

SVM UK Emerging Fund plc



September 2020
Half Yearly Report

HIGHLIGHTS

- Net asset value return of 28.4% compared to a 12.8% return in the IA UK All Companies Sector Average Index and 7% return in the FTSE All-Share Index. The share price rose 1.4%.
- Over the five years to 30 September 2020, net asset value gained 31.4% and the share price 17.4%, against a benchmark return of 17.0%.
- At 31 October 2020, net asset value was 104.71p
- Positive contributions from Ocado, 4Imprint Group, Games Workshop and Gamma Communications
- 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 2020	6 months	3 years	5 Years	10 Years
Net Asset Value	+28.4%	-2.5%	+31.4%	+51.7%
Share Price	+1.4%	-11.8%	+17.4%	+44.9%
Benchmark Index *	+12.8%	-8.2%	+17.0%	+31.0%

* 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

Over the six months to 30 September 2020, the Company's net asset value gained 28.4% to 105.0p per share, compared to a return of 12.8% in the benchmark, the IA UK All Companies Sector Average Index. Over the six months, the share price rose 1.4%. Over the five years to 30 September 2020, net asset value has gained 31.4% and the share price 17.4%, against a benchmark return of 17.0%. The Company's net asset value was 104.71p at 31 October 2020 (total return, Lipper data).

The period under review began after a sharp stockmarket fall, resulting from the disruption caused by COVID-19, but over the six months many shares rebounded. Most portfolio investments rose following government and Bank of England support for the worst hit sectors. Higher unemployment remains a risk for the UK economy; lower inflation and interest rates are now likely. More recently, market concerns with regard to a successful Brexit have resurfaced.

The strongest contributions to performance over the period were from Ocado, 4Imprint Group, Rentokil Initial, Games Workshop and Gamma Communications. Laggards included Workspace Group, Beazley and Creo Medical Group. During the six months, travel and property sector exposure was reduced; EasyJet, Trainline, Workspace, IWG and WH Smith were sold. New investments were made in manufacturing and industrial services; Avon Rubber, Aveva, and DiscoverIE Group. We expect many businesses to increase focus on resilience and sustainability; shortening supply chains and strengthening their online capability.

The investment strategy of the Company involves focusing on growing businesses benefiting from structural change in the economy. Typically, these have pricing power within their chosen niche. Companies that were already well invested in technology and able to make good use of customer data have seen an acceleration of change this year. Businesses are demanding more enterprise support services, assisting cloud data, mobile services and virtual operations. Suppliers of these technologies were typically already disrupters in their sectors and have proven their agility in offering differentiated services in scalable ways.

The crisis has heightened the contrast between legacy businesses and well-adapted agile disruptors. Changes in tastes are often slow to evolve, but persistent once set. At the centre of this trend is a shift in sentiment to the home environment and wellbeing. This investment theme could shape the economy for some time and the portfolio includes a number of businesses expected to benefit from these trends.

The portfolio focuses on resilient growing businesses, with low exposure to commodities, oil and banks. These are typically scalable businesses with a competitive edge. The Fund remains fully invested with some additional gearing.

Peter Dicks

Chairman

6 November 2020

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, taking in to account guidance on Covid-19, 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 2020 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
6 November 2020

UNAUDITED ACCOUNTS

Income Statement

	Six months to 30 September 2020			Six months to 30 September 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gain on investments at fair value	-	1,464	1,464	-	73	73
Income	20	-	20	94	-	94
Investment management fees	-	(22)	(22)	-	(26)	(26)
Other expenses	(73)	-	(73)	(45)	-	(45)
(Loss)/gain before finance costs and taxation	(53)	1,442	1,389	49	47	96
Finance costs	(5)	-	(5)	(11)	-	(11)
(Loss)/gain on ordinary activities before taxation	(58)	1,442	1,384	38	47	85
Taxation	-	-	-	-	-	-
(Loss)/Gain attributable to ordinary shareholders	(58)	1,442	1,384	38	47	85
(Loss)/Gain per Ordinary Share	(0.96)p	24.05p	23.09p	0.63p	0.78p	1.41p

	Year ended 31 March 2020 (audited)		
	Revenue £'000	Capital £'000	Total £'000
Net loss on investments at fair value	-	(1,633)	(1,633)
Income	137	-	137
Investment management fees	-	(52)	(52)
Other expenses	(120)	-	(120)
Gain/(loss) before finance costs and taxation	17	(1,685)	(1,668)
Finance costs	(24)	-	(24)
Loss on ordinary activities before taxation	(7)	(1,685)	(1,692)
Taxation	-	-	-
Loss attributable to ordinary shareholders	(7)	(1,685)	(1,692)
Loss per Ordinary Share	(0.12)p	(28.08)p	(28.20)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 2020 (unaudited) £'000	As at 31 March 2020 (audited) £'000	As at 30 September 2019 (unaudited) £'000
Fixed Assets			
Investments at fair value through profit or loss	6,278	4,463	6,668
Total Current Assets	227	745	138
Creditors: amounts falling due within one year	(212)	(299)	(121)
Net current assets	15	(446)	17
Total assets less current liabilities	6,293	4,909	6,685
Capital and Reserves	6,293	4,909	6,685
Equity shareholders' funds	6,293	4,909	6,685
Net asset value per Ordinary Share	104.97p	81.88p	111.51p

