The Scottish Investment Trust PLC

Results for the six months to 30 April 2019

- Share price total return -0.5%
- NAV total return -0.1%
- Quarterly dividends of 5.3p per share
- High conviction, global contrarian investment approach

The Scottish Investment Trust PLC invests internationally and is independently managed. Its objective is to provide investors, over the longer term, with above-average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. Today it announces its results for the six months to 30 April 2019. It is categorised as a global trust by the Association of Investment Companies.

Chairman's Statement

Performance

In the six months to 30 April 2019, the share price total return was -0.5% and the net asset value per share (NAV) total return (with borrowings at market value) was -0.1%.

The Company does not have a formal benchmark but, by way of comparison, the sterling total return of the international MSCI All Country World Index (ACWI) was +7.2% while the UK based MSCI UK All Cap Index total return was +6.0%.

This period proved a less fruitful time for contrarian investors. Our contrarian approach seeks to find an appropriate balance between risk and reward in all our investments, rather than attempt to ride every wave of investment fashion. The Manager believes a prolonged period of excessively cheap money has, once again, encouraged an increasingly reckless attitude to financial risk. This means that insufficient regard is paid to the cyclicality and valuation of earnings from certain companies that are, currently, perceived as immune to the fluctuations of the economic cycle. This enthusiasm is most ardent for 'disruptive' technology companies which the Manager sees as most exposed to share price declines when passions cool. Accordingly, these companies are excluded from our portfolio by choice, despite in many cases their large size, as we see greater opportunity in less fashionable areas of the market.

Given our contrarian approach, and as noted in previous communications, we do not expect the Company's portfolio to match any particular index return over any defined period due to the nature of the portfolio's composition. Our approach aims to achieve above-average returns over the longer term by which we mean at least five years.

Our goal

I have previously discussed our goal to build an attractive and differentiated investment vehicle for the long term investor.

We understand that passive products will form a part of many investors' portfolios, but we believe that an important role remains for a genuinely active and clearly articulated approach. Passive products, by their nature, take no account of future prospects or valuations and we believe that it is a source of reassurance to investors that, in contrast, we have an investment team seeking stocks that are undervalued and have improving prospects. A by-product of consistently applying this approach in search of long term gains is that we inevitably endure some periods when performance compares less favourably.

The contrarian approach has allowed the Company to deliver a step change increase in the regular dividend in recent years and we aim to grow this dividend ahead of UK inflation. The Scottish is one of the highest yielding trusts in its peer group and is recognised as a 'Dividend Hero' by the AIC. The dividend is backed by strong revenue reserves which can help sustain our long track record of dividend increases into the future.

We believe that our contrarian investment philosophy provides a solid and prudent discipline with which to deliver capital appreciation and strong dividend income for our shareholders over the longer term.

The many positive attributes of the Company are increasingly recognised by our investors, and by others within the industry, and it is our aim to build upon the hard work behind this. Being named 'Best Investment Trust' at the Shares Awards during the period was testament to our strong progress.

We want to bring our contrarian message to as many investors as possible. There is now a wealth of interesting and insightful content on the Company's website and shared on social media. Most recently, a 'Learning hub' section was added to the website which aims to provide a valuable source of informative educational content for investors. Pleasingly, we have been nominated in four categories at the forthcoming Investment Marketing and Innovation Awards. I would encourage those of you who have not already done so to follow us on social media, where you can find the most up-to-date news and articles from The Scottish.

Dividend

The Board announces a second quarterly dividend of 5.3p. This is in line with the target to declare three quarterly interim dividends of 5.3p in the year to 31 October 2019 and to recommend a final dividend of at least 5.3p for approval by shareholders at the Annual General Meeting in 2020. The first quarterly dividend payment, in respect of 2019, of 5.3p was made in May 2019. The Board's desire is to continue the long track record of annual dividend increases in accordance with the Company's objective to provide dividend growth ahead of UK inflation over the longer term.

Discount and share buybacks

The Company follows a policy that aims, in normal market conditions, to maintain the discount to NAV (with borrowings at market value) at or below 9%. The average discount over the first half of the year was 8.8%.

During the period, 0.9m shares were purchased for cancellation at an average discount of 9.5% and a cost of £7.5m. In the same period last year 0.9m shares were purchased.

Gearing

Having started the year with gearing of 0%, the level was slightly increased to 2% by the end of the period. It is our expectation that gearing will be deployed for the long term benefit of shareholders at the appropriate time.

