

**Acorn Income  
Fund Limited**  
**Half-yearly Condensed  
Report (unaudited) for the  
Six Months Ended  
30 June 2020**

# Investment Objectives and Policy

## Investment Objectives

The investment objective and policy of Acorn Income Fund Limited (the "Company" or "Acorn") is to provide shareholders with high income and also the opportunity for capital growth.

The Company's assets predominantly comprise investments in equities and fixed interest securities in order to achieve its investment objective. The Company's investments are held in two portfolios. Approximately 70% to 80% of the Company's assets are invested in smaller capitalised United Kingdom companies, admitted to the Official List of the Financial Conduct Authority (the "FCA") and traded on the main market of the London Stock Exchange (the "LSE") or traded on the Alternative Investment Market ("AIM") at the time of investment. The Company also aims to enhance income for Ordinary Shareholders by investing approximately 20% to 30% of the Company's assets in high yielding instruments which are predominantly fixed interest securities but may include up to 15% of the Company's overall portfolio (measured at the time of acquisition) in high yielding investment company shares.

The proportion of the overall portfolio held in the Smaller Companies Portfolio and the Income Portfolio varies from day to day as the market prices of investments move. The Directors retain discretion to transfer funds from one portfolio to the other and generally expect between 70% to 80% of the investments to be held in the Smaller Companies Portfolio.

While the Company's investment policy is to spread risk by maintaining diversified portfolios, there are no restrictions on the proportions of either of the portfolios which may be invested in any one geographical area, asset class or industry sector. However, not more than 7.5% of the Company's gross assets may be invested in securities issued by any one company as at the time of investment, save that (i) in respect of the Income Portfolio only, investments may be made in other investment funds subject only to the restriction set out in paragraph (c) of the section headed "Investment Restrictions" below; and (ii) in respect of the Smaller Companies Portfolio only, provided that not more than 10% of the Company's gross assets are invested in securities issued by any one company at any time, with Board approval the 7.5% limit may be exceeded on a short term basis where a company whose securities form part of the Smaller Companies Portfolio issues new securities (for example by way of a rights issue).

The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares is geared relative to the rising capital entitlements of the Preference Shares ("ZDP Shares"). The Company's gearing policy is not to employ any further gearing through long-term bank borrowing. Save with the prior sanction of ZDP Shareholders, the Company will incur no indebtedness other than short term borrowings in the normal course of business, such as to settle share trades or borrowings to finance the redemption of the ZDP Shares.

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## Investment Restrictions

For so long as required by the LSE Listing Rules in relation to closed-ended investment companies, the Company has adopted the following investment and other restrictions:

- (a) the Company will at all times invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy;
- (b) the Company will not conduct any significant trading activity; and
- (c) not more than 10% in aggregate of the value of the total assets of the Company at the time the investment is made will be invested in other listed closed-ended investment funds. The Listing Rules provide an exception to this restriction to the extent that those investment funds which have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment companies.

## Derivatives

The Company may invest in derivatives, money market instruments and currency instruments including contracts for difference, futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates, for investment purposes and for efficient portfolio management. The Company's use of such instruments for investment purposes is limited to 5 per cent of the total assets of the Company. The Company will not use such instruments to engage in any significant trading activity. The Company will not maintain derivative positions should the total underlying exposure of these positions (excluding any currency hedges) exceed one times adjusted total capital and reserves.

## Dividend Policy

The Company's policy is to provide Ordinary Shareholders with a high income relative to the average dividend yield of the UK Smaller Companies comprised in the Numis Smaller Companies Index ex Investment Companies. The Company aims to pay a regular quarterly dividend in March, June, September and December. It is intended to distribute substantially all of the Company's net income after expenses and taxation; however the Company may retain a proportion of the Company's income in each year as a revenue reserve to assist in providing long term stability in dividend distributions. Dividends may be paid to holders of Ordinary Shares whenever the financial position of the Company, in the opinion of the Directors, justifies such payment, subject to the Company being able to satisfy the solvency test, as defined under The Companies (Guernsey) Law, 2008. The Board is alert to the potential for new share issuance to dilute earnings and accordingly will have regard to the size and timing of new share issues. The ZDP Shares do not carry a right to a dividend.

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# Performance Summary

for the six months ended 30 June 2020

	30/6/2020	31/12/2019	% change/ return
<b>Total Return Performance*</b>			
Total Return on Gross Assets***			-21.88%
Numis Smaller Companies (Ex Investment Companies) Index	18,122.90	24,153.03	-24.97%
FTSE All Share Index	6,465.24	7,837.96	-17.51%
FTSE Small Cap (Ex Investment Companies) Index	6,310.14	7,977.20	-20.90%

## Share Price and NAV Returns

### Ordinary Shares

Share Price	250.00p	406.00p	-38.42%
NAV**	303.90p	466.43p	-34.85%
IFRS NAV#	303.85p	466.37p	-34.85%
Total return on Net Assets**			-32.43%
Ordinary Share Price Total Return*			-35.95%
Discount (-) to NAV on Ordinary Shares**	-17.74%	-12.96%	

### ZDP Shares

Share Price	152.50p	155.50p	-1.93%
NAV**	157.00p	154.07p	1.90%
IFRS NAV#	157.04p	154.12p	1.89%
Premium (+) to NAV on ZDP Shares**	-2.87%	+0.93%	
Cover on ZDP Shares	2.15:1		
Package Premium (+) Discount (-) to NAV Combined Ordinary and ZDP Shares	-11.65%	-8.69%	

	6 months to 30/6/2020	6 months to 30/6/2019	% change/ return
<b>Dividends and Earnings</b>			
Revenue return per ordinary share	4.57p	11.16p	-59.05%
Dividends declared per ordinary share	11.50p	10.40p	10.58%

\* assumes dividends reinvested

\*\* calculated in accordance with the Articles

# calculated in accordance with International Financial Reporting Standards

## adjusted for share buybacks

Sources: Index data: Bloomberg, Total return on gross and net assets, PFM, JP Morgan Cazenove

# Company Summary

## History

The Company was incorporated on 5 January 1999 and commenced its activities on 11 February 1999. The portfolio is divided into two sub portfolios, a Smaller Companies Portfolio representing approximately 70% to 80% of the total with the balance invested in an Income Portfolio investing in fixed income securities, investment company shares and structured investments. The Company has always been leveraged, initially through bank debt and now through Zero Dividend Preference ("ZDP") Shares. In December 2016, shareholders approved the extension of the ZDP Shares setting a new redemption date of 28 February 2022.

## Capital Structure

Zero Dividend Preference Shares (1p each)	21,230,989 (excluding treasury shares).	The ZDP Shares will have a final capital entitlement of 167.2 pence per ZDP Share on 28 February 2022 following the extension of the life of the existing shares from 31 January 2017, subject to there being sufficient capital in the Company. The ZDP Shares are not entitled to any dividends. ZDP Shareholders rank ahead of the Ordinary Shareholders in regards to rights as to capital. The ZDP Shareholders have the right to receive notice of all general meetings of the Company, but do not have the right to attend or vote unless the business of the meeting involves an alteration of the rights attached to the ZDP Shares, in which case the holders of ZDP Shares can attend and vote.
Ordinary Shares (1p each)	15,816,687 (excluding treasury shares).	The Ordinary Shares, excluding treasury shares, are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.
Treasury Shares	As at 30 June 2020, there were 1,325,972 Ordinary and 1,779,873 ZDP Shares held in treasury.	
Shareholder Funds	£48.06 million as at 30 June 2020 (calculated in accordance with IFRS)  £48.07 million as at 30 June 2020 (calculated in accordance with the articles)	
Market Capitalisation of the Ordinary Shares	£39.54 million as at 30 June 2020	

