



# Aberforth Split Level Income Trust plc

**Half Yearly Report**

**31 December 2021**

## Investment Objective

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

## Investment Policy

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

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All data throughout this Half Yearly Report are to, or as at, 31 December 2021 as applicable, unless otherwise stated.

# Financial Highlights

## Total Return Performance

Period to 31 December 2021	Total Assets <sup>1</sup>	Ordinary Share		ZDP Share	
		NAV <sup>1</sup>	Share Price <sup>1</sup>	NAV <sup>1</sup>	Share Price <sup>1</sup>
Six months	0.4%	0.0%	-5.3%	1.8%	1.8%
Twelve months	27.4%	37.0%	24.3%	3.6%	7.4%
Since Inception <sup>3</sup> (cumulative)	13.9%	14.4%	-0.2%	16.5%	16.0%
Since Inception <sup>3</sup> (annualised)	2.9%	3.0%	0.0%	3.4%	3.3%

## Ordinary Share

As at:	Net Asset Value per Share <sup>2</sup>	Share Price	Discount/ (Premium) <sup>1</sup>	Return per Share <sup>2,4</sup>	Dividend per Share <sup>2,4</sup>	Gearing <sup>3</sup>
31 December 2021	93.6p	80.6p	13.9%	0.1p	1.51p	31.1%
30 June 2021	95.7p	87.2p	8.8%	46.8p	3.05p	29.9%
31 December 2020	70.7p	67.4p	4.6%	20.8p	0.92p	39.8%

At inception an Ordinary Share had a NAV of 100p and a gearing<sup>3</sup> level of 25%.

## Zero Dividend Preference Share (ZDP Share)

As at:	Net Asset Value per Share <sup>2</sup>	Share Price	Discount/ (Premium) <sup>1</sup>	Return per Share <sup>2,4</sup>	Projected Final Cumulative Cover <sup>2</sup>	Redemption Yield <sup>3</sup>
31 December 2021	116.5p	116.0p	0.4%	2.1p	3.6x	3.8%
30 June 2021	114.5p	114.0p	0.4%	4.0p	3.6x	3.7%
31 December 2020	112.5p	108.0p	4.0%	2.0p	2.9x	4.8%

At inception a ZDP Share had a NAV of 100p, a Projected Final Cumulative Cover<sup>3</sup> of 3.4x, and a Redemption Yield<sup>1</sup> of 3.5%.

Source: Aberforth Partners LLP

<sup>1</sup> Alternative Performance Measure (refer to Glossary on page 24).

<sup>2</sup> UK GAAP Measure (refer to Glossary on page 24).

<sup>3</sup> Defined in the Glossary on pages 24 to 25.

<sup>4</sup> The Return per Share and Dividend per Share as at 31 December 2021 and 2020 are in respect of the six months then ended and as at 30 June 2021 in respect of the year then ended.

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

This fifth interim report of Aberforth Split Level Income Trust plc ("ASLIT" or "your Company") covers the six months to 31 December 2021.

The Covid-19 pandemic, particularly now in the form of the Omicron variant, continues to influence the fortunes of your Company and its investments. Pleasingly, the vaccines seem to be effective in protecting against the worst impact of this new variant and the rapidly rising case numbers do not appear to be leading to a proportionate increase in hospitalisations or deaths. If this trend holds, concerns about the pandemic should ease, allowing the economic recovery to continue and market sentiment to improve again. However, it is likely that the risk of new variants will linger until immunity levels around the world rise sufficiently.

Notwithstanding the uncertainties relating to the pandemic, consumer demand has grown strongly as economies have unlocked. This has happened against the backdrop of disrupted supply chains and elevated energy prices to result in significant inflation. The sharp uplift in inflation is proving more persistent than transitory and led the Bank of England to raise base rates from 0.1% to 0.25% on 15 December 2021, the first rate rise since August 2018. With little sign of the inflationary pressures abating and further economic growth forecast, ASLIT's first half ended with the financial markets contemplating the prospect of more interest rate increases and trusting in the judgement of the monetary policymakers.

## Performance

Following the very strong period of share price performance that was spurred by the vaccine announcements in November 2020, it was likely that returns would be more measured for the six months to 31 December 2021, even without renewed concerns about the pandemic. ASLIT's total asset total return, which measures its ungeared portfolio performance, was 0.4% in the period. The Managers' Report examines the various factors that influenced this return.

For reference, the Numis Smaller Companies index (excluding investment companies) (NSCI (XIC)), which defines ASLIT's opportunity base of small UK quoted companies, delivered a total return of 3.8% in the period. The FTSE All-Share index, which is dominated by the larger UK listed companies, recorded a total return of 6.5%.

The portfolio's capital performance was below the hurdle of the rising entitlement of the Zero Dividend Preference Shares (ZDPs). Accordingly, the Ordinary Shares' net asset value total return was zero in the six months. The share price discount of the Ordinary Shares to their net asset value widened over the period from 8.8% to 13.9%, which resulted in a share price total return of -5.3%.

The projected final cumulative cover of the ZDP shares of 3.6 times at 31 December 2021 was unchanged from the start of the reporting period.

## Earnings and Dividends

In my last full year statement, I described how dividends paid by small UK quoted companies had begun to recover from the pandemic-induced lows of mid 2020. This rebound has continued at a higher pace than previously expected. ASLIT has seen more of its investee companies resume dividend payments and has received special dividends from two holdings. This positive experience is reflected in ASLIT's 2.09p of revenue returns per share in the six months to 31 December 2021, which is 79% higher than the 1.17p earned in the comparable period in the previous financial year. For reference, ASLIT generated 2.90p of revenue returns per share for the twelve months to 30 June 2021.

In determining the level of the first interim dividend, the Board considered the economic and investment context. We took confidence from the sharp recovery in dividends enjoyed to date, from the 0.72p of revenue reserves with which the Company entered the current financial year, and from income forecasts provided by the Managers. Accordingly, I am pleased to declare a first interim dividend of 1.51p per Ordinary Share in respect of the year to 30 June 2022. This is 64% higher than the corresponding payment in 2021 of 0.92p, and in line with the pre-pandemic payment in 2020.

