Aberforth Split Level Income Trust plc

Half Yearly Report

31 December 2023

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 and set out in the Company's Annual Report.

Contents

All data throughout this Half Yearly Report are to, or as at, 31 December 2023 as applicable, unless otherwise stated. From 1 January 2024, the Numis Smaller Companies Index (excluding Investment Companies) was renamed the Deutsche Numis Smaller Companies Index (excluding Investment Companies).

Financial Highlights

Total Return Performance

Period to 31 December 2023	Total Assets[1]	Ordinary Share NAV[1]	Ordinary Share Share Price[1]	ZDP Share NAV[1]	ZDP Share Share Price[1]
Six months	**7.8%**	**10.3%**	**9.4%**	**1.8%**	**1.7%**
Twelve months	7.5%	9.0%	16.7%	3.6%	1.7%
3 years	27.7%	34.4%	32.3%	11.2%	12.5%
5 years	30.6%	35.6%	33.5%	19.3%	16.3%
Since Inception[3] (cumulative)	14.1%	12.3%	6.2%	25.0%	21.5%
Since Inception[3] (annualised)	2.1%	1.8%	0.9%	3.5%	3.0%

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 2023	**81.6p**	**75.3p**	**7.7%**	**7.7p**	**2.75p**	**38.3%**
30 June 2023	77.2p	72.0p	6.7%	5.4p	5.00p	39.8%
31 December 2022	79.7p	69.0p	13.4%	9.7p	1.70p	37.9%

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 2023	**125.0p**	**121.5p**	**2.8%**	**2.2p**	**3.4x**	**9.7%**
30 June 2023	122.8p	119.5p	2.7%	4.3p	3.2x	6.4%
31 December 2022	120.7p	119.5p	1.0%	2.1p	3.2x	4.3%

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 27).

2 UK GAAP Measure (refer to Glossary on page 27).

3 Defined in the Glossary on pages 27 to 28.

4 The Return per Share and Dividend per Share as at 31 December 2023 and 2022 are in respect of the six months then ended and as at 30 June 2023 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 is the seventh interim report of Aberforth Split Level Income Trust ("ASLIT" or "your Company"). It covers the six months to 31 December 2023. ASLIT's planned life ends on 1 July 2024 and further details on the planned winding-up are provided in the final section of my statement.

As the final financial year of ASLIT's planned life started, equity markets remained beholden to inflationary pressures and their implications for monetary policy. With the war in Ukraine continuing, Hamas's attacks on Israel added to geopolitical instability. Meanwhile, the earnings outlook for domestic and overseas facing companies has deteriorated. Through the first half of the Company's financial year, the frequency of profit warnings rose and it seems likely that the year to June 2024 will be a year of lower profits for many companies around the world.

Towards the end of the period, however, inflation data on both sides of the Atlantic improved and brought into view an earlier end to restrictive monetary policy. This sparked November's rally in stockmarkets and meant that over the six months as a whole equity returns in the UK and more broadly were positive. With valuations and the stockmarket where they are, I remain positive about the outlook for the medium and longer term.

Performance

The Numis Smaller Companies Index (excluding Investment Companies) ("the Index" or "NSCI (XIC)") defines ASLIT's opportunity base. It generated a total return of +8.6% over the six months to 31 December 2023. Larger companies in the UK, represented by the FTSE All-Share, recorded a total return of +5.2%.

This positive outcome was helpful for an investment trust with your Company's structure. ASLIT's total asset total return, which measures its ungeared portfolio performance, was +7.8% 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 +10.3%. This reflects the return attributable to equity shareholders of 7.72p per Ordinary Share together with the effect of the reinvestment of previously declared dividends. The Ordinary Share price total return of +9.4% was slightly lower due to the widening of the share price's discount to net asset value from 6.7% to 7.7% over the six months.

As the capital value of the portfolio has increased, the projected cumulative cover of the ZDP shares increased to 3.4 times as at 31 December 2023 from 3.2 times six months earlier.

Turning to the longer-term perspective, the Board is conscious that ASLIT's performance over its life so far has not matched expectations at the time of launch. This is largely due to several unforeseen top-down challenges, not least the pandemic. It is notable that your Company's income performance has been relatively resilient. With dividends reinvested, the recent rally in share prices has improved ASLIT's total returns since launch. From inception on 30 June 2017 to 31 December 2023, the cumulative total assets total return and Ordinary Share net asset value total return are +14.1% and +12.3% respectively.

Notwithstanding the rise in share prices so far this financial year, sentiment in and towards the UK market remains at a relatively low ebb, particularly towards smaller companies. Further detail on portfolio performance and the investment backdrop is provided in the Managers' Report.

Chairman's Statement

Portfolio Management

The Managers aim to keep the Company near to fully invested at all times and do not normally attempt to engage in market timing by holding high levels of liquidity. As the Company approaches the end of its planned life, the importance of liquidity as a consideration in portfolio management decisions will increase. In exercising their discretion in this regard, the Managers will seek to strike a prudent balance between ensuring that the Company has sufficient liquid assets to satisfy any cash requirements on winding-up, and maximising value and income opportunities in what remains of ASLIT's planned life.

Earnings and First Interim Dividend

In the six months to 31 December 2023, dividends from small UK quoted companies continued their recovery following the pandemic. This contributed to good growth in ASLIT's dividend income, which was lifted further by the receipt of three special dividends. The positive experience is reflected in ASLIT's revenue return per Ordinary Share of 2.91p in the six months to 31 December 2023, which is 13% higher than the 2.57p earned in the comparable period last year. The special dividends received from investee companies represent 0.22p per Ordinary Share of the 2.91p and 0.20p of the 2.57p in the same period last year.

In light of the strength of the income performance in the first half of the financial year and in view of the proximity of ASLIT's planned wind-up on 1 July 2024, the Board is pleased to declare a first interim dividend of 2.75p per Ordinary Share in respect of the six months to 31 December 2023. This represents an increase of 62% compared to the 1.70p in respect of the previous year.