Outlook

The tentative steps taken by the US Federal Reserve to normalise monetary policy suffered a partial reversal during the period as a programme of interest rate increases has been put on hold. The change in course was prompted by the combination of a sharp, but short-lived, market decline and a series of characteristically pugilistic tweets from President Trump.

It is clearly no easy matter to unwind this era of cheap money as too many asset prices are now apparently supported by low interest rates. This is unfortunate because high asset prices and low interest rates have brought unintended consequences. The most notable of these is an increasing sense of disillusionment with the economic system among many people, particularly the younger generation.

The economic pendulum appears to have swung too far and the counter-swing is more likely to be prompted by events within the political arena. A new breed of politician has tapped into feelings of economic marginalisation and there is a greater willingness to rip up the rule books and question the current state of capitalism. At a minimum, it seems likely that support for the free-spending politician will continue to grow.

The outlook for the global economy has deteriorated since my last commentary although, as yet, not drastically so. The recent escalation of the dispute between China and the US arguably extends beyond trade and could augur a multi-faceted deterioration in the relationship between these two countries with potentially profound implications for investors. The increased tension between the US and Iran risks a disruption to the oil market and has prompted a potentially damaging split between the US and the EU.

An abundance of commentary exists on Brexit and I would simply add that UK assets appear unloved in an international context and we continue to expect the value of sterling to act as a proxy for the state of negotiations.

Although I have spent the last few paragraphs outlining risks, our portfolio consists of investments which we believe are both undervalued and unreasonably out of favour. The long term merits of our investments give us confidence that our portfolio is well placed for the evolving investment environment.

We continue to concentrate on firmly establishing the Company as a differentiated, cost competitive, and attractive investment vehicle focused on delivering above-average returns and dividend growth over the longer term.

James Will

Chairman

14 June 2019

Manager's Review

When I look back, the final phases of the dotcom bubble of 1999/2000 and, separately, the financial bubble which peaked in 2007/8 were, unquestionably, the most educational periods of my career.

Both periods had very different characteristics from which specific lessons could be drawn. For example, the dotcom era taught that while investors can get very excited about a concept, a good story is not enough when confidence evaporates. Meanwhile the financial crisis demonstrated how superficial 'sustainable' profits could be. In the run up to that crisis, banks were involved in a virtuous circle of highly profitable lending, based on rising asset prices which formed the collateral for further lending, higher asset prices and, in turn, produced more 'sustainable' profit. This process lasted until the cycle turned vicious.

But the wider lessons I drew from these bubbles were not so much the specifics, for these will always be different the next time. Instead, the most interesting lessons were derived from how people behaved and the conclusions they drew as the bubble neared bursting point. It would appear that human nature doesn't change which is perhaps why financial markets have always been plagued by booms and busts.

Almost 20 years ago, the market had an insatiable demand for stocks that would give investors exposure to the internet. Indeed, companies that merely added '.com' to their name would see a positive price reaction. Noticing this, entrepreneurs and stock promoters began to rush new companies for 'beauty parades' with the intention to raise enough cash to justify a flotation.

As the callow junior analyst (this was before my time at The Scottish), I was frequently despatched to meet some of these potential newcomers. In my keenness, I went armed with questions, but it quickly became obvious that questions were neither wanted nor required. These 'internet incubators' did not really have credible plans, the founders became indignant when quizzed and there wasn't really anything of value other than the prospective cash that would be raised. The main selling point was instead the dangled prospect of a substantial return to someone who backed the flotation as the share price was expected to spike higher (or 'pop') on the first day of dealings and would trade on a 'multiple of cash' (a valuation metric a bit like someone offering to value your bank balance at a multiple of what it actually is).

Now, if this sounds crazy, it's because it was. But, shares in these companies sold like hot cakes. No doubt, some investors did believe in the long term merits of these companies but the majority were merely confident that there was somebody behind them willing to pay more. Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many.

The reason I have dredged this anecdote from the depths of my memory is because conditions today make me draw parallels with that time. Today the buzzword is 'disruption', with an enthusiasm for privately held start-up companies valued at more than $1bn – known as 'unicorns' – that will achieve 'profitability at scale.' Perhaps some will, but many unicorns seem to have business models that rely on constant injections of cash which have been facilitated by an easy money environment and a high level of confidence in their long term story.