# Chairman's Statement

Should this trajectory be sustained when it comes to decide on the second interim dividend, it would mark an important milestone in the rehabilitation of ASLIT's dividends. Acknowledging the unavoidable dividend cut in the previous financial year and the ever-present uncertainties of equity investment, it is possible to envisage ASLIT achieving dividend growth over its life and meeting its income objectives.

The first interim dividend of 1.51p will be paid on 8 March 2022 to Ordinary Shareholders on the register as at the close of business on 11 February 2022. The ex dividend date is 10 February 2022. The Company operates a Dividend Reinvestment Plan and details, including the Form of Election, are available from our Managers, Aberforth Partners LLP or on their website, [www.aberforth.co.uk](http://www.aberforth.co.uk).

## Stewardship

In November, COP26 reinforced the increasing importance of environmental, social and governance issues for economies and financial markets. As part of its stewardship responsibilities, the Board regularly reviews the Managers' approach to these issues, which will be described in additional detail in the next annual report. The Board endorses the Managers' stewardship policy, which is set out in their response as a signatory to the UK Stewardship Code 2020. This, together with examples relating to voting and engagement with investee companies, can be found in the literature library of the Managers' recently refreshed and updated website at [www.aberforth.co.uk](http://www.aberforth.co.uk).

## Outlook

Predicting the progression of the pandemic has proved far from straightforward, but the tentative signs that Omicron is a milder variant are encouraging. Should coronavirus concerns diminish, sentiment will improve but the stockmarket will still have much to contemplate. Events in Ukraine highlight geopolitical risks, while the implications of a sustained bout of high inflation are profound for financial markets that have been used to low inflation, low interest rates and low growth for a dozen years or so. It is remarkable that the threat of higher inflation and higher interest rates is not more amply reflected in bond yields and the valuation of many growth stocks.

While higher inflation might be of relative benefit to the value investment philosophy by which the Managers guide ASLIT's portfolio, the more important influence on ASLIT's fortunes is the underlying progress of its investee companies. Here, the resilience displayed since the onset of the pandemic is encouraging. The Managers' Report develops on this theme to describe a positive outlook through consideration of strong balance sheets, good returns on equity and growing dividends. These attributes come through clearly in the Board's regular discussions with the Managers about individual holdings.

The Board recognises that it has been a challenging experience for ASLIT Ordinary shareholders since the Company's inception, with the net asset value and share price frustratingly below the 100p issue price. Much of the challenge has come from the pandemic, which has been particularly problematic for a young and geared company. However, there does appear to be scope for a brighter outlook. The resilience of the investee companies is already evident in the rehabilitation of dividends. In due course, rising dividends ought to support the capital growth of a portfolio that is already attractively valued. A broader reappraisal of the qualities of the holdings by the stockmarket could add to the capital progress of the Ordinary Shares. Finally, the planned wind-up in two and a half years should address the share price discount by giving the opportunity to realise value at close to net asset value. The Board is therefore optimistic that ASLIT's portfolio and capital structure can deliver on the investment objective for the benefit of both classes of shareholder over the Company's planned life.

Angus Gordon Lennox  
*Chairman*

25 January 2022

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# Managers' Report

## Introduction

Equity markets lost some of the momentum of the vaccine rally in the six months to 31 December 2021. In the UK, the total return of large companies, represented by the FTSE All-Share, was 6.5%. The NSCI (XIC), which defines ASLIT's investment universe of small UK quoted companies, rose by 3.8%. ASLIT's total asset total return, which measures its ungeared portfolio performance, was 0.4%. This was below rate at which the ZDP Shares' entitlement increases and so the net asset value total return of the Ordinary Shares was zero. The ZDP Shares' final cumulative cover was unchanged at 3.6 times over the six months.

The recovery in economic activity and corporate profits, which started late in 2020, progressed more or less as hoped over the six months to 31 December 2021. Support measures, such as the UK's Job Retention Scheme, have been gradually phased out without, as yet, a significant impact on growth. However, it is notable that the share prices of many companies struggled through this period. This reflects uncertainties that stem both from the continuing effects of the coronavirus itself and from the unintended consequences of the stimulus measures deployed in 2020 to mitigate the economic damage of the pandemic. Three particular issues stand out for their effects on equity valuations: variants of the virus, supply chain constraints and inflation.

- Despite the success of the vaccines, the prospect of further lockdowns has lingered owing to the emergence of new variants that might prove more infectious, virulent or resistant to the vaccines. Through 2021 the Delta and Omicron variants highlighted this risk and buffeted sentiment to companies that were benefiting from the return to normal economic activity. This is a factor that is likely to remain relevant until levels of immunity around the world are high enough to compromise the virus's ability to evolve.
- Supply chains have been put under severe stress as demand has surged and as the impact of 2020's lockdowns on industrial production and investment plays out. Employment has also been a challenge: with indications that elements of the labour force have been slow to re-engage after the lockdowns, wage growth is accelerating. In the UK, Brexit is an additional complication, though it is difficult to disentangle from the effects of the pandemic. These issues have combined with rising energy prices to exert pressure on households and on corporate profitability, which is being reflected in the trading updates of companies around the world, including several of the portfolio's holdings. In 2021, this factor has tended merely to take the gloss off results that have been boosted by the demand recovery. However, the effect on profits in 2022 is likely to be greater.
- Supply chain constraints, rising wages and energy prices have combined to produce some of the highest rates of inflation in decades. In the UK, the CPI rose by 5.1% year-on-year in December 2021, while the rate in the US was 7.0%. As the effects of lockdown in 2020 washed through the data, it became clear that this rise in inflation is not as transitory as was widely expected at the start of the year. This is relevant to the performance of the portfolio since there is evidence that the value investment style, as followed by the Managers, fares relatively well when government bond yields rise, which they often do in response to higher inflation. However, in the latter part of 2021, there was little evidence of that relationship. It would seem that equity markets were focused on the possible responses from central banks, fearing that tighter monetary conditions might lower both inflation and real economic growth.

While the effect of these issues on ASLIT's portfolio will become clearer through 2022, reassurance can be taken from the experience of the past two years. The sensitivity of the portfolio companies to economic conditions was clearly displayed both on the way down in 2020 and in the recovery phase in 2021. The resilience of ASLIT's holdings comes with attractive valuations, despite the strong returns achieved since the advent of the vaccines in late 2020.