The first interim dividend of 2.75p will be paid on 8 March 2024 to Ordinary Shareholders on the register as at the close of business on 9 February 2024. The ex dividend date is 8 February 2024. The Company operates a Dividend Reinvestment Plan, details of which, along with the Form of Election, are available from the Managers, Aberforth Partners LLP, or on their website, www.aberforth.co.uk.

Further shareholder distributions

Looking ahead to the remaining months of ASLIT's life, while it would be imprudent not to note the uncertainty of the economic backdrop, current estimates suggest that the income account is in good shape. Therefore, the Board plans to declare a second interim dividend to be paid by the end of June 2024. In the absence of unforeseen circumstances, we expect this to be no less than 2.75p per Ordinary Share. In expressing this intention, which is not a profit forecast, we are guided by the Managers' dividend estimates and by revenue reserves at 30 June 2023 of 1.32p per Ordinary Share. The actual amount will be influenced by both future dividend receipts and the portfolio management considerations noted above.

Any income that is not distributed through the first and second interim dividends will be included in a final return, which may be received by Ordinary Shareholders as part of the reconstruction and planned wind-up of the Company. This is more fully described below.

Together with the first interim dividend of 2.75p, a second interim dividend of at least 2.75p, should it be paid, would imply a full year dividend of at least 5.50p. Though not a profit forecast, this would represent a year-on-year increase of at least 10% and would bring ASLIT's total dividends over its seven year life to at least 31.27p.

Chairman's Statement

Outlook

This year's US Presidential Election and the imminence of a UK General Election justify some caution about politics. At home, there are tentative signs of greater political pragmatism among the main parties, which may help restore confidence in UK politics. This could in turn improve attitudes towards the UK stockmarket and narrow the UK's valuation discount. Sentiment towards small UK quoted companies is also affected by the lingering fears about an economic slowdown, but as the Managers' Report makes clear, a downturn is largely baked into the valuations of ASLIT's investee companies.

However, the significant recovery potential inherent in the qualities and valuations of ASLIT's investee companies is unlikely to be recognised fully within your Company's planned life. Nevertheless, the Board is optimistic about the prospects for the Company's investment portfolio. The upshot of ASLIT's muted capital returns over its life and the relative resilience of the investee companies' profits is that the portfolio's valuations today appear even more attractive than was the case seven years ago. Therefore, alongside the option to realise their investment in cash, the Board is keen to offer Shareholders the opportunity to continue their investment.

Planned Winding-up

The Board has carefully considered the state of the markets, the investment opportunity inherent in ASLIT's portfolio and comments from Shareholders. I would like to thank those Shareholders who have contacted us and all those who have given us feedback. The result of these deliberations is that the Board currently intends to seek the approval of Ordinary Shareholders in relation to a reconstruction and winding up of the Company, on, or close to, the planned winding-up date of 1 July 2024.

In this way, both Ordinary and ZDP Shareholders will have the option to realise their investment in cash should they so wish. Those Ordinary Shareholders who choose cash will receive as close to the prevailing net asset value as possible. In addition, Shareholders will have the opportunity to invest in a new company also managed by Aberforth with a similar investment policy and strategy to ASLIT's.

Whilst the Board's obligation to ZDP Shareholders will be satisfied by a cash exit, at an amount equal to their final capital entitlement, consideration will also be given to offering them shares in the new investment trust company as an alternative to cash.

The Board, together with the Managers, have considered outline plans for such a new investment trust company. Portfolio construction would be aimed at delivering an attractive yield, but would also be designed to take advantage of the eventual valuation recovery of UK equities in general and smaller companies in particular. The new company would be launched with a planned life of seven years and would benefit from the continuity of Aberforth's investment management services. The Board believes that such a proposition would be of interest to those Shareholders wishing to continue their investment. We are also encouraged by the Managers' stated intention to roll their existing ASLIT shareholdings into the new company and furthermore to support it with additional investment.

Chairman’s Statement

The intention is that the ordinary shares issued by this new investment company would be geared. The level of gearing would likely be higher than in ASLIT at launch but similar to the current level, at around 40% of Total Ordinary Shareholders’ Funds on launch. Whilst the current working assumption is that the source of gearing will be new ZDP shares issued by the new investment trust company, this will ultimately depend on demand and pricing.

While prioritising the interests of existing investors, there may be the opportunity to bring in new investors by means of a placing and offer for subscription.

I should emphasise that these plans remain at an early stage and are subject to change, not least as a consequence of the vagaries of financial markets. Importantly, the Board’s deliberations to date have been informed by feedback to the Managers directly from existing ASLIT Shareholders. We shall now move on to appointing specialist advisers and shall also take into account further feedback from Shareholders when developing these proposals. The Board expects to finalise its plans for consideration by all Shareholders during the second quarter of 2024, at which point we will write to you again.

My fellow directors and I would welcome the views of all Shareholders about these or any other matters pertinent to the Company, to which end my email address is noted below.

Angus Gordon Lennox
Chairman

29 January 2024

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Managers' Report

Introduction

Share prices rose in the six months to 31 December 2023. The FTSE All-Share, which is representative of large UK companies, was up by 5.2% in total return terms. The NSCI (XIC), which defines ASLIT's investment universe, enjoyed a total return of +8.6%. ASLIT's total assets total return was +7.8%. This cleared the hurdle of the rising entitlement of the ZDP Shares and so the net asset value total return of the Ordinary Shares was higher at +10.3%. The final cumulative cover of the ZDP Shares rose from 3.2x to 3.4x.

Investment background

Geopolitical risk was already elevated as the war in Ukraine continued. It rose further towards the end of the year with Hamas's attack on Israel. However, financial markets were dominated by one issue – inflation and its implications for monetary policy, especially US monetary policy. Persistent inflation had driven the Federal Reserve to raise interest rates by a cumulative 525 basis points in the sixteen months to July 2023. This brought to an end the era of very low borrowing costs that followed the global financial crisis of 2007 and 2008. Understandably, markets have struggled with this new reality and have been eager for indications that inflationary pressure might be relenting.

