# Aberforth Split Level Income Trust plc

## Half Yearly Report

**31 December 2022**

# Investment Objective

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

# Investment Policy

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

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All data throughout this Half Yearly Report are to, or as at, 31 December 2022 as applicable, unless otherwise stated.

# Financial Highlights

## Total Return Performance

| Period to 31 December 2022 | Total Assets[1] | Ordinary Share NAV[1] | Ordinary Share Share Price[1] | ZDP Share NAV[1] | ZDP Share Share Price[1] |
|---|---|---|---|---|---|
| **Six months** | **10.1%** | **13.5%** | **12.5%** | **1.8%** | **3.0%** |
| Twelve months | -6.8% | -10.0% | -8.8% | 3.6% | 3.0% |
| 3 years | -5.0% | -8.8% | -12.1% | 11.2% | 10.1% |
| Since Inception[3] (cumulative) | 6.2% | 3.0% | -9.0% | 20.7% | 19.5% |
| Since Inception[3] (annualised) | 1.1% | 0.5% | -1.7% | 3.5% | 3.3% |

## Ordinary Share

| As at: | Net Asset Value per Share[2] | Share Price | Discount/ (Premium)[1] | Return per Share[2,4] | Dividend per Share[2,4] | Gearing[3] |
|---|---|---|---|---|---|---|
| **31 December 2022** | **79.7p** | **69.0p** | **13.4%** | **9.7p** | **1.70p** | **37.9%** |
| 30 June 2022 | 73.0p | 64.2p | 12.1% | (19.0)p | 4.55p | 40.6% |
| 31 December 2021 | 93.6p | 80.6p | 13.9% | 0.1p | 1.51p | 31.1% |

At inception an Ordinary Share had a NAV of 100p and a gearing[3] level of 25%.

## Zero Dividend Preference Share (ZDP Share)

| As at: | Net Asset Value per Share[2] | Share Price | Discount/ (Premium)[1] | Return per Share[2,4] | Projected Final Cumulative Cover[3] | Redemption Yield[3] |
|---|---|---|---|---|---|---|
| **31 December 2022** | **120.7p** | **119.5p** | **1.0%** | **2.1p** | **3.2x** | **4.3%** |
| 30 June 2022 | 118.6p | 116.0p | 2.2% | 4.1p | 3.0x | 4.7% |
| 31 December 2021 | 116.5p | 116.0p | 0.4% | 2.1p | 3.6x | 3.8% |

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

Source: Aberforth Partners LLP

1 Alternative Performance Measure (refer to Glossary on page 24).

2 UK GAAP Measure (refer to Glossary on page 24).

3 Defined in the Glossary on pages 24 to 25.

4 The Return per Share and Dividend per Share as at 31 December 2022 and 2021 are in respect of the six months then ended and as at 30 June 2022 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 sixth interim report of Aberforth Split Level Income Trust plc ("ASLIT" or "your Company") covers the six months to 31 December 2022.

Unfortunately, the brutal war in Ukraine continues with no apparent end in sight and geopolitical tensions across the globe are elevated. The significant challenges highlighted in my annual statement, such as persistently high inflation and rising interest rates, continue to influence the trajectory of stockmarkets. With consumer budgets and company profit margins being squeezed, much of the world may be facing recession in 2023, if it is not there already.

M&A activity contributed to a good start to the six-month reporting period, but this was quickly overwhelmed by further domestic political turmoil. Chancellor Kwarteng and Prime Minister Truss's budget in September resulted in a significant rise in gilt yields, sterling approaching parity with the US dollar and UK share prices falling sharply. While some of their supply-side initiatives had some merit, their tenure was short-lived and a change of Chancellor and Prime Minister restored confidence. Share prices responded positively and were given further impetus in the final months of the year from across the Atlantic. US inflation data proved more benign than feared and encouraged markets to the view that interest rates might not have to rise as far as previously thought. Over the six months as a whole, therefore, equity returns in the UK and more broadly were positive.

## Performance

This positive outcome, though achieved in a volatile fashion, was helpful given your Company's capital structure. Additional support came from a pleasingly strong showing from the value investment style utilised by the Managers.

ASLIT's total asset total return, which measures its ungeared portfolio performance, was +10.1% over the six months. Geared by the rising entitlement of the Zero Dividend Preference (ZDP) Shares, the net asset value total return of the Ordinary Shares was +13.5%. This reflects the return attributable to equity shareholders of 9.7p per Ordinary Share together with the effect of the reinvestment of previously declared dividends.

For reference, the Numis Smaller Companies Index (excluding Investment Companies) ("the Index" or "NSCI (XIC)"), which defines ASLIT's opportunity base, generated a total return of +3.0% over the six months. Larger companies in the UK, in the form of the FTSE All-Share Index, recorded a total return of +5.1%.

As the capital value of the portfolio has increased, the projected cumulative cover of the ZDP shares increased to 3.2 times at 31 December 2022 from 3.0 times six months earlier.

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

## Earnings and Dividends

Dividends from small UK quoted companies continued their recovery from the pandemic, with more companies returning to the dividend register. This contributed to good growth in ASLIT's dividend income, which was lifted further by the receipt of two special dividends. The positive experience is reflected in ASLIT's revenue return per Ordinary Share of 2.57p in the six months to 31 December 2022, which is 23% higher than the 2.09p earned in the comparable period last year. The special dividends received from investee companies represent 0.20p per Ordinary Share of the 2.57p.

Looking ahead to the remaining eighteen months of ASLIT's planned life, the Managers' dividend forecasts are encouraging and are supported by the investee companies' strong balance sheets. Your Company also benefits from brought forward revenue reserves of 0.97p per Ordinary Share and there is scope to enhance income earned through further yield roll as proceeds from takeover stocks are recycled. However, it would be imprudent not to note the uncertainty of the economic backdrop, which may affect corporate dividend policies. In addition, M&A can be a mixed blessing, with an uplift to capital performance but potentially sizeable variations to investee companies' dividend forecasts.