# Managers' Report

## Analysis of performance

To recap, ASLIT's total asset total return in the six months to 31 December 2021 was 0.4%. The return from the opportunity base represented by the NSCI (XIC) was 3.8%. The following paragraphs explain this performance and provide additional detail about the portfolio.

### Style

The vaccine rally was led by value stocks, which benefited ASLIT's performance. However, in the six months to 31 December 2021, value's resurgence was put on hold by concerns about the Omicron variant and monetary tightening. According to the London Business School, which analyses style effects within the NSCI (XIC) using price to book ratios, value stocks under-performed growth stocks by 1% in the period. This quantification of the style factor is a useful but imprecise gauge of the Managers' approach to value investment. The Managers have always used a broader range of valuation metrics – notably EV/EBITA, the price earnings ratio, free cash flow yield and dividend yield – to determine the price targets for ASLIT's holdings. Moreover, their investment cases are based on more than a statistically low valuation, additionally taking into account factors such as the development of profits, market position, pricing power and track record. Consideration is also given to risks and opportunities emerging from environmental, social and governance (ESG) issues.

### Size

The following comments focus on the size effect within the NSCI (XIC), rather than on comparing the performances of large companies and small companies. The NSCI (XIC) is defined as the bottom ten percent by value of the total UK stockmarket. This means that roughly two thirds of the NSCI (XIC)'s value is represented by companies that are also members of the FTSE 250. For several years, the Managers have chosen to invest the portfolio in the index's "smaller small" constituents, which can be thought of as non-FTSE 250 companies. The motivation for this was that the "smaller smalls" enjoyed much more attractive valuations, without having to compromise in terms of profit growth, returns on equity or leverage. The advent of the vaccines prompted a strong period of performance for the "smaller smalls". However, the mid caps reasserted themselves in the six months to 31 December 2021, which can be gauged by comparing the return of the FTSE SmallCap, representative of "smaller smalls", with that of the FTSE 250. In the review period, the FTSE SmallCap lagged the FTSE 250 by 4%, which was a headwind to ASLIT's returns.

### Geography

The EU referendum in 2016 and the subsequent weakness in sterling led to a phase of share price under-performance by companies with greater exposure to the UK's domestic economy. Just as greater political clarity seemed forthcoming at the end of 2019, domestically oriented businesses were put under renewed pressure by 2020's lockdown, which was particularly troublesome for businesses in the retail, travel and leisure sectors. However, since the start of the vaccine rally, the share prices of domestic companies have performed more strongly. In the six months to 31 December 2021, the domestics out-performed overseas companies by 5% in total return terms. This was helpful to ASLIT's performance, since the portfolio has a weighting of 57% in the domestics, higher than the NSCI (XIC)'s 51%.

### Dividends

The swings in the income experience of the portfolio and of small UK quoted companies in general have reflected their capital performance over the past two years. The London Business School calculated that NSCI (XIC) dividends fell by 52% in calendar 2020, the worst outcome in the post war era. In 2021, dividends rebounded by 70%. ASLIT has benefited, with estimated investment income for the current financial year now higher than expected six months ago.

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Behind this improvement was a better than expected underlying dividend experience, supplemented by two special dividends paid by investee companies to ASLIT. The dividend experience is portrayed in the following table, which categorises the portfolio's 67 holdings at 31 December 2021 by their most recent dividend action.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	Returner	Other*
11	4	6	19	26	1

\* Other denotes companies paying dividends for the first time.

The important categories are Returners and Nil Payers. The former captures those holdings that did not pay a dividend in 2020 but that have resumed distributions in 2021. There are more of these than the Managers had expected at the start of the year, which is testament to the resilience and good stewardship of the investee companies in extremely challenging circumstances. These have provided a significant boost to ASLIT's Income Statement. The Nil Payers category hints at the scope for further impetus. The Managers estimate that ten of the Nil Payers will make dividend payments in the next two years. The other Nil Payer, which may be thought of as structural Nil Payer, is likely to take longer as its cash flows are prioritised for investment and debt repayment.

## Balance sheets

The strong dividend performance described above is influenced by the resilience of balance sheets both within the portfolio and among small companies in general. The table below sets out the weight of the portfolio and the tracked universe in four leverage categories. Using the Managers' estimates, it also shows those weights both at the end of 2021 and at the end of 2023. The tracked universe is those companies in the NSCI (XIC) that the Managers follow closely and represents 97% by value of the NSCI (XIC).

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2021	36%	45%	11%	8%
Portfolio: 2023	44%	44%	6%	5%
Tracked universe: 2021	29%	34%	24%	13%
Tracked universe: 2023	41%	32%	20%	7%

\* Includes loss-makers and lenders.

The resilience of small companies is evident from the table. Both the portfolio and the tracked universe are emerging from the pandemic with a skew to companies boasting strong balance sheets. Some of that resilience is due to equity issues in 2020, though these were fewer than the Managers had expected. The more important influences were the control of costs, recovering demand and a focus on free cash generation. It is also notable that, if anything, the portfolio's companies look more conservatively financed than does the tracked universe. The latter has a higher exposure to more highly leveraged companies with net debt / EBITDA ratios above 2x.



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## Return on equity

There is a widespread view that companies in the value cohort of an index should generate much lower returns on equity (RoE) than do the growth cohort. This makes sense since, if the stockmarket is pricing efficiently, companies with high returns on equity should be on higher valuations, all else being equal. In turn, value investors would tend to find more opportunities among companies whose returns on equity and valuations are depressed by some issue but can revert to more normal levels once the issue is addressed.

Weight in companies with:	"Loss makers" RoE < 0%		"Laggards" RoE 0-10%		"Value creators" RoE 10-20%		"Stars" RoE > 20%	
	2019	2020	2019	2020	2019	2020	2019	2020
Portfolio	4%	15%	24%	42%	39%	19%	32%	24%
Tracked universe	11%	21%	22%	30%	36%	22%	31%	26%

The table shows the exposure of the portfolio and of the tracked universe to companies categorised by their RoE. The impact of 2020's lockdown-induced recession is clear, with weightings in "loss makers" and "laggards" rising as profits declined. A more useful picture is painted by the data for relatively normal conditions of 2019. In that year, the portfolio's exposures to the four categories compare well with those of the tracked universe. This contradicts the widespread view that value investors are condemned to owning less profitable companies. The explanation for this counterintuitive but encouraging finding lies in the portfolio's relatively high exposure to the more attractively valued smaller small companies, which is addressed in more detail in the commentary on valuations below.