The ebb and flow of sentiment through the year can be gauged from the US ten year government bond yield. This started 2023 at 3.8% and surged to 5.0% in August, which was its highest level since 2007. As inflation data improved and markets started to anticipate lower interest rates, the yield dropped to 3.9% by the year end, a move that was echoed by the strong performance of equity indices over the last two months of the year.

The UK and much of Europe are also facing higher borrowing costs. These contributed to lacklustre economic growth in 2023, compounding the effects of high energy costs and waning momentum from the pandemic recovery. Recession threatens several European economies, including the UK's, while China's reopening has so far proved rather tepid. The brighter spots in terms of economic activity are the US, which is benefiting from government spending through the Inflation Reduction Act and other programmes, and some emerging economies, which are proving more resilient than in past phases of US monetary tightening.

An overall weaker economic backdrop has complicated trading for companies. Results for 2023 will be reported in the first half of 2024 and are likely to show that profits declined in the UK and in Europe. Even the US stockmarket is expected to experience next to no profit growth, notwithstanding its "magnificent seven" technology leviathans. There are several reasons for this. First, higher interest rates and the other macro-economic uncertainties have put pressure on revenues. Second, it is proving more difficult to raise selling prices as the rate of inflation reduces, but labour costs are continuing to rise. These are harder to pass through to customers, which squeezes profit margins. Third, the cost of borrowing is rising as debt terms are renegotiated in today's environment of higher interest rates.

Turning specifically to small UK quoted companies, the Managers expect a double digit percentage decline in profits for 2023, with falls for nearly half of the profitable companies that they track closely. Unsurprisingly, those companies operating close to the housing market have been most affected, but it has been notable that overseas facing companies also experienced more challenging trading conditions in the second half of 2023. The effect of this slowdown on profits might be close to half of the impact typically experienced in a full economic recession. Strong balance sheets and battle-hardened boards of directors offer mitigation, but what is important for investors is how much of this is already embedded in the stockmarket's valuations of the companies. This is considered in detail in the Valuations section of this report.

Managers' Report

Analysis of performance and portfolio characteristics

Over the six months to 31 December 2023, ASLIT's total assets total return was +7.8%. The NSCI (XIC)'s was +8.6%. The paragraphs that follow provide context and explanation for ASLIT's performance and for the characteristics displayed in the table below.

Portfolio Characteristics	31 December 2023 ASLIT	31 December 2023 NSCI (XIC)	31 December 2022 ASLIT	31 December 2022 NSCI (XIC)
Number of companies	**63**	**353**	68	350
Weighted average market capitalisation	**£712m**	**£957m**	£654m	£866m
Weighting in "smaller small" companies*	**52%**	**28%**	59%	36%
Portfolio turnover (annualised)	**16%**	**N/A**	26%	N/A
Active share	**77%**	**N/A**	78%	N/A
Price earnings (PE) ratio (historical)	**8.9x**	**12.8x**	8.8x	8.1x
Dividend yield (historical)	**5.1%**	**3.3%**	4.6%	3.4%
Dividend cover (historical)	**2.2x**	**2.3x**	2.4x	3.7x

*"Smaller small" companies are members of the NSCI (XIC) that are not also members of the FTSE 250

Style & size

Since the pandemic recovery started in late 2020, inflation has caused interest rates and bond yields to rise. These conditions have favoured the value investment style. The London Business School analyses style effects within the NSCI (XIC) using price-to-book ratios to differentiate between value and growth stocks. They calculate that the total return of the index's value cohort exceeded that of its growth cohort in 2021, 2022 and 2023. A caveat to this positive style backdrop for value is the very strong share price performance in 2023 of the large US technology companies collectively known as the "magnificent seven". This suggests a more favourable environment for growth stocks, which would be consistent with the stockmarket's current optimism about an end to the cycle of higher interest rates. Nevertheless, the positive backdrop for the value investment style has benefited ASLIT's returns over recent years.

Turning to size, the NSCI (XIC) has a significant overlap with the FTSE 250 index: 72% of its value is represented by mid cap stocks. The portfolio's weighting in these is much lower at 48%, with the majority made up of holdings in the more attractively valued "smaller small" companies. The share price performances of the "larger small" and "smaller small" companies were similar in the six months to 31 December 2023. However, the stockmarket rally at the end of the period was led by the mid caps, which out-performed their smaller peers by 5% in just over two months. This hampered ASLIT's performance as 2023 drew to a close. In periods of rapid share price moves, both upwards and downwards, it is common for the "larger small" companies to lead the way and for the "smaller smalls" to catch up in due course.

Managers' Report

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the Tracked Universe, which is a subset of the NSCI (XIC). It comprises 234 companies, which the Managers follow closely and which together represent 98% by value of the total NSCI (XIC) index.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio 2023	43%	42%	10%	5%
Tracked universe 2023	34%	41%	17%	8%

*Includes loss-makers and lenders

Small companies' balance sheets have not been so strong since around 2014. Back then, a phase of balance sheet repair was a reaction to 2009's recession. Today, balance sheets are already in a robust state. This should limit the risk to dividends and the requirement for equity issuance in the event of an economic downturn. Strong balance sheets also help to mitigate refinancing risk, as companies' borrowing costs rise amid the current environment of higher interest rates.

The balance sheet profiles of the portfolio and the Tracked Universe are similar, with high exposures to companies with net cash or modest degrees of leverage. The opportunity for ASLIT to invest in these companies comes from the stockmarket's aversion to the UK and to its smaller companies in particular. Their fundamental attributes are being ignored and pricing inefficiencies abound.

Another fundamental change being widely overlooked is the improvement in the funding position of defined benefit pension schemes. For two decades, UK companies have deployed large amounts of their free cash flow to reduce pension deficits. A silver lining to the cloud of higher interest rates has been the narrowing of these deficits. Many pension scheme trustees are now able to contemplate de-risking, which relieves the sponsoring companies of the requirement to make top-up payments. The boost to free cash flow is often significant and several of ASLIT's holdings benefited in this way through 2023.

