

# Half Yearly Report

## 30 September 2018



# SVM UK Emerging Fund plc

ACTIVE STOCKPICKERS



**SVM UK EMERGING FUND PLC**  
**(the "Fund")**  
**HALF YEARLY REPORT**  
**(FOR THE SIX MONTHS TO 30 SEPTEMBER 2018)**

A copy of the Half Yearly Report will be available to download from the Manager's website at [www.svmonline.co.uk](http://www.svmonline.co.uk) and a copy will shortly be available for inspection at the National Storage Mechanism at [www.morningstar.co.uk/uk/nsm](http://www.morningstar.co.uk/uk/nsm). Copies are also available at 7 Castle Street, Edinburgh EH2 3AH, the registered office of the Fund.

## HIGHLIGHTS

- Net asset value return of 14.6% compared to a 7.9% return in the IA UK All Companies Sector Average Index and 8.3% return in the FTSE All-Share Index. The share price rose 38.9%.
- Positive contributions from Dechra Pharmaceuticals, Watkin Jones, GVC and Hutchison China Meditech.
- Since the current investment managers took on responsibility for the portfolio in September 2012, net asset value has gained 168.4% against a benchmark return of 64.4%
- The portfolio is focused on medium-sized and smaller growing businesses, where management can deliver growth via self-help.
- At 15 November 2018 net asset value was 110.9p.

*"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

| <b>Total Return Performance to 30 September 2018</b> | <b>6 months</b> | <b>3 years</b> | <b>5 Years</b> | <b>10 Years</b> |
|--|-----------------|----------------|----------------|-----------------|
| Net Asset Value                                      | +14.6%          | +60.8%         | +101.1%        | +161.8%         |
| Share Price  | +38.9%          | +106.6%        | +126.2%        | 94.6%           |
| Benchmark Index *                                    | +7.9%           | +34.6%         | +45.1%         | +94.5%          |

\* 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, small and medium sized companies outperformed the FTSE 100 Index, which helped the Fund's performance. Over the six months to 30 September 2013, the Company's net asset value increased by 14.6% to 128.4p per share, compared to a return of 7.9% in the benchmark index, the IA UK All Companies Sector Average Index (total return). The subsequent market setback in October, however, brought the Company's net asset value down to 110.4p.

The strongest contributions to performance over the six months came from Dechra Pharmaceuticals, Watkins Jones and Hutchison China Medical. These are all growing businesses which operate with innovative strategies. Each has a business model that is scalable, with limited need for additional external capital. The main disappointment over the period was Hostelworld.

A number of portfolio stocks that were hardest hit since the end of August were also those that have still performed well for the year to date. Profit taking is a stock market pattern from time to time. These stocks include Burford, Fevertree Drinks and JD Sports Fashion. The Managers believe that these companies are best in class in their sector, giving them better profit margins and superior growth prospects. A number of less well researched stocks were also weaker performers, including urban regeneration specialist, Sigma Capital and Mortgage Advice Bureau, but the Managers believe these companies have the potential to grow from their current niches into substantial businesses since they possess a clear competitive edge. Most are capital-lite and cash generative, so should not need distress fundraisings.

The portfolio has low exposure to some areas of cyclical risk, such as banks, mining and industrials, which may be more challenged in any slowdown. Many of the portfolio companies operate in a niche where there is an ongoing need for business investment, or which benefit from a change in consumer demand. For many of these, such as Burford, JD Sports Fashion and Fevertree Drinks, this is not primarily based on technology. Quite a number of these businesses have considerable US potential, such as Applegreen (filling stations and food) and GVC (US gambling liberalisation). One area of portfolio emphasis that has been unhelpful recently is travel, but these holdings should be helped by the pick-up in real wage growth in the UK.

After good performance, the gains in Redrow, Mattioli Woods, Dotdigital Group, Johnson Service and Severfield were realised. Reinvestment was made into a number of growing businesses, including Ocado and Draper Esprit. New, smaller company, investments include Team 17, Scancell, Nucleus Financial Group and Aquis Exchange. These portfolio changes increase the emphasis on specialist medium and smaller size companies addressing growth markets.

