Aberforth Split Level Income Trust plc

Half Yearly Report

31 December 2018

Investment Objective

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

Investment Policy[1]

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

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All data throughout this Half Yearly Report are to, or as at, 31 December 2018 as applicable, unless otherwise stated.

[1] A non-material change has been made to the investment policy to conform with regulatory wording and market practice; the policy confirms that the Company will invest no more than 15% of total assets in other listed closed-ended investment funds.

Financial Highlights

Total Return Performance

Period to 31 December 2018	Total Assets[1]	Ordinary Share NAV[1]	Ordinary Share Share Price[1]	ZDP Share NAV[1]	ZDP Share Share Price[1]
Six months	**-17.2%**	**-22.0%**	**-21.0%**	**1.8%**	**-1.9%**
Twelve months	-16.3%	-21.3%	-20.0%	3.6%	-4.3%
Since Inception	-12.6%	-17.2%	-20.4%	4.8%	4.5%

Ordinary Share

As at:	Net Asset Value per Share[1]	Share Price	Discount/ (Premium)[1]	Return per Share	First Interim Dividend per Share	Gearing[1]
31 December 2018	**79.1p**	**75.9p**	**4.1%**	**-22.4p**	**1.45p**	**30.3%**
31 December 2017	105.2p	99.5p	5.4%	5.9p	1.40p	20.9%
Inception	100.0p	100.0p	–	n/a	n/a	25.0%

Zero Dividend Preference Share (ZDP Share)

As at:	Net Asset Value per Share[1]	Share Price	Discount/ (Premium)[1]	Return per Share	Projected Final Cumulative Cover[1]	Redemption Yield[1]
31 December 2018	**104.8p**	**104.5p**	**0.3%**	**1.9p**	**2.9x**	**3.6%**
31 December 2017	101.1p	109.2p	(8.0%)	1.8p	3.5x	2.4%
Inception	100.0p	100.0p	–	n/a	3.4x	3.5%

Source: Aberforth Partners LLP

[1] Defined in the Glossary on pages 22 to 23.

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

Chairman's Statement

Performance

The sharp falls among equity markets around the world in the six months to 31 December 2018 formed an unhelpful backdrop for an investment trust with ASLIT's capital structure. The total assets total return, which captures the Company's ungeared portfolio performance, was a disappointing -17.2% in the period. Geared by the Zero Dividend Preference (ZDP) Shares, the NAV total return of the Ordinary Shares was -22.0%. This encapsulates the return attributable to equity shareholders of -22.4 pence per Ordinary Share in the six months to 31 December 2018, together with the effect of the reinvestment of previously declared dividends. Despite the decline in the value of the portfolio, the projected final cumulative cover of the ZDP Shares was 2.9 times at the end of the reporting period.

The first six months of ASLIT's financial year ending 30 June 2019 brought concerns about a slowing of global economic growth, which has influenced stockmarket valuations across the world. Whilst, the US economy continues to grow, the President's trade policies and rhetoric, particularly towards China, have not eased these concerns. Meanwhile, US monetary policy continues to tighten, which challenges a financial world that has grown used to a decade of low interest rates and quantitative easing.

If that were not enough, UK markets have suffered the additional anxiety of Brexit. Even though the exit date of 29 March 2019 is imminent, the future relationship with the European Union is still unclear. The uncertainties of Brexit are now being felt in Europe, where the strong economic growth of 2017 has stuttered and where populism threatens the status quo.

Against this background, the FTSE All-Share Index, which is representative of larger UK listed companies, recorded a total return of -11.0% in the six months to 31 December 2018. The Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)), which defines ASLIT's opportunity base of small UK quoted companies, delivered a total return of -14.4%. The superior performance of large over small was helped by the resilience of defensive sectors such as Pharmaceuticals and Telecoms, which are significant components of the FTSE All-Share but not of the NSCI (XIC). In the context of Brexit, the greater orientation of small companies to the domestic economy cannot have helped either. These and other influences on portfolio performance are analysed in more detail in the Managers' Report.

Earnings and Dividends

Ordinary Shareholders enjoy rights to all income generated by the portfolio. Dividend growth from small UK quoted companies has been exceptionally strong since the global financial crisis. The 2018 calendar year saw further progress, though the overall experience was more mixed than in previous years. Historical evidence would suggest that a deceleration was likely at some point, but it is too early to conclude whether it heralds a more meaningful deterioration against the backdrop of Brexit, slowing global growth and more restrictive monetary conditions.

ASLIT's dividend experience among its portfolio holdings has reflected such influences, but in the six months to 31 December 2018 Investment Income increased modestly compared with the corresponding period in the previous year. Taking into account this revenue performance, the Board has declared a first interim dividend of 1.45p per Ordinary Share in respect of the year ending 30 June 2019. This is 3.6% higher than the corresponding dividend payment in 2018.