## Corporate activity

The international appeal of UK assets diminished with 2016's EU referendum. This was reflected in sterling weakness, in a widening of the valuation discount between UK and global equities and in a decline in takeover activity within the NSCI (XIC). The past year has seen some appetite return. UK equities have continued to under-perform their global peers, but sterling is above pre pandemic levels and ten percent above the nadir in the wake of the referendum. Of more direct relevance to the portfolio, the incidence of M&A within the NSCI (XIC) was at its highest level in 2021 since 2015. Private equity and other companies, both domestically based and overseas, have been keen to take advantage of the considerable value available within the UK equity market.

Nineteen constituents of the index were acquired in 2021, with offers for another six still outstanding at 31 December 2021. Of these 25 companies, the portfolio had holdings in six. In addition, there was a public approach for a holding that was rejected by shareholders and other approaches that the Managers helped rebuff before disclosure was required. It remains the case that the stockmarket valuations for many investee companies are so low that the typical 20-30% premium for control does not get close enough to the Managers' target prices.

ASLIT's last annual report described an upsurge in IPO activity in the first half of 2021, with most of the companies brought to the market on high valuations and with more appeal to the growth investor. There were few IPOs in the six months to 31 December 2021, but 2021 as a whole saw 23 companies float with current market capitalisations that brought them into the NSCI (XIC) on its 1 January 2022 rebalancing. The net effect of this rebalancing increased the number of constituents in the NSCI (XIC)

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from 334 at 1 January 2021 to 337 at 1 January 2022. The largest constituent in the 2022 vintage at 1 January 2022 had a market capitalisation of £1,645m.

## Portfolio turnover

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. Over the six months to 31 December 2021, the rate was 14%. There is often a relationship between ASLIT's turnover and the performance of the portfolio. If the share prices of holdings rise close to the Managers' targets, there is the opportunity to realise value and redeploy the proceeds in other companies with higher upsides. The Managers term this the "value roll". On the other hand, weaker performance implies that the gaps between share prices and the Managers' targets prices are widening and so, all else being equal, there is less incentive to change the portfolio.

## 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 higher a portfolio's active share, the higher its chance of either out or under-performing the index. At 31 December 2021, the portfolio's active share was 78% relative to the NSCI (XIC), which was well above the Managers' target ratio of at least 70%.

## Valuations

Before examining the valuations of the portfolio, it is worth noting that UK equities remain lowly valued in the global context. Research by JP Morgan shows that UK equities have under-performed their US peers by 50% and their European peers by 25% since the EU referendum in 2016. This has left UK valuations relative to global equities over two standard deviations below their long term averages. A significant valuation discount persists even when valuations are adjusted for the UK stockmarket's heavy exposure to the financials and commodities sectors. Though less exposed to these sectors, ASLIT's investment universe and portfolio would appear to bear a UK discount.

Portfolio Characteristics	31 December 2021		31 December 2020	
	ASLIT	NSCI (XIC)	ASLIT	NSCI (XIC)
Number of companies	67	337	70	334
Weighted average market capitalisation	£771m	£934m	£641m	£866m
Price earnings (PE) ratio (historical)	13.7x	16.6x	8.6x	10.8x
Dividend yield (historical)	2.7%	2.1%	3.0%	1.5%
Dividend cover	2.7x	2.9x	3.9x	6.2x

The historical PE ratios of the portfolio and of the NSCI (XIC) rose through 2021. This was driven both by the recovery in share prices through the year and by companies reporting lower earnings in respect of the recession year of 2020. The Managers anticipated that the portfolio PE will fall close to 10x as the recovery continues over the next two years.

Turning to dividend yields, the portfolio yield is 2.7%. While dividends recovered more quickly than expected through 2021, they remain below their pre-pandemic levels. Those levels are likely to be seen again in 2023. Consistent with this, the Managers' estimates suggest a portfolio yield two years out of 4.0%. As dividends grow again, dividend cover should decline from the present relatively high level of 2.7x.

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The table below sets out the forward valuations of the portfolio, the tracked universe and certain subdivisions of the tracked universe. The metric displayed is enterprise value to earnings before interest, tax and amortisation (EV/EBITA), which the Managers use most often in valuing companies. The estimates underlying the ratios are the Managers'. There follows a series of observations about the table.

EV/EBITA	2020	2021	2022	2023
ASLIT	12.5x	9.4x	8.3x	7.5x
Tracked universe (245 stocks)	15.0x	12.9x	10.9x	9.2x
- 46 growth stocks	21.9x	21.2x	20.2x	18.2x
- 199 other stocks	13.5x	11.6x	9.7x	8.0x
- 105 stocks > £600m market cap	14.6x	13.4x	11.5x	9.6x
- 140 stocks < £600m market cap	16.1x	11.5x	9.5x	8.3x

- The decline in ASLIT's EV/EBITA from 2020 to 2023 is driven by recovering profits and by a reduction in EV as free cash flow is generated to reduce debt. The 7.5x multiple in 2023 is based on profits that are expected to be back roughly to 2019 levels.
- Consistent with the Managers' value investment philosophy, the portfolio is more attractively rated than the tracked universe, with a discount of 17% in 2020 and 18% in 2023.
- The valuation stretch among small companies is shown in the EV/EBITA difference between the growth stocks and the rest of the tracked universe. It is in this latter cohort that the Managers focus their attention, though growth stocks do encounter trading issues and can offer opportunities as well.
- The bottom two rows demonstrate the present importance of size. Stocks with market capitalisations above £600m are an approximate match for those NSCI (XIC) constituents that are also members of the FTSE 250. Those with market capitalisations below £600m are the "smaller smalls". Despite their better share price performance in 2021, these remain more attractively valued than their mid cap peers, but they are not inferior in terms of their growth potential, balance sheets and returns on equity. Since the global financial crisis, the stockmarket has penalised these companies for their small size and relative illiquidity. Through its diversified portfolio ASLIT has taken advantage of this and has a meaningfully higher exposure than does the index to the "smaller smalls".
- Turning back to M&A within the NSCI (XIC), the average 2021 EV/EBITA multiple of 2021's takeover targets (excluding property companies) was 17x. This is markedly higher than the 2021 valuation multiples of both the tracked universe and the portfolio, which illustrates the value available among small companies.