The Board reviewed its fee arrangements in September and made the decision to re-instate the Investment Management Agreement Fee, payable with effect from 1 October 2018, under the terms set out in the Investment Management Agreement. The Board also accepted the Manager's request to delete reference to payment of an incentive fee. SVM Asset Management Limited provides management and secretarial services to the Company and is entitled to a fee for these services, payable quarterly in arrears equivalent to 0.75% per annum (plus VAT) of the total assets of the Company, less current liabilities.

In addition, the Company approved changes to the Director's fees. Non-executive Directors are not eligible for bonuses, pension benefits or other benefits. The revised fees are now at the original levels set at the inception of the Fund, being £10,000 for the Chairman and £7,500 for each of the non-executive directors.

The portfolio emphasises exposure to scalable businesses with a competitive edge that can deliver above average growth. The Fund remains fully invested and is currently making use of its ability to apply gearing to increase its 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 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 2018 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  
16 November 2018

## UNAUDITED ACCOUNTS

### Income Statement

|  | Six months to 30 September<br>2018 |                  |                | Six months to 30 September<br>2017 |                  |                |
|--|------------------------------------|------------------|----------------|------------------------------------|------------------|----------------|
|  | Revenue<br>£'000                   | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                   | Capital<br>£'000 | Total<br>£'000 |
| Net gain on investments at fair value                  | -                                  | 950              | 950            | -                                  | 753              | 753            |
| Income   | 86                                 | -                | 86             | 95                                 | -                | 95             |
| Investment management fees                             | -                                  | -                | -              | -                                  | -                | -              |
| Other expenses   | (32)                               | -                | (32)           | (32)                               | (4)              | (36)           |
| <b>Gain before finance costs and<br/>taxation</b>      | <b>54</b>                          | <b>950</b>       | <b>1,004</b>   | 63                                 | 749              | 812            |
| Finance costs  | (22)                               | -                | (22)           | (10)                               | -                | (10)           |
| <b>Gain on ordinary activities before<br/>taxation</b> | <b>32</b>                          | <b>950</b>       | <b>982</b>     | 53                                 | 749              | 802            |
| Taxation   | (2)                                | -                | (2)            | -                                  | -                | -              |
| <b>Gain attributable to ordinary<br/>shareholders</b>  | <b>30</b>                          | <b>950</b>       | <b>980</b>     | 53                                 | 749              | 802            |
| <b>Gain per Ordinary Share</b>                         | <b>0.50p</b>                       | <b>15.82p</b>    | <b>16.32p</b>  | 0.88p                              | 12.48p           | 13.36p         |

|  | Year ended 31 March 2018<br>(audited) |                  |                |
|--|---------------------------------------|------------------|----------------|
|  | Revenue<br>£'000                      | Capital<br>£'000 | Total<br>£'000 |
| Net gain on investments at fair value                  | -                                     | 1,019            | 1,019          |
| Income   | 141                                   | -                | 141            |
| Investment management fees                             | -                                     | -                | -              |
| Other expenses   | (62)                                  | (7)              | (69)           |
| <b>Gain before finance costs and<br/>taxation</b>      | <b>79</b>                             | <b>1,012</b>     | <b>1,091</b>   |
| Finance costs  | (23)                                  | -                | (23)           |
| <b>Gain on ordinary activities before<br/>taxation</b> | <b>56</b>                             | <b>1,012</b>     | <b>1,068</b>   |
| Taxation   | 1                                     | -                | 1              |
| <b>Gain attributable to ordinary<br/>shareholders</b>  | <b>57</b>                             | <b>1,012</b>     | <b>1,069</b>   |
| <b>Gain per Ordinary Share</b>                         | <b>0.94p</b>                          | <b>16.83p</b>    | <b>17.77p</b>  |

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

|   | <b>As at<br/>30 September<br/>2018<br/>(unaudited)<br/>£'000</b> | <b>As at<br/>31 March<br/>2018<br/>(audited)<br/>£'000</b> | <b>As at<br/>30 September<br/>2017<br/>(unaudited)<br/>£'000</b> |
|---|--|--|--|
| <b>Fixed Assets</b>                                   |  |  |  |
| Investments at fair value through profit or loss      | 7,435  | 6,480  | 6,307  |
| <b>Total Current Assets</b>                           | <b>376</b>   | 435  | 382  |
| <b>Creditors: amounts falling due within one year</b> | <b>(102)</b>   | (186)  | (227)  |
| <b>Net current assets</b>                             | <b>274</b>   | 249  | 155  |
| <b>Total assets less current liabilities</b>          | <b>7,709</b>   | 6,729  | 6,462  |
| <b>Capital and Reserves</b>                           | <b>7,709</b>   | 6,729  | 6,462  |
| <b>Equity shareholders' funds</b>                     | <b>7,709</b>   | 6,729  | 6,462  |
| <b>Net asset value per Ordinary Share</b>             | <b>128.38p</b>   | 112.05p  | 107.61p  |

