

SVM UK Emerging Fund plc



September 2023
Half Yearly Report

HIGHLIGHTS

- Over the 6 months to 30 September 2023, net asset value per share fell 4.1% to 89.21p, while the share price gained 3.1% compared to a return of 0.1% in the chosen comparator, the IA UK Companies Sector Average Index.
- Over the five years to 30 September 2023, net asset value per share has fallen 30.6% and the share price 46.0%, against the comparator index return of +10.0%.
- Medium sized companies lagged the FTSE 100 and smaller companies over the period.
- Three portfolio companies attracted takeovers, indicating share prices have fallen below underlying business value.

“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 2023	6 months	3 years	5 Years	10 Years
Net Asset Value	-4.1%	-15.0%	-30.6%	39.7%
Share Price	3.1%	-4.9%	-46.0%	22.2%
Comparator Index*	0.1%	26.5%	10.0%	59.5%

* The comparator 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

During the six months to 30 September 2023, net asset value per share fell 4.1% to 89.21p, while the share price gained 3.1% compared to a return of 0.1% in the chosen comparator, the IA UK Companies Sector Average Index. In the five years to 30 September 2023, net asset value per share has fallen 30.6% and the share price 46.0%, against the comparator index return of +10.0%.

During the period under review the UK economy continued to grow despite the rise in interest rates. There was, however, market concern that the delay in bringing UK inflation under control would involve a longer period of tight monetary policy, constraining demand. This led to falls in property shares and those in consumer sectors. The sectors that performed best reflected mainly those with global exposure; information technology, energy, financials and industrials.

The strongest contributions to performance over the period were Dechra Pharmaceuticals, 4Imprint Group, Instem, Kooth and Computacenter. Three portfolio holdings were taken over; Dechra, Instem and Kape Technologies. Merger and acquisition activity may point to recognition that share prices of a number of successful British businesses have become attractive to corporate or private equity buyers. Negative performers included Watches of Switzerland, Impax Asset Management, FDM Group, Jet2 and JD Sports fashion. Sales were made of Activeops, Revolution Beauty, Frontier Developments, Avon Protection, Molten Ventures, Maxcyte, Genus, Libertine and Impax. The holding in Watches of Switzerland was reduced after its prospects were adversely impacted by a change in strategy of its main supplier. These sales funded new investments in Melrose Industries, JTC, CRH, Intercontinental Hotels, Greggs, Informa and Compass Group. Portfolio changes emphasised improved liquidity, growth prospects and earnings visibility.

The UK economy has held up better in 2023 than feared. Consumer spending has proved resilient, driven by significant excess savings. Amongst international investors, the UK continues to be out of favour, with historically low valuations of smaller and medium-sized companies. Many UK mid-cap and smaller companies now look inexpensive. There is a risk both in the UK and US of excessive tightening by central banks, possibly misunderstanding the supply-side nature of current inflation.

The portfolio focuses on resilient growing businesses, with low exposure to commodities, oils and banks. Portfolio investments are typically scalable businesses with a competitive edge. The Fund remains fully invested with minimal gearing.

During the period under review, the Manager agreed to waive its management fee, with effect from 1st September 2023, reflecting its assessment of the implications of Consumer Duty regulation. This will be reviewed if circumstances change. The lead portfolio manager of the Fund, Margaret Lawson, retired on 1st October 2023 and is succeeded by Colin McLean, previously deputy investment manager. The Board thanks Margaret for her enthusiasm and valuable advice.

Peter Dicks
Chairman
3 November 2023

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 medium-sized and 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 gain 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 (an indication of important events that have occurred during the first six months of the financial year, and 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 financial year); and DTR 4.2.8R (disclosure of related party transactions and changes

therein that could have a material effect on the financial position or performance of the Fund during the first six months of the current financial year).