The EV/EBITA multiples usefully demonstrate the attractive valuations inherent in the portfolio, but they are not the only element of the Managers' investment cases. Each holding is ascribed a target price, which is usually based upon an estimate of normalised profits to which a multiple is applied. The emphasis of the investment process is assessment of the appropriate multiple, taking into account factors such as the company's market position, its record, ESG risks and opportunities, its management and its longer term prospects. The ranking by upside to price targets allows the Managers to circulate capital from companies whose share prices are near their calculated values to those with a larger gap between the two. Over time this "value roll" can make a meaningful contribution to investment returns.

# Managers' Report

## Outlook and conclusion

Equity returns are determined by the progress of corporate profits and the rating ascribed to those profits by investors. Inflation and monetary policy are important influences on the latter since they affect the discount rates used to value financial assets. One of the curiosities of 2021 is that the highest rates of inflation for decades have not had a greater impact on the pricing of financial assets. Government bond yields in both the UK and US are still below their pre-pandemic levels, while growth stocks returned to the fore after weaker relative performance amidst the vaccine rally. So far, therefore, the markets appear to be anticipating economic and financial conditions little changed from those that have pervaded since the global financial crisis: low real economic growth, low inflation, low interest rates and low bond yields.

It is not clear that today's inflationary pressures will be short-lived and easily controlled. The supply chain problems will be sorted in time, but there may be more intractable influences. Under-investment in oil and gas development projects in recent years could keep energy prices high. Meanwhile, there is concern that the supply of labour has been affected by issues stemming from the pandemic and, in the UK at least, by Brexit. Macro-economic data and anecdotes from companies indicate that wages are accelerating.

Inflation raises the stakes. While its recent resurgence clearly does not prevent a return to the disinflationary conditions of the past dozen years, it is perplexing that the financial markets do not yet harbour more doubt. The chance that bond yields prove too low and that growth stocks are too highly valued is higher today than before the pandemic, but that is not reflected in current valuations. Were more doubt to creep into valuations, ASLIT's value investment style should benefit in terms of relative performance. However, we should be careful what we wish for – equities struggle when monetary policy belatedly plays catch-up and relative gains might be achieved against the backdrop of lower share prices.

Turning back to corporate profits, the outlook is encouraging as economic activity normalises and demand continues its rebound from the 2020 recession. Such recovery remains a common theme from the Managers' recent engagement with ASLIT's investee companies. There are, though, risks. First, the pandemic is still with us and may elicit further measures by governments. However, the efficacy of the vaccines means that such measures should affect the pace of recovery rather than threaten the recovery itself. Second, there are the supply chain problems, which are another recurring feature of company trading updates and will take time to resolve. Indeed, energy and labour costs may put sustained pressure on corporate margins, with demand also threatened by the impact of energy costs on consumer spending. Third, there is the chance that central bankers tighten monetary policy to control inflation and thus bring about economic slowdown. At this stage, this risk is more speculative since monetary tightening, such as the Bank of England's 0.15% increase in interest rates in December, has so far been modest – in most western economies interest rates remain deeply negative in real terms.

So, from the strategic perspective, 2022 feels like a pivotal year as the inflation debate comes to a head. Equity valuations will be affected, including those of small UK quoted companies. In such uncertain circumstances, the records of these companies offer reassurance. They have coped with the global financial crisis, the Eurozone crisis, Brexit and the pandemic. Despite their cyclical nature they have displayed great resilience through each episode. ASLIT itself benefits from a diversified portfolio of companies, with wide ranging activities and geographical exposures. These companies boast strong balance sheets and generate returns on equity that point to profitable and growing underlying

# Managers' Report

businesses. Remarkably, these characteristics are available to the Managers without having to compromise on the value investment philosophy.

Why should that be? Many aspects of ASLIT's investment policy and strategy – investment in small UK quoted companies with a value philosophy – have been out of favour for several years.

- Since the financial crisis, smallness has come with concerns about low liquidity. These have trumped the longer term associations of smaller size with faster growth and higher total returns.
- Since the EU referendum, UK assets have been out of favour and remain lowly valued in the global context. This is despite the recent upsurge in M&A, which recognises the deep valuation discounts.
- Quoted companies are increasingly being seen as outmoded, with private equity meanwhile lauded for long termism and its ability to use more leverage. However, as mainstream funds increasingly look to take stakes in private businesses, it is notable that the private equity firms themselves are seeking stock exchange listings. Moreover, it is notable that illiquidity is not a concern when it comes to private equity.
- Finally, value investment has been challenged by the environment of low inflation and low interest rates since the global financial crisis. But a continuation of these conditions is not a given, especially in view of current inflationary pressures.

A reversal of one or more of these headwinds could supplement the progress of the underlying businesses in which the portfolio invests to boost returns for ASLIT's shareholders. This optionality, in combination with the resilience of the investee companies, underlines the relevance of ASLIT's investment proposition. These attributes, together with the Company's structural gearing, have given the Managers confidence to add further to their individual shareholdings in ASLIT.