Recently, there has been a rush to bring some of these companies to market, perhaps because the backers wish to exit while the going is still good. Watching one of the well-known business channels, I was surprised to see the guests discussing not the prospects of a grossly unprofitable business but instead the 'pop' in the share price that the investment bank would engineer on the first day of trading (ominously, the share price instead flopped).

All-in-all, it is hard not to see these unicorn flotations as the apex of a renewed case of unbridled enthusiasm for all things technology. While we have nothing invested directly in this area, the fact that this mentality exists and covers a large part of the market is a cause for concern.

In recent months, President Trump seems to have interpreted market levels as a real-time opinion poll on the competence of his administration. It's easy to see where he is coming from - after all the mantra of President Clinton's original campaign was 'it's the economy, stupid.'

The trouble is that overall market levels generally do not reflect the current fortunes of the economy. Market levels, in fact, better reflect the degree of confidence in the aforementioned 'disruption' bubble.

As we expect this bubble to deflate, we think it is highly likely that President Trump's vociferous campaign for the US Federal Reserve to cut interest rates and print more money will ultimately prove successful.

We expect our gold miners to be one of the principal beneficiaries of this shift in monetary policy. Whereas the value of paper currency is eroded by the unrestrained printing of new money, gold has historically maintained its purchasing power over long periods of time. We also see opportunities for long term investors in many areas overlooked in the current environment.

The portfolio

Markets endured a roller-coaster ride over the interim period. Trade wars, rising US interest rates, a US government shutdown, Brexit, a collapse in Chinese car sales and, perhaps most importantly, fears of a US recession all contributed to a sense of angst that reached a nadir around Christmas. However, concerns dissipated when it became clear that the US Federal Reserve would, if required, take action to support equity prices.

Generally speaking, our more defensive investments provided the best returns, holding up in the market decline, although not all participated in the subsequent market rally. Our more economically sensitive 'ugly

ducklings' suffered in the market downturn and, while these recovered in the subsequent rally, the uplift was not as significant as the downdraft. Outwith the technology area, markets seem to be pricing in a greater risk of recession.

One of our best gains over the period came from gold miner, **Newcrest Mining** (+£5.0m). We recently added to our holdings in this sector, including a new holding in **Barrick Gold**. In addition to the aforementioned merits of gold, the gold miners are set to reap the benefits of a wave of consolidation. Strong gains also came from **BHP** (+£5.0m), a diversified miner. A healthier focus on capital discipline has helped the company to deleverage and make significant cash returns to shareholders.

Pharmaceutical companies **GlaxoSmithKline** (+£2.0m) and **Roche** (+£1.4m) both rose as confidence in the outlook for drug sales grew. Meanwhile, US health major **Pfizer** (-£1.7m) lost some of its recent strong gains.

We added several new holdings in the telecoms sector during the period. Our longstanding investments in **China Mobile** (-£0.4m) and **Verizon Communications** (-£0.1m) held up amid volatile stockmarkets, while we initiated new holdings in **Orange, KPN, Deutsche Telekom, Telstra** and **Tele2**. The regulatory environment appears to be shifting towards a more pragmatic approach, as regulators now wish to encourage investment in the next generation of technologies such as 5G.

The retail sector was a source of mixed fortunes over the last six months. While each investment is different, our central thesis has been that the future of retail looks to be multi channel ('bricks and clicks') as the economics of online only sales are poor (the cost of delivery and returns destroy profits). Our holding in **Tesco** (+£5.5m) is delivering well on its turnaround plan, while **Marks & Spencer** (-£0.2m), **Macy's** (-£7.8m), **Target** (-£2.1m) and **Gap** (-£1.4m) have plans which are yet to be fully realised. Macy's was a disappointment as, having nearly doubled last year on an operational improvement, it gave back most of those gains as sentiment soured.

The financial sector generated mixed returns over the period. Strong returns came from **Standard Chartered** (+£6.0m) which benefited from an improved outlook for the Chinese economy. **ING** (+£1.7m) and **Citigroup** (+£1.1m) also gained. Our Japanese banks, **Sumitomo Mitsui Financial Group** (-£2.2m) and **Mitsubishi UFJ Financial Group** (-£2.7m) were among those to register declines as, in the absence of near term interest rate increases, banks faced a more difficult task to boost returns.