## UNAUDITED ACCOUNTS

### Statement of Changes in Equity

For the period to 30 September 2018

|                                   | Share capital<br>£'000 | Share premium<br>£'000 | Special reserve<br>£'000 | Capital redemption reserve<br>£'000 | Capital reserve<br>£'000 | Revenue reserve<br>£'000 |
|-----------------------------------|------------------------|------------------------|--------------------------|-------------------------------------|--------------------------|--------------------------|
| As at 1 April 2018                | 300                    | 314                    | 5,144                    | 27                                  | 1,323                    | (379)                    |
| Gain attributable to shareholders | -                      | -                      | -                        | -                                   | 950                      | 30                       |
| <b>As at 30 September 2018</b>    | <b>300</b>             | <b>314</b>             | <b>5,144</b>             | <b>27</b>                           | <b>2,273</b>             | <b>(349)</b>             |

For the year to 31 March 2018

|                                   | Share capital<br>£'000 | Share premium<br>£'000 | Special reserve<br>£'000 | Capital redemption reserve<br>£'000 | Capital reserve<br>£'000 | Revenue reserve<br>£'000 |
|-----------------------------------|------------------------|------------------------|--------------------------|-------------------------------------|--------------------------|--------------------------|
| As at 1 April 2017                | 300                    | 314                    | 5,144                    | 27                                  | 311                      | (436)                    |
| Gain attributable to shareholders | -                      | -                      | -                        | -                                   | 1,012                    | 57                       |
| As at 31 March 2018               | 300                    | 314                    | 5,144                    | 27                                  | 1,323                    | (379)                    |

For the period to 30 September 2017

|                                   | Share capital<br>£'000 | Share premium<br>£'000 | Special reserve<br>£'000 | Capital redemption reserve<br>£'000 | Capital reserve<br>£'000 | Revenue reserve<br>£'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)                    |



## UNAUDITED ACCOUNTS

### Investment Portfolio as at 30 September 2018

| Stock                                  | Market Exposure<br>2018<br>£000 | % of Net Assets |
|--|---------------------------------|-----------------|
| 1 Fevertree Drinks                     | 400                             | 5.2             |
| 2 Burford Capital                      | 372                             | 4.8             |
| 3 Learning Technologies Group          | 364                             | 4.7             |
| 4 Blue Prism Group                     | 274                             | 3.6             |
| 5 Unite Group                          | 253                             | 3.3             |
| 6 GVC Holdings                         | 246                             | 3.2             |
| 7 4Imprint Group                       | 240                             | 3.1             |
| 8 Hutchison China Meditech             | 232                             | 3.0             |
| 9 Workspace Group                      | 228                             | 3.0             |
| 10 Hilton Food Group                   | 212                             | 2.8             |
| <b>Ten largest investments</b>         | <b>2,821</b>                    | <b>36.7</b>     |
| 11 GB Group*                           | 208                             | 2.7             |
| 12 Beazley                             | 179                             | 2.3             |
| 13 Kerry Group                         | 177                             | 2.3             |
| 14 FDM Group                           | 160                             | 2.1             |
| 15 Zoo Digital Group                   | 159                             | 2.1             |
| 16 DiscoverIE Group*                   | 157                             | 2.0             |
| 17 Johnson Service Group               | 155                             | 2.0             |
| 18 ASOS                                | 154                             | 2.0             |
| 19 Learning Technologies*              | 149                             | 1.9             |
| 20 K3 Capital Group                    | 147                             | 1.9             |
| <b>Twenty largest investments</b>      | <b>4,466</b>                    | <b>58.0</b>     |
| 21 Applegreen                          | 146                             | 1.9             |
| 22 JD Sports Fashion*                  | 146                             | 1.9             |
| 23 Cineworld Group                     | 144                             | 1.9             |
| 24 Rentokil Initial                    | 143                             | 1.8             |
| 25 SSP Group                           | 139                             | 1.8             |
| 26 Hostelworld Group                   | 128                             | 1.7             |
| 27 Dechra Pharmaceuticals              | 124                             | 1.6             |
| 28 Imimobile                           | 119                             | 1.5             |
| 29 Watkin Jones                        | 117                             | 1.5             |
| 30 UDG Healthcare                      | 112                             | 1.4             |
| <b>Thirty largest investments</b>      | <b>5,784</b>                    | <b>75.0</b>     |
| <b>Other investments (33 holdings)</b> | <b>3,514</b>                    | <b>45.6</b>     |
| <b>Total investments</b>               | <b>9,298</b>                    | <b>120.6</b>    |
| <b>CFD positions exposure</b>          | <b>(1,916)</b>                  | <b>(24.9)</b>   |
| <b>CFD unrealised gains</b>            | <b>53</b>                       | <b>0.7</b>      |
| <b>Net current assets</b>              | <b>274</b>                      | <b>3.6</b>      |
| <b>Net assets</b>                      | <b>7,709</b>                    | <b>100.0</b>    |

