**
McColl's Retail Group	Retailing - convenience stores	4,396	1.8

Investment Portfolio

As at 30 June 2018

Sector/Security	Business Activity	Value £'000	% of Total Investments
General Retailers		**22,707**	**9.3**
DFS Furniture	Furniture retailer	3,454	1.4
Dunelm Group	Homewares retailer	6,326	2.6
Halfords Group	Automotive & cycling products retailer	3,695	1.5
N Brown Group	Catalogue retailer	2,729	1.1
Pendragon	Automotive retailer	2,299	0.9
Pets at Home Group	Pet food, products & services retailer	1,832	0.8
Topps Tiles	Ceramic tile retailer	2,372	1.0
Media		**19,566**	**8.0**
Bloomsbury Publishing	Independent publishing house	3,537	1.5
Centaur Media	B2B publishing	1,809	0.7
Huntsworth	Public relations	5,140	2.1
Reach	UK newspaper publisher	3,291	1.3
STV Group	Television and digital media	3,689	1.5
Wilmington Group	Business publishing & training	2,100	0.9
Travel & Leisure		**18,284**	**7.5**
Air Partner	Aircraft charter	1,489	0.6
Go-Ahead Group	Bus & rail operator	4,917	2.0
Rank Group	Multi-channel gaming operator	3,632	1.5
Restaurant Group	Restaurant operator	4,764	2.0
Stagecoach Group	Bus & rail operator	3,482	1.4
Fixed Line Telecommunications		**3,894**	**1.6**
KCOM Group	Telecoms & related services	3,894	1.6
Electricity		**1,799**	**0.7**
Drax Group	Electricity generation	1,799	0.7
Nonlife Insurance		**3,409**	**1.4**
Lancashire Holdings	Property & casualty insurance	1,030	0.4
Sabre Insurance Group	Car Insurance	2,379	1.0
Life Insurance		**7,257**	**3.1**
Chesnara	Life insurance	2,353	1.0
Hansard Global	Life assurance savings products	1,584	0.7
Just Group	Individually underwritten annuities	3,320	1.4
Real Estate Investment & Services		**4,781**	**2.0**
U and I Group	Property - investment & development	4,781	2.0
Real Estate Investment Trusts		**14,930**	**6.1**
Assura	Property - healthcare	2,134	0.9
Capital & Regional	Property - shopping centres	2,890	1.2
Hansteen Holdings	Property - industrial	2,236	0.9
McKay Securities	Property - London & South East offices	4,660	1.9
RDI REIT	Property - retail & commercials	3,010	1.2
Financial Services		**13,642**	**5.7**
Brewin Dolphin Holdings	Private client fund manager	6,479	2.7
CMC Markets	Financial derivatives dealer	1,337	0.6
International Personal Finance	Home credit provider	2,897	1.2
Non-Standard Finance	Home credit provider	2,929	1.2
Software & Computer Services		**4,726**	**1.9**
RM	IT services for schools	4,726	1.9
Technology Hardware & Equipment		**5,820**	**2.4**
Spirent Communications	Telecoms test equipment	5,820	2.4
Total Investments		**242,967**	**100.0**

Other Portfolio Information

Summary of Investment Transactions

For the period ended 30 June 2018

Purchases[1]	Cost £'000	Sales	Proceeds £'000
Vesuvius	8,419	Hogg Robinson Group	9,034
Northgate	7,873	Games Workshop Group	5,549
Dunelm Group	7,408	Computacenter	5,278
Keller	6,373	Paragon Banking Group	5,037
RPS Group	6,208	Galliford Try	5,010
Brewin Dolphin Holdings	6,198	Charles Stanley Group	3,661
Wincanton	6,169	Hansteen Holdings	3,004
Essentra	5,978	Unite Group	2,872
Bovis Homes Group	5,968	Novae Group	2,491
Restaurant Group	5,703	Huntsworth	1,347
Hogg Robinson Group	5,645	Bovis Homes Group	1,292
Spirent Communications	5,505	Air Partner	1,045
Go-Ahead Group	5,450	Laird	1,028
De La Rue	5,447	Anglo Pacific Group	819
Galliford Try	5,417	Greencore Group	802
Hansteen Holdings	5,382	TT Electronics	758
Paragon Banking Group	5,193	Pendragon	548
Stagecoach Group	5,152	AA	452
Other Purchases	178,414	Other Sales	–
Total Purchases (incl. transaction costs)	**287,902**	**Total Sales (incl. transaction costs)**	**50,027**

[1] Includes the in-specie transfer of securities from Aberforth Geared Income Trust plc.

Other Portfolio Information

FTSE Industry Classification Exposure Analysis

	Inception				30 June 2018	
Sector	Portfolio Weight %	Portfolio Valuation £'000	Net Purchases/ (Sales)[1] £'000	Net Appreciation/ (Depreciation)[1] £'000	**Portfolio Valuation £'000**	**Portfolio Weight %**
Oil & Gas	–	–	2,897	(595)	**2,302**	**0.9**
Basic Materials	–	–	2,825	832	**3,657**	**1.5**
Industrials	–	–	96,343	1,164	**97,507**	**40.2**
Consumer Goods	–	–	11,297	2,993	**14,290**	**5.9**
Health Care	–	–	–	–	**–**	**–**
Consumer Services	–	–	69,074	(4,120)	**64,954**	**26.8**
Telecommunications	–	–	3,638	256	**3,894**	**1.6**
Utilities	–	–	1,821	(22)	**1,799**	**0.7**
Financials	–	–	42,843	1,175	**44,018**	**18.1**
Technology	–	–	7,137	3,409	**10,546**	**4.3**
	–	–	**237,875**	**5,092**	**242,967**	**100.0**

[1] Includes transaction costs.

FTSE Index Classification Exposure Analysis

	30 June 2018		
Index Classification	**Number of Companies**	**Portfolio Valuation £'000**	**Weight %**
FTSE 100	**–**	**–**	**–**
FTSE 250	**21**	**82,867**	**34.1**
FTSE SmallCap	**39**	**134,208**	**55.3**
FTSE Fledgling	**3**	**4,881**	**2.0**
Other	**6**	**21,011**	**8.6**
	69	**242,967**	**100.0**

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 26 July 2018 and signed on its behalf by:

Jonathan Cartwright
Chairman

Governance Report

Board of Directors

Jonathan Cartwright (Chairman)

Appointed: 19 April 2017

Shareholding in the Company: 30,764 Ordinary Shares and 13,030 ZDP Shares

Jonathan Cartwright is the Chairman of the Company and is a chartered accountant. He was the Chairman of Aberforth Geared Income Trust plc from 2010 to 2017 and is a former Finance Director of Caledonia Investments plc having retired in 2009. He joined Caledonia Investments plc, now one of the UK's largest investment trusts, in 1989 having previously held the role of financial controller at Hanson plc and qualifying as a chartered accountant with KPMG. He is a non-executive Director of Tennants Consolidated Limited, The Income & Growth VCT plc and Chairman of BlackRock Income & Growth Investment Trust plc.

Graeme Bissett

Appointed: 19 April 2017

Shareholding in the Company: 24,000 Ordinary Shares and 6,000 ZDP Shares

Graeme Bissett is chairman of the Audit Committee and is a chartered accountant. He was a senior partner of Arthur Andersen LLP, with responsibility for its corporate finance and audit practices in Scotland from 1990 to 1998. Graeme has previously served as non-executive chairman of Macfarlane Group plc. Graeme has also previously served as finance director of international groups and on the boards of Curo Compensation Ltd and The Scottish Futures Trust Ltd. Graeme is a non-executive director with Smart Metering Systems plc and his other current board appointments comprise Cruden Holdings Ltd and Anderson Strathern LLP. He is a Member of Court at the University of Glasgow, an independent non-executive member of the Joint Management Board of the Scotland Office, a department of the U.K. Government, a trustee of the Scottish Association of Citizens Advice Bureaux, and a trustee of Entrepreneurial Scotland.

Dominic Fisher OBE

Appointed: 19 April 2017

Shareholding in the Company: 152,934 Ordinary Shares

Dominic Fisher is a member of the Audit Committee. He was a director of Aberforth Geared Income Trust plc from 2010 to 2017. He is the founder of Thistledown Investment Management Ltd and has worked as an investment manager since 1989. From 1992 to 2001 he worked for Mercury Asset Management (subsequently Merrill Lynch Investment Managers), heading the charities division responsible for management of £2.4 billion of funds and was a member of the smaller companies team.

Angus Gordon Lennox

Appointed: 19 April 2017

Shareholding in the Company: 419,738 Ordinary Shares

Angus Gordon Lennox is a member of the Audit Committee. He has an extensive knowledge of the investment industry with 23 years at Cazenove, latterly J.P. Morgan Cazenove, where he was a managing director of J.P. Morgan Cazenove and Head of the Investment Companies Department. He held this position until 2010 when he retired. Angus is also the executive chairman of two family businesses, Chairman of The Mercantile Investment Trust plc and senior independent director of Securities Trust of Scotland plc.

Graham Menzies

Appointed: 19 April 2017

Shareholding in the Company: 348,036 Ordinary Shares (Beneficial) and 99,311 (Non-beneficial)

Graham Menzies was a director of Aberforth Geared Income Trust plc from 2010 to 2017. He was group chief executive of Adwest Automotive plc until 1999 and group chief executive of Senior plc until 2008. He has been a non-executive director on several industrial company boards, including five public companies and four private companies.

Directors’ Report

The Directors present their Annual Report and the audited financial statements for the period ended 30 June 2018.

Directors

The Directors of the Company during the period to 30 June 2018 are listed on page 18. Further information about the Board can be found in the Corporate Governance Report, which forms part of this Directors’ Report. It is the responsibility of the Board to ensure that there is effective stewardship of the Company’s affairs. In common with the majority of investment trusts, the Company has neither executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial, depositary and custodial activities of the Company.

In accordance with the terms of the Articles of Association all Directors retire at the Annual General Meeting each year and, if appropriate, seek re-election. The first Annual General Meeting of the Company will be held on 23 October 2018 and, being eligible, all the Directors offer themselves for election. Their biographical details are shown on page 18. The Board believes that all Directors continue to be effective in their respective roles, bringing a wealth of knowledge and experience, and recommends their election to Shareholders.

Details of Directors’ remuneration and shareholdings are shown within the Directors’ Remuneration Report on pages 31 and 32.