## Company Summary (continued)

### Company Details

The Board	The Board consists of three independent non-executive directors ("the Directors"), Nigel Ward (Chairman), David Warr and Sharon Parr. Nigel Sidebottom is not considered independent by virtue of his recent employment with the Premier Miton Group PLC (the parent company of the Investment Manager).
Investment Manager	Premier Asset Management (Guernsey) Limited ("PAMG"), is a subsidiary of Premier Miton Group PLC ("PMG"). PMG had approximately £10.3bn of funds under management as at 30 June 2020. PAMG is licensed under the provisions of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, by the Guernsey Financial Services Commission to carry on controlled investment business.
Investment Advisers	Premier Fund Managers Limited ("PFM") – the Company's Income Portfolio is managed by Chun Lee and Robin Willis. Unicorn Asset Management Limited ("Unicorn") – the Company's Smaller Companies Portfolio is managed by Simon Moon and Fraser Mackerisie.
Secretary/Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited.
Corporate Broker	N+1 Singer Advisory LLP ("N+1 Singer"). (appointed 1 August 2020) Numis Securities Limited ("Numis"). (until 31 July 2020)
Management Fee	0.7% per annum (Total Assets) charged 75% to capital and 25% to revenue. Minimum annual management fee £100,000.  In addition, a performance fee is payable at the year-end if the target set out on page 26 is achieved. This is charged 100% to capital.
Registrar	JTC Registrars Limited

### Financial Calendar

Company's year end	31 December
Annual results announced	March/April
Company's half year end	30 June
Annual General Meeting	11 August 2020
Half-year results announced	August
Dividend payments	At the end of March, June, September and December
Company Website	<a href="https://www.premierfunds.co.uk/acorn-income-fund-limited">https://www.premierfunds.co.uk/acorn-income-fund-limited</a>

# Chairman's Statement and Interim Management Report

30 June 2020

Dear Shareholder

The first half of 2020 has seen events unfold in a manner that would not have seemed possible at the end of 2019, when December's decisive election outcome provided a welcome year end boost to the UK stock market. The outbreak of the global COVID-19 pandemic during February and March has led to a reduction in output, driving up unemployment and putting pressure on the finances of many companies. The combined effects of these will almost inevitably tip the global economy into recession, expectations of which resulted in major setbacks in investment markets around the world.

Against these unprecedented market moves, it will not come as a surprise to shareholders that the total return on Acorn's gross assets, which measures the return on the portfolio including all income and costs, was also down sharply, by 21.9%. In the case of the total return on net assets, the drop was exacerbated by the gearing effect of the Zero Dividend Preference Shares, and was down by 34.9% as a result. These moves compare to a fall in total return from the Numis Smaller Companies (ex-Investment Companies) Index, of 25.0% and in the FTSE All Share Index, which recorded a drop in total return of 17.5%. The positive difference in return between the gross assets of the fund and that of the Numis Index may be at least partly explained by the allocation of a proportion of assets to fixed income, which, as might be expected, proved more resilient during this period of turmoil.

However, as covered in more detail below, the market appeared to give little credit to this more robust element of the portfolio, with the ordinary share price total return falling further than net assets, down 38.4% over the period. This reflects the fact that the discount (the difference between the value of the assets and the share price) widened from 13.0% as at 31st December 2019 to 17.7% as at 30th June 2020.

## Discount Management

The board is alert to the extent to which the discount on the ordinary shares has widened over

the past six months. This is in part linked to the bid-offer spread on the ordinary shares (the difference in price at which investors can buy and sell shares, as quoted by the market) as a wide spread may discourage investors from buying and selling. This in turn can lead to a reduction in trading volumes, and means that potential buyers are unable or unwilling to acquire stock and thereby help to narrow the discount.

Liquidity in the investment trust sector has, in common with the wider stock market, been impacted over the past few months by concerns around the economic impact of COVID-19. Market makers' access to capital has been restricted, which has meant that the normal market size in which they are prepared to deal has reduced. Although capital is starting to come back into the sector, Acorn, in common with other smaller trusts which are tightly held, has yet to see this filter through.

During the period the board took the opportunity to review its corporate broking arrangements, and after conducting a comprehensive search process, has decided to move the broking of Acorn from Numis Securities to N+1 Singer with effect from 1 August 2020. The board has been encouraged by the emphasis within N+1 Singer's proposals both to narrow the dealing spread and to keep the discount narrow, and look forward to a close working relationship with them.

## Asset Allocation

At the end of 2019, the allocation to Smaller Companies stood at 80%, with the remainder invested in the Income Portfolio. The falls in equity markets in response to the pandemic resulted in a drop in the weighting to smaller companies. At the beginning of May, following discussions with the Investment Advisers, the board opted to put in place some downside protection to guard against the possibility of a further downturn in markets, in the form of a listed PUT option on the FTSE 100 Index. It was felt that it would be inconsistent to increase the weighting to equities while maintaining such a position, and as a result the decision was taken to revert to a 75% allocation to

# Chairman's Statement and Interim Management Report (continued)

30 June 2020

Smaller Companies and 25% to the Income Portfolio. The board is unconvinced that the recovery in equity markets during the second quarter of the year fully reflects the ongoing impact of the pandemic and will therefore continue to keep under review both the asset allocation and need for downside protection.

## Earnings and Dividends

In February Acorn announced its first quarterly dividend for 2020 of 5.75p a share, a 10.6% increase over the corresponding dividend in the previous year. A second interim dividend of 5.75p was declared at the end of April, maintaining the level of increase set with the first interim dividend. The third interim dividend of 5.75p was declared following the approval of this report for payment 30 September 2020. The Board is mindful of the impact that the COVID-19 pandemic has had on the earnings of many UK companies, which has led some to reduce or even cancel dividend payments. It was felt, however, that Acorn's 2019 year-end revenue reserves of 1.04 times the total dividends paid in 2019 provided a level of support sufficient to enable the increase in the first dividend to be maintained for at least the second and third payment. Revenue earnings in the first half were 4.57 pence per ordinary share which compares with the 11.16 pence generated in the first six months of 2019.

## Zero Dividend Preference Shares

The price of the ZDP shares fell by 1.9% over the six month period, ending the half year at 152.50p, which represented a discount of 2.9% to NAV. As a result of the sharp fall in gross assets, the asset cover at the year-end stood at 2.2x, well above the hurdle needed to cover repayment of the ZDPs at maturity in February 2022. The yield to maturity was (5.68%). The number of ZDPs in issue remains unchanged at 21,230,989.

## Outlook

The global economy undoubtedly faces considerable challenges for the remainder of 2020 and beyond. However, the focus of the Investment Advisers remains on selecting smaller companies with robust dividend growth prospects, backed up by strong balance sheets, supported by a weighting to fixed income which should provide an additional degree of resilience during this period of uncertainty. Shareholders will be aware that this portion of the portfolio is not restricted to traditional fixed interest securities, but also has the flexibility to invest in alternative investment classes which offer both diversification benefits and attractive income generation characteristics of their own.

## Contact with shareholders

The board welcomes contact with shareholders, and I would encourage you to get in touch with me directly via the email address [acorn\\_income\\_fund\\_limited@ntrs.com](mailto:acorn_income_fund_limited@ntrs.com) if you have any questions. Further information on the Company, including factsheets, may be found at [www.premierfunds.co.uk/acorn-income-fund-limited](http://www.premierfunds.co.uk/acorn-income-fund-limited).

Thank you for your ongoing support as an investor in our Company.

## Nigel Ward

Chairman

# Statement of Principal Risks and Uncertainties

30 June 2020

The principal risks assessed by the Board relating to the Company were disclosed in the Annual Report and Audited Financial Statements for the year ended 31 December 2019. The principal risks disclosed include COVID-19, market risk, liquidity risk, foreign currency risk and reinvestment risk. A detailed explanation can be found in the annual report. The Board and Portfolio Manager do not consider these risks to have changed and remain relevant for the remaining six months of the financial year.

## COVID-19

The Board has continued to monitor the development of the COVID-19 outbreak and has considered the impact it has had to date and will continue to have on the future of the Company and the performance of the Portfolio. Notwithstanding the impact the outbreak has already had on the Company's share price and NAV performance, there remains continued uncertainty about the development and scale of the COVID-19 outbreak particularly in relation to the length and extent of the impact of social distancing restrictions and the impact on the economy in general.

From an operational perspective, the Company uses a number of service providers. These providers have established, documented and regularly tested Business Resiliency Policies in place, to cover various possible scenarios whereby staff cannot be present at the designated office and conduct business as usual. Since the COVID-19 pandemic outbreak, service providers have deployed these alternative working policies to ensure continued business service.