# Chairman's Statement

On balance ASLIT's income account is in good shape. The Board is therefore pleased to declare a first interim dividend of 1.70p per Ordinary Share for the six months to 31 December 2022. This represents an increase of 12.6% compared to the 1.51p in respect of the previous year.

The first interim dividend of 1.70p will be paid on 8 March 2023 to Ordinary Shareholders on the register as at the close of business on 10 February 2023. The ex dividend date is 9 February 2023. The Company operates a Dividend Reinvestment Plan, details of which and the Form of Election are available from the Managers, Aberforth Partners LLP, or on their website, www.aberforth.co.uk.

## Outlook

There can be no doubting the many challenges facing the global economy, including war, Covid in China, inflation and slowing economic growth. In such uncertain times, the proven resilience of ASLIT's investee companies is reassuring. Their experience of previous challenges in ASLIT's short life so far and the strength of their balance sheets give confidence that they can weather the storm, whilst being able to pay dividends and invest for the sunnier times that will come.

Financial assets have fallen in value as interest rates have risen and ASLIT's investment universe has not escaped. However, current valuations look unusually attractive from a long-term perspective and should contribute to strong investment returns over time. We should not forget that recessions create investment opportunities, which the Managers are alive to, and are inevitably followed by significant recoveries, which are anticipated by share prices. Even before that, ASLIT may benefit from further M&A activity as overseas buyers continue to be attracted by UK assets. With the Managers' value investment style finding a broader appeal in recent times, the Board is optimistic about prospects for ASLIT's investment portfolio.

The Board does, however, recognise that the significant upside inherent in the qualities and valuations of the investee companies may not be recognised fully within ASLIT's planned life. We are mindful of our commitment to examine means over the next eighteen months by which Shareholders will have the option either to realise or to continue their investments. The Board will review future options with the Managers and will keep Shareholders updated.

Finally, my fellow directors and I welcome the views of shareholders and are available should you wish to discuss these with us. My email address is noted below. Thank you for your support.

Angus Gordon Lennox
*Chairman*

26 January 2023

Angus.GordonLennox@aberforth.co.uk

# Managers’ Report

## Introduction

The weak stockmarket conditions that characterised the second half of ASLIT’s previous financial year gradually gave way to a more positive mood in the first half of the financial year to 30 June 2023. Over these six months to 31 December 2022, the total returns of the NSCI (XIC) and the FTSE All-Share were +3.0% and +5.1% respectively. Against this background, ASLIT’s total asset total return, which is a gauge of the portfolio’s ungeared performance, was +10.1%. The Ordinary Shares’ net asset value total return was +13.5%. It benefited from the gearing provided by the rising entitlement of the ZDP Shares. Final cumulative cover for ZDP Shares improved from 3.0x to 3.2x over the six month period.

There were several reasons for the pessimism that preceded for much of calendar 2022. With the notable exception of China, the pandemic has faded as a direct concern in much of the world. However, its indirect effects remain significant. Stretched supply chains and lower labour participation rates have helped to create the first meaningful bout of inflation for decades. Exacerbating these effects has been the war in Ukraine, which has further complicated trade flows and has contributed to elevated energy prices. Inflation has therefore proved much less transient than many, including most central bankers, had assumed. Those central bankers have belatedly sprung into action and many countries have embarked on the first serious phase of monetary tightening since the global financial crisis. With energy costs and interest rates increasing, companies and households have had to contend with the prospect of a substantial squeeze on their profits and livelihoods. Recession is therefore a likely development in several economies and, in the UK, it has in all likelihood already started.

On top of these common global issues, the UK remains enmired in a difficult political situation, which may be attributed to the divisiveness of Brexit. September witnessed astonishing political events and a profound loss of confidence by international investors in the UK. Sterling took the strain, which is an advantage of a freely floating currency, but the more meaningful pain was experienced in sharply higher borrowing costs for the government and the private sector. Among equities, the aversion to all things British saw outflows from open-ended funds and institutional allocations to UK equities approach twenty year lows.

If these are the reasons for the gloom at the start of the review period, why did sentiment improve, particularly in the fourth quarter of the calendar year? There are four main reasons. First and specific to the UK, the swift change of Prime Minister and Chancellor has restored confidence. This has brought a rally in sterling and gilts, though UK equity valuations continue to trade at wide discounts to their global peers. Second, while it is prudent never to be definitive about developments in China, it does appear that the authorities are allowing the economy to reopen following strict Covid lockdowns. This would ease stress on supply chains and provide impetus to global demand even as recession threatens elsewhere. Third, after the initial shock of the war in Ukraine, western economies have had success in securing winter energy supplies. Weather is a near term risk and energy security remains a long term issue, but it is notable that the oil price has fallen by around a quarter since its peak in the middle of 2022 and started 2023 not far from its level before the Russian invasion.

The fourth reason for the financial markets’ renewed cheer involves their obsession with the Federal Reserve. The Fed, in common with other central banks, was surprised by the persistence of high rates of inflation. It has sought to restore credibility with a series of seven increases that have taken US interest rates to their highest level since 2007. What has caught the markets’ imagination has been a sequence of benign inflation data, with the year-on-year change in the CPI having declined each month since June 2022. The markets’ hope is that this allows the Fed to adopt a more dovish stance, which would take the pressure off an economy – and indeed a world – whose borrowing and spending habits have been conditioned by fifteen years of low inflation, low interest rates and low bond yields.

# Managers' Report

## Analysis of performance

ASLIT's total asset total return in the six months to 31 December 2022 was +10.1%. The NSCI (XIC)'s total return was +3.0%. The following paragraphs explain this performance and provide additional detail about the portfolio.