Energy returns were also mixed. Amid the uncertain economic environment, markets favoured the more defensive oil majors over more cyclical oil equipment and services companies. US oil producers **Chevron** (+£1.0m) and **Hess** (+£0.9m) were among those to gain while **National Oilwell Varco** (-£3.9m), **TGS Nopec Geophysical** (-£1.7m) and **Diamond Offshore Drilling** (-£1.6m) lagged.

Elsewhere, solid gains also came from **PepsiCo** (+£2.3m) which is embarking on a plan to reinvigorate sales growth under a new CEO. UK water and waste services provider **United Utilities** (+£2.2m) also had a positive six months as regulatory risks eased.

Outlook

The provenance of the expression "never believe anything until it is officially denied" seems to be disputed but it nonetheless shows a great insight into the realities of politics, bureaucracy and perhaps life itself. Denying something, truthfully or not, gives credibility to the matter in question.

So, with this logic in mind, it was somewhat perturbing to see a tweet from the official White House account with the text "We're killing it on the economy!" accompanied by a 30 second video of Larry Kudlow, President Trump's currently most favoured economic advisor, selling the merits of the economy in a manner reminiscent of a TV home shopping infomercial.

Admittedly, Mr Kudlow wasn't denying anything, but it still begged the question as to why the topic was even being discussed. It seemed odd behaviour. Would it not have been better to let the economy do the talking?

Of course, President Trump was elected precisely because he defied convention and perhaps one should not be surprised when members of his administration deploy unorthodox tactics to buoy confidence. However, global growth appears to be slowing and although the stockmarket has cheered what it sees as an apparent peak in US interest rates, the full effect of the previous interest rate increases has yet to be felt.

US and thus global stockmarket indices remain heavily skewed towards the technology, unicorn and new media areas and it is here that we think that valuations and expectations remain overly enthusiastic, creating a suboptimal balance between risk and reward. We have purposefully minimised exposure to these areas. Outwith these areas, valuations remain more reasonable, and our portfolio focusses here.

As I have previously noted, as contrarian investors we actively seek unfashionable and unpopular investments that we believe can recover. This is where we find the best balance between risk (expectations are low) and reward (things can get better). Our investment approach is designed to anticipate and benefit from change and we will continue to seek out opportunities with potential to profit the long term investor.

Alasdair McKinnon

Manager

14 June 2019

For further information, please contact: 0131 225 7781

Our Approach
To apply our approach, we divide the stocks in which we invest into three categories.

First, we have those that we describe as **ugly ducklings** – unloved shares that most investors shun. These companies have endured an extended period of poor operating performance and, for the majority, the near-term outlook continues to appear uninspiring. However, we see their out-of-favour status as an opportunity and can foresee the circumstances in which these investments will surprise on the upside.

The second category consists of companies where **change is afoot**. These companies have also endured a long period of poor operating performance but have recently demonstrated that their prospects have significantly improved. However, other investors continue to overlook this change for historical reasons.

In our third category, **more to come**, we have investments that are more generally recognised as good businesses with decent prospects. However, we see an opportunity as we believe there is scope for further improvement that is not yet fully recognised.

Financial Summary

	30 April 2019	31 October 2018	Change %	Total return %
NAV with borrowings at market value	**883.0p**	900.1p	(1.9)	(0.1)
NAV with borrowings at amortised cost	**912.9p**	926.8p	(1.5)	+0.2
Ex-income NAV with borrowings at market value	**875.4p**	888.9p	(1.5)	
Ex-income NAV with borrowings at amortised cost	**905.2p**	915.5p	(1.1)	
Share price	**805.0p**	825.0p	(2.4)	(0.5)
Discount to NAV with borrowings at market value	**8.8%**	8.3%		
MSCI ACWI			+6.2	+7.2
MSCI UK All Cap Index			+3.6	+6.0
	£'000	£'000		
Equity investments	**712,966**	717,547		
Net current assets	**68,292**	82,931		
Total assets	**781,258**	800,478		
Long-term borrowings at amortised cost	**(83,875)**	(83,829)		
Pension liability	**(1,337)**	(1,337)		
Shareholders' funds	**696,046**	715,312		

	Six months to 30 April 2019 £'000	Six months to 30 April 2018 £'000	Change %
Earnings per share	**12.89p**	10.89p	+18.4
Dividends per share	**10.60p**	10.00p	+6.0
UK Consumer Prices Index – annual inflation			+2.1

