

Half Yearly Report

30 September 2017



SVM UK Emerging Fund plc

HIGHLIGHTS

- Net asset value return of 14.2% compared to a 4.9% return for the IA UK All Companies Sector Average Index and 3.6% return for the FTSE All-Share Index. The share price rose 19.3%.
- Positive contributions from Fevertree Drinks, Burford Capital, Johnson Service Group and Watkin Jones.
- Since the current investment managers took on responsibility for the portfolio in September 2012, net asset value has gained 124.9% against a benchmark return of 55.6%
- The portfolio is focused on medium-sized and smaller growing businesses, where management can deliver growth via self-help.
- Net asset value gained 5.7% in October 2017 to 113.7p.

“Long term capital growth from investments in smaller UK companies. Its aim is to outperform the IA UK All Companies Sector Average Index on a total return basis”

Financial Highlights

Total Return Performance to 30 September 2017	6 months	3 years	5 Years	10 Years
Net Asset Value	+14.2%	+65.2%	+124.9%	+50.5%
Share Price	+15.6%	+52.9%	+95.0%	-1.9%
Benchmark Index *	+4.9%	+29.7%	+55.6%	+4.0%

* The benchmark index for the Fund was changed to the IA UK All Companies Sector Average Index from 1 October 2013 prior to which the FTSE AIM Index was used.

CHAIRMAN'S STATEMENT

After a weak start in April, the UK stockmarket made progress in the period under review. Medium sized and smaller companies outperformed the FTSE 100 Index. Over the six months to 30 September 2017, the Company's net asset value increased by 14.2% to 107.6p per share, compared to a return of 4.9% in the benchmark index, the IA UK All Companies Sector Average Index (total return). Progress continued in October with the Company's net asset value gaining a further 5.7% to 113.7p.

The strongest contributions to performance in the period under review were from Fevertree Drinks, Burford Capital, Johnson Service Group and Watkin Jones. These are growing businesses that operate with innovative strategies. Each has a business model that is scalable, with limited need for additional external capital. For example, Watkin Jones is a specialist property developer and manager, building student accommodation that it sells on to long term investing institutions. It also operates management contracts for the properties on behalf of insurers and pension funds. The main disappointment over the period was Hikma Pharmaceuticals.

During the six months, some profits were taken on investments in the gaming and property sectors. After strong performance, part of the gains in Fevertree Drinks and Micro Focus were also realised. Reinvestment was made in a number of medium sized growing businesses, including; Oxford Instruments, Gamma Communications, Polypipe Group, Sophos, Blue Prism and Moneysupermarket. New smaller company investments included Animalcare Group, Hotel Chocolat and Quixant, a gaming technology business. These portfolio changes increase the emphasis on specialist medium sized and smaller companies addressing growth markets. These businesses operate in niches, generally less exposed to price competition.

The British economy proved relatively resilient despite Brexit uncertainty. Many domestic companies have significant overseas earnings and were helped by the better economic performance of the global economy and, particularly, Continental Europe. UK inflation is higher, putting pressure on real wages, but the rise in employment numbers is maintaining consumption growth. The portfolio continues to have relatively low exposure to banks, oil and gas, and mining. We remain particularly concerned at the longer term outlook for banks and retailing, where there is the potential for disruption by newer business models.

Although monetary policy is likely to tighten in the UK, we expect this to be measured and gradual. UK services show limited pick-up in inflation and sterling has recently been recovering against the US Dollar. This means that the inflation shock from last year's devaluation may not become embedded in wage expectations. Your Managers meetings with investee companies still indicate favourable trading conditions. The portfolio emphasises exposure to scalable businesses with a competitive edge that can deliver above average growth. The Fund remains fully invested, making use of its ability to apply gearing to increase market exposure.

INVESTMENT OBJECTIVE and POLICY

The investment objective of SVM UK Emerging Fund plc (the “Fund” or the “Company”) is long term capital growth from investments in smaller UK companies. Its aim is to outperform the IA UK All Companies Sector Average Index on a total return basis

The Fund aims to achieve its objective and to diversify risk by investing in shares and related instruments, controlled by a number of limits on exposures. Appropriate guidelines for the management of the investments, gearing and financial instruments have been established and are regularly reviewed by the Board. This is an abridged version of the Fund’s investment policy. The full investment policy can be found in the Strategic Report within the Fund’s latest Annual Report & Accounts.

DIRECTORS’ RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Half Yearly Report in accordance with applicable law and regulations.

The Directors confirm that to the best of their knowledge:

- (i) the condensed set of financial statements have been prepared in accordance with the Financial Reporting Council Statement 104 “Interim Financial Reporting” on a going concern basis and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Fund;
- (ii) the Half Yearly Report includes a fair review of the information required by the Disclosure and Transparency Rules DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and DTR 4.2.8R (disclosure of related party transactions and changes therein).