Objective, Investment Policy, Investment Strategy, Risks and Dividend Policy

These are explained fully on pages 1, 4, 5 and 21.

Return and Dividends

The total return attributable to Ordinary Shareholders for the period ended 30 June 2018 amounted to a gain of £12,947,000. As at 30 June 2018 the net asset value per Ordinary Share was 104.71p and per ZDP Share was 102.93p.

Your Board is pleased to declare a second interim dividend of 2.6p (total of £4,946,000) and a special dividend of 0.6p (total of £1,142,000) which produces total dividends for the period to 30 June 2018 of 4.6p (total of £8,752,000). The second interim dividend and the special dividend will have an ex dividend date of 9 August 2018 and will be paid on 31 August 2018 to Ordinary Shareholders on the register at the close of business on 10 August 2018. The first interim dividend of 1.4p (total of £2,664,000) per Ordinary Share was paid on 6 March 2018.

Managers

Aberforth Partners LLP (the firm, Managers or Aberforth) act as Alternative Investment Fund Manager and Secretaries to the Company. Aberforth was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.4 billion (as at 30 June 2018). The firm is wholly owned by seven partners, six of whom are investment managers. The investment managers work as a team managing the Company’s portfolio on a collegiate basis.

These services can be terminated by either party at any time by giving six months’ notice of termination. Compensation would be payable in respect of this six month period only if termination were to occur sooner. Aberforth receives an annual management fee, payable quarterly in advance, equal to 0.75% of the Company’s Total Assets. The management fee amounted to £1,797,000 in the period ended 30 June 2018.

The Board reviews the Company’s investment management and secretarial arrangements on an on-going basis and formally at its July meeting, where each Director completes a Managers’ Evaluation questionnaire. The Board then considers the results of the questionnaire and discusses the following matters, amongst others, in its review:

- investment performance in relation to the investment objective, policy and strategy;
- the continuity and quality of personnel managing the assets;
- the level of the management fee;
- the quality of reporting to the Board;
- the administrative services provided by the Secretaries; and
- the frequency and quality of both verbal and written communications with Shareholders;

Following the most recent review, the Board has formed the view that the continued appointment of Aberforth as Manager on the terms agreed, is in the best interests of Shareholders.

Directors' Report

Depositary

National Westminster Bank plc carries out the duties of Depositary as specified in the Alternative Investment Fund Managers (AIFM) Directive in relation to the Company, including:

- holding or controlling all assets of the Company that are entrusted to it for safekeeping;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Managers.

In carrying out such duties, the Depositary acts in the best interests of the Shareholders of the Company. The Depositary is contractually liable to the Company for the loss of any securities entrusted to it. The Depositary is also liable to the Company for all other losses suffered as a result of the Depositary's fraud, negligence and/or failure to fulfil its duties properly.

The Depositary receives an annual fee, payable quarterly in arrears, of 0.0085% of the net assets of the Company and its appointment may be terminated at any time by giving at least six months' notice. A Depositary may only be removed from office when a new Depositary is appointed by the Company.

Company Status

The Company is registered as a public limited company and is an investment company as defined by Section 833 of the Companies Act 2006. The Directors are of the opinion that the Company has conducted its affairs during the period ended 30 June 2018 so as to maintain approval as an Investment Trust under section 1158 of the Corporation Tax Act 2010.

The Company has share capital consisting of Ordinary Shares and ZDP Shares. The Company is listed and its two share classes trade on the London Stock Exchange. Furthermore the Company is subject to the laws and regulations relating to UK listed companies. The Company is a member of the Association of Investment Companies (AIC).

Capital Structure

The Company has two classes of Shares. At 30 June 2018 the Company's share capital consisted of Ordinary Shares, of which 190,250,000 were issued, allotted and fully paid and, ZDP Shares, of which 47,562,500 were issued, allotted and fully paid. The Ordinary Shares represent 80% of the Company's issued share capital and the ZDP Shares represent 20% of the Company's issued share capital. No Shares were held in treasury as at 30 June 2018.

Ordinary Shares

Ordinary Shareholders are entitled to the net assets of the Company on a winding up, after all liabilities of the Company have been settled and the entitlements of the ZDP Shares have been met. In addition, Ordinary Shareholders will be entitled on a winding up to receive any undistributed revenue reserves of the Company, which will be paid in the form of a pre-liquidation dividend or during the course of the liquidation, subject to all creditors of the Company having been paid out in full and even if the cover on the ZDP Shares is at the time less than one. The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares will be geared by the rising capital entitlements of the ZDP Shares. Accordingly, the Ordinary Shares should be regarded as carrying above average risk.

Zero Dividend Preference Shares

The ZDP Shares were issued with a targeted final capital entitlement of 127.25p per ZDP Share on the planned winding-up date of 1 July 2024. This represents a redemption yield of 3.5% per annum over the life of the ZDP Shares, based on the issue price of 100p at inception on 30 June 2017. Under current legislation, the increase from the issue price of 100p to 127.25p per ZDP Share will generally be treated as a capital gain for UK tax purposes. The holders of ZDP Shares are not entitled to receive dividend payments. ZDP Shares have been recorded as a liability in the Company's Balance Sheet.

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an Investment Trust. In respect of the period ended 30 June 2018, the main qualifying requirements included:

- the Company must invest in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds;
- the Company's Shares are listed on a regulated market such as the London Stock Exchange;
- the Company must not retain in respect of each accounting period more than 15% of its total income (for tax purposes); and
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an Investment Trust for accounting periods commencing on or after 3 July 2017 subject to the Company continuing to meet the eligibility conditions. The Company intends to continue to conduct its affairs as an Investment Trust.

Duration of the Company

The Company has a planned life lasting until 1 July 2024. The Directors are required by the Company's Articles of Association to convene a general meeting of the Company on, or within the three months prior to 1 July 2024, at which a special resolution will be proposed to wind up the Company voluntarily by not later than the planned winding up date. As these arrangements are designed to ensure that the ZDP Shareholders will be entitled to realise their investment, weighted voting provisions shall apply so as to ensure that this resolution will be passed if any Shareholder votes in favour. However, before this date, the Directors will examine means whereby holders of Ordinary Shares may effectively continue their investment while allowing the ZDP Shareholders to realise their investment. The Directors may be released from the obligation to call a general meeting if a special resolution has been passed to that effect not later than 1 July 2024.

Overdraft facility

The Company has a £2 million overdraft facility with The Royal Bank of Scotland International Ltd, which is subject to an annual credit evaluation. The interest rate applying to overdrawn balances is 2.25% over the UK Base Rate. In addition an arrangement fee of £20,000 was incurred in respect of the facility. During the period ended 30 June 2018 the highest utilisation of the overdraft facility was £1.3 million.

Dividend Policy

To maintain its Investment Trust status the Company, amongst other conditions, must not retain more than 15% of its total income (for tax purposes), which ordinarily requires a significant proportion of the Company's total income to be distributed as dividends. The Company's dividend policy is to pay two dividends in respect of each financial year: a first interim dividend is paid in February/March and a second interim dividend is paid in August/September. A second interim dividend is paid rather than a final dividend in order to expedite the disbursement for the benefit of Shareholders.

Going Concern

In accordance with the report "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the Financial Reporting Council in September 2014, the Audit Committee have undertook and documented an assessment of whether it is appropriate for the Company to adopt the going concern basis of accounting. The Committee reported the results of its assessment to the Board.

The Company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development and performance, are set out in the Strategic Report. In addition, the Annual Report includes the Company's objectives, policies and processes for managing its capital, its financial risk, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet any funding requirements, though funding flexibility can typically be achieved through the use of the bank overdraft facility. The Company has adequate financial resources to enable it to meet its day-to-day working capital requirements.

In summary and taking into consideration all available information, the Directors have concluded it is appropriate to prepare the financial statements on a going concern basis.

Voting Rights of Shareholders

Ordinary Shareholders have the right to receive notice of, to attend and to vote at general meetings of the Company. Each Ordinary Shareholder has one vote on a show of hands and, on a poll, one vote for every Ordinary Share held. The right of Ordinary Shareholders to vote on certain resolutions on the winding up, reconstruction or reorganisation of the Company is subject to the restrictions set out in the Articles. Votes are required to be lodged with the Company's Registrar 48 hours before a meeting (excluding non-working days). The holders of ZDP Shares do not have the right to receive notice of any general meeting of the Company or to attend or vote at any such meeting except in respect of any resolution: (i) to vary the special rights or privileges attached to the ZDP Shares; (ii) to wind up the Company. Their separate approval as a class will be required for certain proposals that would be likely to affect their position materially.

The Board is pleased to offer electronic proxy voting, including CREST voting capabilities. Further details can be found in the Notice of the AGM.

Notifiable Share Interests

The Board has received notifications of the following interests in 3% or more of the total voting rights of the Company as at 30 June 2018 and at 26 July 2018. The percentage calculation is based on the total voting rights of 190,250,000 Ordinary Shares.

Notified interests	Percentage of Voting Rights Held
Brompton Asset Management LLP	8.3%
Artemis Investment Management LLP	7.6%
Courtiers Asset Management	6.2%
Mr Alistair Whyte	4.0%
Mr David Ross	3.8%

Directors' Report

Annual General Meeting

The AGM will be held at 14 Melville Street, Edinburgh EH3 7NS at 11.00 a.m. on 23 October 2018. The Notice of the Meeting and explanatory notes are set out on pages 55 to 56 of the Annual Report and Financial Statements.

The Directors consider each resolution being proposed at the AGM to be in the best interests of Shareholders as a whole and they unanimously recommend that all Shareholders vote in favour of them, as they intend to do in respect of their own beneficial shareholdings.

Additional information in respect of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

- The Company's capital structure and voting rights are summarised on pages 20 to 21.
- Details of the substantial Ordinary Shareholders in the Company are listed on page 21.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are set out on page 19.
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's Shares require a special resolution to be passed by Shareholders.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the principal operational activities of the Company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Bribery Act 2010

The Company has zero tolerance of bribery and is committed to carrying out business fairly, honestly and openly. Aberforth, the Company's Managers, have confirmed that they have anti-bribery policies and procedures in place and they have zero tolerance of bribery.

Independent Auditor

Deloitte LLP has expressed its willingness to be re-appointed as Auditor and a resolution proposing its re-appointment will be put to the forthcoming Annual General Meeting.