Chairman's Statement

The first interim dividend of 1.45p will be paid on 7 March 2019 to Ordinary Shareholders on the register as at close of business on 8 February 2019. The ex dividend date is 7 February 2019. The Company operates a Dividend Reinvestment Plan and details, including the Form of Election, are available from Aberforth Partners LLP or on their website, www.aberforth.co.uk.

Outlook

The last six months have been challenging for equities generally and for small UK quoted companies in particular, which is a salutary reminder, if ever it were needed, that equity investment requires a long term perspective. Whilst it would be remiss to suggest that there is no more pain to come, the Managers are of the view that, although there are current uncertainties including those surrounding Brexit, small UK quoted companies represent attractive value.

The portfolio's fortunes will also be influenced by the Managers' commitment to the value investment style. There can be periods when the value investment style is out of favour, notably in much of the decade since the global financial crisis, but the value approach within small UK quoted companies has resulted in superior returns to those of the NSCI (XIC) over the long term. Your Board supports the Managers' approach and considers that the Company is well positioned to meet ASLIT's investment objectives despite the inevitable market challenges it is likely to encounter on the way.

Jonathan Cartwright
Chairman

24 January 2019

Managers' Report

Introduction

In common with most other equity markets, UK stocks struggled in the first half of ASLIT's current financial year. The FTSE All-Share, which is dominated by large companies, produced a total return of -11.0% over the six months to 31 December 2018. In the pervading climate of risk aversion, small companies were weaker still, with a total return from the NSCI (XIC) of -14.4%. ASLIT's total asset total return, essentially its ungeared portfolio return, was -17.2%. The principal influences on this performance are described in the Investment performance section of this report.

The weak returns over the past six months ensured that 2018 was the first bad calendar year for UK equities since 2011. Back then, the Eurozone crisis was in full swing. Today, the obvious equivalent is the UK's impending exit from the European Union. Brexit has indeed affected the performance of small caps in general and the portfolio, but, as the year progressed, it became clear that the UK no longer has a monopoly on gloom. Macro-economic and populist challenges have arisen around the globe to undermine 2017's synchronised global recovery and equity valuations.

Europe, whose growth surprised so positively in 2017, faltered in 2018. The uncertainties of Brexit inevitably cast a shadow and the European Central Bank's move to taper its quantitative easing programme adds further uncertainty. Meanwhile, Italy's populist government has challenged the European Commission with its controversial budget, a confrontation complicated by higher government spending in France as Emmanuel Macron backtracked on fuel duty increases. Further afield, China has also seen a slowdown in its rate of growth, which at this stage seems as much a function of internal policy to address lending excesses as a result of trade wars with the US.

Donald Trump's "America First" policies have helped to keep the US economy moving ahead at an enviable rate but have also represented a challenge to the era of globalisation, which has favoured capital over labour to the advantage of financial markets. One manifestation has been the strong dollar, which is itself problematic for overseas businesses that have taken on dollar borrowings. Another important influence on the dollar has been the tightening of monetary policy by the Federal Reserve. Jay Powell, the recently appointed chairman, has thus far proved resolute in balancing the stimulus of the President's inflationary fiscal policies with quantitative tightening and higher interest rates. In response, US government bonds repriced, with the ten year yield rising from 2.4% at the start to the year through 3.2% in November. However, financial markets grew increasingly alarmed about the pace of tightening and the ten year yield dropped back to 2.7% by the end of December. Through all this, the US yield curve – the difference between the yields of short and long dated bonds – flattened and has come close to inversion. An inverted yield curve, where long dated yields are below short dated yields, has historically proved a good, though not flawless, indicator of recession. Such concerns explain much of the weakness of global equity markets as 2018 came to an end – after a decade of very low interest rates and quantitative easing, normalisation of monetary policy in the world's largest economy was never going to be straightforward.

While influenced by these global issues, the UK financial markets remain a case apart and, with Brexit unresolved, scepticism about the domestic economy abounds. While catastrophe did not follow the referendum, the leave vote has imposed an opportunity cost on the UK economy as it has dropped down the G7 growth rankings. Sterling and asset valuations have taken the strain, but the risk of a hard Brexit and an economic downturn remains. This risk disproportionately affects small UK quoted companies, which are more reliant on the domestic economy than their larger peers. However, with valuations already depressed, the opposite also holds true: all else being equal, anything short of a departure without a deal should bode well for the asset class.

Managers' Report

Brexit survey

To gain a different perspective on the ubiquitous Brexit debate, in September the Managers undertook a survey of the 93 companies held within Aberforth funds. The questions focused on the companies' reactions to the referendum and on potential future actions. The response rate was 94%, which represents a useful cross-section of the small cap universe.

The overall impression was of frustration with the politics, the Brexit process and lingering uncertainty. The lengthiest and most detailed responses tended to come from businesses oriented towards the domestic economy. This is unsurprising, though to an extent reassuring, since it is these companies that have been most affected by the decision to leave the EU. The survey identified three principal areas of concern.