| Sector analysis as at 30 September 2018 | % of Gross Exposure |
|---|---------------------|
| <b>Sector</b>                           |                     |
| Consumer Goods                          | 23.3                |
| Consumer Services                       | 19.8                |
| Financials                              | 19.1                |
| Healthcare                              | 14.5                |
| Industrials                             | 12.8                |
| Technology                              | 9.6                 |
| Telecommunications                      | 0.9                 |
| <b>Total</b>                            | <b>100.0</b>        |

\*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 2018 Annual Report, which is available on the Manager's website: [www.svmonline.co.uk](http://www.svmonline.co.uk). These principal risks and uncertainties have not changed from those disclosed in the 2018 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

- 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 2017. 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 2018.
- Return per share is based on a weighted average of 6,005,000 (2017 – 6,005,000) ordinary shares in issue during the period.

Total return per share is based on the total gain for the period of £980,000 (2017 – gain of £802,000). Capital return per share is based on the capital gain for the period of £950,000 (2017 – gain of £749,000). Revenue return per share is based on the revenue gain after taxation for the period of £30,000 (2017 - gain of £53,000).

The number of shares in issue at 30 September 2018 was 6,005,000 (2017 – 6,005,000).

- All investments are held at fair value. At 30 September 2018 no unlisted investments were held with value attributed (31 March 2018: same; 30 September 2017: same).

Investments have been classified using the fair value hierarchy:

|  | <b>September<br/>2018<br/>£000</b> | March<br>2018<br>£000 |
|--|------------------------------------|-----------------------|
| <i>Classification of financial instruments</i> |                                    |                       |
| Level 1  | <b>7,382</b>                       | 6,464                 |
| Level 2  | <b>53</b>                          | 16                    |
| Level 3 – 2 investments (March 2018 – 2)       | -                                  | -                     |

## UNAUDITED ACCOUNTS

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 includes only data from observable markets. The CFD positions are the sole Level 2 investments at 30 September 2018 and 31 March 2018

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.

- 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 2018: 22 (31 March 2018: 20)

| <b>CFD positions</b> | <b>September<br/>2018</b> | March<br>2018 |
|----------------------|---------------------------|---------------|
|                      | <b>£000</b>               | £000          |
| Gross exposure       | <b>1,916</b>              | 1,668         |
| Net exposure         | <b>1,916</b>              | 1,668         |
| Unrealised gains     | <b>53</b>                 | 16            |
| Unrealised losses    | <b>113</b>                | 98            |

The gearing ratio is 24.9% at 30 September 2018 (31 March 2018: 25.6%). 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.

- The Manager has waived its fees for the periods to 30 September 2018 and 2017.
- 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 2018 is unaudited. The accounts for the year to 31 March 2018, 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  
Anthony Puckridge

### Investment Manager, Secretary and Registered Office

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### Auditor

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### Custodians

State Street Bank & Trust Company

### Registered Number

SC211841

### Company Website

[www.svmonline.co.uk](http://www.svmonline.co.uk)