Disclosure of Information to Auditor

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

Future Developments

The future success of the Company is dependent primarily on the performance of its investments. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective and the stated investment strategy and policy.

By Order of the Board
Jonathan Cartwright
Chairman
26 July 2018

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (the AIC Code) as set out in the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Board considers that reporting in accordance with the principles and recommendations of the AIC Code provides more relevant and comprehensive information to Shareholders. Both the AIC Code and the AIC Guide are available on the AIC website at www.theaic.co.uk. This report forms part of the Directors' Report on pages 19 to 22.

Compliance

Throughout the period ended 30 June 2018 the Company complied with the recommendations of the AIC Code except, as explained below, where the Board does not believe it appropriate to comply.

- The Board, being small in size and composed entirely of independent non-executive Directors, has not appointed a Remuneration or a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole.
- The Board has decided not to nominate a Deputy Chairman or a Senior Independent Director, although the Chairman of the Audit Committee fulfils this role when necessary, for example in taking the lead in the annual evaluation of the Chairman.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive Directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are considered at its meetings. The Board comprises five non-executive Directors, of whom Jonathan Cartwright is Chairman. The Board has engaged external firms to provide investment management, secretarial, depositary and custodial services. Contractual arrangements are in place between the Company and these firms.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. An individual may therefore be considered to be independent even though the length of service may exceed nine years. No limit on the overall length of service of any of the Directors has therefore been imposed. All Directors are presently considered to be independent. All Directors retire at the AGM each year and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of their engagement as a non-executive Director, copies of which are available on request and available at the AGM.

Meetings

The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance and with its investment universe. Other matters reviewed by the Directors include:

- the stockmarket environment;
- the Company's investment activity over the quarter relative to its investment policy;
- performance in relation to comparable investment trusts;
- the revenue account, balance sheet and gearing position;
- share price discount;
- Shareholder register (including significant changes);
- regulatory matters; and
- relevant industry issues.

Corporate Governance Report

Annual Plan

The following highlights various additional matters considered by the Board during the reporting period:

October
- Review of the launch of the Company
- Corporate Governance, including the Investment Managers' policy on Stewardship
- Risks & Controls Matrix
- Investment Trust Peer Group

January
- Initial Accounts and the Half Yearly Report
- First Interim Dividend

April
- Investment Trust Status
- Data Protection (GDPR)
- Board Composition

July
- Annual Report and Second Interim/Special dividends
- Managers' Review, including continued appointment and remuneration
- Risks & Control Matrix
- Data Protection (GDPR)
- Board and Committee Evaluation

The following table sets out the Directors of the Company during the financial period, together with the number of Board and Committee meetings held and the number of meetings attended by each Director (whilst a Director or Committee member).

	Board		Audit Committee		Other Committee[1]	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Jonathan Cartwright, Chairman	5	5	–	–	3	2
Graeme Bissett	5	5	2	2	3	3
Dominic Fisher	5	4	2	2	3	2
Angus Gordon Lennox	5	5	2	2	3	3
Graham Menzies	5	5	–	–	3	3

[1] An issue committee was established by the Board to consider matters relating to the launch of the Company.

Appointments to the Board

The Board regularly reviews its composition, having regard to the Board's structure and to the present and future needs of the Company. The Board takes into account its diversity, the balance of expertise and skills brought by individual Directors, and length of service, where continuity and experience can add significantly to the strength of the Board. The Board has not yet set diversity targets or a formal policy. No directors have been appointed since inception of the Company.

Board performance and election of Directors

The Board undertakes a formal annual assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Board conducted this review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which were summarised and discussed in July 2018, providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman was led by the Chairman of the Audit Committee. It is the Board's intention to utilise external facilitators to conduct the evaluation of the Board every three years.

The AIC Code provides that all Directors should be subject to election by Shareholders at the first AGM after their appointment. In line with this policy, all Directors being eligible, offer themselves for election at the forthcoming AGM. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board, and the Chairman recommends their election to Shareholders.

Corporate Governance Report

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance cover in respect of legal action against its Directors. The Company has also entered into qualifying third party deeds of indemnity with each Director to cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The deeds were in force during the period to 30 June 2018 and up to the date of approval of this report. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fines.

Training and Advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company. Directors are also encouraged to attend industry and other seminars. Directors, in the furtherance of their duties, may also seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

All Directors have access to the advice and services of the Company's Secretaries, Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Secretaries are also responsible for advising the Board through the Chairman on all governance matters.

Conflicts of Interest

Company directors have a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures for managing any actual or potential conflicts of interest. No conflicts of interest arose during the year under review.

Risk Management and Internal Control

The Board has overall responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The Company applies the guidance published by the Financial Reporting Council on internal controls. Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the Company's financial information is reliable. The Directors have a robust process for identifying, evaluating and managing the significant risks faced by the Company, which are recorded in a risk matrix. The Board considers each risk as well as reviewing the mitigating controls in place. Each risk is rated for its "likelihood" and "impact" and the resultant numerical rating determines its ranking into High, Medium or Low Risk. This process was in operation during the reporting period and continues in place up to the date of this report. It principally involves the Audit Committee receiving and examining regular reports from the main service providers. The Board then receives a detailed report from the Audit Committee on its findings. The Directors have not identified any significant failures or weaknesses in respect of the Company's internal control systems.

Communications with Shareholders

The Board places great importance on communication with Shareholders. Directors of the Company are available to meet with any Shareholder on request. The Managers meet the larger Shareholders twice a year to provide them with a detailed report on the progress of the Company and to receive feedback. The Board receives reports from the Managers of these Shareholder meetings. The Directors may be contacted via the Secretaries whose details are shown on the inside back cover or through the Chairman's email address, jonathan.cartwright@aberforth.co.uk.

All Shareholders have the opportunity to attend and vote at the AGM where the Directors and Managers are available to discuss important issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter. In addition to the annual and half yearly reports, daily Net Asset Values, monthly factsheets and other relevant information are published at www.aberforth.co.uk.

Socially Responsible Investment

The Directors, through the Managers, encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Managers believe that sound social, environmental and ethical policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of social, environmental and ethical concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

Corporate Governance Report

UK Stewardship Code

The Board and the Managers support the UK Stewardship Code, issued by the FRC in September 2012, which sets out the principles of effective stewardship by institutional investors. The Company's investment portfolio is managed by Aberforth who invest exclusively in small UK quoted companies and, as a significant investor within this asset class, the Managers have a strong commitment to effective stewardship.

The Board has reviewed, and endorses, the Managers' Stewardship Policy, which is available within the literature library section of the Managers' website, at www.aberforth.co.uk.

Voting Policy

The Board has given discretionary voting powers to the Managers to exercise the voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned. The Board receives quarterly reports from the Managers on governance issues (including voting) pertaining to investee companies.

By Order of the Board
Jonathan Cartwright
Chairman
26 July 2018

Audit Committee Report

The Committee members are all independent non-executive directors who have been selected by the Board to fulfil the Committee's duties based upon their range of financial and commercial expertise. They are Graeme Bissett (Chairman), Dominic Fisher and Angus Gordon Lennox. The members' biographies can be found on page 18.

Objective

The main objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so, the Committee operates within terms of reference that have been agreed by the Board. These are reviewed annually and are available upon request. They will also be available for inspection at the AGM.

Principal Responsibilities

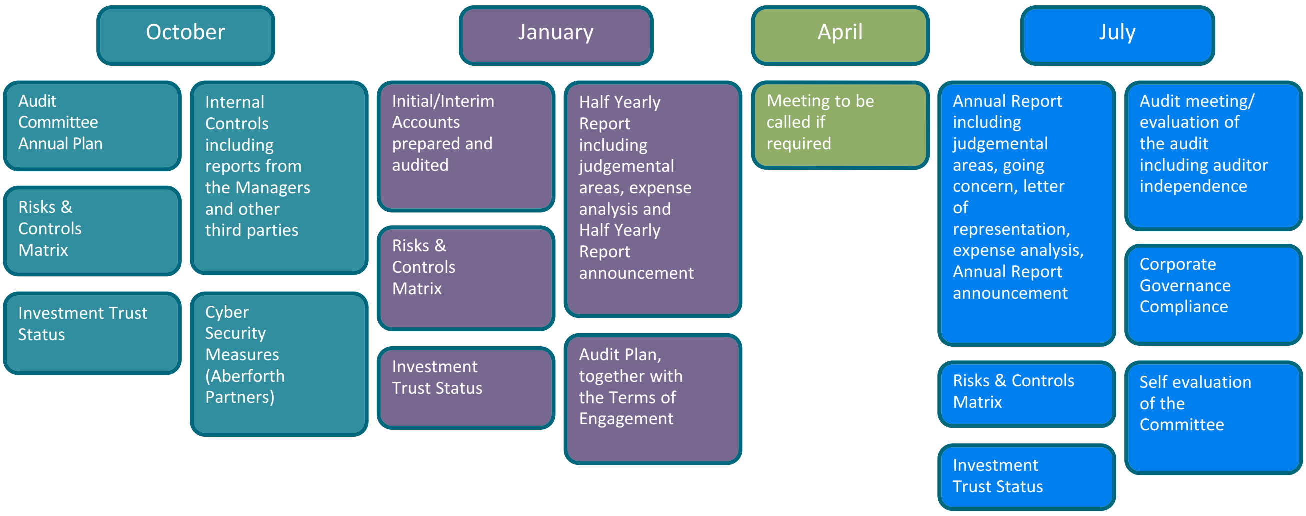
The Committee has been given the following principal responsibilities:

- reviewing the Company's financial statements, the accounting policies adopted and judgemental areas;
- ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable;
- agreeing the external Auditor's terms of appointment, determining the independence and objectivity of the Auditor and assessing the effectiveness of the audit;
- considering whether it is appropriate for certain non-audit services to be carried out by the Auditor;
- reviewing the effectiveness of the Company's internal control and risk management systems and monitoring the mitigating controls that have been established; and
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust that is listed on the London Stock Exchange.

The Chairman reports formally to the Board on the Committee's proceedings after each meeting.

Audit Committee Annual Plan

To assist with the various duties of the Committee, a Meeting Plan has been adopted which is reviewed annually.



Meetings

Three meetings are usually held each year. Representatives of Aberforth, who provide the Company with secretarial services, attended all of the meetings. Deloitte LLP (Deloitte), the external auditor, attended the meetings in January and July.

