

Half Yearly Report

30 September 2019



SVM UK Emerging Fund plc

HIGHLIGHTS

- Net asset value return of 1.3% compared to a 5.0% return in the IA UK All Companies Sector Average Index and 4.6% return in the FTSE All-Share Index. The share price rose 3.6%.
- Over the five years to 30 September 2019, net asset value gained 71% and the share price 70.6%, against a benchmark return of 38.8%.
- At 31 October 2019, net asset value per share had risen to 112.5p.
- Positive contributions from JD Sports Fashion, 4Imprint Group, Unite Group and GVC Holdings. Burford Capital was the main negative in the six months.
- Portfolio emphasises exposure to scalable businesses with a competitive edge that can protect margins and deliver growth.

“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 2019	6 months	3 years	5 Years	10 Years
Net Asset Value	+1.3%	+30.5%	+71.2%	+79.4%
Share Price	+3.6%	+34.9%	+70.6%	+64.2%
Benchmark Index *	+5.0%	+20.3%	+37.1%	+84.4%

* 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

In the period under review, medium sized and smaller companies lagged the FTSE 100 Index, providing a headwind for the portfolio. This pattern appeared to reflect Brexit uncertainty. Over the six months to 30 September 2019, the Company's net asset value gained 1.2% to 111.4p per share, compared to a return of 4.9% in the benchmark, the IA UK All Companies Sector Average Index. Over the six months, the share price rose 3.6%. Over the five years to 30 September 2019, net asset value has gained 71% and the share price 70.6%, against a benchmark return of 38.8%. The Company's net asset value progressed since the period under review to 112.5p at 31 October 2019.

The strongest contributions to performance over the six months were from JD Sports Fashion, 4Imprint Group, Unite Group and GVC Holdings. The main disappointment over the period was Burford Capital, which was sold to realise a gain for the Fund. New investments were made in AJ Bell, Experian and new issue, Trainline. Trainline has moved in recent years from a purely UK ticketing platform to expand operations into Europe and the US. To fund these, sales were made of Hargreaves Lansdown, Tui Travel, UDG Healthcare, ITV and ASOS.

The six months showed no real progress on Brexit or US/China trade frictions. International investors continued to reduce UK exposure, and the Pound was weak. Outside the US and UK, a disinflationary pattern persists. The Woodford fund liquidity problems and some other UK equity fund realisations have pushed down a number of shares of medium sized and smaller companies. However, the UK has seen increased bid activity, particularly from foreign buyers. The weaker Pound has lifted inflation and also real wage growth. Many domestic service sectors are helped by this improvement in UK consumer spending power.

The businesses that handle Brexit and trade frictions best are likely to be those already winning against tough global competition. A number of mid-cap companies stand out, with high value-added in supplying major global customers. AB Dynamics, for example, designs and supplies advanced testing products for the automotive industry, with a number of major manufacturers as clients. These close relationships with auto groups should represent an entry barrier. The UK has many listed businesses with global strengths in industrial technologies. Those focusing on B2B strategies and high value-added services, may be less exposed to trade friction than direct-to-consumer businesses.

Jeremy Harris joined the Board in August. Jeremy brings financial services, legal and governance experience to the Board and on behalf of the Directors, I welcome him. I would like also to thank Richard Bernstein, who has stepped down as a non-executive Director of the Company, for his invaluable contribution to the Company since its formation.

The UK stockmarket and the pound are still affected by considerable pessimism. The Fund remains fully invested with some additional gearing, but has low exposure to some more economically-sensitive sectors such as mining and banking.

Peter Dicks
Chairman

8 November 2019

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 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) During the first six months of the year, Peter Dicks, Chairman, purchased 25,000 shares at a price of 86.5p per share. No other 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 2019 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
8 November 2019

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Income Statement

	Six months to 30 September 2019			Six months to 30 September 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gain on investments at fair value	-	73	73	-	950	950
Income	94	-	94	86	-	86
Investment management fees	-	(26)	(26)	-	-	-
Other expenses	(45)	-	(45)	(32)	-	(32)
Gain before finance costs and taxation	49	47	96	54	950	1,004
Finance costs	(11)	-	(11)	(22)	-	(22)
Gain on ordinary activities before taxation	38	47	85	32	950	982
Taxation	-	-	-	(2)	-	(2)
Gain attributable to ordinary shareholders	38	47	85	30	950	980
Gain per Ordinary Share	0.63p	0.78p	1.41p	0.50p	15.82p	16.32p

	Year ended 31 March 2019 (audited)		
	Revenue £'000	Capital £'000	Total £'000
Net loss on investments at fair value	-	(106)	(106)
Income	143	-	143
Investment management fees	-	(24)	(24)
Other expenses	(104)	-	(104)
Gain/(loss) before finance costs and taxation	39	(130)	(91)
Finance costs	(26)	-	(26)
Gain/(loss) on ordinary activities before taxation	13	(130)	(117)
Taxation	(3)	-	(3)
Gain/(loss) attributable to ordinary shareholders	10	(130)	(120)
Gain per Ordinary Share	0.17p	(2.17)p	(2.00)p

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.