List of Investments

As at 30 April 2019

Listed equities

Holding	Country	Market value £'000	Cumulative weight %
Tesco	UK	37,730	
Newcrest Mining	Australia	30,572	
GlaxoSmithKline	UK	30,276	
Sumitomo Mitsui Financial	Japan	26,379	
Standard Chartered	UK	25,921	
Pfizer	US	25,246	
Royal Dutch Shell	UK	24,891	
BHP	UK	24,617	
Target	US	24,209	
Gap	US	23,478	38.3
Marks & Spencer	UK	21,194	
ING	Netherlands	20,791	
Newmont Goldcorp	US	20,174	
Exxon Mobil	US	19,443	
Pepsico	US	19,343	
China Mobile	China	18,698	
Roche	Switzerland	17,120	
Macy's	US	16,920	
Citigroup	US	16,239	
United Utilities	UK	15,789	64.4
Chevron	US	14,725	
Total	France	14,360	
Barrick Gold	Canada	13,124	
BNP Paribas	France	13,107	
British Land	UK	12,539	
Verizon Communications	US	12,516	
Carrefour	France	11,558	
Mitsubishi UFJ Financial	Japan	11,258	
Hess	US	9,837	
Royal Bank of Scotland	UK	9,584	81.6
East Japan Railway	Japan	9,370	
BASF	Germany	9,260	
Japan Tobacco	Japan	8,266	
Citizens Financial	US	7,748	
Bank of Kyoto	Japan	7,232	
Adecco	Switzerland	6,936	
Intesa SanPaolo	Italy	6,708	
BT	UK	6,597	
TGS Nopec Geophysical	Norway	5,698	
Orange	France	5,281	91.8
KPN	Netherlands	5,240	
Deutsche Telekom	Germany	5,141	
Bank of Ireland	Ireland	5,000	
Vinci	France	4,867	
Baker Hughes	US	4,676	
KDDI	Japan	4,488	
National Oilwell Varco	US	4,015	
BorgWarner	US	3,747	
Telstra	Australia	3,621	
Tele2	Sweden	3,384	98.5
Kirin	Japan	3,366	
Diamond Offshore Drilling	US	3,200	
Tourmaline Oil	Canada	2,555	
Greggs	UK	1,724	
Freehold Royalties	Canada	1,708	
Total listed equities		**711,466**	**99.8**

Unlisted

Holding	Market value £'000	Cumulative weight %
Heritable property and subsidiary	1,500	
Total unlisted	**1,500**	**0.2**

	Market value £'000	Cumulative weight %
Total equities	**712,966**	**100.0**

Distribution of Assets

Distribution of Total Assets

By Sector	**30 April 2019** **%**	31 October 2018 %
Energy	13.5	17.9
Materials	12.5	9.5
Industrials	2.7	3.3
Consumer Discretionary	11.7	14.6
Consumer Staples	10.3	7.2
Health Care	9.3	9.1
Financials	19.4	18.8
Information Technology	-	-
Communication Services	8.3	5.9
Utilities	2.0	1.7
Real Estate	1.6	1.6
Net current assets	8.7	10.4
Total assets	**100.0**	**100.0**

By Region	**30 April 2019** **%**	31 October 2018 %
UK	27.2	24.5
Europe (ex UK)	17.2	14.8
North America	31.1	34.5
Latin America	-	-
Japan	9.0	10.7
Asia Pacific (ex Japan)	6.8	5.1
Middle East & Africa	-	-
Net current assets	8.7	10.4
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	30 April 2019 **%**
Total equities	**102.4**
Net current assets	9.8
Borrowings at amortised cost	(12.0)
Pension liability	(0.2)
Shareholders' funds	**100.0**