## Market Price Risk

Market price risk is the risk associated with changes in market prices including spreads, interest rates, economic uncertainty, changes in laws and national and international political circumstances.

## Credit Risk

The investment portfolio is comprised of equities and bonds which expose the Company to credit risk, being the risk that a counterparty will default

on its contractual obligations resulting in financial loss to the Company.

## Liquidity Risk

Liquidity risk is that the Company does not have sufficient cash resources to meet obligations, including the dividend target as they fall due or can only do so on terms that are materially disadvantageous.

## Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The majority of the Company's assets and liabilities are denominated in sterling. However, some of the investments in the Income Portfolio may be denominated in foreign currencies. Generally, these exposures are hedged back to sterling and there is unlikely to be any significant direct currency risk.

## Interest Rate Risk

The Company's investment portfolios, particularly the Income Portfolio, include investments bearing interest at fixed rates. Generally, when interest rates rise, the market prices of fixed interest securities fall and when interest rates fall the prices of fixed interest securities rise. The Company will therefore be exposed to movements in interest rates. The Company has fixed rate leverage through its ZDP Shares. In January 2017, the redemption date of the Company's ZDP shares was extended to 28 February 2022 at a rate of 3.85% per annum. Replacing this leverage in 2022 might involve the Company paying a higher accrual rate on an issue of new ZDP Shares if interest rates have risen.

## Discount Volatility

Being a closed-end fund, the Company's shares may trade at a discount or premium to their Net Asset Value ("NAV"). The magnitude of this discount or premium fluctuates daily and can vary significantly. Thus, for a given period of time, it is possible that the market price could decrease despite an increase in the Company's NAV. The Directors review the discount levels regularly. The Investment Advisers actively communicate with the



# Statement of Principal Risks and Uncertainties (continued)

30 June 2020

Company's major shareholders and potential new investors, with the aim of managing discount levels.

## **Brexit**

The United Kingdom's vote to leave the European Union has introduced new uncertainties and instability into the financial markets. As the process of a major country leaving the EU has no precedent, the Board and the Investment Manager expect an ongoing period of market uncertainty as the implications are processed.

## **Related Parties**

Related party balances and transactions are disclosed in note 14 of these Unaudited Condensed Interim Financial Statements.

## **Going Concern**

The Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern and to identify any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the date of approving the Unaudited Condensed Interim Financial Statements.

In accordance with Article 53.1 of the Articles of incorporation of the Company, shareholders are to be given the opportunity to vote for the discontinuance of the Company. This opportunity was last presented to the shareholders on 26 September 2016, with the next discontinuation resolution to be proposed again at the Annual General Meeting in 2021. Should the shareholders vote not to pass the continuation vote the Directors would be obliged to follow the provisions in the Articles of Incorporation and put forward proposals to the effect that the Company would be wound up, liquidated, reorganised, unitised or to find some other suitable solution that would be satisfactory to the shareholders.

Notwithstanding the above, the Board continues to believe that it is appropriate to adopt the going concern basis in preparing the Unaudited Condensed Interim Financial Statements in view of its holdings in cash and cash equivalents and certain more liquid investments within the portfolios and the income deriving from those investments, meaning the Company has adequate financial resources to meet its liabilities as they fall due. This assessment has been made in conjunction with the Viability statement on page 16.

# Responsibility Statement

For the period from 1 January 2020 to 30 June 2020

The Directors are responsible for preparing the Unaudited Half-yearly Financial Report (the “Unaudited Condensed Interim Financial Statements”), which has not been audited or reviewed by an independent auditor, and confirm that to the best of their knowledge:

- the Unaudited Condensed Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Unaudited Condensed Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

**Nigel Ward**

Chairman

17 August 2020

# Investment Advisers' Reports

## The Smaller Companies Portfolio

for the period ended 30 June 2020

During the six month period to 30 June 2020 the Smaller Companies portfolio generated a total return of -26.6%, before expenses (-2660 basis points), marginally behind the -25.0% total return of the Numis Smaller Companies Index (Ex Investment Companies).

We entered the current year with confidence – the domestic political backdrop had started to stabilise following the definitive general election result and progress finally appeared to be being made in the Brexit process. The portfolio also entered the year in solid shape following the strong operational performance of our investee companies in 2019 which drove strong capital growth and income generation. The emergence of the COVID-19 pandemic in the early part of the year rapidly and severely changed the outlook for equities globally. As governments looked to contain the virus unprecedented restrictions on activity were implemented with significant negative implications for the global economy. The sheer speed and depth of the fall set this period apart from previous market contractions.

These events clearly had a significant negative impact on UK equities, with UK Small and Mid-caps underperforming their larger quoted peers, as is often the case during more volatile periods. The Smaller Companies Portfolio followed a similar trend and performed broadly in line with the NSCI (ex-IT) during the period.

With companies and economies facing a highly uncertain future during an indefinite period of restricted activity it is no surprise that dividend payments came under pressure, with management teams looking to protect even the strongest of balance sheets and conserve cash. The Smaller Companies Portfolio was not immune to this dynamic although in recent weeks we have been encouraged by the dividend progression as confidence slowly starts to rebuild.

It is also worth noting that due to the unique nature of the virus threat some companies and sectors

have fared far better than others, the dynamics of which are also outlined below.

The market turmoil made for a busy period of trading with ten disposals and five new additions, reducing the total number of holdings in the portfolio by five to 42. Just over two thirds of this trading activity was in direct response to the changing market dynamics presented by the pandemic.

Given the nature of the pandemic and the subsequent government intervention it is sectors and themes rather than individual companies which provide the greatest insight into activity and performance during the period. The managers took action early in the pandemic to identify and assess the threat to those companies within the portfolio that had increased end market risk and those with levels of debt which could become difficult to service in prolonged period of lower economic activity. The leisure sector was particularly hard hit as operators were forced to close their doors to the public, effectively cutting their revenue to zero. Our only holding with a high street presence was hit by the same dynamic. We quickly exited two of these holdings, Cineworld (-156bps) and Card Factory (-111bps), which had a combination of a drastically diminished outlook and levels of debt which we felt could become burdensome during an extended period of restricted trading. RPS (-126bps) was also exited on similar concerns. All three of these companies have subsequently cut their dividend. Two of the other main detractors of performance came from Secure Trust Bank (-172bps) and Hollywood Bowl (-135bps); we retain a meaningful holding in both of these companies as we view them as well capitalised, well managed, high quality operators in their respective fields which we believe will recover in time.

Only a handful of companies made a positive contribution, one of which is worth highlighting: Numis (+40bps), the small and mid-cap brokerage benefited from the market volatility and uncertain outlook through very high trading volumes in its execution division and heightened fund raising activity for its corporate clients.

## Investment Advisers' Reports (continued)

One positive from the market volatility in the period was the opportunity to add high quality companies at attractive entry points. Liontrust, a fund management business, Trifast, a manufacturer of industrial fasteners, and Emis, a supplier of software to the health services, were all added at attractive levels and two of which have already contributed to the dividend income this year. Prior to the tumult of March our trading activity was pretty standard, holdings in three companies were exited and one added, all on valuation grounds. The disposals were Flowtech, Marshalls, and LondonMetric (which was later added back in to the portfolio at a lower price); and Topps Tiles was the addition.

Following a volatile and highly unusual period we remain confident in the long term prospects for our portfolio of well capitalised, well managed, market leading businesses. We make no changes to our successful investment process but continue to assess the longer term implications of the pandemic which will undoubtedly create a number of permanent and significant changes across a variety of sectors. Dividend payments have been reduced materially in the UK in the early part of the year and will take time to rebuild to prior levels. Within the portfolio we take confidence from the strength of the balance sheets, the robust nature of the end markets and our investee companies' unchanged commitment to pay meaningful dividends to shareholders.

This has been an incredibly challenging period for our investors but we remain confident the portfolio is well placed to survive the current period of uncertainty and participate fully in the recovery.