Income

The portfolio's income performance over the six months to 31 December 2023 was good. Three special dividends chipped in, but the main influence was a further recovery in profits from the pandemic. Inevitably, that momentum is starting to fade as profits and pay-out ratios approach pre-pandemic levels.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returners
5	10	14	33	1

The table above splits ASLIT's 63 holdings into five categories, which are determined by each company's most recent dividend action. The most populous category remains the Increased Payers. The number of Cutters has risen. The theme in this category is exposure to the housing market, where companies are feeling the impact of higher interest rates on activity.

Partly because of the fading momentum of the recovery from the pandemic and partly because of more challenging trading conditions, the near term prospects for dividend growth are less bright than in the past two years. ASLIT's investee companies do, however, benefit from dividend cover of 2.2x on average and from the strong balance sheets described above.

Managers' Report

Corporate activity

Despite the backdrop of higher interest rates and borrowing costs, M&A has continued. The takeovers of four NSCI (XIC) constituents, one of which was held by ASLIT, were completed in the six months. Bids for another four companies in the index were outstanding at the period end. The average premium to the pre-announcement share prices of the eight bids was an unusually high 57%.

Private equity houses were the bidders in four of the seven deals. The Managers had expected the higher cost of borrowing to limit this source of interest. However, the very low valuations accorded to small UK quoted companies by the stockmarket give private equity the opportunity. At these valuations, it would appear that debt is not needed at the outset to make M&A models work. This remarkable situation highlights a risk to ASLIT and other investors in the asset class – in many cases, even a large takeover premium may not bring the valuation to a level that reflects the true worth of the target company.

In such circumstances, the Managers are prepared to vote against under-priced deals and did so in 2023. The best M&A experiences are often those in which boards of directors 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 should be consulted in such situations and that they are willing to be insiders for extended periods.

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% for ASLIT's portfolio compared with the NSCI (XIC). At 31 December 2023, it stood at 77%.

Value roll and portfolio turnover

The main influence on ASLIT's portfolio turnover in any period is usually the stockmarket's appetite for small UK quoted companies. If prices and valuations are rising, the upsides to the Managers' target prices are likely to be narrowing. All else being equal, this would encourage the rotation of ASLIT's capital from companies with lower upsides to those with higher upsides. The Managers term this dynamic the "value roll" and it has played an important role in their clients' capital and income returns over the years. It follows that periods of higher portfolio turnover are often associated with strong returns.

In the six months to 31 December 2023, annualised portfolio turnover, defined as the lower of purchases and sales divided by average portfolio value, was 16%. This is down from 26% twelve months earlier. Notwithstanding ASLIT's positive return for the period, this suggests that there was less opportunity for "value roll" than usual. This is another symptom of the deep under-valuation of small UK quoted companies – if the stockmarket does not reflect their true value, there is every incentive to maintain the position.

Managers' Report

Environmental, social and governance (ESG)

The issues underlying this umbrella term bring both threats and opportunities to individual companies. Additionally, it seems likely that the valuation of the asset class as a whole is affected by the view that small companies are ESG victims. The Managers disagree and believe that the passage of time will show that small companies are coping well with the challenges of ESG. A broader appreciation of this ought to contribute to a re-rating of the asset class in due course.

In 2023, the Managers continued to populate the ESG module within their investment database. This module was launched in 2022 and is intended to provide insights into the portfolio's ESG profile as the data set is enriched over time. It also allows the Managers to track and prioritise engagement activities. Recent work has indicated that smaller companies are coping well with the increasing expectations and regulations associated with ESG. Disclosure continues to improve and action is being taken to address underlying issues. When that is not the case, the Managers engage to understand the reason and seek change where appropriate. Beyond this, they also encourage companies to think about and articulate opportunities arising from environmental and social issues, such as climate change. To this point, several industrial companies in which ASLIT invests manufacture products that generate both financial and emission savings for their customers. Examples are provided in the Stewardship & ESG section of the Managers' website at www.aberforth.co.uk.

Engagement

Since Aberforth was founded in 1990, an integral part of the investment process has been engagement with the boards of the investee companies. The Managers often take significant stakes in investee companies – up to 25% of issued share capital across Aberforth's client base. Engagement is therefore a responsibility. Importantly, it is also a means to improve investment outcomes. Aberforth's approach to engagement is intended to be purposeful, discreet and constructive. It includes regular updates with executive directors and also encompasses meetings with non executives. There is a particular focus on the chair, which is the most important role in the UK's system of corporate governance. The Managers engage on any topic that affects the value of an investment or the rights of shareholders, with the most common being capital allocation.

The Managers are prepared to be taken inside for extended periods, which indicates their commitment to responsible stewardship and which can be helpful to investee companies. They also expect to be consulted in a timely fashion – the presentation of a fait accompli by the board to shareholders is a risky and unhelpful undertaking. Several of the takeovers in recent years have been presented without due consultation and have led to the Managers engaging to improve the terms for shareholders and/or voting against the deals. The Managers are confident that their purposeful, discreet and constructive engagement has enhanced returns over time.

Valuations

At 31 December 2023, the historical price earnings ratio (PE) of ASLIT's portfolio was 8.9x, which was well below the 33 year average of 12.1x for the portfolio of Aberforth's longest standing client. History suggests that the PE reaches such levels during recessions – the early 1990s downturn, the global financial crisis and more recently the pandemic recession.

If share prices are unchanged over the next twelve months, it is likely that the historical PE will rise. This would reflect lower reported profits, consistent with the description given in the introduction to this report. Lower profits are clearly not to be welcomed, but they are not inconsistent with good equity returns because the stockmarket focuses on what will happen rather than what has happened. In the early 1990s recession, small company profits declined by 25-30% over three years, while the PE of Aberforth's longest standing portfolio rose from 7x at the end of 1990 to a high of almost 19x at the end of 1993. Investors more than doubled their money in total return terms over that period.

Aside from concern about the near term outlook for corporate profits, three other factors contribute to the particularly attractive levels of valuation currently accorded to ASLIT's investee companies. These are the prevailing malaise with the UK and its stockmarket, the concern about the liquidity of smaller companies, and the effect of the Managers' value investment style. The following paragraphs address each of these factors.