- Employment: executives are worried about the availability of relatively cheap and skilful labour from the EU against the background of the rising national living wage.
- Sterling: there is an overwhelming assumption that sterling would weaken further in the event of a hard Brexit, which would be to the disadvantage of domestic businesses but to the benefit of overseas-oriented businesses.
- Supply chain: there is concern that a deal-less Brexit would complicate the movement of goods into and out of the UK at least in the short term. Contingency planning for several companies involves pre-emptive inventory building ahead of March.

The results of the survey need to be considered in the context of the continuing uncertainty about the Brexit process and outcome: company executives are having to operate with limited information and little guidance to date from government. Nevertheless, the survey did suggest that the companies are not complacent: money and time are being spent on preparations. This cannot, however, guarantee that the businesses will emerge unscathed, despite the commendable resilience displayed since the referendum in 2016.

Investment performance

To recap, the NSCI (XIC)'s total return over the six months to 31 December 2018 was -14.4%, while ASLIT's total asset total return was -17.2%. Clearly, the most significant influence on ASLIT's performance was the weak returns from equities in general. The following section analyses other important influences.

Sectors

The overhang of Brexit means that sector exposure has been an unusually large influence on the performance of ASLIT and of small caps in general. In this context, the following comments on sectors refer to two distinct groups of companies: those that derive a majority of their sales from the domestic economy and those more dependent on overseas markets. The fortunes of these two groups have diverged substantially since the EU referendum, with the domestics under-performing the overseas earners by 24%. This reflects different profit dynamics under the influence of sterling weakness. The overseas companies have seen their sterling profits rise as income streams earned in euros or dollars have been translated into pounds. In contrast, the domestics have had to deal with insipid consumer spending and a hit to gross margins as foreign currency input costs have risen in sterling terms.

The table below sets out the geographical exposures of the portfolio and of the NSCI (XIC). These are calculated by reference to the sales of the underlying companies. Motivated by the more attractive valuations and income characteristics of the domestically oriented businesses, ASLIT has a higher exposure to these than does the NSCI (XIC). Given the weaker share price performance of domestics against the backdrop of Brexit, this has so far been a hindrance to ASLIT's own returns.

Managers' Report

	ASLIT		NSCI (XIC)	
	Overseas	*Domestic*	*Overseas*	*Domestic*
31 December 2018	36%	64%	42%	58%
31 December 2017	34%	66%	41%	59%

Style

Following a bad year for value investment in calendar 2017 – the ninth worst since 1955 – the early months of 2018 witnessed a recovery for the style, which might have been assisted by the sharp rise in US government bond yields. The market went on to question the lofty valuations of many of the US's high growth internet businesses, but the relapse in bond yields in December undermined the rotation towards value. In addition, style dynamics within the NSCI (XIC) were influenced by the specific issue of Brexit: today's typical small cap value stock is sensitive to the economic cycle and so is likely to be particularly affected by the uncertain outlook. Data from the London Business School suggest that value modestly lagged growth over both the six months to 31 December 2018 and 2018 as a whole. Given the Managers' value investment philosophy, this represented a hindrance to ASLIT's returns.

Balance sheets

The boards of companies within the NSCI (XIC) reacted to the financial crisis by conserving cash to strengthen their balance sheets. This was an understandable reaction to what they had endured in 2008 and 2009. In more recent years, there have been signs of a return to more normal levels of confidence, with unusually strong balance sheets put to work in the form of greater investment, acquisitions or returns of cash to shareholders. Assuming that investment propositions have been well judged, the Managers welcome this development, but there is the risk that balance sheets become stretched, as happened in the years before the crisis. This would not yet appear to be the case, as shown in the table below, which sets out the distribution of the portfolio and of the NSCI (XIC) by balance sheet strength of the underlying companies.

Based on 2019 estimates	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Loss makers
ASLIT	24%	54%	22%	0%
NSCI (XIC)	27%	38%	28%	7%

Over recent months, there have been indications that banks have become choosier in their lending and that credit conditions are becoming less easy, with the retail and construction sectors appearing to be under particular pressure. It is too early to determine whether this is simply a consequence of Carillion's failure or if the lenders are girding themselves in the run-up to the departure from the EU.

Income

Dividend growth has been one of the most positive features of the small cap universe in recent years. Between 2012 and 2017, annual growth from the NSCI (XIC) averaged 9%, adjusted for inflation, well above the 62 year average rate of 3%. History dictates that a slowdown is inevitable and there are indications that it may have started in calendar 2018. It is tempting once again to identify Brexit concerns as an influence. However, such a theme is not explicit in companies' results statements and the deceleration would appear to be a function of one-off cuts and fewer special dividends. Clearly, though, this might change in the event of a hard Brexit.

Managers' Report

Turning to the portfolio's dividend experience, the table below splits holdings into categories that are determined by each company's most recent dividend announcement, excluding specials. The "Other" category includes 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. Relative to the analysis contained in the annual report and accounts for the year to 30 June 2018, the table shows fewer increases but more cuts and flat dividends. The message is therefore similar to that from small companies as a whole, specifically a slowdown in the rate of growth.