During the last reporting period the Committee focused on the areas described below.

Audit Committee Report

Matter Considered	Action taken by the Committee
Financial Reporting	The Committee's business in January was focused on reports, from the external Auditor and Secretaries on the Initial Accounts and supporting documentation from the Secretaries, on the preparation and content of the Initial Accounts/Half Yearly Report, together with other aspects such as going concern. Preparation of the Initial Accounts to 31 December 2017 was required under the Companies Act 2006 to support the payment of the first interim dividend and the Initial Accounts were audited by Deloitte in January 2018. The 2017 Half Yearly Report was published on 24 January 2018 and was unaudited, as is customary for half yearly reports of investment trusts. In July 2018, the Committee received a report and supporting presentation from the external Auditor on its audit of the Annual Report and financial statements for the period to 30 June 2018. This included details of the steps taken by the auditor to confirm the valuation and ownership of the investment portfolio and recognition of income. Their report also focused on Alternative Performance Measures and the appropriate disclosures. In addition, the Secretaries reported on the preparation of the financial results and other relevant matters. The Committee considered these reports in detail and its conclusions were further supported by the risk and controls reviews discussed below. The Chairman of the Committee had previously discussed the outcome of the audit process and the Annual Report with the audit partner without representatives of the Managers being present. Consequently, the Committee concluded that it was satisfied as to: • the ownership and valuation of the investment portfolio as at 30 June 2018; and • revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period. The Committee read and discussed this Annual Report and concluded that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, investment objective and strategy. As a result, the Committee agreed that it would recommend to the Board that the Annual Report be approved for publication.
Investment Trust Status	It is essential that the Company maintains its investment trust status. The Committee confirms the status at each meeting with reference to a checklist prepared by the Secretaries. The position is also confirmed by the external Auditor as part of the audit process.
Going Concern and Viability Statement	The Committee received reports on going concern from the Secretaries in January and July, reflecting the guidance published by the Financial Reporting Council. The content of the investment portfolio, trading activity and portfolio diversification were also discussed. After due consideration, the Committee concluded it was appropriate to prepare the Company's accounts on a going concern basis and made this recommendation to the Board. The relatively high level of liquidity of the portfolio was the main factor that led to this conclusion. The Committee also assessed the viability of the Company including, in July 2018, the conduct of a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' funds and investment income and the impact of losing investment trust status. The Committee concluded that it was appropriate to provide a Viability Statement for a five year period for the reasons set out in the Statement on page 6 and recommended adoption of the Viability Statement to the Board.
Principal Risks and Controls, including Cyber Security and GDPR	The Committee carefully considered a matrix of the Company's principal risks and the mitigating controls at each meeting. In October 2017 the risks and controls were addressed in more detail. The Committee enhanced the content of the matrix during the reporting period and believes that it continues to reflect accurately the Company's principal risks. These risks, which are detailed on page 5 of this Report have not changed significantly in the period since inception. Also in October 2017 the Committee received the Managers' report on internal controls, including an assurance report issued by PricewaterhouseCoopers LLP (PwC) on the nature and effectiveness of the control framework that has been established by the Managers. A representative of PwC attended the meeting. In addition, the Committee received internal control reports from the custodian, Northern Trust, and its registrar, Link Asset Services. The Committee reviewed these reports, including the independent audit opinions thereon, and concluded that there were no significant control weaknesses or other issues that needed to be brought to the Board's attention.

Audit Committee Report

Matter Considered	Action taken by the Committee
	The Committee continues to monitor closely the increasing risk arising from cyber threats. In October 2017, the Committee received presentations from Aberforth and their external service provider for cyber security, covering the measures that are in place to protect the Managers' systems and the Company information that these systems contain. In July 2018, the Committee also received cyber security presentations from both Northern Trust and Link Asset Services. The Committee noted the assurances that have been given about the effectiveness of control measures. It concluded that, although cyber-attack represents an increasing threat to companies and public bodies worldwide, the Company has taken all reasonable steps to ensure that appropriate protection measures are in place. Nevertheless, this threat will continue to be monitored closely. The Committee also discussed whether there was a need for a dedicated internal audit function. It concluded that, as the Company has no employees and sub-contracts its principal operations to third party suppliers who are able to demonstrate the effectiveness of their own internal control procedures, an internal audit function is not necessary.
External Audit, Audit Planning and Audit Fees	Deloitte was appointed as the Company's auditor upon launch of the Company following a tender process. Based upon existing legislation, another tender process would not be required until 2027; however, under the Company's Articles, the Company's planned winding up date is 1 July 2024. The Company is therefore in compliance with the provisions of "The Statutory Audit Services for Large Companies Market Investigation" (Mandatory use of competitive tender processes and audit committee responsibilities) Order 2014 as issued by the Competition & Markets Authority. The external audit partner from Deloitte presented the detailed audit plan to the Committee in October in advance of the audit of the Initial Accounts and the 2018 Annual Report. The plan set out the scope of the audit, the principal risks that would be addressed (as detailed in the Independent Auditor's Report), the timetable and the proposed fees. These amounted to £12,500, excluding VAT, for the Initial Accounts and £22,250, excluding VAT, in respect of the Annual Report. There were no non-audit activities carried out by Deloitte.
Evaluation of the Auditor	Following the completion of the audit in July 2018, the Committee reviewed the Auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience. The Committee noted positive feedback from the Secretaries on Deloitte's performance of the audit. Taking these factors into account, the Committee is satisfied that the external audit was carried out effectively. It has therefore recommended the re-appointment of Deloitte as the Company's auditor for the 2018-19 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

A formal internal review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The outcome was positive with no significant concerns expressed. It is the intention of the Board to utilise external facilitators to conduct the evaluation of the Committee's effectiveness every three years.

Graeme Bissett
Audit Committee Chairman
26 July 2018

Directors’ Remuneration Policy

This section provides details of the remuneration policy applying to the Directors of the Company. All Directors are non-executive, appointed under the terms of letters of appointment and none has a service contract. The Company has no employees. The Board has prepared this report in accordance with the requirements of the Companies Act 2006.

An ordinary resolution will be put to members at the forthcoming Annual General Meeting for the approval of this policy. If the resolution is passed, the policy provisions will be effective with immediate effect and will apply until they are next put to Shareholders for approval, which must be at intervals of not more than three years. This Policy, together with the Directors’ letters of appointment, may be inspected at the Company’s registered office.

The Board considers and determines all matters relating to the Directors’ remuneration at the beginning of each financial year. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Company’s Policy on Directors’ Remuneration

The Company’s policy is that the remuneration of the Directors should be commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of appropriate quality and experience. No Shareholder has expressed any views to the Company in respect of Directors’ remuneration. Remuneration Policy is not subject to employee consultation as the Company has no employees. It is intended that this policy will remain in place for the following financial year and subsequent periods.

The Board, at its discretion, will determine Directors’ remuneration subject to the aggregate annual fee limit set out in the Company’s Articles of Association. The present limit is £200,000 per annum and this may not be changed without seeking Shareholder approval. Such remuneration solely comprised Directors’ fees as set out below and Directors are not eligible for any other remuneration.

The table below sets out the annual fees paid to Directors in respect of the period ended 30 June 2018 and the fees payable in respect of the year ending 30 June 2019. The fees payable to Directors in subsequent financial periods will be determined following an annual review.

	Annual Fees 2017/2018 £	Annual Fees 2018/2019 £
Chairman of the Company	**29,800**	30,700
Director and Chairman of the Audit Committee	**27,400**	28,250
Director and Member of the Audit Committee	**24,500**	25,250
Director	**23,300**	24,000

Loss of Office

A Director may be removed without notice and no compensation will be due on loss of office.

Expenses

All Directors are entitled to the reimbursement of expenses paid by them in order to perform their duties as a Director of the Company.

Review of the Remuneration Policy

The Board has agreed to review the above policy at least annually to ensure that it remains appropriate.

Directors’ Remuneration Report

Introduction

The Board presents the Directors’ Remuneration Report for the period ended 30 June 2018, which has been prepared in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The remuneration policy, which is subject to a triennial vote by Shareholders, is set out on page 30. The law requires the Company’s Auditor to audit certain elements of this report and these elements are described below as “Audited”. The Auditor’s opinion is included in the Independent Auditor’s Report on page 34.

Directors’ Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to re-election by Shareholders. In accordance with the Articles, all Directors retire at the Annual General Meeting each year and, if appropriate, seek re-election. The terms also provide that a Director may be removed without notice and that no compensation will be due on loss of office. The terms and conditions of appointment of Directors are available for inspection at the office of Aberforth Partners LLP during normal business hours and at the registered office of the Company on request.

The following Directors held office during the period:

Director	Date of Appointment	Unexpired Term[1]	Date of election
Jonathan Cartwright, *Chairman*	19 April 2017	1 year 9 months	AGM 2018
Graeme Bissett	19 April 2017	1 year 9 months	AGM 2018
Dominic Fisher	19 April 2017	1 year 9 months	AGM 2018
Angus Gordon Lennox	19 April 2017	1 year 9 months	AGM 2018
Graham Menzies	19 April 2017	1 year 9 months	AGM 2018

[1] The unexpired term of appointment is subject to the Director’s election at the Annual General Meeting on 23 October 2018.

Directors’ Fees (Audited)

The emoluments of the Directors who served in the period from 19 April 2017 to 30 June 2018 were as follows:

Director	**Fees (Total Emoluments) 2018 £**
Jonathan Cartwright, Chairman	**35,760**
Graeme Bissett, Chairman of the Audit Committee	**32,880**
Dominic Fisher	**29,400**
Angus Gordon Lennox	**29,400**
Graham Menzies	**27,960**
	155,400

Directors are remunerated exclusively by fixed fees and do not receive bonuses, share options, pension contributions or other benefits apart from the reimbursement of allowable expenses.