- At 31 December 2023, the FTSE All-Share's PE was 35% lower than Panmure Gordon's calculation of the PE for the Rest of the World. Since 1990, the average discount of UK equities has been 16%. Several justifications for today's larger than usual discount are regularly offered.

  First, since the EU referendum in 2016 and with the subsequent succession of Prime Ministers, the UK's reputation for political stability has been impaired. However, the UK does not have a monopoly in political uncertainty. The UK's flirtation with populism may prove to be behind it, while elections over the coming years may cast other countries in a relatively unfavourable light.

  Second, there is a widespread view that the UK's economic performance in recent years has been comparatively poor, from Brexit through a proportionately tougher lockdown experience to a more intransigent problem with inflation. However, Brexit's impact is largely in the past – the companies with which the Managers engage have learned to live with it. Turning to the pandemic, recent revisions by the ONS to its calculation of GDP reveal that the UK's recovery compares well with other members of the G7. Finally, the gap between the UK's inflation rate and that of comparable countries is now narrowing to undermine arguments that the UK is the "sick man of Europe".

  Third, there is a concern that the UK stockmarket itself is dysfunctional. Evidence cited includes its lack of technology companies, infrequent and unsuccessful IPOs, low valuations, and outflows from pension and open-ended funds. Some of this reasoning is circular, but the issue has caught the attention of government, for better or worse. Mooted solutions are mandated investment in UK listed companies by pension funds, lower governance standards for UK listings and the dilution of EU inspired regulation on UK capital markets. For the Managers, it is not clear that the UK stockmarket is broken and well-intended legislation is often undermined in due course by the unintended consequences.

- Within the UK market, there is a pronounced valuation discount for size – the lower the market capitalisation, the lower the valuation. Within the NSCI (XIC), the average 2023 EV/EBITA ratio of companies with market capitalisations above £600m (roughly the boundary between the FTSE 250 and the FTSE SmallCap) is 11.0x. For those below the £600m threshold, the "smaller small" companies, the average multiple is 24% lower at 8.4x.

  For smaller companies, the general concerns about the UK are compounded by their greater reliance on the domestic economy. Around 50% of the aggregate revenues of NSCI (XIC)'s constituents are generated within the UK, higher than the 20-25% or so for the entire UK stockmarket. While companies close to the domestic housing market have reported more difficult trading conditions for the past nine months, it is notable that their share prices have often fallen by less than the extent of the downgrade to profit expectations. This is an indication that economic weakness is reflected in valuations, which is a necessary, though not sufficient, condition for recovery.

  Against the background of disinvestment from UK equities, there is a heightened sensitivity towards liquidity on the part of many investors. This is likely to have penalised the valuations of the relatively illiquid asset class of smaller companies. However, such an investment stance risks missing the small company premium, which is the historical out-performance of small over large and which has averaged 1.6% per annum over Aberforth's 33 years. Investors are rewarded for taking on liquidity risk over time and relative illiquidity works both ways – gaining exposure to the asset class when sentiment turns is not straightforward.

- Turning to ASLIT's portfolio, the 8.9x historical PE at 31 December 2023 was 31% below that of the NSCI (XIC). This compares with an average discount since 1990 for Aberforth's longest standing portfolio of 12%.

  ASLIT's portfolio is managed in accordance with the value investment style and so a discount to the overall valuation of smaller companies is to be expected. However, the discount today is unusually wide. Part of this is explained by the better value on offer among the NSCI (XIC)'s "smaller small" companies, to which ASLIT has a relatively high exposure. Another factor is the Managers' willingness to look through general concern about near term corporate profitability by investing in strong and growing but economically sensitive companies. Unburdened by these distractions, ASLIT's opportunity set within the investment universe is presently towards its widest in the Managers' experience.

The following table sets out further detail about 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 ratios are based on the Managers' profit forecasts for each company that they track. The bullet points following the table summarise its main messages.

EV/EBITA	2022	2023	2024	2025
ASLIT	7.4x	8.5x	7.0x	6.3x
Tracked universe (234 stocks)	9.6x	10.0x	8.5x	7.5x
- 35 growth stocks	18.4x	16.7x	13.4x	11.9x
- 199 other stocks	8.7x	9.2x	7.9x	7.0x
- 83 stocks > £600m market cap	10.7x	11.0x	9.5x	8.5x
- 151 stocks < £600m market cap	7.7x	8.4x	7.0x	6.0x

- The higher multiples for 2023 compared with 2022 are consistent with earlier comments about lower company profits in 2023. The Managers' forecasts currently point to a profit recovery in 2024, but the precise timing of a rebound relies on the domestic and overseas economic backdrop.
- The average EV/EBITA multiples of the portfolio are lower than those of the Tracked Universe. This is consistent with the Managers' value investment style.
- Each year, the Managers identify a cohort of growth stocks within the NSCI (XIC). These stocks are on much higher multiples than both the portfolio and the rest of the Tracked Universe.

Outlook and conclusion

The financial markets enter 2024 in much the same way as they did 2023 – focused on US interest rates and hopeful that a turn in the cycle towards looser monetary policy is near at hand. In contrast to twelve months ago, today there is a declining rate of inflation in most economies as energy prices subside and global supply chains improve. Complicating factors include the US electoral cycle, the inflationary implications of ambitious fiscal programmes and full employment. However, on balance markets price in a cut in US interest rates in the first quarter of the year. If this is achieved, the probability rises of a "soft landing" – the Federal Reserve, despite much criticism for having been slow

Managers' Report

to respond to inflation, may yet be able to loosen monetary policy without first tipping the US economy into recession.

US interest rates are likely to dictate the near term mood of global financial markets, the UK's included. But equity returns over time are heavily influenced by starting valuations, which stockmarkets can take to extreme levels in their fits of despondency and elation. As the previous section of this report described, the low valuations ascribed to UK equities, smaller companies and, in particular, ASLIT's portfolio bode well for returns over the medium term. It is not straightforward to identify what will change to shine the spotlight on the value on offer in the UK – were it easy, after all, valuations would not now be so attractive. However, while acknowledging the present debate about the relevance of the UK stockmarket, the Managers retain confidence in its ability to reflect fairer valuations in due course. Awaiting a general re-rating of the UK listed companies, ASLIT's portfolio companies are well placed to prosper in the meantime.