Down	Nil payers	No change	Increase	Other
6	1	26	32	3

Corporate activity

Against a backdrop of buoyant M&A activity around the world, Brexit concerns contributed to a quieter period for corporate activity within the NSCI (XIC). Only 14 bids for NSCI (XIC) constituents were completed in calendar 2018 or were outstanding at the end of the year, down from 17 in 2017 and from 33 two years before that. Of the 14, just four bids were announced over the six months to 31 December 2018, none of which were held by ASLIT.

Despite some ambitious advisers and what is reputedly a full pipeline of potential deals, the frequency of IPOs also declined in calendar 2018, with 13 completed against 21 the previous year. Of the 13, eight took place in the six months to 31 December 2018. ASLIT did not participate in any of these: in the opinion of the Managers, the valuations of the companies did not offer sufficient compensation for the information advantage enjoyed by the sellers.

Turnover

Annualised portfolio turnover in the six months to 31 December was 13%. Turnover tends to be influenced by investment performance: if the stockmarket chooses not to re-rate ASLIT's holdings, there is not the scope to rotate capital into cheaper companies and so turnover is low. Conversely, better relative performance tends to be associated with a pick-up in turnover.

Valuations

There is no shortage of data to suggest that sterling assets are particularly unloved at present. Anxiety has intensified as Brexit enters, presumably, its final phase. The bias of small companies to the domestic economy renders them particularly vulnerable to a badly handled departure. As the table below shows, this has been reflected in a sharp de-rating of the asset class, with the historical PEs of both the NSCI (XIC) and the portfolio dropping sharply over the past 12 months. At 10.9x, the PE of the index is 19% below its average since 1990. The only two occasions in which the multiple has been lower for a sustained period of time have coincided with recession, specifically in the early 1990s and during the financial crisis.

	31 December 2018		31 December 2017	
Portfolio Characteristics	**ASLIT**	**NSCI (XIC)**	ASLIT	NSCI (XIC)
Number of companies	**68**	**359**	72	350
Weighted average market capitalisation	**£545m**	**£732m**	£703m	£878m
Price earnings (PE) ratio (historic)	**9.3x**	**10.9x**	12.2x	14.3x
Dividend yield (historic)	**5.1%**	**3.6%**	4.0%	2.8%
Dividend cover	**2.1x**	**2.6x**	2.0x	2.5x

Managers' Report

The table below provides forward-looking valuation data using the Managers' favoured metric of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Ratios are shown for the portfolio, the tracked universe and certain subdivisions of the tracked universe. The tracked universe refers to the 284 companies that the Managers follow closely and that account for 97% by value of the entire NSCI (XIC).

EV/EBITA	2018	2019	2020
ASLIT	9.5x	8.5x	7.8x
Tracked universe (284 stocks)	10.5x	9.6x	8.5x
- 49 growth stocks	16.5x	14.7x	13.2x
- 235 other stocks	9.7x	8.8x	7.9x

The table demonstrates the valuation advantage enjoyed by the portfolio, which is a function of the Managers' value investment philosophy. Underlying that valuation advantage are three particular features of today's universe of small UK quoted companies.

- Despite pressure on the valuations of some of the world's technology titans in recent months, the table shows that growth stocks remain significantly more expensive than value stocks. In the UK context, that premium would be challenged by a period of more buoyant economic conditions and by progress towards a normalisation of monetary policy.
- There remains a distinct premium for size and, by extension, liquidity. The average 2019 EV/EBITA ratio of "larger small" companies (i.e. those with market capitalisations of at least £500m) is 27% higher than that of the "smaller smalls", despite no obvious difference in the underlying business prospects for the two groups.
- Using average 2019 EV/EBITA ratios, overseas facing companies enjoy a 12% premium to the domestics, which are perceived as potential Brexit victims. The premium is not vast, but the profit dynamics of the two groups have diverged as sterling weakness has taken the profits of many overseas earners to all-time highs but has eroded margins of the domestic players.

Outlook & conclusion

The uncertainties surrounding the UK's departure from the EU have clearly been a fundamental influence on the UK stockmarket over the past year and, with the matter yet to be resolved, it continues to affect the valuation opportunities described above. It is tempting, as many have done, to portray investment in small UK quoted companies as binary at the current time.

- In the event of a hard Brexit, the economy would be vulnerable to a further slowdown and, given presently low rates of growth, recession. Dividend cuts would follow and renewed monetary stimulus would be likely. It is possible that the risks of a downturn and further uncertainty would prove not to have been fully reflected in share prices and in sterling. Weaker sterling would insulate the overseas earners, but businesses reliant on the domestic economy would come under renewed pressure.
- A softer Brexit, along the lines of the prime minister's withdrawal agreement, would avoid a near term downturn and, through the removal of uncertainty, might see an acceleration in the economy as businesses increase investment. Sterling would plausibly recover at least some of its losses since the referendum and the outflow from UK assets would start to reverse. Some of the current headwinds facing the profits of domestic businesses would presumably turn to tailwinds, with the opposite being the case for the overseas earners.