- (iii) No related party transactions have taken place during the first six months of the year that have materially affected the financial position of the Fund during the period and there have been no changes in the related party transactions described in the Annual Report & Accounts for the year end 31 March 2017 that could do so.

The Directors consider that the Half Yearly Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Fund’s performance and strategy,

The Half Yearly Report has not been audited or reviewed by the Fund’s auditors.

By Order of the Board
Peter Dicks
Chairman
28 November 2017

UNAUDITED ACCOUNTS

Income Statement

	Six months to 30 September 2017			Six months to 30 September 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gain on investments at fair value	-	753	753	-	202	202
Income	95	-	95	85	-	85
Investment management fees	-	-	-	-	-	-
Other expenses	(32)	(4)	(36)	(32)	(4)	(36)
Gain before finance costs and taxation	63	749	812	53	198	251
Finance costs	(10)	-	(10)	(9)	-	(9)
Gain on ordinary activities before taxation	53	749	802	44	198	242
Taxation	-	-	-	-	-	-
Gain attributable to ordinary shareholders	53	749	802	44	198	242
Gain per Ordinary Share	0.88p	12.48p	13.36p	0.72p	3.29p	4.01p

	Year ended 31 March 2017 (audited)		
	Revenue £'000	Capital £'000	Total £'000
Net gain on investments at fair value	-	717	717
Income	138	-	138
Investment management fees	-	-	-
Other expenses	(64)	(7)	(71)
Gain before finance costs and taxation	74	710	784
Finance costs	(17)	-	(17)
Gain on ordinary activities before taxation	57	710	767
Taxation	1	-	1
Gain attributable to ordinary shareholders	58	710	768
Gain per Ordinary Share	0.96p	11.82p	12.78p

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

UNAUDITED ACCOUNTS

Balance Sheet

	As at 30 September 2017 (unaudited) £'000	As at 31 March 2017 (audited) £'000	As at 30 September 2016 (unaudited) £'000
Fixed Assets			
Investments at fair value through profit or loss	6,307	5,583	5,001
Total Current Assets	382	254	333
Creditors: amounts falling due within one year	(227)	(177)	(200)
Net current assets	155	77	133
Total assets less current liabilities	6,462	5,660	5,134
Capital and Reserves	6,462	5,660	5,134
Equity shareholders' funds	6,462	5,660	5,134
Net asset value per Ordinary Share	107.61p	94.25p	85.48p

UNAUDITED ACCOUNTS

Statement of Changes in Equity

For the period to 30 September 2017

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
As at 1 April 2017	300	314	5,144	27	311	(436)
Gain attributable to shareholders	-	-	-	-	749	53
As at 30 September 2017	300	314	5,144	27	1,060	(383)

For the year to 31 March 2017

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
As at 1 April 2016	300	314	5,144	27	(399)	(494)
Gain attributable to shareholders	-	-	-	-	710	58
As at 31 March 2017	300	314	5,144	27	311	(436)

For the period to 30 September 2016

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
As at 1 April 2016	300	314	5,144	27	(399)	(494)
Gain attributable to shareholders	-	-	-	-	198	44
As at 30 September 2016	300	314	5,144	27	(201)	(450)

UNAUDITED ACCOUNTS

Condensed Cash Flow Statement

	Six months to 30 September 2017 £'000 (unaudited)	Year to 31 March 2017 £'000 (audited)	Six months to 30 September 2016 £'000 (unaudited)
Operating Activities			
Cash flow from operating activities	3	137	32
Taxation	-	-	-
Investing Activities			
Purchases and sales of fixed asset investments	109	(229)	(102)
Financing Activities			
Finance costs	(10)	(17)	(9)
Movement in cash and cash equivalents	102	(109)	(79)
Cash and cash equivalents at start of period	(7)	102	102
Cash and cash equivalents at end of period	95	(7)	23

UNAUDITED ACCOUNTS

Investment Portfolio as at 30 September 2017

Stock	Market Exposure 2017 £000	% of Net Assets
1 Fevertree Drinks	317	4.9
2 Johnson Service Group	310	4.8
3 4Imprint Group	285	4.3
4 Eve Sleep*	276	4.3
5 Burford Capital	256	4.0
6 GVC Holdings	220	3.4
7 Hutchison China Meditech	194	3.0
8 Redrow*	166	2.6
9 Supergroup*	161	2.5
10 Unite Group	161	2.5
Ten largest investments	2,346	36.3
11 ASOS	159	2.5
12 FDM Group	158	2.4
13 Kerry Group	150	2.3
14 Beazley Group	150	2.3
15 Workspace Group	147	2.3
16 UDG Healthcare	139	2.2
17 Ryanair	139	2.2
18 Watkin Jones	131	2.0
19 GB Group*	131	2.0
20 JD Sports*	110	1.8
Twenty largest investments	3,760	58.3
21 Eco Animal Health Group	113	1.7
22 Hill & Smith	113	1.7
23 Dechra Pharmaceuticals	110	1.7
24 CVS Group	110	1.7
25 Blue Prism	109	1.7
26 Renishaw*	109	1.7
27 Rentokil	108	1.7
28 Premier Technical Services	107	1.7
29 SSP Group	107	1.6
30 Dotdigital	106	1.6
Thirty largest investments	4,852	75.1
Other investments (47 holdings)	3,034	46.9
Total investments	7,886	122.0
CFD positions exposure	(1,792)	(27.7)
CFD unrealised gains	213	3.3
Net current assets	155	2.4
Net assets	6,462	100.0