- With the outlook for inflation and interest rates more nuanced than in the pre-pandemic period, there is reason to believe that the value investment style can help ASLIT's returns, as it has over the past three years. The Managers' commitment to value investment sets ASLIT apart from most other funds in the small company arena.
- ASLIT's portfolio is skewed towards resilient companies with strong balance sheets and experienced boards of directors who proved themselves amid the challenges of the pandemic. These characteristics should support dividends if, as seems likely, this is a period of more difficult trading conditions. Additionally, it is plausible that the investee companies emerge in a stronger competitive position as they have in previous cycles.
- In the absence of a widespread revaluation of companies listed on the UK stockmarket, takeover activity is likely to continue. This is an obvious means through which the value gaps that characterise ASLIT's portfolio can be realised. Takeovers are appropriate as long as the offer terms reflect the target company's true value and are not anchored by the prevailing stockmarket price.
- Both in M&A situations and more broadly, the Managers will continue to engage with the boards of investee companies in order to improve outcomes for investors. Discreet, purposeful and constructive engagement is all the more relevant today when valuations are so low and directors are frustrated by what the stockmarket appears to be saying about the companies that they run.

These factors contribute to the strength and relevance of ASLIT's investment proposition, which the Managers believe can produce good returns for investors as we wait for a re-rating of the UK equity market and its smaller companies. The frustration for ASLIT is that the full potential of its portfolio and capital structure is unlikely to be realised fully in the next six months. That is why the Managers are working with the Board on two options for Shareholders at wind-up, either to exit for cash or to maintain investment exposure similar to ASLIT's in a new investment trust. The Managers would intend to take the latter option in respect of their own significant shareholdings and indeed commit additional capital.

Aberforth Partners LLP
Managers

29 January 2024

Investment Portfolio

Fifty Largest Investments as at 31 December 2023

No.	Company	Valuation £'000	% of Total	Business Activity
1	Vesuvius	7,283	3.5	Metal flow engineering
2	Redde Northgate	6,801	3.3	Van rental
3	Centamin	6,768	3.3	Gold miner
4	Wincanton	6,650	3.2	Logistics
5	Morgan Advanced Materials	6,595	3.2	Manufacture of carbon & ceramic materials
6	Rathbones Group	6,441	3.1	Private client fund manager
7	Wilmington Group	6,217	3.0	Business publishing & training
8	FirstGroup	5,443	2.6	Bus & rail operator
9	Close Brothers Group	5,351	2.6	Bank, stockbroker & private client fund manager
10	XPS Pensions Group	5,052	2.4	Pension consultancy
	Top Ten Investments	**62,601**	**30.2**	
11	Conduit Holdings	4,685	2.3	Bermuda based (re)insurer
12	Crest Nicholson	4,677	2.2	Housebuilding
13	PageGroup	4,486	2.2	Recruitment
14	C&C Group	4,326	2.1	Brewer and drinks distributor
15	Workspace Group	4,131	2.0	Property - rental to small businesses
16	Robert Walters	3,933	1.9	Recruitment
17	Moneysupermarket.com	3,856	1.9	Price comparison websites
18	Bloomsbury Publishing	3,782	1.8	Independent publishing house
19	Bakkavor Group	3,779	1.8	Food manufacturer
20	Hollywood Bowl	3,767	1.8	Operator of bowling centres
	Top Twenty Investments	**104,023**	**50.2**	
21	Quilter	3,611	1.7	Wealth Management
22	Energean	3,586	1.7	Oil & gas exploration and production
23	International Personal Finance	3,526	1.7	Home credit provider
24	TI Fluid Systems	3,498	1.7	Automotive parts manufacturer
25	Kenmare Resources	3,427	1.6	Miner of titanium minerals
26	Galliford Try Holdings	3,401	1.6	Building & infrastructure contractor
27	Paypoint	3,401	1.6	Alternative payment services
28	Sabre Insurance Group	3,388	1.6	Car insurance
29	Reach	3,364	1.6	UK newspaper publisher
30	Redrow	3,362	1.6	Housebuilding
	Top Thirty Investments	**138,587**	**66.6**	

Investment Portfolio

Fifty Largest Investments as at 31 December 2023

No.	Company	Valuation £'000	% of Total	Business Activity
31	Castings	3,274	1.6	Engineering - automotive castings
32	Smiths News	3,259	1.6	Newspaper distribution
33	Ecora Resources	3,258	1.5	Natural resources royalties
34	Bodycote	3,016	1.4	Engineering - heat treatment
35	Chesnara	2,840	1.4	Life insurance
36	Headlam Group	2,731	1.3	Distributor of floor coverings
37	Jupiter Fund Management	2,694	1.3	Investment manager
38	Eurocell	2,659	1.3	Manufacture of UPVC building products
39	Topps Tiles	2,557	1.2	Ceramic tile retailer
40	Card Factory	2,424	1.1	Retailing - greetings cards
	Top Forty Investments	**167,299**	**80.3**	
41	RHI Magnesita	2,302	1.1	Refractory products
42	STV Group	2,258	1.1	Multi-channel digital media
43	NCC Group	2,256	1.1	IT security
44	Keller	2,254	1.1	Ground engineering services
45	Hostelworld Group	2,191	1.1	Hostel booking platform
46	Senior	2,044	1.0	Aerospace & automotive engineering
47	DFS Furniture	2,013	1.0	Furniture retailer
48	Videndum	1,967	0.9	Photographic & broadcast accessories
49	Speedy Hire	1,952	0.9	Plant hire
50	Rank Group	1,884	0.9	Multi-channel gaming operator
	Top Fifty Investments	**188,420**	**90.5**	
	Other Investments (13)	19,747	9.5	
	Total Investments	**208,167**	**100.0**	
	Net Liabilities	(52,963)		
	Total Net Assets	**155,204**		