Income Statement

	Six months to 30 April 2019 (unaudited)			Six months to 30 April 2018 (unaudited)			Year to 31 October 2018 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net (losses)/gains on investments held at fair value through profit and loss	-	(6,290)	(6,290)	-	2,644	2,644	-	(14,566)	(14,566)
Net (losses)/gains on currencies	-	(1,263)	(1,263)	-	(883)	(883)	-	819	819
Income	12,884	-	12,884	11,246	-	11,246	25,854	-	25,854
Expenses	(1,119)	(670)	(1,789)	(1,042)	(198)*	(1,240)	(2,045)	(1,209)	(3,254)*
Net Return before Finance Costs and Taxation	11,765	(8,223)	3,542	10,204	1,563	11,767	23,809	(14,956)	8,853
Interest payable	(866)	(1,608)	(2,474)	(866)	(1,608)	(2,474)	(1,732)	(3,217)	(4,949)
Return on Ordinary Activities before Tax	10,899	(9,831)	1,068	9,338	(45)	9,293	22,077	(18,173)	3,904
Tax on ordinary activities	(1,000)	-	(1,000)	(763)	-	(763)	(1,697)	-	(1,697)
Return attributable to Shareholders	9,899	(9,831)	68	**8,575**	**(45)**	**8,530**	**20,380**	**(18,173)**	**2,207**
Return per share (basic and fully diluted)	12.89p	(12.80)p	0.09p	**10.89p**	**(0.05)p**	**10.84p**	**26.02p**	**(23.20)p**	**2.82p**
Weighted average number of shares in issue		76,796,443			78,725,835			78,338,201	

	Six months to 30 April 2019	Six months to 30 April 2018	Year to 31 October 2018
	£'000	£'000	£'000
Dividends payable	8,083	7,837	19,544
Income comprises:			
Dividends	12,336	11,095	25,392
Interest	548	151	462
	12,884	11,246	25,854

* Includes a refund of previously paid expenses.

Balance Sheet

	As at 30 April 2019 (unaudited) £'000	As at 31 October 2018 (audited) £'000	As at 30 April 2018 (unaudited) £'000
Fixed Assets			
Investments	**712,966**	717,547	778,120
Current Assets			
Debtors	**3,918**	12,733	10,327
Cash and cash equivalents	**68,696**	83,236	57,132
	72,614	95,969	67,459
Creditors: liabilities falling due within one year	**(4,322)**	(13,038)	(18,273)
Net Current Assets	**68,292**	**82,931**	**49,186**
Total Assets less Current Liabilities	**781,258**	**800,478**	**827,306**
Creditors: liabilities falling due after more than one year			
Long-term borrowings at amortised cost	**(83,875)**	(83,829)	(83,783)
Provisions for Liabilities			
Pension liability	**(1,337)**	(1,337)	(1,091)
Net Assets	**696,046**	**715,312**	**742,432**
Capital and Reserves			
Called-up share capital	**19,063**	19,296	19,655
Share premium account	**39,922**	39,922	39,922
Capital redemption reserve	**51,798**	51,565	51,206
Capital reserve	**538,026**	555,308	586,231
Revenue reserve	**47,237**	49,221	45,418
Shareholders' Funds	**696,046**	**715,312**	**742,432**
Net Asset Value per share (basic and fully diluted) with borrowings at amortised cost	912.9p	**926.8p**	**944.4p**
Number of shares in issue at period end	76,249,717	**77,184,578**	**78,619,069**

Statement of Comprehensive Income

	Six months to 30 April 2019 (unaudited) £'000	Six months to 30 April 2018 (unaudited) £'000	Year to 31 October 2018 (audited) £'000
Total comprehensive income for the period	**68**	8,530	1,591
Total comprehensive income per share	**0.09p**	10.84p	2.03p

Statement of Changes in Equity

	Six months to 30 April 2019 (unaudited) £'000	Six months to 30 April 2018 (unaudited) £'000	Year to 31 October 2018 (audited) £'000
Opening shareholders' funds	**715,312**	760,371	760,371
Total comprehensive income	**68**	8,530	1,591
Dividend payments	**(11,883)**	(19,261)	(27,047)
Share buybacks	**(7,451)**	(7,208)	(19,603)
Closing shareholders' funds	**696,046**	742,432	**715,312**

Cash Flow Statement

	Six months to 30 April 2019 (unaudited) £'000	Six months to 30 April 2018 (unaudited) £'000	Year to 31 October 2018 (audited) £'000
Operating activities			
Net revenue before finance costs and taxation	**11,765**	10,204	23,809
Expenses charged to capital	**(670)**	(198)	(1,209)
Increase in accrued income	**(1,747)**	(1,731)	(72)
(Decrease)/increase in other payables	**(618)**	(354)	264
Decrease in other receivables	**80**	89	9
Adjustment for pension funding	**-**	-	(370)
Tax on investment income	**(963)**	(801)	(1,809)
Cash flows from operating activities	**7,847**	**7,209**	**20,622**
Investing activities			
Purchases of investments	**(67,046)**	(60,478)	(105,183)
Disposals of investments	**64,129**	93,045	175,216
Cash flows from investing activities	**(2,917)**	**32,567**	**70,033**
Cash flows before financing activities	**4,930**	**39,776**	**90,665**
Financing activities			
Dividends paid	**(7,827)**	(15,331)	(27,047)
Share buybacks	**(9,215)**	(7,821)	(18,451)
Interest paid	**(2,428)**	(2,428)	(4,857)
Cash flows from financing activities	**(19,470)**	**(25,580)**	**(50,355)**
Net movement in cash and cash equivalents	**14,540**	**14,196**	**40,300**
Cash and cash equivalents at the beginning of period	**83,236**	**42,936**	**42,936**
Cash and cash equivalents at the end of period*	**68,696**	**57,132**	**83,236**