### **Fraser Mackersey and Simon Moon**

Unicorn Asset Management Limited

### **The Income Portfolio**

Risk assets have staged a remarkable recovery from their lows in March following an unprecedented combination of large monetary and fiscal stimulus from global central banks. Corporate bonds in particular have received the most explicit central bank policy support with quantitative easing

programmes actively buying, helping to maintain liquidity and to keep borrowing costs low in investment grade bonds. Meanwhile the fall in global interest rates and government bond yields has forced investors back into assets which were being indiscriminately abandoned merely a few months ago. However while some pockets of the bond market overreacted in March, it has arguably been too optimistic in its interpretation of the recovery. We favour bonds from large, well-capitalised banks which are important conduits for central bank policy and much better placed to weather the downturn than many other businesses. Outside the banking sector we like the relative resilience offered by areas such as supermarkets, telecoms and utilities, all supplying services which continue to be in demand. The more conservative management strategies being put in place in response to the pandemic should also mean that high quality investment grade companies prove to be a more stable and reliable source of income as discretionary equity dividends are cut in favour of maintaining contractual bond coupons.

The frenzied hunt for yield has also enabled global corporate bond issuance to hit record levels as companies look to take advantage of the yield-hungry environment and build liquidity buffers against the inevitable downturn. Issuance in sterling-denominated corporate bonds has however been much smaller in scale than the US Dollar and Euro markets, and deals have not looked as attractive. However we have bought a few issues which were attractively priced relative to the market and to existing bonds issued by those companies.

Given the supportive technical backdrop, financial markets have been predominately focussed on the benefits of massive stimulus and less so on the risk to growth from the fallout of the pandemic, even as the US fails to control its infection rate. The second quarter reporting season could therefore lead to a further weakening of credit metrics leading to more downgrades from credit rating agencies. While being respectful of the rally we also remain cautious given the worsening economic

## Investment Advisers' Reports (continued)

fundamentals which could lead to renewed volatility especially as the geopolitical tensions that were worrying markets before the pandemic - such as U.S – China trade relations and Brexit - are rising again, presenting threats to global trade as economies attempt to recover.

We continue to endeavour to target a more absolute return profile across fixed income and alternative investments and manage the portfolio fluidly as the environment evolves. During March a number of the alternative strategies provided considerable diversification benefits but the indiscriminate nature of the sell-off did lead to some of the investment company positions to trade on wide discounts to NAV. While there has been significant reversion since then, the potential for further recovery remains.

With interest rates set to stay low for a considerable time we have grown less concerned about taking duration risk in bonds issued by higher quality issuers although there is some uncertainty over what impact the current easing policies could have on future inflation which is clearly a risk for all fixed income instruments.

### **Chun Lee and Robin Willis**

Premier Fund Managers Limited

# Schedule of Principal Investments

as at 30 June 2020

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2020
<b>Smaller Companies Portfolio</b>				
1	Telecom Plus plc	3,270,600	5.36	3.98
2	Numis Corporation plc	3,090,000	5.06	3.76
3	Polar Capital Holdings plc	2,886,500	4.73	3.51
4	Primary Health Properties plc	2,815,200	4.61	3.43
5	Sabre Insurance Group plc	2,627,684	4.30	3.20
6	Chesnara plc	2,422,500	3.97	2.95
7	Goodwin plc	2,408,000	3.94	2.93
8	James Halstead plc	2,004,600	3.28	2.44
9	Severfield plc	1,759,659	2.88	2.14
10	Brewin Dolphin Holdings plc	1,615,100	2.65	1.96
11	Boot (Henry) plc	1,575,000	2.58	1.92
12	Somero Enterprises Inc	1,561,227	2.56	1.90
13	Hill & Smith Holdings plc	1,555,000	2.55	1.89
14	Regional REIT Limited	1,540,853	2.52	1.87
15	XPS Pensions Group plc	1,498,500	2.45	1.82
16	Castings plc	1,494,000	2.45	1.82
17	Ocean Wilsons Holdings Limited	1,485,000	2.43	1.81
18	FDM Group Holdings plc	1,483,350	2.43	1.80
19	Clipper Logistics plc	1,475,000	2.42	1.79
20	lomart Group plc	1,435,000	2.35	1.75
<b>TOTAL</b>		<b>40,002,773</b>	<b>65.52</b>	<b>48.67</b>
<b>Income Portfolio</b>				
1	Pershing Square Holdings Limited	986,889	5.11	1.20
2	Pershing Square Holdings 5.50% 15/07/2022	853,796	4.42	1.04
3	APQ Global Limited 3.5% CULS 30/09/2024	774,300	4.01	0.94
4	Value & Income Trust 11.00% 31/03/2021	733,607	3.80	0.89
5	Credit Suisse Group 2.75% 08/08/2025	632,310	3.27	0.77
6	Deutsche Bank 0.0025% 29/10/2020	599,007	3.10	0.73
7	AT&T 2.9% 04/12/2026	540,750	2.80	0.66
8	Citigroup 1.75% 23/10/26	507,979	2.63	0.62
9	RM plc ZDP	465,400	2.41	0.57
10	J Sainsbury 6.5% PERP	450,180	2.33	0.55
11	British American Tobacco plc 4% 04/09/2026	446,816	2.31	0.54
12	GS Group 3.125% 25/07/2029	441,456	2.29	0.54
13	US 0.875% IL Treasury 2047	438,001	2.27	0.53
14	Barclays 3.125% 17/01/2024	415,796	2.15	0.51
15	HSBC Holdings 2.256% FRN 13/11/2026	405,925	2.10	0.49
16	Lloyds Bank 1.75% 11/07/2024	405,242	2.10	0.49
17	US 2.375% Treasury Note 2029	373,604	1.93	0.45
18	Lloyds Bank plc 9.625% 06/40/2023	358,960	1.86	0.44
19	Real Estate Investors plc	347,956	1.80	0.42
20	Burford Capital 6.5% 2022	335,795	1.74	0.41
<b>TOTAL</b>		<b>10,513,769</b>	<b>54.43</b>	<b>12.79</b>

# Schedule of Principal Investments (continued)

as at 31 December 2019

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2019
<b>Smaller Companies Portfolio</b>				
1	Telecom Plus plc	3,073,783	3.70	2.88
2	Hollywood Bowl Group plc	2,565,000	3.08	2.40
3	Severfield plc	2,536,335	3.05	2.38
4	Secure Trust Bank plc	2,528,000	3.04	2.37
5	Regional REIT Limited	2,399,840	2.89	2.25
6	4i mpri nt Group plc	2,315,975	2.78	2.17
7	Numis Corporation plc	2,304,900	2.77	2.16
8	FDM Group Holdings plc	2,295,480	2.76	2.15
9	Polar Capital Holdings plc	2,224,800	2.68	2.08
10	Goodwin plc	2,190,300	2.63	2.05
11	Brewin Dolphin Holdings plc	2,188,900	2.63	2.05
12	Ocean Wilsons Holdings Limited	2,182,500	2.62	2.04
13	Wincanton plc	2,126,781	2.56	1.99
14	Macfarlane Group plc	2,110,000	2.54	1.98
15	James Halstead plc	2,098,200	2.52	1.96
16	DiscoverIE Group plc	2,093,442	2.52	1.96
17	Some ro Enterprises Inc	2,025,000	2.43	1.90
18	Clipper Logistics plc	1,998,500	2.40	1.87
19	Epwin Group plc	1,984,875	2.39	1.86
20	Primary Health Properties plc	1,917,600	2.31	1.80
<b>TOTAL</b>		<b>45,160,211</b>	<b>54.30</b>	<b>42.30</b>
<b>Income Portfolio</b>				
1	Pershing Square Holdings Limited	850,651	4.13	0.80
2	Value & Income Trust 11.00% 31/03/2021	805,588	3.91	0.75
3	Pershing Square Holdings 5.50% 15/07/2022	797,698	3.87	0.75
4	APQ Global Limited 3.5% CULS 30/09/2024	792,100	3.84	0.74
5	Real Estate Investors plc	715,000	3.47	0.67
6	Credit Suisse Group 2.75% 08/08/2025	629,866	3.05	0.59
7	Santander UK 1.875% 17/02/2020	600,673	2.91	0.56
8	AT&T 2.9% 04/12/2026	528,269	2.56	0.49
9	Citigroup 1.75% 23/10/26	497,838	2.41	0.47
10	British Land White 0.00%	496,580	2.41	0.47
11	Supermarket Income REIT plc	490,500	2.38	0.46
12	RM plc ZDP	465,400	2.26	0.44
13	J Sainsbury 6.5% PERP	461,886	2.24	0.43
14	Deutsche Bank 0.0025% 29/10/2020	446,821	2.17	0.42
15	British American Tobacco plc 4% 04/09/2026	439,701	2.13	0.41
16	GS Group 3.125% 25/07/2029	431,551	2.09	0.40
17	Barclays 3.125% 17/01/2024	419,972	2.04	0.39
18	HSBC Holdings 2.256% FRN 13/11/2026	405,897	1.97	0.38
19	Lloyds Bank 1.75% 11/07/2024	403,189	1.96	0.38
20	Lloyds Bank plc 9.625% 06/40/2023	373,350	1.81	0.35
<b>TOTAL</b>		<b>11,052,530</b>	<b>53.61</b>	<b>10.35</b>