Managers' Report

However, this stark portrayal of ASLIT's investment proposition feels rather short term. On the one side, it ignores the likelihood that political uncertainty will continue to beset the UK even if an immediate hard Brexit is avoided. On the other, it implies something close to Doomsday for small companies, whereas the events of ten years ago in the financial crisis proved their resilience. Good management and the support of the equity markets in the refinancing of 2009 allowed businesses to recover and grow. From its previous peak in May 2007 to the end of 2018, the NSCI (XIC) doubled in total return terms. The Managers therefore suspect that, after the inevitable short term adjustment to a hard Brexit, a degree of clarity would return to allow small companies to resume their well established habit of creating wealth for their shareholders.

The binary view also risks ignoring economic and financial developments in the rest of the world, which, as the events of the fourth quarter demonstrate, will affect perceptions of and future returns from UK equities. Notably, there is potential for a normalisation of US monetary policy to upset the established investment strategies since the financial crisis. This is not to argue that the valuations of growth stocks cannot move even higher or that the path to a normal cost of money will be short and without setbacks. However, to judge by the portfolio profiles of investment and unit trusts investing in small UK quoted companies, the desire to own growth stocks is extreme, while value investing remains very much out of fashion.

Finally, the binary characterisation is essentially the consensus view. This in itself does not mean that the view is wrong, but history suggests that a strong consensus can often lead to opportunities within financial markets, such as in 1981 when 364 economists penned a poorly timed letter criticising government policy. The strength of the consensus against the majority of small UK quoted companies is evident in their unusually depressed valuations. The Managers believe that the differentiation of ASLIT's well diversified portfolio keeps it relevant and that, with sentiment towards UK equities, small companies and value investment so negative, it is well placed to generate good returns in the future.

Aberforth Partners LLP
Managers

24 January 2019

Investment Portfolio

Fifty Largest Investments as at 31 December 2018

No.	Company	Valuation £'000	% of Total	Business Activity
1	Dunelm Group	6,746	3.4	Homewares retailer
2	Vesuvius	6,015	3.1	Metal flow engineering
3	Spirent Communications	5,951	3.0	Telecoms test equipment
4	Brewin Dolphin Holdings	5,881	3.0	Private client fund manager
5	Northgate	5,692	2.9	Van rental
6	Wincanton	5,134	2.6	Logistics
7	Huntsworth	4,540	2.3	Public relations
8	Bovis Homes Group	4,368	2.2	Housebuilding
9	Go-Ahead Group	4,361	2.2	Bus & rail operator
10	McKay Securities	4,305	2.2	Property – London & South East offices
	Top Ten Investments	**52,993**	**26.9**	
11	RM	4,296	2.2	IT services for schools
12	U and I Group	4,283	2.2	Property – investment & development
13	Paypoint	4,188	2.1	Alternative payment services
14	Vitec Group	4,136	2.1	Photographic & broadcast accessories
15	Morgan Advanced Materials	4,090	2.1	Manufacture of carbon & ceramic materials
16	Restaurant Group	4,065	2.1	Restaurant operator
17	Eurocell	4,019	2.0	Manufacture of UPVC building products
18	SThree	3,748	1.9	Recruitment
19	Anglo Pacific Group	3,723	1.9	Natural resources royalties
20	Forterra	3,698	1.9	Manufacture of bricks
	Top Twenty Investments	**93,239**	**47.4**	
21	Essentra	3,696	1.9	Filters & packaging products
22	Ultra Electronics Holdings	3,663	1.9	Specialist electronic & software technologies
23	De La Rue	3,644	1.9	Bank note printer
24	Keller	3,490	1.8	Ground engineering services
25	RPS Group	3,485	1.8	Energy & environmental consulting
26	DFS Furniture	3,288	1.7	Furniture retailer
27	Stagecoach Group	3,258	1.7	Bus & rail operator
28	Non-Standard Finance	3,219	1.6	Home credit provider
29	TT Electronics	3,201	1.6	Sensors & other electronic components
30	Bloomsbury Publishing	2,980	1.5	Independent publishing house
	Top Thirty Investments	**127,163**	**64.8**	