- (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 as described in the Annual Report & Accounts for the year end 31 March 2023 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
3 November 2023

UNAUDITED ACCOUNTS

Income Statement

	Six months to 30 September 2023			Six months to 30 September 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net loss on investments at fair value	-	(214)	(214)	-	(1,787)	(1,787)
Income	95	-	95	61	-	61
Investment management fees	-	(17)	(17)	-	(22)	(22)
Other expenses	(76)	-	(76)	(72)	-	(72)
Gain/(loss) before finance costs and taxation	19	(231)	(212)	(11)	(1,809)	(1,820)
Finance costs	(17)	-	(17)	(9)	-	(9)
Gain/(loss) on ordinary activities before taxation	2	(231)	(229)	(20)	(1,809)	(1,829)
Taxation	-	-	-	-	-	-
Gain/(loss) attributable to ordinary shareholders	2	(231)	(229)	(20)	(1,809)	(1,829)
Gain/(loss) per Ordinary Share	0.03p	(3.85)p	(3.82)p	(0.33)p	(30.18)p	(30.51)p

	Year ended 31 March 2023 (audited)		
	Revenue £'000	Capital £'000	Total £'000
Net loss on investments at fair value	-	(1,065)	(1,065)
Income	104	-	104
Investment management fees	-	(42)	(42)
Other expenses	(143)	-	(143)
Loss before finance costs and taxation	(39)	(1,107)	(1,146)
Finance costs	(22)	-	(22)
Loss on ordinary activities before taxation	(61)	(1,107)	(1,168)
Taxation	-	-	-
Loss attributable to ordinary shareholders	(61)	(1,107)	(1,168)
Loss per Ordinary Share	(1.02)p	(18.46)p	(19.48)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.

UNAUDITED ACCOUNTS

Balance Sheet

	As at 30 September 2023 (unaudited) £'000	As at 31 March 2023 (audited) £'000	As at 30 September 2022 (unaudited) £'000
Fixed Assets			
Investments at fair value through profit or loss	4,836	4,882	4,318
Total current assets	979	1,272	1,264
Creditors: amounts falling due within one year	(467)	(577)	(666)
Net current assets	512	695	598
Total assets less current liabilities	5,348	5,577	4,916
Capital and Reserves	5,348	5,577	4,916
Equity shareholders' funds	5,348	5,577	4,916
Net asset value per Ordinary Share	89.21p	93.03p	82.00p

UNAUDITED ACCOUNTS

Statement of Changes in Equity

For the period to 30 September 2023

	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 2023	300	314	5,136	27	394	(594)	5,577
Loss attributable to shareholders	-	-	-	-	(231)	2	(229)
As at 30 September 2023	300	314	5,136	27	163	(592)	5,348

For the year to 31 March 2023

	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 2022	300	314	5,136	27	1,501	(533)	6,745
Loss attributable to shareholders	-	-	-	-	(1,107)	(61)	(1,168)
As at 31 March 2023	300	314	5,136	27	394	(594)	5,577

For the period to 30 September 2022

	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 2022	300	314	5,136	27	1,501	(533)	6,745
Gain/(loss) attributable to shareholders	-	-	-	-	(1,809)	(20)	(1,829)
As at 30 September 2022	300	314	5,136	27	(308)	(553)	4,916

UNAUDITED ACCOUNTS

Investment Portfolio as at 30 September 2023

Stock	Market Exposure 2022 £000	% of Net Assets
1 4Imprint Group	364	6.8
2 Alpha FX Group	214	4.0
3 Unite Group	181	3.4
4 Beazley Group	173	3.2
5 Rentokil Initial	170	3.2
6 Howden Joinery Group	162	3.0
7 Whitbread*	157	2.9
8 Ashtead Group	156	2.9
9 Games Workshop Group	153	2.9
10 JD Sports Fashion*	141	2.6
Ten largest investments	1,871	34.9
11 Experian	135	2.6
12 Flutter Entertainment*	133	2.5
13 Jet2	123	2.3
14 Keystone Law Group	123	2.3
15 JTC	119	2.2
16 CRH	112	2.1
17 Intercontinental Hotels Group	112	2.1
18 Oxford Instruments	109	2.0
19 Compass Group	108	2.0
20 Serco Group	107	2.0
Twenty largest investments	3,052	57.0
21 Computacenter	105	2.0
22 Hilton Food Group	105	2.0
23 Watches of Switzerland Group*	99	1.9
24 Kainos Group	99	1.9
25 Kooth	98	1.8
26 XP Power	94	1.8
27 Renew	91	1.7
28 FDM Group Holdings	86	1.6
29 Informa	82	1.5
30 Auto Trader Group	81	1.5
Thirty largest investments	3,992	74.7
Other investments (30 holdings)	1,542	28.8
Total investments	5,534	103.5
CFD positions	(721)	(13.5)
CFD unrealised gains	23	0.4
Net current assets	512	9.6
Net assets	5,348	100.0