# Viability Statement

for the period ended 30 June 2020

In accordance with the UK Corporate Governance Code, published by the Financial Reporting Council (the "Code"), the Directors have assessed the viability of the Company over a three year period, taking into account the Company's position at 30 June 2020.

A period of three years has been chosen for the purposes of the assessment of viability as the Board believes that this reflects a suitable time horizon for reviewing the Company's circumstances and strategy, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating costs, dividends and the availability of funding. The Directors had regard to the general advice that equity investment should be made on a medium to longer term view (perhaps 3 to 10 years) but also to evidence that the average holding time for an equity investment is under three years. The Directors consider that three years is a sufficient investment time horizon to be relevant to shareholders and that choosing a longer time period can present difficulties given the lack of longer term economic visibility.

In their assessment of the viability of the Company, the Directors have considered the Company's principal risks and uncertainties detailed on pages 8 and 9 in particular:

- (i) the Company's ability to repay the final capital entitlement of the ZDP Shares on 28 February 2022;
- (ii) any potential falls in value of the Company's investment portfolio;
- (iii) the potential impact of COVID-19;
- (iv) the potential impact on the Company and its activities of a disorderly Brexit; and
- (v) the impact on the Company should the shareholders vote not to pass the continuation vote scheduled to take place at the 2021 annual general meeting of the Company, which would oblige the Directors to follow the provisions in the Articles of Incorporation and put forward

proposals to the effect that the Company would be wound up, liquidated, reorganised, unitised or to find some other suitable solution that would be satisfactory to the shareholders.

The Directors also considered the Company's income and expenditure projections taking into account the fact that the Company's investments principally comprise liquid securities listed on recognised stock exchanges. Consideration has also been given to potential reduction in income due to global economic slowdown from the COVID-19 pandemic.

The Directors have carried out a robust assessment of the risks outlined above and the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation to serve shareholders appropriately and to meet its liabilities as they fall due over the three year period to June 2023.



# Condensed Statement of Comprehensive Income (unaudited)

for the period ended 30 June 2020

	Notes	Revenue GBP	Capital GBP	Period ended 30 June 2020 Total GBP	Period ended 30 June 2019 Total GBP
Net (losses)/gains on financial assets designated as at fair value through profit or loss	8	–	(23,379,166)	(23,379,166)	6,687,975
(Losses)/gains on derivative financial instruments	2	–	(263,264)	(263,264)	23,514
Investment income	3	1,048,112	–	1,048,112	2,154,679
<b>Total income and (losses)/gains</b>		<b>1,048,112</b>	<b>(23,642,430)</b>	<b>(22,594,318)</b>	<b>8,866,168</b>
<b>Expenses</b>	4	<b>(325,309)</b>	<b>(346,095)</b>	<b>(671,404)</b>	<b>(729,213)</b>
<b>(Loss)/return on ordinary activities before finance costs and taxation</b>		<b>722,803</b>	<b>(23,988,525)</b>	<b>(23,265,722)</b>	<b>8,136,955</b>
Interest payable and similar charges	5	–	(619,728)	(619,728)	(586,289)
<b>(Loss)/return on ordinary activities before taxation</b>		<b>722,803</b>	<b>(24,608,253)</b>	<b>(23,885,450)</b>	<b>7,550,666</b>
Taxation on ordinary activities		–	–	–	–
Other comprehensive income		–	–	–	–
<b>Total comprehensive (loss)/income for the period attributable to Ordinary Shareholders</b>		<b>722,803</b>	<b>(24,608,253)</b>	<b>(23,885,450)</b>	<b>7,550,666</b>
		Pence	Pence	Pence	Pence
<b>(Loss)/return per Ordinary Share</b>	7	<b>4.57</b>	<b>(155.58)</b>	<b>(151.01)</b>	<b>47.74</b>
<b>Dividend per Ordinary Share</b>	6	<b>11.50</b>	<b>–</b>	<b>11.50</b>	<b>10.40</b>
<b>Return per ZDP Share</b>	7	<b>–</b>	<b>2.92</b>	<b>2.92</b>	<b>2.76</b>

The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice ("SORP") issued by the AIC.

In arriving at the results for the financial period, all amounts above relate to continuing operations. No operations were acquired or discontinued in the period.

The Notes on pages 21 to 32 form an integral part of the Unaudited Condensed Interim Financial Statements.

# Condensed Statement of Financial Position (unaudited)

as at 30 June 2020

	Notes	30 June 2020 GBP	31 Dec 2019 GBP
<b>NON-CURRENT ASSETS</b>			
Financial assets designated as at fair value through profit or loss	8	80,380,721	103,788,482
<b>CURRENT ASSETS</b>			
Receivables	9	337,202	491,738
Cash and cash equivalents		1,447,434	2,324,683
Derivative financial instruments		28,440	186,453
		1,813,076	3,002,874
<b>TOTAL ASSETS</b>		82,193,797	106,791,356
<b>CURRENT LIABILITIES</b>			
Derivative financial instruments		26,245	6,661
Payables – due within one year	10	767,259	299,762
		793,504	306,423
<b>NON-CURRENT LIABILITIES</b>			
ZDP Shares	11	33,340,835	32,721,106
<b>TOTAL LIABILITIES</b>		34,134,339	33,027,529
<b>NET ASSETS</b>		48,059,458	73,763,827
<b>EQUITY</b>			
Share capital and premium	12	27,420,824	27,420,824
Revenue reserve		2,321,111	3,417,227
Capital reserve		13,097,685	37,705,938
Other reserves	13	5,219,838	5,219,838
<b>TOTAL EQUITY</b>		48,059,458	73,763,827
		Pence	Pence
<b>Net asset value per Ordinary Share (per Articles)</b>		303.90	466.43
<b>Net asset value per Ordinary Share (per IFRS)</b>		303.85	466.37
<b>Net asset value per ZDP Share (per Articles)</b>		157.00	154.07
<b>Net asset value per ZDP Share (per IFRS)</b>		157.04	154.12

The Unaudited Condensed Interim Financial Statements on pages 17 to 32 were approved by the Board of Directors and authorised for issue on 17 August 2020 and signed on its behalf by:

**Nigel Ward**

Chairman

The notes on pages 21 to 32 form an integral part of these Unaudited Condensed Interim Financial Statements.