Investment Portfolio

Fifty Largest Investments as at 31 December 2018

No.	Company	Valuation £'000	% of Total	Business Activity
31	Assura	2,959	1.5	Property – healthcare
32	STV Group	2,914	1.5	Multi-channel digital media
33	KCOM Group	2,912	1.5	Telecoms & related services
34	International Personal Finance	2,902	1.5	Home credit provider
35	Reach	2,753	1.4	UK newspaper publisher
36	Rank Group	2,615	1.3	Multi-channel gaming operator
37	TI Fluid Systems	2,533	1.3	Automotive parts manufacturer
38	RDI REIT	2,453	1.3	Property – retail & commercial
39	Sabre Insurance Group	2,405	1.2	Car insurance
40	Halfords Group	2,398	1.2	Automotive & cycling products retailer
	Top Forty Investments	**154,007**	**78.5**	
41	Castings	2,393	1.2	Engineering – automotive castings
42	SIG	2,371	1.2	Specialist building products distributor
43	Topps Tiles	2,317	1.2	Ceramic tile retailer
44	Chesnara	2,246	1.1	Life insurance
45	Just Group	2,236	1.1	Individually underwritten annuities
46	Pets at Home Group	2,064	1.1	Pet food, products & services retailer
47	Wilmington Group	1,987	1.0	Business publishing & training
48	Hansteen Holdings	1,982	1.0	Property – industrial
49	Drax Group	1,971	1.0	Electricity generation
50	Devro	1,819	0.9	Sausage casings
	Top Fifty Investments	**175,393**	**89.3**	
	Other Investments (18)	20,720	10.7	
	Total Investments	**196,113**	**100.0**	
	Net Liabilities	(45,613)		
	Total Net Assets	**150,500**		

Hurdle Rates & Redemption Yields

Hurdle Rates[1]

	Ordinary Shares Hurdle Rates to return			ZDP Shares Hurdle rates to return	
	100p	Share Price	Zero Value	127.25p	Zero Value
At 31 December 2018	**5.4%**	**1.6%**	**(18.5%)**	**(18.5%)**	**(66.0%)**
At 30 June 2018	1.2%	1.1%	(20.0%)	(20.0%)	(64.0%)
Inception	1.5%	n/a	(17.0%)	(17.0%)	(57.2%)

Redemption Yields[1] & Terminal NAVs[1] (Ordinary Shares) as at 31 December 2018

Capital Growth (per annum)	Ordinary Share Redemption Yields[1] Dividend Growth (per annum)				Terminal NAV[1]
	0.0%	+2.5%	+5.0%	+7.5%	
0%	**4.2%**	**4.6%**	**5.0%**	**5.5%**	**67.0p**
2.5%	**7.3%**	**7.7%**	**8.1%**	**8.5%**	**81.4p**
5.0%	**10.3%**	**10.7%**	**11.0%**	**11.4%**	**97.5p**
7.5%	**13.3%**	**13.6%**	**13.9%**	**14.3%**	**115.5p**

1 Defined in the Glossary on pages 22 to 23.

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

Interim Management Report

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

Risks and Uncertainties

The Directors have a process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the period ended 31 December 2018 and continues in place up to the date of this report. The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares is geared by the rising capital entitlements of the ZDP Shares and accordingly the Ordinary Shares should be regarded as carrying above average risk. The Company also has a £2 million overdraft facility, which when utilised increases the level of gearing. Mitigating factors in the Company's risk profile include that it has a relatively simple capital structure, invests in a diversified portfolio of small UK quoted companies, and outsources all of its main operational activities to recognised, well established firms.

The principal risks faced by the Company relate to investment policy/performance, structural conflicts of interest, fall in income, loss of key investment personnel and regulatory risk. The main risks from its financial instruments are: market price risk, credit risk, liquidity risk and interest rate risk. An explanation of the risks and how they are managed can be found in the 2018 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2018 Annual Report, albeit the political environment remains volatile.

Going Concern

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

Directors' Responsibility Statement

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

(i) the condensed set of financial statements has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

(ii) the Half Yearly Report includes a fair review of information required by:

- (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events during the six months to 31 December 2018 and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being disclosure of related party transactions and changes therein.

(iii) the Half Yearly Report, taken as whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, objective and strategy.

On behalf of the Board

Jonathan Cartwright
Chairman

24 January 2019

Income Statement

(unaudited)

For the six months ended 31 December 2018

	Notes	Six months ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000
Realised net (losses)/gains on sales		–	(1,851)	(1,851)
Movement in fair value		–	(44,094)	(44,094)
Net (losses)/gains on investments		–	(45,945)	(45,945)
Investment income		5,417	–	5,417
Investment management fee	3	(272)	(635)	(907)
Portfolio transaction costs		–	(124)	(124)
Other expenses		(176)	–	(176)
Net return before finance costs and tax		4,969	(46,704)	(41,735)
Finance costs:				
Appropriation to ZDP Shares	8	–	(882)	(882)
Interest expense and overdraft fee		(5)	(10)	(15)
Return on ordinary activities before tax		4,964	(47,596)	(42,632)
Tax on ordinary activities		–	–	–
Return attributable to Equity Shareholders		4,964	(47,596)	(42,632)
Returns per Ordinary Share	5	2.61p	(25.02p)	(22.41p)

Dividends

On 24 January 2019, the Board declared a first interim dividend for the year ending 30 June 2019 of 1.45p per Ordinary Share, which will be paid on 7 March 2019.