Aberforth Partners LLP  
*Managers*  
25 January 2022

# Investment Portfolio

Fifty Largest Investments as at 31 December 2021

No.	Company	Valuation £'000	% of Total	Business Activity
1	Rathbones Group	8,418	3.6	Private client fund manager
2	Redde Northgate	8,168	3.5	Van rental
3	Brewin Dolphin Holdings	8,031	3.4	Private client fund manager
4	Reach	7,946	3.4	UK newspaper publisher
5	Morgan Advanced Materials	6,735	2.9	Manufacture of carbon & ceramic materials
6	Wincanton	6,714	2.9	Logistics
7	Bloomsbury Publishing	5,817	2.5	Independent publishing house
8	TI Fluid Systems	5,800	2.5	Automotive parts manufacturer
9	International Personal Finance	5,757	2.5	Home credit provider
10	Keller	5,753	2.5	Ground engineering services
<b>Top Ten Investments</b>		<b>69,139</b>	<b>29.7</b>	
11	Vistry Group	5,426	2.3	Housebuilding
12	Crest Nicholson	5,358	2.3	Housebuilding
13	Vesuvius	5,344	2.3	Metal flow engineering
14	Bakkavor Group	5,272	2.3	Food manufacturer
15	Drax Group	5,139	2.2	Electricity generation
16	Centamin	5,000	2.1	Gold miner
17	Micro Focus	4,755	2.1	Legacy software assets
18	Provident Financial	4,751	2.0	Personal credit provider
19	Anglo Pacific Group	4,392	1.9	Natural resources royalties
20	Paypoint	4,357	1.9	Alternative payment services
<b>Top Twenty Investments</b>		<b>118,933</b>	<b>51.1</b>	
21	Vitec Group	4,313	1.8	Photographic & broadcast accessories
22	STV Group	4,289	1.8	Multi-channel digital media
23	McKay Securities	4,151	1.8	Property - London & South East offices
24	RPS Group	4,095	1.8	Energy & environmental consulting
25	Wilmington Group	3,970	1.7	Business publishing & training
26	Eurocell	3,938	1.7	Manufacture of UPVC building products
27	PageGroup	3,830	1.6	Recruitment
28	Kenmare Resources	3,746	1.6	Miner of titanium minerals
29	Jupiter Fund Management	3,588	1.5	Investment manager
30	Headlam Group	3,547	1.5	Distributor of floor coverings
<b>Top Thirty Investments</b>		<b>158,400</b>	<b>67.9</b>	

# Investment Portfolio

Fifty Largest Investments as at 31 December 2021

No.	Company	Valuation £'000	% of Total	Business Activity
31	Robert Walters	3,414	1.5	Recruitment
32	Devro	3,365	1.4	Sausage casings
33	Castings	3,206	1.4	Engineering - automotive castings
34	Chesnara	3,041	1.3	Life insurance
35	Conduit Holding	3,010	1.3	Bermuda based (re)insurer
36	Essentra	3,009	1.3	Filters & packaging products
37	CMC Markets	2,990	1.3	Financial derivatives dealer
38	Rank Group	2,962	1.3	Multi-channel gaming operator
39	TT Electronics	2,940	1.3	Sensors & other electronic components
40	City of London Investment Group	2,930	1.2	Asset manager
<b>Top Forty Investments</b>		<b>189,267</b>	<b>81.2</b>	
41	SIG	2,596	1.1	Specialist building products distributor
42	Topps Tiles	2,461	1.0	Ceramic tile retailer
43	RM	2,406	1.0	IT services for schools
44	Lookers	2,365	1.0	Motor vehicle retailer
45	DFS Furniture	2,334	1.0	Furniture retailer
46	Stagecoach Group	2,176	0.9	Bus & rail operator
47	Centaur Media	2,096	0.9	B2B publishing
48	Sabre Insurance Group	2,063	0.9	Car insurance
49	RHI Magnesita	2,051	0.9	Refractory products
50	S & U	2,022	0.8	Personal credit provider
<b>Top Fifty Investments</b>		<b>211,837</b>	<b>90.7</b>	
Other Investments (17)		21,872	9.3	
<b>Total Investments</b>		<b>233,709</b>	<b>100.0</b>	
Net Liabilities		(55,586)		
<b>Total Net Assets</b>		<b>178,123</b>		

# Hurdle Rates & Redemption Yields

## Hurdle Rates<sup>1</sup>

	Ordinary Shares Hurdle Rates to return			ZDP Shares Hurdle rates to return	
	100p	Share Price	Zero Value	127.25p	Zero Value
<b>At 31 December 2021</b>	<b>4.5%</b>	<b>(2.0%)</b>	<b>(40.7%)</b>	<b>(40.7%)</b>	<b>(91.3%)</b>
At 30 June 2021	3.4%	(0.1%)	(35.5%)	(35.5%)	(87.0%)
Inception <sup>1</sup>	1.5%	n/a	(17.0%)	(17.0%)	(57.2%)

## Redemption Yields<sup>1</sup> & Terminal NAVs<sup>1</sup> (Ordinary Shares) as at 31 December 2021

Capital Growth (per annum)	Ordinary Share Redemption Yields <sup>1</sup> Dividend Growth (per annum)					Terminal NAV <sup>1</sup>
	-20.0%	-10.0%	+0.0%	+10.0%	+20.0%	
<b>-20.0%</b>	<b>-24.4%</b>	<b>-23.4%</b>	<b>-22.3%</b>	<b>-21.1%</b>	<b>-19.6%</b>	<b>35.7p</b>
<b>-10.0%</b>	<b>-8.7%</b>	<b>-7.8%</b>	<b>-6.9%</b>	<b>-5.8%</b>	<b>-4.6%</b>	<b>58.9p</b>
<b>0.0%</b>	<b>5.8%</b>	<b>6.5%</b>	<b>7.4%</b>	<b>8.3%</b>	<b>9.4%</b>	<b>86.4p</b>
<b>+10.0%</b>	<b>19.5%</b>	<b>20.1%</b>	<b>20.9%</b>	<b>21.8%</b>	<b>22.8%</b>	<b>118.3p</b>
<b>+20.0%</b>	<b>32.7%</b>	<b>33.3%</b>	<b>34.0%</b>	<b>34.9%</b>	<b>35.8%</b>	<b>154.8p</b>

<sup>1</sup> Defined in the Glossary on pages 24 to 25.

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 and emerging risks faced by the Company. This process was in operation during the period ended 31 December 2021 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, market risk, 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 2021 Annual Report. These principal risks and uncertainties continue to apply as disclosed in the 2021 Annual Report and the Directors have added inflationary and supply chain pressures within market risk. Market risk includes the impact of the Covid-19 pandemic and government responses, which are addressed in the Managers' Report. The Covid-19 pandemic has also affected the firms providing outsourced services to the Company and they have been required to deploy alternative operational practices, including staff working remotely, to ensure continued business service.