### *Value style*

The London Business School analyses style effects within the NSCI (XIC). Its data indicate that the index's value stocks, which are defined as those with low price-to-book ratios, out-performed its growth stocks by 8% over the six months. This represents a style tailwind to ASLIT's performance, which has been active for much of the time since the introduction of Covid vaccines in November 2020. The main reason for the turn to value is the change in the financial climate. Higher inflation and interest rates disproportionately penalise the valuations of growth stocks, whose cash flows are more weighted to future years and many of which are loss making.

An additional influence on the divergence between value and growth stocks is economic cyclicality. Since the global financial crisis, economic sensitivity has been punished with low stockmarket valuations, which has led to the value cohort of the NSCI (XIC) being dominated by cyclical companies. The Managers have been comfortable to own such companies, calculating that these depressed valuations often under-price good businesses that generate strong profits through the economic cycle. In episodes of concern about recession, share prices are vulnerable, though the downside can be limited as much of the risk of a slowdown is often already built into the valuation. It would seem that this dynamic has helped ASLIT's performance in the period under review.

What has changed over the past six to twelve months is that numerous growth stocks – even some of the US technology giants – have reported disappointing operational and financial results, which have led to cost cutting and redundancies. The high stockmarket valuations of these companies did not reflect cyclical risk and have consequently suffered as forecasts have been reduced.

### *Income*

Despite the concerns about a looming recession and some profit warnings from domestically oriented businesses, the profit performance of small companies in the six months to 31 December 2022 has benefited from the continued momentum of the recovery from the pandemic. Against this backdrop, ASLIT's income experience in the period has remained strong. The table below splits the portfolio's holdings into five categories, which are determined by each company's most recent dividend action.

| Nil Payer | Cutter | Unchanged Payer | Increased Payer | New/Returners |
|---|---|---|---|---|
| 5 | 5 | 11 | 41 | 6 |

Starting with the Cutters, the reasons for the cuts over the past year were idiosyncratic rather than related to the more uncertain economic environment. Their impact was eclipsed by the Increased Payers and the New / Returners. The latter category comprises companies that are paying dividends for the first time or that have now resumed payments, having passed their dividends during the pandemic. This provided a large contribution to the income growth enjoyed by ASLIT over the past six months. Another boost came from the receipt of two special dividends paid by investee companies in the six months to 31 December 2022.

The dividend outcome for the current financial year will inevitably be influenced by the course of the economy, though the portfolio's strong balance sheets are helpful. Moreover, the average historical dividend cover of the portfolio at 31 December 2022 was healthy at 2.4x and the Managers expect that several more of the current Nil Payers will be able to resume dividend payments over the next twelve months. These considerations have informed the Board's decision to increase the first interim dividend by 12.6%.

# Managers' Report

### *Stock selection – boosted by M&A*

Stock selection helped ASLIT's performance in the six months to 31 December 2022 and within this M&A was the clearest theme. Three of the portfolio's holdings received takeover approaches during the period, with an average premium to the pre-announcement share price of almost 84%. The fillip to performance of a takeover can be meaningful, but it remains important to guard against opportunism on the part of the buyers when valuations of small UK quoted companies are so low. It is often the case that the best M&A experiences are those in which boards of directors offer to consult shareholders well in advance. Such consultation reduces the risk of embarrassment, should shareholders find proposed terms unacceptable, and can lead to better outcomes, which may be that the company in question retains its independence. The Managers make it clear to the boards of the investee companies that they want to be consulted in such situations and that they are willing to be insiders for extended periods.

However, more broadly, the pace of M&A eased in the period. Within the NSCI (XIC) as a whole, there were bids for four companies against 15 in the previous six months. The slowdown can be explained by the more uncertain economic outlook and by a higher cost of debt in response to rising interest rates. This latter point may be particularly relevant to private equity buyers and it is notable that the acquirers in three of the four bids were other corporates. A second feature of the M&A activity in the period is that all four acquirers were based overseas, which is indicative of the opportunity in low UK stockmarket valuations and a depressed currency.

### *Size*

The portfolio retains its high exposure to the "smaller small" companies within the NSCI (XIC). The reason is rooted in relative valuations and is explained later in this report. Size positioning has often had a significant effect on performance. For most of ASLIT's life, investors have favoured the greater liquidity of the "larger small" companies, which hindered the portfolio's returns. However, the portfolio benefited from a resurgence of the "smaller smalls" in 2020 and 2021. In the six months to 31 December 2022, the "smaller smalls" gave up a little of those relative gains and so size positioning was a modest drag on ASLIT's performance.

### *Active share*

Active share is a measure of how different a portfolio is from an index. The ratio is calculated as half of the sum of the absolute differences between each stock's weighting in the index and its weighting in the portfolio. The higher a portfolio's active share, the higher its chance of performing differently from the index, for better or worse. The Managers target an active share ratio of at least 70%. At 31 December 2022, it stood at 78%, which is up from 75% at 30 June 2022.

An influence on the rise of the active share was the annual rebalancing of the NSCI (XIC) on 1 January 2023. This is usually a low-key affair, in which companies too big for the index are ejected and those now small enough are included. Occasionally during periods of stockmarket stress, it is a bigger event, notably in 2009 amid the global financial crisis and now in 2023. This year's rebalancing saw 29 companies, whose share prices had performed particularly poorly in 2022, brought into the index. These "fallen angels" accounted for 26% by value of the NSCI (XIC) on 1 January 2023. They bring additional opportunity and, indeed, the Managers have so far added one of the new entrants to the portfolio. As a former holding of their other clients, this company is well known to the Managers but had grown too large for the NSCI (XIC) some years ago. It remains to be seen whether this significant refreshing of the index represents a turn in the long term trend of decline in the number of NSCI (XIC) constituents.