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends:

	Period ended 30 June 2018 £’000
Total Directors’ remuneration	**155**
Total dividends in respect of that period	**8,752**

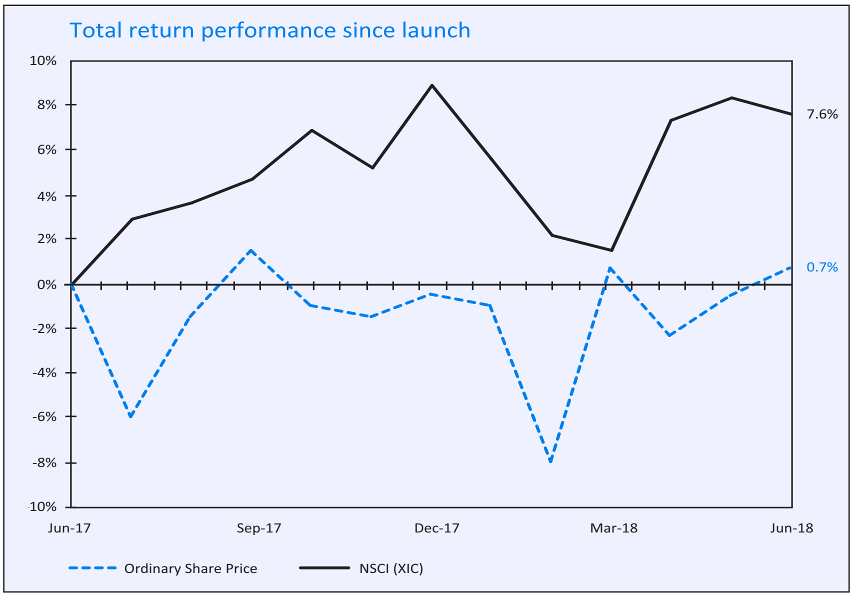
Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests (Audited)

The Directors who held office at any time during the period ended 30 June 2018 and their interests (in respect of which transactions are notifiable to the Company) in the Shares of the Company as at 30 June 2018 were as follows:

Directors	Nature of Interest	Share Class	30 June 2018	Inception
Jonathan Cartwright	Beneficial Beneficial	Ordinary Shares ZDP Shares	30,764 13,030	30,764 13,030
Graeme Bissett	Beneficial Beneficial	Ordinary Shares ZDP Shares	24,000 6,000	24,000 6,000
Dominic Fisher	Beneficial	Ordinary Shares	152,934	182,336
Angus Gordon Lennox	Beneficial	Ordinary Shares	419,738	419,738
Graham Menzies	Beneficial Non-beneficial	Ordinary Shares Ordinary Shares	348,036 99,311	245,806 99,311

There has been no change in the beneficial or non-beneficial holdings of the Directors between 30 June 2018 and 26 July 2018. The Company has no share options or share schemes. Directors are not required to own Shares in the Company.



Performance Graph

The adjacent graph compares the performance of the Ordinary Share price with the Numis Smaller Companies Index (excluding investment companies) on a total return basis (assuming all dividends reinvested). The index has been selected since it represents the universe of companies in which the Company may invest. However, the more important influence on the share price performance of the Ordinary Shares over the Company's lifetime is likely to be its success in meeting the investment objective, as described on page 1. Specifically, the portfolio must generate a high level of income and sufficient capital growth to pay the final entitlement of the ZDP Shareholders and the costs incurred by the Company.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report summarises, as appropriate, for the period ended 30 June 2018:

(a) the major decisions on Directors' remuneration;

(b) any substantial changes relating to Directors' remuneration made during the period; and

(c) the context in which those changes occurred and decisions have been taken.

On behalf of the Board,

Jonathan Cartwright
Chairman

26 July 2018

Directors' Responsibility Statement

The Directors are required to prepare financial statements for each financial period in accordance with applicable law and regulations. The Directors are also required to prepare a Strategic Report, Directors' Report, Corporate Governance Statement and Directors' Remuneration Report.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (Financial Reporting Standard 102 and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, that disclose with reasonable accuracy at any time the financial position of the Company and that enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report is published on www.aberforth.co.uk. This website is maintained by Aberforth and its integrity is, so far as it relates to the Company, the responsibility of Aberforth. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

The Directors who were in office at the date of approving these financial statements, and who are listed on page 18, confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and financial position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board
Jonathan Cartwright
Chairman

26 July 2018

Independent Auditor's Report

To the Members of Aberforth Split Level Income Trust plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its return for the period then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Aberforth Split Level Income Trust plc (the 'Company') which comprise the:

- Income Statement;
- Reconciliation of Movements in Shareholders' Funds;
- Balance Sheet;
- Cash Flow Statement; and
- Related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current period were: • Valuation and ownership of listed investments • Revenue recognition - completeness of dividend income
Materiality	The materiality that we used in the current period was £2.0m which was determined on the basis of 1% of net assets at 30 June 2018.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1(a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 5 that describe the principal risks and explain how they are being managed or mitigated; or
- the directors' confirmation on page 19 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; or

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report

Conclusions relating to going concern, principal risks and viability statement (continued)

- the directors' explanation on page 21 as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and Ownership of investments

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The listed investments of the Company £243.0m make up 122% of total net assets £199.2m. Please see Accounting Policy 1b (Investments) and note 11. Investments listed on recognised exchanges are valued at the closing bid price at the period end. There is a risk of material misstatement that the listed investments may not be valued correctly or may not represent the property of the Company. Given the size of the balance we identified this risk as a key audit matter. The description of the key audit matter above should be read in conjunction with the significant matters considered by the Audit Committee discussed on pages 27-29.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • agreed 100% valuation of the listed investments to an independent pricing source; • agreed 100% ownership of listed investments at the period end to confirmations received directly from the custodian; and • reviewed the internal controls report over Northern Trust, as it applies to custody, and attended the Audit Committee meeting at which the Northern Trust controls report was evaluated to assess the adequacy of the design and implementation of controls at the custodian.	No misstatements were identified which required reporting to those charged with governance in regards to the valuation of the portfolio. We did not identify any differences when agreeing the Company's investment portfolio to the confirmation received directly from the custodian and depositary.

Revenue recognition - completeness of dividend income

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Dividends from equity shares totalling £12.0m are accounted for on an ex-dividend date as revenue, except where; in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Please see Accounting Policy 1(c) and note 3. As dividend income is the key driver of the dividend paid to shareholders, we consider that there is a risk that dividend income is incomplete and consequently the revenue recognised in the financial statements is misstated. We have also considered the potential for fraud in this balance. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 28.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of controls in place over revenue recognition including the Managers' monitoring of accuracy and completeness of revenue; • for 100% of listed investments held during the period, obtained ex-dividend dates and rates for dividends declared during the period and agreed the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • for a sample of corporate actions and special dividends received, we reviewed management's rationale for the allocation between revenue and capital against the requirements of the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (SORP) issued by The Association of Investment Companies and agree details of the dividend to a third party source to assess the nature of the dividend.	No misstatements were identified which required reporting to those charged with governance in regards to the completeness of dividend income. Accounting policies in relation to revenue recognition were found to be in line with FRS 102, the SORP and industry peers.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2.0m
Basis for determining materiality	1% of net assets.
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is the key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £39,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The Company has appointed Aberforth Partners LLP as its administrator and Alternative Investment Fund Manager ("AIFM"). As part of our audit we evaluated the design and implementation of relevant controls in place at Aberforth Partners LLP.

Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, including the Strategic Report and the Directors' Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities', the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 8 December 2017 to audit the financial statements for the period ending 30 June 2018 and subsequent financial periods. The period ended 30 June 2018 is the first period of our audit tenure.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Andrew Partridge C.A.
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

26 July 2018

(a) The maintenance and integrity of the Aberforth Partners LLP web site is the responsibility of the partners of Aberforth Partners LLP; the work carried out by the auditor of Aberforth Split Level Income Trust plc does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

Period from 19 April 2017 to 30 June 2018

	Note	Period to 30 June 2018 Revenue £'000	Capital £'000	Total £'000
Net gains on investments	11	–	6,430	6,430
Investment income	3	11,238	751	11,989
Other income	3	–	–	–
Investment management fee	4	(539)	(1,258)	(1,797)
Portfolio transaction costs[1]	6	–	(1,594)	(1,594)
Other expenses	5	(356)	–	(356)
Net return before finance costs and tax		**10,343**	**4,329**	**14,672**
Finance costs:				
Appropriation to ZDP Shares	14	–	(1,704)	(1,704)
Interest expense and overdraft fee	7	(6)	(15)	(21)
Return on ordinary activities before tax		**10,337**	**2,610**	**12,947**
Tax on ordinary activities	8	–	–	–
Return attributable to Equity Shareholders		**10,337**	**2,610**	**12,947**
Returns per Ordinary Share	10	**5.43p**	**1.37p**	**6.80p**

[1] Includes £1,133,000 in respect of stamp duty incurred on the transfer of securities from Aberforth Geared Income Trust plc to ASLIT.

The Board declared on 26 July 2018 a second interim dividend of 2.6p per Ordinary Share and a special dividend of 0.6p per Ordinary Share. The Board also declared on 24 January 2018 an interim dividend of 1.4p per Ordinary Share.

The total column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period. A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

Period from 19 April 2017 to 30 June 2018

	Note	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 19 April 2017		–	–	–	–	–	–
Return on ordinary activities after tax		–	–	–	2,610	10,337	12,947
Equity dividends paid	9	–	–	–	–	(2,664)	(2,664)
Issue of Ordinary Shares	17	1,902	188,348	–	–	–	190,250
Ordinary Share issue costs	17	–	(1,275)	–	–	–	(1,275)
Share Premium cancellation	17	–	(187,035)	187,035	–	–	–
Cost of Share Premium cancellation	17	–	(38)	–	–	–	(38)
Issue of redeemable Shares	17	50	–	–	–	–	50
Redemption of redeemable Shares	17	(50)	–	–	–	–	(50)
Balance as at 30 June 2018		**1,902**	**–**	**187,035**	**2,610**	**7,673**	**199,220**

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2018

	Note	30 June 2018 £'000
Fixed assets		
Investments at fair value through profit or loss	11	**242,967**
Current assets		
Debtors	12	**1,387**
Cash at bank	18	**3,876**
		5,263
Creditors (amounts falling due within one year)	13	**(56)**
Net current assets		**5,207**
TOTAL ASSETS LESS CURRENT LIABILITIES		**248,174**
Creditors (amounts falling due after more than one year)		
ZDP Shares	14	**(48,954)**
TOTAL NET ASSETS		**199,220**
CAPITAL AND RESERVES: EQUITY INTERESTS		
Share capital:		
Ordinary Shares	15	**1,902**
Reserves:		
Special reserve	17	**187,035**
Capital reserve	17	**2,610**
Revenue reserve	17	**7,673**
TOTAL SHAREHOLDERS' FUNDS		**199,220**
Net Asset Value per Ordinary Share	16	**104.71p**
Net Asset Value per ZDP Share	16	**102.93p**

Approved and authorised for issue by the Board of Directors on 26 July 2018 and signed on its behalf by:

Jonathan Cartwright,
Chairman

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the period ended 30 June 2018

	Note	Period ended 30 June 2018 £'000
Operating activities		
Net revenue before finance costs and tax		**10,343**
Tax withheld from income		**(112)**
Receipt of special dividends taken to capital	3	**751**
Investment management fee charged to capital	4	**(1,258)**
Increase in debtors		**(1,275)**
Increase in creditors		**56**
Cash inflow from operating activities		**8,505**
Investing activities		
Purchases of investments		**(87,766)**
Sales of investments		**50,027**
Cash outflow from investing activities		**(37,739)**
Financing activities		
Proceeds from issue of Ordinary Shares	15	**22,904**
Issue costs of Ordinary Shares		**(1,275)**
Proceeds from issue of ZDP Shares	15	**14,516**
Issue costs of ZDP Shares	15	**(312)**
Share premium cancellation costs paid	15	**(38)**
Equity dividends paid	9	**(2,664)**
Interest and fees paid	7	**(21)**
Cash inflow from financing activities		**33,110**
Change in cash during the period		**3,876**
Cash at the start of the period		**–**
Cash at the end of the period		**3,876**

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Significant Accounting Policies

A summary of the principal accounting policies adopted, all of which have been applied consistently throughout the period, is set out below.