## 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. The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet future funding requirements, though this can typically be achieved through use of the bank overdraft facility. In assessing going concern the Board considered the impact of Covid-19 on the Company's investment portfolio and operations. Accordingly, the Directors 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 2021 and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being disclosure of related party transactions and changes therein.
- (iii) the Half Yearly Report, taken as whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, objective and strategy.

On behalf of the Board  
Angus Gordon Lennox  
*Chairman*  
25 January 2022

# Income Statement

(unaudited)

For the six months ended 31 December 2021

	Notes	Six months ended 31 December 2021			Six months ended 31 December 2020		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Realised net gains/(losses) on sales		–	6,094	6,094	–	(3,051)	(3,051)
Movement in fair value		–	(8,157)	(8,157)	–	41,922	41,922
Net (losses)/gains on investments		–	(2,063)	(2,063)	–	38,871	38,871
Investment income		4,425	–	4,425	2,565	–	2,565
Investment management fee	3	(266)	(621)	(887)	(167)	(390)	(557)
Portfolio transaction costs		–	(126)	(126)	–	(115)	(115)
Other expenses		(171)	–	(171)	(154)	–	(154)
<b>Net return before finance costs and tax</b>		<b>3,988</b>	<b>(2,810)</b>	<b>1,178</b>	<b>2,244</b>	<b>38,366</b>	<b>40,610</b>
<b>Finance costs:</b>							
Appropriation to ZDP Shares	8	–	(978)	(978)	–	(945)	(945)
Interest expense and overdraft fee		(2)	(5)	(7)	(1)	(2)	(3)
<b>Return on ordinary activities before tax</b>		<b>3,986</b>	<b>(3,793)</b>	<b>193</b>	<b>2,243</b>	<b>37,419</b>	<b>39,662</b>
Tax on ordinary activities		(7)	–	(7)	(8)	–	(8)
<b>Return attributable to Equity Shareholders</b>		<b>3,979</b>	<b>(3,793)</b>	<b>186</b>	<b>2,235</b>	<b>37,419</b>	<b>39,654</b>
Returns per Ordinary Share	5	2.09p	(1.99p)	0.10p	1.17p	19.67p	20.84p

## Dividends

On 25 January 2022, the Board declared a first interim dividend for the year ending 30 June 2022 of 1.51p per Ordinary Share, which will be paid on 8 March 2022.

# Income Statement

(continued)

		Year ended 30 June 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000
Realised net (losses) on sales		–	(1,481)	(1,481)
Movement in fair value		–	88,003	88,003
Net gains on investments		–	86,522	86,522
Investment income		6,258	–	6,258
Investment management fee	3	(395)	(921)	(1,316)
Portfolio transaction costs		–	(285)	(285)
Other expenses		(316)	–	(316)
<b>Net return before finance costs and tax</b>		5,547	85,316	90,863
<b>Finance costs:</b>				
Appropriation to ZDP Shares	8	–	(1,889)	(1,889)
Interest expense and overdraft fee		(3)	(6)	(9)
<b>Return on ordinary activities before tax</b>		5,544	83,421	88,965
Tax on ordinary activities		(22)	–	(22)
<b>Return attributable to Equity Shareholders</b>		5,522	83,421	88,943
Returns per Ordinary Share	5	2.90p	43.85p	46.75p

# Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 31 December 2021

	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2021	1,902	187,035	(12,365)	5,417	181,989
Return on ordinary activities after tax	–	–	(3,793)	3,979	186
Equity dividends paid (Note 4)	–	–	–	(4,052)	(4,052)
<b>Balance as at 31 December 2021</b>	<b>1,902</b>	<b>187,035</b>	<b>(16,158)</b>	<b>5,344</b>	<b>178,123</b>

For the year ended 30 June 2021

	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2020	1,902	187,035	(95,786)	6,801	99,952
Return on ordinary activities after tax	–	–	83,421	5,522	88,943
Equity dividends paid (Note 4)	–	–	–	(6,906)	(6,906)
Balance as at 30 June 2021	1,902	187,035	(12,365)	5,417	181,989

For the six months ended 31 December 2020

	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2020	1,902	187,035	(95,786)	6,801	99,952
Return on ordinary activities after tax	–	–	37,419	2,235	39,654
Equity dividends paid (Note 4)	–	–	–	(5,156)	(5,156)
Balance as at 31 December 2020	1,902	187,035	(58,367)	3,880	134,450

# Balance Sheet

(unaudited)

As at 31 December 2021

	31 December 2021 £'000	30 June 2021 £'000	31 December 2020 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss (Note 6)	<b>233,709</b>	235,448	188,330
<b>Current assets</b>			
Debtors	<b>432</b>	416	196
Cash at bank	<b>478</b>	1,200	439
	<b>910</b>	1,616	635
<b>Creditors</b> (amounts falling due within one year)			
Bank overdraft	<b>(1,038)</b>	–	(986)
Other creditors	<b>(43)</b>	(638)	(36)
	<b>(1,081)</b>	(638)	(1,022)
<b>Net current (liabilities) / assets</b>	<b>(171)</b>	978	(387)
<b>Total assets less current liabilities</b>	<b>233,538</b>	236,426	187,943
<b>Creditors</b> (amounts falling due after more than one year)			
ZDP Shares (Note 8)	<b>(55,415)</b>	(54,437)	(53,493)
<b>TOTAL NET ASSETS</b>	<b>178,123</b>	181,989	134,450
<b>CAPITAL AND RESERVES: EQUITY INTERESTS</b>			
<b>Share Capital</b>			
Ordinary Shares	<b>1,902</b>	1,902	1,902
<b>Reserves</b>			
Special reserve	<b>187,035</b>	187,035	187,035
Capital reserve	<b>(16,158)</b>	(12,365)	(58,367)
Revenue reserve	<b>5,344</b>	5,417	3,880
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>178,123</b>	181,989	134,450
<b>Net Asset Value per Ordinary Share</b> (Note 7)	<b>93.63p</b>	95.66p	70.67p
<b>Net Asset Value per ZDP Share</b> (Note 7)	<b>116.51p</b>	114.46p	112.47p