Hurdle Rates & Redemption Yields

Hurdle Rates[1,a]

	Ordinary Shares Hurdle Rates to return			ZDP Shares Hurdle rates to return	
	100p	Share Price	Zero Value	127.25p	Zero Value
At 31 December 2023	**48.5%**	**-1.8%**	**-93.5%**	**-93.5%**	**-100.0%**
At 30 June 2023	28.4%	1.3%	-68.6%	-68.6%	-99.7%
Inception[1]	1.5%	n/a	-17.0%	-17.0%	-57.2%

Redemption Yields[1] & Terminal NAVs[1] (Ordinary Shares) as at 31 December 2023[a]

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%	**-16.7%**	**-15.5%**	**-14.3%**	**-13.1%**	**-11.8%**	**64.8p**
-10.0%	**-1.6%**	**-0.3%**	**1.0%**	**2.4%**	**3.8%**	**70.7p**
0.0%	**13.8%**	**15.2%**	**16.7%**	**18.2%**	**19.7%**	**76.3p**
+10.0%	**29.5%**	**31.0%**	**32.7%**	**34.3%**	**35.9%**	**81.6p**
+20.0%	**45.4%**	**47.1%**	**48.8%**	**50.6%**	**52.3%**	**86.6p**

[1] Defined in the Glossary on pages 27 to 28.

[a] At 31 December 2023, this represents the rate/yield for the remaining six months to the planned winding-up date on 1 July 2024.

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 2023 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, as disclosed in the 2023 Annual Report, 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 these risks and how they are managed can be found in the 2023 Annual Report. Since 30 June 2023, the Board has added two further risks to be managed as principal risks: failure to satisfy legal obligations and deliver on commitments made for shareholders in respect of the end of the Company's planned life, and cyber risk.

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. The Directors' assessment of going concern included consideration of the planned winding-up date as described in note 1 to 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 2023 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

29 January 2024

Income Statement

(unaudited)

For the six months ended 31 December 2023

	Notes	Six months ended 31 December 2023 Revenue £'000	Six months ended 31 December 2023 Capital £'000	Six months ended 31 December 2023 Total £'000	Six months ended 31 December 2022 Revenue £'000	Six months ended 31 December 2022 Capital £'000	Six months ended 31 December 2022 Total £'000
Realised net gains on sales		–	2,709	2,709	–	4,221	4,221
Movement in fair value		–	8,135	8,135	–	10,997	10,997
Net gains on investments		–	10,844	10,844	–	15,218	15,218
Investment income		5,908	–	5,908	5,291	–	5,291
Other income		41	–	41	3	–	3
Investment management fee	3	(228)	(533)	(761)	(211)	(493)	(704)
Portfolio transaction costs		–	(110)	(110)	–	(211)	(211)
Other expenses		(181)	–	(181)	(184)	–	(184)
Net return before finance costs and tax		5,540	10,201	15,741	4,899	14,514	19,413
Finance costs:							
Appropriation to ZDP Shares	8	–	(1,047)	(1,047)	–	(1,012)	(1,012)
Interest expense and overdraft fee		(1)	(2)	(3)	(3)	(6)	(9)
Return on ordinary activities before tax		5,539	9,152	14,691	4,896	13,496	18,392
Tax on ordinary activities		(9)	–	(9)	(7)	–	(7)
Return attributable to Equity Shareholders		5,530	9,152	14,682	4,889	13,496	18,385
Returns per Ordinary Share	5	2.91p	4.81p	7.72p	2.57p	7.09p	9.66p

Dividends

On 29 January 2024, the Board declared a first interim dividend for the year ending 30 June 2024 of 2.75p per Ordinary Share, which will be paid on 8 March 2024.

Income Statement

(continued)

	Notes	Revenue £'000	Year ended 30 June 2023 Capital £'000	Total £'000
Realised net gains on sales		–	3,543	3,543
Movement in fair value		–	6,509	6,509
Net gains on investments		–	10,052	10,052
Investment income		10,985	20	11,005
Other income		14	–	14
Investment management fee	3	(443)	(1,034)	(1,477)
Portfolio transaction costs		–	(313)	(313)
Other expenses		(357)	–	(357)
Net return before finance costs and tax		10,199	8,725	18,924
Finance costs:				
Appropriation to ZDP Shares	8	–	(2,024)	(2,024)
Interest expense and overdraft fee		(3)	(7)	(10)
Return on ordinary activities before tax		10,196	6,694	16,890
Tax on ordinary activities		(24)	–	(24)
Return attributable to Equity Shareholders		10,172	6,694	16,866
Returns per Ordinary Share	5	5.35p	3.52p	8.87p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 31 December 2023

	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2023	1,902	187,035	(50,926)	8,789	146,800
Return on ordinary activities after tax	–	–	9,152	5,530	14,682
Equity dividends paid (Note 4)	–	–	–	(6,278)	(6,278)
Balance as at 31 December 2023	**1,902**	**187,035**	**(41,774)**	**8,041**	**155,204**

For the year ended 30 June 2023

	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	–	–	6,694	10,172	16,866
Equity dividends paid (Note 4)	–	–	–	(9,018)	(9,018)
Balance as at 30 June 2023	1,902	187,035	(50,926)	8,789	146,800

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

Balance Sheet

(unaudited)

As at 31 December 2023

	31 December 2023 £'000	30 June 2023 £'000	31 December 2022 £'000
Fixed assets			
Investments at fair value through profit or loss (Note 6)	**208,167**	202,150	207,911
Current assets			
Debtors	**517**	782	488
Cash at bank	**6,030**	2,949	604
	6,547	3,731	1,092
Creditors (amounts falling due within one year)			
Other creditors	**(46)**	(664)	(44)
ZDP Shares (Note 8)	**(59,464)**	–	–
	(59,510)	(664)	(44)
Net current (liabilities)/assets	**(52,963)**	3,067	1,048
Total assets less current liabilities	**155,204**	205,217	208,959
Creditors (amounts falling due after more than one year)			
ZDP Shares (Note 8)	**–**	(58,417)	(57,405)
TOTAL NET ASSETS	**155,204**	146,800	151,554
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	**(41,774)**	(50,926)	(44,124)
Revenue reserve	**8,041**	8,789	6,741
TOTAL SHAREHOLDERS' FUNDS	**155,204**	146,800	151,554
Net Asset Value per Ordinary Share (Note 7)	**81.58p**	77.16p	79.66p
Net Asset Value per ZDP Share (Note 7)	**125.02p**	122.82p	120.69p