Income Statement

Period 19 April 2017 to 31 December 2017			Period 19 April 2017 to 30 June 2018		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	2,097	2,097	–	9,009	9,009
–	6,989	6,989	–	(2,579)	(2,579)
–	9,086	9,086	–	6,430	6,430
5,393	–	5,393	11,238	751	11,989
(268)	(626)	(894)	(539)	(1,258)	(1,797)
–	(1,310)[1]	(1,310)	–	(1,594)[1]	(1,594)
(199)	–	(199)	(356)	–	(356)
4,926	7,150	12,076	10,343	4,329	14,672
–	(852)	(852)	–	(1,704)	(1,704)
(6)	(14)	(20)	(6)	(15)	(21)
4,920	6,284	11,204	10,337	2,610	12,947
–	–	–	–	–	–
4,920	6,284	11,204	10,337	2,610	12,947
2.59p	3.30p	5.89p	5.43p	1.37p	6.80p

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

Reconciliation of Movements in Shareholders' Funds

(unaudited)

Six months ended 31 December 2018

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

For the period 19 April 2017 to 30 June 2018

	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 (Note 4)	-	-	-	-	(2,664)	(2,664)
Issue of Ordinary Shares	1,902	188,348	-	-	-	190,250
Ordinary Share issue costs	-	(1,275)	-	-	-	(1,275)
Share Premium cancellation	-	(187,035)	187,035	-	-	-
Cost of Share Premium cancellation	-	(38)	-	-	-	(38)
Issue of Redeemable Shares	50	-	-	-	-	50
Redemption of Redeemable Shares	(50)	-	-	-	-	(50)
Balance as at 30 June 2018	1,902	-	187,035	2,610	7,673	199,220

For the period 19 April 2017 to 31 December 2017

	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	-	-	-	6,284	4,920	11,204
Equity dividends paid (Note 4)	-	-	-	-	-	-
Issue of Ordinary Shares	1,902	188,348	-	-	-	190,250
Ordinary Share issue costs	-	(1,275)	-	-	-	(1,275)
Share Premium cancellation	-	(187,032)	187,032	-	-	-
Cost of Share Premium cancellation	-	(41)	-	-	-	(41)
Issue of Redeemable Shares	50	-	-	-	-	50
Redemption of Redeemable Shares	(50)	-	-	-	-	(50)
Balance as at 31 December 2017	1,902	-	187,032	6,284	4,920	200,138

Balance Sheet

(unaudited)

As at 31 December 2018

	31 December 2018 £'000	30 June 2018 £'000	31 December 2017 £'000
Fixed assets:			
Investments at fair value through profit or loss (Note 6)	**196,113**	242,967	241,936
Current assets			
Other debtors	**936**	1,387	784
Cash at bank	**3,322**	3,876	5,608
	4,258	5,263	6,392
Creditors (amounts falling due within one year)			
Other creditors	**(35)**	(56)	(88)
	(35)	(56)	(88)
Net current assets	**4,223**	5,207	6,304
Total assets less current liabilities	**200,336**	248,174	248,240
Creditors (amounts falling due after more than one year)			
ZDP Shares (Note 8)	**(49,836)**	(48,954)	(48,102)
TOTAL NET ASSETS	**150,500**	199,220	200,138
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital:			
Ordinary Shares	**1,902**	1,902	1,902
Reserves:			
Special reserve	**187,035**	187,035	187,032
Capital reserve	**(44,986)**	2,610	6,284
Revenue reserve	**6,549**	7,673	4,920
TOTAL EQUITY SHAREHOLDERS' FUNDS	**150,500**	199,220	200,138
Net Asset Value per Ordinary Share (Note 7)	**79.11p**	104.71p	105.20p
Net Asset Value per ZDP Share price (Note 7)	**104.78p**	102.93p	101.13p

Approved and authorised for issue by the Board of Directors on 24 January 2019 and signed on its behalf by:

Jonathan Cartwright
Chairman

Cash Flow Statement

(unaudited)

For the six months ended 31 December 2018

	Six months ended 31 December 2018 £'000	19 April 2017 to 31 December 2017 £'000	19 April 2017 to 30 June 2018 £'000
Net cash inflow from operating activities	**4,764**	3,583	8,505
Investing activities			
Purchases of investments	**(14,719)**	(55,548)	(87,766)
Sales of investments	**15,504**	21,780	50,027
Cash inflow/(outflow) from investing activities	**785**	(33,768)	(37,739)
Financing activities			
Proceeds from issue of Ordinary Shares	**–**	22,904	22,904
Issue costs of Ordinary Shares	**–**	(1,275)	(1,275)
Proceeds from issue of ZDP Shares	**–**	14,516	14,516
Issue costs of ZDP Shares	**–**	(312)	(312)
Share premium costs paid	**–**	(20)	(38)
Equity dividends paid (Note 4)	**(6,088)**	–	(2,664)
Interest and fees paid	**(15)**	(20)	(21)
Cash (outflow)/inflow from financing activities	**(6,103)**	35,793	33,110
Change in cash during the period	**(554)**	5,608	3,876
Cash at the start of the period	**3,876**	–	–
Cash at the end of the period	**3,322**	5,608	3,876

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been presented under Financial Reporting Standard 104 (FRS 104) and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period. The accounting policies used for the period ended 30 June 2018 have been applied.