Approved and authorised for issue by the Board of Directors on 25 January 2022 and signed on its behalf by:

Angus Gordon Lennox  
Chairman

# Cash Flow Statement

(unaudited)

For the six months ended 31 December 2021

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000	Year ended 30 June 2021 £'000
<b>Net cash inflow from operating activities</b>	<b>3,276</b>	1,989	4,296
<b>Investing activities</b>			
Purchases of investments	(18,092)	(15,372)	(35,708)
Sales of investments	17,115	17,905	39,437
<b>Cash (outflow)/inflow from investing activities</b>	<b>(977)</b>	2,533	3,729
<b>Financing activities</b>			
Equity dividends paid (Note 4)	(4,052)	(5,156)	(6,906)
Interest and fees paid	(7)	(3)	(9)
<b>Cash (outflow) from financing activities</b>	<b>(4,059)</b>	(5,159)	(6,915)
<b>Change in cash during the period</b>	<b>(1,760)</b>	(637)	1,110
Cash at the start of the period	1,200	90	90
Cash / (overdraft) at the end of the period	(560)	(547)	1,200

# 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 2021. 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 year ended 30 June 2021 have been applied.

## 2. Alternative Performance Measures

Alternative Performance Measures (APMs) are measures that are not defined under the requirements of FRS 102 and FRS 104. The Company believes that APMs, referred to within "Financial Highlights" on page 1, provide Shareholders with important information on the Company. These APMs are also a component of management reporting to the Board. A glossary of the APMs can be found on page 24.

## 3. Investment Management Fee

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

## 4. Dividends

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000	Year ended 30 June 2021 £'000
<b>Amounts recognised as distributions to equity holders:</b>			
Second interim dividend of 2.71p for the year ended 30 June 2020 (paid 28/08/20)	–	5,156	5,156
First interim dividend of 0.92p for the year ended 30 June 2021 (paid 09/03/21)	–	–	1,750
Second interim dividend of 2.13p for the year ended 30 June 2021 (paid 27/08/21)	<b>4,052</b>	–	–
<b>Total</b>	<b>4,052</b>	5,156	6,906

The first interim dividend for the year ending 30 June 2022 of 1.51p (2021: 0.92p) per Ordinary Share will be paid on 8 March 2022 to holders of Ordinary Shares on the register on 11 February 2022. The ex dividend date is 10 February 2022. The first interim dividend has not been recorded in the financial statements as at 31 December 2021. Deducting the first interim dividend from the Company's revenue reserves at 31 December 2021 leaves revenue reserves equivalent to 1.3p per Ordinary Share.

# Notes to the Financial Statements

## 5. Returns per Share

Period ended:	31 December 2021	31 December 2020	30 June 2021
Net return	<b>£186,000</b>	£39,654,000	£88,943,000
Weighted average Ordinary Shares in issue	<b>190,250,000</b>	190,250,000	190,250,000
<b>Return per Ordinary Share</b>	<b>0.10p</b>	20.84p	46.75p
Appropriation to ZDP Shares	<b>£978,000</b>	£945,000	£1,889,000
Weighted average ZDP Shares in issue	<b>47,562,500</b>	47,562,500	47,562,500
<b>Return per ZDP Share</b>	<b>2.06p</b>	1.99p	3.97p

## 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. At the reporting dates all investments have been classified as Level 1 and are traded on a recognised stock exchange, except for one investment with a value of £0.72m as at 31 December 2020, which was Level 3 as a result of its share price being suspended.

## 7. Net Asset Value (“NAV”) per Share

The Net Assets and the Net Asset Value per Share attributable to the Ordinary Shares and ZDP Shares as at 31 December 2021 are as follows.

	Ordinary Shares	ZDP Shares	Total Assets
Net assets attributable	£178,123,000	£55,415,000	£233,538,000
Number of Shares	190,250,000	47,562,500	237,812,500
<b>NAV per Share (a)</b>	<b>93.63p</b>	<b>116.51p</b>	<b>98.20p</b>
Dividend reinvestment factor <sup>1</sup> (b)	1.221787	–	1.159541
NAV per Share on a total return basis at 31 December 2021 (c) = (a) x (b)	114.40p	116.51p	113.87p
NAV per Share on a total return basis at 30 June 2021 (d)	114.43p	114.46p	113.40p
<b>Total Return performance (c) ÷ (d) - 1</b>	<b>0.0%</b>	<b>1.8%</b>	<b>0.4%</b>

<sup>1</sup> Defined in the Glossary on pages 24 to 25.



# Notes to the Financial Statements

## 8. Zero Dividend Preference Shares

	31 December 2021 £'000	30 June 2021 £'000	31 December 2020 £'000
<b>Period ended:</b>			
<b>Opening balance</b>	<b>54,437</b>	52,548	52,548
Issue costs amortised during the period	<b>23</b>	44	23
Capital growth of ZDP Shares	<b>955</b>	1,845	922
<b>Closing balance</b>	<b>55,415</b>	54,437	53,493

## 9. Share Capital

	31 December 2021 Shares	£'000
<b>Issued</b>		
Ordinary Shares of 1p each	190,250,000	1,902
ZDP Shares of 1p each	47,562,500	476
<b>Total issued and allotted</b>	<b>237,812,500</b>	<b>2,378</b>

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

## 10. Related Party Transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company. Under UK accounting standards, the Directors have been identified as related parties and their fees and interests are disclosed in the 2021 Annual Report.

## 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 2021 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 2021 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 Measures

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

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

## Glossary of Alternative Performance Measures

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

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

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

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

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

## Glossary

### Other Glossary Terms

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

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

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

## Glossary (continued)

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

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

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

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

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

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

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

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

### Key Dates

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

# Corporate Information

## Directors

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

## Managers & Secretaries

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## Depository

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175 Glasgow Road  
Edinburgh EH12 1HQ

## Registrars

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29 Wellington Street  
Leeds LS1 4DL

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

## Custodian

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## Bankers

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## Independent Auditor

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## Solicitors

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16 Charlotte Square  
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## Registered Office

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20 Primrose Street  
London EC2A 2EW

Registered in England and Wales  
No: 10730910

## Sponsors

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Canary Wharf  
London E14 5JP

## Security Codes

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