# Managers' Report

*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 2022, annualised turnover was 26%. The pick-up in turnover compared with the previous financial year is related to the improved performance in the six months under review. Higher share prices, notably through the high number of recent M&A situations, give the opportunity to realise value and redeploy the proceeds in other companies with higher upsides. The Managers term this the "value roll". It can make an important contribution to the performance of the Managers' portfolios over time.

*Environmental, social and governance (ESG)*

The Managers integrate matters related to ESG into their investment process, in which relevant issues are considered alongside any other that affects a company's profits and valuation. With its emphasis on bottom-up analysis and engagement, the process is well suited to this approach. In 2022, the Managers enhanced their tracking and assessment of ESG matters through the development of an additional module within their investment database. Over time, it is hoped that this will yield useful data, whose presentation will help shareholders understand the portfolio's ESG profile and, more ambitiously, any relationship between ESG issues and valuations. In the meantime, the work done to populate the new module has made it clear that small UK quoted companies are making significant progress in their ESG disclosures and, more importantly, are very much focused on the impact of issues such as climate change on their future profits and valuations. It is clear to the Managers that the perception of small companies as ESG victims is misplaced. This creates investment opportunity as companies' continuing progress is rewarded with higher valuations over time.

*Balance sheet resilience*

In 2022, the stockmarket has been concerned about the impact of recession on companies' profits and balance sheets. The typical decline in the profits of small companies in a recession is around one third. Previous downturns have been of varying lengths and depths, but have been followed by periods of recovering profits and share prices. One upside of the various crises to have peppered the past dozen or so years is that the management teams running small UK quoted companies are experienced in damage limitation – as one chief executive put it in a recent update, "we are battle-hardened". This gives hope that the pressure of lower demand can be mitigated through cost control, even though the current inflationary forces complicate the task.

The more profound risk during a recession is that a company's balance sheet proves vulnerable, preventing it from enjoying the subsequent rebound in trading conditions. In this regard, it is reassuring that the balance sheet profiles of both the portfolio and of small companies as a whole are robust. This is displayed in the following table, in which Tracked Universe refers to the 98% by value of the NSCI (XIC) that the Managers follow closely.

| Weight in companies with: | Net cash | Net debt/EBITDA < 2x | Net debt/EBITDA > 2 x | Other* |
|---|---|---|---|---|
| Portfolio 2022 | 47% | 40% | 10% | 3% |
| Tracked universe 2022 | 34% | 34% | 22% | 10% |

* includes loss-makers and lenders.

# Managers' Report

The table shows that 47% of the portfolio is invested in companies with net cash on their balance sheets at the end of 2022. Another 40% is invested in companies with relatively low financial leverage (i.e. net debt to EBITDA ratios below two times). The portfolio's profile compares well with that of the Tracked Universe. However, the index's profile is also unusually robust. Balance sheets within the NSCI (XIC) last reached today's degree of resilience in around 2014. That was five years after a recession, a period in which the boards of companies were so scarred by the experience of the credit crunch that they were reluctant to invest.

Back to today, companies are entering recession with strong balance sheets. In this, the recency of the pandemic is influential: there has been little time to invest, while some companies benefited from government support and from equity issuance. Whatever the reason, today's situation is unusual since recessions are often preceded by a period of corporate excess in the form of debt funded over-investment. There are caveats – notably the elevated inventories that some have taken on amid the supply chain problems and the relevance for the first time in years of interest cover covenants – but the balance sheet profile of both the portfolio and the index appears encouragingly resilient.

### *Valuations*

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 historical and forecast data underlying all the ratios are the Managers'.

| EV/EBITA | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| ASLIT | 7.5x | 7.4x | 7.0x | 6.0x |
| Tracked universe (245 stocks) | 9.1x | 8.9x | 8.6x | 7.8x |
| - 41 growth stocks | 14.1x | 12.8x | 10.7x | 9.0x |
| - 204 other stocks | 8.5x | 8.3x | 8.2x | 7.5x |
| - 91 stocks > £600m market cap | 10.6x | 10.0x | 10.1x | 8.9x |
| - 154 stocks < £600m market cap | 6.9x | 7.0x | 6.4x | 6.0x |

The table demonstrates some familiar features. The ratios for the portfolio are meaningfully lower than those for the Tracked Universe, which is consistent with the Managers' value investment philosophy. The growth stocks within the Tracked Universe remain particularly highly rated. This is despite their under-performance in 2022 and may suggest incremental vulnerability. Another relevant gauge of the portfolio's value is to compare its 2022 EV/EBITA ratio with the 14x multiple at which the NSCI (XIC)'s 19 takeover deals in calendar 2022 were agreed. The final two rows illustrate the stockmarket's continuing reluctance to embrace "smaller small" companies: those with market capitalisations below £600m are considerably more attractively valued than are their larger peers. This explains why the portfolio's weighting of 59% in the "smaller smalls" is higher than the NSCI (XIC)'s 32%.

# Managers' Report

In attempting to understand the portfolio's current value opportunity, the downside of the table above is that the Managers' estimates underlying the 2023 and 2024 EV/EBITA ratios are uncertain. The principal influence on the estimates is engagement with the management teams running the companies. While they are well aware of the top down threats, many had not yet felt the full force of a downturn on their businesses by the end of 2022. In all likelihood, the first half of 2023 will see trading updates weakening and a reduction to profit estimates. Until the downgrade cycle has played out, valuation ratios based on forecast profits are of less use. However, to cut through this and contextualise the attractiveness of today's valuations, there is a useful tool in the form of historical valuation ratios.

| Portfolio Characteristics | **31 December 2022** ASLIT | NSCI (XIC) | 31 December 2021 ASLIT | NSCI (XIC) |
|---|---|---|---|---|
| Number of companies | **68** | **350** | 67 | 337 |
| Weighted average market capitalisation | **£654m** | **£866m** | £771m | £934m |
| Price earnings (PE) ratio (historical) | **8.8x** | **8.1x** | 13.7x | 16.6x |
| Dividend yield (historical) | **4.6%** | **3.4%** | 2.7% | 2.1% |
| Dividend cover | **2.4x** | **3.7x** | 2.7x | 2.9x |

The table of portfolio characteristics includes the historical PE ratios for the portfolio and the NSCI (XIC). Curiously, the portfolio's PE was higher at 8.8x. This is due to the portfolio holding two bid stocks at the period end and to the refreshing of the index's PE ratio by the significant rebalancing described previously. The two PEs are also calculated differently. The Managers remove one-off profits and losses from the earnings per share of the portfolio holdings, but London Business School does not do so for the NSCI (XIC). At 31 December 2022, this flattered the index's historical PE relative to the portfolio's.