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Statement of Changes in Equity

For the period to 30 September 2020

	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 2020	300	314	5,136	27	(492)	(376)	(4,909)
Gain/(Loss) attributable to shareholders	-	-	-	-	1,442	(58)	1,384
As at 30 September 2020	300	314	5,136	27	950	(434)	6,293

For the year to 31 March 2020

	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 repurchased	-	-	(8)	-	-	-	(8)
Loss attributable to shareholders	-	-	-	-	(1,685)	(7)	(1,692)
As at 31 March 2020	300	314	5,136	27	(492)	(376)	4,909

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 repurchased	-	-	(9)	-	-	-	(9)
Gain attributable to shareholders	-	-	-	-	47	38	85
As at 30 September 2019	300	314	5,135	27	1,240	(331)	6,685

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Investment Portfolio as at 30 September 2020

Stock	Market Exposure 2020 £000	% of Net Assets
1 Ocado Group	343	5.5
2 Hilton Food Group	261	4.1
3 Rentokil Initial	241	3.8
4 Unite Group	231	3.6
5 Alpha Financial Markets	211	3.4
6 Knights Group	208	3.3
7 Dechra Pharmaceuticals	192	3.1
8 Gamma Communications	179	2.8
9 4Imprint Group	177	2.8
10 FDM Group Holdings	168	2.7
Ten largest investments	2,211	35.1
11 JD Sports Fashion *	152	2.4
12 Games Workshop Group	148	2.4
13 Experian	146	2.3
14 Renishaw *	128	2.0
15 Codemasters	127	2.0
16 Learning Technologies Group	126	2.0
17 Just Eat Takeaway *	123	2.0
18 Keystone Law Group	120	1.9
19 Ceres Power Holdings	117	1.9
20 Draper Espirit	116	1.8
Twenty largest investments	3,514	55.8
21 Flutter Entertainment *	116	1.8
22 XP Power	111	1.8
23 Globaldata	107	1.7
24 Johnson Service Group	103	1.6
25 Computacenter	98	1.6
26 Manolete Partners	98	1.6
27 Dunelm Group	98	1.6
28 Asos *	97	1.5
29 Beazley Group	96	1.5
30 Team17 Group	92	1.5
Thirty largest investments	4,530	72.0
Other investments (38 holdings)	2,351	37.4
Total investments	6,881	109.4
CFD positions exposure	(750)	(11.9)
CFD unrealised gains	147	2.3
Net current assets	15	0.2
Net assets	6,293	100.0

Sector analysis as at 30 September 2020	% of Gross Exposure
Sector	
Industrials	20.4
Consumer Discretionary	19.1
Technology	15.3
Consumer Staples	11.8
Financials	9.6
Real Estate	6.5
Healthcare	5.8
Consumer Services	4.7
Telecommunications	3.6
Energy	2.4
Consumer Goods	0.8
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. The investment portfolio is grossed up to include CFDs and the net CFD position is then deducted in arriving at the net asset total.

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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 2020 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 2020 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 Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in 2019 (the interim financial statements for the period to 30 September 2019 were prepared under the SORP issued in 2014). The requirements have been met to qualify for the exemption to prepare a Cash Flow Statement. These financial statements have been prepared in accordance with the accounting policies used for the financial year ended 31 March 2020.
2. During the period no shares were bought back (2019 - 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).

The number of shares in issue at 30 September 2020 was 5,995,000 (2019 – 5,995,000).

Return per share is based on a weighted average of 5,995,000 (2019 – 6,004,672) ordinary shares in issue during the period.

Total return per share is based on the total gain for the period of £1,384,000 (2019 – gain of £85,000). Capital return per share is based on the capital gain for the period of £1,442,000 (2019 – gain of £47,000). Revenue return per share is based on the revenue loss after taxation for the period of £58,000 (2019 - gain of £38,000).

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3. All investments are held at fair value. At 30 September 2020 no unlisted investments were held with value attributed (31 March 2020: same; 30 September 2019: same).

Investments have been classified using the fair value hierarchy:

	September 2020 £000	March 2020 £000
<i>Classification of financial instruments</i>		
Level 1	6,131	4,455
Level 2	147	8
Level 3 – 2 investments (March 2020 – 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 2020 and 31 March 2020.

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 2020: 9 (31 March 2020: 9)

CFD positions	September 2020 £000	March 2020 £000
Gross exposure	750	514
Net exposure	750	514
Unrealised gains	147	8
Unrealised losses	92	224

The gearing ratio is 11.4% at 30 September 2020 (31 March 2020: 16.5%). 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.
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 2020 is

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unaudited. The accounts for the year to 31 March 2020, 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)
Ian Gray (appointed 6 March 2020)
Jeremy Harris (appointed 15 August 2019)

Investment Manager, Secretary and Registered Office

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Custodians

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Registered Number

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