Approved and authorised for issue by the Board of Directors on 29 January 2024 and signed on its behalf by:

Angus Gordon Lennox
Chairman

Cash Flow Statement

(unaudited)

For the six months ended 31 December 2023

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000	Year ended 30 June 2023 £'000
Net cash inflow from operating activities	**5,254**	4,648	9,127
Investing activities			
Purchases of investments	**(16,083)**	(25,629)	(36,395)
Sales of investments	**20,192**	25,787	37,655
Cash inflow from investing activities	**4,109**	158	1,260
Financing activities			
Equity dividends paid (Note 4)	**(6,278)**	(5,783)	(9,018)
Interest and fees paid	**(4)**	(9)	(10)
Cash (outflow) from financing activities	**(6,282)**	(5,792)	(9,028)
Change in cash during the period	**3,081**	(986)	1,359
Cash at the start of the period	**2,949**	1,590	1,590
Cash at the end of the period	**6,030**	604	2,949

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). The accounting policies used for the year ended 30 June 2023 have been applied.

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 in the accounting policies note for the year ended 30 June 2023. The Directors' assessment of the basis of going concern considered the implications of the proximity to the planned winding-up date of 1 July 2024 and that Shareholders will have a vote on proposals relating to the Company's planned life, on or within the three months prior to 1 July 2024. The Directors may be released from the obligation to call a general meeting to wind up the Company if a special resolution has been passed to that effect not later than 1 July 2024. The Directors also considered the investment outlook, the objectives of both classes of Shareholder, potential sources of funding to finance the repayment of the entitlement due to the ZDP Shareholders and other future cash flows of the Company. The nature of any proposals that may be presented by the Directors relating to the Company's planned life on which the Shareholders will be required to vote and the outcome of the vote on any such proposals represent a material uncertainty in the context of assessing the prospects of the Company beyond 1 July 2024. This may cast significant doubt on the ability of the Company to continue preparing its financial statements on a going concern basis to the extent that they include, and Shareholders vote for, a winding-up of the Company. If at some point in the future the Directors conclude it is not appropriate to prepare the financial statements on a going concern basis then adjustments would be required to reclassify all assets as current, and a provision for further liabilities, including liquidation costs, would be made. Consideration would also be given to valuing the portfolio on a discounted bid basis to reflect the cost of liquidating the portfolio in a shorter time frame.

The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates. The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period. Given the nature of the Company, the Board does not consider climate change material to the presentation of the financial statements.

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 27.

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.

Notes to the Financial Statements

4. Dividends

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000	Year ended 30 June 2023 £'000
Amounts recognised as distributions to equity holders:			
Second interim dividend of 2.79p for the year ended 30 June 2022 (paid 26/08/2022)	**–**	5,308	5,308
Special dividend of 0.25p for the year ended 30 June 2022 (paid 26/08/2022)	–	475	475
First interim dividend of 1.70p for the year ended 30 June 2023 (paid 08/03/2023)	**–**	–	3,235
Second interim dividend of 3.30p for the year ended 30 June 2023 (paid 31/08/2023)	**6,278**	–	–
Total	**6,278**	5,783	9,018

The first interim dividend for the year ending 30 June 2024 of 2.75p (2023: 1.70p) per Ordinary Share will be paid on 8 March 2024 to holders of Ordinary Shares on the register on 9 February 2024. The ex dividend date is 8 February 2024. The first interim dividend has not been recorded in the financial statements as at 31 December 2023. Deducting the first interim dividend from the Company's revenue reserves at 31 December 2023 leaves revenue reserves equivalent to 1.48p per Ordinary Share.

5. Returns per Share

Period ended:	**31 December 2023**	31 December 2022	30 June 2023
Net return	**£14,682,000**	£18,385,000	£16,866,000
Weighted average Ordinary Shares in issue	**190,250,000**	190,250,000	190,250,000
Return per Ordinary Share	**7.72p**	9.66p	8.87p
Appropriation to ZDP Shares	**£1,047,000**	£1,012,000	£2,024,000
Weighted average ZDP Shares in issue	**47,562,500**	47,562,500	47,562,500
Return per ZDP Share	**2.20p**	2.13p	4.26p

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.

Notes to the Financial Statements

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 2023 are as follows.

	Ordinary Shares	ZDP Shares	Total Assets
Net assets attributable	£155,204,000	£59,464,000	£214,668,000
Number of Shares	190,250,000	47,562,500	237,812,500
NAV per Share (a)	**81.58p**	**125.02p**	**90.27p**
Dividend reinvestment factor[1] (b)	1.376237	–	1.264249
NAV per Share on a total return basis at 31 December 2023 (c) = (a) x (b)	112.27p	125.02p	114.12p
NAV per Share on a total return basis at 30 June 2023 (d)	101.78p	122.82p	105.83p
Total Return performance (c) ÷ (d) - 1	**10.3%**	**1.8%**	**7.8%**

[1] Defined in the Glossary on pages 27 to 28.

8. Zero Dividend Preference Shares

Period ended:	31 December 2023 £'000	30 June 2023 £'000	31 December 2022 £'000
Opening balance	**58,417**	56,393	56,393
Issue costs amortised during the period	**25**	48	24
Capital growth of ZDP Shares	**1,022**	1,976	988
Closing balance	**59,464**	58,417	57,405

9. Share Capital

	31 December 2023 Shares	31 December 2023 £'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 2023 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 year ended 30 June 2023 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 2023 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, 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 planned future payment of capital is discounted to produce an amount equal to the 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

Directors
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