The important point is that the portfolio's PE of 8.8x is unusually low in the context of the history of the Managers' longest running fund. That fund's average PE over 32 years is 12.2x. At 8.8x, ASLIT's PE would be more than one standard deviation away from that average. This is significant since it would have happened on only three previous occasions since 1990. Each was associated with recession: the early 1990s recession, then the global financial crisis and most recently the pandemic. Breaching the minus one standard deviation line has been a useful indicator of subsequent good returns – it has historically indicated that much of the risk has been priced in, allowing the stockmarket to re-rate shares in advance of the recovery in profits.

To take the argument to the next stage, it was noted above that small company profits typically fall by one third in a recession, though over varying time periods. A repeat of that experience would take today's historical PE of 8.1x to 13.1x. This would be close to the average PE over time of Aberforth's longest running fund and, importantly, would be a multiple of what could be considered trough profits. Again, it may be inferred from this that much of the impact of a downturn on corporate profitability has been reflected in share prices. This does not mean that share prices will not fall from here since volatility is inevitable as companies report results affected by recession. However, history shows that the historical PE can rise substantially from present levels, as reported profits fall and as share prices start to anticipate recovery. The Managers are therefore confident in good returns from ASLIT's portfolio over time.

# Managers' Report

*Outlook and conclusion*

One of the second order effects of the pandemic has been to accelerate and accentuate several underlying challenges to the economic and financial conditions that have held sway since the global financial crisis. The conditions have been ones of modest economic growth, low interest rates and low inflation, while the underlying challenges have been broadly inflationary. These have included heightened geopolitical tension, deglobalisation, re-shoring, an upsurge in industrial action, and demographic trends that reduce the working age population. The war in Ukraine has given extra impetus to the first bout of meaningful inflation for decades. The chief executive of one of ASLIT's investee companies has observed that what keeps him awake at night is not the price of electricity in 2023, but where his customers will be doing their business in five or ten years' time as the tectonic plates of economics and geopolitics shift.

Year-on-year changes in the consumer prices index in the UK and further afield will likely moderate as effects of high energy prices annualise, but the structural issues listed above mean that the rate of inflation may not return reliably to the very low levels to which the world had become accustomed. It would therefore be unlikely that interest rates and bond yields can fall back to the very low levels that allowed investment with almost limitless time horizons. A reversion to financial conditions more akin to those that prevailed before the global financial crisis is not without risk. Governments and investors have adopted borrowing habits that may be exposed by the reimposition of a real cost of capital. Accidents are possible, with signs of stress already in the UK's liability driven investment industry, in cryptocurrency failures and in the higher cost of borrowing for private equity firms.

However, there is scope for optimism and opportunity too. A meaningful cost of capital, rather than one artificially suppressed by central banks, imposes discipline on investment decisions. This improves the chance of sustainably high returns on investment, which in turn might address the disappointingly low productivity performance of the UK and other economies in recent years. In parallel, trends such as deglobalisation and the re-shoring of production imply a period of higher capital expenditure, which would provide opportunities for business, including small UK quoted companies. A final consideration concerns the value investment style, which felt the headwinds of the low interest rate environment since the global financial crisis. A reversal would imply a better outlook for value or at least a more neutral style backdrop, which would be to ASLIT's benefit.

Turning back to the portfolio, its valuations are unusually attractive at present. Of course, PE ratios do not fall so low unless the stockmarket is worried about something. In the case of ASLIT's holdings, the wide-held concerns are their perceived vulnerability to recession and their "Britishness", an attribute that has been shunned amid the political upheaval of recent years. On top of these factors is the evolution of a regulatory focus on risk and liquidity. This has discouraged institutional investment in smaller companies in a self-reinforcing vicious circle and accounts for the particularly low valuations of the "smaller small" companies from which ASLIT benefits.

# Managers' Report

If these are the reasons for the low valuations, why are they too low? At the broad level, it is the nature of equity markets to over-shoot. Indications that this might be the case are low valuation ratios previously described and the fact that institutional allocations to UK equities have dwindled to very low levels. More specifically, the records of ASLIT's holdings through the trials and tribulations of recent years have been good – these are resilient businesses with strong balance sheets and experienced management. Corroboration for this contention comes from 2022's M&A activity: overseas businesses clearly disagree with the equity market and are willing to pay substantial valuation premiums for control.

Therefore, while trading conditions in 2023 are likely to be challenging, a good deal of the risk is likely already to be in the price and share prices will start their recovery well before the economy does. The resilience of the investee companies, ASLIT's closed end structure and its gearing are well suited to benefit from the opportunity. The uncertainty is whether there is sufficient time left in ASLIT's planned life to take full advantage. With this in mind, the Managers intend to work with the Board to offer Shareholders, no later than 1 July 2024, the option either to realise their investment in cash or to continue their exposure to the Managers' investment approach in some form.