(a) Basis of accounting

The financial statements have been presented under Financial Reporting Standard 102 (FRS 102) and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 2014, updated in February 2018. 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Quoted investments are valued at their fair value, which is represented by the bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value. Purchases and sales of investments are accounted for on trade date. Gains and losses arising from changes in fair value are included in the capital return for the period and transaction costs on acquisition or disposal of a security are expensed to the capital reserve.

(c) Income

Dividends receivable on quoted equity shares are accounted for on the ex dividend date as revenue, except where, in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, an amount equivalent to the cash dividend is recognised as income. Any surplus or deficit in the value of the shares received compared to the cash dividend forgone is recognised as capital. Other income is accounted for on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except as follows:

- expenses that are incidental to the acquisition and disposal of an investment are charged to capital; and
- expenses are charged to this capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated, in which respect the investment management fee and finance costs incurred in connection with the overdraft facility have been allocated 70% to capital reserve and 30% to revenue reserve.

(e) Finance costs

The ZDP Shares are designed to provide a pre-determined capital growth from their original issue price of 100p on 30 June 2017 to a final capital entitlement of 127.25p on 1 July 2024, on which date the Company is planned to be wound up. The final capital entitlement of 127.25p per ZDP Share represents a gross redemption yield of 3.5% per annum over the life of the ZDP Shares, based on the issue price of 100p. No dividends are payable on the ZDP Shares. The provision for the capital growth entitlement of the ZDP Shares is included as a finance cost and charged to capital within the Income Statement. Finance costs incurred in connection with the overdraft facility are accounted for on an accruals basis.

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the period end;
- gains on the return of capital by way of investee companies paying dividends that are capital in nature; and
- expenses, together with the related taxation effect, charged in accordance with the above policies.

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, including the payment of dividends to Ordinary Shareholders and the buy-back of shares provided, in both cases, that the final cumulative cover of the ZDP Shares does not fall below 3.3 times immediately following any distribution to the Ordinary Shareholders from this reserve.

(h) Revenue reserve

Dividends can be funded from this reserve.

Notes to the Financial Statements

2 Alternative Performance Measures

Alternative Performance Measures (APMs) are measures that are not defined under the requirements of FRS 102. 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 the internal management reporting to the Board. A glossary of the APMs can be found on pages 53-54.

3 Income

	Period ended 30 June 2018		
	Revenue £'000	Capital £'000	Total £'000
Income from investments			
UK dividends	**10,589**	**751**	**11,340**
Overseas dividends	**101**	**–**	**101**
Property income distributions	**548**	**–**	**548**
Total Income	**11,238**	**751**	**11,989**

During the period ended 30 June 2018 the Company received five special dividends totalling £1,355,000 and of these a total of £604,000 was recorded as revenue and £751,000 was recorded as capital.

4 Investment Management Fee

	Period ended 30 June 2018		
	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**539**	**1,258**	**1,797**
Total	**539**	**1,258**	**1,797**

Details of the investment management contract can be found on page 19.

5 Other Expenses

	Period ended 30 June 2018 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:	
Directors' fees (refer to Directors' Remuneration Report on page 31)	**155**
Auditor's fee – Year end audit	**27**
Auditor's fee – Audit of the Initial Accounts to 31 December 2017	**15**
Registrar fee	**30**
Depositary fee	**21**
FCA and LSE listing fees	**19**
Media Listings	**13**
Legal fees	**12**
Custody and other bank charges	**12**
Printing	**11**
Directors' and Officers' liability insurance	**8**
Other expenses	**33**
Total	**356**

Notes to the Financial Statements

6 Portfolio Transaction costs

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss are charged to capital and are analysed below.

	Period ended 30 June 2018 £'000
Analysis of total purchases	
Purchase consideration before expenses	**286,392**
Commissions	**122**
Taxes[1]	**1,388**
Total purchase expenses	**1,510**
Total purchase consideration	**287,902**
Analysis of total sales	
Sales consideration before expenses	**50,111**
Commissions	**(84)**
Total sale proceeds net of expenses	**50,027**
Total transaction costs[1]	**1,594**

[1] Includes £1,133,000 in respect of stamp duty incurred on the transfer of securities from Aberforth Geared Income Trust plc to ASLIT.

7 Finance Costs

	Period ended 30 June 2018		
	Revenue £'000	Capital £'000	Total £'000
Appropriation to ZDP Shares	–	1,704	1,704
Overdraft facility – fee and interest	6	15	21
Total	**6**	**1,719**	**1,725**

8 Taxation

Analysis of tax charged on return on ordinary activities

	Period ended 30 June 2018		
	Revenue £'000	Capital £'000	Total £'000
UK corporation tax charge for the period	–	–	–

Factors affecting current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company. The differences are explained below.

	Revenue £'000	Capital £'000	Total £'000
Returns on ordinary activities before tax	10,337	2,610	12,947
Notional corporation tax at 19%	1,964	496	2,460
Adjusted for the effects of:			
Non-taxable UK dividend income	(2,012)	(143)	(2,155)
Non-taxable overseas dividend income	(19)	–	(19)
Non-taxable capital gains	–	(1,222)	(1,222)
Expenses not deductible for tax purposes	–	303	303
Excess expenses for which no relief has been taken	67	566	633
UK corporation tax charge for the year	–	–	–
Total tax charge for the year	–	–	–

The Company has not recognised a potential asset for deferred tax of £309,000 in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted.

Notes to the Financial Statements

9 Dividends paid

	Period ended 30 June 2018 £'000
Amounts recognised as distributions to equity holders in the period.	
In respect of the period ended 30 June 2018:	
First interim dividend of 1.4p (paid on 6 March 2018)	**2,664**
Total	**2,664**

The second interim dividend for the period ended 30 June 2018 of 2.6p per Ordinary Share, and the special dividend for the period ended 30 June 2018 of 0.6p per Ordinary Share, both payable on 31 August 2018, have not been recognised in the financial statements as at 30 June 2018.

10 Returns per Share

	Period ended 30 June 2018
Net return for the period	**£12,947,000**
Weighted average Ordinary Shares in issue during the period	**190,250,000**
Return per Ordinary Share	**6.80p**
Appropriation to ZDP Shares for the period	**£1,704,000**
Weighted average ZDP Shares in issue during the period	**47,562,500**
Return per ZDP Share	**3.58p**

There are no dilutive or potentially dilutive shares in issue.

11 Investments held at fair value through profit or loss

	Period ended 30 June 2018 £'000
Investments at fair value through profit or loss	
Opening fair value	**–**
Opening fair value adjustment	**–**
Opening book cost	**–**
Purchases at cost[1]	**286,392**
Sale proceeds	**(50,111)**
Realised gains on sales	**9,265**
Closing book cost	**245,546**
Closing fair value adjustment	**(2,579)**
Closing fair value	**242,967**

[1] Includes £200.1m in respect of an "in specie" transfer of securities from Aberforth Geared Income Trust plc.

All investments are in ordinary shares listed on the London Stock Exchange.

	Period ended 30 June 2018 £'000
Gains on investments:	
Net realised gains on sales	**9,265**
Loss on sales in period from 23 June 2017 to 29 June 2017	**(256)**
Movement in fair value adjustment	**(2,579)**
Net gains on investments	**6,430**

11 Investments held at fair value through profit or loss *(continued)*

In accordance with FRS 102, 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).

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

12 Debtors

	30 June 2018 £'000
Investment income receivable	**1,268**
Other debtors	**119**
Total	**1,387**

13 Creditors

	30 June 2018 £'000
Other creditors	**56**
Total	**56**

14 Zero Dividend Preference Shares

	Period ended 30 June 2018 £'000
Issue of ZDP Shares	**47,562**
Capitalisation of issue costs of ZDP Shares	**(312)**
Issue costs amortised during the period	**40**
Capital growth of ZDP Shares	**1,664**
Total	**48,954**

Expenses of £312,000 associated with the issue of the ZDP Shares have been capitalised. These will be amortised over the expected life of the ZDP Shares and charged to capital as a finance cost within the Income Statement.

15 Share Capital

	30 June 2018	
	No. of Shares	£'000
Issued and Allotted:		
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**

Upon incorporation on 19 April 2017, the Company issued and allotted 100 Ordinary Shares at £1 each. On 26 April 2017, 50,000 Redeemable Preference Shares were issued and allotted to enable the Company to obtain a trading certificate.

15 Share Capital *(continued)*

On 30 June 2017, the Company entered into a Transfer Agreement in connection with the scheme of reconstruction and winding up of Aberforth Geared Income Trust plc (AGIT). Under this Transfer Agreement, a proportion of the assets of AGIT were transferred to ASLIT as consideration for the issue of Ordinary and ZDP Shares to shareholders of AGIT who elected to roll over their investment in AGIT to ASLIT. Another portion of the AGIT assets were transferred to ASLIT for a cash payment funded from the proceeds of the Placing and Offer for Subscription underwritten by the Company.