Sector analysis as at 30 September 2023	% of Gross Exposure
Sector	
Industrials	27.1
Consumer Discretionary	24.7
Financials	12.3
Information Technology	11.9
Communication Services	10.5
Real Estate	5.4
Consumer Staples	3.3
Materials	3.0
Healthcare	1.8
Total	100.0

*Includes Contract for Difference ("CFDs")

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.

UNAUDITED ACCOUNTS

Risks and Uncertainties

The major risks inherent within the Fund are market risk, liquidity risk, credit risk and interest rate risk. It has an established environment for the management of these risks which are continually monitored by the Manager. Appropriate guidelines for the management of its financial instruments and gearing have been established by the Board of Directors. It has no foreign currency assets and therefore does not use currency hedging. It does not use derivatives within the portfolio with the exception of CFDs. An explanation of these risks and how they are mitigated is explained in the 2023 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 2023 Annual Report.

Going Concern

The Board, having made appropriate enquiries has a reasonable expectation that the Fund has adequate resources and sufficient liquidity to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. This conclusion takes in to account the Directors' assessment of the continuing risks and impacts from the COVID-19 pandemic, the geopolitical risks relating to the conflict between Russia and Ukraine, the conflict in the Middle East, and economic factors that are influencing the current market volatility, such as inflation, interest rates and supply chains. 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 April 2021. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are liquid and are carried at market value. These financial statements have been prepared in accordance with the accounting policies used for the financial year ended 31 March 2023.

2. During the period no shares were bought back (2022: no shares were bought back during the period).

The number of shares in issue at 30 September 2023 was 6,005,000 (2022: 6,005,000).

Returns per share are based on a weighted average of 5,995,000 (2022: 5,995,000) ordinary shares, being the number of shares in issue during the period excluding the 10,000 shares held in Treasury.

Total return per share is based on the total loss for the period of £229,000 (2022: loss of £1,829,000). Capital return per share is based on the capital loss for the period of £231,000 (2022: loss of £1,809,000). Revenue return per share is based on the revenue gain after taxation for the period of £2,000 (2022: loss of £20,000).

UNAUDITED ACCOUNTS

3. All investments are held at fair value. At 30 September 2023 no unlisted investments were held with value attributed (31 March 2023: same; 30 September 2022: same).

Investments have been classified using the fair value hierarchy:

Classification of financial instruments	September 2023		March 2023	
	£000	£000	£000	£000
	Assets	Liabilities	Assets	Liabilities
Level 1	4,813	-	4,860	-
Level 2	23	418	22	507
Level 3 – 2 investments (March 2022: 3)	-	-	-	-

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 2023 and 31 March 2023.

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 2023: 8 (31 March 2023: 9)

CFD positions	September 2023	March 2023
	£000	£000
Gross exposure	721	892
Net exposure	721	892
Unrealised gains	23	22
Unrealised losses	418	507

The gearing ratio is 9.0% at 30 September 2023 (31 March 2023: 9.3%). The gearing ratio indicates the extra amount by which the shareholders' funds would change if total assets (including CFDs' 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 has elected to waive the investment management fee from 1 September 2023 until further notice.

UNAUDITED ACCOUNTS

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 2023 is unaudited. The accounts for the year to 31 March 2023, 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
Jeremy Harris

Investment Manager, Secretary and Registered Office

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