* Cash and cash equivalents represent cash at bank and short-term money market deposits repayable on demand.

Notes

The condensed set of Financial Statements for the six months to 30 April 2019 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice and has not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The condensed set of Financial Statements for the six months to 30 April 2019 has been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Accounts for the year ended 31 October 2018.

It is the opinion of the Directors that, as most of the Company's assets are readily realisable and exceed its liabilities, it is expected that the Company will continue in operational existence for the foreseeable future and hence, the condensed set of Financial Statements have been prepared on a going concern basis.

The information contained in the Interim Report does not constitute statutory accounts as defined in sections 434-436 of the Companies Act 2006. Where applicable, the figures have been extracted from the Annual Report and Accounts for the year ended 31 October 2018 which has been filed with the Registrar of Companies and which contains an unqualified report from the Auditor.

The second quarterly interim dividend of 5.3p will be paid on 2 August 2019 to shareholders registered at 5 July 2019, with an ex dividend date of 4 July 2019. This dividend will amount to £4.0m.

The first quarterly interim dividend of £4.1m was paid on 10 May 2019.

Equity investments include the unlisted portfolio of £1.5m (31 October 2018: £1.5m).

The weighted average number of shares in issue during the half-year was 76,796,443 (2018: 78,725,835) and this figure has been used in calculating the return per share shown in the income statement. The net asset value per share at 30 April 2019 has been calculated using the number of shares in issue on that date which was 76,249,717 (31 October 2018: 77,184,578).

Analysis of Changes in Net Debt

	31 October 2018 £'000	Cash flows £'000	Non-cash Movements £'000	**30 April 2019 £'000**
Cash	24,190	(16,534)	-	**7,656**
Short-term deposits	59,046	1,994	-	**61,040**
Long-term borrowings at par	(83,829)	-	(46)	**(83,875)**
	(593)	(14,540)	(46)	**(15,179)**

Principal risks and uncertainties

The principal risks and uncertainties facing the business are strategic, investment portfolio and performance, financial, operational and tax, legal and regulatory. These are listed on page 15 and detailed on page 30 of the 2018 Annual Report and Accounts and they are unchanged from that year. An explanation of these risks and how they are managed is set out in Note 16 on pages 61 to 66 of the 2018 Annual Report and Accounts.

Responsibility statement

The Board of Directors confirms that to the best of its knowledge:

a) the condensed set of Financial Statements has been prepared on a going concern basis and in accordance with Financial Reporting Standard 104 and gives a true and fair view of the assets, liabilities, financial position and return of the Company;
b) the Interim Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months, their impact on the condensed set of Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and
c) the Interim Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein);

For and on behalf of the board,

James Will
Chairman

14 June 2019

Glossary

Borrowings at amortised cost is the nominal value of the Company's borrowings less any unamortised issue expenses.

Borrowings at market value is the Company's estimate of the 'fair value' of its borrowings. The current estimated fair value of the Company's borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

Discount is the difference between the market price of a share and the NAV, expressed as a percentage of the NAV.

Ex-income NAV is the NAV excluding current year revenue.

Gearing is the true geared position of the Company: borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

Gross gearing is the geared position if all the borrowings were invested in equities: borrowings expressed as a percentage of shareholders' funds.

NAV is net asset value per share after deducting borrowings at par or market value, as stated.

NAV total return is the measure of how the Company's NAV has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

Ongoing charges figure is the measure of the regular, recurring costs of the Company expressed as a percentage of the average daily shareholders' funds with borrowings at market value.

Portfolio turnover rate is the average of investment purchases and sales expressed as a percentage of opening total assets.

Share price total return is the measure of how the Company's share price has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

Total assets means total assets less current liabilities.