On 30 June 2017, 172,126,759 Ordinary Shares and 33,268,212 ZDP Shares were allotted to the shareholders of AGIT who elected to roll over their investment in AGIT to ASLIT at the issue price of 100p each. Assets amounting to £205.4 million were transferred from AGIT in consideration for this allotment, including securities valued at £200.1 million.

In addition, 18,123,141 Ordinary Shares and 14,294,288 ZDP Shares were allotted to satisfy the demand of the Placing and Offer for Subscription at the issue price of 100p each. In accordance with the Transfer Agreement, the proceeds of these issues were used to acquire the remaining AGIT portfolio including securities valued at £29.5 million.

These allotments resulted in the Company having a total of 190,250,000 Ordinary Shares and 47,562,500 ZDP Shares, which were admitted to listing on the Official list and to trading on the London Stock Exchange on 3 July 2017. In addition, the 50,000 Redeemable Preference Shares were redeemed in full on 3 July 2017.

In November 2017, the Court of Session confirmed the cancellation of the entire amount standing to the credit of the Share Premium account and the creation of a Special Reserve, the balance of which may be treated as distributable profits for all purposes as permitted by the Articles of the Company. The Special Reserve will be available to be used for any buy-back of Ordinary Shares and ZDP Shares as permitted by the Companies Act 2006 and in accordance with the Company’s Articles of Association.

Costs of £1,275,000 associated with the issue of the Ordinary Shares have been charged to the Share Premium account. Costs of £312,000 associated with the issue of the ZDP Shares will be amortised to capital as a finance cost to the Income Statement over the planned life of the ZDP Shares. Stamp duty amounting to £1,133,000 was also paid in relation to the transfer of securities from AGIT to ASLIT under the Transfer Agreement, as detailed above. This cost is included in portfolio transaction costs as disclosed in the Income Statement.

16 Net Asset Value (“NAV”) per Share

The Net Assets and the Net Asset Value per share attributable to the Ordinary Shares and ZDP Shares are as follows:

	30 June 2018 Ordinary Shares	30 June 2018 ZDP Shares	Total
Net Assets attributable	**£199,220,000**	**£48,954,000**	**£248,174,000**
Number of Shares at the reporting date	**190,250,000**	**47,562,500**	**237,812,500**
Net Asset Value per Share	**104.71p**	**102.93p**	**104.36p**
Effect of reinvestment of first interim dividend (1.4p) on ex dividend date	**1.53p**	**–**	**1.20p**
Net Asset Value per Share on a total return basis	**106.24p**	**102.93p**	**105.56p**
Net Asset Value per Share at inception	**100.00p**	**100.00p**	**100.00p**
Total Return performance in the period	**6.2%**	**2.9%**	**5.6%**

Notes to the Financial Statements

17 Capital and Reserves

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 19 April 2017	**–**	**–**	**–**	**–**	**–**	**–**
Ordinary Shares – Issue	1,902	188,348	–	–	–	190,250
Ordinary Shares – Issue costs	–	(1,275)	–	–	–	(1,275)
Share Premium cancellation	–	(187,035)	187,035	–	–	–
Share Premium cancellation costs	–	(38)	–	–	–	(38)
Redeemable Shares – Issue	50	–	–	–	–	50
Redeemable Shares – Redemption	(50)	–	–	–	–	(50)
Investment income taken to capital	–	–	–	751	–	751
Net gains on sale of investments	–	–	–	9,265	–	9,265
Realised loss on sales of securities transferred from AGIT	–	–	–	(256)	–	(256)
Movement in fair value adjustment	–	–	–	(2,579)	–	(2,579)
Investment management fee charged to capital	–	–	–	(1,258)	–	(1,258)
Cost of investment transactions	–	–	–	(1,594)	–	(1,594)
Interest charged to capital	–	–	–	(15)	–	(15)
ZDP Shares – Appropriation	–	–	–	(1,664)	–	(1,664)
ZDP Shares – Amortised issue costs	–	–	–	(40)	–	(40)
Revenue return attributable to Equity Shareholders	–	–	–	–	10,337	10,337
Equity dividends paid	–	–	–	–	(2,664)	(2,664)
At 30 June 2018	**1,902**	**–**	**187,035**	**2,610**	**7,673**	**199,220**

Subsequent to the issue of Ordinary Shares on 30 June 2017 the Court of Session confirmed, in November 2017, the cancellation of the entire amount standing to the credit of the Share Premium account and the creation of a Special Reserve.

18 Cash and cash equivalents

	30 June 2018 £'000
Cash and cash equivalents	**3,876**

Cash held as at 30 June 2018 amounted to £90,000 at The Royal Bank of Scotland International Ltd. and £3,786,000 at The Northern Trust Company.

19 Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, ZDP Shares, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement, and accrued income. Note 1 sets out the significant accounting policies, including criteria for recognition and the basis of measurement applied for significant financial instruments excluding cash at bank, which is carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main risks that the Company faces arising from its financial instruments are as follows.

(i) *Market price risk* is the risk that the market value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement.

(ii) *Credit risk* is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Investment transactions are carried out with a large number of Financial Conduct Authority regulated brokers with trades typically undertaken on a delivery versus payment basis.

(iii) *Liquidity risk* is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair values or from the inability to generate cash inflows as required.

(iv) *Interest rate risk* is the risk that the interest receivable/payable and the market value of investment holdings may fluctuate because of changes in market interest rates. The Company's investment portfolio is currently not directly exposed to interest rate risk. The Company's policy is to hold cash in variable rate bank accounts.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

Notes to the Financial Statements

19 Financial instruments *(continued)*

Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the Managers in pursuance of the investment objective. It is not the Managers' policy to use derivatives or hedging instruments to manage market price risk.

If the investment portfolio valuation fell by 10% at 30 June 2018, the impact on the profit or loss and therefore Shareholders' funds would have been negative £24.3m. If the investment portfolio valuation rose by 10% at 30 June 2018, the impact on the profit or loss and therefore Shareholders' funds would have been positive £24.3m. The calculations are based on the portfolio valuation as at the balance sheet date and are not representative of the period as a whole and assume all other variables remain constant. The level of change is considered to be a reasonable illustration based on historic stockmarket volatility.

As at 30 June 2018, all of the Company's financial instruments were included in the balance sheet at fair value. The investment portfolio consisted of investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Credit risk

The Company invests in UK equities traded on the London Stock Exchange. Investment transactions are carried out with a number of FCA regulated brokers, with trades typically undertaken on a deliver versus payment basis and on a short settlement period.

The Depositary, National Westminster Bank plc, is responsible for overseeing the assets of the Company and has strict liability in certain circumstances should assets of the Company be lost. In the event of the loss of assets the Company could potentially claim against National Westminster Bank and Royal Bank of Scotland International (RBSI).

The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's Custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the Custodian may be delayed or limited. The Secretaries monitor the Company's risk by reviewing the credit ratings of National Westminster Bank, Northern Trust and RBSI. Where provided, the Secretaries also review internal control reports from these organisations. As at 26 July 2018 credit ratings for the Depositary, Custodian and RBSI were considered acceptable. Outstanding investment income is reconciled to receipts on payment date.

The exposure to credit risk on the Company's financial instruments was:

	30 June 2018 £'000
Investment income receivable	**1,268**
Other receivables	**112**
Cash and cash equivalents	**3,876**
Total	**5,256**

All of the above financial assets are current, their fair values are considered to be the same as the values shown, and the likelihood of a material credit default is considered to be low.

Liquidity risk

The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet funding requirements, though short-term funding flexibility can typically be achieved through the use of the bank overdraft facility. The Company's current liabilities all have a remaining contractual maturity of less than three months. The ZDP Shares have a planned repayment date of 1 July 2024. The remaining contractual maturities were:

Maturity profile of the Company's financial liabilities

	30 June 2018 £'000
Due within 1 month:	
Accrued expenses	**56**
Due after 5 years:	
ZDP Shares	**60,523**
Total liabilities	**60,579**

Notes to the Financial Statements

19 Financial instruments *(continued)*

Interest rate risk

If the bank base rate had increased by 1% point, or decreased by 0.5% point, there would be no impact on the profit or loss and Total Equity Shareholders' Funds. There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the Balance Sheet date and are not representative of the financial period as a whole and assume all other variables remain constant. The level of change is considered to be a reasonable illustration based on current market conditions.

Capital Management Policies and Procedures

The Company's capital management objectives are to support the Company's objective and to ensure that the Company will be able to continue as a going concern. To achieve the investment objective the Board has a responsibility to ensure the Company is able to continue as a going concern and details of the principal risks and how they are managed are set out on page 5. The Board monitors and reviews the structure of the Company's capital including the extent to which revenue in excess of that which is required to be distributed should be retained. The Companies Act 2006 and Corporation Tax Act 2010 impose capital requirements on the respective ability and obligation to pay dividends. The Board monitors, and has complied with, the externally imposed capital requirements. The Company's investment objective, capital management policies and monitoring processes are unchanged during the period.

20 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees, financial commitments or contingent assets as at 30 June 2018.

21 Related party transactions

Under UK GAAP, the Directors have been identified as related parties and their fees and interests have been disclosed in the Directors' Remuneration Report on pages 31 and 32. 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.

22 Company information

Aberforth Split Level Income Trust plc is a closed-ended investment company, registered in England No. 10730910, with its Ordinary Shares and ZDP Shares listed on the London Stock Exchange. The address of the registered office is c/o Dickson Minto WS, Level 13, Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.

General Information

Financial Calendar

Dividends in respect of the period ended 30 June 2018

	1st Interim	2nd Interim	Special Dividend
Rate per Ordinary Share:	1.4p	2.6p	0.6p
Ex dividend date:	8 February 2018	9 August 2018	9 August 2018
Record date:	9 February 2018	10 August 2018	10 August 2018
Pay date:	6 March 2018	31 August 2018	31 August 2018

Half Yearly Report	Published in late January
Annual Report and Financial Statements	Published in late July
Annual General Meeting	23 October 2018
Publication of Net Asset Values	Daily (via the Managers' website)

Shareholder register enquiries

All administrative enquiries relating to Shareholders, such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or an addition to a mailing list should be directed to the Company's Registrar, Link Asset Services. (Contact details on inside back cover).