# Condensed Statement of Cash Flows (unaudited)

for the period ended 30 June 2020

	Notes	Period ended 30 June 2020 GBP	Period ended 30 June 2019 GBP
<b>Operating activities</b>			
(Loss)/return on ordinary activities before taxation		(23,885,450)	7,550,666
Net losses/(gains) on financial assets designated as at fair value through profit or loss	8	23,379,166	(6,687,975)
Investment income	3	(1,048,112)	(2,154,679)
Interest expense	5	619,728	586,289
Decrease in derivative financial assets		158,013	8,131
Increase/(decrease) in derivative financial liabilities		19,584	(10,007)
(Decrease)/increase in payables and appropriations excluding amount due to brokers	10	(45,296)	363,177
Increase in receivables excluding accrued investment income and due from brokers	9	(9,790)	(1,220)
<b>Net cash flow used in operating activities before investment income</b>		<b>(812,157)</b>	<b>(345,618)</b>
Investment income received		1,183,957	2,001,998
<b>Net cash flow from operating activities before taxation</b>		<b>371,800</b>	<b>1,656,380</b>
Tax paid		–	–
<b>Net cash flow from operating activities</b>		<b>371,800</b>	<b>1,656,380</b>
<b>Investing activities</b>			
Purchase of financial assets designated at fair value through profit or loss		(15,233,430)	(20,038,297)
Sale of financial assets designated at fair value through profit or loss		15,803,301	19,320,321
<b>Net cash flow from/(used in) investing activities</b>		<b>569,871</b>	<b>(717,976)</b>
<b>Financing activities</b>			
Equity dividends paid	6	(1,818,920)	(1,644,936)
<b>Net cash flow used in financing activities</b>		<b>(1,818,920)</b>	<b>(1,644,936)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(877,249)</b>	<b>(706,532)</b>
Cash and cash equivalents at beginning of period		2,324,683	2,884,610
<b>Cash and cash equivalents at end of period</b>		<b>1,447,434</b>	<b>2,178,078</b>

The notes on pages 21 to 32 form an integral part of these Unaudited Condensed Interim Financial Statements.

# Condensed Statement of Changes in Equity (unaudited)

as at 30 June 2020

	Notes	Share Capital and Premium 30 June 2020 GBP	Revenue Reserve 30 June 2020 GBP	Capital Reserve 30 June 2020 GBP	Other Reserves 30 June 2020 GBP	Total 30 June 2020 GBP
<b>Balances as at 1 January 2020</b>		27,420,824	3,417,227	37,705,938	5,219,838	73,763,827
Total comprehensive income/(loss) for the period attributable to ordinary shareholders		–	722,803	(24,608,253)	–	(23,885,450)
Dividends	6	–	(1,644,936)	–	–	(1,644,936)
<b>Balances as at 30 June 2020</b>		27,420,824	2,321,111	13,097,685	5,219,838	48,059,458

As at 30 June 2019

	Notes	Share Capital and Premium 30 June 2019 GBP	Revenue Reserve 30 June 2019 GBP	Capital Reserve 30 June 2019 GBP	Other Reserves 30 June 2019 GBP	Total 30 June 2019 GBP
<b>Balances as at 1 January 2019</b>		27,420,824	3,178,203	24,997,090	5,219,838	60,815,955
Total comprehensive income for the period attributable to ordinary shareholders		–	1,765,281	5,785,385	–	7,550,666
Dividends	6	–	(1,644,936)	–	–	(1,644,936)
<b>Balances as at 30 June 2019</b>		27,420,824	3,298,548	30,782,475	5,219,838	66,721,685

The notes on pages 21 to 32 form an integral part of the Unaudited Condensed Interim Financial Statements.

# Notes to the Condensed Financial Statements (unaudited)

for the period ended 30 June 2020

## 1 ACCOUNTING POLICIES

### (a) Basis of preparation

The Unaudited Condensed Interim Financial Statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union ("EU"), the AIC's SORP (as revised in January 2017) and applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008.

The Unaudited Condensed Interim Financial Statements do not include all the information and disclosures in the Annual Financial Statements and should be read in conjunction with the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2019.

The accounting policies and methods of computation followed in these Unaudited Condensed Interim Financial Statements are consistent with those of the latest Annual Audited Financial Statement for the year ended 31 December 2019 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

### (b) Presentation of information

The Unaudited Condensed Interim Financial Statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of the Company's investments at fair value.

In order to better reflect the activities of an Investment Company and in accordance with the guidance issued by the Association of the Investment Companies ("AIC"), supplementary information which analyses the Condensed Statement of Comprehensive Income between items of capital and revenue nature has been presented within the Condensed Statement of Comprehensive Income.

## 2 OPERATING SEGMENTS

The Company has two reportable segments, being the Income Portfolio and the Smaller Companies Portfolio. Each of these portfolios is managed separately as they entail different investment objectives and strategies and contain investments in different products.

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 2 OPERATING SEGMENTS (continued)

For each of the portfolios, the Board reviews internal management reports on a quarterly basis. The objectives and principal investment products of the respective reportable segments are as follows:

Segment	Investment objectives and principal investments products
Income Portfolio	To enhance income and control risk by investing in fixed interest securities, including convertible securities, structured investments across a range of asset classes, shares of other investment companies, including property investment companies, and open-ended fixed interest funds.
Small Companies Portfolio	To maximise income and capital growth through investments in smaller capitalised UK companies.

Information regarding the results of each reportable segment follows. Performance is measured based on the change in value of each portfolio, as included in the internal management reports that are reviewed by the Board.

Segmental information is measured on the same basis as that used in the preparation of the Company's Unaudited Condensed Interim Financial Statements.

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2020</b>				
External revenues:				
Net losses on financial assets designated as at fair value through profit or loss	(188,583)	(23,190,583)	–	(23,379,166)
Losses on derivative financial instruments	(263,264)	–	–	(263,264)
Investment income:				
Dividend income	73,882	747,302	–	821,184
Bond income	226,928	–	–	226,928
Total losses	(151,037)	(22,443,281)	–	(22,594,318)
Expenses	–	–	(671,404)	(671,404)
Interest payable and similar charges	–	–	(619,728)	(619,728)
Total comprehensive loss for the period attributable to shareholders	(151,037)	(22,443,281)	(1,291,132)	(23,885,450)

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2020</b>				
Financial assets designated as at fair value through profit or loss	19,318,940	61,061,781	–	80,380,721
Receivables	322,622	14,580	–	337,202
Derivative financial instruments	28,440	–	–	28,440
Cash and cash equivalents	1,696,763	(249,329)	–	1,447,434
<b>Total assets</b>	<b>21,366,765</b>	<b>60,827,032</b>	<b>–</b>	<b>82,193,797</b>
Derivative financial instruments	26,245	–	–	26,245
Payables	–	–	767,259	767,259
<b>Total current liabilities</b>	<b>26,245</b>	<b>–</b>	<b>767,259</b>	<b>793,504</b>

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2019</b>				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	340,533	6,347,442	–	6,687,975
Gains on derivative financial instruments	23,514	–	–	23,514
Investment income:				
Dividend income	83,619	1,785,594	–	1,869,213
Bond income	281,319	–	–	281,319
Sundry income	4,147	–	–	4,147
<b>Total gains</b>	<b>733,132</b>	<b>8,133,036</b>	<b>–</b>	<b>8,866,168</b>
Expenses	–	–	(729,213)	(729,213)
Interest payable and similar charges	–	–	(586,289)	(586,289)
<b>Total comprehensive income/(loss) for the period attributable to shareholders</b>	<b>733,132</b>	<b>8,133,036</b>	<b>(1,315,502)</b>	<b>7,550,666</b>

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2019</b>				
Financial assets designated as at fair value through profit or loss	22,150,565	73,650,392	–	95,800,957
Receivables	659,791	952,080	2,430	1,614,301
Derivative financial instruments	5,955	–	–	5,955
Cash and cash equivalents	1,281,722	896,356	–	2,178,078
<b>Total assets</b>	<b>24,098,033</b>	<b>75,498,828</b>	<b>2,430</b>	<b>99,599,291</b>
Derivative financial instruments Payables	189,593	–	–	189,593
	–	–	588,288	588,288
<b>Total current liabilities</b>	<b>189,593</b>	<b>–</b>	<b>588,288</b>	<b>777,881</b>

### Geographical information

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the domicile countries of the investees and counterparties to derivative transactions. The table below excludes net gains on financial assets designated as at fair value through profit or loss and gains or losses on derivative instruments.

	UK GBP	Guernsey GBP	Other Europe GBP	Rest of the world GBP	Total GBP
<b>30 June 2020</b>					
<b>External revenues</b>					
<b>Total Revenue</b>	871,327	52,409	31,653	92,723	1,048,112
<b>30 June 2019</b>					
<b>External revenues</b>					
<b>Total Revenue</b>	1,664,079	115,582	119,342	255,676	2,154,679

The Company did not hold any non-current assets during the period other than financial instruments (30 June 2019: £nil).