Aberforth Partners LLP
*Managers*

26 January 2023

# Investment Portfolio

## Fifty Largest Investments as at 31 December 2022

| No. | Company | Valuation £'000 | % of Total | Business Activity |
|---|---|---|---|---|
| 1 | Rathbones Group | 8,635 | 4.2 | Private client fund manager |
| 2 | Redde Northgate | 7,709 | 3.7 | Van rental |
| 3 | Centamin | 7,364 | 3.5 | Gold miner |
| 4 | Morgan Advanced Materials | 7,329 | 3.5 | Manufacture of carbon & ceramic materials |
| 5 | Vesuvius | 6,111 | 2.9 | Metal flow engineering |
| 6 | Wincanton | 6,101 | 2.9 | Logistics |
| 7 | Wilmington Group | 5,655 | 2.7 | Business publishing & training |
| 8 | Bloomsbury Publishing | 5,194 | 2.5 | Independent publishing house |
| 9 | FirstGroup | 4,730 | 2.3 | Bus & rail operator |
| 10 | Ecora Resources | 4,724 | 2.3 | Natural resources royalties |
| | **Top Ten Investments** | **63,552** | **30.5** | |
| 11 | Energean | 4,522 | 2.2 | Oil & gas exploration and production |
| 12 | Robert Walters | 4,508 | 2.2 | Recruitment |
| 13 | C&C Group | 4,318 | 2.1 | Brewer and drinks distributor |
| 14 | Conduit Holdings | 4,250 | 2.0 | Bermuda based (re)insurer |
| 15 | Bakkavor Group | 4,014 | 1.9 | Food manufacturer |
| 16 | Reach | 3,972 | 1.9 | UK newspaper publisher |
| 17 | Devro | 3,849 | 1.9 | Sausage casings |
| 18 | Kenmare Resources | 3,805 | 1.8 | Miner of titanium minerals |
| 19 | Headlam Group | 3,717 | 1.8 | Distributor of floor coverings |
| 20 | Crest Nicholson | 3,662 | 1.8 | Housebuilding |
| | **Top Twenty Investments** | **104,169** | **50.1** | |
| 21 | Lookers | 3,637 | 1.7 | Motor vehicle retailer |
| 22 | CMC Markets | 3,428 | 1.6 | Financial derivatives dealer |
| 23 | Paypoint | 3,335 | 1.6 | Alternative payment services |
| 24 | International Personal Finance | 3,262 | 1.6 | Home credit provider |
| 25 | Videndum | 3,262 | 1.6 | Photographic & broadcast accessories |
| 26 | Castings | 3,219 | 1.6 | Engineering - automotive castings |
| 27 | STV Group | 3,167 | 1.5 | Multi-channel digital media |
| 28 | Chesnara | 3,079 | 1.5 | Life insurance |
| 29 | Eurocell | 3,060 | 1.5 | Manufacture of UPVC building products |
| 30 | TI Fluid Systems | 3,039 | 1.5 | Automotive parts manufacturer |
| | **Top Thirty Investments** | **136,657** | **65.8** | |

# Investment Portfolio

## Fifty Largest Investments as at 31 December 2022

| No. | Company | Valuation £'000 | % of Total | Business Activity |
|---|---|---|---|---|
| 31 | XPS Pensions Group | 3,014 | 1.4 | Pension Consultancy |
| 32 | Keller | 2,900 | 1.4 | Ground engineering services |
| 33 | Bodycote | 2,882 | 1.4 | Engineering - heat treatment |
| 34 | Moneysupermarket.com | 2,878 | 1.4 | Price comparison websites |
| 35 | Vistry Group | 2,863 | 1.4 | Housebuilding |
| 36 | Smiths News | 2,820 | 1.3 | Newspaper distribution |
| 37 | PageGroup | 2,787 | 1.3 | Recruitment |
| 38 | Galliford Try Holdings | 2,782 | 1.3 | Housebuilding & construction |
| 39 | Hollywood Bowl | 2,688 | 1.3 | Operator of bowling centres |
| 40 | Jupiter Fund Management | 2,687 | 1.3 | Investment manager |
| | **Top Forty Investments** | **164,958** | **79.3** | |
| 41 | Drax Group | 2,551 | 1.2 | Electricity generation |
| 42 | DFS Furniture | 2,548 | 1.2 | Furniture retailer |
| 43 | City of London Investment Group | 2,470 | 1.2 | Asset manager |
| 44 | Sabre Insurance Group | 2,385 | 1.2 | Car insurance |
| 45 | Topps Tiles | 2,301 | 1.1 | Ceramic tile retailer |
| 46 | Speedy Hire | 2,208 | 1.1 | Plant hire |
| 47 | RPS Group | 2,065 | 1.0 | Energy & environmental consulting |
| 48 | Rank Group | 2,057 | 1.0 | Multi-channel gaming operator |
| 49 | Provident Financial | 2,012 | 1.0 | Personal credit provider |
| 50 | TT Electronics | 2,004 | 1.0 | Sensors & other electronic components |
| | **Top Fifty Investments** | **187,559** | **90.3** | |
| | Other Investments (18) | 20,352 | 9.7 | |
| | **Total Investments** | **207,911** | **100** | |
| | Net Liabilities | (56,357) | | |
| | **Total Net Assets** | **151,554** | | |

# 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 2022** | **16.1%** | **-2.8%** | **-54.8%** | **-54.8%** | **-98.2%** |
| At 30 June 2022 | 16.2% | -0.7% | -42.6% | -42.6% | -94.8% |
| Inception[1] | 1.5% | n/a | -17.0% | -17.0% | -57.2% |

## Redemption Yields[1] & Terminal NAVs[1] (Ordinary Shares) as at 31 December 2022

| Capital Growth (per annum) | Ordinary Share Redemption Yields[1] Dividend Growth (per annum) | | | | | Terminal NAV[1] |
|---|---|---|---|---|---|---|
| | -20.0% | -10.0% | +0.0% | +10.0% | +20.0% | |
| **-20.0%** | **-20.7%** | **-19.5%** | **-18.2%** | **-16.8%** | **-15.3%** | **43.4p** |
| **-10.0%** | **-4.9%** | **-3.7%** | **-2.5%** | **-1.1%** | **0.3%** | **58.0p** |
| **0.0%** | **10.4%** | **11.6%** | **12.8%** | **14.2%** | **15.6%** | **73.4p** |
| **+10.0%** | **25.4%** | **26.5%** | **27.8%** | **29.1%** | **30.6%** | **89.6p** |
| **+20.0%** | **40.1%** | **41.3%** | **42.5%** | **43.9%** | **45.3%** | **106.6p** |

1 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 2022 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 2022 Annual Report. These principal risks and uncertainties continue to apply as disclosed in the 2022 Annual Report.