2. Alternative Performance Measures

Alternative Performance Measures (APMs) are measures that are not defined under the requirements of FRS 102 and FRS 104. The Company believes that APMs, referred to within "Financial Highlights" on page 1, provide Shareholders with important information on the Company. These APMs are also a component of management reporting to the Board. A glossary of the APMs can be found on pages 22-23.

3. Investment Management Fee

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

4. Dividends

	Six months to 31 December 2018 £'000	19 April 2017 to 31 December 2017 £'000	19 April 2017 to 30 June 2018 £'000
Amounts recognised as distributions to equity holders:			
In respect of the period ended 30 June 2018:			
First interim dividend of 1.4p (paid on 6 March 2018)	**–**	–	2,664
Second interim dividend of 2.6p (paid on 31 August 2018)	**4,946**	–	–
Special dividend of 0.6p (paid on 31 August 2018)	**1,142**	–	–
Total	**6,088**	–	2,664

The first interim dividend for the year ending 30 June 2019 of 1.45p (2018: 1.4p) per Ordinary Share will be paid on 7 March 2019 to holders of Ordinary Shares on the registrar on 8 February 2019. The ex dividend date is 7 February 2019. The first interim dividend has not been recorded in the financial statements as at 31 December 2018.

Notes to the Financial Statements

5. Returns per Share

Period ended:	31 December 2018	31 December 2017	30 June 2018
Net return	**(£42,632,000)**	£11,204,000	£12,947,000
Weighted average Ordinary Shares in issue	**190,250,000**	190,250,000	190,250,000
Return per Ordinary Share	**(22.41p)**	5.89p	6.80p
Appropriation to ZDP Shares	**£882,000**	£852,000	£1,704,000
Weighted average ZDP Shares in issue	**47,562,500**	47,562,500	47,562,500
Return per ZDP Share	**1.85p**	1.79p	3.58p

6. Investments at Fair Value

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

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

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

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

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

7. Net Asset Value per Share / Total Return Performance

The Net Assets and the Net Asset Value per Share attributable to the Ordinary Shares and ZDP Shares as at 31 December 2018 are as follows.

	Ordinary Shares	ZDP Shares	Total Assets
Net assets attributable	£150,500,000	£49,836,000	£200,336,000
Number of Shares	190,250,000	47,562,500	237,812,500
Net Asset Value per Share	**79.11p**	**104.78p**	**84.24p**
Effect of reinvestment of dividends	2.52p	–	2.13p
Net Asset Value per Share on a total return basis at 31 December 2018	81.63p	104.78p	86.37p
Net Asset Value per Share at 30 June 2018	104.71p	102.93p	104.36p
Total Return performance in the period	**-22.0%**	**+1.8%**	**-17.2%**

Notes to the Financial Statements

8. Zero Dividend Preference Shares

Period ended:	31 December 2018 £'000	30 June 2018 £'000	31 December 2017 £'000
Opening balance	**48,954**	–	–
Issue of ZDP Shares	**–**	47,562	47,562
Capitalisation of issue costs of ZDP Shares	**–**	(312)	(312)
Issue costs amortised during the period	**21**	40	20
Capital growth of ZDP Shares	**861**	1,664	832
Closing balance	**49,836**	48,954	48,102

9. Share Capital

	31 December 2018 Shares	31 December 2018 £'000
Issued		
Ordinary Shares of 1p each	190,250,000	1,902
ZDP Shares of 1p each	47,562,500	476
Total issued and allotted	**237,812,500**	**2,378**

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

10. Related Party Transactions

Under UK GAAP, the Directors have been identified as related parties and their fees and interests are disclosed in the 2018 Annual Report. During the period no Director or entity controlled by a Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

11. Further Information

The foregoing do not constitute statutory accounts of the Company (as defined in section 434(4) of the Companies Act 2006). The financial information for the period ended 30 June 2018 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The Auditor issued an unqualified opinion on those accounts and did not make any statements under section 498(2) or (3) of the Companies Act 2006. All information shown for the period to 31 December 2018 is unaudited.

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

Glossary of UK GAAP Performance Measures

Net Asset Value (NAV) 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.

Gearing represents the percentage by which the total value of investments exceeds Equity Shareholders' Funds.

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 close of business on the day the Ordinary Shares were quoted ex dividend.

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

ZDP Share NAV Total Return represents the return on the entitlement value of a ZDP Share.

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

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

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

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

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 Shares) 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.

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).

Corporate Information

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Dominic Fisher, OBE
Angus Gordon Lennox
Graham Menzies

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Security Codes

	Ord Shares	ZDP Shares
SEDOL:	BYPBD39	BYPBD51
Bloomberg:	ASIT LN	ASIZ LN

GIIN: JM0CLZ.99999.SL.826
LEI: 21380013QYWO82NZV529

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