### Major customers

The Company regards its shareholders as customers. As at the period ended 30 June 2020, the Company had no shareholders with a holding greater than 10%. (30 June 2019: nil).



# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 3 INVESTMENT INCOME

	Period ended 30 June 2020 GBP	Period ended 30 June 2019 GBP
Dividend income	821,184	1,869,213
Bond income	226,928	281,319
Sundry income	–	4,147
	1,048,112	2,154,679

## 4 EXPENSES

	Period ended 30 June 2020			Period ended 30 June 2019		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Manager's fee*	76,028	228,083	304,111	84,969	254,908	339,877
Administrator's fee**	42,545	–	42,545	41,200	–	41,200
Registrar's fee	22,719	–	22,719	19,810	–	19,810
Directors' fees	71,781	–	71,781	57,785	–	57,785
Custody fees	12,388	–	12,388	11,395	–	11,395
Audit fees	18,473	–	18,473	21,644	–	21,644
Directors' and Officers' insurance	2,820	–	2,820	8,691	–	8,691
Annual fees	15,463	–	15,463	15,762	–	15,762
Commissions and charges paid	–	78,399	78,399	–	84,907	84,907
Legal and professional fees	10,043	–	10,043	18,727	–	18,727
Broker fees	23,763	–	23,763	22,294	–	22,294
Bank interest	2,849	–	2,849	–	–	–
Sundry costs	28,607	–	28,606	17,221	–	17,221
(Gains)/loss on foreign exchange	(2,170)	39,613	37,443	69,900	–	69,900
	325,309	346,095	671,404	389,398	339,815	729,213

### Manager's fee

\*The Company has entered into a Management Agreement with Premier Asset Management (Guernsey) Limited, a wholly-owned, Guernsey incorporated subsidiary of Premier Miton Group PLC. The Investment Manager receives a management fee of 0.7% per annum of total assets (subject to a minimum of £100,000) calculated monthly and payable quarterly in arrears, out of which it pays fees to the Investment Advisers. The Investment Manager is also paid a shareholder communication and support fee, currently £3,100 for the twelve months from 1 April 2019 to 31 March 2020. The Management Agreement may be terminated, in writing, by either party giving 6 months' notice, provided the initial 12 month period from signing has expired, this date being 17 April 2020. The Company has entered into an agreement with the Investment Manager for the provision of AIFM reporting services for a fee of £19,450 per annum from 1 September 2017.

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 4 EXPENSES (continued)

### Performance fee

The Investment Manager is also entitled to a performance fee equal to 15% of any excess of the NAV per Ordinary Share (together with any dividends paid) over the higher of the first benchmark or the second benchmark. The first benchmark is the NAV per share immediately following the tender in January 2007 increasing at 10% per annum compound. The second benchmark is the highest NAV per Ordinary Share as of the last calculation day in any preceding financial period commencing after completion of the tender in January 2007 in respect of which a performance fee has been paid compounded at 10% per annum. A performance fee amounting to £nil was accrued for the period ended 30 June 2020 (31 December 2019: £nil).

### Administrator's fee

\*\*The Company entered into an Administration Agreement with Northern Trust International Fund Administration Services (Guernsey) Limited on 1 April 2015. The Company shall pay the Administrator a fee of 12 basis points per annum on the net assets between £0 – £100 million, 10 basis points per annum on the net assets between £100 million – £150 million and 8 basis points per annum on the net assets over £150 million subject to a minimum of £7,000 per month. The Administration Agreement may be terminated by either party on ninety days notice.

## 5 INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30 June 2020			Period ended 30 June 2019		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Appropriation in respect of ZDP Shares	–	619,728	619,728	–	586,289	586,289

## 6 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	Period ended 30 June 2020		Period ended 30 June 2019	
	GBP	Pence per share	GBP	Pence per share
First interim payment	909,460	5.75	822,468	5.20
Second interim payment	909,460	5.75	822,468	5.20
	1,818,920	11.50	1,644,936	10.40

Further details on the Company's dividend policy can be found on page 2.

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 7 EARNINGS PER SHARE

### Ordinary Shares

The total loss per Ordinary Share (per IFRS) is based on the total loss on ordinary activities for the period attributable to Ordinary Shareholders of £23,885,450 (30 June 2019: return of £7,550,666) and on 15,816,687 (30 June 2019: 15,816,687) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The revenue return per Ordinary Share (per IFRS) is based on the revenue return on ordinary activities for the period attributable to Ordinary Shareholders of £722,803 (30 June 2019 revenue return of: £1,765,281) and on 15,816,687 (30 June 2019: 15,816,687) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The capital loss per Ordinary Share (per IFRS) is based on the capital loss on ordinary activities for the period attributable to Ordinary Shareholders of £24,608,253 (30 June 2019: capital return of £5,785,385) and on 15,816,687 (30 June 2019: 15,816,687) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

### ZDP shares

The return per ZDP Share is based on the appropriation in respect of ZDP Shares, the amortisation of ZDP Share issue costs and ZDP Share issue costs totalling £619,728 (30 June 2019: £586,289) and on 21,230,989 (30 June 2019: 21,230,989) shares, being the weighted average number of ZDP Shares in issue during the period.

## 8 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 GBP	31 Dec 2019 GBP
<b>INVESTMENTS</b>		
Opening portfolio cost	87,991,361	85,087,877
Purchases at cost	15,746,225	34,978,783
Sales		
– proceeds	(15,774,820)	(35,060,945)
– realised gains on sales	3,310,392	6,179,329
– realised losses on sales	(6,518,703)	(3,193,683)
Closing book cost	84,754,455	87,991,361
Unrealised appreciation on investments	9,338,051	20,503,186
Unrealised depreciation on investments	(13,711,785)	(4,706,065)
Fair value	80,380,721	103,788,482
Realised gains on sales	3,310,392	6,179,329
Realised losses on sales	(6,518,703)	(3,193,683)
(Decrease)/increase in unrealised appreciation on investments	(11,165,135)	8,019,527
(Increase)/decrease in unrealised depreciation on investments	(9,005,720)	3,535,914
Net (losses)/ gains on financial assets designated as at fair value through profit or loss	(23,379,166)	14,541,087

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 8 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 30 June 2020, the closing fair value of investments comprises £61,061,783 (31 December 2019: £83,169,400) of Smaller Companies Portfolio, £19,318,940 (31 December 2019: £20,619,082) of Income Portfolio. The Market Value of open Futures included in the Income Portfolio totalled an asset of £17,986 (31 December 2019: liability of £43,458).

IFRS 13 requires the fair value of investments to be disclosed by the source of inputs using a three-level hierarchy as detailed below:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Details of the value of each classification are listed in the table below. Values are based on the market value of the investments as at the reporting date:

### Financial Assets Designated as at Fair Value Through Profit or Loss

	30 June 2020 Market value %	30 June 2020 Market value GBP	31 Dec 2019 Market value %	31 Dec 2019 Market value GBP
Level 1	82.44	66,264,962	81.72	84,817,978
Level 2	17.56	14,115,759	18.28	18,970,504
Level 3	–	–	–	–
Total	100.00	80,380,721	100.00	103,788,482

Bonds and structured investments are priced by reference to market quotations which incorporate assessment of yield, maturity and the instrument's terms and conditions.

For investments categorised in Level 3 as at 30 June 2020, the below details the valuation methodologies used:

Silverdell plc – The stock is suspended and is valued at zero. JPMorgan Global Convertibles Income – The stock is in liquidation and is valued at zero, following a final liquidation payment of £478,435 on the 18 November 2019. The Investment Adviser does not expect any return of capital.

### Derivative Financial Assets and Liabilities Designated as at Fair Value Through Profit or Loss

	30 June 2020 Market value %	30 June 2020 Market value GBP	31 Dec 2019 Market value %	31 Dec 2019 Market value GBP
Level 1 derivative financial assets	–	3,480	–	846
Level 2 derivative financial assets	0.07	55,957	0.18	185,607
Level 2 derivative financial liabilities	(0.05)	(39,256)	(0.01)	6,661

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 8 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the end of the reporting period. Transfers into each level shall be disclosed and discussed separately from transfer out of each level.