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Balance Sheet

	As at 30 September 2019 (unaudited) £'000	As at 31 March 2019 (audited) £'000	As at 30 September 2018 (unaudited) £'000
Fixed Assets			
Investments at fair value through profit or loss	6,668	6,437	7,435
Total Current Assets	138	306	376
Creditors: amounts falling due within one year	(121)	(134)	(102)
Net current assets	17	172	274
Total assets less current liabilities	6,685	6,609	7,709
Capital and Reserves	6,685	6,609	7,709
Equity shareholders' funds	6,685	6,609	7,709
Net asset value per Ordinary Share	111.51p	110.06p	128.38p

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Statement of Changes in Equity

For the period to 30 September 2019

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2019	300	314	5,144	27	1,193	(369)	6,609
Ordinary shares bought back during the period and held in treasury	-	-	(9)	-	-	-	(9)
Gain attributable to shareholders	-	-	-	-	47	38	85
As at 30 September 2019	300	314	5,135	27	1,240	(331)	6,685

For the year to 31 March 2019

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2018	300	314	5,144	27	1,323	(379)	6,729
(Loss)/gain attributable to shareholders	-	-	-	-	(130)	10	(120)
As at 31 March 2019	300	314	5,144	27	1,193	(369)	6,609

For the period to 30 September 2018

	Share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2018	300	314	5,144	27	1,323	(379)	6,729
Gain attributable to shareholders	-	-	-	-	950	30	980
As at 30 September 2018	300	314	5,144	27	2,273	(349)	7,709

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Investment Portfolio as at 30 September 2019

Stock	Market Exposure 2019 £000	% of Net Assets
1 4Imprint Group	362	5.4
2 Unite Group	345	5.2
3 Fevertree Drinks	269	4.0
4 Learning Technologies *	248	3.7
5 JD Sports Fashion *	238	3.6
6 Workspace Group	223	3.3
7 Hilton Food Group	217	3.2
8 Rentokil Initial	210	3.1
9 Johnson Service Group	200	3.0
10 GVC Holdings	199	3.0
Ten largest investments	2,511	37.5
11 Kerry Group	198	3.0
12 Beazley	195	2.9
13 GB Group *	194	2.9
14 DiscoverIE Group *	176	2.7
15 Dechra Pharmaceuticals	158	2.4
16 Manolete Partners	153	2.3
17 Ocado	152	2.3
18 Knights	150	2.2
19 Hutchison China Meditech	137	2.0
20 Experian	130	1.9
Twenty largest investments	4,154	62.1
21 Keystone Law Group	125	1.9
22 Aquis Exchange	125	1.9
23 Applegreen *	124	1.9
24 FDM Group	122	1.8
25 SSP Group	113	1.7
26 Blue Prism Group	110	1.6
27 Gamma Communications	109	1.6
28 Burford Capital	104	1.6
29 Cineworld Group	104	1.6
30 Whitbread *	94	1.4
Thirty largest investments	5,284	79.1
Other investments (41 holdings)	2,594	38.7
Total investments	7,878	117.8
CFD positions exposure	(1,397)	(20.9)
CFD unrealised gains	187	2.8
Net current assets	17	0.3
Net assets	6,685	100.0

Sector analysis as at 30 September 2019	% of Gross Exposure
Sector	
Consumer Services	26.8
Financials	21.6
Technology	17.1
Industrials	14.6
Consumer Goods	11.3
Healthcare	7.2
Telecommunications	1.4
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.

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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 2019 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 2019 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 2018. The requirements have been met to qualify for the exemption to prepare a Cash Flow Statement, this has therefore been removed. These financial statements have been prepared in accordance with the accounting policies used for the financial year ended 31 March 2019.
2. During the period 10,000 Ordinary Shares with a nominal value of £500 and representing 0.17% of the issued share capital were bought back and placed in treasury for an aggregate consideration of £8,650 (2018 – nil shares, £nil).

The number of shares in issue at 30 September 2019 was 5,995,000 (2018 – 6,005,000).

Return per share is based on a weighted average of 6,004,672 (2018 – 6,005,000) ordinary shares in issue during the period.

Total return per share is based on the total gain for the period of £85,000 (2018 – gain of £980,000). Capital return per share is based on the capital gain for the period of £47,000 (2018 – gain of £950,000). Revenue return per share is based on the revenue gain after taxation for the period of £38,000 (2018 - gain of £30,000).

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3. All investments are held at fair value. At 30 September 2019 no unlisted investments were held with value attributed (31 March 2019: same; 30 September 2018: same).

Investments have been classified using the fair value hierarchy:

	September 2019 £000	March 2019 £000
<i>Classification of financial instruments</i>		
Level 1	6,481	6,417
Level 2	187	20
Level 3 – 2 investments (March 2019 – 2)	-	-

Level 1 reflects financial instruments quoted in an active market.

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 include only data from observable markets. The CFD positions are the sole Level 2 investments at 30 September 2019 and 31 March 2019.

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 2019: 15 (31 March 2019: 17)

CFD positions	September 2019 £000	March 2019 £000
Gross exposure	1,397	1,332
Net exposure	1,397	1,332
Unrealised gains	187	20
Unrealised losses	61	58

The gearing ratio is 21.1% at 30 September 2019 (31 March 2019: 20.3%). 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. SVM Asset Management Limited provides investment management and secretarial services to the Fund. The Manager is entitled to a fee for these services, payable quarterly in arrears, equivalent to 0.75% per annum of the total assets of the Fund, less current liabilities. The Manager waived its management fees for the six months to 30 September 2018. The Board made the decision to re-instate the Investment Management Fee Agreement with effect from 1 October 2018.
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 2019 is

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unaudited. The accounts for the year to 31 March 2019, 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

Directors

Peter Dicks (Chairman)
Richard Bernstein (resigned wef 15 August 2019)
Jeremy Harris (appointed wef 15 August 2019)
Anthony Puckridge

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