Sector analysis as at 30 September 2017	% of Gross Exposure
Sector	
Consumer Services	28.8
Consumer Goods	20.1
Industrials	15.2
Financials	12.7
Healthcare	11.5
Technology	10.8
Telecommunications	0.9
Total	100.0

*Includes Contract for Difference (CFD)

Market exposure for equity investments held is the same as fair value and for CFDs held is the market value of the underlying shares to which the portfolio is exposed via the contract.

UNAUDITED ACCOUNTS

Risks and Uncertainties

The principal risks facing the Fund relate to the investment in financial instruments and include market, liquidity, credit and interest rate risk. Additional risks faced by the Fund are investment strategy, share price discount, accounting, legal and regulatory, operational, corporate governance and shareholder relations, and financial. The Board seeks to mitigate and manage these risks through continuous review, policy setting and enforcement of contractual obligations. The Board receives both formal and informal reports from the Managers and third party service providers addressing these risks. An explanation of these risks and how they are mitigated is explained in the 2017 Annual Report, which is available on the Manager's website: www.svmonline.co.uk. These principal risks and uncertainties have not changed from those disclosed in the 2017 Annual Report.

Going Concern

The Board, having made appropriate enquiries, has a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, it continues to adopt the going concern basis in preparing the financial statements.

Notes

1. The Financial Statements have been prepared on a going concern basis in accordance with FRS 102 "Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 104 "Interim Financial Reporting" and under the Association of Investment Companies Statement of Recommended Practice "Financial Statement of Investment Trust Companies and Venture Capital Trusts" issued in 2014, as were the interim financial statements for the period to 30 September 2016. These financial statements have been prepared in accordance with the accounting policies used for the financial year ended 31 March 2017.
2. Return per share is based on a weighted average of 6,005,000 (2016 – 6,005,000) ordinary shares in issue during the period.

Total return per share is based on the total gain for the period of £802,000 (2016 – gain of £242,000). Capital return per share is based on the capital gain for the period of £749,000 (2016 – gain of £198,000). Revenue return per share is based on the revenue gain after taxation for the period of £53,000 (2016 -gain of £44,000).

The number of shares in issue at 30 September 2017 was 6,005,000 (2016 – 6,005,000).

3. All investments are held at fair value. At 30 September 2017 no unlisted investments were held with value attributed (31 March 2017: same; 30 September 2016: same).

Investments have been classified using the fair value hierarchy:

	September 2017 £000	March 2017 £000
<i>Classification of financial instruments</i>		
Level 1	6,094	5,472
Level 2	213	111
Level 3 – 2 investments (March 2017 – 2)	-	-

Level 1 reflects financial instruments quoted in an active market.

UNAUDITED ACCOUNTS

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets. The CFD positions are the sole Level 2 investments at 30 September 2017 and 31 March 2017

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

4. The Board has granted the Manager a limited authority to invest in CFDs to achieve some degree of gearing and/or hedging without incurring the gross cost of the investment. The Board requires the Manager to operate within certain risk limits, as detailed in the Annual Report. The following table details the CFD positions:

Number of CFD holdings at 30 September 2017: 21 (31 March 2017: 16)

CFD positions	September 2017 £000	March 2017 £000
Gross exposure	1,792	1,342
Net exposure	1,792	1,342
Unrealised gains	213	111
Unrealised losses	216	132

The gearing ratio is 24.0% at 30 September 2017 (31 March 2017: 23.8%). The gearing figure indicates the extra amount by which the shareholders' funds would change if total assets (including CFD position exposure and netting off cash and cash equivalents) were to rise or fall. A figure of zero per cent means that the Company has a nil geared position.

5. The Manager has waived its fees for the periods to 30 September 2017 and 2016.
6. The above figures do not constitute full or statutory accounts in terms of Sections 434 and 435 of the Companies Act 2006. All information shown for the six months to 30 September 2017 is unaudited. The accounts for the year to 31 March 2017, on which the auditors issued an unqualified report, have been lodged with the Registrar of Companies and did not contain a statement required under Section 498 of the Companies Act 2006.

CORPORATE INFORMATION

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Richard Bernstein
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