The derivative financial instruments held by the Company have been classified as Level 2. This is in accordance with the fair value hierarchy. The Company uses widely recognised valuation models for determining fair value of derivative financial instruments that use only observable market data and require little management judgement and estimation.

## 9 RECEIVABLES

	30 June 2020 GBP	31 Dec 2019 GBP
Due from brokers	–	28,481
Prepayments	14,580	4,790
Accrued investment income	322,622	458,467
	337,202	491,738

## 10 PAYABLES

	30 June 2020 GBP	31 Dec 2019 GBP
Accrued expenses	85,053	93,235
Amounts due to brokers	539,907	27,114
Trade creditors	142,299	179,413
	767,259	299,762

## 11 ZDP SHARES

	30 June 2020 GBP	31 Dec 2019 GBP
ZDP Share entitlement	33,340,835	32,721,106
The above entitlement comprises the following:		
21,230,989 ZDP Shares issued to date up to 30 Jun 2020	22,831,682	–
21,230,989 ZDP Shares issued to date up to 31 Dec 2019	–	22,831,682
ZDP Premium	(8,144)	(10,581)
Appropriation in respect of ZDP Shares	10,509,153	9,889,424
ZDP value (calculated in accordance with the Articles)	33,332,691	32,710,525
Add back ZDP Premium	8,144	10,581
ZDP value (calculated in accordance with IFRS)	33,340,835	32,721,106

The fair value of the ZDP Shares as at 30 June 2020 was £32,377,258 (31 December 2019: £33,014,188). The ZDP Shares are classified under Level 1 based on unadjusted quoted prices in active markets. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation does not entail a significant degree of judgement (2019: Level 1).

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 11 ZDP SHARES (continued)

A Continuation Offer proposal to ZDP Shareholders was published in November 2016, whereby such holders were given an opportunity to either receive their 2017 Final Capital Entitlement of 138p or to continue their investment in the existing ZDP Shares. Shareholders approved the scheme and 91.4% of ZDP Shareholders elected to remain invested.

Following the proposals, 19,523,014 ZDP Shares were elected for the Continuation Offer with a further 1,842,207 New ZDP Shares being issued through an Initial Placing at 140.0p which represented a premium of 1.4% to the opening NAV per New ZDP Share.

1,834,160 ZDP Shares were elected for Redemption at their 2017 Final Capital Entitlement of 138p.

ZDP Shares carry no entitlement to income distributions to be made by the Company. The ZDP Shares will not pay dividends but have a final capital entitlement at the end of their life on 28 February 2022 of 167.2 pence following the extension of the life of the existing ZDP Shares from 31 January 2017.

It should be noted that the predetermined capital entitlement of a ZDP Share is not guaranteed and is dependent upon the Company's gross assets being sufficient on 28 February 2022 to meet the final capital entitlement of ZDP Shares.

Under the Articles of Incorporation, the Company is obliged to redeem all of the ZDP Shares on 28 February 2022 (if such redemption has not already been effected).

The number of authorised ZDP Shares is 50,000,000. The number of issued ZDP Shares is 21,230,989 (31 December 2019: 21,230,989). The non-amortisation of the ZDP Shares in line with the Articles has the effect of increasing the NAV per Ordinary Share by 0.10 pence.

## 12 SHARE CAPITAL AND PREMIUM

Authorised	GBP	GBP		
Ordinary Shares of 1p each	unlimited	unlimited		
	30 June 2020	31 Dec 2019		
	Number of Shares	Number of Shares		
<b>Issued</b>				
Number of shares in issue at the start of the period/year	15,816,687	15,816,687		
Number of shares in issue at the end of the period/year	15,816,687	15,816,687		
Issued and fully paid capital at the end of the period/year	£196,606	£196,606		
	Share Capital 30 June 2020 GBP	Share Premium 30 June 2020 GBP	Total 30 June 2020 GBP	Total 31 Dec 2019 GBP
Opening share capital and premium	196,606	27,224,218	27,420,824	27,420,824
Closing share capital and premium	196,606	27,224,218	27,420,824	27,420,824

The Ordinary Shares (excluding treasury shares) are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.

The issued and fully paid capital as at 30 June 2020 was £196,606 (31 December 2019: £196,606).

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 13 OTHER RESERVES

### TREASURY RESERVE

	30 June 2020 GBP	31 Dec 2019 GBP
Balance as at the beginning of the period/year	(4,780,162)	(4,780,162)
Balance as at the end of the period/year	(4,780,162)	(4,780,162)

The other reserves presented on the Statement of Financial Position comprise the treasury reserve of (£4,780,162) and special reserve of £10,000,000 totalling £5,219,838.

### ORDINARY SHARES HELD IN TREASURY

	30 June 2020 No. Shares	31 Dec 2019 No. Shares
Balance as at the beginning of the period/year	1,325,972	1,325,972
Balance as at the end of the period/year	1,325,972	1,325,972

A Special reserve of £10,000,000 was created on the cancellation of part of the Company's Share premium account.

## 14 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Investment Manager and operates under the terms of the Management Agreement in force which delegates its authority over the Company's investment portfolios.

£304,111 (30 June 2019: £339,877) of costs were incurred by the Company with this related party in the period, of which £142,299 (31 December 2019: £179,413) was due to this related party as at 30 June 2020.

During the period ended 30 June 2020, £nil (30 June 2019: £nil) was charged as performance fees of which, £nil (31 December 2019: £nil) remained payable at period end.

The Directors' remuneration is disclosed in Note 4.

David Warr holds 63,000 (31 December 2019: 63,000) Ordinary Shares in the capital of the Company, which represents an interest of 0.40% (31 December 2019: 0.40%) of the Company's Ordinary Shares in issue as at 30 June 2020.

Nigel Sidebottom holds 4,366 (31 December 2019: 4,366) Ordinary Shares in the capital of the Company, which represented an interest of 0.03% (31 December 2019: 0.03%) of the Company's Ordinary Shares in issue as at 30 June 2020, and 5,205 (31 December 2019: 5,205) ZDP Shares in the capital of the Company, which represented an interest of 0.02% (31 December 2018: 0.02%) of the Company's ZDP Shares in issue as at 30 June 2020.

Nigel Ward holds 7,000 (31 December 2019: 7,000) Ordinary Shares in the capital of the Company, via a nominee account. This represents an interest of 0.04% (31 December 2019: 0.04%).

As at 30 June 2020 employees of the Investment Manager held interest in 10,990 Ordinary Shares of the Company representing 0.07% of the issued share capital.

# Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2020

## 15 SUBSEQUENT EVENTS

These Unaudited Condensed Interim Financial Statements were approved for issue by the Board on 17 August 2020. Subsequent events have been evaluated until this date.

A dividend of 5.75p was declared on 17 August 2020 and is expected to be paid to ordinary shareholders on 30 September 2020.

As at 12 August 2020 the published NAV per Ordinary Share for the Company was 317.99p. This represents an increase of 4.63% from 30 June 2020 NAV of 303.91p.



# Directors, Advisers and Contacts

## Directors

John Nigel Ward (Chairman)  
David John Warr  
Nigel Sidebottom  
Sharon Parr

Shareholders are welcome to contact the Chairman directly by emailing: [Acorn\\_Income\\_Fund Limited@ntrs.com](mailto:Acorn_Income_Fund Limited@ntrs.com)

## Investment Manager

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## Investment Adviser – Income Portfolio

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Contact: Claire Long

## Administrator and Secretary

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Email: [Team\\_Acorn@ntrs.com](mailto:Team_Acorn@ntrs.com)

## Custodian

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## Corporate Broker

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(appointed 1 August 2020)

Numis Securities Limited  
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Tel: 0207 2601000  
(until 31 July 2020)

## Independent Auditor

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Glategny Esplanade  
St Peter Port  
Guernsey GY1 1WR

## Registrar

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## Company's Registered Office

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## Company Details

Company Number: 34778  
GIIN Number: CY0IXM.99999.SL.831

Ordinary Shares  
ISIN: GB0004829437  
Ticker: AIF

ZDP Shares  
ISIN: GG00BYMS7X48  
Ticker: AIFZ