## Going Concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. 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. 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 2022 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*

26 January 2023

# Income Statement

*(unaudited)*

## For the six months ended 31 December 2022

| | | Six months ended 31 December 2022 | | | Six months ended 31 December 2021 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Realised net gains on sales | | – | 4,221 | 4,221 | – | 6,094 | 6,094 |
| Movement in fair value | | – | 10,997 | 10,997 | – | (8,157) | (8,157) |
| Net gains/(losses) on investments | | – | 15,218 | 15,218 | – | (2,063) | (2,063) |
| Investment income | | 5,291 | – | 5,291 | 4,425 | – | 4,425 |
| Other income | | 3 | – | 3 | – | – | – |
| Investment management fee | 3 | (211) | (493) | (704) | (266) | (621) | (887) |
| Portfolio transaction costs | | – | (211) | (211) | – | (126) | (126) |
| Other expenses | | (184) | – | (184) | (171) | – | (171) |
| **Net return before finance costs and tax** | | 4,899 | 14,514 | 19,413 | 3,988 | (2,810) | 1,178 |
| **Finance costs:** | | | | | | | |
| Appropriation to ZDP Shares | 8 | – | (1,012) | (1,012) | – | (978) | (978) |
| Interest expense and overdraft fee | | (3) | (6) | (9) | (2) | (5) | (7) |
| **Return on ordinary activities before tax** | | 4,896 | 13,496 | 18,392 | 3,986 | (3,793) | 193 |
| Tax on ordinary activities | | (7) | – | (7) | (7) | – | (7) |
| **Return attributable to Equity Shareholders** | | 4,889 | 13,496 | 18,385 | 3,979 | (3,793) | 186 |
| Returns per Ordinary Share | 5 | 2.57p | 7.09p | 9.66p | 2.09p | (1.99p) | 0.10p |

### Dividends

On 26 January 2023, the Board declared a first interim dividend for the year ending 30 June 2023 of 1.70p per Ordinary Share, which will be paid on 8 March 2023.

# Income Statement

*(continued)*

| | Notes | Revenue £'000 | Year ended 30 June 2022 Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Realised net gains on sales | | – | 6,186 | 6,186 |
| Movement in fair value | | – | (47,934) | (47,934) |
| Net (losses) on investments | | – | (41,748) | (41,748) |
| Investment income | | 10,024 | – | 10,024 |
| Other income | | – | – | – |
| Investment management fee | 3 | (521) | (1,216) | (1,737) |
| Portfolio transaction costs | | – | (329) | (329) |
| Other expenses | | (335) | – | (335) |
| **Net return before finance costs and tax** | | 9,168 | (43,293) | (34,125) |
| **Finance costs:** | | | | |
| Appropriation to ZDP Shares | 8 | – | (1,956) | (1,956) |
| Interest expense and overdraft fee | | (3) | (6) | (9) |
| **Return on ordinary activities before tax** | | 9,165 | (45,255) | (36,090) |
| Tax on ordinary activities | | (22) | – | (22) |
| **Return attributable to Equity Shareholders** | | 9,143 | (45,255) | (36,112) |
| Returns per Ordinary Share | 5 | 4.81p | (23.79)p | (18.98)p |

# Reconciliation of Movements in Shareholders' Funds

*(unaudited)*

## For the six months ended 31 December 2022

| | **Share capital £'000** | **Special reserve £'000** | **Capital reserve £'000** | **Revenue reserve £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Balance as at 30 June 2022 | 1,902 | 187,035 | (57,620) | 7,635 | 138,952 |
| Return on ordinary activities after tax | – | – | 13,496 | 4,889 | 18,385 |
| Equity dividends paid (Note 4) | – | – | – | (5,783) | (5,783) |
| **Balance as at 31 December 2022** | **1,902** | **187,035** | **(44,124)** | **6,741** | **151,554** |

## For the year ended 30 June 2022

| | 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 | – | – | (45,255) | 9,143 | (36,112) |
| Equity dividends paid (Note 4) | – | – | – | (6,925) | (6,925) |
| Balance as at 30 June 2022 | 1,902 | 187,035 | (57,620) | 7,635 | 138,952 |

## 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) |
| Balance as at 31 December 2021 | 1,902 | 187,035 | (16,158) | 5,344 | 178,123 |