Payment of dividends

Dividends can be received more quickly by instructing Link Asset Services, whose contact details are given above, to pay them directly into a bank account; tax vouchers are then mailed to Shareholders separately. This method avoids the risk of dividend cheques being delayed or lost in the post.

Dividend Reinvestment Plan (DRIP)

Link Asset Services, on behalf of the Company, operate a DRIP, which can be used to buy additional Ordinary Shares instead of receiving a cash dividend. For further information contact Link Asset Services (details on inside back cover).

Sources of further information

The prices of the Ordinary Shares and ZDP Shares are quoted daily in the Financial Times under the abbreviation of "Abf Spl Inc". The prices are listed in the "Conventional (Ex Private Equity)" and "Zero Dividend Preference Shares" sections. These prices, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.ft.com, www.theaic.co.uk and www.morningstar.co.uk. Company performance and other information, including the Key Information Document (KID), is available on the Aberforth Partners LLP website at www.aberforth.co.uk.

How to invest

The Company's Ordinary Shares and ZDP Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker or asking a professional advisor. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, Savings Schemes or Pension Plans. Each of the Company's listed securities is eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account (ISA).

Retail Distribution/NMPI Status

The Company's shares are intended for UK investors including retail investors, professionally advised private clients and institutional investors who are seeking exposure to smaller companies in the UK, and who understand and are willing to accept the risks of exposure to equities. The Company currently conducts its affairs, and intends to continue to conduct its affairs, so that its Ordinary Shares and ZDP Shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream pooled investment (NPMI) products. The Company's Ordinary Shares and ZDP Shares are excluded from the FCA's restrictions that apply to NPMI products because they are shares in an Investment Trust. Please note that past performance is not a guide to the future. Your investment may be at risk as the value of investments may go down as well as up and is not guaranteed. Therefore you may not get back the amount originally invested.

General Information

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed Aberforth Partners as its Alternative Investment Fund Manager (AIFM). In accordance with the AIFMD, information in relation to the Company's leverage is required to be made available to Shareholders. The Company's maximum and actual leverage levels as at 30 June 2018 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

	30 June 2018	
Leverage Exposure (refer to the Glossary)	**Commitment Method**	**Gross Method**
Maximum limit	**2.00:1**	**2.00:1**
Actual Level	**1.25:1**	**1.25:1**

Leverage, for the purposes of the AIFM Directive, is any method which increases the Company's exposure to stock markets whether through borrowings, derivatives or any other means. It is expressed as a ratio of the Company's exposure to its Net Asset Value. In summary, the Gross method measures the Company's exposure before applying hedging or netting arrangements. The Commitment method allows certain hedging or netting arrangements to be offset. ASLIT has no hedging or netting arrangements.

Furthermore, in accordance with the AIFMD, the AIFM's remuneration policy and the numerical disclosures in respect of the AIFM's relevant reporting period (year ended 30 April 2018) are available from Aberforth Partners' website (www.aberforth.co.uk).

Security Codes

	ISIN	SEDOL	Bloomberg/Reuters
Ordinary Shares	GB00BYPBD394	BYPBD39	ASIT LN
ZDP Shares	GB00BYPBD519	BYPBD51	ASIZ LN

Company Identification Numbers

Global Intermediary Identification Number (GIIN)	JM0CLZ.99999.SL.826
Legal Entity Identifier (LEI)	21380013QYWO82NZV529

Association of Investment Companies (AIC)

The Company is a member of AIC, which produces a detailed Monthly Information Service on the majority of investment trusts. This is available at www.theaic.co.uk.

The Common Reporting Standard

The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard) came into effect on 1 January 2016. The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly the Company provides information annually to HMRC on the tax residences of non-UK based certificated Shareholders and corporate entities. All new Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purpose of collecting this information. For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders
https://www.gov.uk/government/publications/exchange-of-information-account-holders

Beware of Share Fraud

Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These are typically from overseas based 'brokers' who target UK Shareholders offering to sell them what often turn out to be worthless or high risk shares. Shareholders may also be advised that there is an imminent offer for the Company, and the caller may offer to buy shares at significantly above the market price if an administration fee is paid. This is known as 'boiler room fraud'. You can find more information about investment scams at the Financial Conduct Authority (FCA) website: www.fca.org.uk/consumers/protect-yourself-scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

Data Protection

The Company is committed to ensuring the privacy of any personal data provided to us. Further details can be found in the privacy policy set out on the Aberforth website (www.aberforth.co.uk).

Glossary

Glossary of UK GAAP 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. Total Assets less current liabilities as at 30 June 2018 was £248,174,000 and the total number of shares in issue (Ordinary Shares plus ZDP Shares) was 237,812,500 producing a Total Assets per Share of 104.36p. A dividend of 1.4p went ex dividend during the period (see note 9 on page 45). The effect of reinvesting the dividend on the ex dividend date amounted to 1.20p. The Total Assets Total Return was therefore 5.6%, being the sum of the Total Assets per Share at the end of the period, plus the reinvestment dividend figure, divided by the Total Assets per Share at the start of the period, calculated as a percentage.

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 (see note 16 on page 47). The NAV per Ordinary Share as at 30 June 2018 was 104.71p and at launch was 100p. A dividend of 1.4p went ex dividend during the period (see note 9 on page 45). The effect of reinvesting the dividend on the ex dividend date amounted to 1.53p. The Ordinary Share NAV Total Return was therefore 6.2%, being the sum of the Ordinary Share NAV at the end of the period plus the reinvestment dividend figure divided by the Ordinary Share NAV at the start of the period, calculated as a percentage.

ZDP Share NAV Total Return represents the return on the entitlement value of a ZDP Share. The ZDP Share NAV as at 30 June 2018 was 102.93p and at launch was 100p. The ZDP Share NAV Total Return was therefore 2.9%, being the ZDP Share NAV at the end of the period divided by the ZDP Share NAV at the start of the period, calculated as a percentage.

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. The Ordinary Share price as at 30 June 2018 was 99.2p and a dividend of 1.4p went ex dividend during the period (see note 9 on page 45). The effect of reinvesting the dividend on the ex dividend date amounted to 1.51p. The Ordinary Share Price Total Return was therefore 0.7%, being the sum of the Ordinary Share price at the end of the period plus the reinvestment dividend figure divided by the Ordinary Share price at the start of the period, calculated as a percentage.

ZDP Share Price Total Return represents the theoretical return to a ZDP Shareholder, on a closing market price basis. The ZDP Share price as at 30 June 2018 was 106.5p and at launch was 100p. The ZDP Share Price Total Return was therefore 6.5%, being the ZDP Share price at the end of the period divided by the ZDP Share price at the start of the period.

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.

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).

Glossary

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 a one year period divided by the average portfolio value for that period.

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

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.

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.

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.

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

Glossary - Other

Company Incorporation Date	19 April 2017
Inception Date	30 June 2017
Launch/Listing Date	3 July 2017
Planned Winding Up Date	1 July 2024

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Aberforth Split Level Income Trust plc will be held at 14 Melville Street, Edinburgh EH3 7NS on 23 October 2018 at 11.00 a.m. for the following purposes.

Ordinary Business

To consider and, if thought fit, pass the following Ordinary Resolutions.

1. That the Report and Financial Statements for the period ended 30 June 2018 be adopted.
2. That the Directors' Remuneration Policy be approved.
3. That the Directors' Remuneration Report be approved.
4. That Jonathan Cartwright be elected as a Director.
5. That Graeme Bissett be elected as a Director.
6. That Dominic Fisher be elected as a Director.
7. That Angus Gordon Lennox be elected as a Director.
8. That Graham Menzies be elected as a Director.
9. That Deloitte LLP be re-appointed as Auditor.
10. That the Audit Committee be authorised to determine the remuneration of the Auditor for the year to 30 June 2019.

By Order of the Board

Aberforth Partners LLP, *Secretaries*
26 July 2018

Notice of the Annual General Meeting

1. **Attending the Annual General Meeting in person**

   A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote on their behalf. Such a proxy need not also be a member of the Company.

   To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 11.00 a.m. on 19 October 2018 (or, if the Annual General Meeting is adjourned, 11.00 a.m. on the day two days (excluding non working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

2. **Appointment of Proxy**

   A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the Registrars' website at www.linkassetservices.com and follow the instructions on screen.

   You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different Shares. You may not appoint more than one proxy to exercise rights attached to any one Share. To appoint more than one proxy, please contact the Registrars of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 23 October 2018 and any adjournment(s) thereof by using the procedures described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Link Asset Services (CREST Participant ID: RA10), no later than 48 hours (excluding non working days) before the time appointed for the meeting.

3. **Questions and Answers**

   Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question that is put by a member attending the Annual General Meeting relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question within a reasonable period of days after the conclusion of the Annual General Meeting.

4. **Total Voting Rights**

   As at 26 July 2018, the latest practicable date prior to publication of this document, the Company had 190,250,000 Ordinary Shares and 47,562,500 ZDP Shares in issue. The holders of ZDP Shares will not normally be entitled to vote at general meetings of the Company. In respect of the resolutions the Ordinary Shareholders have a total of 190,250,000 voting rights.

5. **Information on the Company's website**

   In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of Shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website at www.aberforth.co.uk.

6. **Nominated Persons**

   Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between such person and the Shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered Shareholder as to the exercise of voting rights.

7. **Audit concerns**

   The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the Auditor) setting out any matter relating to the audit of the Company's Financial Statements, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold Shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing, state full names and addresses, and be sent to the registered address of the Company.

8. **Documents available for inspection**

   The Directors' letters of appointment and a copy of the Articles of Association of the Company will be available for inspection prior to the Annual General Meeting and during the meeting.

Corporate Information

Directors

Jonathan Cartwright (Chairman)
Graeme Bissett
Dominic Fisher, OBE
Angus Gordon Lennox
Graham Menzies

Managers and Secretaries

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Number 10730910

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Trustee & Depositary Services
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Edinburgh EH12 9RH

Custodian

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50 Bank Street
Canary Wharf
London E14 5NT

Bankers

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280 Bishopsgate
London EC2M 4RB

Registrars

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Shareholder Solutions
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Beckenham
Kent BR3 4TU

Shareholder enquiries:

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enquiries@linkgroup.com
www.linkassetservices.com

Shareholder Portal:
www.signalshares.com

Independent Auditor

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Edinburgh EH2 2DB

Solicitors

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