# Balance Sheet

*(unaudited)*

## As at 31 December 2022

| | 31 December 2022 £'000 | 30 June 2022 £'000 | 31 December 2021 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value through profit or loss (Note 6) | **207,911** | 193,062 | 233,709 |
| **Current assets** | | | |
| Debtors | **488** | 755 | 432 |
| Cash at bank | **604** | 1,590 | 478 |
| | **1,092** | 2,345 | 910 |
| **Creditors** (amounts falling due within one year) | | | |
| Bank overdraft | **–** | – | (1,038) |
| Other creditors | **(44)** | (62) | (43) |
| | **(44)** | (62) | (1,081) |
| **Net current assets/(liabilities)** | **1,048** | 2,283 | (171) |
| **Total assets less current liabilities** | **208,959** | 195,345 | 233,538 |
| **Creditors** (amounts falling due after more than one year) | | | |
| ZDP Shares (Note 8) | **(57,405)** | (56,393) | (55,415) |
| **TOTAL NET ASSETS** | **151,554** | 138,952 | 178,123 |
| **CAPITAL AND RESERVES: EQUITY INTERESTS** | | | |
| **Share Capital** | | | |
| Ordinary Shares | **1,902** | 1,902 | 1,902 |
| **Reserves** | | | |
| Special reserve | **187,035** | 187,035 | 187,035 |
| Capital reserve | **(44,124)** | (57,620) | (16,158) |
| Revenue reserve | **6,741** | 7,635 | 5,344 |
| **TOTAL SHAREHOLDERS' FUNDS** | **151,554** | 138,952 | 178,123 |
| **Net Asset Value per Ordinary Share** (Note 7) | **79.66p** | 73.04p | 93.63p |
| **Net Asset Value per ZDP Share** (Note 7) | **120.69p** | 118.57p | 116.51p |

Approved and authorised for issue by the Board of Directors on 26 January 2023 and signed on its behalf by:

Angus Gordon Lennox
*Chairman*

# Cash Flow Statement

*(unaudited)*

For the six months ended 31 December 2022

| | **Six months ended 31 December 2022 £'000** | Six months ended 31 December 2021 £'000 | Year ended 30 June 2022 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | **4,648** | 3,276 | 7,520 |
| **Investing activities** | | | |
| Purchases of investments | **(25,629)** | (18,092) | (41,203) |
| Sales of investments | **25,787** | 17,115 | 41,007 |
| **Cash inflow/(outflow) from investing activities** | **158** | (977) | (196) |
| **Financing activities** | | | |
| Equity dividends paid (Note 4) | **(5,783)** | (4,052) | (6,925) |
| Interest and fees paid | **(9)** | (7) | (9) |
| **Cash (outflow) from financing activities** | **(5,792)** | (4,059) | (6,934) |
| **Change in cash during the period** | **(986)** | (1,760) | 390 |
| Cash at the start of the period | **1,590** | 1,200 | 1,200 |
| Cash / (overdraft) at the end of the period | **604** | (560) | 1,590 |

# 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 2022. 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 2022 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 2022 £'000** | Six months ended 31 December 2021 £'000 | Year ended 30 June 2022 £'000 |
|---|---|---|---|
| **Amounts recognised as distributions to equity holders:** | | | |
| Second interim dividend of 2.13p for the year ended 30 June 2021 (paid 27/08/21) | – | 4,052 | 4,052 |
| First interim dividend of 1.51p for the year ended 30 June 2022 (paid 08/03/22) | – | – | 2,873 |
| Second interim dividend of 2.79p for the year ended 30 June 2022 (paid 26/08/22) | **5,308** | – | – |
| Special dividend of 0.25p for the year ended 30 June 2022 (paid 26/08/22) | **475** | – | – |
| Total | **5,783** | 4,052 | 6,925 |

The first interim dividend for the year ending 30 June 2023 of 1.70p (2022: 1.51p) per Ordinary Share will be paid on 8 March 2023 to holders of Ordinary Shares on the register on 10 February 2023. The ex dividend date is 9 February 2023. The first interim dividend has not been recorded in the financial statements as at 31 December 2022. Deducting the first interim dividend from the Company's revenue reserves at 31 December 2022 leaves revenue reserves equivalent to 1.8p per Ordinary Share.

# Notes to the Financial Statements

## 5. Returns per Share

| Period ended: | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|---|---|---|
| Net return | **£18,385,000** | £186,000 | £(36,112,000) |
| Weighted average Ordinary Shares in issue | **190,250,000** | 190,250,000 | 190,250,000 |
| **Return per Ordinary Share** | **9.66p** | 0.10p | (18.98)p |
| Appropriation to ZDP Shares | **£1,012,000** | £978,000 | £1,956,000 |
| Weighted average ZDP Shares in issue | **47,562,500** | 47,562,500 | 47,562,500 |
| **Return per ZDP Share** | **2.13p** | 2.06p | 4.11p |

## 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.

## 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 2022 are as follows.

| | **Ordinary Shares** | **ZDP Shares** | **Total Assets** |
|---|---|---|---|
| Net assets attributable | £151,554,000 | £57,405,000 | £208,959,000 |
| Number of Shares | 190,250,000 | 47,562,500 | 237,812,500 |
| **NAV per Share (a)** | **79.66p** | **120.69p** | **87.87p** |
| Dividend reinvestment factor[1] (b) | 1.292903 | – | 1.208440 |
| NAV per Share on a total return basis at 31 December 2022 (c) = (a) x (b) | 102.99p | 120.69p | 106.19p |
| NAV per Share on a total return basis at 30 June 2022 (d) | 90.75p | 118.57p | 96.46p |
| **Total Return performance (c) ÷ (d) - 1** | **13.5%** | **1.8%** | **10.1%** |

1 Defined in the Glossary on pages 24 to 25.

# Notes to the Financial Statements

## 8. Zero Dividend Preference Shares

| Period ended: | **31 December 2022 £'000** | 30 June 2022 £'000 | 31 December 2021 £'000 |
|---|---|---|---|
| **Opening balance** | **56,393** | 54,437 | 54,437 |
| Issue costs amortised during the period | **24** | 46 | 23 |
| Capital growth of ZDP Shares | **988** | 1,910 | 955 |
| **Closing balance** | **57,405** | 56,393 | 55,415 |

## 9. Share Capital

| | **31 December 2022 Shares** | **£'000** |
|---|---|---|
| **Issued** | | |
| Ordinary Shares of 1p each | 190,250,000 | 1,902 |
| ZDP Shares of 1p each | 47,562,500 | 476 |
| **Total issued and allotted** | **237,812,500** | **2,378** |

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

## 10. Related Party Transactions

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 2022 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 2022 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 2022 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**

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

# Corporate Information

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